Channel
Infrastructure NZ

AUDIO TRANSCRIPT

Channel Infrastructure Half-Year results presentation call

25 August 2022

Naomi James: Good morning and welcome everyone to our conference call for our first set of financial results as Channel Infrastructure. It's great to have so many joining us today on the line, and of course it was great to meet many of you recently at our Investor Day. As you know, we decided to reset our business and make the transition to an import terminal model so that we could look to the future with the confidence that comes from having a sustainable business model that delivers stable returns for shareholders. I'm pleased to report that these first financial results for the terminal alongside the significant progress we have made towards execution of our strategy, demonstrate the laser-sharp focus we have on driving shareholder value.

Today I will run through our operating performance for the year, then I'll hand over to Jarek Dobrowolski, our chief financial officer to run through the financial results.I'll then finish with an update on how we are progressing with our carbon targets, some of our near term growth options and our guidance before opening up for Q&A.

I'd like to turn your attention to the usual disclaimer information contained on page two.

I'll start with the highlights and operating update on page four. The results we are announcing today really confirm the significant progress made towards delivering on our strategy and demonstrate our delivery to expectations for the new business model. After significant planning and preparation, we safely shut down the refinery and commenced terminal operations as we relaunched as Channel Infrastructure at the beginning of April, with an improved operating and financial model. The transition went smoothly and we now have almost five months of import terminal operations behind us with 19 import shipments discharged in the second quarter. Importantly, our conversion project remains on plan and to budget with the most intensive decommissioning work and workforce transition now behind us.

We have made great progress with the reset in our cost of capital, with the successful retail bond issue completed in May, and bank refinancing now underway. We are tracking to guidance for FY22. And for FY23 are now expecting EBITDA at the top end of our guidance range. And in our very first quarter of terminal operations, we have delivered a strong EBITDA margin of some 66% and strong cash flows, which increases our confidence in returning to dividends in March 2023.

Turning to safety performance on page five, we have always had a firm focus on our health and safety and protecting our environment. And this was even more important through the period of the refinery closure and intensive decommissioning that we undertook in the first half of this year. I'm proud that our team have completed the refinery shutdown and transitioned to terminal operations safely and to plan despite the challenges of COVID in the community through this time.

In the first half, we had no tier one or two process safety incidents and two recordable personal safety incidents, which did not involve any significant harm. At the same time, we have significantly decreased our environmental impact and through our transition have made a step change in our carbon emissions. We have seen a 98% reduction in our scope one and two emissions, with further reductions expected from Q3. Today, our energy requirements are significantly reduced with electricity demand down by 85% and no requirement for any gas. Together, this reduction in gas and electricity is equivalent to a reduction in New Zealand's electricity demand of around 3%. We have also completed our obligations under the national greenhouse agreement with the New Zealand Government, under which we have been reducing the energy intensity of refinery operations at Marsden Point over the last 20 years.

Moving next to fuel demand on page six. As we noted in our Investor Day presentation, we have continued to see fuel demand recovering from the impacts of COVID travel restrictions in the last half. Diesel demand remains strong as it has regardless of the impacts of COVID. Petrol demand showed rapid recovery from lockdown impacts. However, it has been impacted through the half by high pump prices, only recently recovering to pre-COVID levels. And lastly and importantly, we have seen a rapid recovery in jet demand following the opening of borders from the end of February with jet fuel demand recovering to over 50% of pre-COVID levels. I'll talk to the outlook for jet demand in more detail later on. The translation of this demand to throughput in to our infrastructure is shown on slide seven. The chart on this page shows the steady recovery of fuel demand over the last 12 months as COVID restrictions have eased. Fuel throughput was up 9% in Q2 compared to Q1 as fuel demand across all products increased. And we expect throughput to continue to grow as aviation capacity returns to New Zealand.

Refined product has now been flowing through our terminal and into the fuel supply chain for almost five months. And you will see the significant increase in fuel storage we are investing in through the transition with a more than 80% increase in fuel storage capacity at Marsden Point, compared to the refinery once we have all of our private storage available. Earlier this week, we welcome the largest refined product ship ever to be received in New Zealand. The STI LILY, which is classed as a LR2 vessel among the largest refined product ships in the world and capable of handling up to 120 million litres of fuel. As the largest fuels import terminal in the country, we are the only location capable of receiving product tankers of this size. And our tankage capacity means we are well placed to store and distribute the fuels on board providing significant freight benefits for our customers.

