Channel Infrastructure NZ Limited
Annual Meeting of Shareholders
Tuesday 10th May 2022 at 2.00pm

CEO Naomi James' Allen's address

Thank you, Simon, and on behalf of the staff at Marsden Point, I want to thank you for your leadership of the Board over the last 7 years. In particular, I thank you for your support and guidance for me over the past two years through a period of significant challenge and change for our company.

Good afternoon, everyone and welcome to Channel Infrastructure's 2022 Annual Shareholders Meeting. It's great that so many of you could join us online; we appreciate the engagement of such a large number of shareholders despite the change this year to a virtual meeting. I look forward to seeing you all in person when we return to the hybrid format next year.

Since we last met, a lot has changed for our business, and I am proud to say that we achieved all of our key priorities in 2021.

Our personal safety performance was excellent.

We successfully implemented the simplified refinery model from the start of the year, which allowed us to operate cash neutral at the fee floor in an ongoing environment of low refining margins. This created time for negotiation of new agreements with customers and preparation for a well-planned transition to terminal operations.

As Simon has mentioned, during this time, we concluded our import terminal services agreement negotiations with all three of our customers, as well as successfully concluding other elements of our strategic review process, including obtaining the approval of our lenders and shareholders with 99% voting in favour of the conversion. This enabled the Board to take its final investment decision in November last year to shift to import terminal operations from April this year.

In summary we operated the refinery safely and to plan, reported a disciplined financial result in a challenging business environment, and delivered a long-term plan to unlock the value of our strategic infrastructure assets for shareholders.

None of this could have been achieved without the superb team at Marsden Point who have maintained their commitment to operating safely and delivering to plan throughout the past two years despite the uncertainty and change created by the strategic review process and the ever-changing impacts of COVID-19 on our day-today lives. Our 2021 results and the progress we have made is a credit to all of our team.

Turning now, to take a closer look at our safety and financial results.

In 2021 we achieved the significant milestone of no recordable personal safety incidents for the second consecutive year. This is an outstanding result, particularly given we conducted a major maintenance turnaround during the year and is a testament to the quality of people we have working at Marsden Point.

Refinery and pipeline throughput continued to be impacted by COVID related restrictions in 2021. Pipeline volumes were similar to the 2020 year, but around 35% lower than 2019, which was the last year there were no travel restrictions. Outside of the lockdown periods we saw a strong recovery in demand for gasoline and in particular in diesel. Demand for jet fuel remained low as a result of the international border restrictions.

While refining revenue remained at the fee floor through 2021 for the second year in a row, reported EBITDA was up 44% relative to 2020 from the cost savings from the simplified refinery model. Capital expenditure was flat year-on-year which is an excellent result given 2021 included the cost of the crude distiller and CCR maintenance turnaround.

This meant free cash flow was positive, achieving our aim of operating cash neutral at the fee floor.

Our net debt closed the year $47 million lower. This reflected our successful equity raise towards the end of 2021 to fund the costs of private storage, the first of our growth opportunities at Marsden Point.

In our 2021 accounts, we recognised the accounting adjustments arising from the conversion, with the write off of refining assets and provisions for costs associated with the import terminal conversion recognised. A revaluation of the import terminal assets occurred and offsets this, with net assets reported at 31 December 2021, equivalent to $1.33 per share.

As we embarked on our strategic review and took such significant decisions to undertake our whole-of-business changes, we had a number of important stakeholders who we’ve brought on this journey with us, and it is to this that I would now like to turn.

As many of you will be aware, the Government has taken a keen interest in our transition, and the impacts it will have on New Zealand’s fuel supply chain. As the owner of nationally strategic assets, we have worked hard to be joined up with the

New Zealand Government at every point, and that continues today. As well as regular engagement and updates to Ministers on transition planning, The Ministry of Business, Innovation and Employment (MBIE) recently consulted on a new Fuel Stockholding policy, and we stand ready to support the Government and our Customers to meet this policy when the details are finalised. We are also awaiting final details of the BioFuels mandate, which is due to come into force in April next year. We believe that our infrastructure will have a key role to play in supporting the development of a BioFuels industry in New Zealand and I will talk more on this shortly.

