Channel Infrastructure NZ Limited

Annual Meeting of Shareholders

Thursday 27th April 2023 at 2.00pm

CEO Rob Buchanan's address

Welcome everyone. I am delighted to be joining Channel at this important time and it's great to be here for my first ASM as the new CEO. Also joining us here today is Jarek Dobrowolski our CFO, Jack Stewart, our GM Operations, Caz Jackson, our Chief People Officer, Peter Van Cingel, Business Development Manager, and Phil Jones, GM – Projects, and you have already been introduced to Chris Bougen, our General Counsel and Company Secretary. Steve Levell, who heads up our IPL team is not with us today, but that rounds out our Management team.

Since joining at the end of January 2023, I have been impressed with the clear vision and the highly capable team, who are working hard to deliver on our plans for the future. The business is in great shape, and it's a real tribute to our former CEO, Naomi James, and the wider team at Channel Infrastructure, who have worked hard to transform the company during an extremely challenging period of time.

Let me start my address by talking about the year that was, and then jump straight into opportunities for your company.

As a high-hazard business, Channel has always had a firm focus on health, safety, protecting the environment, and of course supporting our people through the change that has impacted them. This was even more important through the period of the refinery closure and intensive decommissioning that was undertaken in the first half of 2022.

The team have done a superb job of delivering on an extremely complex transition - safely and with great care for the protection of the environment around our site. With zero process safety incidents throughout this time of intensive and hazardous work, it is a pleasing result and goes to show the emphasis on safety that is a feature of Marsden Point.

Alongside the work that remains underway to decommission the refinery plant in a way that minimises our impact on the environment, a huge focus for the business in recent years, has been the remediation of known contamination on our site. It is pleasing that due to the investment the business has made, we are seeing a notable decrease in the legacy contamination of the groundwater beneath our site – the contamination plume has shrunk by 30 per cent over the past 6-years.

As part of our recently renewed resource consent, we will continue to operate our network of groundwater remediation wells as long as required to remediate this historic contamination.

It is also a source of great pride for the business that throughout the transition, and with the large step-down in staff numbers, 97% of those who left the business in 2022 were actively supported into new roles, training, or opportunities within 6-months – exceeding our company target of 90%.

As you will be familiar with Channel has three sustainability targets around supporting employees seeking new employment, net zero scope 1& 2 emissions by 2030 and supporting the decarbonisation of the wider transport sector. More detail around these can me found in our sustainability report. These targets remain a priority for the business going forward.

Finally, I would note for shareholders that our assets came through Cyclone Gabrielle well, with limited impacts to our site and the pipeline. This reflects the work done over the past few years, and the efforts of the Marsden Point team, who prepared well ahead and managed continuous operations throughout.

With the new business model comes a significantly improved financial profile, which we see very clearly with the 2022 Financial results.

Our long-term customer contracts with our three customers, bp, Mobil and Z Energy, each with an initial 10-year term, include take or pay commitments to support the debt funding of conversion costs and provide revenue security. All fees are indexed to PPI which provides us additional protection in the current inflationary environment and earnings upside with our strong operating margins. The strength of these contracts was demonstrated in 2022, with 94% of our revenue underpinned by take or pay or fixed revenue commitments, and 88% of our revenue indexed.

These contracts, together with the extensive debt hedging we have in place to manage interest costs, deliver a high degree of certainty in our cash flows. These strong cash flows funded a significant portion of conversion costs in 2022, with leverage at 3.4 times at the end of 2022.

In terms of the conversion project, we remain on track and to budget with the decommissioning and workforce transition largely complete and the focus now on completing terminal upgrade projects and embedding our new terminal systems and processes. As at the end of March 2023, we had spent or committed some 74% of the conversion budget – the project is now significantly de-risked.

As a result, we have projected stable earnings, strong cash flows and a strong balance sheet. With that we have now returned to dividends.

It was important to us that we are clear with investors how we intend to grow shareholder value, which is why, last year, we released our capital allocation framework.

With the stability that comes from our long-term contracts we now return to dividends with a dividend policy to pay out 60-70% of normalized free cash flow which leaves the other 30-40% of cash flow available to allocate to deleveraging and growth. We continue to target net debt to EBITDA of 3-4 times, consistent with a shadow investment grade BBB+ rating.

And finally, we have a number of growth opportunities available to us with the new business model. Our key investment criteria will be an above WACC return on investment and customer contracts that provide a good level of revenue certainty, as you have already seen us do with the private storage growth contracted to date.

And if we get this right, that in turn generates more cash flow to fund dividends and growth, driving long-term shareholder value.

In February this year, when we released our results, we also released a new long-term fuels demand outlook completed by industry experts, Hale & Twomey.

We covered this in great detail in our results presentation and the Annual and Sustainability reports which Shareholders will have access to. However, I will just spend a moment summarizing the key findings and how they relate to Channel's future.

Hale & Twomey's outlook shows that petrol demand is peaking and then declining as previously expected, as the light vehicle fleet electrifies. Diesel demand is expected to stay stronger, and transition much more gradually particularly for agriculture, industry and heavy transport.

The point I wanted to draw to shareholders' attention today, and which is also included here on page 15 of our presentation, shows the expected growth in demand for jet fuel. Auckland International Airport expect the recovery in passenger numbers to reach pre-COVID levels by 2025, and Hale & Twomey have said they expect jet fuel demand to have recovered by 2026. As we saw in the five years pre-COVID, jet fuel demand increased at a rate above passenger growth due to the increase in long and ultra-long haul flights as well as premium travel. Hale & Twomey expect these trends to continue to drive growing jet fuel demand.