Turning now to page eight and the conversion project. Importantly, our conversion work continues to track to plan and to budget as we have communicated at the Investor Day and in our quarterly updates. The highest risk phase of the project being the refinery shutdown and intensive two-month decommissioning works was completed in May, safely, to schedule and to budget. Decommissioning works are now more than 70% complete with equipment cleaned, depressurized, and all catalyst and major internal equipment removed and sent for recycling. Our workforce transition is now substantially complete, and I'm really pleased with the outcomes we are seeing from our extensive programme of transition support, which I'll talk to shortly. Terminal upgrade works are continuing with the conversion of two of our former crude tanks into private storage tanks now underway.

Conversion project spend was approximately $84 million to the end of July, with more than half of the costs now spent or committed, reducing inflationary risk and increasing our confidence that this work will continue to track to budget. As we said at our Investor Day, we remain comfortable with the level of contingency we have in our project budget. Now I'll pass you to Jarek to run through the financials.

Jarek Dobrowolski: Thank you, Naomi. And welcome everyone today. Starting on page 10, I'm really pleased to report that terminal operations are delivering strong cash flows. Our results reflect the change that we have undergone at Channel this year with the refinery as discontinued operations operating for three months to the 31st of March. And the import terminal operating from 1 April to 30th of June presented as continued operations. And as you will see, these results really highlights the benefits we have realised from moving to the new operating model and how this provides us confidence that we will be able to return to dividends in 2023. We have generated a strong EBITDA margin of 66% in Q2, reflecting the lower operating cost of the import terminal model. We have seen significant cash flows funding two thirds of the conversion spend. And the net profit for the six months has increased net assets by 5% from $1.33 to $1.40 per share at the end of June. And finally tax loss from refining assets write-offs are now crystallised as we cease the use of and shutdown refining units.

As Naomi mentioned, we have made a good progress towards lowering our cost of capital through our retail bond issue in May. And our bank refinancing process is expected to complete in the second half. Our performance for the year is tracking in line with previously issued guidance, which increases our confidence in return to dividends at the end of this year. And for FY23, we are now expecting EBITDA towards the top end of the guidance. Let me now turn to page 11, which reflects continued operations, principally import terminal performance in its first three months, Q2. We earned nearly $30 million in revenue, mainly delivered by new terminal services agreements, which were in place from 1 April translating to EBITDA of $19.7 million, and an attractive EBITDA margin of 66%.

Below EBITDA, you'll see the effects of asset useful life review that we have undertaken in the first half. Terminal asset lives have been extended to reflect new service of these assets and resulted in a notable reduction in ongoing depreciation compared to our refinery. For a full year, we expect the depreciation to be around $32 million. Financing costs are tracking in line with our earlier market guidance reflecting the drawn debt being fully fixed, which provides us with certainty of funding costs looking forward.

Now turning to page 12, as you are aware, our earnings profile is now more stable and we have some opportunities for operating cost reductions going forward. Our revenue is underpinned by our strong contract protections. In fact, over 90% of the revenue is fixed and the PPI indexation mechanism, which is effective from next year, provides an opportunity for earnings upside. Looking at our operating costs. They have now been reset to terminal levels and are largely fixed. The variable portion of operating costs relates to electricity, where we see a real opportunity to improve earnings by securing new partnerships for provision of long term supply. And through resetting transmission and distribution charges, which Naomi will talk to shortly.

Turning to page 13, I will now take you through the performance of the refinery, which of course was still operating in Q1 and is now classified as discontinued operations.The revenue earned under our processing agreements with customers, which concluded at the end of March with the refinery closed, included $47 million of processing revenue and $6 million from pipeline fees. Operating costs in Q1 related to running the refinery in its final months and exclude any conversion related expenditure, which are presented below EBITDA. As a reminder, the majority of the conversion costs were recognised in FY 2021 when the decision to cease refining operations was made and the ongoing operating costs relating to conversion in the first half relates to those that were not eligible for recognition of liability in 2021. Those for clarity are included in our overall conversion project budget of between $200 to $220 million.

