SOUTH PORT NEW ZEALAND LIMITED

NZX AND MEDIA RELEASE

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Records feature in South Port's full year result

Busy seasonal freight activity has produced a record cargo volume for South Port in the 2014-15 year and the highest tax-paid profit result in the port operator's history.

This was achieved whilst maintaining high Health and Safety standards and implementing a two mobile container crane operating model plus focusing on the gaining of efficiencies through the PACE (Port Achieving Combined Excellence) Process Improvement Program.

"Stronger bulk volumes drove overall cargo throughput to the new record level of 2.86 million tonnes while the Company's warehousing, container handling and marine functions provided support to core activity", said South Port Chairman, Rex Chapman.

Reported after tax profit of $7.74 million (2014 – $6.68 million) is a 15.8% increase on the 2014 year and represents a strong outcome compared to earlier profit expectations.

KEY DETAILS

- Revenue from port and warehousing operations was $34.6 million ($31.3 million), an increase of 11%.
- Operating profit before financing costs and tax rose 20% to $11.7 million ($9.7 million).
- Net financing costs were $910,000 ($390,000).
- The year's surplus of $7.74 million ($6.68 million) is a 16% increase on FY2014.
- Earnings per share were 29.5 cents per share (25.5 cents per share).
- Total equity is $33.3 million ($31.4 million) after allowing for dividend payments of $6.03 million ($5.64 million).
- Total assets stand at $47.1 million ($45.7 million).
- Net tangible asset backing per share is $1.27 ($1.20 per share).
- Current assets amount to $6.5 million ($11.0 million), with current liabilities at $5.1 million ($13.9 million). This creates a net working capital position of positive $1.4 million versus negative $2.9 million last year.

- Term liabilities total $8.8 million ($0.4 million).

- Property, Plant and Equipment stood at $40.6 million ($34.7 million).

CARGO INCREASE

Total cargo of 2.86 million tonnes is a 5% improvement in volume (142,000 tonnes), compared to the FY2014 activity of 2.72 million tonnes.

Chief Executive, Mark O'Connor said "the lift was largely driven by fertiliser, stock food and dairy related product while other cargo categories held up well.

This overall improvement was somewhat surprising when contrasted against the challenging conditions that existed for a range of industries. Dairy and forestry exporters in particular have had to manage sizeable declines in global prices and a subdued outlook.

Inbound stock food and molasses were again strong performers setting a new import record of approximately 220,000 tonnes. Similarly, higher than expected fertiliser consumption generated increased cargo flows totalling 430,000 tonnes (manufacturing materials, acid and processed product)."

The supply logistics for these cargoes includes use of South Port dry warehouses located directly on the Port area, along with third-party storage situated off-Port.

NZAS related cargo and petroleum are two other sizeable bulk product flows that contributed positively to the Port's overall performance. Both of these cargo categories delivered volumes slightly up on the prior year's level.

FY2015 would have matched the record FY2014 cargo log throughput, but for a log export vessel being delayed over balance date. This cargo category registered volume of 376,000 tonnes (390,000 tonnes), with throughput being strongly supported by the recommencement of export activity by Rayonier / Matariki Forests. To cater for Rayonier / Matariki Forests' involvement after a 10 year absence, additional log storage areas were created on Bluff Island Harbour and a review of existing operating leases was undertaken.

Woodchip cargo produced a modest uplift on the previous year, but this was offset by an equivalent decline in sawn timber volume.

South Port's sole container shipping customer, Mediterranean Shipping Company (MSC), continued to attract solid cargo support from Southland's importers and exporters via calls made by the seven vessel (averaging 3,500 TEUs) weekly Capricorn container service

NZAS SMELTER

During FY2015 considerable media commentary was generated about the future viability of the Rio Tinto and Sumitomo owned NZAS Tiwai Aluminium Smelter.

Extensive electricity supply negotiations were concluded on 3 August 2015 with a varied contract resulting between NZAS and Meridian Energy.

"This has provided greater certainty for NZAS and enables it to focus on other key challenges within its business," said Mr O'Connor.

"Further, the Electricity Authority has released an options paper for consultation outlining different scenarios for electricity transmission pricing charging mechanisms, which, if implemented, would create additional benefits for NZAS. In 2014, NZAS paid nearly $64 million in transmission charges alone, making it one of the highest prices for transmission for an aluminium smelter anywhere in the world.

South Port supports any initiatives developed by the NZAS directors and management which will enhance this operator's prospects of being globally competitive."

NEW EQUIPMENT

South Port took delivery of a second mobile container crane in September 2014 and this equipment became operational in late October.

