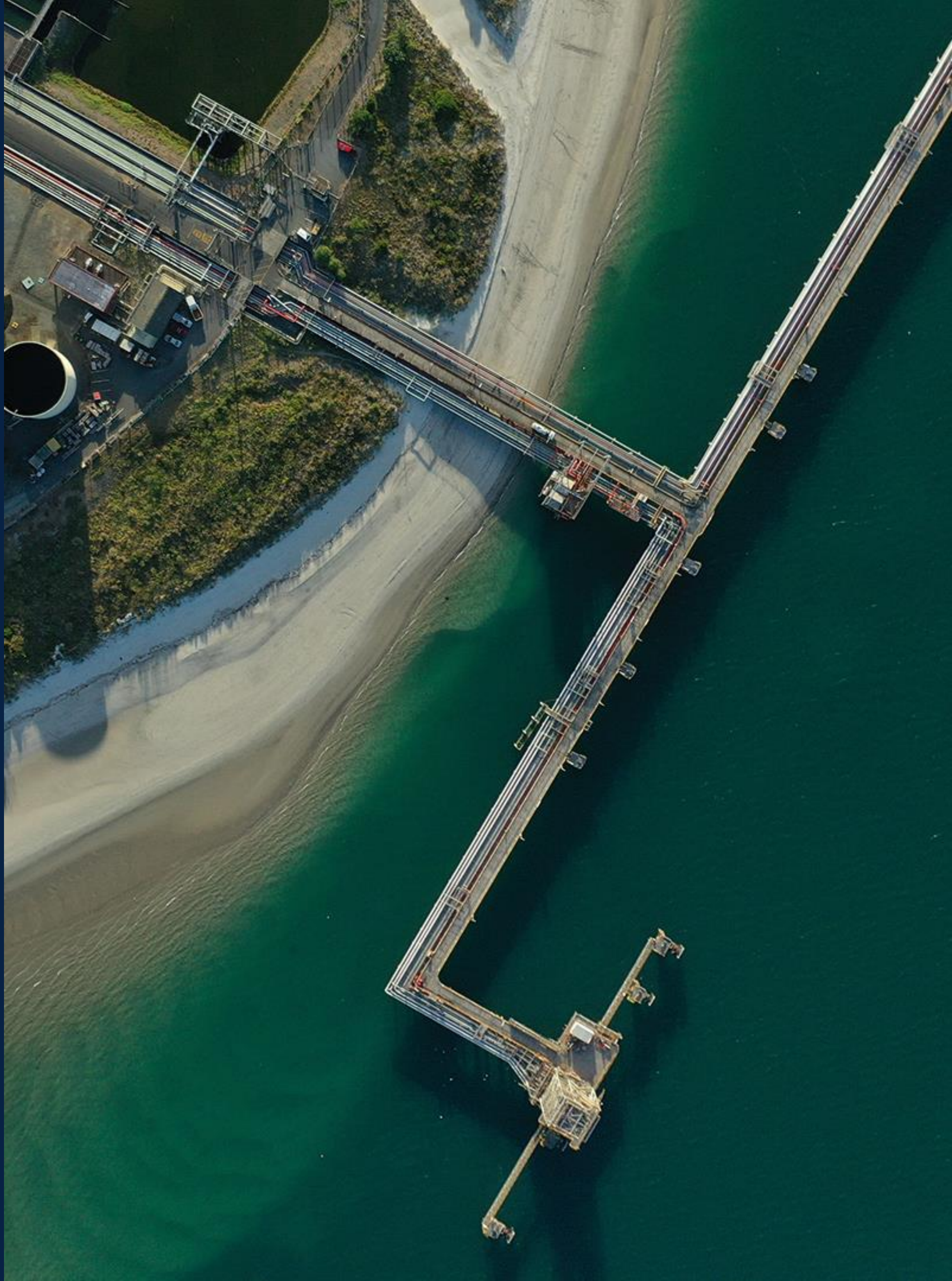
Channel Infrastructure NZ

Financial Results

For the six months ended 30 June 2022

25 August 2022



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• Each forward-looking statement speaks only as of the date of this announcement, 25 August 2022.

Channel
Infrastructure NZ

Highlights and Operating Update

Naomi James

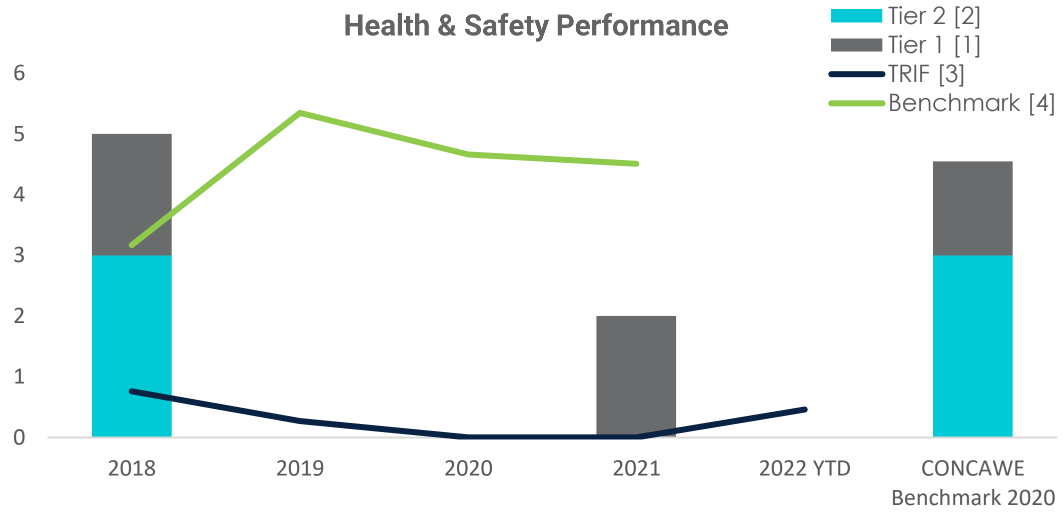
Chief Executive Officer

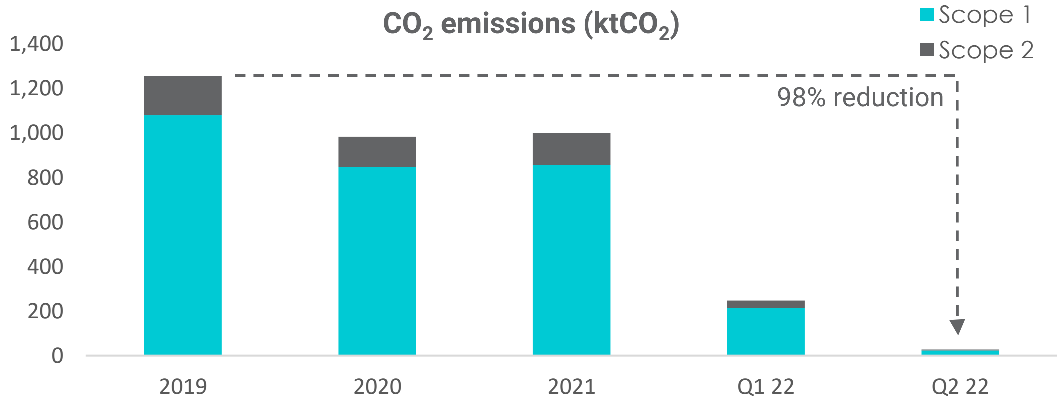
Successful delivery on strategy

- Completed safe transition from refinery to terminal operations
- First quarter of terminal operations successfully completed with 19 import shipments discharged
- Conversion project remains on-plan and to budget
- Successful retail bond issue completed and bank refinancing underway
- Tracking in line with FY22 guidance and FY23 EBITDA now expected at top end of guidance
- Strong EBITDA and cash flow supports return to dividends in March 2023

