The New Zealand Refining Company Limited Group

Consolidated Financial Statements

For the year ended

31 December 2021

Contents

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTE	GROUP 2021 $000	GROUP 2020 $000
INCOME			
Revenue	4	**231,742**	233,937
Other income	4	**2,352**	11,810
TOTAL INCOME	3, 4	**234,094**	245,747
EXPENSES			
Purchase of process materials and utilities		**72,083**	82,119
Materials and contractor payments		**18,243**	19,992
Wages, salaries and benefits		**40,511**	61,532
Administration and other costs		**30,411**	31,681
TOTAL EXPENSES		**161,248**	195,324
EARNINGS BEFORE DEPRECIATION, IMPAIRMENT, CONVERSION COSTS, FINANCE COSTS AND INCOME TAX		**72,846**	50,423
Depreciation and disposal costs	11	**84,038**	87,218
Conversion costs	15	**175,516**	-
Impairment of assets	11, 18	**567,361**	223,697
TOTAL DEPRECIATION, DISPOSALS, CONVERSION COSTS AND IMPAIRMENT		**826,915**	310,915
NET LOSS BEFORE FINANCE COSTS AND INCOME TAX		**(754,069)**	(260,492)
FINANCE COSTS			
Finance income		**(112)**	(176)
Finance cost		**11,103**	11,096
NET FINANCE COSTS		**10,991**	10,920
NET LOSS BEFORE INCOME TAX		**(765,060)**	(271,412)
Income tax credit	6	**(212,431)**	(73,133)
NET LOSS AFTER INCOME TAX		**(552,629)**	(198,279)
ATTRIBUTABLE TO:			
Owners of the Parent		**(552,629)**	(198,279)

EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE NEW ZEALAND REFINING COMPANY LIMITED		**CENTS**	CENTS
Basic and diluted earnings per share	7	**(173.9)**	(63.5)

THE ABOVE CONSOLIDATED INCOME STATEMENT IS TO BE READ IN CONJUNCTION WITH THE NOTES ON PAGES 8 TO 50.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTE	GROUP 2021 $000	GROUP 2020 $000
NET LOSS AFTER INCOME TAX		**(552,629)**	(198,279)
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to the Income Statement			
Defined benefit plan actuarial gain/(loss)	20(c)	**20,225**	(4,130)
Revaluation of property, plant and equipment	11	**587,182**	-
Deferred tax	6(b)	**(170,074)**	1,156
Total items that will not be reclassified to the Income Statement		**437,333**	(2,974)
Items that may be subsequently reclassified to the Income Statement			
Movement in cash flow hedge reserve	22	**(2,209)**	11,092
Deferred tax	6(b)	**619**	(3,106)
Total items that may be subsequently reclassified to the Income Statement		**(1,590)**	7,986
TOTAL OTHER COMPREHENSIVE INCOME, AFTER INCOME TAX		**435,743**	5,012
TOTAL COMPREHENSIVE LOSS FOR THE YEAR, AFTER INCOME TAX		**(116,886)**	(193,267)
ATTRIBUTABLE TO:			
Owners of the Parent		**(116,886)**	(193,267)

THE ABOVE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME IS TO BE READ IN CONJUNCTION WITH THE NOTES ON PAGES 8 TO 50.

Consolidated Balance Sheet

AS AT 31 DECEMBER 2021

	NOTE	GROUP 2021 $000	GROUP 2020 $000
ASSETS			
Cash and cash equivalents	17	**16,069**	43,289
Trade and other receivables	16	**139,847**	160,894
Income tax receivable		**684**	677
Derivative financial instruments	22	**5,263**	8,766
Inventories	18	**2,015**	4,431
TOTAL CURRENT ASSETS		**163,878**	218,057
NON-CURRENT ASSETS			
Inventories	18	**3,719**	14,176
Derivative financial instruments	22	**4,875**	371
Intangibles	12	**27,059**	9,968
Property, plant and equipment	11	**869,137**	881,884
Investment property	11	**6,200**	5,250
Right-of-use assets	10	**650**	3,335
Deferred tax assets	6	**82,059**	34,857
TOTAL NON-CURRENT ASSETS		**993,699**	949,841
TOTAL ASSETS		**1,157,577**	1,167,898
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	19	**155,167**	162,752
Derivative financial instruments	22	**387**	725
Lease liabilities	10, 17	**805**	202
Employee benefits	20	**9,937**	6,897
Provisions	15	**87,088**	4,372
TOTAL CURRENT LIABILITIES		**253,384**	174,948
NON-CURRENT LIABILITIES			
Derivative financial instruments	22	**-**	974
Borrowings	9, 17	**199,698**	274,611
Lease liabilities	10, 17	**1,600**	3,940
Provisions	15	**98,349**	7,802
Employee benefits	20	**7,953**	44,819
Deferred tax liabilities	6	**101,105**	96,874
TOTAL NON-CURRENT LIABILITIES		**408,705**	429,020
TOTAL LIABILITIES		**662,089**	603,968
NET ASSETS		**495,488**	563,930

Comparatives for Property, Plant and Equipment, Investment properties, Employee benefits and Provisions have been updated to ensure consistency between financial reporting periods.

Consolidated Balance Sheet
AS AT 31 DECEMBER 2021

	NOTE	GROUP 2021 $000	GROUP 2020 $000
EQUITY			
Contributed equity	8	**313,974**	266,057
Revaluation reserve	8, 11	**422,771**	-
Treasury stock	8, 23	**(1,168)**	(896)
Employee share scheme entitlement reserve	8, 23	**1,586**	779
Cash flow hedge reserve	8, 22	**3,708**	5,298
Retained earnings		**(245,383)**	292,692
TOTAL EQUITY		**495,488**	563,930

THE ABOVE CONSOLIDATED BALANCE SHEET IS TO BE READ CONJUNCTION WITH THE NOTES ON PAGES 8 TO 50.

THE BOARD OF DIRECTORS OF THE NEW ZEALAND REFINING COMPANY LIMITED AUTHORISED THESE CONSOLIDATED FINANCIAL STATEMENTS FOR ISSUE ON 22 FEBRUARY 2022.

For and on behalf of the Board:

SC Allen

S C Allen
Director

JB Miller

J B Miller
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2021

GROUP	NOTE	CONTRIBUTED EQUITY $000	REVALUATION RESERVE $000	TREASURY STOCK $000	EMPLOYEE SHARE SCHEME ENTITLEMENT RESERVE $000	CASH FLOW HEDGE RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
AT 1 JANUARY 2020		265,771	-	(960)	681	(2,688)	493,940	756,744
COMPREHENSIVE INCOME								
Net loss after income tax		-	-	-	-	-	(198,279)	(198,279)
Other comprehensive income								
Movement in cash flow hedge reserve	22	-	-	-	-	11,092	-	11,092
Defined benefit actuarial loss	20(c)	-	-	-	-	-	(4,130)	(4,130)
Deferred tax on other comprehensive income	6	-	-	-	-	(3,106)	1,156	(1,950)
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS), AFTER INCOME TAX		-	-	-	-	7,986	(2,974)	5,012
TRANSACTIONS WITH OWNERS OF THE PARENT								
Equity-settled share-based payments	23	-	-	-	448	-	-	448
Shares vested to employees	23	-	-	350	(350)	-	-	-
Treasury shares issued		286	-	(286)	-	-	-	-
Unclaimed dividends written back		-	-	-	-	-	5	5
TOTAL TRANSACTIONS WITH OWNERS OF THE PARENT		286	-	64	98	-	5	453
AT 31 DECEMBER 2020		266,057	-	(896)	779	5,298	292,692	563,930

THE ABOVE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IS TO BE READ IN CONJUNCTION WITH THE NOTES ON PAGES 8 TO 50.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2021

GROUP	NOTE	CONTRIBUTED EQUITY $000	REVALUATION RESERVE $000	TREASURY STOCK $000	EMPLOYEE SHARE SCHEME ENTITLEMENT RESERVE $000	CASH FLOW HEDGE RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
AT 1 JANUARY 2021		266,057	-	(896)	779	5,298	292,692	563,930
COMPREHENSIVE INCOME								
Net loss after income tax		-	-	-	-	-	(552,629)	(552,629)
Other comprehensive income								
Revaluations of property, plant and equipment	11	-	587,182	-	-	-	-	587,182
Movement in cash flow hedge reserve	22	-	-	-	-	(2,209)	-	(2,209)
Defined benefit actuarial gain	20(c)	-	-	-	-	-	20,225	20,225
Deferred tax on other comprehensive income	6	-	(164,411)	-	-	619	(5,663)	(169,455)
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS), AFTER INCOME TAX		-	422,771	-	-	(1,590)	14,562	435,743
TRANSACTIONS WITH OWNERS OF THE PARENT								
Equity-settled share-based payments	23	-	-	-	1,076	-	-	1,076
Shares vested to employees	23	-	-	269	(269)	-	-	-
Treasury shares issued	23	541	-	(541)	-	-	-	-
Equity issue	8	47,376	-	-	-	-	-	47,376
Unclaimed dividends written back		-	-	-	-	-	(8)	(8)
TOTAL TRANSACTIONS WITH OWNERS OF THE PARENT		47,917	-	(272)	807	-	(8)	48,444
AT 31 DECEMBER 2021		313,974	422,771	(1,168)	1,586	3,708	(245,383)	495,488

THE ABOVE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IS TO BE READ IN CONJUNCTION WITH THE NOTES ON PAGES 8 TO 50.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTE	GROUP 2021 $000	GROUP 2020 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**221,353**	224,044
Payment for supplies and other expenses		**(118,277)**	(128,379)
Payments to employees		**(57,352)**	(57,518)
Interest received		**112**	176
Interest paid		**(10,566)**	(11,267)
Net GST paid		**(567)**	(1,041)
Income tax (paid)/received		**(8)**	5,609
NET CASH INFLOW FROM OPERATING ACTIVITIES	17	**34,695**	31,624
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		**(33,447)**	(33,939)
Proceeds from sale of intangibles		**1,947**	13,320
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(31,500)**	(20,619)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayments of)/proceeds from bank borrowings		**(75,000)**	27,900
Net proceeds from issue of share capital		**47,376**	-
Lease payments	10	**(2,782)**	(871)
Unclaimed dividends		**(9)**	-
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES		**(30,415)**	27,029
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(27,220)**	38,034
Cash and cash equivalents at the beginning of the year		**43,289**	5,255
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**16,069**	43,289

THE ABOVE CONSOLIDATED STATEMENT OF CASH FLOWS IS TO BE READ IN CONJUNCTION WITH THE NOTES PAGES 8 TO 50.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

REPORTING ENTITY

The New Zealand Refining Company Limited ('Parent', 'Company' or 'Refining NZ') is a profit-oriented company registered under the Companies Act 1993 and an FMC Reporting Entity for the purposes of the Financial Markets Conduct Act 2013. Refining NZ is listed, and its ordinary shares are quoted on the NZX Main Board Equity Market ('NZX Main Board') and its subordinated notes quoted on the NZX Debt Market.

The consolidated financial statements (hereinafter 'financial statements') for the year ended 31 December 2021 presented are those of Refining NZ together with its subsidiaries ('the Group'). Subsidiaries are all entities over which the Group has control and includes Independent Petroleum Laboratory Limited, Channel Terminal Services Limited (previously named Maranga Ra Limited) and Maranga Ra Holdings Limited.

In November 2021, the Board made the Final Investment Decision to convert Refining NZ's principal business from a toll oil refinery into a dedicated fuel import terminal. These financial statements therefore reflect the last full year of refining operations as the New Zealand Refining Company Limited, which will be renamed to Channel Infrastructure NZ Limited (NZX:CHI) (Channel Infrastructure) from April 2022. Refer note 1 for further information.

BASIS OF PREPARATION

These consolidated financial statements for the year ended 31 December 2021 comply with:

- The Financial Markets Conduct Act 2013;
- Generally Accepted Accounting Practice in New Zealand ('NZ GAAP');
- New Zealand equivalents to the International Financial Reporting Standards ('NZ IFRS'), International Financial Reporting Standards (IFRS) and other authoritative pronouncements of the External Reporting Board, as appropriate for for-profit entities.

Effective 31 December 2021 the Group has changed its accounting policy for the measurement of property, plant and equipment from historical cost to a fair value model, as disclosed in Note 11. The change in accounting policy was made to provide readers of the financial statements with reliable and more relevant information regarding the value of the infrastructure assets, owned and operated by the Group, in accordance with NZ IAS *16 Property, plant and equipment* and NZ IAS 8 *Accounting policies, changes in accounting estimates and errors*.

The consolidated financial statements are prepared on the historical cost basis, except for property, plant and equipment, investment properties, derivative financial instruments and plan assets (included in the net defined benefit pension plan liability) which are measured at fair value.

