NZX ANNOUNCEMENT

22 November 2021

Key milestone in transition of Marsden Point site to a fuel import terminal from April 2022

Refining NZ is pleased to announce today that further to the shareholder mandate received in August, it has reached a key milestone in the transition to a fuel import terminal as part of its strategic vision to be New Zealand's leading fuel infrastructure company.

Naomi James, CEO, said "Today is a momentous day in the journey to transition our business from operating as a refinery to an import-only fuel terminal. After 60-years of operations as New Zealand's only oil refinery, we look back on the past with pride and look to the future with confidence that our business will continue to contribute to our community, and New Zealand, long into the future."

Long-term customer agreements executed

The Company has entered into long-term agreements with its three existing customers (bp, Mobil, Z Energy) for the provision of import terminal services, consistent with the terms described in the Explanatory Booklet and approved by shareholders.[1] All customers and Refining NZ have agreed to withdraw existing dispute notices under the Processing Agreements with effect from the commencement of import terminal services under the terms of the Terminal Services Agreements.

On the basis of the shareholders' approval received in August, the Board has now made the Final Investment Decision (**FID**) to proceed with the conversion and a name change to Channel Infrastructure NZ Limited (**NZX:CHI**) (**Channel Infrastructure**) to align with the commencement of import terminal operations from April 2022.

The Company's Chairman, Simon Allen, said "We are pleased to reach this key milestone. I want to thank all of those who have been involved with reaching this point and delivering a clear path forward for our Company. At the same time, our dedicated workforce have continued to work hard every single day to ensure the safe operation of the refinery – made more difficult by the ongoing COVID disruptions – and I pay tribute to their commitment."

Naomi James added, "I want to acknowledge the professionalism and dedication of our whole team over the past 18-months throughout the strategic review, refinery simplification, lockdowns and preparations for conversion – the team have continued to quickly adapt to overcome these challenges while ensuring that we can safely supply New Zealand with its fuel needs.

[1] The Explanatory Booklet was released on 5 July 2021 and can be found under the ticker "NZR" on www.nzx.com. The Shareholder Vote occurred on 6 August 2021. The Terminal Services Agreements (TSAs) are subject to certain conditions precedent summarised in the Explanatory Booklet. If all conditions in the TSAs have not been satisfied by 1 April 2022, terminal services will be provided under the existing Processing Agreements (at TSA fees) until the conditions are satisfied.

"As we look to our future as Channel Infrastructure, a key focus for me is supporting our people and readying them for this change. I know that we have some of the best talent in the region working on our site, who will continue to play a critical role in the ongoing operation of our refinery over the coming months. I am committed to supporting them through this time to find new employment or training opportunities, to be ready to transition to new roles once the refinery is safely shutdown. This includes working with other businesses to skills-match our people with their vacancies."

Agreements to provide private storage services

The Company is also pleased to announce it has executed long-term agreements with customers to provide dedicated private storage, with further agreements expected.

As described in the Explanatory Booklet, the Company has identified private storage as a complementary growth opportunity which provides customers with increased product supply scale and flexibility. An initial capital commitment of c.$30 million is expected to result in incremental revenue of c.$50 million (real) on a fixed rental basis over a 10 year term, with high EBITDA conversion. This capacity will be progresively made available following required works from the commencement of terminal operations through to early 2023.

Management is also actively engaged with customers on additional private storage opportunities, as well as developing funding plans for private storage. This additional demand could require further capital investment of up to c.$25 million and deliver additional revenue of up to c.$60 million (real) over a 10-year term.

Naomi James said, "Outside of these opportunities, our team is continuing to monitor the development of the Government's policy on domestic fuel stockholding requirements. Given our ability to provide strategic storage with our existing tankage and proximity to the Auckland market we are ready to engage with our customers and the Government to support the implementation of any confirmed policy."[2]

Estimated financial impacts of conversion

The Company confirms that the refinery is expected to run cash neutral to closure.[3]

In the appendix to this announcement, we set out information regarding certain elements of the estimated financial impacts of the conversion on the Company, including in 2023 being the first full year of import terminal operations.

The Company will provide a quarterly update on the conversion project through 2022, replacing the bi-monthly operating report which will cease from the end of 2021.

[2] See Section 2.5 of the Explanatory Booklet for further details about strategic storage

[3] Cash neutral excludes Strategic Review / Conversion Project restructuring and implementation costs.

