SOUTH PORT NEW ZEALAND LIMITED

NZX & Media Statement

SOUTH PORT INTERIM PROFIT ANNOUNCEMENT

9 February 2017

South Port interim tracks prior guidance

With the overall cargo volume at the port of Bluff maintaining the solid pattern of the previous year, South Port New Zealand's net profit for the first six months of 2017 was better than expected at $4.10 million.

Although, the result is below the prior period in 2016 of $5.06 million, several anticipated factors impacted on this lower interim result including:

- The interim profit contribution reported in FY2016 was inflated due largely to R&M scheduling (NPAT half year $5.06 million versus full year $8.71 million);
- An increased number of significant R&M projects being undertaken in the current period, as signalled in the FY16 profit release and Annual Meeting comments; and
- Notably lower cold storage income being generated in first six months of FY17.

The result was foreshadowed by the closing comments of the FY16 Review of Operations which outlined the following:

> "***Based on all known factors at the date of compiling this Report, South Port estimates that earnings in the next financial year are likely to reduce by approximately 15%*.**"

"Total cargo activity registered at 1,517,000 tonnes, which aligns closely with the 1,512,000 tonnes throughput of the prior year interim period," said the Chief Executive, Mr Mark O'Connor.

"Some variances were evident within individual cargo categories. Specifically petroleum (-23,000T) and stock food (-30,000T) showed declines, whilst logs (+39,000T) and woodchips (+30,000T) continued to show strength.

Containerised cargo provided an encouraging lift of around 8% despite negative pressure being evident for agri imports such as specialised fertiliser, stock food and minerals.

While there have been some recent reductions in the Global Dairy Trade (GDT) auction results, international dairy commodity prices, on a trend basis, lifted consistently over the second half of 2016.

This is encouraging news for the sector with farmers having sustained two difficult seasons where some balance sheets would have been stretched to breaking point.

While commentators are not predicting the same highs of earlier cycles, the current forecast pay-out levels will offer greater confidence to operators in the dairy industry. A close watch on possible volume increases in Europe and USA will continue as these two global producers have the ability to dramatically influence the dairy supply side."

The Intermodal Freight Centre (IFC) commenced operations in mid-July 2016 and has provided a varied range of services to freight forwarders, transport operators and a mix of import and exports parties. Focusing predominantly on import cargoes, containerised volumes have met expectations which was particularly pleasing considering the reduced consumables spend in the dairy sector. Increased regional container related service competition has also benefited import and export businesses operating in Southland.

Further consolidation of container shipping lines and the creation of new alliances occurred during 2016. Although no noticeable international rate improvement is evident to date, it is highly likely that this will be necessary for container lines to achieve sustainable profitability.

This consolidation caused a number of the larger land based container terminals to consider forming alliances and operating as a bloc when negotiating agreements with container lines.

Cold storage activity was particularly subdued in the first half of FY17 due to a limited carry-over of product from the previous export season, less total volume requiring cold storage in the current season to date and the rapid movement of product to market. A serious fire at the Bluff based plant of pet food processor Wilbur Ellis in April 2016, removed their seasonal storage requirement until early 2017, when the plant became operational again.

OUTLOOK

"A reasonably stable economic picture should enable South Port's customers to generate consistent cargo flows in the second half of 2017", said Mr Chapman. "South Port's main product flows (logs/fertiliser/NZAS cargo/dairy/petroleum) are expected to track budget expectations in the six month period to 30 June 2017."

As previously reported, a number of significant infrastructural assets require a much greater level of R&M expenditure and this has been programmed to extend their effective lives.

"The reported FY17 interim profit is ahead of our earlier forecast and therefore some upside potential exists for the full year result" [albeit that it is still expected to be less than the FY16 NPAT], said the Chairman of South Port, Mr Rex Chapman.

South Port estimates that its full year earnings should fall in the range of $7.75 million to $8.0 million (FY16 - $8.7 million).

Based on achieving a result in this range, the Directors have declared a fully imputed interim dividend of 7.50 cents per share (2016 – 7.50 cents) payable on 7 March 2017 and expect that the full year dividend payment will be consistent with the previous year.

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