



Channel

Infrastructure NZ

# Product Disclosure Statement

Offer of unsecured, unsubordinated, fixed rate bonds by Channel Infrastructure NZ Limited

Issued by  
Channel Infrastructure NZ Limited  
28 April 2022

Joint Arrangers:



 FORSYTH BARR

Joint Lead Managers:

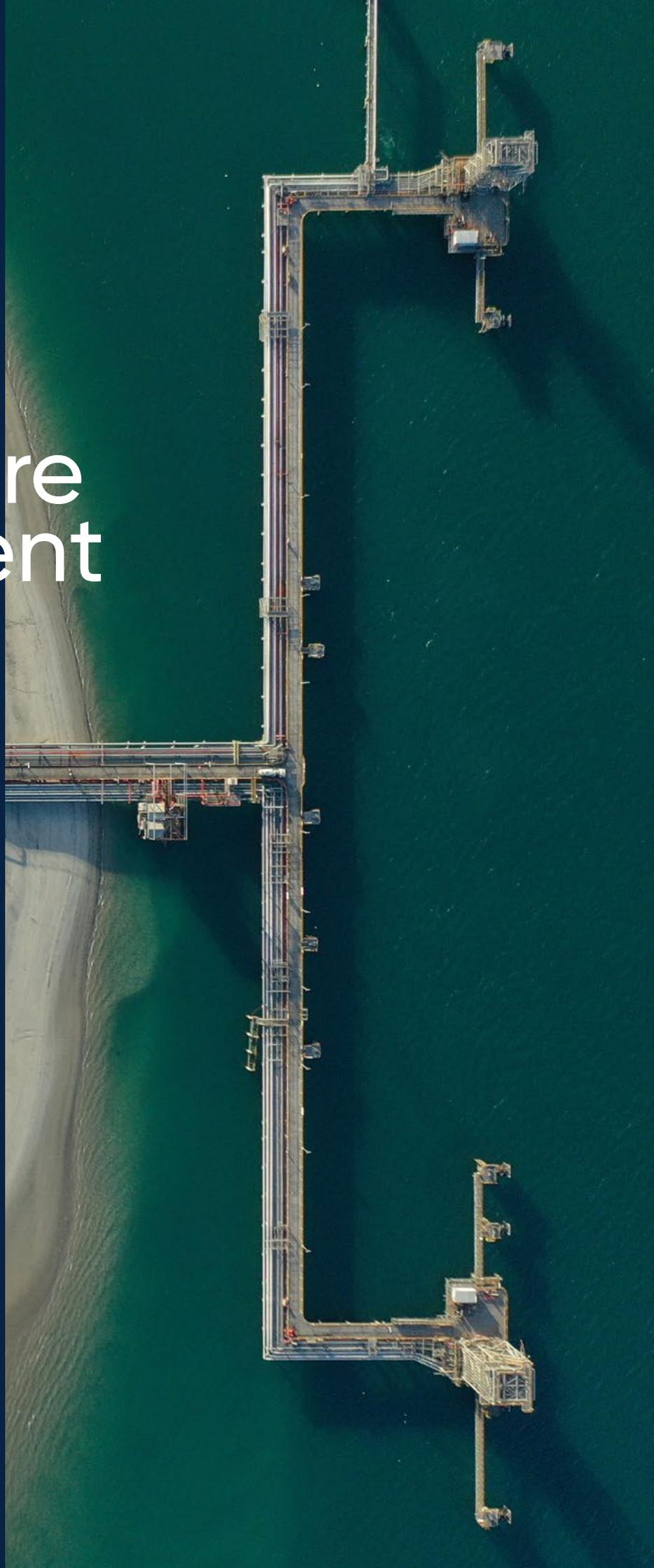


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This document gives you important information about this investment to help you decide whether you want to invest. There is other useful information about this offer on [www.disclose-register.companiesoffice.govt.nz](http://www.disclose-register.companiesoffice.govt.nz).

Channel Infrastructure NZ Limited has prepared this document in accordance with the Financial Markets Conduct Act 2013. You can also seek advice from a financial advice provider to help you to make an investment decision.



# 1. Key information summary

## 1.1 What is this?

This is an offer (**Offer**) of unsecured, unsubordinated, fixed rate bonds (**Bonds**). The Bonds are debt securities issued by Channel Infrastructure NZ Limited (**Channel Infrastructure**). You give Channel Infrastructure money, and in return Channel Infrastructure promises to pay you interest and repay the money at the end of the term. If Channel Infrastructure runs into financial trouble, you might lose some or all of the money you invested.

## 1.2 About the Channel Infrastructure Group

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

The Channel Infrastructure Group primarily owns critical infrastructure, supplying the Northland and Auckland fuel markets and all jet fuel to Auckland International Airport. Utilising the deep-water harbour and jetty infrastructure at Marsden Point, 280 million litres of storage tanks, and the 170-kilometre pipeline from Marsden Point to Auckland, Channel Infrastructure receives, stores, tests and distributes fuel imported and owned by its customers. Independent Petroleum Laboratory Limited provides fuel quality testing services.

Channel Infrastructure plans to transfer some or all of its import terminal assets to Channel Terminal Services Limited (**Channel Terminal Services**) during 2022, with the remaining assets including its refining assets and liabilities remaining with Channel Infrastructure.

Channel Infrastructure is listed on the NZX Main Board and has Subordinated Notes quoted on the NZX Debt Market. As at 27 April 2022, its market capitalisation is approximately \$399 million.

## 1.3 Purpose of this Offer

The net proceeds of this Offer are to be applied towards repaying a portion of Channel Infrastructure's existing bank debt and will also provide diversification of funding that aligns with an infrastructure business. See section 4 of this product disclosure statement (**PDS**) (*Purpose of the Offer*) for further detail.

## 1.4 Key terms of the Offer

<b>Issuer</b>	Channel Infrastructure NZ Limited
Description of the Bonds	<p>Unsecured, unsubordinated, fixed rate bonds.</p> <p>See section 5 of this PDS (<i>Key features of the Bonds</i>) for more information.</p>
Offer amount	Up to \$100 million (with the ability to accept oversubscriptions of up to an additional \$25 million at Channel Infrastructure's discretion). The Offer is not underwritten.
Term	5 years, maturing on 20 May 2027.
Interest Rate	<p>The Bonds will pay a fixed rate of interest until the Maturity Date.</p> <p>The Interest Rate will be determined by Channel Infrastructure in conjunction with the Joint Lead Managers following the bookbuild and set at the sum of the Swap Rate and the Issue Margin or, if greater, any applicable minimum Interest Rate announced via NZX.</p> <p>Any such minimum Interest Rate and the indicative Issue Margin will be determined by Channel Infrastructure in conjunction with the Joint Lead Managers and (as applicable) announced via NZX on or about the Opening Date.</p> <p>The Interest Rate will be announced by Channel Infrastructure via NZX on or about the Rate Set Date.</p> <p>See section 5 of this PDS (<i>Key features of the Bonds</i>) for more information.</p>
Interest Payment Dates	Interest will be paid quarterly in arrear in equal amounts on 20 February, 20 May, 20 August and 20 November in each year (or if that day is not a Business Day, the next Business Day) until and including the Maturity Date, with the First Interest Payment Date being 20 August 2022 (with payment on 22 August 2022, being the first Business Day following the First Interest Payment Date).
Further payments, fees or charges	<p>Channel Infrastructure will pay brokerage to market participants in respect of the Offer.</p> <p>You are not required to pay any additional brokerage or any other fee or charges to Channel Infrastructure to purchase the Bonds. However, you may have to pay brokerage to the firm from whom you receive an allocation of Bonds or for the transfer of Bonds.</p> <p>Additionally, taxes may be deducted from interest payments on the Bonds. See section 7 of this PDS (<i>Tax</i>) for further details.</p>
Opening Date	Friday, 6 May 2022.
Closing Date	Friday, 13 May 2022 at 11.00am.
Minimum application amount	\$5,000 and multiples of \$1,000 thereafter.

## 1.5 Who is responsible for repaying you?

Channel Infrastructure is responsible for paying interest on, and repayment of, the Bonds.

The obligations of Channel Infrastructure to make payments with respect to the Bonds are guaranteed by the Guarantors under the Guarantee. As at the date of this PDS, Channel Terminal Services is the only Guarantor. See section 5 of this PDS (*Key features of the Bonds*) for more information.

## 1.6 How you can get your money out early

Neither you nor Channel Infrastructure can redeem the Bonds prior to the Maturity Date. However, Channel Infrastructure may be required to repay the Bonds early if there is an Event of Default (see section 5 of this PDS (*Key features of the Bonds*)).

Channel Infrastructure intends to quote these Bonds on the NZX Debt Market. This means you may be able to sell them on the NZX Debt Market before the end of their term if there are interested buyers. If you sell your Bonds, the price you get will vary depending on factors such as the financial condition of the Channel Infrastructure Group and movements in market interest rates. You may receive less than the full amount that you paid for them.

