SOUTH PORT NZ LTD

2022 ANNUAL MEETING

Chair's Address – Rex Chapman

This year's reported after tax profit of 12.8M requires some explanation in order to make a proper comparison with last year's result.

This year's profit includes two one off adjustments. Firstly, we recorded an after-tax interest rate derivative gain of $980,000 which was a result of recent rate increases against our fixed rate interest rate swaps.

Once these one-off items are removed, the normalised after-tax profit for the 2022 year was $11.16M which represents a 6.8% increase on the previous year's result of $10.45M.

This is a very pleasing result having regard to the challenges faced this year which included:

- The ongoing disruption in the world-wide container supply chain which resulted in a 24% reduction in container vessel calls to the Port and a reduction in total vessel calls.

- As a result, container volumes were down 18.5% at 44,000 TEU compared to 54,000 TEU the year before.

- Log and timber volumes collectively were down 13.9% at 667,000 tonnes.

Despite the reduction in vessel calls greater volumes were handled which translates to a better environmental outcome.

The next slide shows the breakdown of cargo between containers at 12% and bulk and break bulk at 88%. This statistic emphasises the continued importance of bulk cargoes to our financial performance. This year bulk cargo volumes were up 6.1%. The main contributor to this increase was a 148,000 tonne increase in stock food volumes. Climate and the milk price influence the volume of stock food imported and used in the region, and the milk price in particular this year would have supported the increase in volumes.

The Company has a comprehensive asset management plan that was developed in 2016 for a 20-year period. We have previously advised shareholders that the forecast expenditure under that plan was expected to reach a peak during the 2021 financial year then decreasing to a more steady state. This has eventuated and is illustrated by the slide which shows 2022 expenditure decreasing by 35% to $2.8M compared with $4.3M in 2021 at the peak.

Despite this rising maintenance expenditure in the previous five years, the Company has been able to maintain an impressive record of total shareholder return. By total shareholder return I am referring to the cumulative return in terms of dividends paid and share price increase over time. The next slide shows that our 10 year cumulative total shareholder return has been an impressive 250%.

The current dividend policy is to consider both the Company's free cashflows and reported profits when determining the level of annual dividend. The full year dividend this year has been maintained at 27 cents per share.

This represents a dividend pay-out of 55% of net profit after tax and equates to 73% of free cashflow. It is relevant to note again that although the payment ratio to net profit is lower than previous years, this reflects the one off non cash adjustments to this year's profit that I mentioned earlier.

As shareholders will be aware, the Company has been embarking on a channel deepening project in order to increase the operating parameters for ships accessing the Port. We have named this project **Kia Whakaū**.

This work not only includes the deepening of the channel but also the deepening of the swinging basin, which is the area to the north of the Island Harbour used by vessels accessing the berths, and also deepening the berths themselves.

The Kia Whakaū project included the purchase of our new tug Rakiwai, which arrived and was commissioned this year at a cost of $10M.

On 31 August this year the Company was granted resource consent for the channel deepening project, which authorised the drilling, blasting and removal of rock in the entrance channel to achieve a depth of 9.7m chart datum, 10.7m in the Island Harbour berth pockets, and 9.45m in the swinging basin.

What this means for South Port is that our operating draft would increase by a full 1m, which will improve the safety margin for ship movements and provide greater capacity for vessels to take on additional cargo.

The significance of this project for the future of the Company should not be underestimated. This will be the first occasion that the channel entrance has been deepened since the early 1980's, more than 40 years ago, and the successful outcome of this project achieving an increase in our draft aligns with the Company's purpose, which is to facilitate the best logistic solutions for the region.

The work undertaken to deepen the channel in the early 1980's involved a drilling and blasting campaign in an attempt to deepen the channel to 9.2m. Unfortunately, due to the dredging equipment in use at that time there was insufficient capacity to remove all of the fractured rock, and therefore some of that material was left in the channel leaving us with an operating draft for the last 40 years of 8.5m.

The resource consent that has now been granted authorises drilling and blasting to be undertaken to achieve an increased depth of 9.7m chart datum.