The consolidated financial statements are prepared on a GST exclusive basis and presented in New Zealand dollars ($) which is the Group's functional currency, and the financial information has been rounded to the nearest thousand dollars ($000), unless otherwise stated.

Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2021

Use of judgements and estimates

The preparation of financial statements requires directors and the Management to make certain judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The areas involve estimates and assumptions that can significantly affect the amounts recognised in the consolidated financial statements:

- **Fair value and useful lives of property, plant and equipment –** the Group adopted the fair value model as the measurement base for property, plant and equipment during the reporting period. Refer to note 11 for further details.

- **Provisions –** the Group has recognised several provisions in relation to the conversion of the refinery into a dedicated fuel import terminal. Refer to note 15 for further details.

- **Recoverability of tax losses** – the Group has recognised a deferred tax asset in respect of unutilised tax losses accumulated to 31 December 2021. Refer to note 6 for further details.

- **Going concern –** these financial statements have been prepared on a going concern basis. Management and the Board consider that this is appropriate based on the Group's current cash position and available credit facilities.

  The Company expects to operate the refinery cash neutral under a Fee Floor scenario through to refinery closure, with the Terminal Services Agreements coming into effect from 1 April 2022. The Group expects to have sufficient liquidity to debt fund the expected conversion costs in the next twelve months. Refer to Note 1 for further information relating to the import terminal conversion.

SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to all periods presented, except for the change in Group's accounting policy in relation to the measurement base of property, plant and equipment from historical cost to a fair value model (refer to note 11 for further details).

There were no new and amended accounting standards mandatory for the year ended 31 December 2021 that were considered to have a material impact to the Group. The IASB has issued a number of standards, amendments and interpretations which are not yet effective, of which an impact on the Group's consolidated financial statements is not yet determined.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

1 Import terminal conversion

In April 2020 the Refining NZ Board announced a Strategic Review to determine the optimal business model and capital structure for its assets to maximise "through the cycle" returns to shareholders and deliver secure, competitive fuel supply to New Zealand.

Decision to convert to an import terminal

As a result of the Review, the Company simplified the refinery operations effective 1 January 2021 and in parallel continued to evaluate a future, staged conversion to a dedicated fuel import terminal.

A proposal was presented to shareholders to convert Refining NZ's Marsden Point site into a dedicated fuel import terminal and to cease operations as a toll oil refinery (the "Proposal") on 5 July 2021. The Proposal was approved by Shareholders on 6 August 2021.

On 22 November 2021, the Company announced that it had entered into long-term agreements with bp, Mobil and Z Energy for the provision of import terminal services, consistent with the terms described in the Explanatory Booklet and approved by shareholders. 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 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.

Conversion Costs

Total conversion cash costs (operating and capital) are expected to be in the range of $200 to $220 million incurred over the next five to six years, and c.$50 to $60 million of demolition costs longer-term. Any costs that meet the recognition criteria have been provided for as at 31 December 2021. Refer to note 15 for further details.

Impact on Financial Reporting

a) In the year ended 31 December 2021:

These financial statements have been prepared based on Group operations and include Management's best estimate of the impacts of the decision to convert from a refinery to an import terminal, including:

- **A non-cash impairment of refinery assets** (including property, plant and equipment, right-of-use assets and inventories) amounting to $567 million ($408 million net of tax) being recognised in the Consolidated Income Statement – refer to notes 10, 11 and 18 for further details**.**

- **A revaluation of fuel import terminal's property, plant and equipment to fair value** amounting to $587 million ($423 million net of tax) being recognised in the

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

Consolidated Statement of Comprehensive Income **–** refer to note 11 for further details.

- **Provision recognition in relation to the import terminal conversion** amounting to $176 million ($127 million net of tax) being recognised in the Consolidated Income Statement – refer to note 15 for further details.

b) Following conversion to an import terminal from April 2022:

- **Segmental reporting**
  Refining operations will cease on commencement of import terminal operations, which is expected to result in the Oil Refining segment being presented as 'discontinued operations' from that time, and the consequential alignment of reportable segments to the internal reporting for the import terminal.

2 COVID-19 Pandemic

In March 2020 the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19. Global refining margins have remained significantly lower than the historical average during 2020 and 2021 due to the on-going fuel demand reduction – particularly jet fuel – resulting from travel and transport restrictions.

In response to the continued significant fuel demand reduction resulting from travel and transport restrictions and the consequential reduction in revenue through weak global refining margins and lower refinery throughputs (resulting in revenue at the Fee Floor in both 2020 and 2021), Refining NZ implemented the simplified refinery model from January 2021 by reducing refining capacity and workforce.

During the Level 3 and Level 4 lockdowns and subsequent restrictions (under the 'traffic light' settings as defined under the COVID-19 Protection Framework), all safety critical work continued, however, non-essential activity was limited. The Company established strict protocols to limit on-site personnel to essential staff only during periods of elevated COVID risk and lockdowns, and to separate key operational staff and shifts. In parallel, the Company's employees and contractors were offered on-site vaccinations.

The lockdowns, especially those imposed in Auckland, resulted in lower demand for fuels from customers, resulting in the refining plant periodically being operated at reduced throughputs. Pipeline volumes were also significantly lower than pre-COVID-19 levels, predominantly due to lower jet fuel demand from the Auckland Airport.

The below outlines revenue impacts for the year ended 31 December 2021 from continued weak refiner's margins and lower pipeline throughputs:

- Our customers were invoiced the Fee Floor amounting to c. $140.5 million during the year ended 31 December 2021 (consistent with the previous corresponding period). The actual processing fee earned from operations was below the fee floor, resulting in $32.5 million (31 December 2020: $90 million) being paid by Customers as Fee Floor payments as outlined in Note 4.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

- Pipeline throughputs in the year ended 31 December 2021 were 13.4 million barrels, around 9% lower than the previous corresponding period and 36% lower than in the 2019 (pre-COVID-19), predominantly due to reduction in demand for jet fuel into Auckland International Airport and Auckland lock-downs.

3 Segment reporting

(a) Identification and description of reportable segments and reporting measures

Management reviews the Group's internal reporting in order to assess performance and allocate resources including the definition of operating segments – oil refining and infrastructure:

- **Oil Refining –** the Company operates the Marsden Point oil refinery as a toll processor.
- **Infrastructure –** the Company owns infrastructure to support the distribution of manufactured products to its customers, including the Refinery to Auckland Pipeline (RAP) which transfers product to the Wiri Oil terminal located in South Auckland. In addition, the segment includes laboratory testing services undertaken by Independent Petroleum Laboratory Limited.
- **Inter-segment** – represents transactions between segments carried out on normal commercial terms.

Currently Management primarily uses revenue and adjusted earnings before depreciation, impairment, conversion costs, finance costs and income tax (or 'Adjusted EBITDA') of the Parent Company as measures to assess the performance of the operating segments. For Non-GAAP information refer to note 26.

Assets and liabilities information, depreciation, finance income and costs and taxes are managed on a Group basis and are therefore not presented as part of the segment information.

Revenue derived from major customers, and the relevant operating segments, is disclosed in note 5.

Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2021

(b) Segment results

31 DECEMBER 2021	NOTE	OIL REFINING $000	INFRASTRUCTURE $000	TOTAL $000
External customer	4	**187,104**	**46,990**	**234,094**
Inter-segment		**-**	**4,276**	**4,276**
TOTAL INCOME (*)		**187,104**	**51,266**	**238,370**
Adjusted EBITDA(**)	26	**33,839**	**35,429**	**69,268**

31 DECEMBER 2020		OIL REFINING $000	INFRASTRUCTURE $000	TOTAL $000
External customer	4	200,423	45,324	245,747
Inter-segment		-	4,219	4,219
TOTAL INCOME (*)		200,423	49,543	249,966
Adjusted EBITDA(**)	26	25,912	32,666	58,578

(*) prior to consolidation eliminations
(**) Adjusted EBITDA is adjusted earnings before depreciation, impairment, conversion costs, finance costs and income tax

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

4 Income

Processing fees, pipeline fees and other services provided by the Group are identified as distinct performance obligations which are satisfied over time and for which a transaction price is separately determined and allocated.

Revenue from other contracts (primarily relating to provision of services) is recognised over time as goods or services are delivered to customers. Rental income from operating leases (including Wiri Oil terminal rental) is recognised on a straight-line basis in accordance with the substance of the relevant agreements. No significant judgement is involved in the price determination and allocation. An output method is applied to measure progress of the services provided.

The Group does not have contracts with customers where significant financing components, non-cash considerations or consideration payable to customers, obligations for refunds or specific warranties would exist.

FOR THE YEAR ENDED 31 DECEMBER 2021	GROUP 2021 $000	GROUP 2020 $000
Comprises:		
Processing fees	**140,465**	141,601
Natural Gas recovery	**25,431**	30,156
Other refining related income	**20,101**	18,139
REFINING REVENUE	**185,997**	189,896
Pipeline fees	**29,437**	29,283
Other distribution income	**13,110**	11,750
DISTRIBUTION REVENUE	**42,547**	41,033
Other operating revenue	**3,198**	3,008
TOTAL REVENUE	**231,742**	233,937
Other income	**2,352**	11,810
TOTAL INCOME	**234,094**	245,747

The processing fee revenue is subject to a Fee Floor, which comes into effect if the total processing fee for a calendar year is below a minimum value. Actual processing fee revenue was circa $108 million in 2021 (2020: $50 million) compared to the guaranteed revenue of $140.5m (the Fee Floor) resulting in c.$32.5 million (2020: $90 million) earned as Fee Floor top-up payments from customers.

Included in other income was a gain on sale of assets of $1.1 million (2020: $5.9 million). (2020 also included $5.1 million of COVID-19 wages subsidy received from the New Zealand Government).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

5 Related parties

(a) Shareholders and other related parties

The Group enters into transactions with the oil companies who are also shareholders of the Parent, and Wiri Oil Services Limited (Wiri Oil), a company that is owned by shareholders of the Parent. Details of shareholdings as at 31 December are:

	2021 %	2020 %
bp New Zealand Holdings Limited (BP)	**8.48**	10.09
Mobil Oil New Zealand Limited (Mobil)	**14.44**	17.18
Z Energy Limited (Z Energy)	**12.90**	15.34

The nature, transactions and balances with the shareholders and other related parties are as follows:

- **Processing fees** – separate processing agreements with each of the three oil companies have been in place since 1995. These agreements will be terminated and replaced with the long-term Terminal Services Agreements, upon commencement of import terminal services expected to occur in April 2022. Refer to note 1.

  In 2021 c. 89% (2020: c.91%) of the Group's total revenue was earned under the processing agreements. For credit terms refer to note 21.

- **Distribution revenue –** includes Refinery to Auckland Pipeline fees, terminaling and handling fees associated with products imported by the oil companies, as well as other income associated with the Wiri Oil infrastructure that is owned by the Parent Company and located on the land owned by Wiri Oil. These fees are earned under the existing Processing Agreements which will be replaced by the Terminal Services Agreements upon commencement of import terminal services expected to occur in April 2022. Refer to note 1.

  The land and plant are leased back to Wiri Oil. The leases are non-cancellable operating leases, which expire in February 2025 with no right of renewal. At the end of the lease term, ownership of the Wiri Oil terminal reverts to Wiri Oil Services Limited.

- **Excise Duty** – collected from the Oil Companies and paid to the New Zealand Customs Service on the same day each month (refer notes 16 and 19) and is included in the below balances outstanding as at 31 December. Following the commencement of import terminal services, the Company will no longer be a Customs Controlled Area and will therefore cease to collect and pay excise duty as described above.

- **Purchases of goods and services –** the Group purchases sulphur, a by-product of the refining process, which is on sold to third parties, and other fuels. In addition, a portion of insurance premium in relation to material damage and business interruption is paid to companies related to shareholders.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

Revenue, purchases and other charges from related parties

	Revenue*				Purchases				Other charges			
	TRANSACTION VALUES FOR THE YEAR ENDED 31 DECEMBER		BALANCES OUTSTANDING AS AT 31 DECEMBER		TRANSACTION VALUES FOR THE YEAR ENDED 31 DECEMBER		BALANCES OUTSTANDING AS AT 31 DECEMBER		TRANSACTION VALUES FOR THE YEAR ENDED 31 DECEMBER		BALANCES OUTSTANDING AS AT 31 DECEMBER	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
BP	**60,958**	59,160	**20,569**	40,402	**1,159**	96	**105**	58	**401**	372	**-**	-
Mobil	**56,231**	57,781	**54,451**	21,431	**1,181**	148	**70**	139	**526**	571	**-**	-
Z Energy	**89,208**	96,581	**59,000**	92,795	**1,431**	141	**269**	95	**-**	-	**-**	-
Wiri Oil	**6,955**	7,004	**45**	42	**-**	-	**-**	-	**-**	-	**-**	-
TOTAL	**213,352**	220,526	**134,065**	154,670	**3,771**	385	**444**	292	**927**	943	**-**	-

* Revenue excludes excise duty.