Also, as we have seen interest rates increasing during the period, we had updated discount rates, which resulted in a reduction in conversion provisions with a corresponding credit to the income statement, offsetting the ongoing conversion costs. Turning next to cash flow on slide 14. In the first half, Channel generated approximately $41 million in operating cash flows, which has funded a significant portion of the conversion spent. The residual spend has been funded through debt, with net debt at the end of June of $215 million. While the borrowings are anticipated to increase, we continue to generate strong EBITDA and we are expecting net debt to remain below four times EBITDA at the end of this year, enabling a return to dividends from March 2023, which Naomi will talk to shortly.

Moving to the balance sheet on page 15, we have seen a $114 million reduction in receivables and payables as we no longer collect excise duty following the commencement of import terminal operations. Provisions for the conversion fell from $185 million to $131 million reflecting the amount spent to date. And the decrease in provisions due to higher discount rate, as I talked to earlier. Importantly, we saw tax losses crystallised with approximately $467 million available on day one of the terminal. And these are now recognised as part of the deferred tax asset in the balance sheet. Tax losses obviously are important asset of our business going forward as they will improve our free cash flows for many years to come. And given the profit realised in the first half, we have had a notable 5% increase in net assets from $1.33 to $1.40 per share.

Finally, turning to our financing on page 16. You would be aware that one of our strategic pillars is to deliver value by improving the cost of capital of Channel Infrastructure. As such, during the first half, I was really focused on delivering our financing strategy to diversify funding sources and to improve the competitiveness of our debt. In May, we undertook a successful $100 million retail bonds issue and now our attention is on refinancing our bank debt, which is well progressed and focused on resetting our cost of bank funding to align with an infrastructure business. Our interest rate at the moment is higher due to the undrawn lines we are holding, this will come down though as our lines on our drawn and we expect to see a reduction in the interest rate we pay as we refinance our debt. We have confidence in our funding costs going forward as our debt is fully fixed and as I noted earlier, we are tracking in line with our guidance. I'll now hand back to Naomi to provide an update on strategy.

Naomi James: Thank you, Jarek. Before I dive into providing you with an update on our strategy and the outlook for our business, I'd like to remind you of the three strategic priorities to deliver value to our shareholders, which you'll find on slide 18. These are to leverage our existing capabilities of safe, reliable, low cost operations with a high performance culture, to transform to deliver value through a competitive cost of capital and realising the full value of our infrastructure, and to position our business for future growth by supporting the transition to low carbon fuels and growing and diversifying our earnings. I won't talk to all of these today as we have done recently during our Investor Day presentation, but I will today provide an update on our progress with our climate targets, the outlook for jet recovery and near term growth opportunities.

Starting with climate on page 19. One of the first acts of our new business was to release our first ever sustainability report called Our Transition to a Sustainable Future. We believe infrastructure has a critical role to play in supporting the de-carbonization of the fuel supply chain. We know we must keep fuel affordable and available for everyone throughout the energy transition and the way to achieve this is by utilising existing infrastructure. In our sustainability report, we set ourselves three ambitious but achievable targets. And today I'm proud to provide you with some updates on the progress we have already made, starting with a just transition of our workforce. Only five former employees who have left the business are still looking for work with more than 90% of those who have already left having already found their next opportunity. With regards to our net zero target, as mentioned before, we've seen a 98% reduction in emissions and a 85% reduction in electricity consumption with no requirement for gas, contributing to a significant reduction in thermal generation required in New Zealand.

And lastly, we are making good progress towards meeting our long-term target of supporting our customers to reduce scope three emissions. We are working with customers and other parties on opportunities across biofuels, sustainable aviation fuel, and hydrogen to utilise the infrastructure we own at Marsden Point and expect to have more to update on later this year.

Moving next to the outlook for jet demand on page 20. We are the only supply route to Auckland Airport where more than three quarters of international flights out of New Zealand depart and the airport consumes 80% of New Zealand's jet fuel. We've seen strong growth in jet fuel demand since the borders started reopening at the end of February. Last week, AIA reported a 70% increase in international flight since February. And since that time, we have seen a near 60% increase in jet fuel demand to now sit over 50% of pre-COVID levels.