Strong safety and environmental record continues

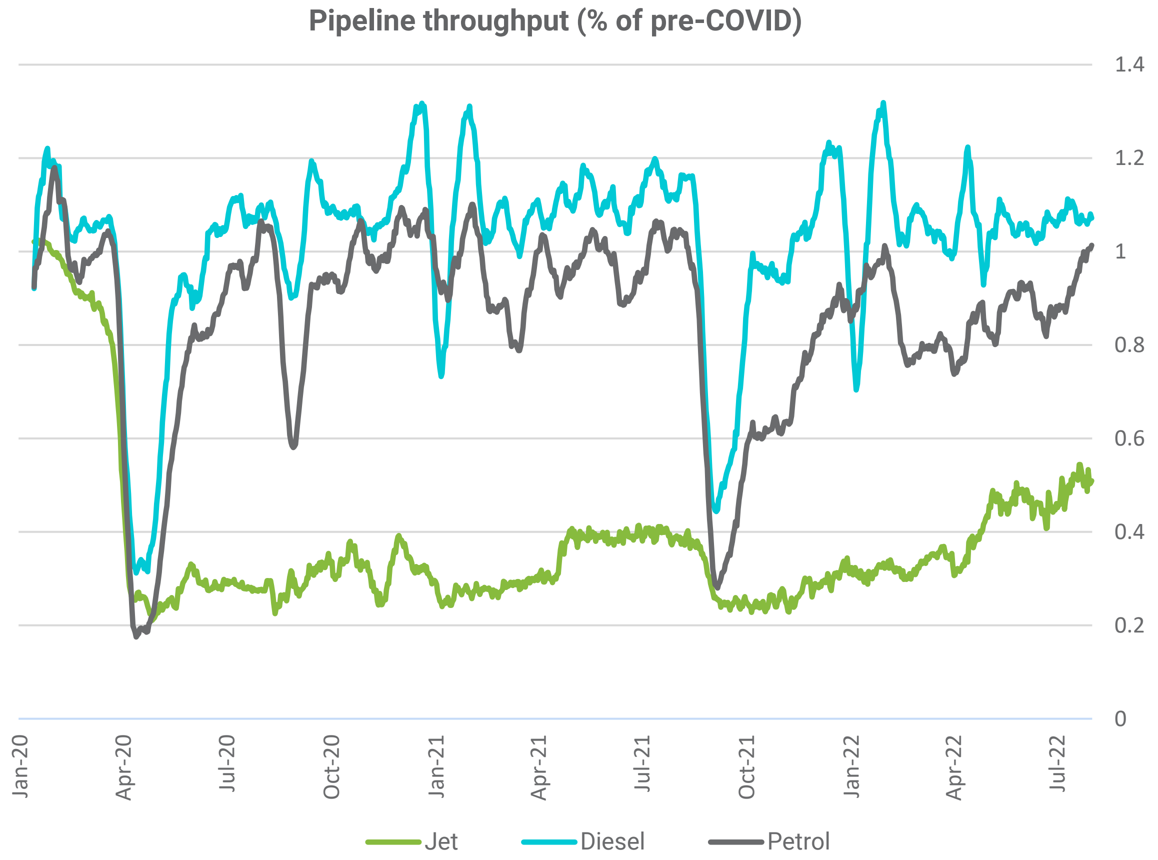
- Maintained strong safety performance through transition to import terminal
  - No Tier 1 or 2 process safety incidents
  - Two recordable personal safety incidents
  - Revised safety case approved by WorkSafe
- Significant reduction in emissions and energy intensity
  - 98% reduction in scope 1 and 2 emissions in Q2 compared to 2019, with further reductions expected from Q3
  - Energy requirements (electricity and gas) significantly reduced – equivalent to c.3% reduction in New Zealand electricity demand
  - National Greenhouse Agreement concluded with NZ Government





[1] Tier 1 Process Safety Event (API 754) – A tier 1 Process Safety Event (PSE) is an unplanned or uncontrolled release of any material, including non-toxic and non-flammable, from a process which results in one or more of the following: A LTI and/or fatality; A fire or explosion resulting in greater than or equal to $25,000 of direct cost to the company; A release of material greater than the threshold quantities given in Table 1 of API 754 in any one-hour period; An officially declared community evacuation or community shelter-in-place
[2] Tier 2 Process Safety Event (API 754) – A tier 2 Process Safety Event (PSE) is an unplanned or uncontrolled release of any material, including non-toxic and non-flammable, from a process which results in one or more of the following: A recordable injury; A fire or explosion resulting in greater than or equal to $2,500 of direct cost to the company; A release of material greater than the threshold quantities given in Table 2 of API 754 in any one-hour period
[3] TRIF – Total Recordable Injury Frequency per 200,000 hours (rolling 12-monthly average)
[4] NZ Business Leaders Health & Safety Forum Benchmark (injuries per 200,000 hrs)

Jet capacity returning to New Zealand



Jet

- Jet demand at highest level since COVID hit
- Currently above 50% pre-COVID and continuing to recover as borders open and aviation capacity returns