## 1.7 How the Bonds rank for repayment

On a liquidation of Channel Infrastructure, each Bond will rank as an unsecured, unsubordinated obligation of Channel Infrastructure:

- behind any secured liabilities and liabilities preferred by law;
- equally with other Bonds and equally among the rights and claims of equal ranking obligations including lenders of Channel Infrastructure's bank debt and all other unsecured, unsubordinated obligations, including trade creditors; and
- ahead of subordinated debt holders (including the Subordinated Notes) and ahead of Shareholders.

Section 5.1 of this PDS (*Ranking*) contains more information about the ranking of the Bonds.

## 1.8 No security

The Bonds are not secured against any asset of the Channel Infrastructure Group.

## 1.9 Key risks affecting this investment

Investments in debt securities have risks. A key risk is that Channel Infrastructure does not meet its commitments to repay you or pay you interest (credit risk). Section 6 of this PDS (*Risks of investing*) discusses the main factors that give rise to the risk. You should consider if the credit risk of these debt securities is suitable for you.

The interest rate for these Bonds should also reflect the degree of credit risk. In general, higher returns are demanded by investors from businesses with higher risk of defaulting on their commitments. You need to decide whether the Offer is fair.

Channel Infrastructure considers that the most significant risk factors are:

### **Terminal Services Agreements and Customer Concentration Risk**

A large proportion of revenue the Channel Infrastructure Group receives is from its three Customers under the TSAs. If a Customer fails to perform its obligations under the TSAs (including to pay fees) or if a TSA is terminated and no new customers are found, it could have a material adverse effect on its operations and financial performance including its creditworthiness.

### **Single Site / Concentration of Operations**

The Channel Infrastructure Group operates substantially from a single site at Marsden Point, near the entrance to the Whangarei Harbour. Having substantial operations on a single site means that the Channel Infrastructure Group may not be able to redirect operations to another location if operations were disrupted at the site (including the jetty). This could result in a significant impact on Channel Infrastructure's financial position and creditworthiness. Events that could cause a disruption to operations include asset damage and business interruptions resulting from natural disasters or failures of assets and other hazards (including leaks and ruptures, tanker oil spills, explosions, fires, mechanical failures, catastrophic events, and marine transportation incidents).

This summary does not cover all of the risks of investing in the Bonds. You should also read section 6 (*Risks of investing*) and section 5 of this PDS (*Key features of the Bonds*).

## 1.10 No credit rating

Channel Infrastructure's creditworthiness has not been assessed by an approved rating agency. This means that Channel Infrastructure has not received an independent opinion of its capability and willingness to repay its debts from an approved source.

## 1.11 Where you can find other market information about Channel Infrastructure

This is a short-form offer document that Channel Infrastructure is permitted to make because these Bonds rank in priority to existing quoted financial products of Channel Infrastructure. The existing quoted financial products are ordinary shares in Channel Infrastructure which are traded on the NZX Main Board and the Subordinated Notes which are traded on the NZX Debt Market. Investors should look at the market price of the Subordinated Notes in order to find out how the market assesses the returns and risk premium for those debt securities. Channel Infrastructure is subject to a disclosure obligation that requires it to notify certain material information to the NZX for the purpose of that information being made available to participants in the market. Channel Infrastructure's page on the NZX website, which includes information made available under the disclosure obligation referred to above can be found at [www.nzx.com/companies/CHI](http://www.nzx.com/companies/CHI).

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# Letter from the Chairman



Dear Investor,

On behalf of the Board, I am pleased to offer you an opportunity to invest in the unsecured, unsubordinated, fixed rate Bonds which will be issued by Channel Infrastructure NZ Limited (the **Offer**). The purpose of the Offer is to provide Channel

Infrastructure with diversification of funding that aligns with an infrastructure business with stable earnings and cash flows.

The Channel Infrastructure Group is the owner and operator of nationally strategic infrastructure, including the Marsden Point to Auckland pipeline; receiving, storing, testing and distributing transport fuels imported by its customers, safely, reliably and efficiently primarily to the Northland and Auckland markets which make up around 40% of New Zealand's fuel demand.

The import terminal system (ITS) based at Marsden Point, is expected to handle between 3 and 3.5 billion litres of transport fuels annually:

- **Supplying all of the jet fuel distributed to Auckland International Airport (AIA)**

In a "normal" (pre-COVID-19) year, around 75% of all international airline seat capacity to and from New Zealand is via AIA which means that the Channel Infrastructure Group is critically linked to New Zealand's largest expected export earner – tourism – underpinning long-term asset utilisation; and

- **Providing New Zealand's largest transport fuels storage capacity**

The shared terminal storage capacity of 180 million litres, combined with an additional 100 million litres of private storage capacity, makes Marsden Point by far the largest import terminal in New Zealand, with capacity to provide additional strategic fuel stockholdings for the country.

Channel Infrastructure has long-term contracts in place with bp, Mobil and Z Energy which incentivise the utilisation of the infrastructure through a combination of fixed and variable fees; higher take or pay commitments over the first six years supporting the funding of terminal conversion costs and allowing time for a recovery in jet fuel demand from COVID-19 impacts to occur.

These contracts, together with the significant tax losses available to Channel Infrastructure, are expected to deliver stable earnings and cash flow, with all fees subject to PPI-based indexation, which provides strong protection for our earnings in an inflationary environment.

**Channel Infrastructure's vision is to be New Zealand's leading independent fuel infrastructure company, and we have strong aspirations for growth.**

We are passionate about playing our part to keep Aotearoa moving today and our infrastructure is expected to remain relevant as New Zealand's fuel requirements shift to lower-carbon fuels in the future, with jet fuel (or a liquid alternative) demand underpinning long-term asset utilisation and our pipeline delivering fuel to Auckland at one tenth of the emissions compared to transport by road.

Channel Infrastructure recently issued its first Sustainability Report which sets out how our business will continue to contribute to the Northland community and New Zealand's energy transition in the years ahead, and how our business plans to make the most of the opportunities before us.

Channel Infrastructure is seeking to raise up to \$100 million from the Offer and may accept oversubscriptions for up to an additional \$25 million. The net proceeds of the Offer will be used to repay a portion of existing bank debt and to provide Channel Infrastructure with further diversification of funding sources.

There are risks associated with this Offer that may affect your returns and repayment of your investment in the Bonds. An overview of these risks is set out in this PDS. You should read this before deciding whether to invest in the Bonds.

I encourage you to seek financial, investment or other advice from a qualified professional adviser as you take time to consider this Offer.

On behalf of Channel Infrastructure's Directors, I welcome your participation in this Offer and your support of Channel Infrastructure's nationally strategic infrastructure business.

Yours sincerely

**Simon Allen**  
Chairman

## 2. Key dates and Offer process

The intended key dates of the Offer are as follows:

<b>Minimum Interest Rate and indicative Issue Margin announced</b>	On or about Friday, 6 May 2022.
<b>Opening Date</b>	Friday, 6 May 2022.
<b>Closing Date</b>	Friday, 13 May 2022 at 11.00am.
<b>Rate Set Date</b>	Friday, 13 May 2022.
<b>Issue Date and allotment date</b>	Friday, 20 May 2022.
<b>Expected date of initial quotation and trading of the Bonds on the NZX Debt Market</b>	Monday, 23 May 2022.
<b>Interest Payment Dates</b>	20 February, 20 May, 20 August and 20 November in each year. <sup>1</sup>
<b>First Interest Payment Date</b>	20 August 2022 (with payment on 22 August 2022, being the first Business Day following the First Interest Payment Date).
<b>Maturity Date</b>	Thursday, 20 May 2027.

The timetable is indicative only and subject to change. Channel Infrastructure may, in its absolute discretion and without notice, vary the timetable (including by opening or closing the Offer early, accepting late applications and extending the Closing Date).

If the Closing Date is extended, the Rate Set Date, the Issue Date, the expected date of initial quotation and trading of the Bonds on the NZX Debt Market, the Interest Payment Dates and the Maturity Date may also be extended. Any such changes will not affect the validity of any applications received.

Channel Infrastructure reserves the right to cancel the Offer and the issue of the Bonds, in which case all application monies received will be refunded (without interest) as soon as practicable.

<sup>1</sup>If any date on which an interest payment is due to be made is not a Business Day, payment shall instead be made on the next Business Day.