And we're seeing Air New Zealand report extremely strong load factors indicating the significant demand that exists when aviation capacity becomes available. This points to a strong recovery and jet fuel demand as aviation capacity returns, with a number of airlines due to reinstate New Zealand routes this summer and the potential for a faster recovery than we had previously expected. With a clearer review on COVID recovery than we have had for some time, we are planning to work with Hale and Twomey to update our demand forecasts in the second half of this year.

Turning next to near term growth on page 21. We see a number of near term growth opportunities beyond the contracts we have signed to date. We are still waiting on government to take policy decisions on the biofuel sales mandate and domestic stock holding policy, but in the meantime are working on some additional private fuel storage opportunities.

We are also looking beyond Marsden Point. Mobil's recent ComCom clearance application in relation to the Auckland aviation fuel infrastructure has highlighted both the need for investment in additional capacity, which has not changed since the 2017 disruption and the need for a new commercial structure to support this investment and that allows for open access. Having put in place long term agreements, which support investment and resilience and open access at Marsden Point, we see Channel as the logical owner of the shared infrastructure in Auckland at the end of our pipeline. And believe that we are in a unique position to support both the investments and agreements required across industry to ensure the resilience of this part of the supply chain, which is especially important as we see jet demand recovering.

Turning now to electricity on page 21, as Jarek shared when he showed our operating costs with you, electricity is the single largest cost to our business at around one quarter of our OPEX currently. This is despite our demand being significantly lower under the new operating model. While a significant portion of this cost relates to electricity supply, more than half relates to transmission and distribution costs, which we continue to pay at refinery levels. For our business going forward, there are two issues we need to solve. We need to reset our transmission and distribution charges to an acceptable level for our much reduced demand and we have a number of actions underway with Transpower and Northpower to do this. We also need to secure supply at a much lower cost than the market is currently pricing.

Market prices in New Zealand are effectively being set off thermal prices, which is high with the cost of coal, gas and carbon. This situation is great for gentailers as has been reflected in their results released over the past few weeks, but it is incredibly frustrating for electricity consumers when thermal generation makes up only around 15% of New Zealand supply. That is why we are looking to secure our own requirements more directly so that in the future we are paying a price for electricity that reflects the actual cost and is made up of more renewable electricity supply. We are doing this through an RFI process which we launched last week. With resource consents in place and available transmission capacity, our Maranga Ra solar project can be developed much faster than most other solar projects being proposed. And represents a great opportunity to deliver low cost, renewable electricity supply for our business and hopefully also to others in Northland. We have already had significant interest from potential partners in the project, which reflects its unique, ready now status.

To finish, I will talk to the outlook and our guidance starting on page 23. Going through such a significant business change, it is really pleasing today to deliver results that are in line with the previous guidance given for FY22. As you will see from the H1 update column on this page where we are tracking to full year expectations. Today, we have also provided depreciation guidance of $32 million for the full year. Turning to page 24. Our performance in the first half has given us increased confidence in the payment of a dividend at the end of FY22. As Jarek mentioned at year end, we expect net debt to be below four times EBITDA, allowing us to recommence dividends in March 2023. We will need to wait until the year end to assess the exact level of dividend. But to give you an idea, the free cash flow we have seen from the terminal in the first few months would imply a six cent per share dividend at the midpoint of our dividend range. This is obviously subject to the Board’s due consideration, following the FY22 results.

Turning now to page 25 and our expectations for FY23. These FY23 indicative financial metrics you have seen a few times now. And we can confirm that our expectations are now towards the top end of the EBITDA range. On the revenue front, starting with PPI, in the nine months, and 30 June 2022, PPI was 6.6%, which implies terminal fees towards the top end of the range. We continue to expect our private storage capacity to be progressively brought online through to mid 2023, with the larger tanks towards the back end of that schedule. Meaning that we expect to be at the full run rate on private storage revenue of nine million per annum before any PPI adjustments in the second half of 2023. On the cost front with high forward prices for electricity next year, we are working hard to lower transmission and distribution costs, which are still at refinery levels, to offset that. And we expect to see a reduction in bank funding costs through the refi process we have underway and we'll be able to provide an update on that later this year.

