

Deloitte.

Meeting the challenge The Deloitte South Island Index

A review of the performance of South Island listed
companies during the year to 31 March 2015



Introduction

Welcome to the 29th Edition of the Deloitte South Island Index. In this edition we reflect on the performance of South Island listed companies during the most recent quarter and reviewing the past year to 31 March 2015.

The past twelve months have been a period of momentous challenges for a number of the companies on the Deloitte South Island Index. Even though the Index hit its highest peak in the December 2014 quarter it has been more a year of valleys than mountains. Overall the Deloitte South Island Index found itself standing only slightly higher than twelve months ago gaining \$96.4 million (0.8%) to the year ended 31 March 2014, dropping a minor 0.2% in the most recent quarter.

Movements in March 2015

The month of March resulted in a decrease in performance with the Deloitte South Island Index dropping by 3.2%. Over the same period all the indices tracked also had minor declines, with the Dow Jones decreasing by 2.0%, the NZX 50 Capital Index dipping 2.1% and the ASX All Ords decreasing 0.6%.

Quarterly movements – Q1 2015

Aligned with the small decrease in March, the Deloitte South Island Index had its third decline in the past four quarters – falling \$19.0 million (0.2%) in market capitalisation since 31 December 2014. This result was shaped by a disappointing quarter for the Property sector which reduced by \$332.6 million, but defended by the Energy & Mining sector which gained by \$292.8 million.

Annual movements – Mar 2014 to Mar 2015

The Deloitte South Island Index increased by \$96.4 million (0.8%) during the year to 31 March 2015 – its smallest increase for any 12 month period for the past three years. Comparatively, it was outperformed by solid increases in the NZX 50 Capital Index of 8.6%, the ASX All Ords of 8.5% and the Dow Jones of 8.0%.



Executive Summary

Year to 31 March 2015

The Deloitte South Island Index's performance over the past twelve months to 31 March 2015 has been poor, with only the December 2014 quarter achieving overall growth.

Over the year the number of companies in the Index decreased by two to 31, after the following movements:

- The successful listing of Scales Corporation on the NZX in July 2014, adding another company to the Primary sector;
- The listing in December 2014 of retirement village operator Arvida Group;
- Postie Plus Group was removed from the Index following the sale of its assets and business to Roan;
- The delisting of Wool Equities as part of the merger process with the Primary Wool Co-operative;
- The delisting of Lyttelton Port following a takeover by Christchurch City Holdings Limited in November 2014; and
- The removal from the Index of Synlait Farms Limited after the finalisation of a takeover offer in late March 2014.

The key points for the year to 31 March 2015 include:

- The Deloitte South Island Index increased by \$96.4 million (0.8%). The individual results show that only 13 of the 31 companies in the Index grew during the past 12 months. In comparison to the NZX 50 and indices of New Zealand's major trading partners, the Deloitte South Island Index's gain of 0.8% was significantly outpaced by all other indices tracked. Over the same twelve months, the NZX 50 Capital Index achieved growth of 8.6%, the ASX All Ords 8.5%, and the Dow Jones 8.0%.
- Only three of the seven sectors achieved growth in their market capitalisations over the year to 31 March 2015. The Energy & Mining sector led the way with an increase of 62.8% as well as topping the table in terms of dollar growth. However the numbers are skewed by Meridian Energy as without its exceptional performance the sector would have dropped 63.2% and suffered the Index's greatest loss.

- The three largest companies in the Index, all with market capitalisation greater than \$1.0 billion, collectively grew 9.8% over the twelve months to 31 March 2015.
- The top five contributors to the overall growth in dollar terms were Meridian Energy (\$1,085.9 million), Heartland New Zealand (\$232.1 million), EBOS Group (\$89.2 million), Skyline Enterprises (\$76.6 million) and PGG Wrightson (\$56.6 million).

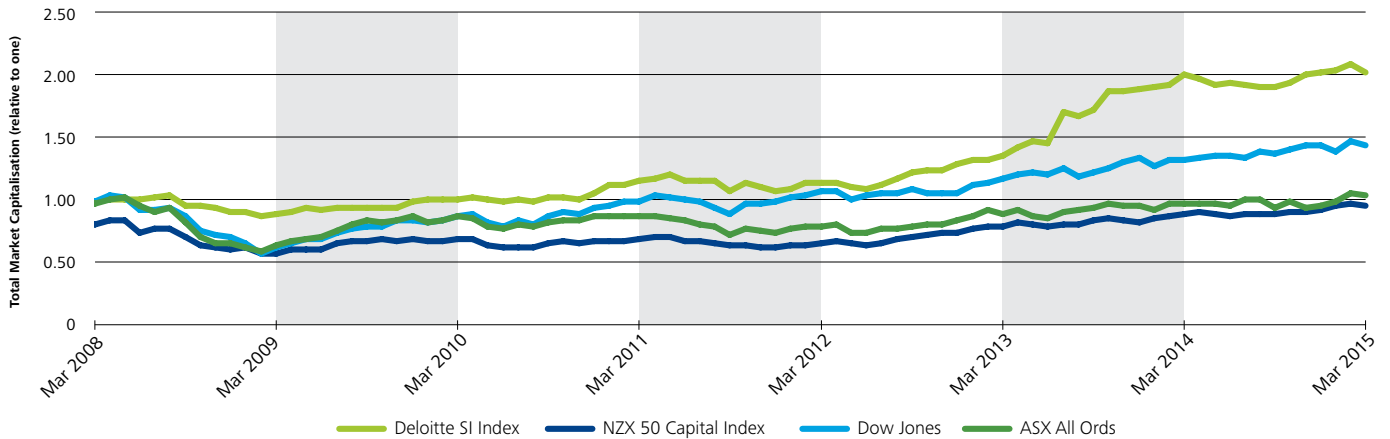
Quarter to 31 March 2015

Key points for the first quarter of 2015 include:

- The Deloitte South Island Index decreased by \$19.0 million (0.2%) during the quarter to 31 March 2015. In comparison, over the same period, the Dow Jones also experienced a small decline (0.3%), meanwhile the NZX 50 Capital Index grew by 3.3% and the ASX All Ords was the best performer gaining 8.8%. The top performers in the quarter include Meridian Energy (up \$332.7 million), EBOS Group (up \$127.3 million), Heartland New Zealand (up \$70.1 million), Skyline Enterprises (up \$25.5 million) and PGG Wrightson (up \$18.9 million).
- Only three of the seven industry sectors posted positive movements in the quarter to 31 March 2015 – being the Energy & Mining, Other and the Manufacturing & Distribution sectors which gained 12.7%, 8.1% and 6.9% in market capitalisation respectively. The Retail sector was the standout performer for the wrong reason, declining 34.0% on the back of Kathmandu Holdings' poor performance during the quarter.
- The disappointing quarter can be attributed to the smaller companies on the Index as the five largest companies collectively grew \$215.6 million (2.4%) while the remaining 26 companies collectively declined by \$234.6 million (8.1%). The smallest 10 companies on the Index declined by 31.6%.

Looking back

Performance of Deloitte South Island Index vs Major Indices



The South Island Index has been produced quarterly since March 2008. It has followed the movement in market capitalisation of the companies in the Index from 31 December 2006 to 31 March 2015. Over this period, the Index as a whole has increased by 101.4%, with the majority of the gain being from the exceptional performance over the period April 2012 to March 2014. A lot of this growth can be attributed to the performance of the largest three companies on the Index. To illustrate this clearly we have provided additional analysis for these companies.