We have also worked hard to build a strong and respectful relationship with the different Iwi in Northland, and I am proud that we have been able to sign new long-term relationship agreements with Patuharakeke and Te Parawhau, at the same time that we obtained a new 35-year resource consent for the Marsden Point site. While we may not always agree, we are committed to working together - to understand each other's perspectives, identify opportunities to support local iwi plans and priorities and to be good neighbours to our community. With that in mind, we remain an active participant on the Northland Refinery Working Group to support regional transition planning.

While our transition has had little impact for most New Zealanders, it was a significant change for our fuel supply chain and for everyone that works at Marsden Point. We have worked closely with our customers through this period, to make sure that together, we delivered a smooth transition in New Zealand's fuel supply chain.

As CEO, it has been a priority of mine to make sure we took our people with us on this journey, and supported them in their own personal transitions, just as they have supported the Company and enabled its transition to build a long-term sustainable future. This has included comprehensive workforce transition support programs, including providing at least six-months' notice, and six-months' redundancy pay, as well as a range of programs to help our people transition to new jobs. We have also had active engagement with unions throughout this period. Just last month, we were pleased to welcome over 20 employers from around New Zealand and Australia for a Careers Fair, providing our people looking for new roles with the opportunity to engage directly with other companies looking for people with their skills.

I'm pleased to report that our conversion project work continues to track to plan.

On 13 April, we released our first quarterly conversion project update and we intend to keep providing these updates through this year.

In our Q1 update, we confirmed that we had safely completed the refinery shutdown to plan, despite the ongoing challenges of COVID in the community, and that we had successfully commenced import terminal operations on 1 April.

Importantly, the conversion costs continue to track to plan, with $20 million spent at 31 March. As reconfirmed at the time of our 2021 results, we continue to expect conversion costs to total $200 to 220 million which includes contingency.

At the same time, we have announced contracted private storage agreements with customers for the provision of an additional 100 million litres of private storage on our site, which involves the conversion of existing tanks at Marsden Point at a cost of $45 to $50 million, delivering incremental revenue over 10 years of around $90 million dollars.

Shareholders, today we speak to you as a totally different business to last year.

The change to an import terminal and Channel Infrastructure on 1 April when we launched on the New Zealand stock exchange under the new ticker code ‘CHI’ was a significant milestone for the Company.

After 60-years of operations as New Zealand’s only oil refinery, we look back on our past with pride, but, because of this change, we can now also look to the future with confidence that we have a sustainable business that will continue to contribute to our community, and New Zealand, long into the future.

Let’s now watch a short video

Channel Infrastructure is New Zealand’s leading fuel infrastructure company.

We are now well positioned for the future – let me run through the reasons why.

Our business owns and operates critical infrastructure essential to the supply of fuel direct to New Zealand’s largest market.

Channel Infrastructure is now New Zealand’s largest transport fuels storage terminal. Our terminal handles more fuel than the terminals of Mt. Maunganui, Wellington, and Lyttleton... combined. We have 180 ML of shared capacity available under the Terminal Services Agreements plus 100 ML of additional contracted private storage.

Through the Marsden Point to Auckland Pipeline and the Truck Loading Facility adjacent to our site, our infrastructure supplies the Auckland and Northland markets, which make up 40% of New Zealand’s fuel demand. The pipeline supplies all of the jet fuel to Auckland International Airport. As you would expect, Jet fuel is forecast to recover to ‘pre-COVID’ levels over the coming years as New Zealand reopens its borders, and then continue to grow. Over the long-term, international tourism and travel is expected to underpin long-term asset utilisation, with the shift to sustainable aviation fuels.

We have negotiated long-term customer contracts with our three customers, which have now commenced. The fixed and minimum fee components, and third-party access to unutilised capacity from 2025 incentivises customer utilisation of our terminal.

Take or pay commitments of $90-100 million per annum 'real' over the first six years, together with 'fixed' private storage revenue supports the debt funding of conversion costs and provides revenue security while jet fuel demand recovers post COVID. In addition, all import terminal services fees payable by customers are indexed to PPI, which provides us additional protection in the current inflationary environment.

As a result, we have projected stable earnings, strong cash flows and a strong balance sheet, with a focus on deleveraging to 3x – 4x net debt to EBITDA supporting returning to dividends for our shareholders.

The new business model means we expect to have stable earnings and significant cash flow generation moving forward. In 2023, our first full year of terminal operations, we expect EBITDA of between $76 and $84 million, with high conversion of EBITDA to cash flow as a result of low ongoing capital expenditure and over $400 million of expected tax losses following conversion.

