



PORT  NELSON

Quarterly Shareholder Report

For the period ended September 30, 2022

OVERVIEW

This report covers the performance of Port Nelson for the first three months of the 2023 financial year, July 1, 2022, to September 30, 2022.

The first two months of the financial year saw cargo volumes well down on forecast and down on last year's numbers. September saw a slight volume recovery, although the quarter finished with the Port below its budgeted volumes.

The cargo shortfall fed through to a net profit for the quarter, down \$1.0m on budget. However, the Port is forecasting to recover much of this shortfall before the end of the year. Although the year-end net profit outturn result is currently forecast to be down \$0.2m on budget.

The quarter has been active for initiating several improvement initiatives in the safety and environment space. In addition, a consultant selection process has been completed for the long-term infrastructure masterplan

CUSTOMERS

Year-to-date cargo volumes are 8% below budget at 0.77 million revenue tonnes, with container numbers down 13% at 26,000 TEU (twenty-foot equivalent units).

The below budget variance reflects container lines' ongoing challenge in maintaining their schedules. In addition, log export has been impacted by a number of factors.

The graph below shows the key drivers of the variance. The top variances are:

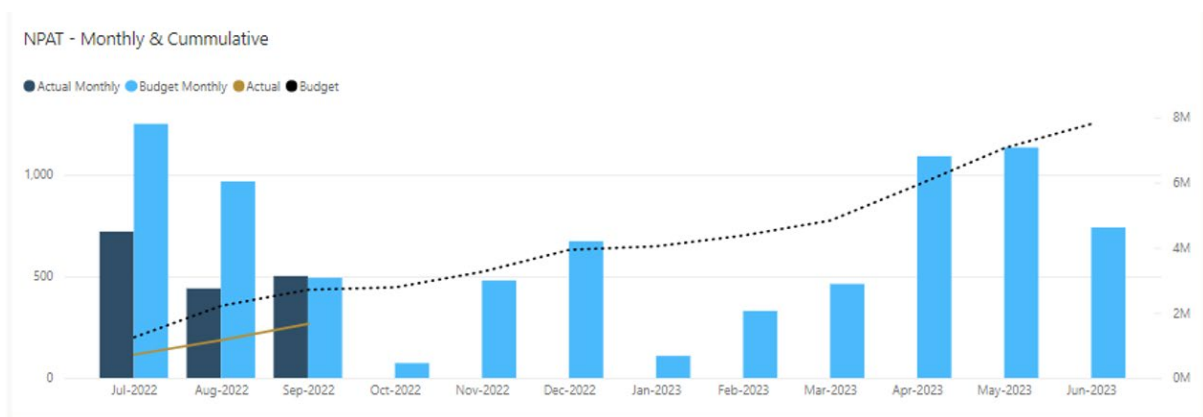
- Logs – A slow start to the year driven by a range of matters, including road closures, the impact of weather on logging sites and some volatility in pricing from China.
- Container cargo – the lower container numbers have impacted all cargo types except apples and MDF. Frustratingly for exporters, there is strong demand for container slots reflecting that the constraint is shipping capacity rather than export volume demand.
- Apples – We are at the tail end of the apple season; however, we are seeing a longer extension to the export season due to difficulties in obtaining container slots earlier in the season.

This quarter has seen a temporary withdrawal by one of our international container service lines, ANL. Their cargo has moved to the coastal service, Pacifica, and is transhipped through Tauranga. Fortunately, this change has corresponded with an improvement in the predictability of coastal vessel visits, and there has been no change in export volumes. ANL has indicated an intention to resume visits to Nelson once they have more confidence in vessel flow through Auckland and Tauranga ports.

Year to Date Cargo Volumes by Commodity



SHAREHOLDERS



Year to Date **revenue** was \$20.2 million, 5% down on budget and 3% up on the previous year. The only business unit to be up on budget was the QuayConnect business, which recorded its highest-ever revenue month in September as it benefited from the record 2022 wine harvest in Marlborough.

Net profit after tax (NPAT) was \$1.7m million, down \$1.0 million against budget and at a similar level to the previous year. Lower log volumes and container numbers were the key contributors to the negative variance.

The FY22 forecast NPAT has been reduced by \$0.2m (3%) from the budget and now sits at \$7.6m. The reduction reflects concerns that the slow start to the log volumes will not be fully caught up over the rest of the year. In addition, we are concerned about increasing cost pressures from fuel, labour and financing costs. The key risk factors that potentially will impact the result are a stronger than expected slowdown in log exports and a higher-than-expected settlement of collective agreement negotiations.