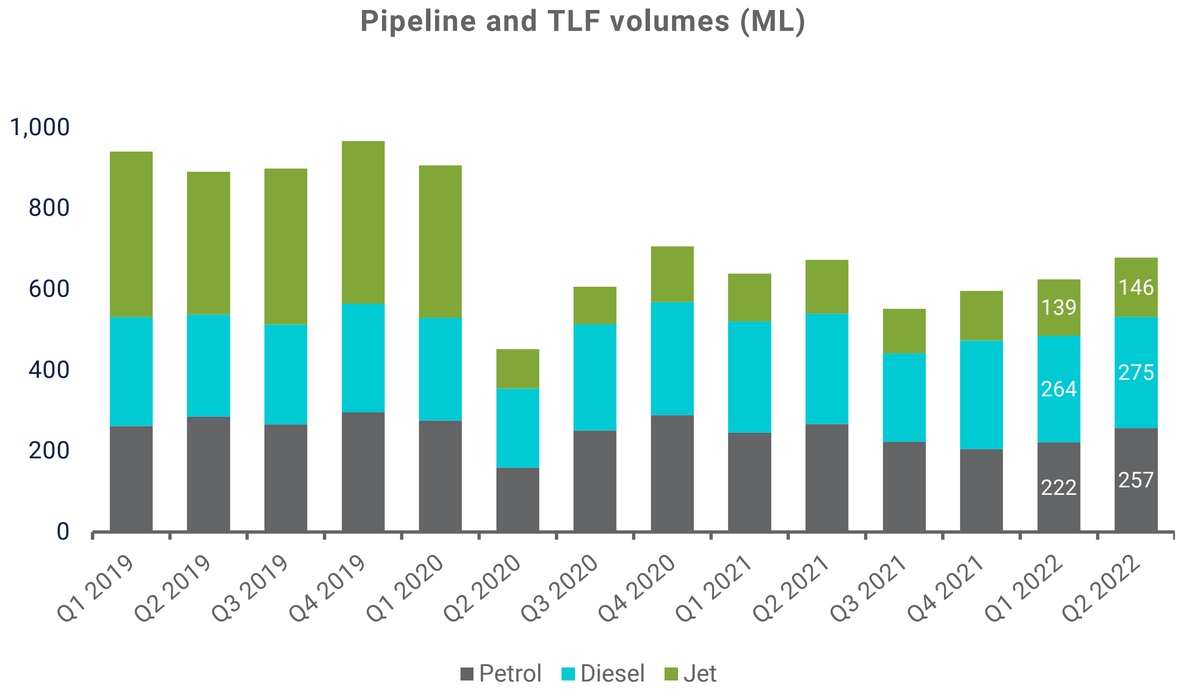
Diesel

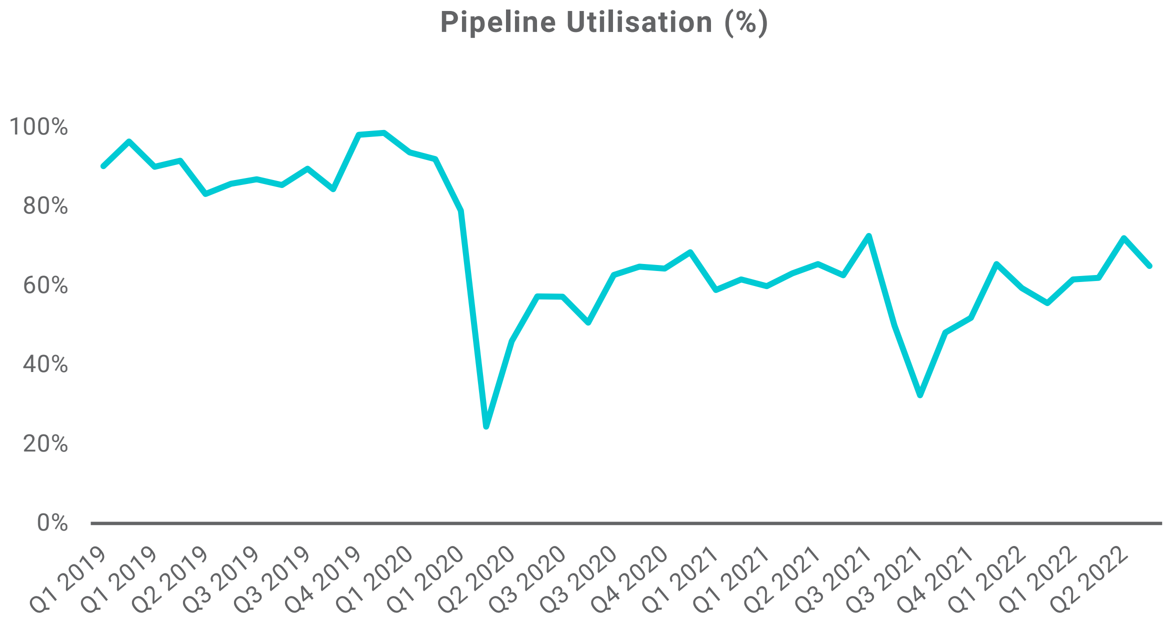
- Diesel demand remained strong reflecting economic activity

Petrol

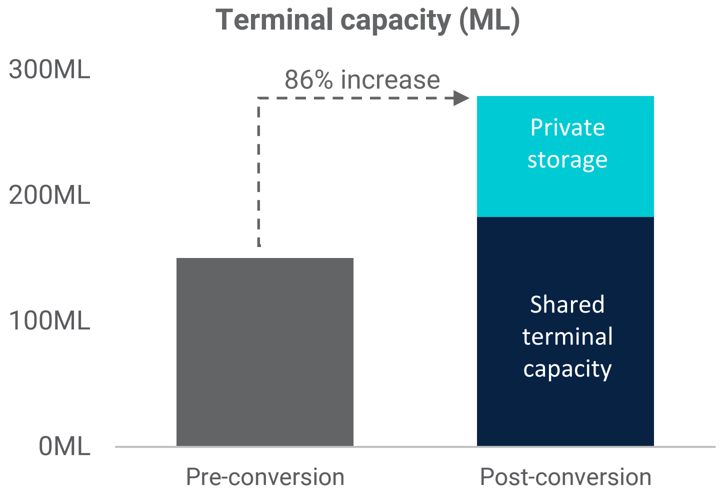
- Petrol demand showed rapid recovery from lockdown impacts albeit slightly below pre-COVID levels (high pump prices)

Increasing asset utilisation and storage capacity as demand recovers



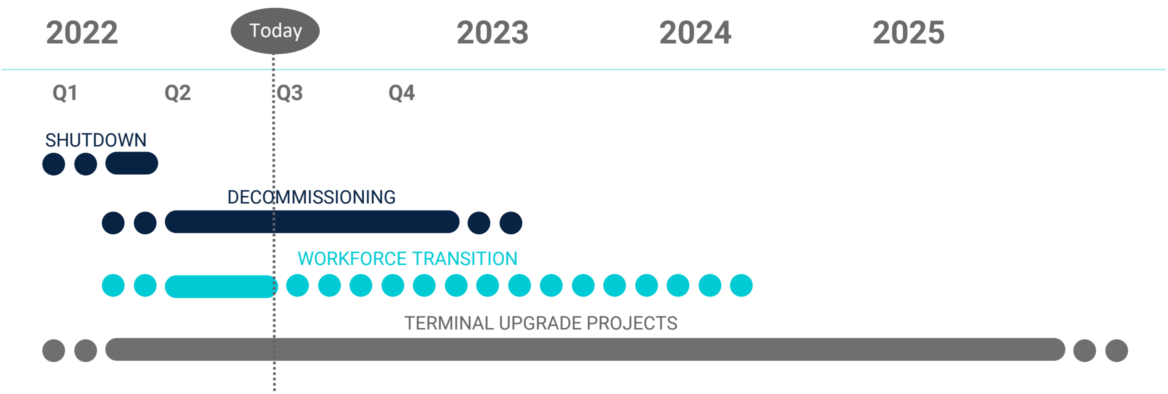


- 19 import shipments discharged at Marsden Point in Q2 2022
- Product delivered to the Auckland and Northland markets in Q2 2022 up 9% on previous quarter
- Significant pipeline capacity available to meet recovering demand
- Terminal conversion delivering increased fuel storage capacity – significant freight benefit for customers through terminal ullage

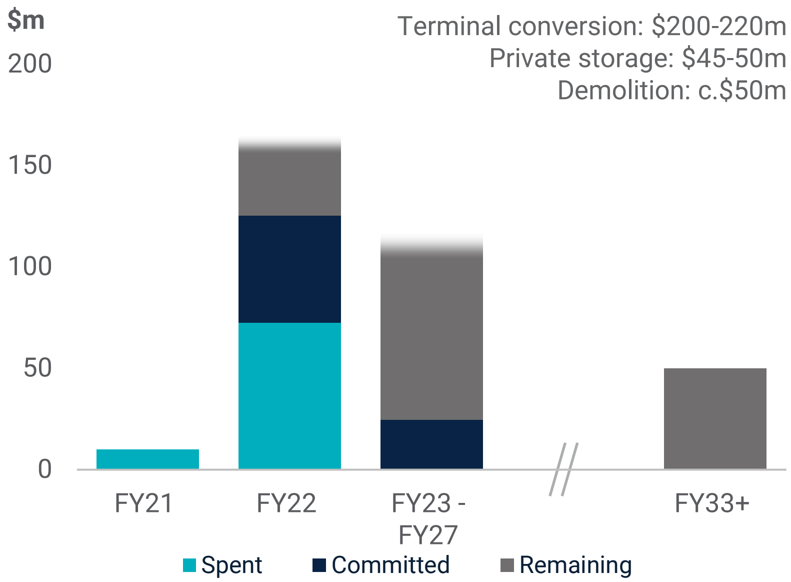


Conversion project continues to track to plan and budget

Conversion timeline



Conversion cost phasing



- Conversion project costs tracking to plan
- Key terminal facilities online from 1 April with additional storage capacity to be added through to mid-2023
- Decommissioning work now 70% complete – refinery effectively dismantled internally with shells and structures remaining. Catalyst and heat exchangers removed for recycling off-site
- Workforce transition substantially complete – refinery Collective Agreement concluded
- Terminal upgrades ongoing, with the conversion of the largest private storage tanks underway
- c.$84m[1] project to date spend to the end of July, with more than half of terminal conversion costs spent or committed/contracted, reducing inflation risk
- Contingency levels remain appropriate