The Company still retained an historical consent to remove fractured rock from the previous drilling and blasting campaign in the 80's.

In August the Company contracted Heron Construction Company Ltd to remove this fractured or fragmented rock.

Until this work started, the extent of the fractured material was unknown and it was expected that the removal of the fractured rock would allow the Company to determine what drilling and blasting may need to be undertaken in the channel to achieve the target depth.

As was reported to the market on 7 October, the removal of this fractured rock has been more successful than we anticipated with the result that we expect to achieve 9.7m in the harbour entrance channel without the need for further drilling and blasting.

We are now going to contract a suction dredge to deepen the swinging basin and berth pockets, which is authorised under the resource consent and this is expected to be completed in July 2023.

Once completed we will have the benefit of the increased 9.7m draft, which will allow for larger cargo volumes on the vessels currently calling and the possibility of some increase in vessel size.

Achieving this targeted 1m increase in operating draft, without having to drill and blast in the channel will reduce Kia Whakaū project costs by approximately $10M – a very significant saving. This will enhance the business case, which has underpinned the project and will provide better than anticipated future financial returns. We will be in a position to quantify the impact to our profit once the project has been completed next year.

We are now optimistic that NZAS will continue to operate past the current closure date of December 2024. The key to this will be the successful outcome of the commercial negotiations for electricity supply and satisfying regulators and stakeholders about improving environmental outcomes and site remediation.

Securing the future of the Smelter, while at the same time continuing to explore the growth opportunities that have been identified such as green hydrogen and aquaculture would be a very positive outcome for the Southland economy, and potentially South Port.

One such growth opportunity is the potential development of large-scale renewable hydrogen production in Southland promoted by Meridian Energy Ltd and Contact Energy Ltd. A formal process has reduced the prospective counterparties for this venture down to two being Fortescue Future Industries, a subsidiary of Fortescue Metals Group Ltd, and Woodside Energy Ltd. A decision on which of these two parties will be selected is expected before the end of the year. Until further detail is known about any proposed development, it is difficult to assess what impact this will have on South Port but the Company has been maintaining contact with Meridian and Contact to ensure that the Port is positioned to assist and take advantage of any opportunities that might arise.

The Murihiku Aquaculture Group independently chaired by former South Port Director, Rick Christie, is working with industry participants Ngāi Tahu Seafoods Ltd and Sanford Ltd to facilitate the development of this aquaculture opportunity for Southland.

A reticulating aquaculture system (RAS) hatchery for growing Chinook salmon smolt, also known as King Salmon, initially planned for construction at Ocean Beach in Bluff has now been relocated to a Makarewa site because of site suitability.

Ngāi Tahu Seafood's resource consent application has been accepted for processing under the Covid-19 Recovery (Fast Track Consenting) Act 2020. If consented, this project would see the operation of a salmon farm within a 2,500 ha site approximately 2 – 6 km off the north eastern coast of Stewart Island.

Sanford's have also lodged a consent to establish an open ocean farm at the south end of Foveaux Strait. This consent application is currently on hold while further stakeholder engagement is being undertaken.

These applications are a vote of confidence in the southern region for large scale open water salmon farming and will present servicing opportunities for South Port.

Last month Mercury Energy announced that earthworks had commenced at Mercury's 240MW wind farm at Kaiwera, near Gore. This $115M project will initially see 10 turbines built producing 43MW, enough electricity to power an estimated 20,000 homes or 66,000 electric vehicles.

The components for these wind farms which will stand 145m in height from base to turbine tip, is expected to be brought in through the Port during the next financial year, which should provide a material increase in next year's cargo volume.

This announcement by Mercury is confirmation of the wind energy potential in Southland. The development of the renewable energy potential in the south is expected to increase once the long term future of the Smelter is confirmed.

The Company is working towards developing an environmental strategy and pathway to becoming carbon neutral.

There are several connected contributors to this strategy.