(b) Directors' fees and key management personnel compensation

Directors' fees and key management personnel remuneration paid during the financial year were as follows:

	GROUP 2021 $000	GROUP 2020 $000
Salaries and other short-term employee benefits	**3,319**	3,915
Post-employment benefits	**123**	115
TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION	**3,442**	4,030
Directors' fees	**790**	779
TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION & DIRECTORS' FEES	**4,232**	**4,809**

Salaries and other short-term employee benefits in 2020 include fees paid to Mr P Zealand totalling $187,000 who acted as Managing Director during the period February to April 2020 to assist in the CEO transition.

The cost associated with the key management personnel's share scheme (not included in the above key management personnel compensation) amounts to $0.9 million (2020: $0.2 million). Refer to note 23 for further information.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

6 Taxation

(a) Income tax expense

	NOTE	GROUP 2021 $000	GROUP 2020 $000
Net loss before income tax expense		**(765,060)**	(271,412)
Tax at the New Zealand corporate income tax rate of 28% (2020: 28%)		**(214,217)**	(75,995)
Tax effect of amounts which are either non-deductible or taxable in calculating taxable income:			
Income not assessable for tax		**-**	(1,286)
Expenses not deductible for tax		**1,220**	3,783
Adjustments in respect of current income tax in respect of previous years		**566**	365
INCOME TAX EXPENSE		**(212,431)**	(73,133)
Represented by:			
Current tax expense		**(5)**	(389)
Deferred tax recognised in the income statement	6(b)	**(212,426)**	(72,744)
INCOME TAX EXPENSE		**(212,431)**	(73,133)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

(b) Deferred tax

	NET DEFERRED TAX ASSET / (LIABILITY) 1 JAN 2020	RECOGNISED IN PROFIT OR LOSS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	NET DEFERRED TAX ASSET / (LIABILITY) 31 DEC 2020	DEFERRED TAX ASSET	DEFERRED TAX LIABILITY
	$000	$000	$000	$000	$000	$000
Property, plant and equipment	(156,909)	63,031	-	(93,878)	-	(93,878)
Provisions	3,305	(2,053)	-	1,252	1,252	-
Employee benefits	13,012	781	1,156	14,949	14,949	-
Financial instruments	1,044	-	(3,106)	(2,062)	-	(2,062)
Intangibles	493	(719)	-	(226)	-	(226)
Right-of-use assets	(513)	(195)	-	(708)	-	(708)
Leases	565	227	-	792	792	-
Inventory	1,344	947	-	2,291	2,291	-
Tax losses	4,848	10,725	-	15,573	15,573	-
TOTAL	(132,811)	72,744	(1,950)	(62,017)	34,857	(96,874)

	NET DEFERRED TAX ASSET / (LIABILITY) 1 JAN 2021	RECOGNISED IN PROFIT OR LOSS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	NET DEFERRED TAX ASSET / (LIABILITY) 31 DEC 2021	DEFERRED TAX ASSET	DEFERRED TAX LIABILITY
	$000	$000	$000	$000	$000	$000
Property, plant and equipment	**(93,878)**	**158,795**	**(164,411)**	**(99,494)**	**-**	**(99,494)**
Provisions	**1,252**	**41,125**	**-**	**42,377**	**42,377**	**-**
Employee benefits	**14,949**	**2,693**	**(5,663)**	**11,979**	**11,979**	**-**
Financial instruments	**(2,062)**	**-**	**619**	**(1,443)**	**-**	**(1,443)**
Intangibles	**(226)**	**1,099**	**-**	**873**	**873**	**-**
Right-of-use assets	**(708)**	**540**	**-**	**(168)**	**-**	**(168)**
Leases	**792**	**95**	**-**	**887**	**887**	**-**
Inventory	**2,291**	**4,136**	**-**	**6,427**	**6,427**	**-**
Tax losses	**15,573**	**3,943**	**-**	**19,516**	**19,516**	**-**
TOTAL	**(62,017)**	**212,426**	**(169,455)**	**(19,046)**	**82,059**	**(101,105)**

The Group has unused tax losses of $70.0 million (2020: $54.9 million) available to carry forward. A deferred tax asset in respect of these unutilised tax losses has been recognised. On the basis that at least a 49% continuity of shareholding is maintained, Management and the Board believe that future taxable profits will be available against which the tax losses can be recovered and therefore the deferred tax asset can be realised.

Any significant change in the shareholding of Refining NZ, or adverse change in future earnings and profitability, could limit the Company's ability to realise the deferred tax asset. Specifically, in case of shareholder continuity breach occurring prior to the import terminal conversion, the carry forward of tax losses would be subject to the Business Continuity Test and therefore dependent on "there being no major" or a "permitted major change" in the business.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

7 Earnings per share

Earnings per share is calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of ordinary shares on issue during the year. The Company's share-based payments described in note 23 have no material dilutive effect on the earnings per share.

		NOTE	TOTAL 2021	TOTAL 2020
Loss after tax attributable to shareholders of the Company	($000)		**(552,629)**	(198,279)
Weighted average number of shares on issue	000's	8	**317,756**	312,293
BASIC AND DILUTED EARNINGS PER SHARE	Cents		**(173.9)**	(63.5)

8 Equity and dividends

Contributed Equity. The issued capital of the Company as at 31 December 2021 is represented by 372,223,477 ordinary shares (2020: 312,893,643) issued and fully paid, less 1,175,163 (2020: 519,859) treasury shares held by CRS Nominees Limited. All ordinary shares rank equally with one vote attached to each ordinary share.

In 2021 the Parent issued 47,022,683 shares as an institutional placement, and 11,716,235 shares pursuant to a Share Purchase Plan (SPP). The issue shares rank equally with existing fully paid ordinary shares.

Revaluation reserve. Revaluation reserve represents an accumulated revaluation gain on property, plant and equipment valued at fair value. Please refer to note 11 for further details.

Treasury stock. Treasury stock represents the value of shares acquired by CRS Nominees Limited on-market, or shares issued by the Company, in respect of the Employee Share Purchase Scheme (refer to note 23).

Employee share entitlement reserve. The employee share entitlement reserve is used to recognise the fair value of shares granted but not vested to employees (as part of the Employee Share Purchase Scheme) or to the Chief Executive within the Share Rights Scheme. Amounts are transferred to share capital when the shares vest to the employee (refer to note 23).

Cash flow hedge reserve. The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in the Consolidated Income Statement (refer to note 22).

Dividends. No dividends were paid or declared in 2021 (2020: nil). Imputation credits available to shareholders, subject to 66% shareholder continuity, for subsequent reporting periods amount to $20.9 million as at 31 December 2021 (2020: $20.9 million).

Notes to the Consolidated Financial Statements

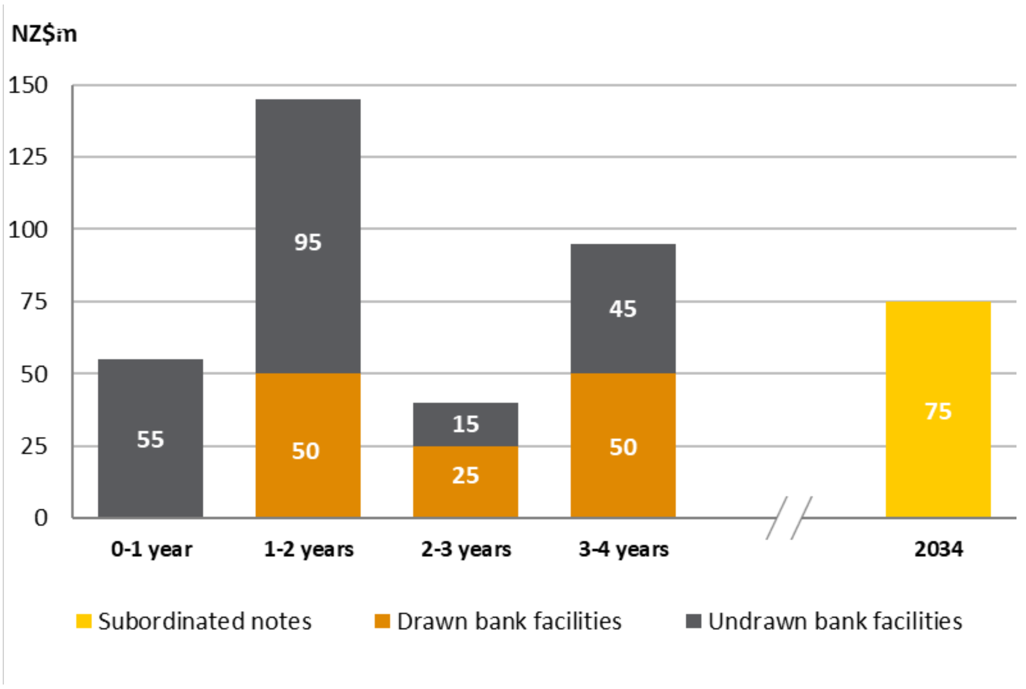
FOR THE YEAR ENDED 31 DECEMBER 2021

9 Borrowings

The carrying amounts of borrowings approximate their fair value. The borrowings are unsecured. The Parent can determine which revolving cash advance facility will be drawn upon to meet funding requirements. The Parent borrows under a negative pledge arrangement which requires certain certificates and covenants.

In 2021, the Company extended its $25 million facility maturing in September 2021 out to March 2023 and increased its existing committed bank facilities by $30 million with maturities between December 2022 and March 2023. As at 31 December 2021 total committed facilities amounted to $335 million (or $410 million including the subordinated notes on issue). The weighted average total debt tenor as at 31 December 2021 was 3.7 years.

The maturity profile of the Company's borrowing facilities as at 31 December 2021, including the utilisation of those facilities and undrawn amounts is as follows:



The carrying value of the subordinated notes as at 31 December 2021 amounts to $74.7 million. The difference between the carrying value and the $75 million face value is due to unamortised issue costs and accrued interest. The subordinated notes expire on 1 March 2034, noting that the first election date, when the Company may either redeem the notes or to offer new conditions to the noteholders, is in March 2024.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

10 Right-of-use assets and lease liabilities

Lease liabilities as at 31 December 2021 are associated with the lease of the oil tanker jetty seabed and offices. The right-of-use asset is depreciated over the period until the expiry of the lease.

The Group also has leases of platinum held in catalysts, used in the oil refining process. As at 31 December 2021, following the decision to convert to an import terminal, the Group recognised an impairment of the right-of-use assets associated with platinum, while the lease liability continues to be recognised until the expiry of the leases.

There are no restrictions or covenants imposed by leases, or exposure arising from residual value guarantees.

The Consolidated Balance Sheet shows the following amounts relating to right-of-use assets and lease liabilities:

	GROUP 2021 $000	GROUP 2020 $000
Right-of-use assets		
Opening net book value	**3,335**	4,028
Additions	**-**	273
Lease extensions and modifications	**540**	659
Depreciation charge	**(952)**	(455)
Impairment	**(2,273)**	(1,170)
CLOSING NET BOOK AMOUNT	**650**	3,335
Cost	**801**	5,581
Accumulated depreciation and impairments	**(151)**	(2,246)
NET BOOK AMOUNT, INCLUDING:	**650**	3,335
Freehold land and improvements	**524**	545
Buildings and jetties	**126**	178
Refining Plant	**-**	1,395
Catalysts	**-**	1,217

	GROUP 2021 $000	GROUP 2020 $000
Lease liabilities		
Opening lease liability	**4,142**	3,454
Additions	**-**	284
Lease extensions and modifications	**540**	659
Revaluations	**175**	(55)
Lease payments (capital portion)	**(2,452)**	(200)
CLOSING LEASE LIABILITY, INCLUDING:	**2,405**	4,142
Current	**805**	202
Non-current	**1,600**	3,940

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

The Consolidated Income Statement includes the following amounts in relation to leases:

	GROUP 2021 $000	GROUP 2020 $000
Depreciation charge	**952**	455
Impairment	**2,273**	1,170
Interest expense (included in Finance costs)	**330**	352
Expense relating to short-term leases (included in Administration and other costs)	**208**	190
Expense relating to leases of low-value assets that are not short term leases (included in Administration and other costs)	**343**	427

The total cash outflow for leases in 2021 was $2.8 million (2020: $0.9 million).

11 Property, plant and equipment, and investment property

Property, plant and equipment are included in the negative pledge arrangement as detailed in note 9.