### 3. Terms of the Offer

<b>Issuer</b>	Channel Infrastructure NZ Limited
<b>Description of the Bonds</b>	<p>Unsecured, unsubordinated, fixed rate bonds.</p> <p>See section 5 of this PDS (<i>Key features of the Bonds</i>) for more information.</p>
<b>Offer amount</b>	Up to \$100 million (with the ability to accept oversubscriptions of up to an additional \$25 million at Channel Infrastructure's discretion).
<b>Issue price</b>	\$1.00 per Bond, being the Principal Amount of each Bond.
<b>Term</b>	5 years, maturing on the Maturity Date (20 May 2027).
<b>Interest Rate</b>	<p>The Bonds will pay a fixed rate of interest until the Maturity Date.</p> <p>The Interest Rate will be determined by Channel Infrastructure in conjunction with the Joint Lead Managers following the bookbuild and set at the sum of the Swap Rate and the Issue Margin or, if greater, any applicable minimum Interest Rate announced via NZX.</p> <p>A bookbuild is a process whereby a margin is determined by reference to bids from market participants for an allocation of Bonds at different margins.</p> <p>Any such minimum Interest Rate and the indicative Issue Margin will be determined by Channel Infrastructure in conjunction with the Joint Lead Managers and (as applicable) announced via NZX on or about 6 May 2022.</p> <p>The Interest Rate will be announced by Channel Infrastructure via NZX on or about the Rate Set Date.</p> <p>See section 5 of this PDS (<i>Key features of the Bonds</i>) for more information.</p>
<b>Interest Payment Dates</b>	Subject to the below, quarterly in arrear on 20 February, 20 May, 20 August and 20 November in each year (or if that day is not a Business Day, the next Business Day) until and including the Maturity Date, with the First Interest Payment Date being 20 August 2022 (with payment on 22 August 2022, being the first Business Day following the First Interest Payment Date).
<b>Interest payments and entitlement</b>	<p>Regular payments of interest on Interest Payment Dates will be of equal quarterly amounts. Any other payment of interest on the Bonds will be based on the number of days in the relevant period and a 365-day year.</p> <p>On each Interest Payment Date, interest will be paid to the person registered as the Bondholder as at the record date immediately preceding that Interest Payment Date.</p> <p>The record date for each Interest Payment Date is 5.00pm on the date that is 10 Business Days before the relevant Interest Payment Date. If the record date falls on a day which is not a Business Day, the record date will be the immediately preceding Business Day.</p>

<b>Ranking</b>	<p>On a liquidation of Channel Infrastructure, each Bond, together with any unpaid interest, will rank:</p> <ul style="list-style-type: none"> <li>• behind any secured liabilities and liabilities which are preferred by law;</li> <li>• equally with other Bonds and equally among the rights and claims of equal ranking obligations including the lenders of Channel Infrastructure's bank debt and all other unsecured, unsubordinated obligations, including trade creditors; and</li> <li>• ahead of holders of subordinated debt (including the Subordinated Notes) and ahead of Shareholders.</li> </ul> <p>On a liquidation of a Guarantor, the obligations of the Guarantor under the Guarantee will rank as unsecured and unsubordinated obligations of the Guarantor.</p> <p>More information on how the Bonds rank is in section 5 of this PDS (<i>Key features of the Bonds</i>).</p>
<b>Early redemption</b>	<p>Bondholders will have no right to require Channel Infrastructure to redeem their Bonds prior to the Maturity Date. However, Channel Infrastructure may be required to repay the Bonds early if there is an Event of Default (as described below).</p> <p>See section 5 of this PDS (<i>Key features of the Bonds</i>) for more information.</p>
<b>Events of Default</b>	<p>If an Event of Default occurs and is continuing, the Supervisor may in its discretion, and must upon being directed to do so by an Extraordinary Resolution of Bondholders, declare the Bonds together with accrued interest to be due and payable.</p> <p>The Events of Default are set out in in clause 8 of the Supplemental Trust Deed and are summarised in section 5 of this PDS (<i>Key features of the Bonds</i>).</p>
<b>Financial covenants</b>	<p>The Supplemental Trust Deed contains the following financial covenants:</p> <ol style="list-style-type: none"> <li>the ratio of EBITDA of the consolidated Channel Infrastructure Group to Net Interest Expense of the consolidated Channel Infrastructure Group (calculated for the 12- month period ending on each relevant test date) will not be less than 2.5:1 on two successive semi-annual test dates; and</li> <li>Net Debt of the consolidated Channel Infrastructure Group to Net Debt plus Equity does not at any time exceed 60%.</li> </ol> <p>The first test date for the financial covenants is 31 December 2022.</p>
<b>Opening Date</b>	Friday, 6 May 2022.
<b>Closing Date</b>	Friday, 13 May 2022 at 11.00am.
<b>Minimum application amount</b>	\$5,000 and multiples of \$1,000 thereafter.
<b>Who may apply</b>	<p>The Offer will be open to institutional investors and members of the public who are resident in New Zealand. More information about the restrictions can be found in section 8 of this PDS (<i>Selling restrictions</i>).</p> <p>All of the Bonds offered under the Offer have been reserved for subscription by clients of the Joint Lead Managers, Primary Market Participants and other approved financial intermediaries invited to participate in the bookbuild.</p> <p>There will be no public pool for the Bonds.</p>

<b>How to apply</b>	<p>Application instructions are set out in section 12 of this PDS (<i>How to apply</i>).</p> <p>Channel Infrastructure reserves the right to refuse all or any part of any application for Bonds under the Offer without giving a reason.</p>
<b>No underwriting</b>	The Offer is not underwritten.
<b>Brokerage</b>	<p>Channel Infrastructure will pay brokerage to market participants in respect of the Offer.</p> <p>You are not required to pay any additional brokerage or any other fee or charges to Channel Infrastructure to purchase the Bonds. However, you may have to pay brokerage to the firm from whom you receive an allocation of Bonds, or for the transfer of Bonds.</p>
<b>Further payments, fees or charges</b>	<p>Taxes or approved issuer levy may be deducted from interest payments on the Bonds. You will also be required to indemnify Channel Infrastructure if it becomes liable to make any payment of, or on account of, tax payable by you.</p> <p>See section 7 of this PDS (<i>Tax</i>) for more information.</p>
<b>Quotation</b>	<p>Application has been made to NZX for permission to quote the Bonds on the NZX Debt Market and all the requirements of NZX relating to that quotation that can be complied with on or before the date of distribution of this PDS have been duly complied with. However, the Bonds have not yet been approved for trading and NZX accepts no responsibility for any statement in this PDS. NZX is a licensed market operator, and the NZX Debt Market is a licensed market, under the FMCA.</p> <p>NZX ticker code CHI020 has been reserved for the Bonds.</p>
<b>Transfer restrictions</b>	Channel Infrastructure may decline to accept or register a transfer of the Bonds if the transfer would result in the transferor or the transferee holding or continuing to hold Bonds with a Principal Amount of less than \$5,000 (if not zero) or if the transfer is not in multiples of \$1,000.
<b>Selling restrictions</b>	The Offer is subject to certain selling restrictions, and you will be required to indemnify certain people if you breach these. More information on this can be found in section 8 of this PDS ( <i>Selling restrictions</i> ).
<b>Governing law</b>	New Zealand.
<b>Other Documents</b>	<p>The terms of the Bonds and other key terms of the Offer are set out in the Master Trust Deed, as supplemented by the Supplemental Trust Deed.</p> <p>The Supervisor will also have the benefit of the Guarantee under the Negative Pledge Deed.</p> <p>You should read these documents. Copies may be obtained from the Disclose Register at <a href="http://www.disclose-register.companiesoffice.govt.nz">www.disclose-register.companiesoffice.govt.nz</a>.</p>
<b>Supervisor</b>	The New Zealand Guardian Trust Company Limited.
<b>Securities Registrar</b>	Computershare Investor Services Limited.

## 4. Purpose of the Offer

The net proceeds of this Offer are to be applied towards repaying a portion of Channel Infrastructure's existing bank debt and will also provide Channel Infrastructure with diversification of funding that aligns with an infrastructure business. This will not change, irrespective of the total amount that is raised.

The Offer is not underwritten and is not conditional on raising a minimum amount.



## 5. Key features of the Bonds

A number of the key features of the Bonds are described in section 3 of this PDS (*Terms of the Offer*). The other key features of the Bonds are described below.

The information in this section is a summary of certain terms of the Supplemental Trust Deed and the Negative Pledge Deed. Copies of the Supplemental Trust Deed and the Negative Pledge Deed are included on the Disclose Register at

**[www.disclose-register.companiesoffice.govt.nz](http://www.disclose-register.companiesoffice.govt.nz)**



## 5.1 Ranking

### Ranking on a liquidation

The Bonds constitute unsecured, unsubordinated debt obligations of Channel Infrastructure. On a liquidation of Channel Infrastructure amounts owing to Bondholders rank equally with all other unsecured and unsubordinated obligations of Channel Infrastructure.

Amounts owing under the Guarantee constitute unsecured, unsubordinated debt obligations of each Guarantor and on a liquidation of a Guarantor, amounts owing to Bondholders under the Guarantee rank equally with all other unsecured unsubordinated obligations of that Guarantor.

The below diagram summarises the ranking of the Bonds on a liquidation of Channel Infrastructure (formerly The New Zealand Refining Company Limited), based on the financial position of Channel Infrastructure as at 31 December 2021 which was reflective of the refining business rather than the import terminal business. Therefore, the table includes amounts which relate to excise duty previously payable by Channel Infrastructure on behalf of its customers, provisions for import terminal conversion costs expected to be incurred, and carbon units to be surrendered in relation to refinery operations. In the event of a liquidation of Channel Infrastructure, the actual priority amounts may differ.