Firstly, the Company already has an overarching strategy of ensuring that the physical environment is respected and that continuous improvement is delivered in environmental outcomes including the reduction in our carbon footprint.

Secondly, as a listed company we are required to develop a framework for climate related financial disclosures. These disclosures will meet the requirements under the new Aotearoa New Zealand Climate Standards, which will be introduced later this year. South Port will be implementing the disclosure framework for the 2024 reporting cycle in line with external reporting board guidelines.

For the past four years we have been recording and reporting annually our greenhouse gas emissions by source broken down into scope one, two and three emissions.

Carbon intensity is the most useful performance indicator in assessing carbon efficiency. Over the past four years relatively stable cargo volumes handled have seen carbon emissions, fuel and energy use trending downwards, which is pleasing.

Outlook

There are always uncertainties in any outlook and this year is no exception. Although global supply chains are starting to normalise with previous congestion and high freight rates easing, there is still uncertainty in global markets. Record high inflation rates globally resulting in central bank's increasing interest rates is raising risk of recession in many economies.

However, we as a Company have reason to be optimistic about our prospects at least in the medium term. We expect to have a new operating draft by the middle of next year. There are near term opportunities with the handling of wind farm equipment and longer term opportunities in hydrogen and aquaculture.

Our ongoing investment in our Port infrastructure and plant will continue to ensure that we are able to take advantage of these opportunities as they arise.

In the first quarter of FY2023, our total trade is tracking in line with FY 2022 which is encouraging and in line with expectations.

Logs and containers are still being impacted by market conditions, however, all other bulk cargoes are the same or slightly ahead of FY 2022.

The log market faces ongoing uncertainty because of lockdowns in China affecting residential construction rates in-market. We expect the decrease in demand for logs shipped from New Zealand to last until the end of this calendar year.

However, returns at the wharf-gate level in New Zealand have lifted due to shipping costs easing and the recent weakness of the NZ dollar versus the US dollar. Logs are traded in US dollar terms. The cost of shipping logs has fallen further than has the cost of containerised freight.

The ANZ Bank has commented that this has been particularly helpful as freight now accounts for a significant part of the cost of logs landed in China.

During recent months, there has been a sharp reduction in spot freight rates on major sea-lanes and in charter costs. In the New Zealand context, freight rates are likely to reduce at a slower pace and a return to reliable schedules for ship calls in the port industry remains uncertain.

In a volatile phase in world shipping, South Port has consistent and stable services by Mediterranean Shipping Company one of the largest lines in the world.

Both Australia and New Zealand are seeing interest from new shipping lines. South Port is watching these new developments with interest, while being aware that such ventures will need to attract long-term customers to ensure future viability.

The cruise industry has made a welcome return with several vessels on the coast. Although only a very small number of vessels are expected to call at Bluff, we do provide pilotage services to those that visit Fiordland.

At this stage we are expecting our full year earnings to be consistent with last year and on that basis will be aiming to maintain the current level of dividend. Updated profile guidance will be provided with the release of our interim result in February.

On behalf of the Board, I would like to acknowledge the contribution of Nigel and his Leadership Team during the past year. It has been a very busy year, which has included the excellent progress that we have made with our channel deepening project, which is likely to be completed on time at a much lower total cost than expected. This is an outstanding outcome and is a credit to the whole of the Leadership Team. Our Infrastructure Manager Frank O'Boyle and his team have played a central role in the successful execution of this project and I want to especially acknowledge their work.

We are currently going through a period of planned board renewal. This year Jeremy McClean retires and John Schol has been nominated to succeed Jeremy.

As I noted at last year's annual meeting the current refreshment of the Board will continue with my retirement at next year's annual meeting.

Jeremy was elected to the Board in 2011. Jeremy has been a valuable contributor to the Company's success over the period of his tenure having been a member of the Audit & Risk Committee and then Chair of that committee for the last six years.

Jeremy's background as an accountant and valued business advisor to the farming sector, together with his sound business judgement and values are attributes that have been appreciated by all of us. We will miss his contribution and his company around the board table, and we wish him well.

Thank you.