(a) Impairment of property, plant and equipment

The Final Investment Decision taken by the Board on 22 November 2021, to cease refining operations from April 2022, has resulted in the Company recognising a non-cash impairment of all refining assets (part of property, plant and equipment that will not be used in the import terminal operations). The impairment of property, plant and equipment amounted to c.$552 million and is reflected in the Consolidated Income Statement as "Impairment of assets", together with the impairment of inventories (c.$13 million) (refer to note 18) and right-of-use assets (c.$2 million). (Total impairment charge of $567 million (2020: $224 million)). The residual value of refining assets was assessed at $34 million, based on an independent assessment of the scrap value of refining plant (post demolition) and the fair value of refining units that could be sold or used in the production of renewable fuels.

(b) Revaluation of property, plant and equipment

Effective from 31 December 2021, the Group has changed its accounting policy in relation to property, plant and equipment from a historical cost measurement base to a revaluation model. The change in accounting policy was made to provide readers of the financial statements with more relevant information regarding the value of the infrastructure assets, owned and operated by the Group, in accordance with NZ IAS *16 Property, plant and equipment* and NZ IAS 8 *Accounting policies, changes in accounting estimates and errors* (refer to note 1).

All property, plant and equipment is recognised at fair value less accumulated depreciation, except capital work in progress which is recognised at historical cost. Any surplus on revaluation of property, plant and equipment is transferred directly to the Revaluation Reserve unless it offsets a previous decrease in value recognised in the Consolidated Income Statement, in which case it is recognised in the Consolidated Income Statement. A deficit on revaluation of property, plant and equipment is recognised in the Consolidated Income Statement in the

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

period it arises where it exceeds any surplus previously transferred to the Revaluation Reserve.

The carrying amount of the Group's property, plant and equipment that will be used in the import terminal, under the cost model was $248 million as at 31 December 2021.

(c) Fair valuation of import terminal property, plant and equipment

The Company engaged PwC, a qualified independent valuer to provide a valuation of the Group's import terminal property, plant and equipment as at 31 December 2021. The valuation, undertaken in accordance with *NZ IAS 16 – Property, Plant and Equipment* and *NZ IFRS 13 – Fair Value Measurement,* established a "fair value" based on the price a market participant could obtain from selling the assets in an orderly, well-structured competitive sales process, and includes the benefit from a higher tax depreciable value of property, plant and equipment for an acquirer. The net present value methodology was used to determine a market participants sales value.

The fair value of assets (excluding the value of capital work in progress, surplus land and residual value of refining assets) was determined to be in the range of $756 million to $822 million, with a mid-point valuation of $793 million used for asset revaluation purposes. This valuation exceeded the carrying value of property, plant and equipment by $587 million which was recognised through the Consolidated Statement of Comprehensive Income (Revaluation Reserve). As a consequence of the revaluation, accumulated depreciation on the import terminal assets has been reset to nil.

The key assumptions underpinning the valuation include:

- **Fuel demand forecasts.** Demand forecasts were formulated by a third party oil and gas market expert, and are largely consistent with the outlook presented in the Explanatory Booklet dated 5 July 2021 (issued for the purpose of the August 2021 Shareholder's Meeting in connection with a proposal to convert to an import terminal).

  According to the demand outlook, petrol and diesel demand will start declining from circa 2025 and 2030, respectively. While there is significant uncertainty in relation to the future demand and demand peaks, this outlook was largely in line with the Climate Change Commission's report on New Zealand's carbon budgets issued in June 2021. Jet fuel demand forecasts have a wide range due to the uncertainty around COVID-19 recovery and viable alternative sources of energy for air travel, however expert forecasts have demand forecast to recover to pre-COVID-19 levels by 2027, growing until circa 2040. The valuation forecast includes a terminal value at a negative growth rate of 2.5% after the 30-year forecast period.

- **Import terminal fees.** Terminal fees were estimated based on the fuel demand forecasts for the Company, and the pricing that is consistent with Terminal Services Agreements and Private Storage Agreements agreed with the customers, and subject to a PPI escalation.

- **Operating costs and capital spend.** Operating costs and capital spend associated with the fuel only import terminal operation are largely consistent with the earlier provided market guidance on 29 November 2021, and subject to inflationary increase in the

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

longer-term. Cash flows used for import terminal asset valuation exclude those conversion costs that are related to refining assets and winding up of refining operations.

- **Discount rate.** The independent valuer has used a nominal post-tax weighted average cost of capital range between 6.4% to 7.1%, with a mid-point estimate of 6.7%.

Tax amortisation benefit. As set out above, it is assumed that in a well-structured, competitive sales process, an acquirer would ascribe full value to the higher depreciable tax base of the property, plant and equipment in an asset acquisition. Based on the mid-point valuation of $793 million, this would amount to c.$100 million.

The following table outlines a range of sensitivities associated with each of the key assumptions, across the full period modelled and based on a range of potential outcomes for each of these assumptions. It should be noted that changes in a combination of the key assumptions could also have a significant impact upon the fair valuation:

	Sensitivity	Valuation impact
Volumes	+/-10%	$55m / ($52m)
Operating costs	+/-10%	($42m) / $43m
Capital expenditure	+/-20%	($18m) / $18m
Discount rate	+/-1%	($132m) / $105m

(d) Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment other than freehold land and capital work in progress which are not depreciated.
The standard useful lives used by the Group are as follows:

	Useful lives (years)
Freehold improvements	5-50
Buildings and jetties	5-50
Plant	5-50
Refinery to Auckland Pipeline	10-78
Equipment and vehicles	3-25

The depreciation charge for the year comprises:

	NOTE	GROUP 2021 $000	GROUP 2020 $000
Depreciation on Property, Plant and Equipment	11(e)	**82,657**	86,550
Depreciation on Right-to-Use Assets	10	**952**	455
Loss on disposal of Property, Plant and Equipment		**429**	213
DEPRECIATION CHARGE		**84,038**	87,218

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

11 Property, plant and equipment and investment property *(continued)*

(e) Summary of fixed assets movements

	NOTE	FREEHOLD LAND AND IMPROVEMENTS $000	BUILDINGS AND JETTIES $000	REFINING PLANT $000	EQUIPMENT AND VEHICLES $000	REFINERY TO AUCKLAND PIPELINE $000	IMPORT TERMINAL SYSTEM $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000	INVESTMENT PROPERTY $000
AT 1 JANUARY 2020										
Cost		77,093	200,943	3,032,031	134,204	224,621	-	77,379	3,746,271	5,250
Accumulated depreciation		(55,546)	(106,602)	(2,203,948)	(94,655)	(119,469)	-	-	(2,580,220)	-
NET BOOK AMOUNT		21,547	94,341	828,083	39,549	105,152	-	77,379	1,166,051	5,250
YEAR ENDED 31 DECEMBER 2020										
Opening net book value		21,547	94,341	828,083	39,549	105,152	-	77,379	1,166,051	5,250
Additions/transfers		916	8,867	32,392	911	(18)	-	(17,957)	25,111	-
Disposals		-	-	(225)	-	-	-	-	(225)	-
Depreciation charge	11(d)	(1,743)	(5,279)	(71,258)	(4,343)	(3,927)	-	-	(86,550)	-
Impairment of assets		-	(75)	(211,100)	-	-	-	(11,328)	(222,503)	-
CLOSING NET BOOK AMOUNT		20,720	97,854	577,892	36,117	101,207	-	48,094	881,884	5,250
AT 31 DECEMBER 2020										
Cost		78,009	208,615	3,053,708	135,346	224,603	-	59,422	3,759,703	5,250
Accumulated depreciation and impairment losses		(57,289)	(110,761)	(2,475,816)	(99,229)	(123,396)	-	(11,328)	(2,877,819)	-
NET BOOK AMOUNT		20,720	97,854	577,892	36,117	101,207	-	48,094	881,884	5,250

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTE	FREEHOLD LAND AND IMPROVEMENTS $000	BUILDINGS AND JETTIES $000	REFINING PLANT $000	EQUIPMENT AND VEHICLES $000	REFINERY TO AUCKLAND PIPELINE $000	IMPORT TERMINAL SYSTEM $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000	INVESTMENT PROPERTY $000
YEAR ENDED 31 DECEMBER 2021										
Opening net book value		20,720	97,854	577,892	36,117	101,207	-	48,094	881,884	5,250
Additions		-	13,198	5,555	1,254	-	-	15,140	35,147	-
Disposals		-	-	-	-	-	-	(429)	(429)	-
Depreciation charge	11(d)	(1,496)	(10,579)	(62,219)	(4,951)	(3,412)	-	-	(82,657)	-
Impairment of assets		(8,644)	(72,321)	(421,665)	(10,831)	-	-	(38,530)	(551,991)	-
NET BOOK AMOUNT AFTER IMPAIRMENTS		10,580	28,152	99,563	21,589	97,795	-	24,275	281,954	5,250
Transfers		(6,236)	(28,152)	(65,863)	(21,589)	(97,795)	219,635	-	-	-
Revaluation		11,275	-	-	-	-	575,907	-	587,182	950
CLOSING NET BOOK AMOUNT		15,619	-	33,700	-	-	795,542	24,275	869,136	6,200
AT 31 DECEMBER 2021										
Revalued amount		15,619	-	33,700	-	-	795,542	24,275	869,136	6,200
Accumulated depreciation		-	-	-	-	-	-	-	-	-
NET BOOK AMOUNT		15,619	-	33,700	-	-	795,542	24,275	869,136	6,200

Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2021

12 Intangibles

Intangibles relate to New Zealand Units (NZUs), being carbon units issued under the New Zealand Emissions Trading Scheme (NZ ETS) by the Crown to the Parent company pursuant to the Company's Negotiated Greenhouse Agreement (NGA), which will come to an end with the cessation of refining activities from April 2022.

NZUs are recognised at historical cost and presented on a gross basis, i.e. intangibles represent all carbon units held by the Company at balance date, including those that are expected to be surrendered to the Crown.

Carbon units have an indefinite useful life as they remain in indefinite circulation under the NZ ETS. A review of useful lives and an impairment assessment has taken place as at year end, concluding that the useful life remains appropriate, and the intangibles are not impaired (2020: Nil).

13 Operating leases

Lease income from operating leases, where the Group is a lessor, are recognised as income on a straight-line basis over the period of the lease.

The Group has the following leases where it acts as a lessor:
- Lease of land and refining plant located at Wiri, South Auckland, to Wiri Oil Services Limited (refer to note 5) under a non-cancellable operating lease which expires in February 2025 with no right of renewal. The annual Wiri land and terminal lease income and cost are recognised on a straight-line basis over the period of lease and amounted to $0.5 million and $6.0 million, respectively, in 2021 (2020: $0.5 million and $6.0 million);
- Lease of some surplus land at Marsden Point – the original lease ending in 2021 was renewed by the lessor for another period of 21 years.

	GROUP 2021 $000	GROUP 2020 $000
Lease payments receivable from operating leases where the Group is a **lessor**		
- No later than one year	**6,663**	6,589
- One to five years	**8,536**	14,692
- Beyond five years	**2,088**	-
TOTAL	**17,287**	21,281

14 Contractual commitments

Commitments are related to asset purchases and other on-going contractual commitments as at the reporting date but not provided for in the consolidated financial statements. As at 31 December 2021 the total contractual commitments amounted to $21.5 million (31 December 2020: $20.2 million), and are primarily related to site reconsenting obligations and import terminal conversion project costs.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

15 Provisions

Provisions are liabilities of uncertain timing and amount, recognised where the Group has an obligation (legal or constructive) whose settlement will require an outflow of resources and can be reliably measured.

All provisions are recognised in amounts reflecting the present value of future expected cash outflows. In estimating the provisions, the Group assumed an inflation rate of 1.9% (2020: 1.5%) and discount rates between 1.3% and 3.1% (2020: 3.58%), respectively.

As outlined in note 1, the Group recognised a number of provisions as a result of the import terminal conversion.