[1] Includes private storage of c.$4m

Financial Update

Jarek Dobrowolski

Chief Financial Officer

Terminal delivers strong cash flow

- Strong EBITDA margin of 66% delivered in the first quarter of terminal operations
- Significant-cash flows funded 2/3rds of conversion spend in H1
- Net assets up 5% from $1.33 to $1.40 per share
- Tax losses crystalised with $467 million of losses available as at 30 June 2022
- Successful bond issue, and bank refinancing well underway
- Tracking in line with FY22 guidance and FY23 EBITDA now expected at top end of guidance
- Strong cash flow increases confidence in return to dividends in March 2023

Import terminal delivers strong EBITDA

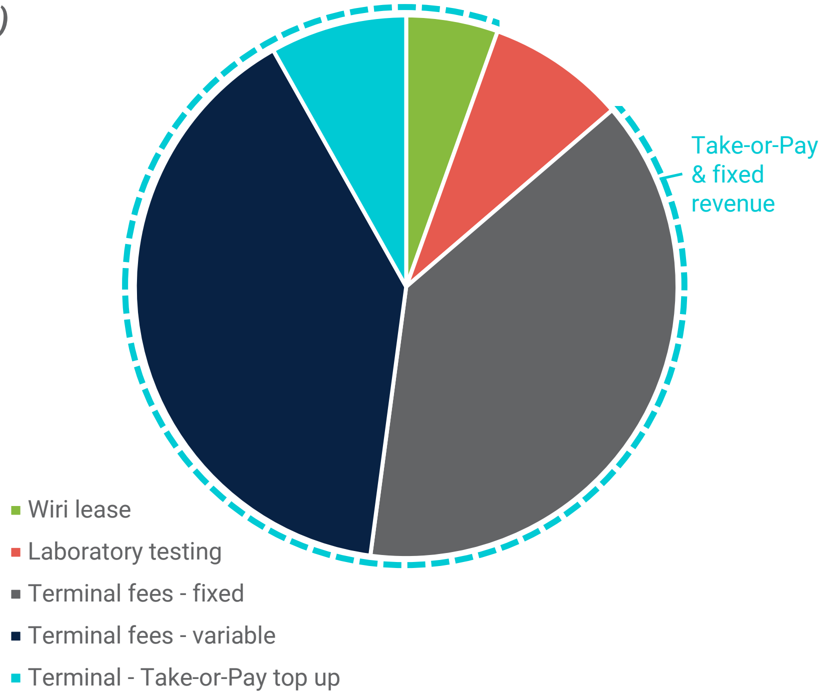
Continuing operations[1] *(infrastructure business)*	**($m)**
Revenue	29.8
Operating costs	(10.1)
EBITDA	**19.7**
Depreciation	(8.3)
Financing costs	(3.6)
Net profit before tax	**7.8**

- Strong revenue delivered by new Terminal Services Agreements from Q2, with EBITDA margin of c.66%
- Terminal asset useful lives review resulted in lower ongoing depreciation annual depreciation of c.$32m p.a.[2] (including Wiri asset depreciation of c.$6m until early 2025)
- 100% of debt fixed providing funding cost certainty

[1] The results from continuing operations include import terminal fees earned under the Terminal Services Agreements and Private Storage Agreements and Wiri land and terminal lease income from 1 April 2022, and the associated operating costs, as well as the results of Independent Petroleum Laboratory for the 6-months to 30 June 2022.
[2] Based on current asset base, and excluding any growth capex impacts on depreciation.

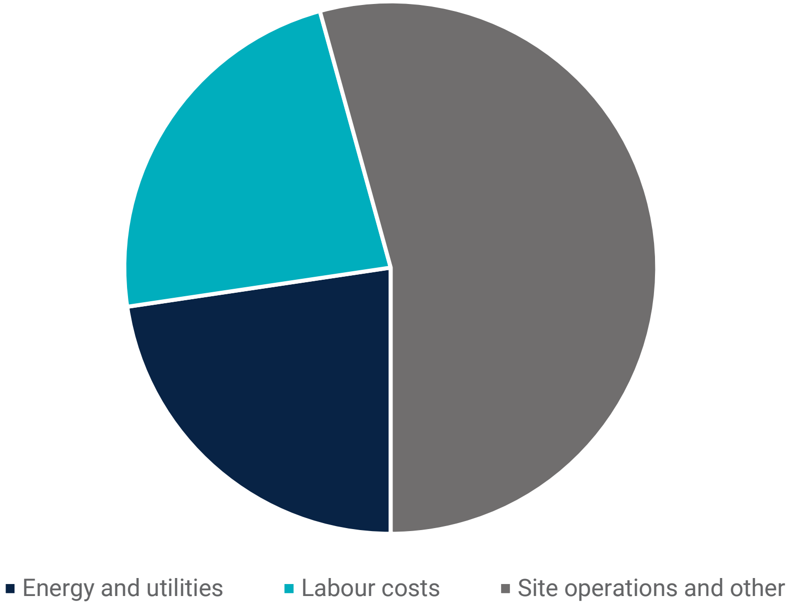
Revenue underpinned by contract protections

Revenue
(continuing operations)
($m)



- Take-or-Pay commitments underpin revenue while jet demand continues to recover
- Over 90% of total revenue underpinned by fixed / Take or Pay fees
- c.90% of revenue subject to PPI indexation from 2023

Operating costs
(continuing operations)
($m)



- Total electricity costs reduced significantly through transition from refinery to terminal operations, but unit costs remain high:
  - c.$114/MWh fully hedged cost of supply in H1 2022
  - Transmission and distribution charges of c.$153/MWh for terminal
- Labour costs reflect c.70 import terminal staff and lab testing employees[1]

[1] Note, employees involved in refinery decommissioning and transition are included in conversion costs (refer to 'Discontinued operations' and Provisions notes in the financial statements)