Diagram showing ranking of the Bonds<sup>1</sup>

RANKING	RANKING ON LIQUIDATION	TYPE OF LIABILITY/EQUITY	AMOUNT
Higher ↑ ↓ Lower	Liabilities that rank <b>ahead</b> of the Bonds	Secured liabilities and liabilities preferred by law <sup>2</sup> (for example, Inland Revenue and employee entitlements)	\$121 million <sup>3</sup>
	Liabilities that rank <b>equally</b> with the Bonds	These liabilities comprise: <ul style="list-style-type: none"> <li>• Bonds \$100 million<sup>4</sup></li> <li>• Bank borrowings \$25 million</li> <li>• Other unsubordinated and unsecured liabilities not referred to above (including trade creditors and other unsubordinated debt) \$242 million<sup>5</sup></li> </ul> Total liabilities that rank equally with the Bonds:	\$367 million
	Liabilities that rank <b>below</b> the Bonds	The Subordinated Notes quoted on the NZX Debt Market	\$75 million
	Equity <sup>6</sup>	Shares, reserves and retained earnings	\$492 million

<sup>1</sup> Amounts shown are indicative. They are based on the financial position of Channel Infrastructure as at 31 December 2021, and are adjusted to reflect the changes in the value of assets and liabilities that Channel Infrastructure reasonably expects to result from the issue of the Bonds. Amounts are subject to rounding adjustments.

<sup>2</sup> There are typically other preferred or secured claims which arise when a company is liquidated which are not possible to foresee and cannot therefore be quantified.

<sup>3</sup> This value includes approximately \$114 million of excise duty that Channel Infrastructure paid on behalf of its customers while it was operating as a refinery. An equivalent amount is included on Channel Infrastructure's balance sheet as a receivable. As an import terminal operation, Channel Infrastructure no longer pays excise duty on behalf of its customers and therefore this amount is expected to reduce to zero within a few months after the date on which Channel Infrastructure commenced ITS services (and the equivalent receivable on its balance sheet will also reduce to zero), being 1 April 2022.

<sup>4</sup> For the purposes of these calculations an issue size of \$100 million of Bonds has been assumed. If the issue size is more or less than \$100 million, bank borrowings would reduce or increase accordingly. This would not impact the overall liabilities that rank equally with the Bonds as the proceeds of the Bonds are to be applied towards repaying existing bank borrowings, which rank equally with the Bonds. It is noted that bank borrowings are expected to increase in 2022 due to the conversion from a refinery to an import terminal.

<sup>5</sup> This value includes approximately \$166 million of provisions relating to the conversion from a refinery to an import terminal (which are disclosed in Note 15 of the financial statements for the year ended 31 December 2021, and which may or may not be payable on a liquidation), approximately \$25 million of trade creditors, approximately \$18 million of liabilities associated with carbon units to be surrendered in relation to the refinery operations, approximately \$8 million of liabilities in respect of the defined benefit pension and medical plans. This excludes deferred tax liability of \$101 million which is not expected to be payable on a liquidation.

<sup>6</sup> The amount of equity stated above includes Channel Infrastructure's Shares.

## 5.2 Restrictions on creating further liabilities

The Channel Infrastructure Group may, at any time after the issue of the Bonds (without requiring the consent of Bondholders), borrow money or otherwise create further liabilities from time to time that rank equally with or in priority to the Bonds, provided it complies with the restrictions below. These further liabilities may include, for example, further bonds or new borrowing facilities with banks.

### Financial covenants

Under the Supplemental Trust Deed, Channel Infrastructure gives the following financial covenants to the Supervisor:

- (a) the ratio of EBITDA of the consolidated Channel Infrastructure Group to Net Interest Expense of the consolidated Channel Infrastructure Group (calculated for the 12 month period ending on each relevant test date) will not be less than 2.5:1 on two successive semi-annual test dates; and
- (b) Net Debt of the consolidated Channel Infrastructure Group to Net Debt plus Equity does not at any time exceed 60%.

For the purposes of the above financial covenants, EBITDA is calculated by starting with EBIT and adjusting to add back depreciation and amortisation. EBIT means consolidated net profit/loss after tax for that period (excluding (by way of subtracting or adding back) interest expense, income tax expense, equity accounted gains or losses, gains or losses attributable to minority interests, asset write-downs, impairment or revaluations (or their reversals), gains or losses on asset disposals, unrealised gains or losses arising from any derivative transaction), any income or charge attributable to a post-employment benefit scheme and employee share scheme and extraordinary gains or losses (including restructuring costs associated with the conversion to an import terminal).

Net Debt is calculated as the total amount of financial indebtedness that would be disclosed on its balance sheet less cash and cash equivalents and Equity is the amount by which Total Tangible Assets of the consolidated Channel Infrastructure Group exceeds its Total Liabilities. Total Tangible Assets is the aggregate amount of all assets which would be disclosed on its balance sheet (excluding intangible assets or revaluations of derivative transactions) and Total Liabilities is the aggregate amount

of all liabilities (excluding contingent liabilities and derivative transactions) which would be disclosed on its balance sheet.

The first test date for the financial covenants is 31 December 2022.

The description set out above is only a summary of the financial covenants and the full details can be found in clause 6 of the Supplemental Trust Deed. The capitalised terms used in this section 5.2 refer to defined terms in the Supplemental Trust Deed and the Negative Pledge Deed (to the extent not otherwise defined in the Glossary).

### Other restrictions on borrowing

Certain terms contained in Channel Infrastructure's other funding documents also indirectly limit its ability to borrow. Channel Infrastructure is planning on commencing a refinancing process of its bank borrowings during the 2022 calendar year and therefore expects its bank funding documents to change as a result. Its current bank funding documents contain the following financial covenants:

- the ratio of bank debt to the sum of bank debt and shareholder funds for Channel Infrastructure must not be greater than 45%;
- the ratio of EBITDA as defined in the bank funding documents to Interest Expense as defined in the bank funding documents must not be less than 4.0 times; and
- the ratio of EBITDA as defined in the bank funding documents to Total Interest Expense as defined in the bank funding documents (which is the same as Interest Expense but includes any interest or deferred interest paid with respect to the Subordinated Notes or similar instruments) must not be less than 2.0 times.

Neither Bondholders nor the Supervisor have the benefit of the covenants given in favour of Channel Infrastructure's bank lenders and they may therefore be amended or waived by the relevant bank lenders. Channel Infrastructure does not have to consult or notify Bondholders or the Supervisor of any actual or potential amendments or waivers under the bank funding documents. If a member of the Channel Infrastructure Group failed to comply with these provisions and the bank lenders accelerated their funding, it may (subject to meeting certain thresholds) cause an Event of Default. The Events of Default are set out in full in clause 8 of the Supplemental Trust Deed.

## 5.3 Restrictions on granting security

Channel Infrastructure and each Guarantor have agreed with the beneficiaries under the Negative Pledge Deed that they will not create or permit to subsist security over their assets other than certain permitted security interests which are described in the Negative Pledge Deed. These permitted security interests include, for example, security interests arising by operation of law or securing certain taxes or other governmental or regulatory levies, duties or imposts, rights of set off and netting and deferred purchase or title retention in the ordinary course of business where the amount secured is not outstanding for more than 120 days. Channel Infrastructure and each Guarantor may, in addition, from time to time create or permit to subsist other security interests over their assets, provided that the aggregate principal amount secured by all such other security interests does not exceed 7.5% of the Total Tangible Assets of the consolidated Channel Infrastructure Group. This is not a complete list of the circumstances in which Channel Infrastructure or a Guarantor may grant security. Full details can be found in the Negative Pledge Deed.

Under its current bank funding documents, Channel Infrastructure and each Guarantor have agreed similar (but more restrictive) undertakings to those set out above that restrict the ability of the Channel Infrastructure Group to grant new security interests that rank equally with, or in priority to, amounts owed to Bondholders in a liquidation of Channel Infrastructure (although these are not given in favour of the Supervisor or the Bondholders and they may therefore be amended or waived by the relevant bank lenders).

## 5.4 Guarantees

The Bonds are guaranteed by the Guarantors under the Guarantee.

Under the Guarantee, each Guarantor jointly and severally guarantees to the Supervisor the payment of all amounts owed to it and the Bondholders in respect of the Bonds.

There are no limits on the obligations of any Guarantor in respect of the amounts owing under the Guarantee and there are no conditions to the Guarantee. The obligations of the Guarantors under the Guarantee are unsecured.

Not every member of the Channel Infrastructure Group is required to be a Guarantor. Under the Negative Pledge Deed, Channel Infrastructure must ensure that:

- at all times the Total Tangible Assets of the Guaranteeing Group will not be less than 85% of the Total Tangible Assets of the consolidated Channel Infrastructure Group; and
- on each test date, EBITDA of the Guaranteeing Group will not be less than 85% of EBITDA of the consolidated Channel Infrastructure Group.

For full details of these provisions, see clause 5 of the Negative Pledge Deed. A summary of the definition of EBITDA is set out above under the heading financial covenants in section 5.2 of this PDS (*Restrictions on creating further liabilities*) and the other capitalised terms used in this section 5.4 refer to defined terms in the Supplemental Trust Deed and the Negative Pledge Deed (to the extent not otherwise defined in the Glossary).

As at the date of this PDS, Channel Terminal Services is the only Guarantor. Channel Terminal Services is a member of the Channel Infrastructure Group. Members of the Channel Infrastructure Group may cease to be Guarantors from time to time in accordance with the terms of the Negative Pledge Deed.