	SHUT DOWN AND DECOMMISSIONING	DEMOLITION AND RESTORATION	WORKFORCE AND OTHER PROVISIONS	TOTAL
	$000	$000	$000	$000
AT 1 JANUARY 2020	-	11,800	1,302	13,102
Additions	-	-	4,372	4,372
Disposals	-	(5,100)	(400)	(5,500)
Finance costs	-	200	-	200
AT 31 DECEMBER 2020	-	6,900	5,274	12,174
Current	-	-	4,372	4,372
Non-current	-	6,900	902	7,802

	SHUT DOWN AND DECOMMISSIONING	DEMOLITION AND RESTORATION	WORKFORCE AND OTHER PROVISIONS	TOTAL
	$000	$000	$000	$000
AT 1 JANUARY 2021	**-**	**6,900**	**5,274**	**12,174**
Additions - conversion related	**88,395**	**55,380**	**31,741**	**175,516**
Additions - other	**-**	**6,776**	**-**	**6,776**
Disposals	**(5,150)**	**-**	**(4,372)**	**(9,522)**
Finance costs	**123**	**322**	**48**	**493**
AT 31 DECEMBER 2021	**83,368**	**69,378**	**32,691**	**185,437**
Current	**60,924**	**460**	**25,704**	**87,088**
Non-current	**22,444**	**68,918**	**6,987**	**98,349**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

The provisions as at 31 December 2021 include:

- **Refinery shut-down and decommissioning**

Costs associated with the staged shut-down of refining assets and the subsequent decommissioning of redundant assets which are not suitable for immediate repurposing. This includes the de-inventorying, de-energising and isolation of redundant assets to leave them in a safe condition for future demolition. Redundant assets include the refinery processing units, surplus tanks, piping and other equipment not required for terminal operation and surplus utility infrastructure including boilers and a portion of the electrical system.

- **Demolition and restoration**

Included in demolition and restoration provisions is the demolition of select refining assets, assumed to occur 10 years after the import terminal conversion, as well as jetty demolition at the end of the lease period.

The Company also recognised a provision associated with environmental obligations resulting from Refining NZ's commitments, as part of the resource consents obtained in April 2021, to continue maintaining 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.

As a condition of the resource consent, Refining NZ has also committed to work with the Northland Regional Council ahead of time (during the 20th year of consent or at least 12 months prior to the cessation of terminal operations) to set out the actions necessary to maintain compliance for the discharges of contaminants. Given the unknown nature of the future activities that may be agreed with the Northland Regional Council, no liability has been recognised in the Consolidated Balance Sheet other than the cost associated with ongoing environmental monitoring activities over a period of 20 years. (Refer to note 24).

- **Workforce and other provisions**

As a result of the transition, the current Group's workforce of c.300 is expected to reduce over the two years following commencement of import terminal operations to c.70 employees. The total cost of the workforce transition and restructure (including employee benefits such as long service leave and retirement provisions that were previously separately recognised as Employee Benefits in the Consolidated Balance Sheet) is estimated at $26 million.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

16 Trade and other receivables

	NOTE	GROUP 2021 $000	GROUP 2020 $000
Processing fees		**11,939**	11,967
Product distribution		**4,204**	3,027
Other trade receivables		**4,461**	3,696
Excise duty	19	**114,222**	135,793
Derivatives pending settlement		**-**	929
Other receivables and prepayments		**5,021**	5,482
TOTAL TRADE AND OTHER RECEIVABLES		**139,847**	160,894

Trade receivables in respect of processing fees and distribution are due from customers, non-interest bearing and are normally settled on 7 to 21-day terms.

Excise duty receivable is due from customers and collected by the Parent on behalf of the New Zealand Customs Service and paid on the same day each month (corresponding offset is presented as a payable in note 19).

Other receivables and prepayments generally arise from transactions outside the usual operating activities of the Group, for example prepaid insurance premiums.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Therefore, the Group does not adjust any of the transaction prices for the time value of money.

No allowance for impairment loss has been recognised as at 31 December 2021 (2020: Nil). Credit risk disclosures required pursuant to NZ IFRS 9 are outlined in note 21(b).

The carrying value of trade receivables approximates their fair values.

Trade and other receivables related party balances are disclosed in note 5.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

17 Cash and cash equivalents

The Group's cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash.

Reconciliation of net cash flow from operating activities to reported loss:

	NOTE	GROUP 2021 $000	GROUP 2020 $000
NET LOSS AFTER INCOME TAX		**(552,629)**	(198,279)
Adjusted for:			
Depreciation and disposal costs	11(d)	**84,038**	87,218
Impairment		**567,361**	223,697
Movement in deferred tax	6(b)	**(42,971)**	(70,794)
Add movement in deferred tax on items included in other comprehensive income	6(b)	**(169,455)**	(1,950)
Movement in provisions	15	**173,263**	(4,841)
Less (increase)/decrease in provisions relating to property, plant and equipment		**(17,739)**	5,096
Employee share scheme entitlement reserve	23	**1,076**	448
(Increase)/decrease in intangibles	12	**(17,091)**	12,169
Less proceeds from sale of intangibles		**(1,947)**	(13,320)
Interest and other non-cash movements		**(4,879)**	(679)
Impact of changes in working capital items			
Decrease/(increase) in trade and other receivables	16	**21,047**	(15,831)
(Decrease)/increase in trade and other payables	19	**(7,585)**	(8,266)
Less increase/(decrease) in trade and other payables relating to property, plant and equipment and intangibles		**291**	4,392
Less other non-cash increase in trade and other payables		**2,650**	-
(Decrease)/increase in employee benefits	20	**(33,826)**	7,333
Less employee entitlements included in other comprehensive income	20(c)	**20,225**	(4,130)
(Increase)/decrease in income tax receivable		**(7)**	5,218
Decrease in inventories	18	**12,873**	4,143
NET CASH INFLOW FROM OPERATING ACTIVITIES		**34,695**	31,624

In the Consolidated Statement of Cash Flows, the deposits placements and withdrawals and bank borrowings receipts and repayments are presented on a net basis as their turnover is quick, amounts are large, and the maturities are relatively short.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

The below sets out an analysis of the Group's liabilities for which cash flows have been, or will be, classified as financing activities in the statement of cash flows:

	CASH AND CASH EQUIVALENTS $000	BORROWINGS DUE WITHIN ONE YEAR $000	BORROWINGS DUE AFTER ONE YEAR $000	NET DEBT POSITION $000	FINANCE LEASE DUE WITHIN ONE YEAR $000	FINANCE LEASE DUE AFTER ONE YEAR $000	TOTAL $000
NET (CASH)/ DEBT AS AT 1 JANUARY 2020	(5,255)	-	246,616	241,361	248	3,206	244,815
Cash flows (Cash)	(38,034)	-	27,995	(10,039)	-	-	(10,039)
Finance lease payments	-	-	-	-	(200)	-	(200)
Other non-cash movements	-	-	-	-	154	734	888
NET (CASH)/DEBT AS AT 1 JANUARY 2021	**(43,289)**	**-**	**274,611**	**231,322**	**202**	**3,940**	**235,464**
Cash flows	**27,220**	**-**	**(74,913)**	**(47,693)**	**-**	**-**	**(47,693)**
Finance lease payments	**-**	**-**	**-**	**-**	**(2,782)**	**-**	**(2,782)**
Other non-cash movements	**-**	**-**	**-**	**-**	**3,385**	**(2,340)**	**1,045**
NET (CASH)/DEBT AS AT 31 DECEMBER 2021	**(16,069)**	**-**	**199,698**	**183,629**	**805**	**1,600**	**186,034**

Cash and cash equivalents include $3.0 million (2020: $4.6 million) held by Refining NZ's electricity futures broker as collateral and $4.9 million (2020: nil) held as cash prudential for spot electricity purchases.

18 Inventories

Inventories have reduced significantly due to an impairment of the refinery's stock and spare parts recognised as at 31 December 2021 of $13.1 million (2020: $8.2 million) under "Impairment of assets" in the Consolidated Income Statement (together with an impairment of property, plant and equipment, and right-of-use assets).

The consumption of inventories is recognised as part of the purchase of process materials and utilities and materials and contractor payments expense lines in the Consolidated Income Statement.

Inventories are included in the negative pledge arrangement (refer note 9).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

19 Trade and other payables

	NOTE	GROUP 2021 $000	GROUP 2020 $000
Trade payables		**21,321**	22,563
Derivatives pending settlement		**1,417**	-
Goods services tax payable		**354**	909
Deferred income	12	**17,853**	3,487
Excise duty	15	**114,222**	135,793
TOTAL TRADE AND OTHER PAYABLES		**155,167**	162,752

Trade payables are unsecured, non-interest bearing and are usually paid within 30 days of recognition.

Changes to excise duties have no direct impact on the results of the Group as they are collected from the oil companies (note 16) and paid to the New Zealand Customs Service on the same day each month.

Deferred income relates to the New Zealand Units (NZUs) received in advance – refer to note 12.

Trade and other payables related party balances are disclosed in note 5.

20 Employee benefits

Liabilities for employee benefits comprise the following:

		2021			2020		
	NOTE	CURRENT $000	NON-CURRENT $000	TOTAL $000	CURRENT $000	NON-CURRENT $000	TOTAL $000
Defined benefit pension plan	20(a)	**-**	**4,227**	**4,227**	-	32,733	32,733
Medical plan	20(a)	**48**	**3,726**	**3,774**	17	7,185	7,202
Wages, salaries, annual leave and sick leave		**9,542**	**-**	**9,542**	6,466	-	6,466
Long-service leave and retirement bonus		**347**	**-**	**347**	414	4,901	5,315
TOTAL		**9,937**	**7,953**	**17,890**	6,897	44,819	51,716

Defined benefit pension plan (scheme closed since 31 December 2002)

Nature of benefits

The Parent contributes to a defined benefit pension plan (the "Plan") for eligible employees. The defined benefit pension plan obligation is calculated annually by independent actuaries using the projected unit credit method, at present value of the estimated future cash outflows using interest rates of government bonds that have terms to maturity approximating the terms of the related pension liability.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

Total membership of the scheme as at 31 December 2021 was 131 (2020: 192) and includes:

- current staff members contributing to the scheme, who have pension entitlements based on final salary and membership;
- retirees/pensioners receiving regular pension payments;
- members receiving disability pensions, which can be paid from the Plan until normal retirement age.

The Fund was curtailed during 2021 on recognition of the restructuring outlined in Note 15 (2020: Nil), refer to "Restructuring curtailment", following the closure of the refinery (refer to note 1) and new employment agreements in place for Channel Terminal Services Limited which exclude Defined Benefit Pension Plan benefits.

Regulatory framework

The Financial Markets Authority licenses and supervises regulated superannuation schemes. The Fund is an employer related restricted workplace savings scheme under the Financial Markets Conduct Act 2013 (the Act).

The Act requires an actuarial valuation to be performed for each defined benefit superannuation scheme at least every three years to assess whether the Company's current level of contributions to the Plan is sufficient to meet future obligations (funding valuation).

Responsibilities for the governance of the fund

The Trustees of the Fund are responsible for the governance of the Fund. The Trustees are appointed by the Company and have a legal obligation to act solely in the best interests of the Fund beneficiaries. The Trustees have the following roles:

- Administration of the Fund and payment to the beneficiaries from Plan assets when required in accordance with the Plan rules.
- Management and investment of the Plan assets.
- Compliance with superannuation law and other applicable regulations.

Description of risks

Under the defined benefit pension plan the Group has a legal obligation to pay further contributions if the Fund does not hold sufficient assets to pay all employees the benefits they are entitled to. There are a number of risks that could expose the Company to such a shortfall; the more significant risks being:

- **Investment returns** – the funding valuation assumes a certain return on assets, which will be available to fund liabilities. Lower than assumed returns could require the Company to increase contributions to offset the shortfall.
- **Life expectancy** – the majority of the Plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the Plan's liabilities.

The Plan liabilities are calculated, for financial reporting purposes, using a discount rate set with reference to New Zealand Government Bonds. A decrease in the government bond yield will increase Plan liabilities for financial reporting purposes, but not necessarily impact upon the funding requirements of the Company.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

Restructuring curtailment

In November 2021, the Company recognised a provision for restructuring costs associated with the transition from a refinery to an import terminal as described further in note 1. This triggered the curtailment of the defined benefit pension plan, resulting in a curtailment gain of $1.6 million (or $2.4 million including contributions tax) being recognised in the Consolidated Income Statement as part of "wages, salaries and other benefits".

Cash-Out offer

In May 2021, the Company offered pensioner members of the defined benefit pension plan the choice of converting some or all of their pension benefits to a one-off cash lump sum. In total 65 pension fund members accepted the offer. In addition, seven former members of the fund were made redundant as part of the refinery simplification (refer to note 1). Total settlement payments in relation to the cash-out offer and redundancies amounted to $25.4 million, extinguishing defined benefit obligations of $30.2 million, resulting in a settlement gain of $4.7 million (or $7.0 million including contributions tax). The settlement gain was recognised in the Consolidated Income Statement as part of "wages, salaries and other benefits".

Medical plan (scheme closed since 1996)

The Parent pays health insurance premiums in respect of nine former employees (2020: 15 former and current employees) when they retire, until their death. This scheme was closed in 1996 and has not been offered to new employees since. The medical plan is accounted for in a similar manner to the defined benefit plan outlined above, with an accounting valuation performed by an independent actuary at each balance date.

