

CHAIR AND CHIEF EXECUTIVE'S ADDRESS
2023 ANNUAL SHAREHOLDERS' MEETING



Tēnā Koutou katoa

Surplus After Tax

This year we reported an after-tax profit of \$11.71 million and although this was an 8.7% decrease on last year, it was a better result than we had expected when we provided our interim report to shareholders in February.

Normalised profit was \$11.50 million – a 3% increase on last year and this was a record result for the company. Apart from 2020 which was Covid affected, underlying profit has shown consistent growth over the past five years.

This year's result was very good considering we had a 2% decrease in total cargo handled across most of our bulk cargos, fertiliser, stock food, woodchips and also containers. The only bright spot was log exports which increased 9% on the previous year.

We had a 14% increase in ship calls but the number of MSC container vessels calling at the Port was still down from pre-Covid levels. This resulted in lower container volumes being handled. It is hoped that the disruption to container services will continue to normalise, which is the current trend.

We benefited from a 13% reduction in spending under our Asset Management Plan in line with what has previously been forecast. This expenditure has now returned to what might be described as a "*business as usual*" level.

The breakdown of our cargo remains consistent with previous years with 87% of our volume being bulk cargos.

Our 10 year cumulative total shareholder return shows good growth in total shareholder return. This trend was halted in the past year because of a decrease in our share price, probably attributable to the increase in interest rates compared to our dividend yield.

As previously announced, we have maintained for a second year a total dividend of 27 cents per share which represents a pay-out of 60% of net profit after tax.

Kia Whakaū

The undoubted highlight of this year has been the successful completion of our Kia Whakaū Project.

As shareholders will know, this project involved the deepening of the entrance channel and what is known as the swinging basin in the upper harbour and the berth pockets. The target depth, officially recorded as 9.7 chart datum, allows for an operating draft at high tide of 10.7 metres. This is a full 1 metre deeper than our previous operating draft. The project was successfully completed this month and yesterday we were able to celebrate the declaration of the new operating draft with contractors and customers and key shareholders.

As previously reported, we were able to achieve the channel deepening using only a backhoe dredge without the need for drilling and blasting under the resource consent we had obtained. This resulted in the project being completed at approximately \$7m less than we had budgeted.

The capital cost incurred in deepening a granite rock channel will result in an enduring benefit for the Port. This is a tremendous result for the company and our thanks must go to all of those who were involved in the project which included not only our Infrastructure Manager Frank Boyle and his team, but also the wider leadership team.

The business case for this project required us to get a return on the capex of at the very least our cost of capital. We plan to secure this through a combination of pricing and increased volume. Provided we can achieve the expected volume increases, shareholders should in future see a corresponding uplift in profit.

Town Wharf

A number of other projects have been completed this year including the Town Wharf redevelopment at a cost of \$11.9m. The Town Wharf services the delivery of the region's fuel and bitumen imports and its refurbishment will allow the wharf to be utilised for other users in the future including appropriately sized cruise vessels.

Access Bridge

Our access bridge is a critical piece of infrastructure providing the only access to the Island Harbour. Extending the service life of the bridge required a customised engineering solution which involved replacement of some of the compromised reinforcing steel in the concrete underside of the bridge. The steel reinforcement is now protected from further deterioration from corrosion through an impressed current cathodic protection system. This project was completed progressively in stages over a four year period without impeding bridge access and Port operations. Once again, this project was successfully led by South Port's infrastructure team.

South Rail

Since 2018 the company has undertaken the paving of the previously unsealed log storage area. The first stage, the north rail log yard was finished in 2018 and this year the paving of the south rail log yard was completed. We now have 3.5 hectares of sealed log storage in the centre of the Island Harbour. The sealing of the log yard brings in a range of benefits for both the Port and our log customers with increased storage capacity and safety together with improved environmental outcomes.

Hardstand Wind Farm

In order to service the import of wind farm equipment for the first stage of Mercury Energy's Kaiwera Downs Wind Farm we developed some of the last areas of vacant land on the Island Harbour. The pavement for this area was constructed from sub-base gravel recycled from the south rail project just referred to.

