



## **NZX AND MEDIA STATEMENT**

**4 February 2010**

### **Consistent Operating Result Recorded**

Without the significant one-off gains of the comparable interim period, South Port's 2010 first half result is at a level of \$1.74 million, the Bluff based port company reported today.

The prior year's interim profit of \$2.29 million incorporated one-off gains totalling \$580,000 after-tax. These gains arose from the realisation of a forestry investment, depreciation recovered on selling surplus plant and foreign exchange gains.

Net one-off gains (provided by a final forestry investment dividend, foreign exchange adjustment etc.) in the first 6 months of the 2010 financial year are approximately \$70,000 after tax. Cargo handling for the period was also more subdued.

Nevertheless, the \$1.67 million normalised profit adjusted for the one-off gains is similar to the 2009 normalised level of \$1.71 million and is regarded by Directors as "a creditable result in the current economic conditions," said the Chairman, Mr John Harrington.

Cargo volumes for the six months registered at a lower level of 984,000 tonnes, 8% down on the 1,072,000 tonnes for the previous interim period.

Mr Harrington cautions that while the trading outlook for the remainder of the 2010 financial year "appears more buoyant than twelve months ago, there is still no clear economic and trading pattern for international markets."

South Port believes it will take a further 12 - 18 months before complete confidence is restored to global markets and also considers that the New Zealand economy has still a sense of fragility.

Nevertheless, said Mr Harrington, New Zealand, and particularly the Southern part of the country, "is more fortunate than a number of other locations around the world. Demand for dairy, meat and forestry goods is relatively strong and should continue to underpin a steady resurgence in export activity.

There are indications that a higher level of fertiliser application will occur in the autumn. Yet a strong New Zealand dollar has prolonged the difficulties being experienced by other export industries such as fishing and manufactured goods.

"Based on all known factors at this time, South Port estimates that its full year earnings should be approximately \$3.5 million," said Mr Harrington.

“Shareholders need to be aware that the outcome of the scheduled arbitration with NZAS is likely to impact the final reported profit. It is hoped that the arbitration result will be known prior to South Port’s NZX reporting deadline in late August 2010.”

After assessing the anticipated year end result, South Port’s Directors have declared an unchanged fully imputed interim dividend of 4.50 cents per share (2009 – 4.50 cents) payable on 3 March 2010.

## **CARGO ACTIVITY**

Mr Mark O’Connor, the Chief Executive, said, “The reduction in cargo is due primarily to a more cautious approach by the agricultural sector with lower fertiliser inputs being applied and less supplementary stock food being required. Notable import reductions were recorded for fertiliser raw material, sulphuric acid, molasses and stock food.

“On the export side of the business all forms of forestry cargo demonstrated stronger demand with volume lifts occurring for wood chips, logs and sawn timber. Dairy throughput also increased while pebbles, meat and meat by-products produced lower tonnages.”

Both the dry and cold/cool warehousing divisions experienced increased activity during the interim period resulting in improved contributions from these areas.

Mediterranean Shipping Company’s (MSC) weekly Capricorn container shipping service continues to be well supported by regional exporters and importers and the additional activity it has generated within the Port during the past 20 months has necessitated additional plant, warehousing and personnel resource.

## **NZAS CAPACITY REINSTATED**

During the past 6 months South Port’s largest customer by volume, New Zealand Aluminium Smelters (NZAS) has progressively reinstated the production capacity which was unavailable for several months due to a transformer failure.

“This key customer will appreciate operating within normal production parameters for the remainder of the 2010 calendar year,” said Mr O’Connor. Overall the variance relating to cargo passing across the South Port owned Tiwai Wharf during the two most recent interim periods was not significant.

NZAS receives and distributes the majority of its cargo across the dedicated Tiwai Wharf and Access Bridge. These assets and associated port infrastructure are provided by South Port to NZAS under a long term licence (lease) agreement.

This historic agreement expired in April 2008 and was renewed by NZAS for a further 35 year period effective from that date. The two parties have been unable to reach agreement on an appropriate charge for the ongoing provision of this infrastructure and have reverted to an arbitration process which should be concluded prior to the end of the 2010 financial year.