Moving on to page 26, where we've included in the presentation the capital allocation framework we announced at Investor Day to grow shareholder value by delivering both dividends and growth. With the stability that comes from our long term contracts, we are focused on returning to dividends. Our dividend policy is to pay out 60 to 70% of normalised free cash flow and we expect to return to dividends at the start of 2023. This dividend policy leaves the remaining 30 to 40% of cash flow available to fund de-leveraging and growth. We are targeting net debt to EBITDA of three to four times, which is consistent with an investment grade rating and have today confirmed, we expect to remain below four times at the year end. And we are very focused on having a disciplined approach to growth that drives shareholder value per the investment criteria we have set out in our capital allocation framework.

Finally, turning to page 27, and working through that capital allocation framework, using our indicative financial metrics for FY23, we estimate some $30 to $40 million of dividends, which equates to between eight and 11 cents per share for FY23, leaving $15 to $20 million available for de-leveraging and growth.

To wrap up on slide 28, today's results confirm our transition to the new business model has been delivered to plan. We're seeing increasing fuel demand as COVID restrictions ease and expect to see increasing jet fuel demand as aviation capacity returns. Our refinancing this year to reset our cost of capital is well progressed with the retail bond issue completed in May and the bank refinancing now underway. We have confirmed again today that we are tracking to plan with both our conversion project costs and FY22 results, which gives us confidence in a return to dividends from the start of next year. And we are tracking to the top end of EBITDA guidance for FY23. And finally, we are continuing to work on a range of growth opportunities, which have the potential to grow earnings in the short and medium term. With that I'll open up for Q&A.

Moderator: Thank you, Ms James. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you are on a speaker phone, please pick up the handset to ask your question. Your first question comes from Andrew Harvey Green from Forsyth Barr. Please go ahead.

Andrew: Good afternoon Naomi and Jarek, thanks for that, it's a good set of half your results. A couple or a few questions from me, probably not unexpected. First of all, just want to clarify a couple of things around the dividend in particular, the FY22 comments around this year. I just want to first of all, get a sense in terms of the FY22 dividend, are you looking at, in essence returning cash based on nine months of the infrastructure operation from the 1st of April?

Jarek Dobrowolski: Hi, Andrew. Yes. The way to think about the dividend indications that we talked about today is that in a sense from 1 April, we operate under the new business model, which in a sustainable way will return cash flows for the business and to holders and translate into dividends. So we are looking to pay in dividends from that new business model. The refinery has had some positive cash flow for Q1, but we look at that as a part of the previous operating business model and that effectively will be used to fund partly the decommissioning of the other business.

Andrew: Okay. And then thinking about, I guess, FY23 and beyond, do you have plans as yet in terms of what a first half, second half dividends might look like? Is it going to be sort of 50/50 or were you going to look to weight it towards the back half of the year?

Naomi James: Look, I think it really comes down to that cash flow question, Andrew, and that's obviously also driving where the dividend might come out. But I think the key question will just be where we get to on some of the growth and what that means in terms of where we are paying in the range, rather than a strong weighting one way or other. The cash flows from the terminal are obviously pretty steady and reliable. So there's not a need to sort of hold back in the first half for that reason.

Andrew: Yeah. Okay. That's great. Second question I just had was around the private storage and you mentioned looking at, I guess, middle of next year, expected run rate revenue of around about $9 million. Just to give us a sense, I guess, of where you're at the moment, are you able to give us an idea of what the current run rate private storage revenue is?

Naomi James: Yes. It's fairly nominal at this point. So we do have a couple of the tanks in operation, but they are progressively coming online through the next, just under 12 months. So there'll be some contribution in current year earnings after that, but it is only a small portion of that annualised $9 million rate that we are we're forecasting once we get all of the capacity online and that reflects just the size of some of the tanks, the bigger tanks are coming on later and the nature of the contracts, we are paid by volume.

Andrew: Okay. And I guess that leads me to my next question around the FY23 guidance, particularly around the revenue. If we look at effectively what you've reported here today is it's almost a fairly clean set and quarter of terminal operations. It looks like the lab services business had a full half, but everything else was the infrastructure, the terminal and pipeline piece. That kind of is just on a simple pro rata basis, looking at around about 140, 150 million before you add on additional private storage and the PPI increase in FY23. Am I missing something here or is revenue looking like it should be comfortably ahead of $120 million next year?

Naomi James: I think as you mentioned, Andrew, the slight complication is you've got IPL in for six months, so there is a little bit more than a quarter of revenue, if that makes sense. So it might be slightly lower than the numbers that you were quoting from a run rate perspective. But to your point, in having the expectation at top end on EBITDA, that we would be at or even slightly above top end on revenue guidance, that's right.