NZAS

I had hoped that by the time of this meeting we would have had a positive decision about the smelter's future. As the current closure date of December 2024 comes ever closer, the need for certainty for all stakeholders increases. The case for the continuation of the smelter is more compelling than ever. The smelter is the only smelter in the world that is producing high purity aluminium from renewable energy. This fact alone should count against its closure. In the meantime, the positive engagement by NZAS with local iwi and the community on the remediation of the Tiwai Peninsula continues, which is a commitment the smelter has made regardless of its future and NZAS is to be commended for this.

Southern Green Hydrogen

The potential closure of the smelter has presented the region and the port with a new opportunity. Meridian Energy announced in November last year that with the support of Ngāi Tahu, Woodside Energy had been selected as their preferred partner to move to the development stage of a Southern Green Hydrogen project in Southland. Mitsui & Co Limited is also involved in the project bringing experience in the production, shipping and handling of ammonia products.

This opportunity which was borne out of the potential closure of the smelter is now seen as an opportunity that can co-exist along with the smelter's continued operation. This is very positive for Southland and the Port, and we expect in due course to be involved in the movement of both equipment and ammonia through the Port.

Aquaculture

It is incredibly disappointing that the Ngāi Tahu project Hananui was declined fast-track consent in August this year. This application was for an open ocean salmon farm within the coastal marine area, comprising 2,500 hectares located approximately 2 to 6 kms off the north-eastern coast of Stewart Island. The proposed marine farm had the potential to produce up to 16,000 tonnes of salmon per annum which would have doubled New Zealand's existing production of approximately 15,000 tonnes.

In the executive summary of the 244 page decision the Expert Consent Panel acknowledged that the proposal would have enormous benefit for Ngāi Tahu, Rakiura and the wider Southland community and accepted Ngāi Tahu's holistic approach used to reach the conclusion that the cultural, economic and social benefits of the proposal outweighed the environmental costs but the Panel went on to say that the large scale salmon farms would result in a major step change to the receiving environment that is relatively unmodified by human activities, with very high natural character from a notable absence of permanent marine structures and relatively low level of human activity except for transiting and anchoring vessels. Reference was also made to the requirement under the regulatory framework to avoid adverse effects on marine life and also that the proposal was adjacent to the Rakiura National Park which is an area of outstanding natural landscape and an area of outstanding natural character.

Unfortunately the regulatory framework against which the Hananui decision was assessed does not allow for an appropriate balance to be struck between the environment on the one hand and cultural, economic and social benefits on the other.

The Government's 2019 Aquaculture Strategy set a target of growing revenue generated by the aquaculture sector from the current level of approximately \$650 million per annum to \$3 billion by 2035. MPI has estimated that salmon farming alone could generate \$1.5 billion in revenue – half of the \$3 billion target. To achieve this, production volume would need to increase from the current level of approximately 15,000 tonnes to 70,000-80,000 tonnes per annum, a five-fold increase.

The Government has received advice that the one thing the Government must do to assist and promote industry growth is to change the consenting regime to reduce uncertainty, cost and time.

Although the RMA's replacement, the Natural Inbuilt Environment Act does give more recognition to aquaculture than the RMA, it will be many years before the underlying regulatory framework is in place to make meaningful change. We should be looking to guidance from both Norway and Tasmania where aquaculture has seen sustainable growth enabled by specific aquaculture legislation. It is pleasing to see that Invercargill MP Penny Simmonds is

advocating for aquaculture specific legislation based on the Tasmanian model. Until we get a fit for purpose consenting regime we will continue to deny ourselves as a country of the huge potential that aquaculture offers. The need to address this is now a high priority.

Wind Farms

Stage 1 of Mercury Energy's Kaiwera Downs Wind Farm saw 10 turbines discharged and stored at the Port. The total project has been consented for 60 turbines and a decision on the second stage is expected to be made in the next 12 months.

Contact Energy is also seeking a fast track consent for its Southland Wind Farm Project located east of Wyndham which have the capacity to produce up to 300MW from 50 turbines.