This means we can deleverage to a target of 3x to 4x Net Debt to EBITDA, consistent with an investment grade rating which supports our dividend policy of 60-70% of normalised Free Cash Flow with a return to dividends in 2023.

Last week we launched a retail bond offer. We are looking to raise $100 million (and have the ability to accept oversubscriptions of up to a further $25 million). The offer, which is open to investors resident in New Zealand and institutional investors, is of five-year unsecured, unsubordinated, fixed rate bonds, with a minimum coupon of 5.80%. The Offer is expected to close this Friday at 11am with the interest rate also expected to be set that day and announced on the NZX.

You should have received information on the Offer, or you can find the information, including the product disclosure statement, on our website.
If you are interested in participating in the offer, you can contact your financial adviser or one of the joint lead managers for more information – their details are in the product disclosure statement.

The bond proceeds will be used to repay a portion of our bank debt and will provide us with enhanced diversification of funding and extend our tenor.

Our balance sheet is in a strong position with significant headroom available to fund conversion project costs and no significant maturities in the next 18 months.

One of the first actions of our new business was the release of our inaugural Sustainability Report, Our Transition to a Sustainable Future.

The report, which is aligned with Taskforce on Climate-related Financial Disclosures or TCFD standards more than a year ahead of mandatory reporting commencing in New Zealand in 2023, outlines the company's response to the impacts of Climate Change on our business, as well as the opportunities and risks for our business from the energy transition that is taking place in New Zealand.

The way we all respond to climate change is about more than just bringing down emissions. It is about supporting people who are affected and doing our part to mitigate the impact on individuals, and our community, while at the same time, ensuring that keep fuel affordable and available for everyone.

And, crucially, the report sets measurable objectives so that we can hold ourselves to account in the future. These targets include having at least 90% of employees seeking new employment find new roles or be retrained within 6-months of leaving our business. A just transition for people is not an added extra, it is a central part of how the global community must ensure that that the impacts of the lower-carbon future are not unfairly borne by a single community and that is why it is right that we have such a strong focus on supporting our people who have been impacted by our change, to find new jobs.

Our transition from refinery to import terminal operations has already delivered a significant reduction in carbon emissions and we have set ourselves the ambitious but achievable target of achieving net Zero Scope 1 and 2 emissions by 2030

And, we commit to utilising our infrastructure to support the decarbonisation of the wider transport sector and facilitate customer Scope 3 emissions reduction by 2030. We firmly believe that our infrastructure will have a key role in the decarbonisation of New Zealand's transport network, and we are committed to helping our customers, suppliers, and all of New Zealand to achieve this.

Shareholders, we have been discussing a change to our business for two-years now, since the Board commenced our strategic review with the goal of determining the best way for our business to have a long-term and sustainable future in the face of the most difficult operating environment in our history.

As we have always maintained, our goal has been to see a return to a situation where the strategic assets we own are delivering a return to our shareholders.

With our transition, comes many exciting growth opportunities for our business, and we are now well positioned to diversify and utilise our assets to support New Zealand's changing future fuel needs.

We have already delivered on some initial growth opportunities with the contracting of additional private storage capacity at Marsden Point. We have additional capacity to provide even more storage in the future, including to support the Government's biofuels mandate and proposed domestic inventory policy, by repurposing additional existing tanks at Marsden Point.

The Maranga Ra solar project is another exciting opportunity that we are actively investigating, including talking to a number of parties about this potential development. Our interest in developing our own electricity generation through Maranga Ra is driven from a desire to lock in secure, renewable and affordable long term electricity supply for the operation of our terminal.

And longer term, we want to maintain optionality across the range of types of fuel and energy Marsden Point can support in the future, which is why we are working with Air New Zealand on their study of the potential to develop Sustainable Aviation Fuel in New Zealand and with Fortescue Future Industries on their study looking at the potential for hydrogen production at Marsden Point.

The second part of our growth platform is the opportunity to leverage our independent operator capabilities across a broader asset base.

We are committed to supporting the supply of fuel that New Zealand families, businesses, and the economy need to keep moving, and we are looking forward to the next stage in our journey.

I will now hand back to Simon for questions, resolutions and voting.

ENDS