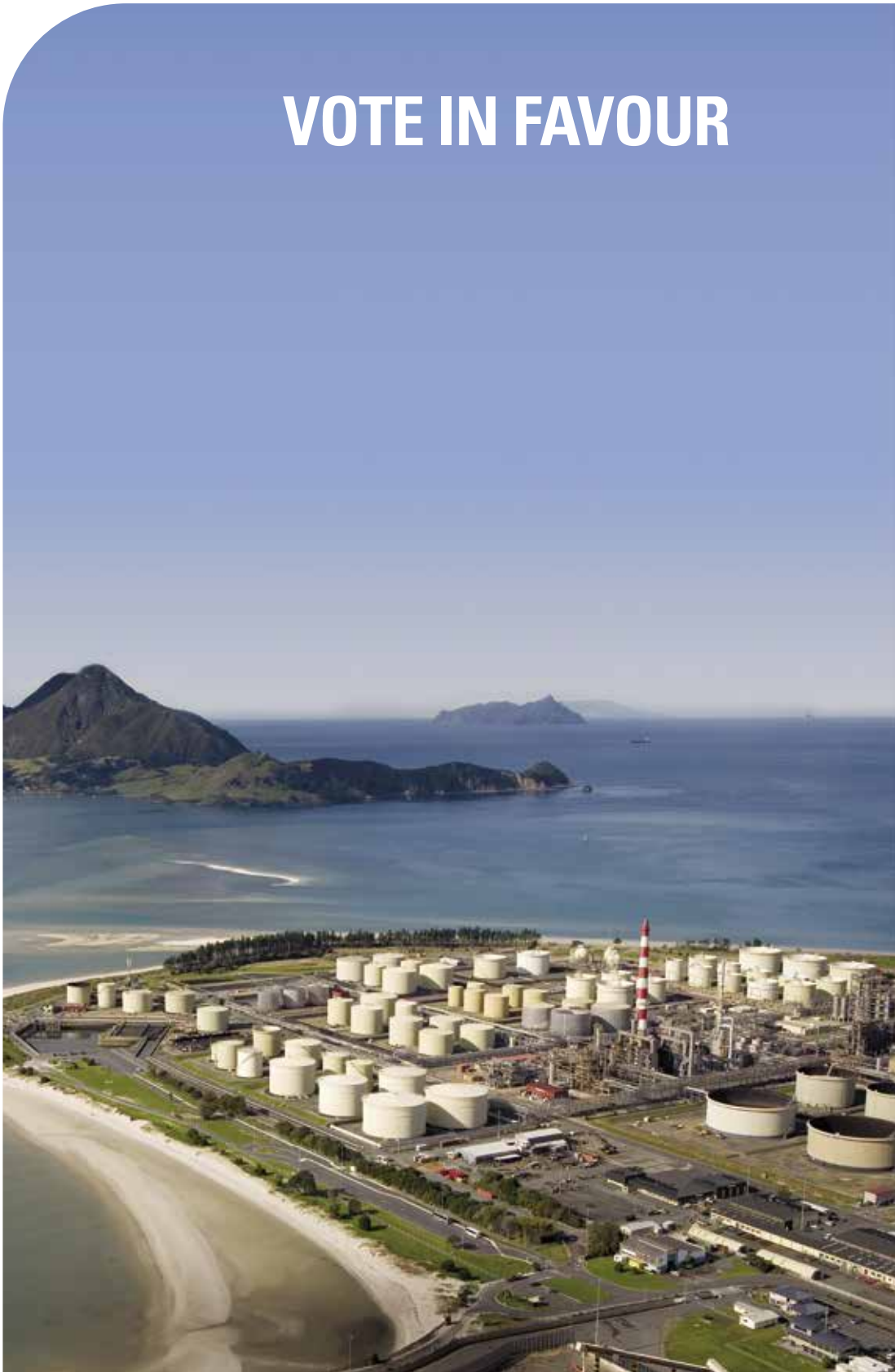
REFINING NZ

The Marsden Point Conversion Proposal

Explanatory Booklet and Independent Appraisal Report

VOTE IN FAVOUR



Purposes of this Booklet

The purpose of this Booklet is to:

- provide you with information about the Proposal;
- explain the terms, conditions and effect of the Proposal;
- explain the manner in which the Proposal will be implemented, if approved; and
- provide you with information that could reasonably be expected to be material to your decision whether or not to vote on the Proposal.