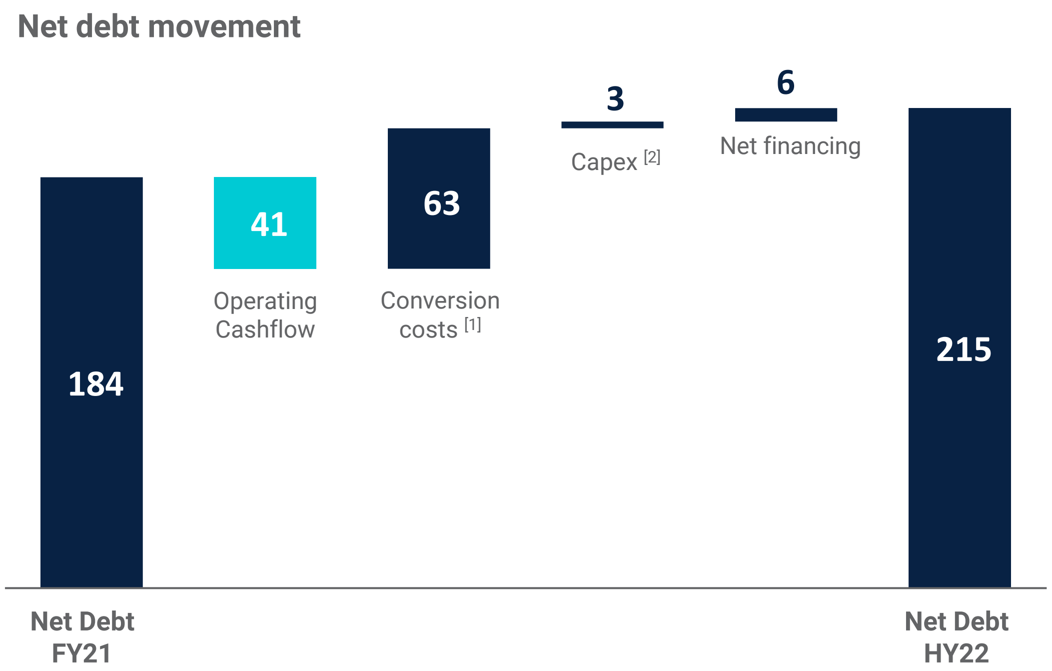
Q1 Refinery financial performance

Discontinued operations *(refining business)*	**($m)**
Revenue	69.0
Operating costs	(42.5)
EBITDA	**26.5**
Depreciation	(7.9)
Conversion costs	1.7
Financing costs (incl. discount unwinding)	(4.3)
Net profit before tax	**16.0**

- Revenue received under Processing Agreements which concluded end March 2022:
  - $47m processing fees
  - $6m pipeline fees
  - $16m sulphur, natural gas pass-through, carbon and other revenue
- Q1 operating costs include $7m sulphur, natural gas pass-through and carbon costs
- Conversion costs include ongoing conversion costs[1] offset by impact of discount rate change on provisions

[1] Note that conversion costs have been largely provided for in the financial year 2021, with ongoing income statement impacts from costs not eligible for recognition as a liability. These costs are all within the overall conversion project budget of $200 to $220 million.

Strong cash flows funded 2/3rds of conversion spend



- c.$63m spent on the conversion in H1
- Strong cash flows generated from operations, funded 2/3rds of conversion spend
- Net debt increased c.17% to $215m
- Net debt expected to be below 4x EBITDA at end 2022

[1] Include operating and capital conversion costs (incl. private storage capex).
[2] Stay-in-business capex excludes growth and conversion capital expenditure.

Net assets up 5% from $1.33 to $1.40 per share

	31 December 2021 ($m)	30 June 2022 ($m)
Cash	16	8
Receivables and inventory	148	34
Current assets	**164**	**42**
Property, plant and equipment	869	868
Intangibles & other non-currents	42	44
Deferred tax assets	82	176
Total assets	**1,157**	**1,130**
Trade and other payables	156	34
Employee benefits & other	10	4
Provisions	87	67
Current liabilities	**253**	**105**
Borrowings	200	223
Employee benefits & other	10	12
Provisions	98	64
Deferred tax liabilities	101	204
Total liabilities	**662**	**608**
Net assets	**495**	**522**

Net working capital

- Reduction in trade receivables and payables – excise duty is no longer collected (and paid on behalf of customers) following the commencement of import terminal operations

Conversion costs

- Provisions for conversion reduce – predominantly $46m spent as workforce transition, shutdown and decommissioning are completed in H1, and c.$8m reduction in conversion provisions due to higher discount rate
- Employee benefits also reduced in line with reduced workforce

Tax losses crystalised

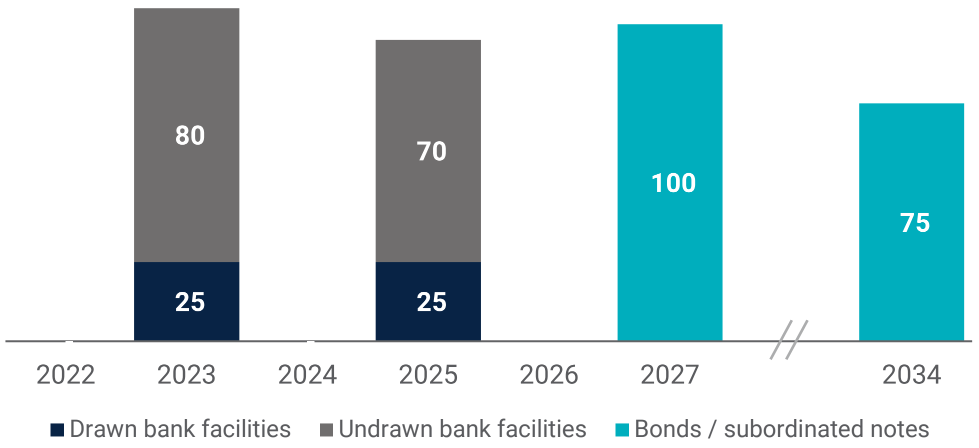
- Tax losses crystalised, with c.$467m available at 30 June 2022
- Deferred tax liability reflects impact of revaluation of import terminal assets – a non-cash adjustment that will amortise over the life of the assets

Return on assets

- Net assets increased mainly due to net profit for H1 2022 – up 5% from $1.33 to $1.40 per share

Execution of debt refinancing strategy well progressed

Debt maturity profile as at 30 June 2022



- Existing debt facilities of $375m sufficient to fund conversion costs, with $160m of liquidity headroom available and no significant near-term maturities
- Execution of refinancing strategy to diversify funding sources and improve funding competitiveness:
  - Successful $100m unsecured retail bonds issued in May 2022
  - Bank refinancing well progressed and focused on aligning with infrastructure business profile and maintaining bank facilities of c.$210m
- Net financing costs ($7.9m[1]) predominantly made up of bank interest cost and line fees ($4.2m), subordinated notes coupon of 5.1% and retail bonds coupon of 5.8%
- 100% of drawn debt is fixed, providing funding cost certainty and protection in high interest rate environment
- Weighted average debt maturity (WADM) of 4.7 years[2]

[1] Financing costs are included in continuing and discontinued operations
[2] WADM calculated on the assumption that the subordinated notes are paid at their maturity in March 2034 (noting that at the first election date in March 2024 the Company may elect to either redeem the notes or to offer new conditions to the noteholders).