Also announced last week was a project by Manawa and Pioneer Energy for a 70 turbine 300mw Wind Farm near Clinton.

Southland is known to have a number of locations with suitable attributes for wind farms. The development of these will provide shorter term opportunities for the Port with the handling of this project cargo but once developed this renewable energy will support and attract other industry, hydrogen production being only one example.

Cruise

The cruise industry has bounced back strongly post Covid. Although South Port is a very minor player we did receive 12 cruise ships last year and we do see opportunities to grow this, noting that for this season we already have 18 vessels booked to call at Bluff.

Climate-Related Disclosures

For the year ended 30 June 2024 it will be mandatory for us as a listed company to produce climate statements which comply with the disclosure requirements in the External Reporting Board Standards. The standards provide a framework for companies to consider and assess climate related risks and opportunities. The climate related disclosures cover four pillars being governance, strategy, risk management and metrics and targets. There is a substantial body of work that is required in order to comply with the reporting standards. Our annual report provides further details of the governance framework that we have put in place to meet our obligations under the standards which includes the establishment of a sustainability committee.

South Port has been recording and reporting its greenhouse gas emissions since 2019. These emissions are divided into three scopes covering direct and indirect emissions and emission occurring as a consequence of the activities of the company such as air travel.

Carbon intensity is the most useful performance indicator in assessing carbon efficiency and is our Key Performance Indicator. The Company monitors this in relation to total carbon emissions per tonne, litres of fuel per tonne and energy consumption per tonne.

LTI

Last week we announced to the market that we had adopted a Performance Share Rights Plan commonly referred to as a Long Term Incentive Plan or LTI. The Plan is designed to retain and incentivise eligible employees. The Plan grants participants the right to be issued with shares in three years' time subject to certain vesting conditions being met. These conditions are:

- Total shareholder return exceeding a cost of equity target;
- Total shareholder return being above a target percentile of an NZX top 50 peer group of companies; and
- Earnings per share compound growth exceeding a target rate.

The rights will automatically lapse if the vesting hurdles are not satisfied by the end of the three year vesting period.

In adopting this Long Term Incentive Plan, the Board wanted to ensure that the incentive and reward for the eligible employees was completely aligned with the creation and growth of shareholder value.

I mentioned earlier the expectation that our increased operating draft would see an uplift in profit through in the most part, increased volumes. As a Board, we wanted to incentivise the achievement of volume increases and shareholder returns through a Long Term Incentive Plan that would reward both key staff and shareholders appropriately where success has been achieved.

Chief Executive's Address:

Tēnā Koutou katoa

Today I am going to cover off safety health and wellbeing, our operations, our community and finally our people.

Our values are what underpin our business. These have guided us through difficult times in the recent past and are still very relevant to our work today.

We obviously work in a hazardous environment therefore it is essential to keep our workers safe and this is why safety first is one of our most important core values.

As illustrated the Port recorded 251,190 inward vehicle movements during the last financial year. The majority of these are related to heavy vehicle traffic. Note in addition to this traffic there is a large number of machines working daily on the Port whether moving bulk cargoes or containers which adds to the complexity.

It is very important therefore that we have robust inductions and transport management plans to promote and improve the safety of the operations on the Port.

An important aspect of improving safety is that all employees and our Board are involved in our safety walks and engagements to get a broad cross section of views and observations. As shown in the above slide the Board is involved in a safety engagement night walk at berth 5 where a bulk discharge operation is underway.

Critical Risks are a key focus of these walks as these are what can cause serious harm to our employees. One in particular that we pay close attention to is Mobile Plant versus Person.

It is important that we separate people from machinery, and we have done significant work in our container terminal and warehouse to create a safer workplace by installing walkways and dedicated work zones for surveying containers, labelling product and repairing containers.

At the national level the Port Health and Safety Leadership Group, made up of Ports, Stevedores, Unions and the Regulators (WorkSafe and MNZ) has released a Fatigue Risk Management System guideline and is currently working through an approved code of practice for the loading and unloading of cargo on ports. These standardised systems will help create

consistency across the sector and hopefully provide positive outcomes for the safety all port workers.