In comparison to the other major indices, no other index achieved anything on par with the Index's performance

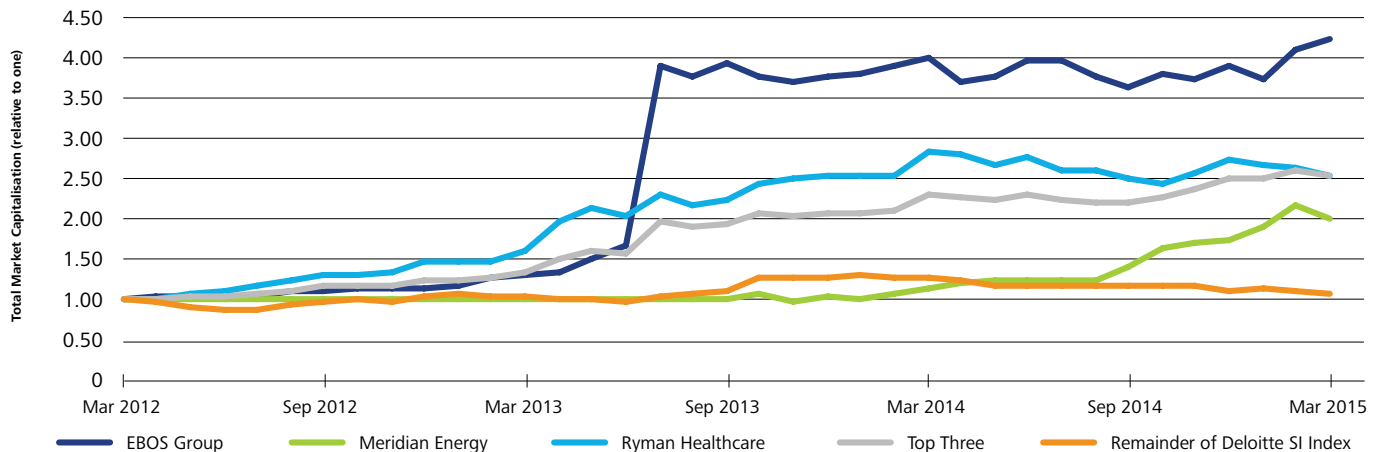
since its inception, with the Dow Jones being the closest challenger achieving growth of 42.6%. The ASX All Ords struggles to battle its way upward since its low point in February 2009, marginally up 3.9% over the same period in terms of market capitalisation, whilst the NZX 50 Capital Index decreased 7.0%, since the base period of December 2006.

The Top Three

The three largest companies in the Deloitte South Island Index, being Ryman Healthcare, Meridian Energy and EBOS Group, provide the Index with significant weight. This is comparable to the NZX where the 10 largest companies account for over half the size of the NZX.

Deloitte South Island Index

Movement of top three companies (past three years)



Over the past three years all of the top three companies on the Deloitte South Island Index have had significant gains with Ryman Healthcare increasing by \$2.4 billion (153.7%), Meridian Energy up \$1.3 billion (102.4%) since listing and EBOS Group gaining \$1.2 billion (324.7%) in market capitalisation over the period. In comparison, the remainder of the Index grew by \$0.3 billion (9.0%).

The considerable difference in the performance of the largest companies on the Index compared to the remainder of the companies is understandable as investors tend to flock to the largest companies in times of crises, as in the current case as the markets continue to recover from the global financial crisis. It could also be speculated that there is a lack of information and analysis of smaller listed companies contributing to investors not wanting to take unknown risks on those stocks resulting in lower frequency of trades and demand for the shares.

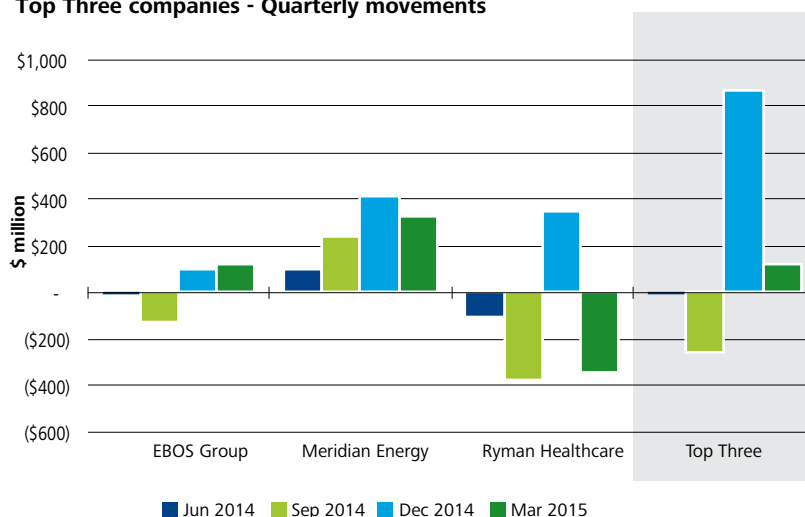
Meridian Energy has had the greatest increase of the top three companies in the past twelve months, gaining \$1,085.9 million (74.6%) after its instalment receipt price appreciated by \$0.865 to \$2.025. Meridian Energy achieved the perfect score during the year gaining in all four quarters, including by 15.1% in the most recent quarter. The market capitalisation of Meridian Energy will increase in May as the final instalment payments from investors are due.

Meanwhile, EBOS Group had a rocky first half of the year to 31 March 2015 decreasing in the first two quarters by 0.8% and 8.3% respectively, but turned their year around in the second half gaining 7.2% and 8.6% respectively. Overall, EBOS Group achieved a gain over the year to 31 March 2015 of \$89.2 million or 5.9%. A solid result given the drop in share price in the first half of the period. During the year, EBOS Group went through a period of major activity including the acquisition of Blackhawk Premium Pet Care, a strategic 25% investment in Good Price Pharmacy Warehouse, opening a major new distribution centre in Melbourne, and being awarded the New South Wales Health Warehousing and Distribution contract.

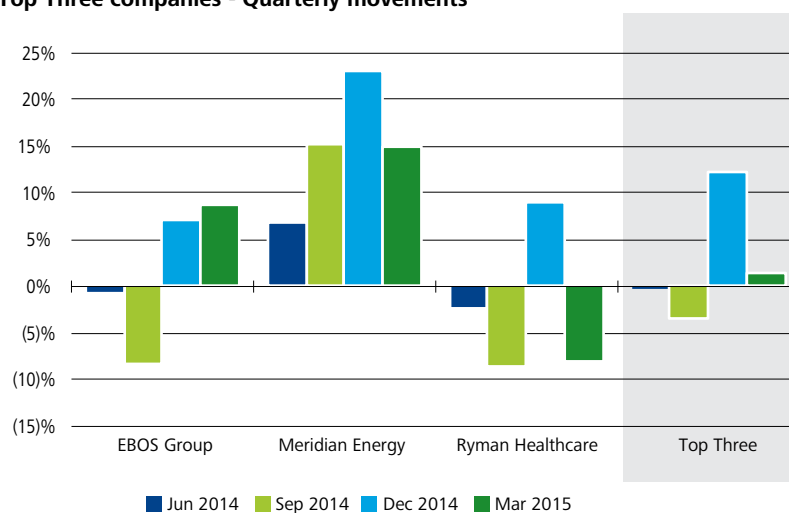
Ryman Healthcare continued its expansion of retirement villages over the past twelve months with its announcement of plans to build in Devonport on Auckland's North Shore, Valley Rd in Pukekohe, Tropicana Estate in Auckland, Newtown in Wellington, and a second site in Melbourne. During the December quarter the company announced that its underlying profit for

the six months to September 2014 was up 13% on the equivalent period the prior year, as well as completing 450 units and beds in a record build for a first half of their financial year. Ryman Healthcare announced that they were on track to achieve a 15% underlying profit growth for the year. Notwithstanding Ryman Healthcare's positive trading results, the company's share price fell over the year to 31 March 2015 by \$0.91 to \$7.84, cumulating in a decrease in market capitalisation of \$455.0 million (10.4%) for the period.

**Deloitte South Island Index
Top Three companies - Quarterly movements**



**Deloitte South Island Index
Top Three companies - Quarterly movements**



Balance of the Index

Over the past twelve months, outside of the top three, the companies on the Deloitte South Island Index had a mixed bag of results with 10 of the companies achieving gains in market capitalisation, 17 decreasing and 1 company returning to its 31 March 2014 level.