This Booklet

- is not a Product Disclosure Statement.
- should be read in conjunction with Refining NZ's financial statements for the year ended 31 December 2020, available on the Company's website.

Your decision

This Booklet does not consider your individual investment objectives, financial situation or needs. You must make your own decisions and seek your own advice in this regard.

The information and recommendations contained in this Booklet do not constitute, and should not be taken as constituting, financial product advice.

If you are in any doubt as to what you should do, you should seek advice from your financial, taxation, legal and/or other professional adviser before making any decision regarding the Proposal. A list of registered financial advisors is available at: **www.fsp-register.companiesoffice.govt.nz/.**

Not an offer

This Booklet does not constitute an offer of securities to shareholders (or any other person), or a solicitation of an offer of securities from shareholders (or any other person), in any jurisdiction.

Laws of New Zealand

This Booklet has been prepared in accordance with New Zealand law. Accordingly, the information in it may not be the same as might have been disclosed had the Booklet been prepared in accordance with the laws and regulations of another jurisdiction.

Forward-looking statements

This Booklet contains certain forward-looking statements which are subject to risks (both known and unknown), uncertainties, assumptions and other important factors that could cause the actual conduct, results, performance or achievements of Refining NZ (the Company) to be materially different.

Due to the unknown effects of legislative and social changes relating to climate change reflected in the Climate Change Response (Zero Carbon) Amendment Act 2019 and the subsequent deliberations of the Climate Change Commission, it is particularly difficult to accurately forecast future events.

Deviations as to future conduct, market conditions, results, performance and achievements are both normal and to be expected.

Forward-looking statements generally may be identified by the use of forward-looking words such as 'aim', 'anticipate', 'believe', 'estimate', 'expect', 'forecast', 'foresee', 'future', 'intend', 'likely', 'may', 'planned', 'potential', 'should', or other similar words.

Neither the Company nor any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Booklet will actually occur. You are cautioned against relying on any such forward-looking statements.

Privacy and personal information

The Company and its service providers and advisers may collect personal information in the process of implementing the Proposal. Such information may include the name, contact details and shareholdings of shareholders and the name of persons appointed by those persons to act as a proxy or corporate representative at the Meeting. The primary purpose of the collection of personal information is to assist the Company to conduct the Meeting and facilitate the exercise of shareholders' rights.

Personal information of the type described above may be disclosed to Computershare, print and mail service providers, proxy solicitation firms, related companies of the Company and the Company's service providers and advisers. Shareholders have certain rights to access personal information that has been collected. Shareholders should contact Computershare in the first instance, if they wish to access their personal information. Shareholders who appoint a named person to act as their proxy or corporate representative should make sure that person is aware of these matters.

Responsibility for information

This Booklet has been prepared by, and is the responsibility of, the Company, other than the Independent Appraisal Report set out in Appendix A which has been prepared by, and is the responsibility of, the Independent Appraiser. The Company and its Directors, officers, employees and advisers have not been involved in the preparation of the Independent Appraisal Report, other than to provide information to, or answer questions from, the Independent Appraiser. To the maximum extent permitted by law, the Company and its Directors, officers, employees and advisers do not assume any responsibility for the contents of any website referenced in this Booklet.

NZ RegCo

Although NZ RegCo has reviewed and does not object to this Booklet, NZ RegCo takes no responsibility for any statement in this Booklet.

Timetable and dates

All references to times in this Booklet are references to New Zealand time, unless otherwise stated. Any obligation to do an act by a specified time in New Zealand time must be done at the corresponding time in any other jurisdiction.

Further information available

Further information is available at **www.refiningnz.com/.**

Defined terms

Capitalised terms set out in this Booklet have the meanings given to them in the Glossary in Section 8.