Bulk cargo represents 87% of all cargo handled at the Port and has been the backbone of our operations for many years. 34% of this volume is related to forestry cargo, 34% related to NZAS and the remaining % is split between fertiliser products, stock food and petroleum products.

Containers round out the remaining 23% of our cargo base which is equal to 41,700 Twenty foot equivalent units or TEU. This part of our business has still got lingering effects of a disrupted supply chain in New Zealand however the schedule integrity of the MSC Capricorn Service calling at the Port is slowly improving, which should see a lift in containers being handled through the Port.

The marine operations were very busy this year handling 349 vessels calls, the most vessel calls since 2019. Typically, the Port operates a 2 tug vessel model however with the recent purchase of the Rakiwai the Company has made the decision to retain a third tug for resilience purposes. With the deepening of the channel and the potential for larger vessels with greater payloads we require two tugs on every transit, therefore as an insurance policy we also now require a third tug should there be any breakdowns.

The warehousing division is an integral part of our container service offering at the Port. Our dairy warehouses are utilised for the storage of Open Country Dairy products where we also sort, label and pack milk powder on Port for export. This cargo is important as it alone ensures the regular call of the MSC Capricorn container service at the Port. The cold stores on Port predominantly service the smaller meat processors in the region with smaller volumes of fish products. These products are received, sorted and then loaded into containers for export, again on the MSC service calling at the Port.

The Company is proud of its efforts to connect, share information and to work in the community. The support of the local community we work in is very important to us, especially as 40% of our employees live with their families in Bluff. A key part of our communications is through the issue of our biannual community newsletter Mai I Te Wapu. This provides up to date information of what is happening on the Port and is delivered to each mail box by our employees.

The Port is also active in the community providing donations, sponsorships, scholarships, demonstrations at schools, Christmas gifts and our staff are provided with one day a year to work in the local community.

It's important that we meet with the leaders of the local community. We do this through attending Bluff Community Board meetings from time to time and also with the Bluff Runaka, to share information and discuss what is happening at the Port.

Due to safety reasons the Port is locked down as much as possible to protect both employees and the public. The Port Open Day therefore has also become an important part of connecting with the wider Southland Community and allowing access to the Port. This year 500 members of the public attend the open day which had an entertainment centre and port tours to view all aspect of the operations including a visit to the cold stores, a crane and forklift demonstration and a visit to the tugs.

Our people are the most important part of our business. We continue to work on our culture, provide leadership training and opportunities and recognise success where possible. It's only through the efforts of our team that the Port can continue to function at a high level, provide a safe working environment and hopefully enjoy the journey along the way.

Retention of our employees is always front of mind. Rex has already touched on the Long Term Incentive. Another part of our strategy to retain employees is that we have recently opened an office in Invercargill to provide more flexibility for both our Bluff and Invercargill based staff to split their work between Bluff and Invercargill. This has many flow-on benefits for our staff and is one of many strategies currently under consideration.

Over Rex's last 21 years he has played an integral part of the leadership of South Port, especially the last 12 as Chair. The Company has achieved a lot in this time. Some of these are listed in the annual report, however to mention a few during his tenure we have achieved a 317% increase in net operating surplus, a corresponding 315% increase in dividends per share and a 332% increase in share price. Not everything can be measured in monetary terms and over this time our culture, relationships both internal and external and safety, which we have discussed previously has improved immensely. Rex has a high intellect, has a great way of approaching any issue and is extremely well considered, no matter the topic or what the urgency may be. I don't know how he finds the time, however he always manages to take a phone call, attend Company events, functions and celebrations, which is appreciated by all staff. These are only some of the many attributes for why he is highly respected by the leadership team, myself and I know my predecessor Mark O'Connor would share the same thoughts. Finally, on behalf of the Company we would like to thank Rex and wish him and Trish all the very best for the future.