Growth in Market Capitalisation

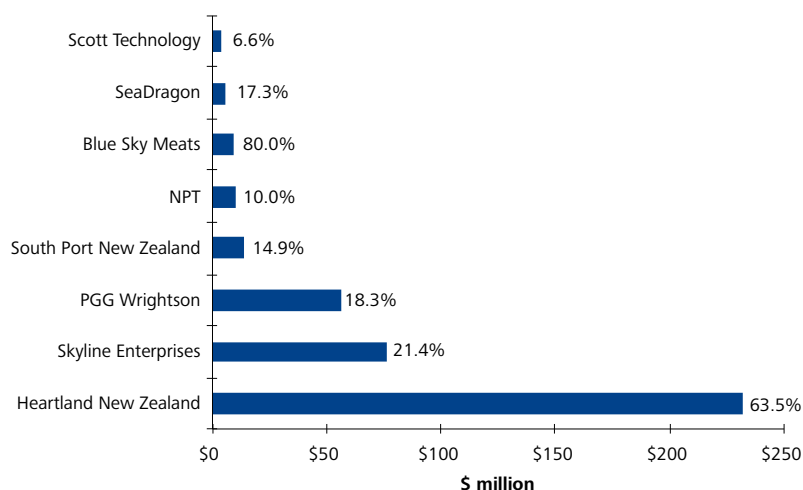
The outstanding performer on the Deloitte South Island Index over the past 12 months was Heartland Bank, with an increase in market capitalisation of \$232.1 million (63.5%). The company made gains in every quarter of the past twelve months, and is running at 12 consecutive quarterly gains. Over the past twelve months some of the key features of Heartland Bank's performance include Standard & Poor's raising its long term issuer credit rating on subsidiary Heartland Bank Limited (Heartland) to 'BBB' from 'BBB-', the company's announcement of its full year results including Net Profit after Tax being up \$11.6 million or 48% on the prior year's adjusted Net Profit after Tax, and the company's investment in HarMoney Corp Limited, New Zealand's only licensed peer-to-peer lending platform.

Skyline Enterprises is another company that performed well over the year to 31 March 2015, increasing by \$76.7 million or up 21.4%. Skyline Enterprises has been a constant performer over the years, gradually increasing in share price over time on the Unlisted trading platform to climb the Deloitte South Island Index ladder to sit in 5th position on the table, with a market capitalisation under Heartland Bank and just above Synlait Milk.

Skyline Enterprises' announcement of its full year results to 31 March 2014 during the year included a positive increase in revenues of 55.5% (up \$53.8 million) on the previous year. Key assets of the company include Skyline Queenstown, Skyline Rotorua, and the Christchurch Casino as well as a number of international luge and entertainment operations overseas.

PGG Wrightson also had a positive year, increasing by \$56.6 million (18.3%) over the year after it announced in August 2014 its strongest operating result for several years with a 28% uplift in Operating EBITDA in the financial year to 30 June 2014. At the Annual Shareholders Meeting in October 2014 CEO Mark Dewdney announced that the company believed that it was set to better the previous year's strong result as "the outlook for our core sheep, beef, arable, horticulture and viticulture markets is positive."

South Port New Zealand had a good year growing by \$13.7 million (14.9%) in the twelve month to 31 March. A point to note is that a significant part of the company's growth occurred all in one month – an increase in September 2014 of \$13.1 million. This growth was largely due to South Port New Zealand announcing a record net profit after tax of \$6.68 million to 30 June 2014 in late August 2014. The excellent result was driven by stronger bulk cargo activity with total cargo throughput for the business reaching a new record level of 2.72 million tonnes.



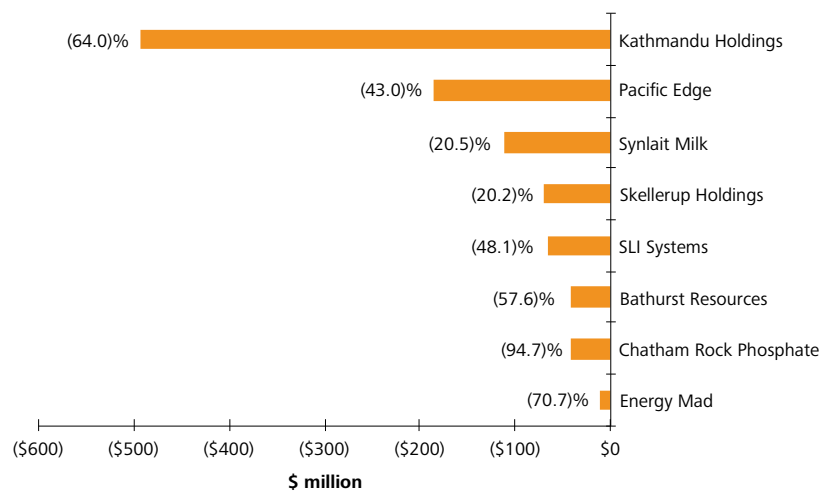
The outstanding performer on the Deloitte South Island Index over the past 12 months was Heartland Bank, with an increase in market capitalisation of \$232.1 million (63.5%).

Declines in Market Capitalisation

Kathmandu Holdings had a year to forget, losing 64.0% of its market capitalisation (\$493.8 million) after the retail giant struggled all year. The company suffered its largest drop in December after poor sales in the lead up to the Christmas period. Kathmandu's acting Chief Executive Officer Mark Todd said that the Company's trading performance during the key Christmas and January period had been below expectations. "The reduction in same store sales in Australia throughout December and January, and in New Zealand from Boxing Day onwards was disappointing", said Mr Todd. The company also mentioned recently that "as with every year, the full year result is highly dependent on the sales and gross profit margin performance we achieve in the Easter and Winter sales periods."

Dunedin based company Pacific Edge also performed poorly on the stock exchange in the year to 31 March 2015, dropping \$184.8 million in market capitalisation (43.0%). The company continues to achieve key milestones in delivering its main product, Cxbladder, into overseas markets and increasing revenue, however the company is still to turn a profit as it invests further in research, development and expanding its presence in the lucrative United States and European markets.

Another company to struggle with its share price over the past twelve months was Synlait Milk who dropped in market capitalisation by \$111.3 million (20.6%) in the year to 31 March 2015. The company's share price decreased in three of the four quarters during the period, falling \$0.76 to \$2.94 per share by March 2015. Over the year Synlait Milk reported a \$19.6 million Net Profit after Tax for the year ending 31 July 2014 (an increase of 70% compared to the previous year). This was in the face of challenging low commodity prices and oversupply in the global dairy market, the building of its new lactoferrin plant, blending & canning plant and third dryer.



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The Quarter to 31 March 2015

The Top Three

Over the most recent quarter, Meridian Energy was the Deloitte South Island Index's best performer in terms of increased market capitalisation with the company gaining \$332.7 million (up 15.1%) for the quarter. During the quarter Meridian Energy released its half year financial results to 31 December 2014 with Revenue from ordinary activities and Underlying Net Profit after Tax both up from the same period the prior year by 21.5% and 38.3% respectively.

Conversely, Ryman Healthcare suffered a moderate 8.0% drop in its share price of \$0.68 to \$7.84 per share. This equated to a decrease in market capitalisation of \$340.0 million – the Index's largest reduction for the quarter given Ryman Healthcare's dominant position as number one on the Index.

EBOS Group had a solid gain for the quarter, increasing \$127.3 million (8.6%). During the quarter the company announced its half year results to 31 December 2014. Revenues for the 6 month period were \$3.1 billion, up 4.0% period and Net Profit after Tax increased 9.2% from the same period the previous year. EBOS Group Chief Executive Officer Patrick Davies stated, "Our business model continues to drive the profitable development of the Group and is allowing us to continue to pursue opportunities for the benefit of our customers and shareholders." The company also stated in the announcement that the company now generates approximately 82% of its earnings in Australia and the continued appreciation of the New Zealand dollar during the period negatively impacted the company's reported EBITDA by approximately NZ\$2.2 million.

