FY21 FINANCIAL RESULTS

NZX Release 23 February 2022

Summary

Refining NZ maintained strong operational and financial performance through the Strategic Review and COVID-19 impacts and delivered a long-term plan to unlock infrastructure value for shareholders.

- An excellent personal health and safety performance, with no recordable injuries in over two years.
- The Company operated at the fee-floor for the second consecutive year, with ongoing impacts of COVID-19 lockdowns and travel restrictions on refining margins and fuel demand, particularly jet fuel.
- Maintained cash neutral operations at the fee-floor, with refinery simplification delivering a c.30% reduction in operating costs compared with 2019.
- EBITDA increased 44% to $72.8 million (FY20: $50.4 million) reflecting the benefits of refinery simplification and optimisation of the balance sheet.
- Borrowings reduced to $183.6 million (FY20: $231 million) with maintenance turnaround, strategic review and conversion costs funded from operations and including proceeds from the successful equity raise to fund growth.
- A reported net loss after tax of $552.6 million (FY20: net loss after tax $198.3 million), including a non-cash impairment of refining assets and the recognition of restructuring provisions associated with the conversion.
- Import terminal assets have been revalued to “fair value” based on independent valuation resulting in net carrying value for PPE of $869 million, resulting in net assets equivalent to $1.33 per share as at 31 December 2021.
- Concluded long-term Terminal Services Agreements with customers and secured the support of lenders and shareholders with a final investment decision taken in November to transition to import terminal operations from 1 April 2022.
- Additional private storage capacity contracted, with a total of c.100 million litres of private storage capacity in addition to the c.180 million litres of shared import terminal capacity generating c.$90 million (real) of incremental revenue over 10 years.
- Transition to fuels import terminal now imminent, with conversion cost estimates and an expected return to dividends within 1 to 2 years of commencement of import terminal services reconfirmed.
- In 2022, the immediate priority is to safely deliver the import terminal conversion, transition our organisation from a refinery to terminal business and to support our people through the transition and into new employment.

Financial snapshot

Full year		2021	2020	Change
Income	NZ$ m	**234.1**	245.7	(5%)
EBITDA[1]	NZ$ m	**72.8**	50.4	44%
Capital expenditure[2]	NZ$ m	**33.4**	33.9	(1%)
Net loss after income tax	NZ$ m	**(552.6)**	(198.3)	nm
Free cash flow[3]	NZ$ m	**3.2**	11.0	(71%)
Total assets	NZ$ m	**1,157.6**	1,167.9	(0.9%)
Net debt	NZ$ m	**183.6**	231.3	(21%)
Net assets	NZ$ m	**495.5**	563.9	(12%)

Commentary

Refining NZ today released its financial results, reflecting the last full year of refining operations at Marsden Point. From 1 April 2022, the Company will convert operations to an import only fuel terminal, with work well underway to prepare the site for this transition.

Chief Executive Officer Naomi James commented: "2021 has been a hugely significant year in the 60-year history of Marsden Point, as we concluded our Strategic Review and took the decision to convert operations away from oil refining. At the same time, we were able to operate cash neutral within the fee floor, while we took the time to engage with all of our stakeholders and receive the subsequent approval of our shareholders, lenders and customers on the future shape of our business."

"Like many other businesses in New Zealand, we have been grappling with the impacts of COVID-19, which for Refining NZ, has had a particularly significant impact on jet fuel demand, due to ongoing international border restrictions. COVID-19, coupled with the on-going excess of refining capacity in the Asia Pacific region, continued to weigh heavily on global refining margins."

The gross refining margin earned by the Company was US$3.73 per barrel (FY20: US$1.63 per barrel) on throughput of 29.2 million barrels (FY20: 29.9 million barrels), delivering income from refining of $107 million, prior to fee floor subsidies of $33 million (FY20: $90 million), lifting processing fee income to the fee floor of c.$140 million.

[1] EBITDA = Reported Earnings before Depreciation, Impairment, Conversion costs, Finance costs and Income tax
[2] Capital expenditure = investing cashflow associated with property, plant and equipment (as presented in the consolidated statement of cash flows).
[3] Free cash flow = net cash flows from operating activities less net cash flows from investing activities

Naomi James added: “The Company has now operated at the fee floor for two consecutive years, with our customers paying fee floor subsidies amounting to around $123 million – equivalent to US$2 per barrel across the two years.

“Year on year, pipeline volumes have remained relatively constant at 13.4 million barrels, albeit around 35% lower than 2019, before the impacts of COVID-19 travel restrictions. In 2021, petrol and diesel demand showed strong recovery outside of lockdown periods, however jet demand remains low at around 30% of pre-COVID levels while international border restrictions remain in place.”