Strategy Update and Outlook

Naomi James

Chief Executive Officer

A long-term sustainable operating model with strong aspirations for growth

Channel
Infrastructure NZ

OUR VISION

New Zealand's leading fuel infrastructure company

OUR STRATEGIC PRIORITIES

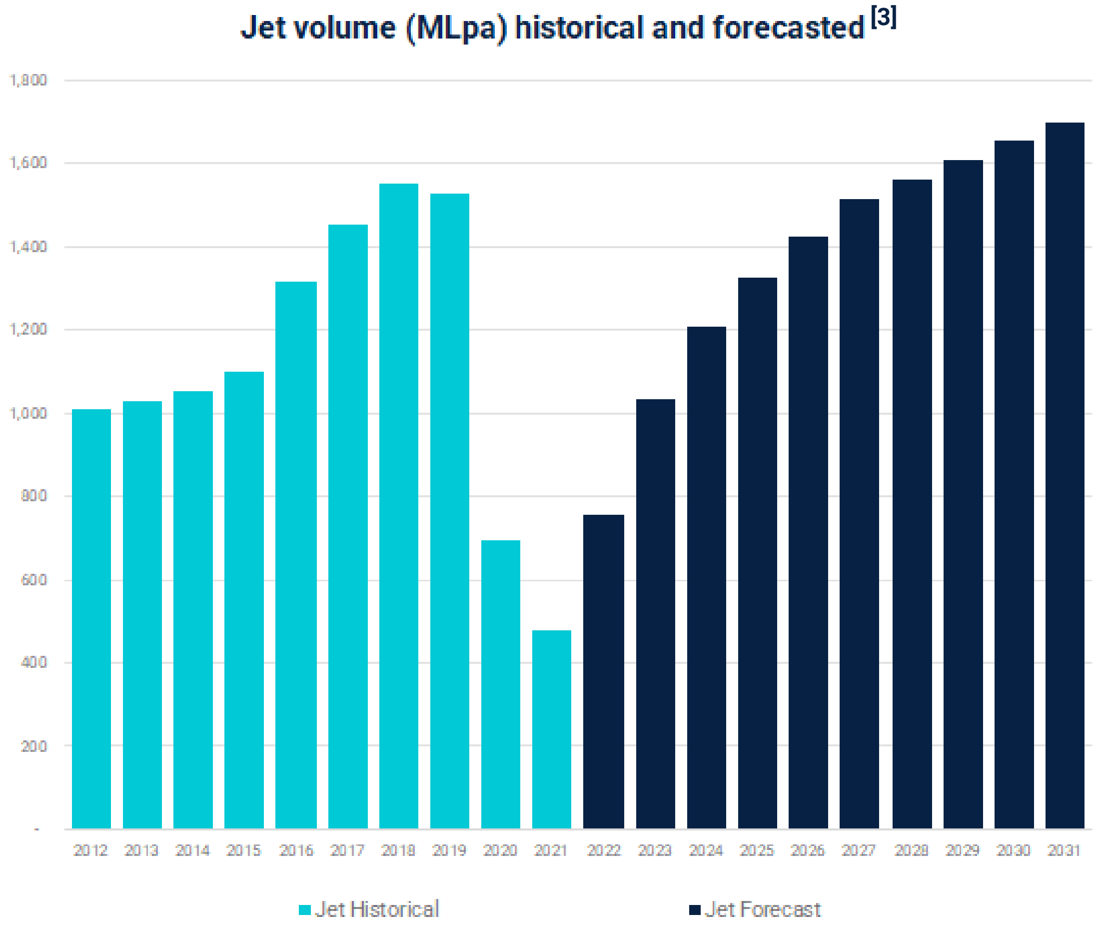
Safe, reliable, low cost operations	High performance culture	Competitive cost of capital	Realise infrastructure value	Support lower carbon fuels transition	Grow and diversify
Strong safety systems and culture Continuous improvement Asset management	Strong performance management Change-ready Future focused	More reliable dividend payout Diversify access to capital markets Leverage the balance sheet	Realise value of existing infrastructure through import terminal conversion	Leverage existing infrastructure Marsden Point energy hub	Strategic storage Repurposing Marsden Point site Supply chain optimisation
Leverage existing capabilities		**Transform to deliver value**		**Position for future growth**	

Good progress made towards carbon targets

	TARGET	PROGRESS TO DATE
Just transition	At least 90% of employees seeking new employment find new roles, or have been retrained, within 6-months	• Extensive program of workforce transition support now largely complete • Greater than 90% of staff who have left in Q2 2022 have found their next opportunity.
Net Zero	Net zero scope 1 and 2 emissions by 2030	• 98% reduction in 2019 emissions following refinery closure (over 1 million tonnes CO2 p.a.) • 85% reduction in electricity consumption and no natural gas requirements - reducing thermal generation demand
Customer scope 3 emissions	Our infrastructure is utilised to support the decarbonisation of transport sector and facilitate scope 3 emissions reduction by 2030	• Discussions underway with customers on infrastructure to support biofuels mandate • Hydrogen study progressing with FFI; SAF feasibility progressing with Air New Zealand

Potential for faster than expected recovery in jet

- Auckland jet fuel demand driven by number of flights and distance to destination
  - More than 75% of New Zealand international flights depart from Auckland[1]
- Strong growth in jet fuel recovery as borders reopened from February 2022
  - 70% increase in international flights at AIAL[2]
  - Near 60% increase in Auckland jet fuel demand since February 2022
  - Air NZ load factors in June at 88% – indicating strong demand
- Potential for stronger than expected recovery in jet-fuel - subject to aviation capacity
- Forecast to be updated in H2 2022



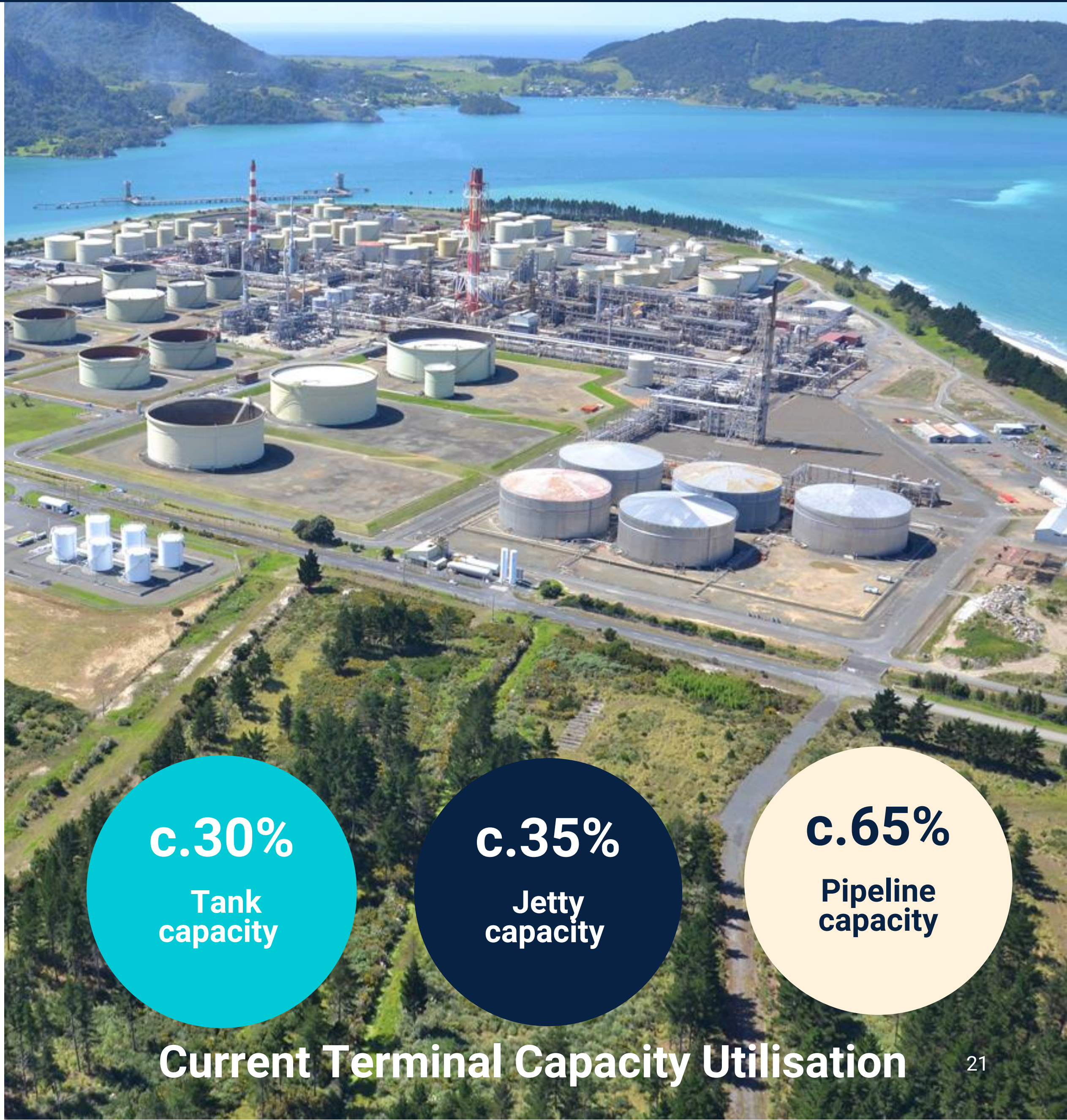
[1] Auckland International Airport Limited (AIAL)
[2] June 2022 vs. February 2022
[3] Forecasts are based on Hale & Twomey's forecast, issued in January 2021.