Balance of the Index

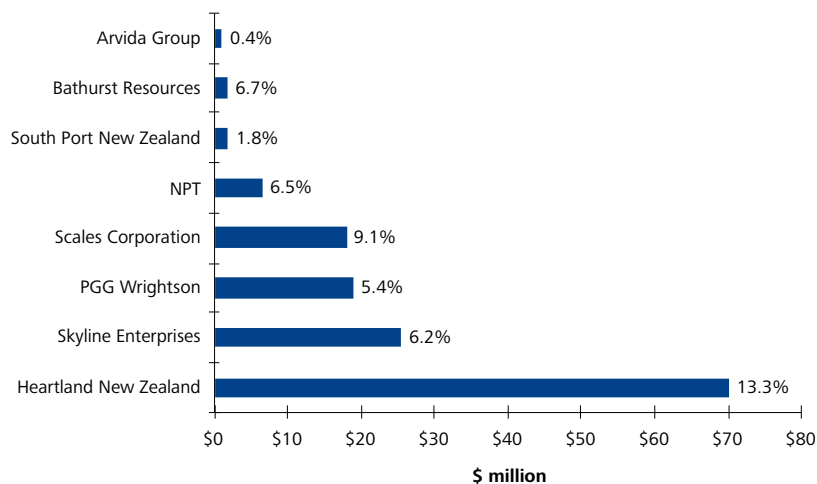
Growth in Market Capitalisation

As mentioned in the yearly review section Heartland Bank, Skyline Enterprises and PGG Wrightson also performed well in the most recent quarter to 31 March 2015, gaining \$70.1 million (13.3%), \$25.5 million (6.2%) and \$18.9 million (5.4%) in market capitalisation respectively. In February, Heartland Bank announced a half year result to 31 December 2014 with a Net Profit after Tax of \$23.5 million, an increase of 41% from the corresponding period the prior year. While, for the same period to 31 December 2014, PGG Wrightson also announced its half year results with its strongest

interim performance for seven years. The company achieved Operating EBITDA (excluding earnings of associates) of \$33.6 million, up from \$22.3 million for the corresponding period the year prior.

Scales Corporation is another primary sector company that achieved positive results in the quarter to 31 March 2015, growing \$18.2 million (9.1%) in market capitalisation on the back of its share price increasing by \$0.13 to \$1.56 per share. The company released its full year financial results to 31 December 2015 in February, announcing that the Underlying Net Profit of \$19.8 million was 6.7% higher than the IPO forecast, and the Net Profit of \$18.4 million was 15.4% above the IPO forecast. Scales Corporation chairman Jon Mayson said that "it's a very good result highlighting the strength of Scales' diversified agribusiness portfolio."

With growth of \$6.5 million (6.5%) in the quarter to 31 March 2015, NPT added to its strong showing in the previous quarter where it announced a trading profit of \$3.1 million for the six months to 30 September 2014, a 14.2% increase on the same period in 2013.



Over the most recent quarter, Meridian Energy was the Deloitte South Island Index's best performer in terms of increased market capitalisation.

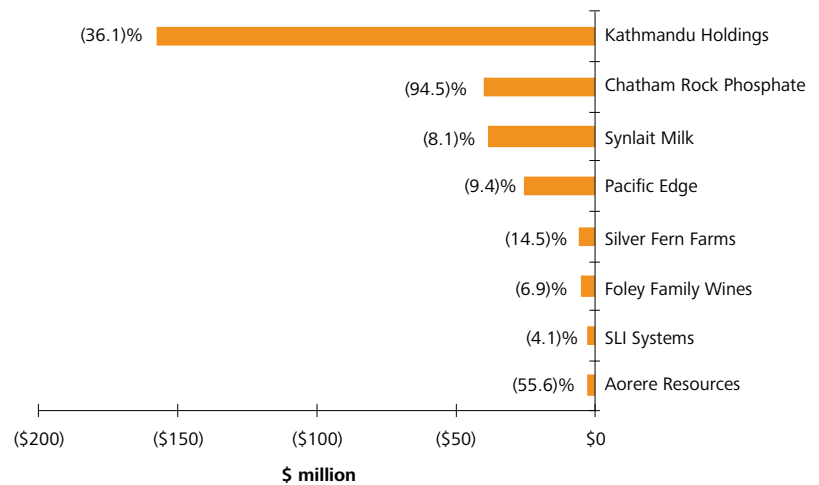
Declines in Market Capitalisation

Adding to its difficult year, Kathmandu Holdings continued its trend downwards losing \$157.2 million (36.1%) in the quarter to 31 March 2015. In February the company released its disappointing half year results to 31 December 2015. Acting Chief Executive Mark Todd commented that one of the contributing factors was “the aggressive quitting of excess stock in August and September drove top line sales but at significantly reduced gross margins. This brought forward some customer purchases that would otherwise have been made at higher margins later in the half.”

Chatham Rock Phosphate experienced the greatest decline in percentage terms in the most recent quarter, dropping an astonishing 94.5% of its market capitalisation (\$39.8 million). The catalyst for the fall in share price was the Environmental Protection Authority’s (EPA) decision to decline a marine consent application by Chatham Rock Phosphate to mine phosphorite nodules in the Chatham Rise. The EPA concluded that mining would cause significant and permanent adverse effects on the existing environment. This includes communities dominated by protected stony corals which are potentially unique to the Chatham Rise and which the Decision-making Committee appointed by the EPA Board concluded are rare and vulnerable ecosystems. In a release post the EPA’s decision, Chatham Rock Phosphate announced it “has continued to develop its future plans following the refusal of its Marine Consent application.” The company also stated that, “[it] has no intention of abandoning its Chatham Rise phosphate project and is continuing to develop strategies for progressing the project”.

Synlait Milk and Pacific Edge, like Kathmandu Holdings, fell significantly over the year to 31 March 2015 as well as in the most recent quarter, decreasing \$38.1 million (8.1%) and \$25.5 million (9.4%) respectively.

Silver Fern Farms suffered a decline in share price of \$0.06 to \$0.36 per share over the most recent quarter resulting in a drop in market capitalisation of \$6.1 million (14.5%). The company released its full year financial result to 30 September 2014 declaring revenue at \$2.3 billion, an increase of 15.8% on the prior year, and a decrease in its interest bearing loans and borrowings by 26.3%. Silver Fern Farms also announced plans to retire another \$75 million of debt partly through the sale of its Belfast, Christchurch site after removing nearly \$100 million from its balance sheet last season.



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Sector Movements

Year to 31 March 2015

The past year to 31 March 2015 has thrown up a mixed bag of results with four of the seven sectors suffering a decline. This is in contrast to the almost uniform growth in the sectors in the prior year to 31 March 2014, in which only the Energy & Mining sector experienced a decline.

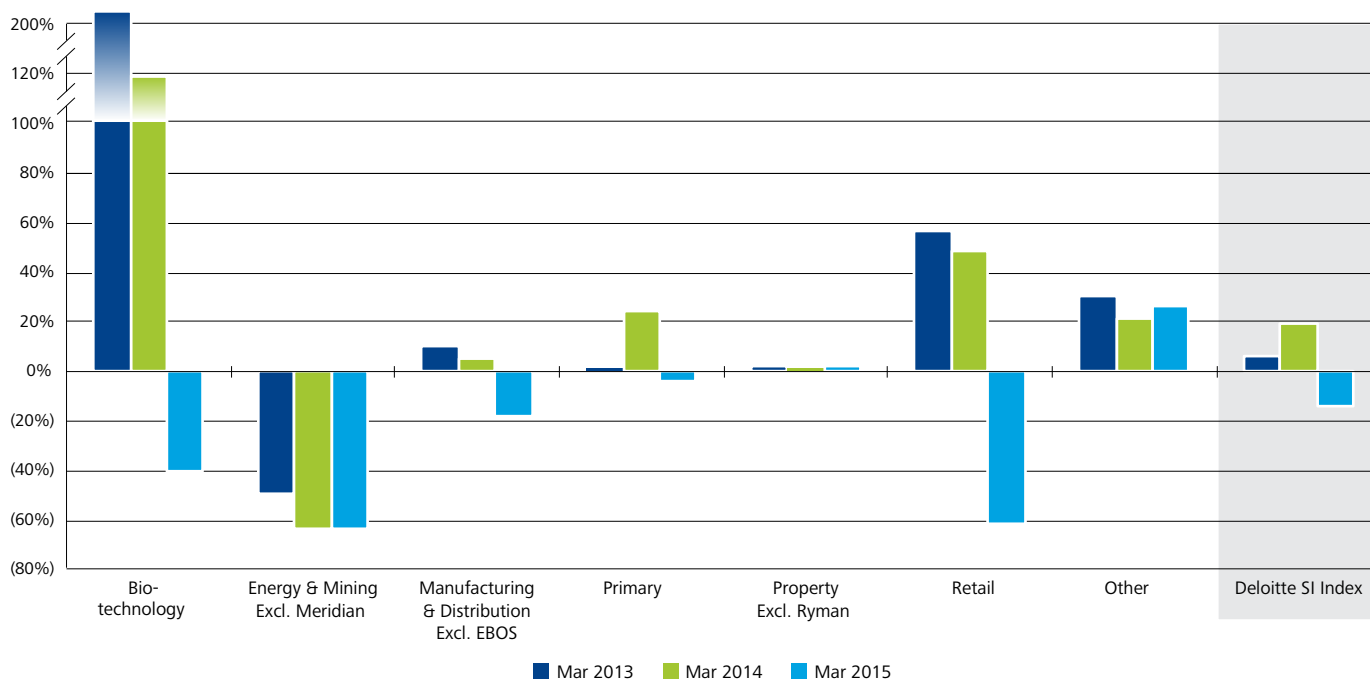
At an initial glance it appears that the Energy & Mining sector turned that result around in the twelve months to 31 March 2015, with a growth rate of 62.8%. However, Meridian Energy was the only company in the sector to achieve any growth in market capitalisation during the year. With Meridian Energy removed from the sector the results look very different with the sector experiencing the greatest loss, dropping 63.2%. The main contributors to that loss were Bathurst Resources declining \$41.2 million in market capitalisation (57.6%) and Chatham Rock Phosphate falling 41.0 million (94.7%).