Andrew:	Okay, great. And then last question from me is just around, I guess, your comments, Naomi, in terms of Channel being the natural owners of the Wiri assets. And I think that's been well understood. I guess the question I have is whether you have had any or started any discussions around potentially becoming an owner of those assets?
Naomi James:	So we've been very much focused over the last period of time on the conversion project and getting that done safely and to plan. And so it's really at this point now that we are through that, that we are looking beyond Marsden Point and starting to have those discussions. Obviously any acquisition is subject to there being a willing seller as well as a willing buyer. So I don't really have any update on that at this point, but it's something that we think makes logical sense and so we'll be having those discussions as we move forward.
Andrew:	Great, thank you, that's all for me.
Moderator:	Thank you.
Naomi James:	Thanks Andrew.
Moderator:	Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Nevill Gluyas from Jarden. Please go ahead.
Nevill:	Good afternoon team. Reasonably simple one to start with for me. Can you tell me what the RFI timetable is? So when you think you'll have that concluded.
Naomi James:	So the first stage of it, Nevill, is I think we've asked for proposals later on in October. And then from there, we'll sort of go into a short-listing process.
Nevill:	Is the aim to have it done by middle of next year, say?
Naomi James:	Look, I think it's very much dependent on what option we go with. I'd certainly hope we were getting pretty close to a final decision by then, if not earlier. But yeah, they're very connected with what the best option looks like. And we see that as being about locking in long term supply, so we do want to make sure we get that right.
Nevill:	Great, thank you. And of a follow on to that. We've talked about one third hedge $175 a megawatt hour. The other two third is sitting at spot, is it? You're buying from the market?
Jarek Dobrowolski:	Yeah, at the moment that's correct. We sort of accumulate hedge positions sort of over time with a view that we have a better coverage in the near term and tailing off in the longer term. Market has been extremely challenging, when we look at forward pricing, it still sort of remains high in the next year, in the next two years, despite spots being low. But we'll be looking at opportunities how to firm up in the next year from a cost and pricing perspective.
Naomi James:	So we are fully hedged this year and we've sort of looked at next year and continue to look at it, it's obviously I'm sure you've noticed it too, that while near-term prices have come off when it rained, the forwards are just sitting there, which is a bit odd, but I think an

indication of what's going on in that market. So we'll just keep looking for opportunities to cover the rest of that position over the remainder of this year.

Nevill: Great, thanks. I imagine you get good interest from the generators as it's early interest, you've had inbound on it. Maybe a separate track on that though, what are your chances of being able to have any impact on transmission distribution charges? Because of course they fall under a different banner. Is there a regulatory of process, some kind of process you can adopt to reflect the reduced demand now at your location? Or what are the prospects for that, what kind of approach do you need to take?

Naomi James: There's a number of things within the current pricing frameworks that we can do and have underway, so there's a process for re-rating the site, as well as a prudent discount application in train and just the discussions that are occurring, because obviously there's an element of discretion as well in how both the transmission and distribution providers choose to allocate cost. So all of those things are being actively worked to get those charges down to a reasonable level.

Nevill: Great, thank you. And just following on then on the growth question. Yes, well, wonder what the prospects are, you probably don't have to answer this, for the three current owners to really want to share it with third parties, but that would presumably be the more desirable outcome from a wider economic perspective. But I don't imagine there's been a rush. So I guess it's just another way, have they approached you to see whether you're interested to buy or is this something that's really in your court to try and pursue with them?

Naomi James: Well, if you have a look at the application that Mobil made to ComCom, they actually advocate for open access themselves. And so we obviously support that, that's something we've put in place here at Marsden Point, but our infrastructure into Auckland does feed into their infrastructure. So we really need open access through the supply chain. So look, we think that is the expectation that exists in the market. And we think that as we've seen with the Marsden Point agreements, that there would be support for putting similar arrangements in place as new commercial arrangements are put in place for the Auckland infrastructure. Now, the question of whether it involves an acquisition of those assets by us is obviously another step, but either way, those assets need new commercial agreements to support the investment in capacity that needs to be built in Auckland. And so that's going to create the opportunity to make sure those things like open access get addressed in the next little period of time.