In 2021, beneficiaries of the medical plan were offered the choice of converting their entitlements to post-retirement health insurance benefits to a one-off cash lump sum. Six retirees (2020: three retirees) accepted the cash out offer and a total of $0.6 million (2020: $0.1 million) was paid out to the beneficiaries, resulting in a settlement gain of $2.7 million (2020: $0.9 million) recognised in the Consolidated Income Statement as part of "wages, salaries and other benefits".

Long-service leave and retirement bonus

Long service leave and retirement bonuses are measured based on an actuarial assessment and represent the present value of the estimated future cash outflows, which are expected as a result of employee services provided up to the balance date.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

(a) Reconciliation of medical and defined benefit pension plan

	NOTE	MEDICAL PLAN PRESENT VALUE OF OBLIGATION $000	MEDICAL PLAN FAIR VALUE OF PLAN ASSETS $000	MEDICAL PLAN TOTAL $000	PENSION PLAN PRESENT VALUE OF OBLIGATION $000	PENSION PLAN FAIR VALUE OF PLAN ASSETS $000	PENSION PLAN TOTAL $000
AT 1 JANUARY 2020 EXCLUDING TAXES		(10,062)	-	(10,062)	(108,322)	91,634	(16,688)
Amounts recognised in consolidated Income Statement:							
Current service cost		-	-	-	(2,117)	-	(2,117)
Interest (expense)/income		(103)	-	(103)	(1,126)	939	(187)
Settlement gain		933	-	933	-	-	-
	20(b)	830	-	830	(3,243)	939	(2,304)
Amounts recognised in Other Comprehensive Income (excluding contributions tax):							
Actual return on plan assets less interest income		-	-	-	-	676	676
Actuarial losses arising from changes in assumptions		(745)	-	(745)	(5,310)	-	(5,310)
Actuarial gains arising from liability experience		2,397	-	2,397	759	-	759
	20(c)	1,652	-	1,652	(4,551)	676	(3,875)
Contributions:							
-Employers		-	-	-	-	936	936
-Plan participants		-	-	-	(394)	394	-
Benefits paid		379	-	379	5,458	(5,458)	-
Premiums and expenses paid		-	-	-	341	(341)	-
Net Liability Excluding Taxes		(7,201)	-	(7,201)	(110,711)	88,780	(21,931)
Contributions Tax							(10,802)
NET LIABILITY IN BALANCE SHEET 31 DECEMBER 2020				(7,201)			(32,733)

	NOTE	MEDICAL PLAN PRESENT VALUE OF OBLIGATION $000	MEDICAL PLAN FAIR VALUE OF PLAN ASSETS $000	MEDICAL PLAN TOTAL $000	PENSION PLAN PRESENT VALUE OF OBLIGATION $000	PENSION PLAN FAIR VALUE OF PLAN ASSETS $000	PENSION PLAN TOTAL $000
AT 1 JANUARY 2021 EXCLUDING TAXES		**(7,201)**	**-**	**(7,201)**	**(110,711)**	**88,780**	**(21,931)**
Amounts recognised in consolidated Income Statement:							
Current service cost		**-**	**-**	**-**	**(1,712)**	**-**	**(1,712)**
Interest (expense)/income		**(17)**	**-**	**(17)**	**(281)**	**229**	**(52)**
Settlement & curtailment gain		**2,657**	**-**	**2,657**	**6,323**	**-**	**6,323**
	20(b)	**2,640**	**-**	**2,640**	**4,330**	**229**	**4,559**
Amounts recognised in Other Comprehensive Income (excluding contributions tax):							
Actual return on plan assets less interest income		**-**	**-**	**-**	**-**	**7,869**	**7,869**
Actuarial losses arising from changes in assumptions		**328**	**-**	**328**	**6,017**	**-**	**6,017**
Actuarial losses arising from liability experience		**(318)**	**-**	**(318)**	**(342)**	**-**	**(342)**
	20(c)	**10**	**-**	**10**	**5,675**	**7,869**	**13,544**
Contributions:							
-Employers		**-**	**-**	**-**	**-**	**996**	**996**
-Plan participants		**-**	**-**	**-**	**(281)**	**281**	**-**
Benefits paid		**777**	**-**	**777**	**30,628**	**(30,628)**	**-**
Premiums and expenses paid		**-**	**-**	**-**	**358**	**(358)**	**-**
Net Liability Excluding Taxes	20(d)	**(3,774)**	**-**	**(3,774)**	**(70,001)**	**67,169**	**(2,832)**
Contributions Tax							**(1,395)**
NET LIABILITY IN BALANCE SHEET 31 DECEMBER 2021				**(3,774)**			**(4,227)**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

(b) Amounts recognised in the Consolidated Income Statement

	MEDICAL PLAN		PENSION PLAN	
	2021	2020	2021	2020
	$000	$000	$000	$000
Service cost	**-**	-	**1,712**	2,117
Net interest cost	**17**	103	**52**	187
Settlement & curtailment gain	**(2,657)**	(933)	**(6,323)**	-
Plan expense	**(2,640)**	(830)	**(4,559)**	2,304
Contributions tax	**-**	-	**(2,245)**	1,137
PLAN EXPENSE PLUS TAXES	**(2,640)**	(830)	**(6,804)**	3,441

(c) Amounts recognised in the Consolidated Statement of Comprehensive Income

	2021	2020
	$000	$000
Defined benefit actuarial gain/(loss)	**5,675**	(4,551)
Actual return on plan assets less interest income	**7,869**	676
Actuarial gain medical scheme	**10**	2,585
Gains arising from settlement	**-**	(933)
Total recognised in other comprehensive income	**13,554**	(2,223)
Contributions tax	**6,671**	(1,907)
Total recognised in other comprehensive income with contributions tax	**20,225**	(4,130)

(d) Fair value of defined benefit pension plan assets

	SIGNIFICANT INPUTS LEVEL 2
	$000
Net current assets	**376**
Debt instruments	**5,875**
Investment Funds – Composite Funds	**60,918**
TOTAL ASSETS	**67,169**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

The percentage invested in each asset class at the balance date are:

	PENSION PLAN	
	2021	**2020**
Australasian Equity	**9.9%**	11.1%
International Equity	**33.9%**	33.5%
Fixed Income	**33.9%**	33.1%
Cash	**9.5%**	10.8%
Property and Other	**12.8%**	11.5%

(e) Actuarial assumptions and funding arrangements

Assumptions are determined either by the Group in consultation with the independent actuary (such as expected rate of salary increases) or by the independent actuary (mortality in retirement, discount rate).

As at 31 December 2021 the following actuarial assumptions were applied:

	2021		2020	
	MEDICAL PLAN	**PENSION PLAN**	**MEDICAL PLAN**	**PENSION PLAN**
Discount rate	**2.7%**	**2.7%**	1.8%	1.7%
Expected rate of future salary increases	**-**	**-**	-	1.5%
Pension increases	**-**	**No provision**	-	No provision
Mortality in retirement	**2019 mortality table, set back by 1 year, together with an age related future mortality improvement scale.**		New Zealand Life Tables 2012-2014 mortality table, set back by 1 year, together with an age related future mortality improvement	
Health insurance premium	**8.0%**	**-**	8.0%	-
Rate of Fringe Benefit Tax	**49.25%**	**-**	42.86%	-

The average term at which the expected future discounted cash flows are due is 10 years (2020: 12 years). The average undiscounted expected term of all liabilities is 15 years (2020: 14 years). The 2021 assumptions do not include future salary increases due to the planned closure of the refinery as outlined in note 1, with new employment agreements in place for Channel Terminal Services Limited, excluding benefits of the Defined Benefit Pension Plan.

Expected employer contributions to the defined benefit pension plan and medical scheme in 2022 is $1.485 million (after the deduction of ESCT) and $0.16 million, respectively.

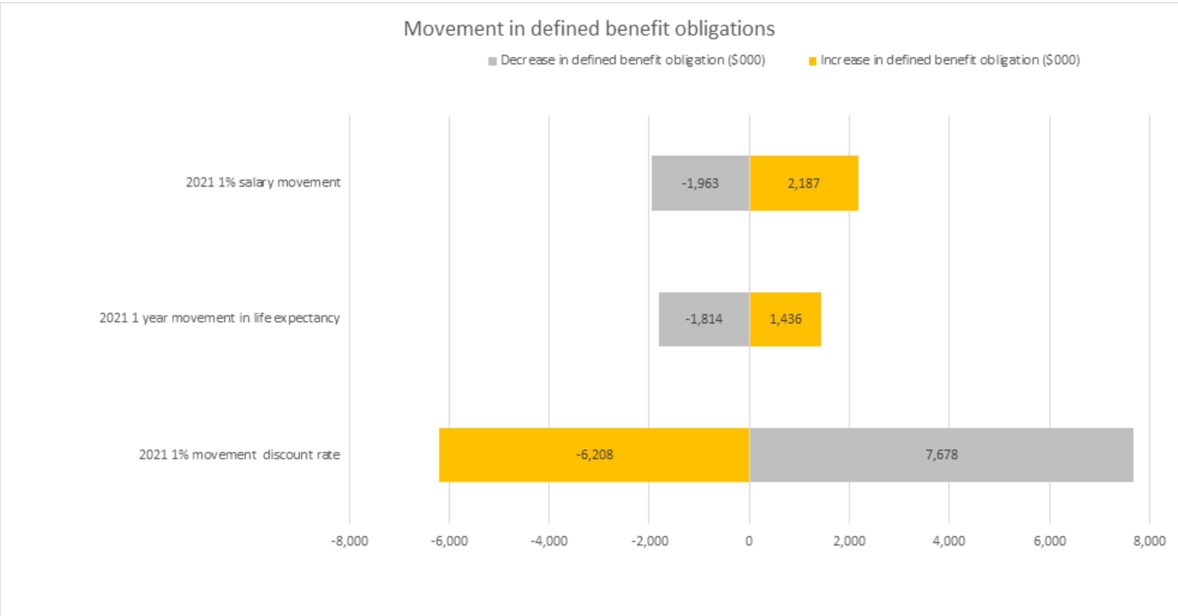
Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

The last full actuarial valuation performed under the Financial Markets Conduct Act 2013 was as at 31 March 2019 at which time the Defined Benefit Plan was fully funded based on the assumptions used by the Actuary. These assumptions were consistent with the actuarial assumptions outlined above, except for the discount rate determined based on the expected long-term future returns of the plan rather than the risk-free rate of return. The funding objective adopted at the 31 March 2019 funding valuation is to ensure that the Fund's assets are not less than the value of accrued benefits. The Company contributed a fixed amount of $1.5 million (including contributions tax at 33%) and a lump sum contribution to fund new disability pensions. The next statutory actuarial valuation will be completed in 2022.

(f) Sensitivity analysis – pension plan

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The methods and types of assumptions used in preparing the sensitivity analysis are consistent with those applied during the comparative reporting period.



Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

21 Financial risk management

The Group's activities expose it to a variety of financial risks (market, credit and liquidity) in the normal course of the Group's business.

Risk management is performed by the Management who evaluate and hedge certain financial risks including currency risk and interest rate risk under a Treasury Policy that is approved by the Board of Directors.

a) MARKET RISK

Market risk includes refining margin, electricity pricing, currency and interest rate risk.

Refining margin risk

The refining margin (margin) generated by the Group is a key input to the calculation of the processing fee revenue which is set as 70% of the gross refining margin generated, subject to a fee floor of circa $140.5 million (2020: $140 million), and margin cap of USD9.00 per barrel for each customer. This 70/30 split of the refining margin reflects the fact that Refining NZ's customers bear the risks and associated costs of crude purchasing, the finance and currency costs and risks associated with maintaining crude, feedstock and product inventories, shipping and demurrage risks and guaranteeing a minimum processing fee.

The margin is calculated as the typical market value of all the products produced, minus the typical market value of all feedstock processed. The typical market value of products is determined by using quoted prices for the products in Singapore plus the typical freight cost to New Zealand plus product quality premia. The typical value of feedstock is determined by using the market value for crude oil and other feedstock at the point of purchase, plus the typical cost of freight to New Zealand.

Refining margin risk is the risk of volatility in the typical product and feedstock prices to which the Group is exposed. The Group's revenue is likely to be impacted, favourably or unfavourably, during periods of market price volatility. The Group does not hedge this risk. The downside in the volatility of margin and foreign exchange risk is limited by the processing fee floor, which comes into effect if the total processing fee for a calendar year does not exceed a minimum value.

Processing fee revenue in 2021 was charged at the fee floor which accounted for 60% of the Group's total revenue (2020: 61% charged at the fee floor).

Electricity

The Group is also exposed to commodity price risk in relation to the purchase of electricity. This exposure exists as a result of the Group purchasing electricity via the New Zealand Electricity Wholesale Market, which is subject to price volatility caused by both demand/supply and transmission constraints. The Group uses electricity futures and Contracts for Differences to hedge the electricity price risk, with targeted coverage of forecast consumption up to three years.

