

NZX STATEMENT

1 October 2009

Busy Year Ahead for South Port

Marking its 21st year with a record result and higher dividend, at its Annual Meeting at Bluff today South Port New Zealand Ltd foreshadowed a busy operating year ahead.

“Considerable international market volatility still exists for our customers and this flows through to the port activity,” said the Chairman Mr John Harrington. “New Zealand’s economic recovery must be export driven, so for this to occur hurdles must be overcome, including the high NZ dollar which continues to exert market price pressures.”

Notwithstanding these issues, Mr Harrington said South Port Directors remain positive about “the upside potential” for the Company and the key industries that support its underlying activity.”

South Port reported a \$4.12m result for 2009, including \$810,000 of one-off gains; deducting these gains normalised net profit was \$3.3m.

Mr Harrington said that if the Company is able to provide shipping services acceptable to exporters and importers, the regional agriculture and forestry sectors plus the activity related to the aluminium smelter operated by NZAS at Tiwai Point should provide the basis for future profitability.

“Other opportunities do exist, but they are yet to be proven.”

NZAS renewed its licensing agreement to operate across the Tiwai Point Wharf and access-bridge for another 35 years during April 2008 but a new basis for the licence fee has not yet been agreed and will be set by arbitration next year.

Mr Harrington said it is a major issue for both parties as the licence fee formula will be in place for the next three decades. He emphasised that by going to arbitration the parties should not be construed as having a sour relationship. The arbitration was necessary because of the magnitude and term of the licence.

He noted that the outcome of the arbitration could have a bearing on the Company’s 2010 result.

The agricultural hinterland will continue to be the major factor in the port company's prosperity. Mr Harrington said he was aware of projections that the growth of developing countries would require a 42% increase in global food production by 2030 and 70% by 2050.

"There are huge challenges to be faced by the agriculture and forestry sectors, including dealing with the Emissions Trading Scheme. A major challenge will be, can existing agriculture become more productive while also becoming more environmentally sustainable?"

"If the Southland province can overcome the challenge of increasing production to meet world demand, then the Port of Bluff, if it delivers the necessary shipping services, must surely prosper."

Reference was made to the recent announcement by Solid Energy and Ravensdown committing to investigate the viability of a coal-to-fertiliser plant in Eastern Southland. The outcome of this study is expected in early 2010 and could stimulate the establishment of a significant new industry in the region with the potential for both domestic and export shipping requirements.

Solid Energy has also indicated that it will continue to evaluate the business case for a coal-to-liquids process. Any proposals related to conversion of lignite coal resources to transport fuels are "still some time off and would require a substantial investment." Accordingly, in the short term South Port does not expect any benefits to crystallise from this potential development.

Mr Harrington called for cost analysis to determine the most effective areas in transport for expenditure by Government. Substantial amounts are to be spent on roading and on promoting the use of heavier and larger vehicles, whilst funding for coastal shipping initiatives has been reduced from \$38m to \$8m.

Increased cargo volumes over the next 20 years would place pressure on land transport and create opportunities for sea freight and growth in coastal shipping.

Yet South Port regards either rationalisation of the country's port sector or further changes to the main liner services call pattern as necessary before New Zealand will see any dramatic changes in coastal feeder linkages.

Port rationalisation needs to occur because the return on investment that most port companies achieve is poor, he said. "Over capitalisation is evident within New Zealand ports and the port industry must continue to be cost effective."

The Chief Executive, Mr Mark O'Connor, noted that containers handled in 2009 attained 24,000 TEU, a gain of 123%, and container packing and unpacking activity lifted by 300%.

During the past 18 months, which saw the commencement of a weekly shipping call by MSC, South Port had employed an extra 20 staff in its cargo handling and warehousing divisions taking total staff numbers to 60.

Open Country Dairy had completed its first season of production at its Awarua plant and established a range of customers in global markets. This customer was planning for a lift in output volume for the current season and there was potential for additional expansion in the future.

Work continued to ensure that Bluff becomes the logical base for any exploration in the Great South Basin by the oil and gas industry.

Mr O'Connor outlined the efforts of the Southland Energy Consortium to attract resources exploration to the region, with 170 companies now under its promotional umbrella. Energy related cargo activities represent potential 'blue sky' opportunities for South Port.

Exploration work programmes lodged with Crown Minerals by OMV and ExxonMobil indicate three stages:

- Seismic surveys in 2007-2010, now nearly complete. ExxonMobil is aiming to complete seismic analysis by third quarter 2009, OMV by mid-2010.
- Exploration stage 2010-2015. Should an exploration program be committed to, ExxonMobil is required by its permit to commence drilling by September 2010 and OMV by June 2011.
- Subject to successful drilling results, an oil and gas development phase.

Mr O'Connor said Bluff would draw on its previous experience as an exploration base in the late 1970s and 1980's.

It offers extensive storage areas located at the port, easily accessible refuelling for support vessels and provision of diesel, dedicated service berths and expertise in break-bulk/project cargo handling. Harbour depth is more than sufficient for support vessels servicing rigs and an extensive engineering resource exists in the region to support oil & gas activity.

Mr O'Connor said whilst acknowledging the fluid state of the shipping and transport industries South Port would continue to develop its niche in the port sector and build on growth achieved to date.

Known factors and current assumptions support estimated net profit after tax of \$3m for the June 2010 year.

Rick Bettle retired from the Board after 11 years.

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