## **DAIRY EXPANSION**

An additional drier commissioned by Fonterra Edendale in August 2009 can produce 27 tonnes/hour when at full capacity or 150,000 tonnes of milk powder per season. This \$212 million development will take the Edendale site's peak milk processing capacity to over 15 million litres per day and it is expected to become the world's largest milk powder production plant.

Aligned with growth in processing capacity at both the Edendale and Clandeboye production sites, Fonterra has recently purchased the 16.45 ha former Fisher & Paykel manufacturing site at Mosgiel, near Dunedin. It plans to build additional dry and cool stores at this location to consolidate existing warehousing arrangements in the South Island.

"South Port is presently working with Fonterra management to establish future cool and dry warehousing requirements for product which has historically been stored at Bluff," said Mr O'Connor.

"Our other important dairy sector customer, Open Country Dairy, is now in its second season of production from its Awarua milk powder plant and continues to warehouse and export its product via Bluff. This operator has established an effective network of international customers and is now an active participant in the New Zealand dairy industry.

## **LOG DEMAND**

Increased demand for New Zealand logs destined for China is likely to present export growth opportunities for this product through South Port. "The Company is working with existing and potential new log exporters to evaluate additional infrastructure requirements that may be required to manage greater export activity.

"Consistent with projected lifts in harvested eucalyptus volumes in the region, woodchip export cargo also continues to climb," said Mr O'Connor. "An increase in sawn timber tonnage is attributable to market demand stabilising for the established timber processors operating in Southland."

A final dividend distribution of approximately \$90,000 flowing from the wind-up of Hardwood Forests (HFL) concludes South Port's direct financial involvement with this eucalyptus plantation company, although the purchaser of the HFL assets will be processing the harvested material into woodchips for future export through Bluff.

## **BUSINESS PROSPECTS**

Seismic activity was completed over the 2007/2008 summer months by the two largest consortiums who secured exploration licences in the Great South Basin.

During the last quarter of calendar 2009 both the ExxonMobil/Todd consortium and the OMV consortium gained 12 month deferrals to comply with their exploration licence conditions, allowing ExxonMobil until October 2010 to commit to an exploration campaign and OMV until July 2011 to do likewise.

Whilst there are no assurances that South Port will secure future oil and gas industry activity, we are confident that Bluff has several advantages over its competitors when it comes to meeting the requirements of an exploration base:

A Southland Energy Consortium (SEC) delegation, which included South Port management, visited the Norwegian oil and gas service hub of Stavanger in late November 2009. "The delegation was hosted by the Greater Stavanger Economic Development Unit and gained a valuable insight into the main strategies deployed to attract oil/gas participants to that region plus the infrastructure necessary to support the resulting activity.

Following the Stavanger exercise, SEC concluded that Southland must continue to plan for development of potentially significant energy reserves located within the province or immediately offshore. Active promotion to international oil/gas companies and central government will continue to be a feature of this planning work.

Solid Energy and Ravensdown expect to complete the initial study into the viability of establishing a \$1.5 billion lignite-to-nitrogen fertiliser plant during the current quarter, when they will decide whether to proceed to the next stage of a feasibility exercise.

Mr O'Connor said, "The investigating parties have indicated if such a process is viable the development could start as early as 2014 and enable New Zealand to be an exporter of urea fertiliser as well as supplying domestic farming needs. This type of development could also lead to a second much larger project to produce synthetic diesel from the same extensive lignite resources."

Solid Energy is also trialing the manufacture of coal briquettes in Southland. It has recently shipped 500 tonnes of Southland lignite to the USA for commercial trials at a Colorado based drying plant. This trial is linked to a joint venture entered into with USA company GTL Energy Ltd, to investigate the feasibility of building a briquette plant in a former paper mill at Matura, 10km east of its New Vale coal mine in eastern Southland.

A viable process could create potential export opportunities for the briquette product in the future.

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