"The $6.3 million outlaid to secure the new crane and a further container-capable forklift represents a significant investment for a regional port operator and is the single largest item of capital expenditure in the Company's history," said Mr O'Connor. "It has delivered improved productivity for the MSC Capricorn vessels, plus enabled a reduced operating window to be scheduled for the weekly Bluff call."

Mr O'Connor said, "Consistent container activity was a feature of the past 12 months with annual containerised cargo rising to 35,800 TEUs compared with the 32,700 TEUs handled the previous year.

This new record container volume for the Company was facilitated by the two mobile harbour crane operating model over the last eight months of FY2015.

Open Country Dairy's additional dryer at its Awarua site was also a notable contributor to container volumes with increases in imported ingredients and export product occurring."

CAPEX PROJECTS

Over the next 12 months, South Port plans to develop around 0.8ha of bare land in Mersey Street, Invercargill adjacent to the KiwiRail area where containerised cargo is transferred to and from rail. The project will involve squaring off the site, the establishment of a packing/unpacking warehouse, plus adding a sealed pad and supporting infrastructure.

Targeting primarily containerised import cargo growth in the region, the venture will service freight forwarders, plus transport operators and will function on a port-neutral basis. The cost of developing the land will be approximately $4.25 million.

In July 2015, the Company entered into a Purchase Agreement with Port of Tauranga for the second-hand Voith harbour tug, 'Te Matua'. This vessel has a 40 tonne bollard pull capacity and will have cost $2.5 million once operational at Bluff.

DIVIDENDS / DIRECTORS

Calculating the annual dividend after taking into account free cash flow, reported profit, future capital spending and the current subdued economic outlook, the Directors have approved a final dividend of 17.0 cents per share. The full year dividend is thus 24.0 cents per share, up 9% on FY2014 (22.0 cents).

Full imputation credits will be attached to all distributions. The dividend payment represents a gross return of 7.3% (net 5.2%) based on a share price of $4.58 as at 30 June 2015. A dividend payout ratio of 81% results for FY2015 (using reported NPAT) and equates to 65% of FCF.

Mr Rick Christie and Mr Tommy Foggo retire this year by rotation and being eligible; offer themselves for re-election to the Board. South Port has received no other Director nominations to date.

OUTLOOK

Mr Chapman said, "Trading in all sectors involves cycles and New Zealand appears to be coming off a more favourable economic phase.

Despite customers supplying stable cargo projections for the coming year, South Port is taking a more cautious view of the 2016 financial period.

A more negative sentiment seems to have settled on the NZ economy since mid-2015 and anecdotal evidence in the market suggests a challenging trading period lies ahead for exporters. In the case of the dairy sector the depressed international prices and low farmer pay out have been well reported. This ultimately has a flow-on effect to both exports and other business inputs and translates to a decrease in overall regional activity.

Some recent investment is predicated on further cargo gains occurring, but this growth requirement may now take longer to achieve."

A current plus for exporters is a lower New Zealand dollar and the availability of depressed shipping freight rates.

Taking into account the more subdued market conditions, South Port is forecasting a lower level of tax-paid profit for the 2016 financial year. "This forecast takes into account both anticipated "head winds" for the majority of sectors and the impact of investing in new infrastructure, which will require a number of years of cargo growth to generate an appropriate financial return," said Mr Chapman.

FOR FURTHER INFORMATION PLEASE CONTACT:

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SOUTH PORT FACTS

- Owns and manages assets which have a book value of $47 million
- Directly employs more than 100 full time equivalent staff
- Is the only Southland based company listed on NZX – market capitalisation as at 30 June 2015 equated to $120 million
- Handles in excess of 2.7 million tonnes of cargo in a normal trading year
- Offers full container, break-bulk and bulk cargo capability and services the following main cargoes:
  - ✓ **import** – alumina, petroleum products, fertiliser, acid, stock food and cement
  - ✓ **export** – aluminium, timber, logs, dairy, meat by-products, fish and woodchips
- Has split its land-based operating resource into four main divisions – dairy warehousing, containers, cool & cold storage and general cargo
- Undertakes its primary port operation on a 40 ha man-made Island Harbour situated at Bluff
- Operates a separate dedicated fuel berth at Bluff Town Wharf plus provides the Tiwai Wharf facility to NZAS under a long term licence
- Services vessels carrying approximately 1.0 million tonnes of cargo destined for movement across the Tiwai Wharf each year, of which 2/3 is raw material imports while 1/3 is finished aluminium product
- Has approximately 7 ha of on-port land available for further port development or industry establishment