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NZX AND MEDIA STATEMENT

South Port benefits from cargo growth and productivity gains

South Port New Zealand has responded well to the strong cargo growth it has been fortunate to achieve over the last five years, Chairman, Mr Rex Chapman told shareholders attending the Company's Annual Meeting at Bluff.

"This year we serviced record log volumes and a substantial increase in exported wood chips, cargoes that are very much influenced by overseas prices.

Conversely, as we predicted this time last year, inbound stock food volumes decreased by approximately 25% directly as a result of the low dairy pay-out. This demonstrates how external factors can affect cargo flows."

However, over the last 10 years cargo has increased 50% from 2 million tonnes to 3 million tonnes, which Mr Chapman said was partly explained by positive regional economic growth. "South Port has responded well to that growth by matching the volume lift with the appropriate resources to service it."

For the second consecutive year, South Port achieved record after tax profit and cargo volume (3.05 million tonnes). FY16's net profit of \$8.71 million is a 13% increase on FY15's profit of \$7.74 million.

"The proportion of profit increase (13%) is both greater than the increase in cargo volume (7%) and greater than the increase in total revenue (also 7%)," said Mr Chapman.

"This demonstrates that costs are being contained, overall productivity has increased, and the Company is making better use of its fixed infrastructure. This represents overall business improvement".

"Working smarter and more efficiently is important for a business such as ours. We cannot always rely on revenue and cargo growth because to some extent these two factors are not within our direct control and are heavily influenced by commodity cycles and regional growth."

Mr Chapman emphasised that the first of South Port's core strategies is to provide a safe workplace.

"Ports are inherently hazardous environments and we all need to remain committed to the health and safety goal. A serious or fatal accident is always a real risk."

As part of the new H&S legislation introduction, South Port has completed a planned independent third party review of its health and safety systems this year and established a Health & Safety Panel. This Panel comprises of the full Board, management, and staff representatives and meets regularly for onsite visits to port operational areas.

South Port's \$4.5 million Intermodal Freight Centre was opened at Mersey Street, Invercargill, by Transport Minister Simon Bridges in September. The IFC is primarily targeting containerised import cargo. "We are confident that over time short term storage and packing of export cargo will also occur at this site."

He said the facility is port and transport operator neutral. "This means that the port of entry or exit for the container could be LPC, Port Chalmers or Bluff, all of which are connected to the site by rail."

Intense competition between shipping lines for cargo, with unsustainable low shipping rates has led to some major shipping casualties "with probably more to come."

He said all shipping lines are affected by the problem of surplus capacity, following a rapid increase in the number of very large container vessels built with carrying capacity in the 12,000 – 19,000 TEUs range now displacing smaller vessels on the main trade lanes.

"With the widening of the Panama Canal, Panamax vessels of ~4,500 TEUs have also been able to be deployed to other trade lanes, including those servicing New Zealand."

He said, all-time low box freight rates cannot be sustained. "It appears inevitable that this scenario will lead to further shipping line failures, the scrapping of ships before the end of their productive life and further consolidation of shipping lines and/or services."

"Vessels in the 4,500 TEU class currently service the New Zealand market and the abundance of these vessels is likely to mean, in the medium term, the larger sized container vessels will not call at New Zealand ports or will do so less frequently.

"This is likely to mean that for the foreseeable future, there will be a continuation of international container shipping calls at a range of New Zealand ports including South Port."

Mr Chapman said that given the relatively small size of New Zealand ports, collaboration between ports who are not in competition with each other will increase "and that is a very welcome trend, especially for a smaller port like ours."

OUTLOOK

Mr Chapman said the economy as a whole is doing well and apart from dairying, which is recovering, the regional economy is also reasonably buoyant. South Port expects main export cargoes to remain stable. Fertiliser and stock food may be constrained by the dairy sector which is recovering.

Increased maintenance costs will impact FY17 earnings, which overall are expected to reduce by ~15%. The Board will seek to maintain current dividend levels.

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