Chair's Address Continued:

Board Composition and Staff

On behalf of the Board I would like to acknowledge the contribution of Nigel and his Leadership Team during the past year. I have already referred to the successful completion of the Kia Whakaū but it has also been a very busy "business as usual" year, some aspects of which I have referred to and others that Nigel has outlined.

One of our five year goals is that South Port will be an employer of choice. With increased competition for experienced and talented staff, this goal is even more important. The company is focused on measures which will ensure that we continue to retain and recruit high quality people. The LTI is one of those measures.

The company has a diversity and inclusion policy which recognises the benefits of a diverse and inclusive workforce. This includes measurable objectives for gender diversity across our whole workforce from the Board through to operational areas. Our progress towards achieving these objectives is reported in our Annual Report.

The Port Industry has historically been male-dominated. Steady progress has been made in addressing this and now 20% of our permanent staff are female and a determined effort has been made to increase the number of women employed in operational roles. As of 30 June we now have seven women in operational roles who are paving the way for others to follow.

When I became Chair in 2011, there were no women on the Board – something that I personally wanted to see changed. We now have three female directors, shortly to become four on the expected appointment of Cassandra Crowley.

This year, we established a Director Internship in conjunction with the Southland Business Chamber. This gives Southlanders with governance aspirations the opportunity to join the South Port Board for one year as a Director Intern. Interns attend all Board meetings and are involved in all aspects of the work of the Board during the course of the year. As Southland's only listed company, we recognise that we should be taking the lead in providing this type of

opportunity to encourage and assist local people towards a governance career. Carla Harper was selected this year from a strong group of applicants as our inaugural intern.

Outlook

At the time of the release of our Annual Report, we provided earnings guidance for this year in the range of \$11.70 to \$12.30 million which would have been an increased profit compared with last year.

We now have the results from our first quarter and unfortunately trade volumes are not where we had forecast. Volumes are down 10% compared to the same period in the prior year. Port of Tauranga last week announced their first quarter results, their total trade for the quarter was down 9%.

Log exports have been impacted by weaker market conditions, particularly in the main export market of China and this was signalled in our Annual Report. Predicting just when the Chinese market for logs might improve is difficult.

The farming sector across the board is going through a difficult period due to lower export prices, higher inflation and interest rates. We have now seen the impact of this in the first quarter with a substantial decrease in fertiliser imports and stock food volumes are also down. Containers are still facing some congestion and schedule reliability issues.

With so much of our volume dependent on external factors outside of our control, it is more difficult this year for us to have confidence about our earnings outlook. As things stand at present, our earnings could be at the lower end of \$9 million after tax with any upside to this dependent on a marked recovery in our bulk cargoes over the remainder of the year, something that we are unable to provide any guidance on at this stage.

While we will be endeavouring to maintain the current level of dividend that will of course depend on no further deterioration in earnings. Unfortunately, we as a company are not immune to cyclical market conditions. Shareholders can be assured that the company will be looking closely at its cost base and reducing costs where appropriate to minimise the financial impact of this current slowdown in trade.

Open the time up for Questions

Reflection

As this will be the last opportunity that I have to formally address shareholders, I would like to thank the shareholders for the opportunity and privilege to serve as a director of this company. As my retirement from the Board has approached, I have reflected on the past 21 years and have remarked to others that my time as a South Port director and latterly Chair has been one of the most satisfying aspects of my professional career. I have had the very good fortune to work with two outstanding CEOs in Mark O'Connor formerly and now Nigel, supported by a very capable Executive Leadership Team and staff.

In my role as Chair, I had the support of a very capable and experienced Board, both present and past, and I would like to thank them for this support.

I am proud of what we all collectively as a company have achieved.

When I joined the Board in 2002 our purpose, or ultimate goal as it was described then, was that *"South Port New Zealand Limited will be the best cost distribution option for all southern region importers and exporters through the delivery of innovative solutions."*

Our purpose has now been re-stated in more economical language to be “*to facilitate the best logistic solution for the region.*”

The essential objective remains unchanged and recognises that we exist to serve the region and our shareholders. I would like to think that we have always had that at the forefront of what we do and I am confident that this will continue to be the case.

Thank you.