We maintained our excellent personal safety performance throughout 2021, achieving the significant milestone of two-years with no recordable injuries.

Naomi James commented: “Given the uncertainty that our strategic review has brought for our people, I want to acknowledge their dedication and commitment to staying focused on the job at hand. Over the course of the year, we successfully transitioned to a simplified refinery to enable us to maintain cash neutral operations at the fee-floor and completed the significant maintenance turnaround of the crude distiller and CCR, safely and below budget, while continuing to deliver to customer plans.

Our team have continued to work hard every day to ensure the safe operation of the refinery, a task made more challenging by the ongoing COVID-19 disruptions. To do this and achieve a record personal safety performance is truly outstanding and a testament to the quality of the people we have working at Marsden Point.”

A long-term plan delivered to unlock infrastructure value for shareholders

Over the course of the year, the Company successfully progressed key aspects of the Strategic Review; a shareholder mandate was secured with 99% voting in support of the import terminal conversion, lenders consent and conversion funding was secured, and long-term Terminal Services Agreements were executed with all three customers on terms consistent with those presented to shareholders.

The signing of the Terminal Services Agreements enabled the Board to take a Final Investment Decision (FID) to proceed with the conversion and a name change to Channel Infrastructure NZ Limited (NZX:CHI) (Channel Infrastructure) to align with the commencement of import terminal operations from April 2022.

The long-term Terminal Services Agreements include a combination of fixed and throughput-based fees intended to incentivize use of the infrastructure. All fees will be adjusted annually in line with PPI based indexation with the first adjustment in January 2023 for the period from 1 April 2022. Higher minimum take or pay commitments over the first six years will support the debt funding of conversion costs and allow time for a recovery in jet fuel demand from the impacts of COVID.

Total conversion cash costs (operating and capital) continue to be expected to be between $200 million and $220 million and will be incurred over the coming 5-6 years. The conversion project is progressing to plan, with the refinery shutdown due to commence in March 2022. COVID risks to project costs and delivery are being actively managed and at present remain within the budgeted contingencies.

The Company reconfirms previous guidance that it currently anticipates recommencing the regular payment of dividends within one to two years after the commencement of import terminal services, following an initial period of deleveraging.

Naomi James commented “We are now only weeks away from our transition to import terminal operations. The conversion to import terminal operations is a fundamental reset of our business and is expected to lead to significantly more stable earnings, a return to dividends for our shareholders and, by diversifying what we do, will position the Company to actively participate in the decarbonising of the New Zealand energy market.”

Complementary growth options already being realized, starting with contracted private storage services

In late November, the Company successfully raised $47 million of new equity via a placement and share purchase plan. This provided funding to establish private storage services, which is a complementary growth opportunity beyond the shared Import Terminal System.

We are pleased to announce that the Company has now contracted total private storage capacity of c.100 million litres, in addition to the c.180 million litres of shared terminal storage. This is expected to generate incremental revenue of c.$90 million (real) over an initial ten-year term, from an initial capital investment of c.$45-$50 million. Private storage capacity will be progressively commissioned from commencement of terminal operations through to mid-2023.

In January 2022, the New Zealand Government announced proposed inventory stockholding fuel security measures, which are currently subject to public consultation. The initial opportunity assessment based on the draft policy indicates potential for an additional 50 to 70 million litres of private storage at Marsden Point.

A non-cash impairment of refining assets, and a revaluation of import terminal assets to fair value based on an independent valuation

Following the final investment decision for the import terminal conversion, the Company impaired its refinery assets by $567 million pre-tax and recognised conversion related restructuring provisions of c. $176 million pre-tax. The conversion related provisions include c.$54 million recognised in relation to the future demolition of the refinery which is expected to occur 10+ years post conversion.

The net impact of these charges results in the Company reporting an FY21 net loss of $552.6 million after tax.

To provide more reliable and relevant information regarding the value of the Company’s infrastructure, the Company has changed its accounting policy for the measurement of assets used in the import terminal from historical cost to fair value under a revaluation model. In FY21, the import terminal assets have been revalued by $587 million pre-tax, based on an independent valuation undertaken in accordance with NZ IAS 16 – Property, plant and equipment and NZ IFRS 13 – Fair Value Measurement. This resulted in a net carrying value of the Group’s property, plant and equipment as at 31 December 2021 of $869 million.

Following the recognition of the refinery impairment, conversion related provisions and terminal revaluation, the Company reported net assets of $495 million as at 31 December 2021 (FY20: $564 million], equivalent to $1.33 per share.