Near-term opportunities exist to grow our terminal footprint

- Significant capacity available at Marsden Point

- Near-term opportunities:
  - Domestic stockholding policy – estimated 50–70ML of additional diesel storage required in NZ
  - Terminal consolidation & optimization – industry changes, biofuels sales mandate
  - Other products (marine fuels, bitumen)

- Potential for Channel operating model to be leveraged across other shared infrastructure
  - Recent clearance application to Commerce Commission highlights need for investment and open access for Auckland Fuel Infrastructure



Electricity RFI process commenced to reset electricity costs

- Electricity remains a material cost
  - Currently electricity around ¼ of operating costs
  - Electricity transmission and distribution costs in Northland a key impediment to renewable growth
  - Forward electricity prices significantly higher than cost of new generation
- RFI process commenced seeking proposals for long-term supply
  - Lower "all-in" cost of electricity
  - Long-term offtake agreement
  - Renewable electricity development
- Maranga Ra solar project is a unique, ready-now, solar project
  - 35GWh per annum (2019 design, opportunity to scale up with improved panel technology)
  - Fully-consented project on land owned by Channel
  - Existing transmission & distribution capacity
  - Capacity to supply terminal and export to the grid
  - Meridian solar and battery project on adjacent land

Performance in line with FY22 guidance

Previous guidance	H1 Update
Q1 Processing Fee revenue expected to exceed the Fee Floor by c.$5 to $10m	$47m earned
Import terminal fees to commence from 1 April with Take-or-Pay commitments of c$75m in FY22	$25m received in Q2
FY22 Operating costs (excluding conversion costs) expected to be c.$70m	$53m for H1, including $10m in continuing operations
Borrowings will increase over the year and are expected to average around $220-230m in FY22	$215m at 30 June 2022
Financing costs expected to be c.$14m	$6.8m[1] for H1, expected slightly higher in H2

Additional guidance

Full year accounting depreciation of c.$32m

[1] Based on current financing arrangements, hedged positions and current 90-day bank bill rate. Excludes non-cash financing costs (i.e. provision discount unwinding).

Strong Cash Flow in H1 increases confidence in return to dividends for FY22

- Board has reconfirmed dividend policy pay-out of 60-70% of Free Cash Flow (being adjusted net cash generated from operations less maintenance capex)
- First opportunity for dividend in March 2023 after FY22 results provided net debt is below 4.5x EBITDA
- Net debt expected to be below 4x EBITDA at year end
- Indicatively, Free Cash Flow (excluding growth capex and conversion costs) from terminal in May and June of c.$9m would equate to FY22 dividend of c.6cps at the mid-point of the dividend pay-out range

The Board reserves the right to adjust the payout ratio or expected timing for the recommencement of dividends should the timing, costs or revenue associated with the conversion (including new services such as Private Storage Services) or the import terminal business change. The dividend policy will be subject to the Board's due consideration of the Company's medium term asset investment programme; a sustainable financial structure for Channel Infrastructure, recognising the targeted investment grade rating; and the risks from short and medium term economic and market conditions and estimated financial performance.
It is the intention of the Board to attach imputation credits to dividends to the extent that they are available. Subject to Net Debt to 12-month rolling normalized EBITDA (being EBITDA excluding one-off conversion costs) reducing to below 4.5x times at the time of dividend payment and following the dividend distribution.

Tracking towards top end of FY23 EBITDA guidance range

Indicative FY23 Financial metrics

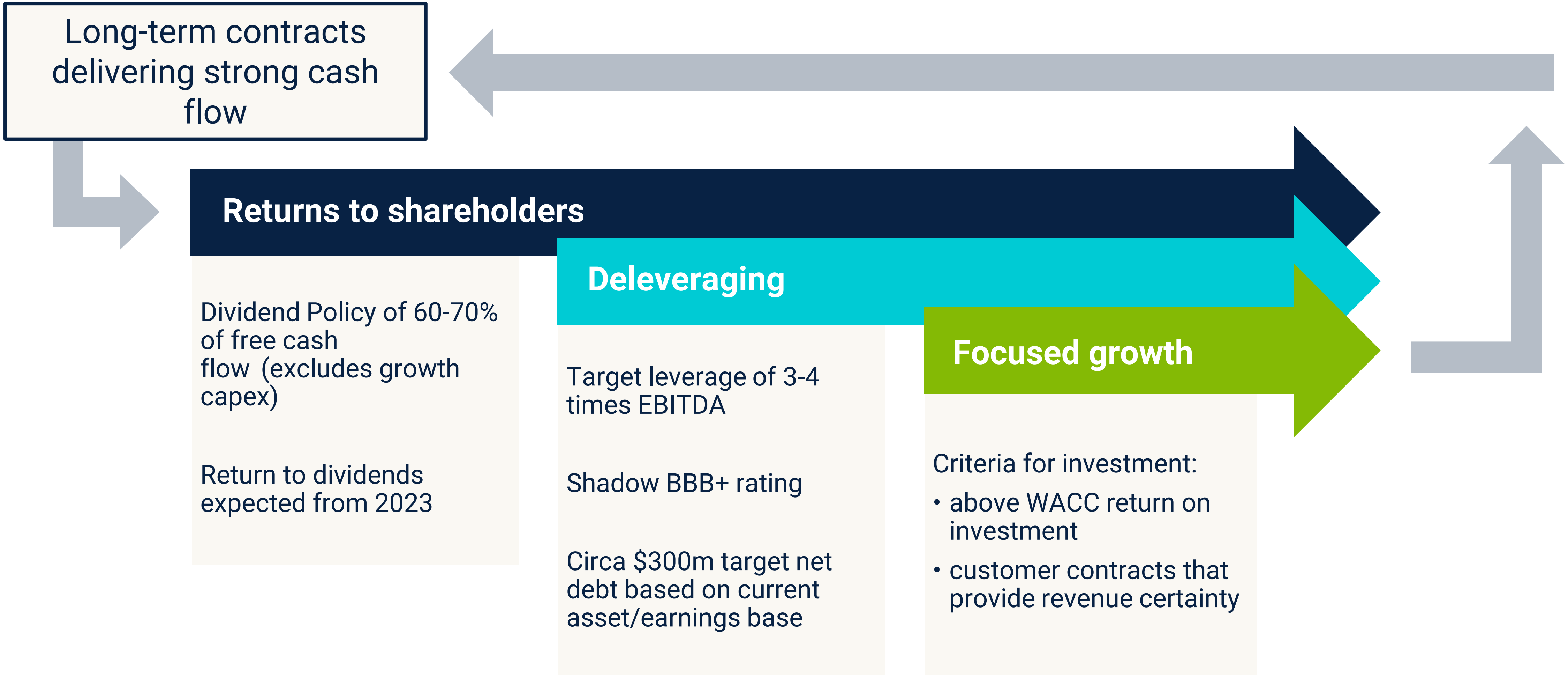
(in nominal terms, includes contracted private storage)