The Biotechnology sector suffered its first decline in a number of years, decreasing by 40.0% for the year to 31 March 2015, with Pacific Edge and Pharmazen driving the result in the sector. Pharmazen, which decreased \$1.4 million (14.6%) during the year, undertook three major projects in 2014 which collectively represent more than 90% of the company's capital investment for 2014. The company reported that, "2014 was an extremely

challenging year for the company with global demand remaining flat against a backdrop of a New Zealand dollar maintaining elevated levels against all major trading partners". A sentiment that is common among a number of company on the Index. The other company in the Biotechnology sector, BLIS Technologies, gained \$3.3 million in market capitalisation (18.8%) in the year to 31 March 2015.

The top performing sector, excluding the largest three companies of the Index, was the Other sector, growing a solid 26.5%. Four of the six companies in the sector achieved positive results with Heartland New Zealand leading the way with an increase of \$232.1 million (63.5%) for the year to 31 March 2015, followed by Skyline Enterprises growing \$76.6 million (21.4%) and South Port New Zealand gaining \$13.7 million (14.9%). The other company in the sector that achieved positive results for the year was Moa Group, growing \$0.6 million (3.6%). Moa Group's positive results were courtesy of strong growth in market capitalisation after it raised the equivalent of \$5.8 million during the September 2014 quarter. On the other hand the company's share price dropped \$0.19 to \$0.36 per share (34.5%). The two companies in the sector that underwent declines for the year to 31 March 2015 were SLI Systems (48.1%) and Connexionz (13.2%).

Sector Performance for 12 Month Period to March Excluding Top Three



The top performing sector, excluding the largest three companies of the Index, was the Other sector, growing a solid 26.5%.



Excluding the impact of Ryman Healthcare, the Property sector achieved a growth rate of 2.7% with NPT gaining \$9.7 million in market capitalisation (10.0%) over the year. Arvida Group, which listed in December 2014, was down after it repurchased and cancelled certain ordinary shares following a review of the calculation determining the number of shares issued for the IPO.

Similarly, without the growth of EBOS Group, the Manufacturing & Distribution sector dropped 18.1% over the year to 31 March 2015, with Energy Mad and Skellerup Holdings decreasing by 70.9% and 20.2% respectively. The Primary sector suffered a small decrease of 3.9% on the back of Synlait Milk's tough year where the company dropped \$111.3 million (20.6%). However, three of the Primary sector companies that overcame challenges to grow their sizes were Blue Sky Meats (80.0%), PGG Wrightson (18.3%) and SeaDragon (17.3%).

The Retail sector underwent a turbulent twelve months to 31 March 2015 after decreasing in every quarter, ending the year down 61.8%.

Quarter to 31 March 2015

In line with the overall quarterly decrease in the Deloitte South Island Index of 0.3%, the various industry sector performances make sorry reading for investors. Only three of the seven sectors posted positive movements with the greatest being Energy & Mining on 12.7%. Taking out the impacts of the Top Three companies of the Index, only two sectors achieved growth during the most recent quarter – Other and the Property sectors. The most adverse results came from the Retail and Biotechnology sectors declining 34.0% and 8.4% respectively.

A key movement in the quarter to 31 March 2015 was the considerable drop in the Retail sector with both companies suffering notable declines. Kathmandu was the main contributor to this movement, while Smiths City Group dropped \$0.6 million (2.1%). Smiths City Group announced during the quarter that it was rebranding its finance arm to Smiths City Finance to increase the profile and ultimately the size of the finance business. The move reflects the importance of consumer finance in the company's integrated "full service retail" model.



The Retail sector underwent a turbulent twelve months to 31 March 2015 after decreasing in every quarter, ending the year down 61.8%.

The second largest decrease in percentage terms of the sectors was Biotechnology, with a fall of 8.4%. The result, on the back of the Pacific Edge's drop of 9.4%, was slightly pulled up by Pharmazen's gain of \$8.2 million (2.5%) over the quarter to 31 March 2015. The other company in the sector, BLIS Technologies, after growing in January, decreased in February and March to return to the same level as at 31 December 2014. BLIS Technologies announced during the quarter that they had experienced growth in ingredient sales in North America. BLIS Technologies chief executive Dr Barry Richardson said, "The company's increasing ingredient sales over the past 12 months is due to North American consumer product sales with BLIS K12™ although BLIS M18™ is also starting to get attention as well."

The Property sector was pulled down by Ryman Healthcare's result, with the sector ending the quarter down 7.3%. The other two companies in the sector posted market capitalisation gains with NPT growing \$6.5 million (6.5%) and Arvida Group increasing \$0.9 million (0.4%).

The Primary sector collectively had a troublesome quarter to 31 March 2015, with the sector dropping 1.2%, led by Synlait Milk's decrease of \$38.1 million (8.1%). Over the quarter Synlait Milk's share price got caught up in a criminal threat to the wider sector to contaminate infant formula in an apparent protest over New Zealand's use of 1080 in pest control. Silver Fern Farms and Foley Family Wines also had poor quarters falling \$6.1 million (14.5%) and \$5.2 million (6.9%) respectively. During the quarter Foley Family Wines released its half year results to 31 December 2014 which noted that Revenue for the half year was up \$1.861 million (13.5%) on the same period the prior year. The only other company in the Primary sector to suffer a fall was SeaDragon, dropping \$1.9 million (4.6%). In a

trading update released in March, the company stated that it "expects to report an operating loss (loss before interest, tax, depreciation and amortisation) for the year as it continues to invest to position itself ahead of the start-up of the new refinery." Meanwhile, Blue Sky Meats' share price didn't move over the quarter, and both PGG Wrightson and Scales Corporation had pleasing results both growing \$18.9 million (5.4%) and \$18.2 million (9.1%) respectively.