## 5.5 Events of Default

If an Event of Default occurs and is continuing under the Trust Deed, the Supervisor may in its discretion, and must upon being directed to do so by an Extraordinary Resolution of Bondholders, declare the Bonds together with accrued interest to be immediately due and payable.

The Events of Default in the Trust Deed are:

- failure by Channel Infrastructure or a Guarantor to make a payment under a Transaction Document (which includes failure to make payment under the Bonds), subject to certain grace periods;
- the Issuer fails to comply with the financial covenants set out in the Supplemental Trust Deed;
- any material misrepresentation by Channel Infrastructure or a Guarantor under a Transaction Document, subject to certain grace periods;
- a breach by Channel Infrastructure or a Guarantor of a provision of a Transaction Document in a material respect, subject to certain grace periods;
- indebtedness of Channel Infrastructure or any other Guarantor for borrowed money in excess of \$10 million in aggregate is not paid within any applicable grace period or (if no grace period applies) when due or is accelerated by being declared due and payable before it would otherwise have been due by reason of any event of default, termination event or equivalent or analogous event; and
- an Insolvency Event occurs in respect of Channel Infrastructure or a Guarantor.

Channel Infrastructure must defer interest on the Subordinated Notes if an Event of Default is continuing.

## 5.6 Other relevant information about the Trust Deed

The Trust Deed also contains a number of other provisions, including provisions relating to:

- the role of the Supervisor and the powers and duties of the Supervisor;

- the process for replacement of the Supervisor;
- the right of the Supervisor to be indemnified;
- the payment of fees, expenses and other amounts owing to the Supervisor (including that amounts owing to the Supervisor are, on a default, paid from the proceeds of enforcement before payments to Bondholders);
- holding meetings of Bondholders;
- the process for Bondholders to sell or transfer their Bonds; and
- the process for amending the Trust Deed. To summarise, the Trust Deed can be amended:
  - with the consent of the Supervisor;
  - by the Financial Markets Authority under section 109 of the FMCA; or
  - under section 22(7) or 37(6) of the Financial Markets Supervisors Act 2011 or any other enactment.

The Supervisor must only consent to an amendment if:

- the amendment is approved by an extraordinary resolution of the holders of the debt securities (or each class of holders that is or may be adversely affected by the amendment or replacement); or
  - the Supervisor is satisfied that the amendment or replacement does not have a material adverse effect on the Bondholders.
- You should read clause 19 of the Master Trust Deed for further information.

You are not entitled to enforce any of your rights or remedies under the Trust Deed directly against Channel Infrastructure unless the Supervisor fails to enforce such rights or remedies within a reasonable period after having become bound to do so in accordance with the Trust Deed. The only circumstance in which the Bonds can be declared redeemable for a default are the specific Events of Default (see the information under the heading "Events of Default" for further information).

# 6. Risks of investing

## 6.1 Introduction

This section describes the following potential key risk factors:

- general risks associated with an investment in the Bonds; and
- significant specific risks relating to Channel Infrastructure's creditworthiness.

Key risks outlined in this section are based on an assessment of the probability of a risk occurring and potential impact (individually or in combination with other key risks) at the date of this PDS. There is no guarantee or assurance that key risks will not change, alter in their significance or that other risks will not emerge.

Where practicable, Channel Infrastructure seeks to implement risk mitigation strategies to minimise exposure to some of the risks outlined below. However, there can be no assurance that these risk mitigation strategies will fully protect Channel Infrastructure from all or any risks.

Investors should carefully consider these risk factors (together with the other information in this PDS and on the Disclose Register) before deciding to invest in the Bonds. This summary does not cover all of the risks of investing in the Bonds.

Before making any investment decision it is important that investors consider the suitability of an investment in the Bonds in light of their own individual risk profile for investments, investment objectives and personal circumstances (including financial and taxation issues). The risks described in this section do not take account of the personal circumstances, financial position or investment requirements of any particular person other than Channel Infrastructure. You can seek the advice of a financial adviser to help you make an investment decision.

## 6.2 General Risks

An investment in the Bonds is subject to the following general risks.

### General risks related to the insolvency of Channel Infrastructure

If Channel Infrastructure becomes insolvent, there may be a shortfall of funds to pay all amounts ranking ahead of and equally with the Bonds. There is also a risk that Channel Terminal Services or any other Guarantor is unable to meet its obligations under the Guarantee if Channel Infrastructure defaults. If this occurs, this would result in you not receiving a full return of the Principal Amount and/or any interest due and unpaid at that time.

Please refer to section 5 of this PDS (*Key features of the Bonds*) for more information on the ranking of the Bonds in the event of the insolvency of Channel Infrastructure.

### General risks related to the market for the Bonds

If Bondholders wish to sell their Bonds before the Maturity Date:

- **Market price:** The price at which Bondholders are able to sell their Bonds may be less than the amount they paid for the Bonds. The price of the Bonds may be affected by a number of factors, both dependent on, or independent of, Channel Infrastructure's creditworthiness. Independent factors may include the time remaining to the Maturity Date, the outstanding aggregate Principal Amount of the Bonds, the level of demand for the Bonds offered for sale in the secondary market from time to time, any legal restrictions limiting demand for Bonds, the availability of comparable securities, the level, direction and volatility of market interest rates and market conditions generally. For example, if market interest rates go up, the market value of the Bonds would typically be expected to go down and vice versa.

- **Liquidity:** The Bondholders may be unable to sell their Bonds at all due to lack of demand or because the Bonds cease to be listed on the NZX Debt Market. There can be no assurance that a secondary market for the Bonds will develop or of the liquidity of such a market. In the absence of a liquid secondary market for the Bonds, Bondholders may not be able to sell their Bonds readily or at prices that will enable them to realise a yield comparable to that of similar instruments, if any, within a developed secondary market. Even following the development of a secondary market, and depending on market conditions and other factors, Bondholders seeking to sell relatively small or relatively large amounts of Bonds may not be able to do so at prices comparable to those that may be available to other Bondholders.

Due to these factors the Bonds may not be readily saleable, their value may fluctuate over time and such fluctuations may be significant and could result in losses to a Bondholder who wishes to sell Bonds prior to the Maturity Date.

### 6.3 Specific risks relating to Channel Infrastructure's creditworthiness

Channel Infrastructure considers that the following circumstances are those which could significantly increase, either individually or in combination, the risk that Channel Infrastructure may default on its payment obligations under the Bonds. Channel Infrastructure, as Channel Terminal Services' holding company, will largely derive its income from interest and dividends paid by Channel Terminal Services to Channel Infrastructure.

#### Terminal Services Agreements and Customer Concentration Risk

A large proportion of the revenue that the Channel Infrastructure Group receives is from its three Customers under the TSAs.

The TSAs contain a combination of fixed and throughput-based fees to incentivise utilisation of the infrastructure. The minimum take or pay commitments provide certainty of earnings (in particular, allowing for the recovery of jet fuel demand to pre-COVID-19 levels), and are intended to be sufficient to cover the cost of the Channel Infrastructure Group's operations (including operating costs, maintenance capital expenditure and financing costs) as well as the funding of import terminal conversion costs.

The importance of the TSAs does however mean that if a Customer fails to perform its obligations under the TSAs (including to pay fees) or if a TSA is terminated and no new customers are found, it could have a material adverse effect on Channel Infrastructure's business and financial performance including its creditworthiness.

A reason a Customer may fail to comply with its obligations under a TSA could be due to the insolvency of that Customer. There are a variety of factors that could impact a Customer's solvency. These include supply chain disruptions, environmental events, competition risks, change in fuel demand, as well as the operation of downstream infrastructure, such as the Wiri Terminal (where the Marsden Point to Auckland pipeline ends) and the Auckland joint user hydrant installation terminal, otherwise known as the JUHI (airport storage facility), change in the regulatory environment and other factors which impact the ongoing viability of a Customer.

The TSAs have an initial term of 10 years, with two five-year rights of renewal at the Customer's option. If Customers do not wish to renew the TSA at the end of the initial term, they must give Channel Terminal Services two years' notice.

The circumstances under which a Customer may terminate a TSA prior to the end of its term include:

- material breaches;
- default in payment of money;
- unauthorised assignments of the TSA;
- insolvency events; and
- extended force majeure events.

Channel Terminal Services and Channel Infrastructure's primary obligations under the TSAs are to make the ITS available and to provide import terminal and ancillary services to Customers, being principally the berthing of ships at the Marsden Point jetty and discharge of transport fuels into tanks at Marsden Point, the conduct of fuel quality testing services as requested by Customers, and the distribution of the Customers' fuel through the Marsden Point to Auckland pipeline and the truck loading facility.

Channel Terminal Services and Channel Infrastructure also have an obligation to maintain the ITS to the standard of a reasonable and prudent operator, including maintenance and cleaning of tanks utilised for storage of the Customers' product at the Marsden Point site. Subject to the terms of the TSAs, Channel Terminal Services and Channel Infrastructure may be liable to compensate Customers for contamination or loss of the Customers' product

while it is in the custody of Channel Terminal Services or if the ITS assets are unavailable.

