SOUTH PORT NEW ZEALAND LIMITED

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2017 ANNUAL MEETING NZX AND MEDIA STATEMENT

South Port lifted by positive economic tide

South Port New Zealand Ltd, operator of the Port of Buff, has benefited from a long running positive economic cycle in the New Zealand economy which has supported growth in cargo volume and profitability, the Company's shareholders were told at today's Annual Meeting held at Bluff.

The Company's Chairman, Mr Rex Chapman, indicated that the economic momentum has continued into the current 2017-18 year.

This 2017 result again emphasised the importance of bulk cargos to South Port's business.

"South Port is primarily a bulk port with a container operation. Bulk or break bulk cargos comprised over 2.6 million tonnes with containers representing just over 400,000 tonnes. This equates to a volume split of 86% bulk vs. 14% for containers."

"Within the main bulk cargoes of forestry, NZAS cargo, fertiliser, petroleum and stock food, the log category continued to show strong growth. Log exports reached a new record of 560,000 tonnes while forestry in total now represents almost 30% of South Port's overall cargo."

Other bulk cargo volumes were generally steady.

Continued growth in container throughput propelled South Port to a new record of 39,300 TEU, up from 35,100 in the previous year. This increase in container volumes was primarily due to an increase in dairy-related exports and inbound cement, fertiliser and farm nutrition products.

FY17 net profit was $8.45 million, a very satisfactory result, although below the FY16 record of $8.71 million. One of the significant differences in financial performance in FY2018 was an 18% increase in the cost of repairs and maintenance which was forecast last year.

Guidance was for FY17 profit to be back by about 15% which would have delivered a profit in the order of $7.4 million and so the Company bettered forecast by over $1 million.

"Another positive was that we were able to once again, for the second year in a row, break 3 million tonnes of cargo and we matched last year's record volume of 3.05 million tonnes."

This year's sound financial result has enabled the Board to pay a final dividend of 18.5c which translates to a full year dividend of 26c, the same as last year.

Mr Chapman said, "At this early stage of the financial year, we are expecting South Port's main cargoes of logs, NZAS, dairy exports, petroleum and fertiliser to show modest growth in the next 12 months.

"The dairy sector appears to be on a more stable platform and this should support both the bulk and containerised cargoes which are associated with it."

"Given reasonably stable volumes for the year, we are predicting that our earnings will be broadly consistent with the past year and on that basis the Board will be aiming to maintain the current level of dividend pay-out."

An update of earnings will be provided when the interim result is released.

Mr Chapman commented on the consolidation amongst the container shipping lines. Three global alliances have emerged which now control over 77% of global container shipping capacity.

Over recent years, the size of new container vessels being built has grown from 10,000 to 14,000 TEU vessels to 18,000 and now 22,000 TEU size. "However, it has recently been reported in shipping media that there is starting to be a difference in opinion between the biggest two shipping lines, MSC and Maersk as to whether or not this trend will continue. Maersk now believe that the race for bigger and bigger ships is gone for the foreseeable future."

"There are several reasons for this; the range of ports that are capable of handling these larger vessels is limited and larger ships mean less frequency of sailings which does not suit importers and exporters."

"The rationale for using larger vessels was to get economies of scale and reduce costs, but these financial benefits are only obtained if the ships are full. With the present excess capacity in the global market, that is difficult to achieve."

"In New Zealand there continues to be strong competition amongst all ports for containerised cargo within their catchment", he said. In many cases, the natural catchment of the port is being extended by inland ports, "a trend that is likely to continue."

Mr Chapman noted that all ports have a different mix of cargos, revenue streams and in some cases non-port businesses.

He provided a comparison of South Port's percentage of net profit after tax derived from port revenues with that of four other ports.

The analysis shows that South Port converts 23% of its revenue to net profit after tax which Mr Chapman says compares very favourably with the peer group percentages of between 11.9% and 18.5%. "South Port's performance demonstrates the importance of our favourable bulk cargo mix."

South Port's business has a greater weighting towards bulk cargos than containers and also has a diverse range of bulk cargos, both on the import and export side.

Bulk cargos by their nature require less people to handle and operational plant interaction, he noted. These cargoes move in larger volume parcels and thus provide a better gross margin than containerised cargo.

Whist there is better margin at a gross level, the Port must provide extensive infrastructure which, in South Port's case, is requiring increased spending on maintenance to sustain.

The Company distinguishes between growth-related capital expenditure and 'stay-in-business' capex required every year within the existing business. A Board objective is to ensure that annual total "stay in business" capex does not exceed depreciation expense.

During the coming year two significant capital projects will be undertaken:

- Construction of a replacement pipe and access corridor for the Town Wharf fuel import berth at an estimated cost of $5 million; and
- Paving of one hectare of the log storage area, coupled with installation of an improved drainage system for a total of $2.2 million.

These two projects make up $7.2 million of the 2018 capex budget of $9.4 million.

Mr Chapman expressed the Company's thanks to outgoing Chief Executive, Mark O'Connor.

Mr O'Connor joined South Port nearly 25 years ago in 1993, initially as Finance Manager. In the lead up to the Company's stock exchange listing in July 1994, he was appointed Company Secretary and was involved in much of the background work prior to that listing. Five years later he was appointed to the CEO role.

During his 25 years, Mr O'Connor has served under three Chairmen, Rex Powley, John Harrington and Rex Chapman.

"He has overseen the early transformation in the Company's business with a successful refocus on the core port activities and achieving solid growth in the operation," said Mr Chapman.

He established the MSC International Container Service at Bluff and has grown container and other cargo handling capabilities together with warehousing facilities both on-port and now in Invercargill.

Since 2000, South Port's revenue has increased by approximately 300%, tax paid profit has increased by over 400% and cargo volumes have increased by 60%.

"This is impressive growth for a small regional port. He has, in my view, set the standard for the others that will follow him and he has left a lasting legacy in his record of achievement at South Port."

The share price when Mr O'Connor was appointed was $0.86; the current share price is $6.20, a 720% increase. The total return to shareholders since listing has been $222 million.

There were over 40 applicants for the South Port CEO's position from both New Zealand and offshore. From a shortlist of very strong candidates, Mr Gear was successful and took over as from 1 October. Mr Gear has been with South Port for 23 years in a variety of roles.

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