	($m)
Terminal and other revenue [1]	116 – 120
Operating costs [2]	36 –40
Normalised EBITDA [3]	76 –84
Depreciation	32
Financing costs [4]	15 –18
Income tax payable	Nil

- Terminal fees to be indexed from 1 January 2023 based on 12-months PPI to 30 September 2022, pro-rated for 9 months
    - 9 months PPI to June 2022 of 6.6% implies additional c.$7m in revenue
    - Contracted private storage expected at $9m annualized revenue (pre-PPI adjustment) by mid-2023
- Key component of opex is electricity costs
    - Continuing to work with Northpower and Transpower to reset electricity transmission and distribution costs
    - 1/3rd of 2023 supply hedged at average $175/MWh
- Terminal capital expenditure[5] expected to be in the range of $5-12 million per annum over the initial contract term (including private storage)
- Opportunity to reduce bank funding costs through refinancing underway

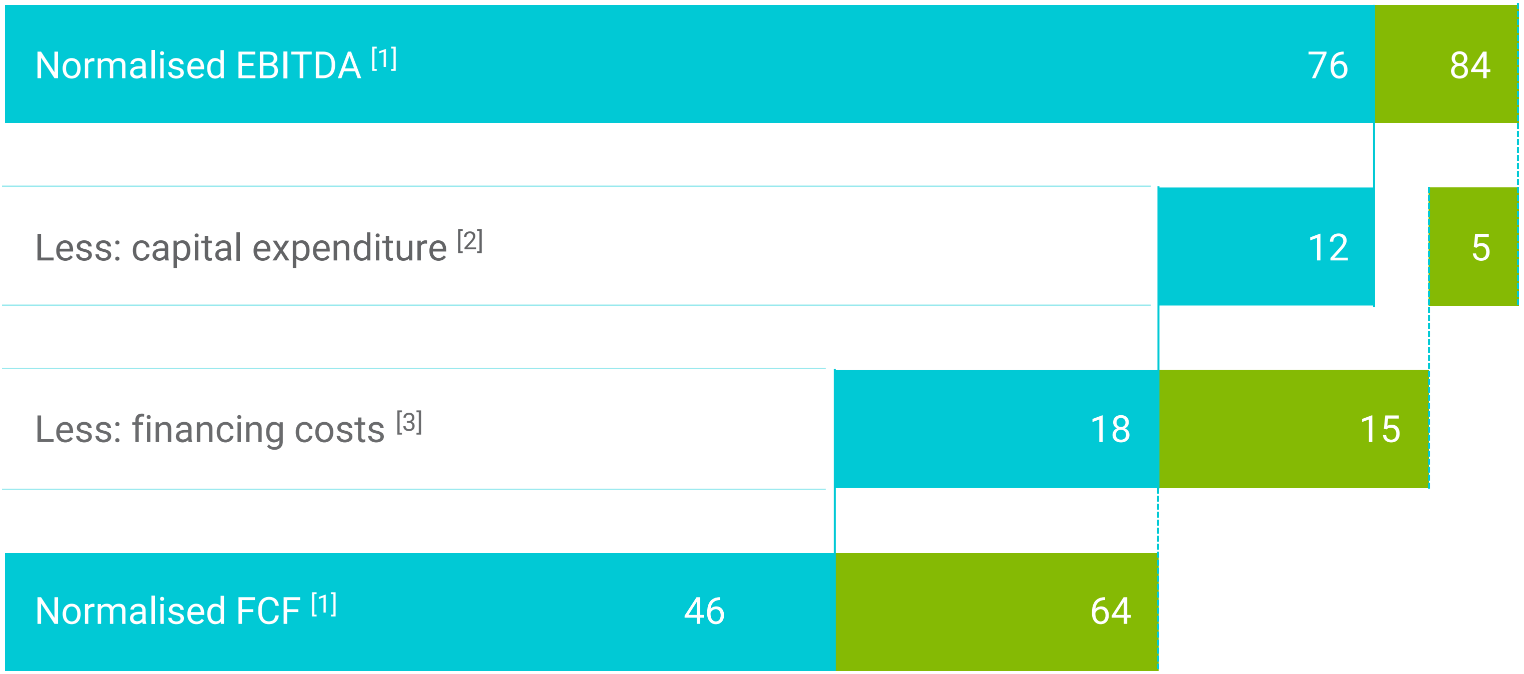
[1] Revenue includes terminal fees, private storage fees, revenue from Wiri terminal lease (expiring in 2025) and revenue from laboratory testing services (IPL)
[2] Operating costs exclude one-off conversion costs
[3] Normalised EBITDA excludes one-off conversion costs
[4] Based on current financing arrangements, hedged positions and current 90-day bank bill rate
[5] Import terminal capital expenditure over the initial 10-year contract term, excluding growth and one-off conversion capital expenditure

Capital guidance framework released at Investor Day



Strong free cashflow enabling returns to shareholders and growth

FY23 Financial Metrics ($m)



Indicative dividend range $30-40m (equivalent of 8 to 11cps)[4]

Leaving $15m to $20m available for deleveraging and growth

[1] Normalised EBITDA and Free Cash Flows exclude one-off conversion costs and growth capex
[2] Import terminal capital expenditure range over the initial 10-year contract term, excluding growth and one-off conversion capital expenditure
[3] Based on current financing arrangements, hedged positions and current 90-day bank bill rate
[4] The Board has reconfirmed a dividend policy pay-out of 60-70% of Free Cash Flow (being adjusted net cash generated from operations less maintenance capex). The Board reserves the right to adjust the payout ratio or expected timing for the recommencement of dividends should the timing, costs or revenue associated with the conversion (including new services such as Private Storage Services) or the import terminal business change. The dividend policy will be subject to the Board's due consideration of the Company's medium term asset investment programme; a sustainable financial structure for Channel Infrastructure, recognising the targeted investment grade rating; and the risks from short and medium term economic and market conditions and estimated financial performance. It is the intention of the Board to attach imputation credits to dividends to the extent that they are available. Subject to Net Debt to 12-month rolling normalized EBITDA (being EBITDA excluding one-off conversion costs) reducing to below 4.5x times at the time of dividend payment and following the dividend distribution.

Continued focus on driving shareholder value

- Increasing fuel demand as COVID restrictions ease and aviation capacity returns
- Reset of cost of capital well progressed
- Conversion costs and FY22 guidance on track
- Confidence in return to dividends from March 2023
- Tracking to top end of FY23 EBITDA guidance range
- Range of growth opportunities available to grow earnings in short and medium term

Channel

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Q&A

Channel

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