To mitigate the risks associated with termination of a TSA:

- the TSAs permit Channel Infrastructure to make unutilised Marsden Point to Auckland pipeline capacity available to new customers after 1 April 2025;
- Channel Terminal Services provides dedicated private storage services which enables further freight cost optimisation for its TSA customers as a result of increased product supply scale and flexibility, which (absent economically viable alternative infrastructure systems) incentivises the use of the infrastructure and provides Channel Terminal Services with an additional income stream;
- the TSAs contain remedy periods for material breaches. Neither Channel Terminal Services nor Channel Infrastructure is liable to the Customers for a range of permitted interruptions or where force majeure relief applies;
- the TSAs do not permit termination for convenience not relating to a termination event described above;
- as at the date of this PDS, Channel Infrastructure is not aware of an alternative infrastructure system that could provide an economically viable transport alternative for the volume of fuel transported into the main Auckland market via the Marsden Point to Auckland pipeline; and
- Channel Infrastructure has set its long-term capital structure target to ensure it has access to committed liquidity.

In addition, Channel Infrastructure and Channel Terminal Services' liability under the TSAs is capped, and indirect and consequential losses are excluded, other than in circumstances of gross negligence or wilful misconduct.

### **Cost overruns and conversion execution risk**

Total cash costs (operating and capital) of converting from a refinery to an import terminal are expected to be in the range of \$200 to \$220 million over 5–6 years.

The ranges given above includes budget contingencies, but excludes the demolition of refining plant which is expected to occur not earlier than 10 years after the conversion date.

Channel Infrastructure has also committed to make private storage tanks available to Customers for use over the next two years at an estimated capital cost of \$45 to \$50 million. Failure to meet this commitment could lead to claims against Channel Infrastructure.

A significant increase in conversion or private storage costs could have an impact on Channel Infrastructure's financial position. Cost overruns and delays could come as a result of change in scope, inflationary pressures, supply-chain delays or skills shortages resulting from COVID-19 and associated border closures.

Contingency plans are in place to mitigate these impacts and an assessment of potential cost impacts of disruption due to the COVID-19 Omicron variant has been undertaken which indicates that current project contingencies should adequately cover the potential impacts.

With border restrictions currently easing Channel Infrastructure is working with the Ministry of Business, Innovation and Employment to facilitate contractor skilled worker visas. Additionally, there is flexibility in some project timelines and work is being rescheduled where possible to address resourcing constraints. Where possible, long-lead items have been ordered well in advance.

Channel Infrastructure also has access to committed liquidity which can be used to fund conversion cost increases and Channel Infrastructure can tolerate significant interest rate movements.

### **Change in demand for fuels**

Refined oil products may be displaced or suffer reduced demand due to a variety of factors including unaffordability, increased access to, or adoption of, new technologies (for example, there may be a more rapid increase in the uptake of alternative fuel vehicles, such as electricity, biofuels, hydrogen, or gas-powered vehicles), products and services, fuel efficiency improvements or reduction in demand as a result of external events leading to reduced travel and tourism (such as pandemics, war or natural disaster events) or in the interests of minimising potential harmful impacts to the environment. Recovery of jet fuel demand following the COVID-19 pandemic may also take longer than expected.

Transition to lower-carbon fuels may occur more quickly than expected as a result of climate change. Climate change risks are set out in more detail below.

The variable fees under the TSAs are dependent on the volume and product type distributed through the ITS.

As such any decrease in the demand for refined oil products in New Zealand could adversely impact Channel Infrastructure's revenue. To mitigate this risk, the TSAs include minimum take or pay fees, which exceed the expected level of ongoing operating and capital costs of operating the ITS.

## Single Site / Concentration of Operations

The Channel Infrastructure Group operates substantially from a single site at Marsden Point, near the entrance to the Whangarei Harbour. Having substantial operations on a single site creates a risk in that the Channel Infrastructure Group would not be able to redirect operations to another location, in the event that, for any reason, operations were disrupted at the site (including the jetty).

In particular, the following events could cause a disruption to the Channel Infrastructure Group's operations at Marsden Point:

### 1. High Hazard Industry

The nature of many of the Channel Infrastructure Group's operations are inherently hazardous. These hazards include, but are not limited to, pipeline and storage tank leaks and ruptures, tanker oil spills, explosions and fires, mechanical failures, catastrophic events, and marine transportation incidents (such as tankers damaging the jetty).

The above hazards, whether due to the actions or omissions of a member of the Channel Infrastructure Group or a third party, or act of God (such as severe weather events or natural disaster), may cause personal injury and/or loss of life, damage to property and contamination of the environment, which may result in the suspension of operations (and ultimately a material breach under a TSA) and the imposition of civil or criminal penalties, including fines, expenses for remediation claims brought by the governmental entities or third parties and first party losses of income, clean-up costs and reconstruction costs, or may lead to additional regulatory requirements being imposed at increased costs or impacting its ability to operate (temporarily or permanently), which may adversely impact Channel Infrastructure's financial position, reputation and potentially its creditworthiness.

The risks associated with the marine operations are that: (a) a product tanker could hit and cause damage to the jetty rendering it inoperable, (b) a shipping accident could result in a port blockage and (c) the discharge (and loading) of product tankers at the jetty may cause pollution resulting in a significant disruption to the Channel Infrastructure Group's business, together with remediation costs and fines, all of which could affect Channel Infrastructure's financial position and creditworthiness.

The Channel Infrastructure Group has adopted a range of preventative barriers using well established engineering, inspection, incident response and process safety management techniques and training, as well as business continuity plans, system configuration, and security measures, to deliver what it believes are robust and reliable management systems. The focus is to achieve continued process safety, maintain and improve reliability and integrity, and optimise operating costs whilst meeting obligations under the TSAs.

### 2. Natural Perils

Asset damage and business interruption resulting from natural disasters such as a tsunami or earthquake could potentially result in a significant impact on Channel Infrastructure's financial position and creditworthiness.

The occurrence of these natural disasters could cause significant disruption to operations and consequent financial impact on revenue and expenses in repairing damage. However, this is of particular significance to the Channel Infrastructure Group because it operates substantially from a single site and distributes the vast majority of fuel through the one pipeline to Auckland. Therefore, these events can be especially significant for the Channel Infrastructure Group.

- Tsunami – the location of the import terminal at the entrance to the Whangarei Harbour means that it is vulnerable to the risk of a tsunami and flooding of the site could result in asset damage and business disruption. A 2013 study by New Zealand's Institute of Geological and Nuclear Sciences (**GNS**) reported that the Northland coastline in the vicinity of the Marsden Point import terminal could expect to experience a 3.8 – 6.2 metre tsunami (16<sup>th</sup> to 84<sup>th</sup> percentile) in a 500-year return period. The import terminal is situated 4.3 metres above mean sea level and is protected by a headland at the

harbour entrance and a fore-dune barrier of between 6 to 12 metres. Rising sea levels resulting from climate change may in the future reduce the effectiveness of the fore-dune barrier and necessitate strengthening.

- Earthquake – an earthquake of strong magnitude could render the Channel Infrastructure Group's plant and equipment, tanks and the Marsden Point to Auckland pipeline unsafe to operate, resulting in a business disruption. According to a 2007 GNS report and a risk assessment undertaken in 2022, the Marsden Point site is located in a low seismicity region. Accordingly, the likelihood of a large scale earthquake at Marsden Point would appear to be lower than elsewhere in New Zealand – although it remains a possibility given New Zealand's overall seismic risk.

Channel Infrastructure maintains material damage and business interruption insurance for property damage and consequential business interruption as a financial mitigation of these risks. As mentioned above, the TSAs also contain remedy periods for material breaches and neither Channel Infrastructure nor Channel Terminal Services are liable to the Customers for permitted interruptions or where force majeure relief applies (noting that force majeure relief may have an impact on the amounts of fixed fees, including the take or pay commitments, earned by Channel Terminal Services).

## Cyber security and IT

The Channel Infrastructure Group's pipeline and terminal operations are heavily reliant on information technology systems for the efficient and timely movement of products.

The systems involved include servers, storage, databases and telecommunications infrastructure, as well as software applications and control systems at the terminal operations, noting that – as part of the business transition to an import terminal – some of the systems are subject to an upgrade or replacement, which may involve data migration.

While these systems are subject to regular review and maintenance, unauthorised access to or a breach or failure of the Channel Infrastructure Group's IT infrastructure due to cyber-attacks, negligence, system error or other actions could disrupt the Channel Infrastructure Group's operations and result in the loss or misuse of data or sensitive information, loss of revenue, injury to people, harm to the environment or Channel Infrastructure Group's assets, legal or

regulatory breaches and potential legal liability. Individually or collectively, such effects could adversely affect Channel Infrastructure Group's profitability and, potentially, its creditworthiness.

Certain systems are also operated or maintained by third parties whom the Channel Infrastructure Group does not control, and the failure of third parties to effectively or efficiently perform such services may disrupt the Channel Infrastructure Group's operations and/or cause harm to its reputation. Further, the Channel Infrastructure Group's assets could be a strategic target as energy-related assets and transportation assets, so they may be at greater risk of future cyber-attacks than other targets in New Zealand.