Given the shift in the fuel mix in New Zealand, and our supply route for jet fuel to Auckland International Airport, this new long term product demand outlook shows us that jet fuel will underpin the long-term utilisation of Channel's assets. Combined with our renewed financial profile, this provides a strong platform for us to consider new growth opportunities.

The final point I'd like to draw your attention to is that, over time, the proportion of renewable fuel throughput at our facilities is expected to increase. This is based on the increasing use of biodiesel in industry, as well as the gradual uptake and transition to sustainable aviation fuel. These drop in or second-generation fuels are able to utilise existing facilities including our jetty, tanks, and pipeline to Auckland. This shift to increasing renewables has already started, with New Zealand's first shipment of sustainable aviation fuel passing through our facilities in 2022.

The decision to shift our operations to an import terminal model was made following an extensive and public 18-month strategic review, involving significant consultation across Government, customers, local community as well as approval from you, our shareholders. As part of this process the Government assessed New Zealand's fuel security and resilience and is considering measures to ensure a minimum level of fuel stocks are held in country to ensure a resilient fuel supply chain.

New Zealand has always relied on imports for its fuel, but with the conversion from refinery to import terminal last year, crude oil imports have been replaced by imported refined fuel products which now come from a range of refineries across the Asia-Pacific region. At the same time, and as a result of this transition, there are new and different resilience risks that come from an import supply chain.

With that in mind, last year the New Zealand Government released its fuel security policy, which has two parts. The first is Government procurement of 70ML strategic diesel reserve, and the second is a new minimum onshore fuel stockholding obligation for fuel wholesalers. Both of these represent opportunities for Channel's business and allow us to continue playing an important role in supporting our customers and the Government in respect of New Zealand's fuel security.

With the business now reset, our return to profit and dividends, and having passed the milestone of one year of successfully operating as an import terminal on 1 April, our focus is on pursuing the exciting future growth opportunities we have in front of us, which build on the capabilities of our team and the assets we have at Marsden Point.

Channel Infrastructure owns highly strategic jetty, storage tanks, and pipeline infrastructure, with significant opportunity for greater utilisation of our assets – we have over 400ML of unutilised tank capacity and over 177ha of land.

We have world class people, who over the past two years have proven they can execute highly complex projects with precision and safety at the fore. And we are constantly innovating by adapting the latest in technical and innovation from abroad.

I'd like to show shareholders an exciting example of this, via a short time lapse video of a recent conversion of one of our crude tanks to jet fuel storage. This project involved the replacement of a floating roof with a geodesic roof, manufactured offshore and constructed inside the tank at Marsden Point in a matter of weeks. This is a great example of the significant repurposing potential of our facilities, in this case to support our customers in providing greater NZ fuel security and resilience.

I wanted to give shareholders a picture of where our company could be positioned in the future. Today, we are a critical part of New Zealand's fuels supply chain, and we are taking responsibility for our role in supporting New Zealand's decarbonisation. That includes utilising our assets to support our customers to bring down their scope three emissions with the shift to lower carbon fuel options, and longer term, ensuring we are supporting the delivery of new liquid fuel options that will help New Zealand overcome some of the decarbonisation challenges that we face as a country.

We will also continue to support our customers and the Government with their requirements for increased fuel storage and resiliency through the significant capacity we have at the Marsden Point site.

Beyond this, our strategic position in the liquid fuels industry, strong financial profile and reset cost of capital for the first time provides an opportunity for our company to play a much greater role in providing liquid fuels infrastructure across New Zealand, leveraging our strong operating capability as a terminal business. This includes for the first time considering stepping out beyond Marsden Point where opportunities for growth present themselves.
Our longer-term growth initiatives are focused around further leveraging our highly strategic site at Marsden Point to support New Zealand's energy transition and decarbonisation. The Fortescue Future Industries' study, which is focused on the opportunity to convert renewable electricity to hydrogen and eSAF at Marsden Point, is an example of one of these initiatives.
These longer-term opportunities are not just positive for our business, but they also offer us the opportunity to play an important role in decarbonisation: from sustainable aviation fuel and hydrogen to renewable electricity, electricity storage or firming.

Our long-term growth opportunities are good for business, and good for New Zealand.

In November of last year, following the announcement of the producer price index (which is an inflation measure our customer contracts are linked to) and successful additional terminal storage we contracted, we upgraded our 2023 financial guidance. We now expect EBITDA of some \$82 - \$86 million. Working this through, what it means for you is an indicative dividend range for next year of 9 to 11 cents per share.

We released our Q1 conversion update a few weeks ago, which confirmed the permanent decommissioning of refinery process plant is now in the final stages and will be completed in Q2 2023, and the terminal upgrade works and private storage tank conversion works are ongoing and progressing well with over half of contracted private storage capacity now commissioned and a further c.45 million litres of jet private storage is expected to be commissioned during Q3 of 2023. As part of this update we also confirmed that the updated and lower transmission costs from 1 April have now been agreed and are in line with assumptions factored into our 2023 cost guidance.

Turning to our priorities for this year.

It is my immediate priority to continue delivering on the strategy set up for the company, which is of course to grow shareholder value through continuing optimisation of our business, while delivering on our aspiration to be a world class operator of our import terminal assets.

Our priorities this year will be to continue to be New Zealand's leading fuel infrastructure company, by ensuring we deliver safe, reliable and cost-efficient terminal operations and the on budget and on time completion of remaining conversion project works.

We're continuing to work hard with our customers to optimise the fuels supply chain, and building greater supply chain resilience in the system, which is good for New Zealand. We will also work hard to deliver on the near-term growth opportunities that we've talked about here today, and ultimately, to deliver increasing returns to shareholders through dividends in an inflationary environment.

I believe the opportunities for Channel infrastructure to leverage its unique and highly strategic asset base to facilitate New Zealand's energy transition are significant, and I'm really excited about the future of our company.