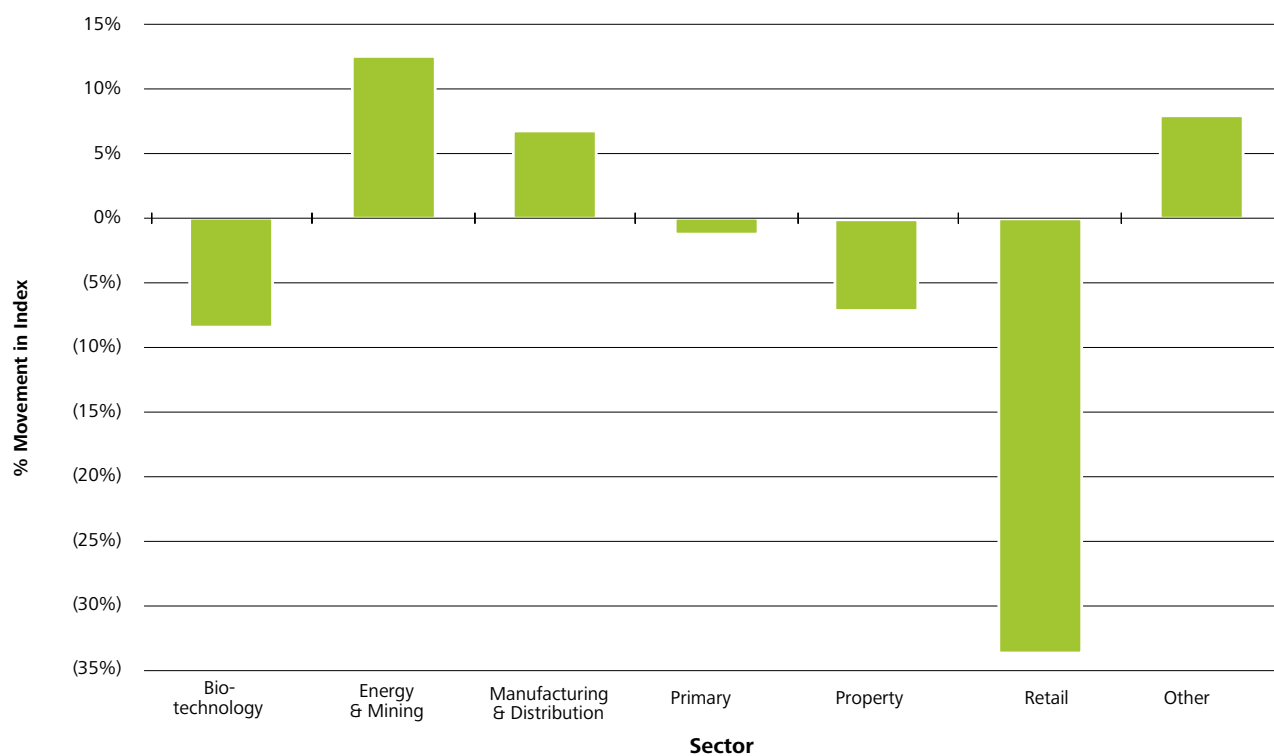
On the positive side of the Deloitte South Island Index's sectors, the Other sector had a good quarter, gaining 8.1% on the back of solid performances from Heartland New Zealand and Skyline Enterprises growing by 13.3% and 6.2% respectively. South Port New Zealand also grew during the quarter, increasing \$1.9 million (1.8%). Two of the companies in the sector underwent declines, with SLI Systems dropping \$3.0 million (4.1%) and Moa Group decreasing \$2.1 million (10.9%). During the quarter SLI Systems released its interim financial results for the six months to 31 December 2014, with the company's half year operating revenue increasing 26% for the same period the prior year.

Similar to the annual results the Energy & Mining and Manufacturing & Distribution sectors, without the largest companies, would have posted negative results – down 44.3% and 0.5% respectively. In the Energy & Mining sector two companies achieved growth, Bathurst Resources (up 6.7%) and NZ Windfarms (up 4.3%). NZ Windfarms also released its financial results for the six months to 31 December 2014, with the company mentioning that, "good levels of wind resource and wholesale prices have resulted in the Company making a small profit for the period which is an improvement

of \$1.26 million over the same period last year". Meanwhile, Windflow Technology decreased \$0.1 million (8.3%) for the quarter to 31 March 2015.

In the Manufacturing & Distribution sector, Energy Mad had a positive quarter, gaining \$0.1 million (2.3%) after the issuance of new shares, raising over \$2.2 million. The company stated that the new capital would be used to increase the number of third party sales forces in New Zealand and fund general working capital. With Energy Mad's results, EBOS Group's growth in the quarter (up 8.6%) and Skellerup Holdings remaining at the same level, Scott Technology was the only company in the sector to decline, dropping \$1.7 million (2.5%) in the quarter. During the quarter Scott Technology announced the settlement of its acquisition of Machinery Automation and Robotics Pty Limited. The acquired company provides robotic and automation solutions and systems to a variety of industries including mining and meat processing, which are also key areas of focus for Scott Technology.

Movement in Sector Indices - Quarter to March 2014



The table below sets out market capitalisation by sector as at 31 March 2015 and provides a comparison against the position as at 31 March 2014 and 31 December 2014 respectively.

Industry	Number of Companies	31 Mar 2015 \$ million	% of Index	31 Mar 2014 \$ million	Mvmt in Year \$ million	% change in Mkt Cap during Year	31 Dec 2014 \$ million	Mvmt in Quarter \$ million	% change in Mkt Cap during Quarter
Biotechnology	3	\$274.4	2.3%	\$457.3	\$(182.9)	(40.0)%	\$299.7	\$(25.3)	(8.4)%
Energy & Mining	6	\$2,592.3	22.0%	\$1,592.6	\$999.7	62.8%	\$2,299.5	\$292.8	12.7%
Manufacturing & Distribution	4	\$1,946.8	16.5%	\$1,933.6	\$13.2	0.7%	\$1,821.1	\$125.7	6.9%
Other	6	\$1,228.0	10.4%	\$970.5	\$257.5	26.5%	\$1,135.6	\$92.4	8.1%
Primary	7	\$1,181.1	10.0%	\$1,229.6	\$(48.5)	(3.9)%	\$1,195.3	\$(14.2)	(1.2)%
Property	3	\$4,240.5	36.0%	\$4,687.2	\$(446.7)	(9.5)%	\$4,573.1	\$(332.6)	(7.3)%
Retail	2	\$305.9	2.6%	\$801.8	\$(495.9)	(61.8)%	\$463.7	\$(157.8)	(34.0)%
TOTAL	31	\$11,769.0	100.0%	\$11,672.6	\$96.4	0.8%	\$11,788.0	\$(19.0)	(0.2)%

Benchmarking

Quarterly Comparison of the Deloitte South Island Index and the NZX 50 Capital Index

After a positive quarter to finish off the 2014 calendar year, the Deloitte South Island Index suffered a decline in the first quarter of 2015, losing \$19.0 million (0.2%). The Index increased slightly in January and February, and then lost those gains in March - dropping by 3.2%.

In comparison, the NZX 50 Capital Index achieved a small gain by 3.3%. The NZX 50 Capital Index's movements mirrored the Deloitte South Island Index as it too had small increases in January and February and a small loss in March.

Comparison of Deloitte South Island Index and Other Indices

The Deloitte South Island Index's flat performance over the most recent quarter mirrored the overall trend from the past year of quarterly declines (with the exception of the December 2014 quarter).

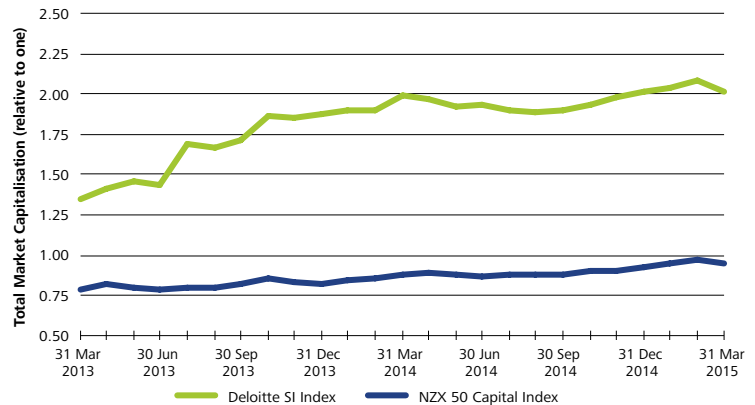
The Index's decrease of 0.2% for the quarter was matched by the marginal drop in the Dow Jones of 0.3%. On the other side of the coin the NZX 50 Capital Index achieved a positive 3.3% increase, while contrary to some media reports on the Australian economy the ASX All Ords increased by a solid 8.8% for the quarter to 31 March 2015.