To mitigate this risk, the Channel Infrastructure Group conducts regular review and maintenance, and active monitoring of its IT and control system infrastructure.

## Climate Change

There is significant and growing public concern about the environmental impact of climate change, and a number of national governments, including the New Zealand Government (through the Climate Change Commission), have introduced, or are contemplating the introduction of, regulatory responses to greenhouse gas emissions to address the impacts of climate change.

Through the transition from refinery to import terminal operations, Channel Infrastructure has significantly reduced its Scope 1 and 2 CO<sub>2</sub> emissions. However, its infrastructure continues to be utilised to distribute refined oil products. As such it is exposed to various indirect impacts of climate change, including reduced demand for transport fuels. Refer to risk titled, "Change in demand for fuels".

Other indirect impacts of climate change that Channel Infrastructure is exposed to includes, but is not limited to the following:

- negative public attitude towards fossil fuels and increasing environmental activism;
- government incentives for alternative fuels, or different pacing of policy development in New Zealand compared to other regions, which could result in volatile supply/demand dynamics across the transport fuel sector;
- as investing in low emissions businesses becomes more prevalent, Channel Infrastructure's social licence to operate and access to equity and debt funding may be adversely impacted; and

- the operation of an import terminal at the entrance of the Whangarei harbour is vulnerable to extreme weather events, such as storm surge or storm tide events, which are expected to increase in frequency and severity over time due to climate change. In addition, chronic impacts such as rising sea levels may reduce future effectiveness of the natural fore-dune barrier protecting the Marsden Point site.

Channel Infrastructure has published a Sustainability Report which describes its approach to managing the risks and opportunities posed by climate change in more detail, and includes a Climate Change Position Statement setting out its commitments to take action.

## Regulatory Change

The Channel Infrastructure Group operates in a highly regulated business and operating environment and is therefore subject to the risk of regulatory change which could have an impact on Channel Infrastructure's financial position and potentially its creditworthiness.

### Resource Consent

Channel Infrastructure's operations are subject to maintaining its resource consent. As part of the consent conditions, Channel Infrastructure is committed to continuing to maintain the current high level of environmental standards. Environmental measures at Marsden Point include operation of a groundwater hydraulic containment system and hydrocarbon recovery

program reducing the extent of legacy contamination over time as part of the ongoing remediation of the site.

A breach of its resource consent could result in sanctions against Channel Infrastructure, including fines and revocation of consent. If Channel Infrastructure was to lose its resource consent, it could mean that Channel Terminal Services and/or Channel Infrastructure would not be able to comply with their obligations under a TSA.

Channel Infrastructure's resource consent was recently renewed for a 35 year term. Channel Infrastructure expects to be able to operate within the conditions of its resource consent.

### Other regulatory changes

The transport fuel sector has seen an increase in government regulation in recent years, including in relation to pricing and access to infrastructure. These changes have not impacted the Channel Infrastructure Group as it does not participate in wholesale or retail fuel markets.

However, if future changes were to occur impacting Channel Infrastructure's operations, that could have an impact on Channel Infrastructure's financial position and potentially its creditworthiness.

Channel Infrastructure is not currently aware of any such changes and has processes in place to monitor new regulation.

This PDS does not cover all the risks of investing in the Bonds.



# 7. Tax

The returns on Bonds will be affected by taxes. The information in this section is based on the law in force in New Zealand at the date of this PDS. The information does not constitute taxation advice to any Bondholder, is general in nature and limited to consideration of New Zealand taxation impacts only.

## 7.1 Resident withholding tax

If you are resident in New Zealand for tax purposes or you otherwise receive payments of interest on the Bonds that are subject to the resident withholding tax (**RWT**) rules, Channel Infrastructure will deduct RWT at the relevant rate from interest (including any payments that are deemed to be interest for tax purposes) paid or credited to you unless:

- you have RWT-exempt status (as defined in the Income Tax Act 2007);
- you notify Channel Infrastructure or the Securities Registrar that you have RWT-exempt status and provide your IRD number to Channel Infrastructure or the Securities Registrar before the record date for the relevant payment; and
- your RWT-exempt status remains valid at the time the relevant payment is made.

## 7.2 Approved issuer levy

If you are not a resident of New Zealand for tax purposes and the interest you receive is subject to the non-resident withholding tax (**NRWT**) rules, Channel Infrastructure will deduct approved issuer levy (**AIL**) at the relevant rate from interest (including any payments that are deemed to be interest for tax purposes) paid or credited to you in lieu of deducting NRWT, unless you elect for NRWT to be deducted or AIL is not applicable under the law.

Channel Infrastructure will apply a zero rate of AIL, if possible. Otherwise, AIL will be deducted at the standard rate of 2% from the interest payment. If the AIL regime or rate changes in the future, Channel Infrastructure reserves the right not to deduct AIL and deduct NRWT instead.

You may request that Channel Infrastructure deducts NRWT from interest payments to you instead of applying the AIL regime. In this event, or in the event that the AIL regime does not apply, NRWT will be deducted from interest paid to you at the applicable rate. In the case of a Bond that is held jointly by a New Zealand resident Bondholder and a non-resident Bondholder, NRWT will be deducted from interest paid in respect of the Bond at the applicable RWT rate. See the Trust Deed for further details.

The rate at which deductions are made from the interest paid to you (i.e. for RWT, AIL or NRWT) will be determined based on the information that you provide to the Securities Registrar.

## 7.3 Indemnity

If, in respect of any of your Bonds, Channel Infrastructure becomes liable to make any payment of, or on account of, tax payable by you, then you will be required to indemnify Channel Infrastructure in respect of such liability. Any amounts paid by Channel Infrastructure in relation to any such liability may be recovered from you by withholding the amount from further payments to you in respect of Bonds. See the Trust Deed for further details.

## 7.4 General

Tax has significant consequences. There may be other tax consequences from acquiring or disposing of the Bonds, and otherwise from the maturity, redemption, purchase or cash settlement of the Bonds, including under New Zealand's "financial arrangements" rules.

If you have any queries relating to the tax consequences of the investment, you should obtain professional taxation advice on those consequences.

# 8. Selling restrictions

## 8.1 Selling restrictions

You may only offer for sale or sell any Bond in conformity with all applicable laws and regulations in any jurisdiction in which it is offered, sold or delivered.

Channel Infrastructure has not taken and will not take any action which would permit a public offering of Bonds, or possession or distribution of any offering material in respect of the Bonds, in any country or jurisdiction where action for that purpose is required (other than New Zealand).

Any information memorandum, disclosure statement, circular, advertisement or other offering material in respect of the Bonds may only be published, delivered or distributed in compliance with all applicable laws and regulations (including those of the country or jurisdiction in which the material is published, delivered or distributed).

## 8.2 Indemnity

By subscribing for Bonds, each investor agrees to indemnify, among others, Channel Infrastructure, the Supervisor, the Joint Arrangers and the Joint Lead Managers and their respective directors, officers, employees and agents in respect of any loss, cost, liability or damages suffered as a result of an investor breaching the selling restrictions referred to in this section.



## 9. Who is involved?

	NAME	ROLE
<b>Issuer</b>	Channel Infrastructure	Issuer of the Bonds.
<b>Supervisor</b>	The New Zealand Guardian Trust Company Limited	Holds certain covenants on trust for the benefit of the Bondholders, including the right to enforce Channel Infrastructure's obligations under the Bonds.
<b>Joint Arrangers</b>	Bank of New Zealand and Forsyth Barr Limited	Provide advice and assistance to Channel Infrastructure in arranging the Offer.
<b>Joint Lead Managers</b>	Bank of New Zealand, Forsyth Barr Limited and Jarden Securities Limited.	<p>Assist with the bookbuild for the Offer and with the marketing and distribution of the Offer. Except as described above, the Joint Arrangers and the Joint Lead Managers are not otherwise involved in the Offer.</p> <p>This PDS does not constitute a recommendation by the Joint Arrangers or the Joint Lead Managers or any of their respective directors, officers, partners, employees, agents or advisers to purchase, any Bonds.</p> <p>None of the Joint Arrangers or the Joint Lead Managers or their respective directors, officers, partners, employees, agents or advisers have independently verified the content of this PDS.</p>
<b>Securities Registrar</b>	Computershare Investor Services Limited	Maintains register of Bondholders.
<b>Solicitors to Issuer</b>	MinterEllisonRuddWatts	Provides legal advice to Channel Infrastructure in respect of the Offer.
<b>Solicitors to Supervisor</b>	Bell Gully	Provides legal advice to the Supervisor in respect of the Offer.

# 10.

## How to complain

Complaints about the Bonds can be directed to:

### **Channel Infrastructure NZ Limited**

Company Secretary  
Marsden Point  
Whangarei

Phone: +64 9 432 5100  
Email: [corporate@channelnz.com](mailto:corporate@channelnz.com)  
Postal: Private Bag 9024  
Whangarei 0148

### **The New Zealand Guardian Trust Company Limited**

Manager, Corporate Trusts  
Level 6, 191 Queen Street  
Auckland

Phone: +64 9 909 5100  
Email: [ct-auckland@nzgt.co.nz](mailto:ct-auckland@nzgt.co.nz)  
Postal: PO Box 274, Shortland Street, Auckland 1140

The Supervisor is a member of an external, independent dispute resolution scheme operated by Financial Services Complaints Limited (**FSCL**) and approved by the Ministry of Consumer Affairs.