Currency risk

The Group is exposed to foreign exchange risk as a result of transactions denominated in currencies other than the Group's functional currency. The primary currencies giving rise to the

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

currency risk are US dollar, Singaporean dollar, Euro and Australian dollar. Currency risk arises from the processing fee (being calculated in US dollars and billed in New Zealand dollars) and future commercial transactions (purchase of property, plant and equipment and goods or services).

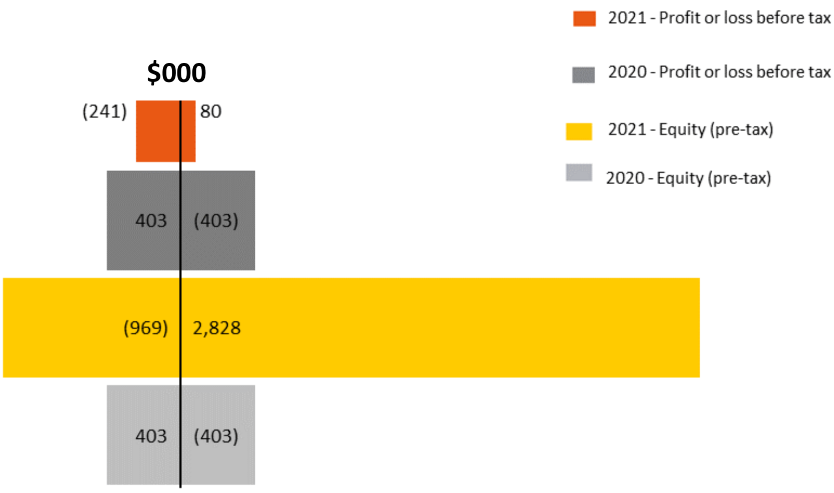
The Group may enter into hedging agreements with Board approval and in accordance with the Group's Treasury Policy which requires all purchases of all capital items of value exceeding certain thresholds to be hedged with either forward exchange contracts or currency options.

Interest rate risk

The Group's interest rate risk arises from fixed term borrowings at floating interest rates. The Group may use interest rate hedging instruments to manage interest rate risk.

Sensitivity analysis

The graphs below summarise the impact of interest rate risk exposure on the Group's profit before tax and equity (assuming all other factors remain unchanged). A decrease in interest rates by 25 basis points (bps) (2020: 25 bps) and an increase in interest rates of 75 basis points (2020: 25 bps) is considered by the Group reasonably possible over the short-term. It is noted that the equity impact includes the effect of the valuation of interest rate swaps which are recognised through the other comprehensive income (in accordance with hedge accounting).



As at 31 December 2021 the Company had $115 million swaps, including $40 million of forward start swaps (31 December 2020: Nil).

Noting that sensitivities of the electricity risk is not presented as the Company was fully hedged in 2020 and 2021, and the sensitivity of refining margins and currency is not shown due to the Company being at Fee Floor in the years 2020 and 2021.

b) CREDIT RISK

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers from outstanding receivables and committed transactions.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

For banks, only parties with a minimum long-term credit rating of A+ or A1 are accepted. Gross limits are set for financial institutions and the usage of these limits is determined by assigning product weightings to the principal amount of the transaction.

Transactions are spread across several counterparties to avoid concentrations of credit exposure. No credit limits were exceeded during the reporting period and Management does not expect any losses from non-performance by counterparties.

The Group is exposed to credit risk if counterparties fail to make payments as they fall due in respect of payment of trade receivables as invoices fall due 7-14 days for the Parent and 30 days for its subsidiary after being raised. The receivables from the oil companies (as disclosed in the related party note 5) present a concentration of credit risk, however, Management has assessed the credit quality of these customers as being high. Based on the analysis of the historical payments of the Group's customers and with reference to their credit rating and short payment terms, the Group assessed the expected credit losses in respect to 31 December 2021 receivables to be immaterial. No collateral is held over trade receivables.

The maximum exposure to credit risk at balance date is the carrying amount of the financial assets.

Overdue trade receivable balances at 31 December 2021, which were largely settled in January 2022, totalled $0.576 million (2020: $1.126 million).

c) LIQUIDITY RISK

The Group monitors rolling forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on the Group's undrawn borrowing facilities (note 9).

Surplus cash held by the Group over and above the balance required for working capital management is invested in interest bearing current accounts, term deposits, and money market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts.

Non-derivative financial liabilities

The following table sets out the maturity analysis for non-derivative financial liabilities based on the contractual terms as at balance date. The amounts presented are the contractual undiscounted cash flows and are based on the expiry of the bank facility or maturity of the subordinated notes.

The liquidity analysis set out below discloses cash outflows resulting from the financial liabilities only and does not consider expected net cash inflows from financial assets (including trade receivables) or undrawn debt facilities which provide liquidity support to the Group. Contractual cash flows associated with bank borrowings include interest for the period until the debt rollover date (typically within six months from the balance date) and subordinated notes include interest in the period until 1 March 2034.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

GROUP 2021		CONTRACTUAL CASH FLOWS						
		CARRYING AMOUNT	LESS THAN 6 MONTHS	BETWEEN 6 MONTHS -1 YEAR	BETWEEN 1-2 YEARS	BETWEEN 2-5 YEARS	OVER 5 YEARS	TOTAL CASH FLOWS
	NOTE	$000	$000	$000	$000	$000	$000	$000
NON-DERIVATIVE FINANCIAL LIABILITIES								
Trade payables	19	**(21,321)**	**(21,321)**	**-**	**-**	**-**	**-**	**(21,321)**
Lease liabilities	10	**(2,405)**	**(484)**	**(392)**	**(745)**	**(496)**	**(699)**	**(2,816)**
Bank borrowings	9	**(125,000)**	**(902)**	**-**	**(50,000)**	**(75,000)**	**-**	**(125,902)**
Subordinated notes	9	**(74,698)**	**(1,913)**	**(1,913)**	**(3,825)**	**(11,475)**	**(103,688)**	**(122,814)**
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES		**(223,424)**	**(24,620)**	**(2,305)**	**(54,570)**	**(86,971)**	**(104,387)**	**(272,853)**

GROUP 2020		CONTRACTUAL CASH FLOWS						
		CARRYING AMOUNT	LESS THAN 6 MONTHS	BETWEEN 6 MONTHS -1 YEAR	BETWEEN 1-2 YEARS	BETWEEN 2-5 YEARS	OVER 5 YEARS	TOTAL CASH FLOWS
	NOTE	$000	$000	$000	$000	$000	$000	$000
NON-DERIVATIVE FINANCIAL LIABILITIES								
Trade payables	19	(22,563)	(22,563)	-	-	-	-	(22,563)
Lease liabilities	10	(4,142)	(405)	(277)	(675)	(1,817)	(3,885)	(7,059)
Bank borrowings	9	(200,000)	(1,290)	345	(35,000)	(165,000)	-	(200,945)
Subordinated notes	9	(74,611)	(1,913)	(1,913)	(3,825)	(11,475)	(107,513)	(126,639)
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES		(301,316)	(26,171)	(1,845)	(39,500)	(178,292)	(111,398)	(357,206)

Derivative financial liabilities

The table below details the liquidity risk arising from derivative liabilities held by the Group at balance date. Derivative financial liabilities are split into the Gross settled derivatives which include foreign exchange forward contracts with the inflow being based on the foreign currency converted at the closing spot rate, and the net settled derivatives which include interest rate swaps (with the floating rate being based on the most recent rate set), electricity futures and contracts for differences.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

GROUP 2021				CONTRACTUAL CASH FLOWS				
	NOTE	CARRYING AMOUNT $000	LESS THAN 6 MONTHS $000	BETWEEN 6 MONTHS -1 YEAR $000	BETWEEN 1-2 YEARS $000	BETWEEN 2-5 YEARS $000	OVER 5 YEARS $000	TOTAL CASH FLOWS $000
DERIVATIVE FINANCIAL INSTRUMENTS								
Net settled derivatives	22	**9,751**	**1,761**	**2,806**	**(604)**	**(1,511)**	**-**	**2,452**
Gross settled derivatives								
Outflows		-	-	-	-	-	-	-
Inflows		-	-	-	-	-	-	-
Total gross settled derivatives		-	-	-	-	-	-	-
TOTAL DERIVATIVE FINANCIAL LIABILITIES	22	**9,751**	**1,761**	**2,806**	**(604)**	**(1,511)**	**-**	**2,452**

GROUP 2020				CONTRACTUAL CASH FLOWS				
	NOTE	CARRYING AMOUNT $000	LESS THAN 6 MONTHS $000	BETWEEN 6 MONTHS -1 YEAR $000	BETWEEN 1-2 YEARS $000	BETWEEN 2-5 YEARS $000	OVER 5 YEARS $000	TOTAL CASH FLOWS $000
DERIVATIVE FINANCIAL INSTRUMENTS								
Net settled derivatives	22	7,438	4,809	3,232	(603)	-	-	7,438
Gross settled derivatives								
Outflows		-	-	-	-	-	-	-
Inflows		-	-	-	-	-	-	-
Total gross settled derivatives	22	-	-	-	-	-	-	-
TOTAL DERIVATIVE FINANCIAL LIABILITIES	22	7,438	4,809	3,232	(603)	-	-	7,438

22 Derivative financial instruments

Derivatives are only used for economic hedging purposes and not as speculative investments. The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the cash flow hedge reserve. Hedge effectiveness is determined at inception of the hedge relationship, and through periodic effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The gain or loss relating to the ineffective portion is recognised immediately in other operating gains/losses in the Consolidated Income Statement.

The fair value of derivative financial instruments approximates their carrying value.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

The net movement in the cash flow hedge reserve comprises:

	2021 $000	2020 $000
Foreign exchange hedges transferred to property, plant and equipment	-	86
Interest rate swaps maturing in the year	-	3,566
Interest rate swaps entered into during the year	4,875	-
Electricity futures and contracts for differences entered into during the year	(436)	(561)
Electricity futures and contracts for differences settled in the year	(8,040)	(4,732)
Ineffective hedges - recycled to income statement	(4,523)	-
Movement in value of electricity futures held throughout the year	5,915	12,733
Gross movement in cash flow hedge reserve	**(2,209)**	11,092
Deferred tax	**619**	(3,106)
Net movement in cash flow hedge reserve	**(1,590)**	7,986

The ineffective hedges of $4.5 million relate to the release of an electricity over-hedge position given the Company's move to an import terminal in 2022 requiring significantly less electricity.

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months.

Financial instruments are measured at fair value using the following fair value measurement hierarchy:

Level 1 - Quoted prices from the Australian Securities Exchange (ASX) for electricity futures,
Level 2 - Inputs other than quoted prices included within level 1 that are observable for:

- Interest rate swaps: fair value calculated as the present value of the estimated future cash flows based on observable yield curves;
- Forward foreign exchange contracts: fair value determined using forward exchange rates at the balance date, with the resulting value discounted back to present value; and
- Contracts for differences: fair value determined using the inputs from active market (ASX) for electricity futures, adjusted for respective location factors.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTE	2021 ASSETS $000	2021 LIABILITIES $000	2020 ASSETS $000	2020 LIABILITIES $000
Cash flow hedges:					
- electricity futures and contracts for differences		**5,263**	**(387)**	8,766	(725)
TOTAL CURRENT PORTION		**5,263**	**(387)**	8,766	(725)
Cash flow hedges:					
- electricity futures and contracts for differences		**-**	**-**	371	(974)
- interest rate swaps		**4,875**	**-**	-	-
TOTAL NON-CURRENT PORTION		**4,875**	**-**	371	(974)
NET POSITION	21	**9,751**		7,438	

The effects of the derivative financial instruments on the Group's financial position and performance are as follows:

	FOREIGN EXCHANGE FORWARD CONTRACTS SGD	FOREIGN EXCHANGE FORWARD CONTRACTS USD	INTEREST RATE SWAPS	ELECTRICITY FUTURES AND CONTRACTS FOR DIFFERENCES
31 DECEMBER 2021				
Carrying amount – net asset/(liability) ($000)	-	-	**4,875**	**4,876**
Notional amount (equivalent of NZ$000)	-	-	**115,000**	**19,516**
Maturity date	-	-	**2026**	**2022**
Hedge ratio	-	-	**1:1**	**1:1**
Change in fair value of hedging instrument ($000)	-	-	**4,875**	**(2,562)**
Weighted average hedged rate	**SG$/NZ$** -	**US$/NZ$** -	-	**$113.1/MWh**
31 DECEMBER 2020				
Carrying amount – net asset/(liability) ($000)	-	-	-	7,438
Notional amount (equivalent of NZ$000)	-	-	-	45,097
Maturity date	-	-	-	2021-2022
Hedge ratio	-	-	-	1:1
Change in fair value of hedging instrument ($000)	(4)	90	3,566	8,174
Weighted average hedged rate	SG$/NZ$ -	US$/NZ$ -	-	$100.2/MWh

For all hedges the quantity of the hedging instrument matched the quantity of the hedged items therefore the hedge ratios were 1:1.