Capital investments have been at a low level in the year to date, as much of the forecast \$17m spend relates to plant replacement (cranes, pilot vessel and container movers). Planning work is underway to ensure replacement plant provides the optimal balance between affordability, reliability, and environmental impacts.

Net debt was \$80 million. The gearing percentage is 22.7%, well within the target of < 45%. Our banker Westpac has confirmed a willingness to support debt levels in excess of \$100m.

Planning to establish the **Infrastructure Holding Company** has recommenced following the shareholders decision to progress the initiative. The intention is to have new debt facilities in place prior to July 1, 2023.

ENVIRONMENT

Four initiatives to **reduce Carbon emissions** are currently being explored:

- Injection of hydrogen into diesel engines to improve emissions performance: Dialogue with two companies practising this initiative is underway.
- Introducing a hydrogen truck into the QuayConnect trucking loop, Marlborough/Nelson: A Joint venture agreement has been established with green hydrogen provider Hiringa and QuayConnect partners, Wineworks and CEL.
- Electricity capacity to and within PNL: investigation in this area will enable PNL to understand any capacity constraints in the grid and investments required to distribute electricity within the Port.

- Replacement of warehouse forklifts with lithium battery power machines.

There were 62 **noise complaints** over the quarter. There were no 'significant noise events' related to Port Nelson.

The key driver of the high number of complaints was the introduction of two new vessels into the fleets visiting Nelson who had generator noise issues. Pressure was put on the shipping lines introducing these vessels to rectify the issues. One vessel has now been removed from serving NZ and the other is working through mitigation works.

There were no environmental spillage incidents impacting the marine area.

COMMUNITY

Sponsorship: Key focus in the quarter has been preparation for the Port Nelson Charity Golf Day. This event typically raised around \$20k for the targeted charity. At present that is Lifelinc, a Nelson/Tasman based organisation that provides affordable and professional counselling services.

Slipways: Works continues on closing off central governments funding offer. A tender has closed for the travel lift options and civil design works continue. Construction is forecast to start early in the 2023 calendar year.

Iwi engagement: A cultural advisor has been appointed to assist the Port develop its Te Ao Māori programme. The transitional kaumātua provided by iwi to assist the Port start its journey has come to the end of their term. The Port is grateful for the support it has had.

PEOPLE

Port sector tragedies: Related to the tragic fatalities at Auckland and Lyttleton ports earlier in the calendar year, Port Nelson participated in a nationwide survey of port workers. The results showed the Port to be performing well against its peers. Deeper analysis of the survey is currently underway.

SafePlus Review: The Port has engaged the organisation SafePlus to review all aspects of its safety system. A survey ahead of site review has been undertaken. The review is expected to be completed by March 2023.

Labour capacity: Labour capacity issues continue to make resourcing of port operations difficult. Pleasingly no vessel has been delayed to date. An area of particular challenge is finding workers willing to work at night.

Safety: The following table compares year to date safety measures against the same period last year.

Safety Measure	Year to Date	LY
Serious Injury (Lost time incident > 5 days)	1	3
Notifiable incident	1	0
High Risk events	0	1
Lost time incidents	2	2
Lost Time Incidents Frequency (12 months /100,000 hrs.)	0.9	1.6

The notifiable incident relates to a container vessel losing power while exiting the 'Cut'. The incident was well managed by the pilot and tug crews with no material deviation in the vessels route. The serious injury arose from a back strain in our warehousing business.

FOCUS AREAS FOR THE NEXT QUARTER

The following areas are priorities for the business over the next three months:

- 1: Increasing capacity through the QuayConnect and QuayPack business units to support increased wine product flow from Marlborough
- 2: Commencement of regular visits from MSC vessel with a length greater than 260m
- 3: Progression of key projects: Infrastructure Holding Company, Slipway Redevelopment; Science & Technology Precinct; Te Ao Māori plan; and Infrastructure Masterplan
- 4: Visit to key shipping lines in Australia to support ongoing visitation
- 5: Development of plant procurement plan to optimise move to more carbon friendly plant and fuels