If the Supervisor has not been able to resolve your issue, you can refer the matter to:

### **Financial Services Complaints Limited**

Complaint Investigation Officer  
Financial Services Complaints Limited  
Level 4, 101 Lambton Quay  
Wellington 6011

Phone: 0800 347 257  
Email: [info@fscl.org.nz](mailto:info@fscl.org.nz)  
Postal: PO Box 5967, Wellington 6145

The scheme will not charge a fee to any complainant to investigate or resolve a complaint.

Complaints may also be made to the Financial Markets Authority through their website [www.fma.govt.nz](http://www.fma.govt.nz).

# 11.

## Where you can find more information

Further information relating to Channel Infrastructure and the Bonds is available on the online offer register maintained by the Companies Office known as 'Disclose'. The Disclose Register can be accessed at

[www.disclose-register.companiesoffice.govt.nz](http://www.disclose-register.companiesoffice.govt.nz).

A copy of the information on the Disclose Register is also available on request to the Registrar of Financial Service Providers at [registrar@fspr.govt.nz](mailto:registrar@fspr.govt.nz).

The information contained on the Disclose Register includes copies of the Trust Deeds and the Negative Pledge Deed.

Channel Infrastructure is subject to disclosure obligations that require it to notify certain material information to the NZX for the purpose of that information being made available to the market. Channel Infrastructure's page on the NZX website, which includes information made available under the disclosure obligations referred to above, is available at [www.nzx.com/companies/CHI](http://www.nzx.com/companies/CHI).

The information contained on the NZX website includes market announcements made by Channel Infrastructure.

Further information on the Bonds can also be found at

[www.channelnz.com/investor-centre/bonds](http://www.channelnz.com/investor-centre/bonds).

In addition, further information required to be given by Channel Infrastructure under the Trust Deed may be requested from Channel Infrastructure by emailing [corporate@channelnz.com](mailto:corporate@channelnz.com). No fee will be charged for such information.

# 12.



## How to apply

There is no public pool for the Bonds. This means you can only apply for Bonds through a Primary Market Participant or approved financial intermediary who has received an allocation. You can find a Primary Market Participant by visiting [www.nzx.com/services/market-participants/find-a-participant](http://www.nzx.com/services/market-participants/find-a-participant). The Primary Market Participant or approved financial intermediary will:

- provide you with a copy of this PDS (if you have not already received a copy);
- explain what you need to do to apply for the Bonds; and
- explain what payments need to be made by you and by when.

The Primary Market Participant or approved financial intermediary can also explain what arrangements will need to be put in place for you to trade the Bonds (including obtaining a common shareholder number (CSN), an authorisation code (FIN) and opening an account with a Primary Market Participant) as well as the costs and timeframes for putting such arrangements in place.

# 13.



## Contact information

### Issuer

Channel Infrastructure NZ Limited

Marsden Point  
Whangarei

Phone: +64 9 432 5100

Email: [corporate@channelnz.com](mailto:corporate@channelnz.com)

Postal: Private Bag 9024, Whangarei 0148

### Securities Registrar

Computershare Investors Service Limited

Level 2, 159 Hurstmere Road  
Takapuna  
Auckland 0622

Phone: +64 9 488 8777

Email: [corporateactions@computershare.co.nz](mailto:corporateactions@computershare.co.nz)

Postal: Private Bag 92119, Auckland 1142

# Glossary

\$	New Zealand dollars.
Bondholder or you	A person whose name is entered in the Bond Register as a holder of a Bond.
Bond Register	The register in respect of the Bonds maintained by the Securities Registrar.
Bonds	The Bonds constituted and issued pursuant to the Trust Deed and offered pursuant to this PDS.
Business Day	A day (other than a Saturday or Sunday) on which registered banks are generally open for business in Auckland and Wellington, except that in the context of the Listing Rules it means a day on which the NZX Debt Market is open for trading.
Channel Infrastructure or Issuer	Channel Infrastructure NZ Limited.
Channel Infrastructure Group	Channel Infrastructure and all of its Subsidiaries, at that date.
Closing Date	Friday, 13 May 2022 at 11.00 am.
Customer	Means bp Oil New Zealand Limited, Mobil Oil New Zealand Limited and Z Energy Limited, and Customers means all of them.
Disclose Register	The online offer register maintained by the Companies Office known as 'Disclose.'
Events of Default	Means each event set out in clause 9 of the Master Trust Deed (as supplemented by clause 8 of the Supplemental Trust Deed), which are summarised in section 5 of this PDS ( <i>Key features of the Bonds</i> ).
Extraordinary Resolution	Means a resolution passed with the support of Bondholders holding not less than 75% of the aggregate Principal Amount of Bonds held by those persons voting.
First Interest Payment Date	20 August 2022 (with payment on 22 August 2022, being the first Business Day following 20 August 2022).
FMCA	Financial Markets Conduct Act 2013.
Guarantee	The guarantee under the Negative Pledge Deed. A copy of the Negative Pledge Deed is available on the Disclose Register.
Guaranteeing Group	Channel Infrastructure and each of the Guarantors from time to time.
Guarantors	Each person who is, or becomes, a party to the Negative Pledge Deed as a guarantor from time to time. As at the date of this PDS, Channel Terminal Services is the only Guarantor.

Inland Revenue	The New Zealand Inland Revenue Department.
Interest Payment Dates	20 February, 20 May, 20 August and 20 November in each year (or if that day is not a Business Day, the next Business Day) until and including the Maturity Date, with the First Interest Payment Date being 20 August 2022 (with payment on 22 August 2022, being the first Business Day following the First Interest Payment Date).
Insolvency Event	Has the meaning given to that term in clause 1.2 of the Supplemental Trust Deed.
Interest Rate	The rate of interest per annum payable on the Principal Amount of the Bonds as announced by Channel Infrastructure through NZX on or about the Rate Set Date.
Issue Date	Friday, 20 May 2022.
Issue Margin	The margin determined by Channel Infrastructure in conjunction with the Joint Lead Managers following the bookbuild for the Offer.
Joint Arrangers	Bank of New Zealand and Forsyth Barr Limited.
Joint Lead Managers	Bank of New Zealand, Forsyth Barr Limited and Jarden Securities Limited.
Listing Rules	The listing rules applying to the NZX Debt Market, as amended from time to time.
Master Trust Deed	The master trust deed dated 20 November 2018 between Channel Infrastructure and the Supervisor pursuant to which certain debt securities may be issued (as amended or supplemented from time to time).
Maturity Date	Thursday, 20 May 2027.
Negative Pledge Deed	Means the negative pledge deed dated on or about the date of this PDS granted by Channel Infrastructure and Channel Terminal Services in favour of, among others, the Supervisor.
NZX	NZX Limited.
NZX Debt Market	The debt security market operated by NZX.
NZX Main Board	The equity security market operated by NZX.
Offer	The offer of Bonds made by Channel Infrastructure under this PDS.
Opening Date	Friday, 6 May 2022.

PDS	This product disclosure statement for the Offer dated 28 April 2022.
Primary Market Participant	Has the meaning given to that term in the NZX Participant Rules as amended from time to time.
Principal Amount	\$1.00 per Bond.
Private Storage Agreement	Each private storage agreement entered into between Channel Infrastructure, Channel Terminal Services and one of its Customers.
Rate Set Date	Friday, 13 May 2022.
Securities Registrar	Computershare Investor Services Limited.
Share	An ordinary share in Channel Infrastructure.
Shareholder	A holder of a Share.
Subsidiaries	Has the meaning given to that term in the Financial Markets Conduct Regulations 2014.
Subordinated Notes	The unsecured, subordinated notes issued by Channel Infrastructure on 14 December 2018.
Supervisor	The New Zealand Guardian Trust Company Limited or such other supervisor as may hold office as supervisor under the Trust Deed from time to time.
Supplemental Trust Deed	The supplemental trust deed dated on or about the date of this PDS between Channel Infrastructure and the Supervisor constituting and setting out the terms of the Bonds (as amended or supplemented from time to time).
Swap Rate	Means the mid-market swap rate of a term matching the period from the Issue Date to the Maturity Date, as calculated by Channel Infrastructure in conjunction with the Joint Lead Managers, according to market convention, with reference to Bloomberg page 'ICNZ4' (or any successor page) on the Rate Set Date and expressed on a quarterly basis (rounded to 2 decimal places, if necessary, with 0.005 rounded up).
TSA	Each terminal services agreement entered into between Channel Infrastructure, Channel Terminal Services and one of its Customers.
Transaction Document	Means the Master Trust Deed, the Supplemental Trust Deed and the Negative Pledge Deed.
Trust Deed	The Master Trust Deed and where the context requires includes the Supplemental Trust Deed.



**Channel**

Infrastructure NZ