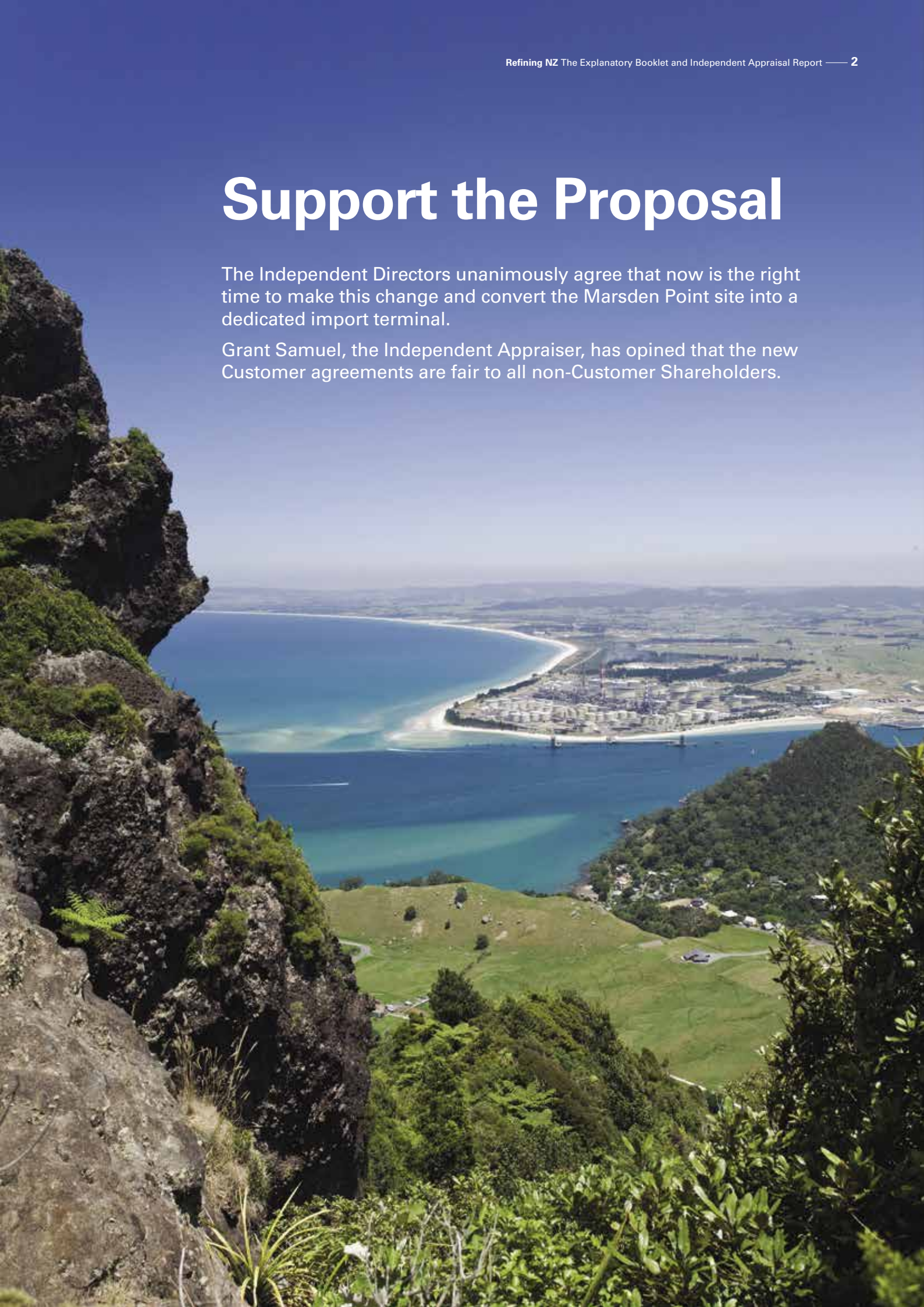
Date of this Booklet

This Booklet is dated 5 July 2021.

Support the Proposal

The Independent Directors unanimously agree that now is the right time to make this change and convert the Marsden Point site into a dedicated import terminal.

Grant Samuel, the Independent Appraiser, has opined that the new Customer agreements are fair to all non-Customer Shareholders.



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Letter from the Chair

Dear Refining NZ shareholder,

On behalf of the Refining NZ Board, I am pleased to present you with this Booklet outlining the Proposal to convert Refining NZ's principal business from a toll oil refinery into a dedicated fuel import terminal.

The conversion of Marsden Point oil refinery to an Import Terminal is supported by the Refining NZ Board, and your Independent Directors have unanimously approved the Proposal and recommend shareholders vote in favour of the Proposal.