Comparison of Deloitte South Island Index Top Three and NZX 10 Capital Index

To get a steer on the relative performance of the three largest companies on the Deloitte South Island Index we have used the NZX 10 Capital Index as a benchmark. Like all the companies on the NZX 10 Capital Index, the top three companies on the Index all have a market capitalisation greater than \$1.0 billion.

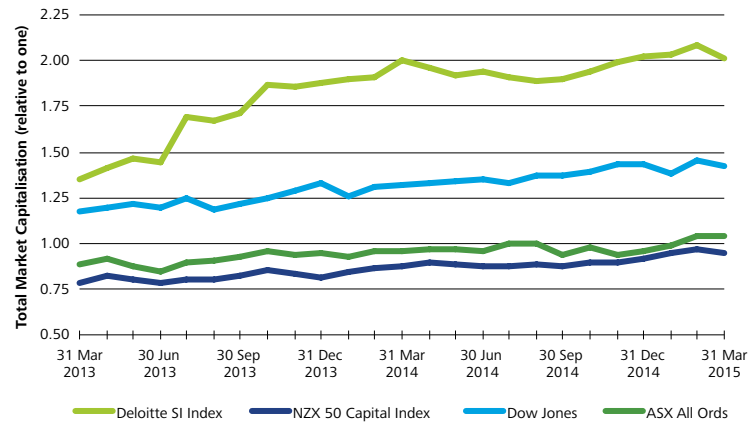
Over the quarter to 31 March 2015 the top three companies of the Index gained a solid 8.9% compared to the NZX 10 Capital Index's increase of 1.8% for the quarter. Over the last twelve months the top three companies significantly outperformed their associates on the NZX 10 Capital Index gaining 9.8% for the year to 31 March 2015 compared to the NZX 10 Capital Index's minor gain of 1.9%.

Performance of Deloitte South Island Index vs NZX 50 Capital Index



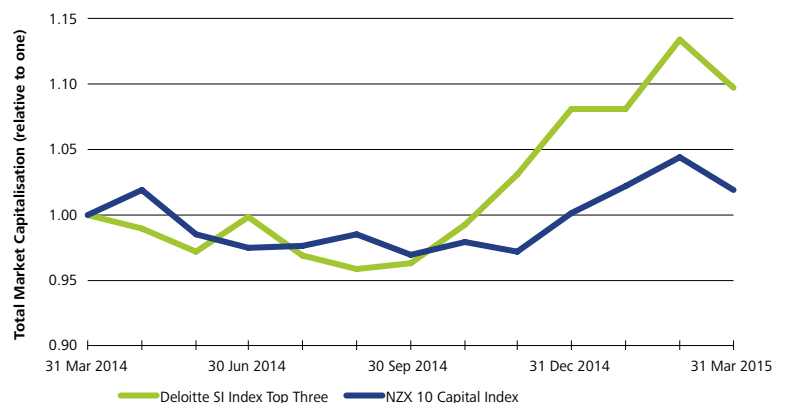
Base period - December 2006 = 1.00

Performance of Deloitte South Island Index vs Major Indices



Base period - December 2006 = 1.00

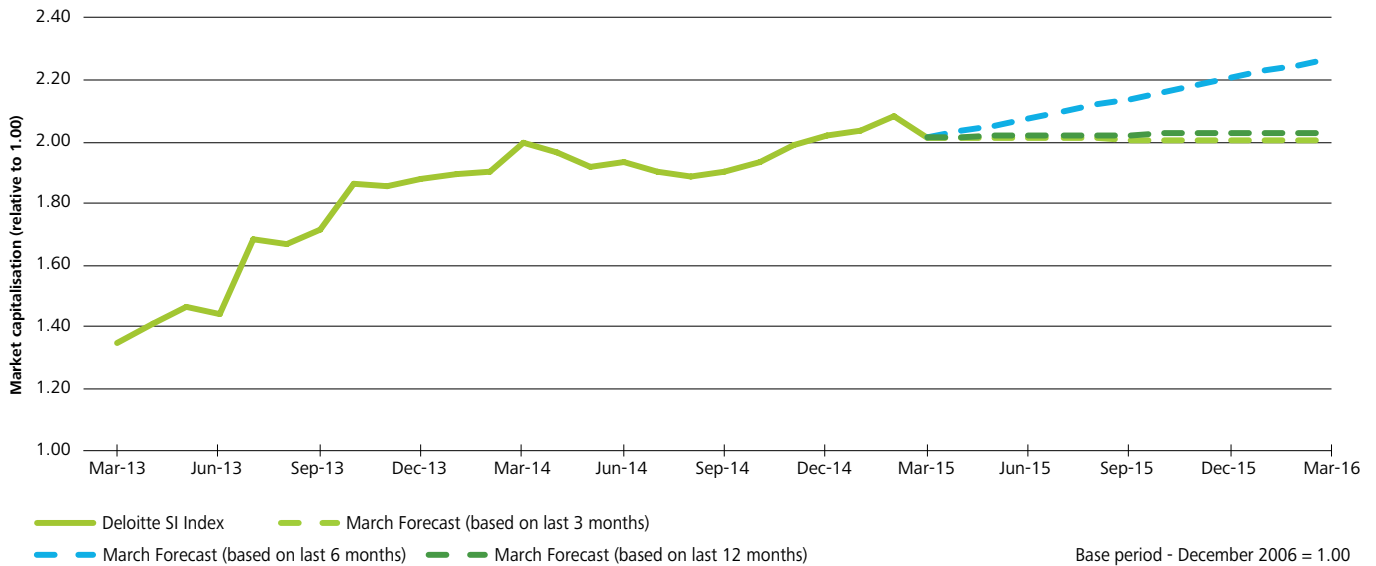
Performance of Deloitte South Island Index Top Three vs NZX 10 Capital Index



Base period - March 2014 = 1.00

Looking ahead

Deloitte South Island Index March 2015 Forecast



The Deloitte South Island Index has enjoyed a period of substantial growth for a number of years, with growth rates outperforming other comparable indices. However, the past 12 months has seen that exceptional period of growth come to a screeching halt, adding even more uncertainty to future planning for businesses. Last year we posed the question whether that growth would be sustainable into this year and beyond, and we have gotten the answer earlier than anticipated.

Normally when gazing into the crystal ball the future is foggy, this year is no exception and it appears even murkier than usual. There are a number of potential events that will likely have an impact on the companies in the Index, as well as the New Zealand economy as a whole.

Two key elements to potentially impact on New Zealand businesses are the continuing weakness in dairy prices coupled with indications that the United States Federal Reserve will likely be raising interest rates in the very near future. Market commentators will draw the public's attention to the potential continual downward pressure on the kiwi against the greenback for the short to medium term, giving a bit of relief to a number of exporting businesses which have been suffering under the overvalued New Zealand Dollar.

The opposite can be said for the Australian dollar however, with continuing downward pressure in international commodity markets resulting in the market anticipating the Reserve Bank of Australia to cut interest rates at its May meeting. This will likely spark a further devaluation of the Australian dollar against the New

The past 12 months has seen that exceptional period of growth come to a screeching halt, adding even more uncertainty to future planning for businesses.

Zealand dollar and may be the catalyst for the New Zealand dollar achieving parity. The flow on effect of a strengthening New Zealand dollar against the Australian dollar would be beneficial for importers, but at the expense of companies which rely on substantial earnings in Australia.

Specific to the Index itself, the next twelve months will potentially see the addition of Inventory Technologies to the Deloitte South Island Index. The Christchurch based healthcare technology developer, is expected to join the NZX via a reverse listing using the shell of NZF Group for consideration of \$5.0 million in shares.

Due to continuing uncertainties in the global financial markets, it is hard to predict where the global markets will go and how they will impact on the companies on the Deloitte South Island Index. This is reflected in the trends from the past 12 months the outlook for the Index is mixed. The previous graph shows forecasts for the Index based on the three, six and twelve month trends over the past year.

The flow on effect of a strengthening New Zealand dollar against the Australian dollar would be beneficial for importers, but at the expense of companies which rely on substantial earnings in Australia.



Deloitte South Island Index

March 2015

Of the 31 companies currently listed on the Deloitte South Island Index, 13 (42%) experienced a rise in market capitalisation during the quarter to 31 March 2015, 14 declined and four remained unchanged. Over the 12 months to 31 March 2015, 12 of the companies grew, 18 declined and one returned to its 31 March 2014 level.