Nevill: Okay, thanks. We'll keep watching. And just the last question from me really is just around your lease access to the site, obviously the end of the RAP, turning up or re-lease. Lease expires in a decade, what happens after that? Do your current agreements basically not require you to lease the land that's on, should we expect some new kind of arrangement? Does some new kind of arrangement have to occur to keep delivering to the fuel contracts or to the pipeline contracts.

Naomi James: You are referring to the Wiri lease arrangement here?

Nevill: I am indeed, yeah.

Naomi James: So they come to an end in a couple of years time and the nature of them is that we don't have any ongoing obligations or rights. And so that the way to think about it is that earning stream will come to an end at that point. And so we are certainly conscious of that in terms of the growth in other earnings that we look to realise over the next few years to having a growing revenue and earnings profile over time.

Nevill: Oh good. So I guess the question there, at least the risk I thought in my mind was just to rule out the possibility that they will try and charge you to continue to deliver at the site after the expiry of the lease.

Naomi James: No, no. We leased the facilities to them because originally the company paid for those and they leased the land to us that the facilities sit on, but all of those agreements conclude at the same time.

Nevill: Good, that's very good. Thank you very much.

Naomi James: Thanks Nevill.

Moderator: Thank you. Your next question comes from David Birrell, from Croxon Capital. Please go ahead.

David: Hi guys. Can you hear me?

Naomi James: Hi David, how are you?

David: Very well. Great, great result guys, well done to the team. Just a couple of clarifications for me. Firstly, I think I understand the way that the PPI adjustment occurs and I think it's just the fact that we've got nine months being prorated into 2023, which is confusing me. But can you just mathematically if possible, explain how the PPI adjustment will occur into 2023 and then ongoing.

Jarek Dobrowolski: So David, first theory is a bit confusing, I must admit that. So all terminal fees and private storage related fees will be inflated from 1 January 2023. And the inflation that will be taken into account when setting those new fees will be based on 12 monthly PPI to the end of September 2022. And prorated to nine months. So it simply will be annual inflation for a period ended to the 30th September this year and then times 75%. So that's sort of mathematically how it's going to work and you rightly pointed out that's to accommodate for the fact that we operate as an import terminal for nine months of the year only. Going forward from 2024 onwards, we will have the benefit of a full 12 months of inflation, but it will be still 12 months to the end of September each year. So 2024 fees, we're going to use 12 monthly inflation PPI to the end of September 2023. Does that sort of explain clearly, David?

David: Perfectly clear, thanks. And so then private storage, the PPI adjustment for private storage, even though it starts later, the fee per litre effectively will be the same as that calculation?

Jarek Dobrowolski: So private storage is a capacity-based agreement. So based on capacity made available to our customers. So the impact of inflation is on the rate per capacity made available to customers, so that's subject to indexation.

Naomi James: The timing of those adjustments is the same.

Jarek Dobrowolski: Correct. But the mechanism of the indexation is exactly the same.

Naomi James: Yeah.

David: So if the reference revenue that I'm using is to make the numbers easy $10 million as at April 1, '22, then I use the same adjustment using PPI output prorated for 2024 as I do for the rest of the fees, correct?

Jarek Dobrowolski: I'm not sure if I-

Naomi James: It's the same adjustment, that's right. Yep.

David: Yep, yep, got it. And then jumping around the biofuels and government storage mandates, is there any update you can give us on the progress of the process there?

Naomi James: Yes. On biofuels and also on domestic stock holding, so the fuel security legislation, our understanding is they're both with the minister, if not cabinet for a decision. So what we don't know is when those decisions might be made, it's obviously getting pretty tight now on biofuels to be legislated in time for an April 23 commencement date. But that's really the next step to occur on both of those policies to move into legislation of those policies.

David: Got it. Perfect. And last one, if I look at, I mean Air New Zealand just reported, they're talking pretty big numbers, really, which would pull forward how in terms of forecast by what looks like about a year. But if I look at the problem in the world aircraft network, it's really China. What impact do you think if China isn't open in 2023, for example, do you have an idea as to what sort of impact that would have on fuel volumes relative to everywhere else? Is it about 10%

Naomi James: You are thinking, David sort of what proportion of jet fuel demand is China routes into New Zealand? Is that

David: Yeah, China passenger route, I guess, because I'm assuming that there's lots of food going there.