FINANCIAL PERFORMANCE

Statement Of Comprehensive Income

FOR THE THREE MONTH PERIOD ENDING 30 SEPTEMBER 2022

	Actual	Budget	Last Year
	\$000	\$000	\$000
REVENUE			
Port Operations	18,450	19,402	17,450
Property	1,750	1,823	1,530
TOTAL REVENUE	20,195	21,225	18,980
EXPENSES			
Employee Benefit Expenses	6,003	5,878	5,447
Other Operational and Property Expenses	8,530	8,515	6,748
Earnings before Interest, Tax, Depreciation and Amortisation	5,662	6,832	6,785
Depreciation and Amortisation	2,512	2,465	2,357
Earnings before Interest and Tax	3,150	4,367	4,428
Net Financing Costs	803	600	568
NET PROFIT BEFORE INCOME TAX	2,347	3,767	3,860
Income Tax	683	1,055	1,078
NET PROFIT AFTER INCOME TAX	1,664	2,712	2,782

Balance Sheet

FOR THE THREE MONTH PERIOD ENDING 30 SEPTEMBER 2022

	Actual	Budget	Last Year
	\$000	\$000	\$000
CURRENT ASSETS			
Cash and Cash Equivalents	222	164	(1,018)
Trade and Other Receivables	11,142	11,844	8,984
Inventories	801	567	747
Prepayments and Accruals	2,688	2,302	2,082
Derivatives	49	-	-
Total Current Assets	14,902	14,877	10,795
LESS CURRENT LIABILITIES			
Trade and Other Payables	4,505	4,827	4,483
Employee Benefit Entitlements	3,131	2,246	2,768
Tax Payable	670	1,777	1,683
Dividend Payable	-	-	560
Noise Mitigation	109	34	178
Total Current Liabilities	8,415	8,884	8,552
WORKING CAPITAL	6,487	5,993	2,243
NON-CURRENT ASSETS			
Property, Plant and Equipment	325,419	332,211	335,647
Intangible Assets	2,742	1,034	1,197
Investment Properties	37,089	29,409	29,409
Derivatives	3,258	1,116	614
Total Non-Current Assets	368,508	363,770	366,867
LESS NON-CURRENT LIABILITIES			
Employee Benefit Entitlements	288	257	269
Deferred Tax Liability	18,623	18,388	18,860
Term Loan	80,000	79,626	82,150
Derivatives	-	686	1,701
Noise Mitigation	321	813	407
Lease Liability	-	170	295
Total Non-Current Liabilities	99,232	99,940	103,682
NET ASSETS	275,763	269,823	265,428
SHAREHOLDERS' FUNDS			
Issued Capital	6,046	6,046	6,046
Retained Earnings	92,213	89,455	86,156
Asset Revaluation Reserve	174,275	174,275	174,275
Hedging Reserve	3,229	47	(1,049)
TOTAL SHAREHOLDERS' FUNDS	275,763	269,823	265,428

Statement Of Cash Flows

FOR THE THREE MONTH PERIOD ENDING 30 SEPTEMBER 2022

	Actual	Budget	Last Year
	\$000	\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers	17,912	18,642	18,174
Rent received	1,690	1,805	1,493
Interest received	3	-	-
	19,605	20,447	19,667
Cash was applied to:			
Payments to suppliers and employees	16,860	15,562	18,903
Interest paid	805	599	773
Taxes paid	984	166	1,220
Net gst paid	344	67	73
	18,993	16,394	20,823
NET OPERATING CASH INFLOWS	612	4,053	(1,156)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Sale of property, plant and equipment	-	-	5
	-	-	5
Cash was applied to:			
Purchase of property, plant and equipment	864	1,427	3,671
Purchase of intangibles	-	162	-
	864	1,589	3,671
NET INVESTING CASH INFLOWS/(OUTFLOWS)	(864)	(1,589)	(3,666)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Loans borrowed	4,600	3,654	7,390
	4,600	3,654	7,390
Cash was applied to:			
Loans repaid	1,300	3,232	910
Dividend paid	2,800	2,800	3,060
	4,100	6,032	3,970
NET INVESTING CASH INFLOWS/(OUTFLOWS)	500	(2,378)	3,420
Net increase/(decrease) in cash held	248	86	(1,402)
Cash and cash equivalents at 1 July	26	78	384
CASH AT 30 SEPTEMBER	222	164	(1,018)

PORT NELSON

Port Nelson
Nelson 7010, New Zealand