After 60-years of operations as New Zealand’s only oil refinery, we look back on the past with pride, as we also look to the future with confidence that our business will continue to contribute to our community, and New Zealand, long into the future.

As the Company looks forward to its future as Channel Infrastructure, it is focused on supporting its employees and their families and working closely with the community to help lessen the impacts of this change. The Company has some of the best talent in the region working on its site, who will continue to play a critical role in the ongoing operation of the refinery through to shut down, and the subsequent decommissioning of assets over the next two years.

The Company is committed to supporting its workforce during the conversion period, by helping them to find new employment or training opportunities. This will assist with transitioning to new roles once the refinery is safely shutdown. The Company is working with other businesses to skills-match with their vacancies and providing all staff with training and upskilling opportunities to ensure that colleagues who are departing do so with the skills they need to succeed in their future employment.

"Refining NZ has been part of the Northland community for 60-years, and for a number of our people, this is the only place they have worked; for many families this spans generations. So, there is a lot of sadness as we prepare to shut down the refinery and close the chapter on refinery operations at Marsden Point. I am proud of the way that our people have risen to the challenges of 2021, and I look forward to joining with them in the coming months to celebrate the proud legacy of refining at Marsden Point", said Naomi James.

The Company's immediate focus is on the safe shutdown of the refinery and shift to terminal operations

The key imperative in 2022 is to ensure that the terminal conversion occurs safely, on time and within budget, while the Company continues to play its role in reliably supplying fuel to New Zealand without disruption.

The Company has undertaken additional planning and preparations considering the likely impacts of the omicron COVID variant in New Zealand during this period. This has included increased COVID protocols on site, critical workforce planning, accessing Rapid Antigen Testing and the acceleration of key materials and supplies for conversion works.

In 2022, the Company will implement its long-term financing strategy which is aimed at ensuring its debt financing arrangements are aligned to an infrastructure business with a competitive cost of debt.

The transition to terminal operations will enable the Company's focus to shift to further growth opportunities, with the Company well positioned to support New Zealand's changing future fuel needs over the longer-term

Commenting, CEO Naomi James said: "Channel Infrastructure will be New Zealand's leading independent fuel infrastructure company, with aspirations for growth, which means investigating potential opportunities in addition to our core business of operating the fuel import terminal. "

During 2021, the Company secured renewed site resource consents for a further 35 years which demonstrates our commitment to Marsden Point. We are committed to working with local iwi over this time, with projects underway including work to improve the coastal environment in the vicinity of Marsden Point.

In the near-term, as well as providing the additional private storage services to our customers and supporting the New Zealand Government with its fuel security measures, we are looking at the import and storage of other bulk liquids at Marsden Point.   The Company has signed a Memorandum of Understanding with Fortescue Future Industries (FFI) to study the feasibility of production, storage, distribution, and export of industrial-scale green hydrogen from Marsden Point, with initial findings due later in 2022. We are also exploring a range of options to lower the cost of electricity supply to the terminal, including Maranga Ra, the previously consented solar farm, and the potential to develop solar and battery capacity in the region in partnership with others.

Results call

A conference call will be held at **12:00 noon NZT on 23 February 2022** regarding the FY21 Results Announcement. Dial in instructions are below:

AUDIO CONFERENCE DIAL IN DETAILS
START TIME: 12:00 noon NZT, 23 February 2022
CONFERENCE SPEAKERS: Naomi James, Denise Jensen and Jarek Dobrowolski

DURATION: 60 minutes
CONFERENCE ID: 10019094

Participants need to pre-register for the conference by navigating to

https://s1.c-conf.com/diamondpass/10019094-asm22.html

Please note that registered participants will receive their dial in number upon registration. Pre-registration fields of information to be gathered: **Full Name & Company**.

About Channel Infrastructure NZ

Channel Infrastructure's vision is to be New Zealand's leading independent fuel infrastructure company. It will utilise the deep-water harbour and jetty infrastructure of Marsden Point to import refined fuel, owned by its customers. Fuel will be stored at the Marsden Point site in existing tanks at what will be the largest fuel terminal in New Zealand, with c.180 million litres of shared capacity, plus c.100 million litres of dedicated private storage and capacity to provide additional storage. Channel Infrastructure will continue to provide quality fuel testing services both at the Marsden Point site and around New Zealand, through its subsidiary, Independent Petroleum Laboratory Limited (IPL).

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

Conversion to an import terminal will reduce the Company's direct CO2 emissions by almost one million tonnes per annum, delivering around a third of the Governments' first Emissions Reduction Budget[4]. The RAP continues to provide the lowest carbon emissions option for delivering fuel to New Zealand's largest market – Auckland.

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

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

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