Naomi James: Yeah, yeah. Look, I don't have that exact number. We could follow it up, but obviously the further the planes go, the more fuel they consume. So the routes into the states are the best if you like in terms of fuel demand and then Asia next in that. So yeah, it would, as you say, come down to just what level of passenger capacity is into Asia. I think Air New Zealand, in their update this morning was saying they were expecting 65 to 70% of international long haul back in the coming 12 months, so that's obviously going a fair way towards pre-COVID levels.

David: Yep, exactly. All right, perfect. Thanks very much guys and great job to you and the team.

Naomi James: Thanks David.

Moderator: Thank you. There are no further questions at this time. I'll now hand back to Ms James for closing remarks.

Naomi James: I can just see Cam from Craig's on the question list, wonder if we might go to him before we wrap up the call?

Moderator: Certainly we have Cameron Parker from Craig's Investment Partners. Please go ahead.

Cameron: Thanks very much and well done team, a good start to the year. Hey look, just two questions from me, carbon inventory, I'm not too sure if you could provide any information on that. So what's held and how you might be using that going forward. And also when you might be thinking about just refreshing those Hale and Twomey forecasts.

Jarek Dobrowolski: So hi Cameron, Jarek here, we do retain some carbon units in the balance sheet, which you would've seen if you look at what's in there. One thing to be mindful though, is that some of that balance of carbon units will be surrendered back in line with the arrangements we have had in place under the NGA. But there will be some residual amount of units that will be available for us to do something with it, obviously we have no need going forward to offset those carbon with our future needs, given that the exposure for the terminal will be just from scope to end electricity. So it's likely that we'll monetize those carbon units that are in our balance sheet.

Naomi James: And Cameron, the way we've budgeted for the conversion project is it includes all of those cash flows. So the $200 to $220 million is net of cash inflows that we realise through closing out positions like carbon, as well as some of our electricity hedging. So it's just to clarify, there is some cash to come in the door and we're not at a rush to sell those units, given the trend in carbon pricing, but it's in effect all part of that overall conversion cost budget that's accounted for.

Cameron: Okay. That's great, thanks. Understood.

Naomi James: And your second question on Hale and Twomey, we've obviously been waiting till we're at a point where there was some basis to forecast what aviation might do and we are now really at that point. And so that's why we're going to go and do that with Hale and Twomey to do that, to update work so that we do have an updated view, particularly on the jet recovery and what that looks like moving forward. So we should have that certainly for our full year results.

Cameron: That's great, thank you very much, guys. You have a good day.

Jarek Dobrowolski: Thanks Cameron.

Moderator: Thank you. Your next question comes from David Oxley from ACC. Please go ahead.

David Oxley: Thank you. Good afternoon. One quick question, at the Investor Day, your colleagues discuss the possibility of selling some of the refining kits that you were dismantling. I just wondered if there was any progress there that you could update us on, thanks.

Jarek Dobrowolski: As part of the FY21 accounts, David, we have left residual amount of refining units, at around from memory, I think $34 million and that represented at the time the assessment we shared of how much we can sell those units for, we certainly are progressing that work and pursuing a number of opportunities, we are in the process of discussing with quite a few actually interested parties in different parts of the plant. But at this point probably it would be premature to talk about specifics and once we have discussions and commercial negotiations progress further, probably will provide a bit of an update to you next time. But at this stage, just be assured that we are pursuing those opportunities and there's lot's happening in that regard.

Naomi James: And just so it's clear that we haven't assumed anything in our conversion cost budget from that. So what we've got on the balance sheet includes things like scrap recovery as well in terms of final demolition of the refinery, but we haven't in our conversion cost budget assumed any proceeds from the sale of plant, so that will be upside to anything we realise through that. And as Jarek said, we are seeing quite a bit of interest in that. So we are hopeful that there will be something that comes through, but a bit more work to be done.

David Oxley: That's good to know, thank you very much.

Moderator: Thank you. There are no further questions at this time. I'll now hand back to Ms James for closing remarks.

Naomi James: Thanks very much everyone for joining us for today's call and look very much forward to catching up with a number of you one on one over the coming month. Thank you.

Moderator: That does conclude our conference for today. Thank you for participating, you may now disconnect.

[END OF TRANSCRIPT]