Electricity futures and contracts for differences are used to hedge highly probable cash flows associated with purchases of electricity at spot market and an ineffective portion of the hedge may occur due to a volume mismatch and location factor. During the financial year the hedge ineffectiveness from these cash flow hedges amounted to $4.5 million.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

23 Employee share-based payments

The Company operates the following share schemes:

- **A Chief Executive Share Rights Scheme** in the form of:

  - a grant of initial performance rights equivalent to one year's base salary ($995,000) that will vest on the fourth anniversary of commencement subject to vesting conditions being that the CEO has to remain in the role during the four-year period after grant date being the commencement of the employment;

  - performance rights equivalent to 25% of base salary on the first anniversary of the commencement date, 25% on the second anniversary and 50% on each successive anniversary, with each tranche having a three-year vesting period with a further year to vest.

  In April 2021, the 1st tranche of LTI performance rights under the CEO's employment agreement was offered, but voluntarily declined by the CEO recognizing the challenging and uncertain circumstances of the Company at that time.

  The number of share rights granted equals the gross value of the award divided by the volume weighted average price of the Company's shares for the 20 days prior to the grant date. Subject to vesting conditions, share rights convert to the Company's shares based on a zero exercise price.

  In the year ended 31 December 2021, the Company recognised an expense of $0.2 million (2020: $0.2 million) in relation to the Chief Executive Officer's share rights plan. The expense is measured at its fair value (determined based on the Company's share price and taking into account share liquidity discount and expected dividends) and recognised over the vesting period. The weighted average remaining life of the scheme is 2.3 years (31 December 2020: 3.3 years).

  The CEO's entitlements under the Share Rights Plan on vesting are capped at NZ$6 million.

- **Management Share Rights Scheme**
  An award of performance rights in the form of shares to incentivise and retain key members of management (including the Chief Executive) through the delivery of the conversion to import terminal operations in 2022.

  The number of share rights granted equals the gross value of the award divided by the volume weighted average price of the Company's shares for the 20 days prior to the grant date. The performance rights are subject to service and performance vesting conditions and convert into the Company's shares based on a zero exercise price.

  In 2021 the Company recognised an expense of $0.7 million (2020: Nil) in relation to the Management share rights scheme. The expense is measured at its fair value (determined based on the Company's share price and taking into account share liquidity discount and

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

expected dividends) and recognised over the vesting period. The weighted average remaining life of the scheme is 1.1 years.

- **An Employee Share Scheme ("ESS" or "Scheme").** The Scheme qualifies as an "Exempt ESS" under section CW26C of the Income Tax Act 2007 and is classified for accounting purposes as equity-settled transactions. In 2021 Eligible employees were offered in total $3,000 worth of shares during the year of award and increased by an employee contribution of $1. The shares are either purchased on market or issued, and held by CRS Nominees Limited, during a three-year vesting period. In 2021 the Company recognised an expense of $0.2 million (2020: $0.2 million) in relation to the Scheme.

Information regarding the number of shares and share rights awarded under the schemes is as follows:

	2021			2020	
	CEO SHARE RIGHTS SCHEME	MANAGEMENT SHARE RIGHTS SCHEME	EMPLOYEE SHARE SCHEME	CEO SHARE RIGHTS SCHEME	EMPLOYEE SHARE SCHEME
AT 1 JANUARY	**1,250,000**	**-**	**481,327**	-	392,838
Granted	**-**	**4,488,066**	**897,521**	1,250,000	317,190
Vested	**-**	**-**	**(246,723)**	-	(197,106)
Lapsed	**-**	**-**	**(65,647)**	-	(31,595)
AT 31 DECEMBER	**1,250,000**	**4,488,066**	**1,066,478**	1,250,000	481,327
Percentage of total ordinary shares (%)	**0.34%**	**1.21%**	**0.29%**	0.40%	0.15%

Included in the Management Share Rights Scheme are 1,461,032 share rights granted to the CEO, comprising:

- 1,178,782 performance rights in respect to the 2020 year (granted in April 2021 with a 2-year vesting period, in place of a cash short-term incentive of $540,000), and
- 282,253 performance rights granted in November 2021 following the announcement of a Final Investment Decision on 22 November and subject to vesting conditions including the safe, on time, on budget and to plan conversion to import terminal operations.

24 Contingencies

Apart from the contingency disclosed in note 15, relating to conditions attached to the site resource consents ("Demolition and restoration"), the Group had no contingent liabilities as at 31 December 2021.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

25 Auditor's fees

	NOTE	GROUP 2021 $000	GROUP 2020 $000
Auditor's fees comprises:			
Audit of financial statements		**290**	225
Audit of financial statements - prior year		**38**	-
Reimbursement of travel and accommodation		**8**	20
Other assurance services:			
Agreed upon procedures - AGM scrutineering		**5**	5
Agreed upon procedures - SGM scrutineering		**5**	-
Half-year agreed upon procedures		**20**	20
AUDITOR'S FEES		**366**	270

26 Non-GAAP disclosures

Refining NZ's standard profit measure prepared under New Zealand Generally Accepted Accounting Practice (NZ GAAP) is net profit/(loss) after tax. Refining NZ has used non-GAAP measures when discussing financial performance in this Report. The Directors and the Management believe that these measures provide useful information as they are used internally to evaluate segmental and total Group performance, to establish operating and capital budgets as well as being used for bank covenant purposes.

Non-GAAP profit measures are not prepared in accordance with NZ IFRS (New Zealand equivalents to International Financial Reporting Standards) and are not uniformly defined, therefore the audited non-GAAP profit measures included in this report are not comparable with those used by other companies. They should not be used in isolation or as a substitute for GAAP profit measures as reported by Refining NZ in accordance with NZ IFRS. Terms are defined as follows:

Reported EBITDA: Reported earnings before depreciation, impairment, conversion costs, finance costs and income tax.

Adjusted EBITDA: Reported EBITDA adjusted for other non-cash expenses and used for bank covenant purposes.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTE	GROUP 2021 $000	GROUP 2020 $000
Reported net loss after tax for the year (GAAP)		**(552,629)**	(198,279)
Add back:			
Income tax	6(a)	**(212,431)**	(73,133)
Net finance costs		**10,991**	10,920
Impairment of assets		**567,361**	223,697
One-off conversion costs	15	**175,516**	-
Depreciation and disposal costs	11(d)	**84,038**	87,218
Reported EBITDA		**72,846**	50,423
Add back non-cash expenses:			
Stock obsolescence provision	18	**592**	3,383
Defined benefit pension fund cost	20(b)	**2,633**	3,441
Defined benefit settlement gain and curtailment		**(12,077)**	-
Non-cash share rights cost		**713**	568
Interest income		**112**	176
Loss on disposal	11(d)	**(429)**	(213)
Stock write offs and other		**303**	800
Restructuring costs		**4,575**	-
Adjusted EBITDA		**69,268**	58,578

Independent auditor's report to the Shareholders of The New Zealand Refining Company Limited

Opinion

We have audited the financial statements of The New Zealand Refining Company Limited ("the Company") and its subsidiaries (together "the Group") on pages 1 to 50, which comprise the consolidated statement of financial position of the Group as at 31 December 2021, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the Group, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 1 to 50 present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the Company's shareholders, as a body. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Ernst & Young provides agreed upon procedures to the Group in relation to scrutineering at shareholder meetings and in relation to half-year financial reporting. We have no other relationship with, or interest in, the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Valuation of Property, Plant and Equipment

Why significant	How our audit addressed the key audit matter

On 22 November 2021, the Board made the Final Investment Decision to convert the Group's principal business from a toll oil refinery into a dedicated fuel import terminal, with import terminal operations to commence in April 2022. As a result, the Group reviewed the carrying value of property, plant & equipment and impaired the Refining property, plant and equipment assets to a residual value of $34m resulting in an impairment charge of $567m.
 	
The Group elected to change accounting policy to carry property, plant and equipment assets at fair value effective 31 December 2021. The Group engaged an external valuation specialist to estimate the fair value of property, plant and equipment in accordance with the requirements of NZ IAS 16, *Property, plant and equipment* and NZ IFRS 13, *Fair Value Measurement*. This valuation resulted in a revaluation uplift of $583m and property, plant and equipment assets being carried at $865m at 31 December 2021 as set out in note 11 of the consolidated financial statements.
 	
The most significant inputs utilised in the valuation of the property, plant & equipment include forecast fuel demand, discount rate and the tax amortisation benefit a market participant would ascribe to the property, plant & equipment in an asset acquisition. Disclosures related to the valuation of property, plant and equipment and the method and assumptions used are included in note 11 of the consolidated financial statements.
 	
Future fuel demand assumptions were estimated by the Group's third party fuel forecasting expert and were considered and adopted by the Group's external valuation specialist as part of their valuation engagement. The external valuation specialist has determined the discount rate and the value of tax amortisation benefit included in the valuation.
 	
We consider the valuation of property, plant and equipment to be a Key Audit Matter given the significance of the assets to the
	Our audit procedures included the following:
	► assessing the allocation of the Group's property, plant & equipment between those assets that will continue to be utilised as part of the ongoing terminal business and those that will be redundant when refining activities cease. We assessed the impairment charge associated with the redundant assets;
	► assessing whether the voluntary adoption of a revaluation policy was appropriate;
	► involving our own valuation specialists to:
	  ► meet with the Group's external valuation specialist to understand their valuation methodology and challenge their approach;
	  ► assess significant inputs used to estimate the fair value of property, plant & equipment including:
	    ► assessing the process the Group's external valuation specialist used to determine whether the forecast fuel demand was appropriate for inclusion in their valuation. Additionally we, considered the comparison the external valuation specialist undertook of the fuel demand forecast to a range of market views of expected fuel demand over the forecast period;
	    ► assessing the appropriateness of the discount rate used by the Group's external valuation specialist; and
	    ► assessing the tax amortisation benefit included in the Group's external specialist's valuation;
	    ► assessing whether the valuation multiples implied by the Group's external valuation specialists valuation fell within a reasonable range.
	► assessing the competence, capability and objectivity of the Group's external valuation specialist; and

Group, being 75% of the Group's total assets at 31 December 2021, and the fact the inputs to the valuation are inherently subjective.

- assessing the adequacy of the financial statement disclosures in note 11.

Decommissioning and demolition provisions

Why significant	How our audit addressed the key audit matter
The Group has recorded decommissioning and demolition provisions for Refining assets of $153m at 31 December 2021. The judgements and estimations used in determining the quantum of these provisions have a material impact on the financial statements. The quantification of decommissioning and demolition provisions was conducted by specialist engineers working in conjunction with the Group's finance team. The quantification required consideration of the scope of decommissioning activities, anticipated removal dates, the extent of restoration activities required, the engineering methodology for estimating cost, potential future removal technologies, discount rates, etc to determine the present value of expected future cash flows. The provisions are sensitive to changes in the key assumptions, specifically changes in gross cost estimates and to a lesser extent discount rates. Accordingly, this matter was considered to be a key audit matter.	We assessed the decommissioning and demolition provisions prepared by the Group, evaluating the assumptions and methodologies used and the estimates made. Our audit procedures, which were performed in conjunction with our environmental specialists, included: ► evaluating the activities undertaken by the Group to identify decommissioning and demolition obligations; ► evaluating the appropriateness of management's methodology for estimating future costs; ► evaluating the reasonableness of decommissioning and demolition cost estimates; ► evaluating the appropriateness of the discount rate used to calculate the present value of the provision; ► assessing the competence, capability and objectivity of the Group's internal experts used in the determination of the restoration provision; and ► testing the mathematical accuracy of the restoration provision calculations. We also considered the adequacy and completeness of the financial statement disclosure of the assumptions, key estimates and judgements applied by management. These have been disclosed in Notes 15 of the consolidated financial statements.

Information other than the financial statements and auditor's report

The Directors of the company are responsible for the Annual Report, which includes information other than the consolidated financial statements and auditor's report which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and, if uncorrected, to take appropriate action to bring the matter to the attention of users for whom our auditor's report was prepared.

Directors' responsibilities for the financial statements

The Directors are responsible, on behalf of the entity, for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing on behalf of the entity the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company/Group or cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Simon O'Connor.

Ernst + Young

Chartered Accountants
Auckland
23 February 2022