The full Deloitte South Island Index for the year and quarter ended 31 March 2015, ranked by market capitalisation, is set out in the table below:

Mar 2015 Rank	Mar 2014 Rank	Ticker	Company	Sector	Mcap Mar 2015 (\$m)	Share Price 31 Mar 2015	Mcap Mar 2014 (\$m)	Change in Mcap in Year	Change in Mcap (%) in Year	Mcap Dec 2014 (\$m)	Change in Mcap (%) in Quarter	Change in Mcap (%) in Quarter
➔ 1	1	RYM	Ryman Healthcare	Property	\$3,920.0	\$7.84	\$4,375.0	\$ (455.0)	(10.4)%	\$4,260.0	\$ (340.0)	(8.0)%
⬆ 2	3	MELCA	Meridian Energy	Energy & Mining	\$2,542.2	\$2.03	\$1,456.3	\$1,085.9	74.6%	\$2,209.5	\$332.7	15.1%
⬇ 3	2	EBO	EBOS Group	Manufacturing & Distribution	\$1,602.2	\$10.70	\$1,513.0	\$89.2	5.9%	\$1,474.9	\$127.3	8.6%
⬆ 4	7	HNZ	Heartland New Zealand	Other	\$597.7	\$1.28	\$365.6	\$232.1	63.5%	\$527.6	\$70.1	13.3%
⬆ 5	8	SKYLINE	Skyline Enterprises	Other	\$434.1	\$12.75	\$357.5	\$76.6	21.4%	\$408.6	\$25.5	6.2%
⬇ 6	5	SML	Synlait Milk	Primary	\$430.2	\$2.94	\$541.5	\$ (111.3)	(20.6)%	\$468.3	\$ (38.1)	(8.1)%
⬆ 7	10	PGW	PGG Wrightson	Primary	\$366.1	\$0.49	\$309.5	\$56.6	18.3%	\$347.2	\$18.9	5.4%
⬇ 8	4	KMD	Kathmandu Holdings	Retail	\$278.0	\$1.38	\$771.8	\$ (493.8)	(64.0)%	\$435.2	\$ (157.2)	(36.1)%
➔ 9	9	SKL	Skellerup Holdings	Manufacturing & Distribution	\$273.8	\$1.42	\$343.2	\$ (69.4)	(20.2)%	\$273.8	\$0.0	0.0%
⬇ 10	6	PEB	Pacific Edge	Biotechnology	\$245.3	\$0.77	\$430.1	\$ (184.8)	(43.0)%	\$270.8	\$ (25.5)	(9.4)%
➔ 11	11	SCL	Scales Corporation	Primary	\$218.1	\$1.56	\$223.6	\$ (5.5)	(2.5)%	\$199.9	\$18.2	9.1%
➔ 12	12	ARV	Arvida Group	Property	\$213.6	\$0.95	\$215.0	\$ (1.4)	(0.7)%	\$212.7	\$0.9	0.4%
⬆ 13	14	NPT	NPT	Property	\$106.9	\$0.66	\$97.2	\$9.7	10.0%	\$100.4	\$6.5	6.5%
⬆ 14	15	SPN	South Port New Zealand	Other	\$105.5	\$4.02	\$91.8	\$13.7	14.9%	\$103.6	\$1.9	1.8%
⬆ 15	16	FFW	Foley Family Wines	Primary	\$70.5	\$1.35	\$73.8	\$ (3.3)	(4.5)%	\$75.7	\$ (5.2)	(6.9)%
⬇ 16	13	SLI	SLI Systems	Other	\$70.2	\$1.15	\$135.2	\$ (65.0)	(48.1)%	\$73.2	\$ (3.0)	(4.1)%
⬆ 17	18	SCT	Scott Technology	Manufacturing & Distribution	\$66.4	\$1.47	\$62.3	\$4.1	6.6%	\$68.1	\$ (1.7)	(2.5)%
⬆ 18	21	SEA	SeaDragon	Primary	\$39.4	\$0.02	\$33.6	\$5.8	17.3%	\$41.3	\$ (1.9)	(4.6)%
⬆ 19	20	SFF	Silver Fern Farms	Primary	\$36.1	\$0.36	\$36.1	\$0.0	0.0%	\$42.2	\$ (6.1)	(14.5)%
⬇ 20	17	BRL	Bathurst Resources	Energy & Mining	\$30.3	\$0.03	\$71.5	\$ (41.2)	(57.6)%	\$28.4	\$1.9	6.7%
⬆ 21	22	SCY	Smiths City Group	Retail	\$27.9	\$0.53	\$30.0	\$ (2.1)	(7.0)%	\$28.5	\$ (0.6)	(2.1)%
⬆ 22	23	BLT	BLIS Technologies	Biotechnology	\$20.9	\$0.02	\$17.6	\$3.3	18.8%	\$20.9	\$0.0	0.0%
⬆ 23	27	BLUESKY	Blue Sky Meats	Primary	\$20.7	\$1.80	\$11.5	\$9.2	80.0%	\$20.7	\$0.0	0.0%
➔ 24	24	MOA	Moa Group	Other	\$17.2	\$0.36	\$16.6	\$0.6	3.6%	\$19.3	\$ (2.1)	(10.9)%
⬆ 25	26	NWF	NZ Windfarms	Energy & Mining	\$14.4	\$0.05	\$14.7	\$ (0.3)	(2.0)%	\$13.8	\$0.6	4.3%
⬆ 26	28	PAZ	Pharmazen	Biotechnology	\$8.2	\$0.05	\$9.6	\$ (1.4)	(14.6)%	\$8.0	\$0.2	2.5%
⬇ 27	25	MAD	Energy Mad	Manufacturing & Distribution	\$4.4	\$0.06	\$15.1	\$ (10.7)	(70.9)%	\$4.3	\$0.1	2.3%
⬆ 28	30	CNX	Connexionz	Other	\$3.3	\$0.06	\$3.8	\$ (0.5)	(13.2)%	\$3.3	\$0.0	0.0%
⬇ 29	19	CRP	Chatham Rock Phosphate	Energy & Mining	\$2.3	\$0.01	\$43.3	\$ (41.0)	(94.7)%	\$42.1	\$ (39.8)	(94.5)%
⬇ 30	29	AOR	Aorere Resources	Energy & Mining	\$2.0	\$0.00	\$5.4	\$ (3.4)	(63.0)%	\$4.5	\$ (2.5)	(55.6)%
➔ 31	31	WTL	Windflow Technology	Energy & Mining	\$1.1	\$0.06	\$1.4	\$ (0.3)	(21.4)%	\$1.2	\$ (0.1)	(8.3)%
31	31		TOTAL		\$11,769.0		\$11,672.6	\$96.4	0.8%	\$11,788.0	\$ (19.0)	(0.2)%

Compilation of the Deloitte South Island Index

The Deloitte South Island Index ('the Index') is compiled from information provided by the NZX, and Unlisted on the market capitalisation of each South-Island based listed company. Broadly, a company is included in the Index where its registered office is in the South Island and/or a substantial portion of its operations are focused in the South Island. The information on South Island listed companies is extracted and totalled to provide a cumulative market capitalisation for all South Island listed companies.

The base period of the Deloitte South Island Index is 31 December 2006 and for the purposes of the Index this data is given a notional value of one. All subsequent quarterly cumulative market capitalisation totals are divided by the totals for the December 2006 quarter to obtain a relative movement. Market capitalisation will move as a result of capital injections, payments of dividends and capital returns. If a new South Island based company lists on the NZX or Unlisted they will be reflected in the Index as though they were present in the base period. Accordingly, the Index will only reflect changes in market capitalisation subsequent to listing. If a company is suspended or delisted during a quarter, no data will be included for the company, including any historical data, until the company is re-listed or the suspension lifted.

The metrics for Meridian Energy Limited have been calculated on the basis of the issued instalment receipts, rather than the company's issued ordinary shares.

For the purposes of the sector analysis some sector segments have been grouped to provide a more meaningful analysis.

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