About Channel Infrastructure NZ

Channel Infrastructure's vision is to be New Zealand's leading independent fuel infrastructure company. It will utilise the deep-water harbour and jetty infrastructure at Marsden Point to import refined fuel, which is owned by its customers. Fuel will be stored at the Marsden Point site in existing tanks at what will be the largest fuel terminal in New Zealand, with 180 million litres of shared capacity, plus dedicated private storage and capacity to provide additional storage. Channel Infrastructure will continue to provide quality fuel testing services both at the Marsden Point site and around New Zealand, through its subsidiary, Independent Petroleum Laboratory Limited (IPL).

Fuel from Marsden Point will be distributed on behalf of Channel Infrastructure's customers primarily to the Auckland and Northland markets, which make up around 40% of New Zealand's fuel demand, through the 170-kilometre Refinery to Auckland Pipeline (the RAP) and the truck loading facility (the TLF) located adjacent to the Marsden Point site.

Conversion to an import terminal will reduce the Company's direct CO_2 emissions by almost one million tonnes per annum, delivering around a third of the Governments' first Emissions Reduction Budget[4]. The RAP continues to provide the lowest carbon emissions option for delivering fuel to New Zealand's largest market – Auckland.

Refining NZ has been the country's only oil refinery since it was established in 1961. In response to a significant decline in refining margins because of excess refining capacity in the Asian region, Refining NZ initiated a strategic review of the business in April 2020, to determine the optimal future business model and capital structure for the Company's future. This review included extensive engagement with a range of stakeholders including customers and Government regarding potential options for ongoing refinery operations and the potential conversion to import terminal operations.

For more information on Channel Infrastructure, please visit: https://www.refiningnz.com/what-is-channel-infrastructure/.

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Authorised by:

Chris Bougen
General Counsel and Company Secretary

Media contact

Laura Malcolm
communications@refiningnz.com
+64 21 02363 297

[4] Reference: Transitioning to a low-emissions and climate-resilient future: emissions reduction plan discussion document (https://environment.govt.nz/publications/emissions-reduction-plan-discussion-document/). The Company's emissions are expected to reduce by c. 3.5MT over the 2022 -2025 budget period.

Appendix – Estimated financial impacts of conversion (excluding private storage)

We set out below information regarding certain elements of the estimated financial impacts of the conversion on the Company, which updates the information provided in the Explanatory Booklet, dated 5 July 2021. It should be read together with the Explanatory Booklet, in particular Section 6 regarding the risks faced by the Company during and after the conversion and in light of the current uncertainty and disruption caused by the outbreak of COVID-19.

- First full year of terminal operations in 2023 expected to be:
    - c. $110 million revenue[5]
    - c. $35 – 38 million operating costs[6] (subject to electricity supply, transmission and distribution costs)
    - c. $12 million financing costs[7]
    - No income tax payable, based on available tax losses[8].
- Terminal capital expenditure expected to be in the range of $5-10 million per annum over the initial contract term.
- Total conversion cash costs (operating and capital) expected to be in the range of $200 to $220 million[9] over 5-6 years with around two thirds currently expected to be spent to the end of 2022.
- Channel Infrastructure's dividend policy is expected to be based on a pay-out ratio of 60% – 70% of Free Cash Flow[10] and is intended to commence after an initial period of deleveraging to reduce leverage to below 4.5 times Net Debt/EBITDA.[11] Assuming the level and timing of conversion costs outlined above are achieved, the Company would expect dividends to recommence in 1-2 years following the commencement of ITS services.
- Impairment and revaluation work underway following FID, with results to be reflected in FY21 accounts.[12]

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[5] Estimated revenue includes $100 million terminal revenue and $10 million of other revenue as detailed in the Investor Presentation issued 5 July 2021.

[6] Operating costs excluding conversion operating costs.

[7] Financing costs based on current terms, hedged positions and current BKBM.

[8] See section 4.8 of the Explanatory Booklet dated 5 July 2021 for more information.

[9] See section 4.6 of the Explanatory Booklet dated 5 July 2021 for more information. Note that this excludes financing costs and demolition costs (expected to occur 10+ years post conversion).

[10] Adjusted net cash generated from operations less maintenance capex.

[11] The Board reserves the right to adjust the pay-out ratio or expected timing for the recommencement of dividends should the timing, costs or revenue associated with the conversion (including new services such as Private Storage Services) or the import terminal business change. The dividend policy will be subject to the Board's due consideration of the Company's medium-term asset investment programme; a sustainable financial structure for the Company, recognising the targeted investment grade rating (within five years of the Services Effective Date); and the risks from short and medium term economic and market conditions and estimated financial performance.

[12] See section 4.7 of the Explanatory Booklet dated 5 July for more information.

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