The new business would utilise Refining NZ's highly strategic infrastructure, including the Refinery to Auckland Pipeline (RAP), to receive, store, test and distribute transport fuels imported by Refining NZ's customers, safely, reliably and efficiently primarily to the Northland and Auckland markets. Refining NZ would be renamed Channel Infrastructure NZ Limited (Channel Infrastructure) and its Import Terminal System (ITS) would:

- **Supply all of the jet fuel distributed to Auckland International Airport (AIA)**

  In a "normal" (pre-COVID) year, around 75% of all of international airline seat capacity to and from New Zealand is via AIA which means that Channel Infrastructure would be critically linked to New Zealand's largest expected export earner – tourism; and

- **Provide New Zealand's largest transport fuels storage capacity**

  The shared ITS storage capacity of 180 million litres, combined with additional private storage capacity at Marsden Point, can continue to provide strategic fuel stockholdings for the country.

With new long-term agreements with each of the existing refinery Customers (bp, Mobil and Z Energy), the Board expects Channel Infrastructure to:

- **Generate significantly more stable earnings compared with the inherent volatility of oil refining;**
- **Deliver superior "through the cycle" returns to shareholders; and**
- **Be strongly positioned to participate in a decarbonising of the New Zealand energy market, including through opportunities to repurpose its Marsden Point industrial site.**

Under the Proposal, it is currently expected that:

- **Your shareholding in Refining NZ (to be renamed Channel Infrastructure) would not change**

  The one-off costs for the conversion to an ITS (excluding private storage) are forecast to be debt funded alongside the cashflow from new Customer take-or-pay commitments.

- **The Company recommences the payment of regular dividends after an initial period of deleveraging**

  This is expected to be one to two years after terminal operations begin, subject to the Company reaching appropriate levels of leverage at that time.

Case for change

In April 2020 the Board initiated a Strategic Review to determine the optimal operating model for the Refining NZ business to maximise "through the cycle" returns to shareholders and deliver a secure, competitive fuel supply for New Zealand. The context included a significant fall in gross refining margin (GRM) at the end of 2019 which was further exacerbated by the impacts of COVID-19 from early 2020 and below cost of capital returns from the refinery over the previous 10 years.

Phase 1 of the Strategic Review involved a comprehensive assessment of alternative refinery and import terminal models and engagement with key stakeholders including Customers and Government. Factors considered by the Board included:

- Forecasts prepared by independent expert market commentators which indicated that it could be several years before a rebalancing of regional transport fuels supply and demand results in a meaningful recovery in GRM;
- Structural challenges to the competitiveness of the refinery due to its relatively small scale and higher cost of operating in New Zealand (including significant increases in electricity and gas costs); and
- The strong preference of refinery Customers (who have made Fee Floor subsidy payments amounting to circa $115 million[1] in the sixteen months ended 30 April 2021) to switch to an import terminal model.

The initial outcome of the Strategic Review, announced in June 2020, was to develop plans to simplify the refinery operations in the short-term to maintain cash neutral operations at the Fee Floor, and in parallel explore with Customers the commercial case for converting to an import terminal. This Proposal reflects the outcome of this process.

Recommendation of the Independent Directors

Having regard to the risks, ongoing capital expenditure profile, and expected returns from continued operation as a Simplified Refinery versus the risks, Conversion costs, and expected returns for an import terminal on the proposed commercial terms, **the Independent Directors unanimously agree that now is the right time to make this change and convert the Marsden Point site into a dedicated import terminal.**

Independent Appraisal Report

Grant Samuel has been appointed as the Independent Appraiser to review the proposed arrangements with the Customers for the provision of ITS services and transitional arrangements as related party transactions. Their report, which is included as Appendix A in this Booklet, concludes that the arrangements are fair to Non-Customer Shareholders.

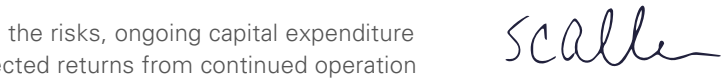
Our approach to a "just transition"

We want to take this opportunity to acknowledge the many people who will be affected by this change and in particular the commitment of our highly capable workforce to operating the refinery safely and to a high standard over many years. The Refinery Transition Working Group was established in 2020 and includes representatives of Refining NZ, central Government, regional and local councils, Northland Inc, Iwi and unions and has the objective of ensuring a planned transition for future changes at Marsden Point which mitigates the impact of changes on refinery workers and the regional economy. A key focus for our Board and management through transition will be to support all of our employees and their families; working closely with the Refinery Transition Working Group and other stakeholders to ensure a planned transition to help lessen the impacts of this change.

Shareholder vote

On behalf of the Board I encourage you to vote on the Proposal by following the instructions set out in the Notice of Meeting accompanying this Booklet. We thank you for your support and look forward to your continued involvement with Channel Infrastructure.

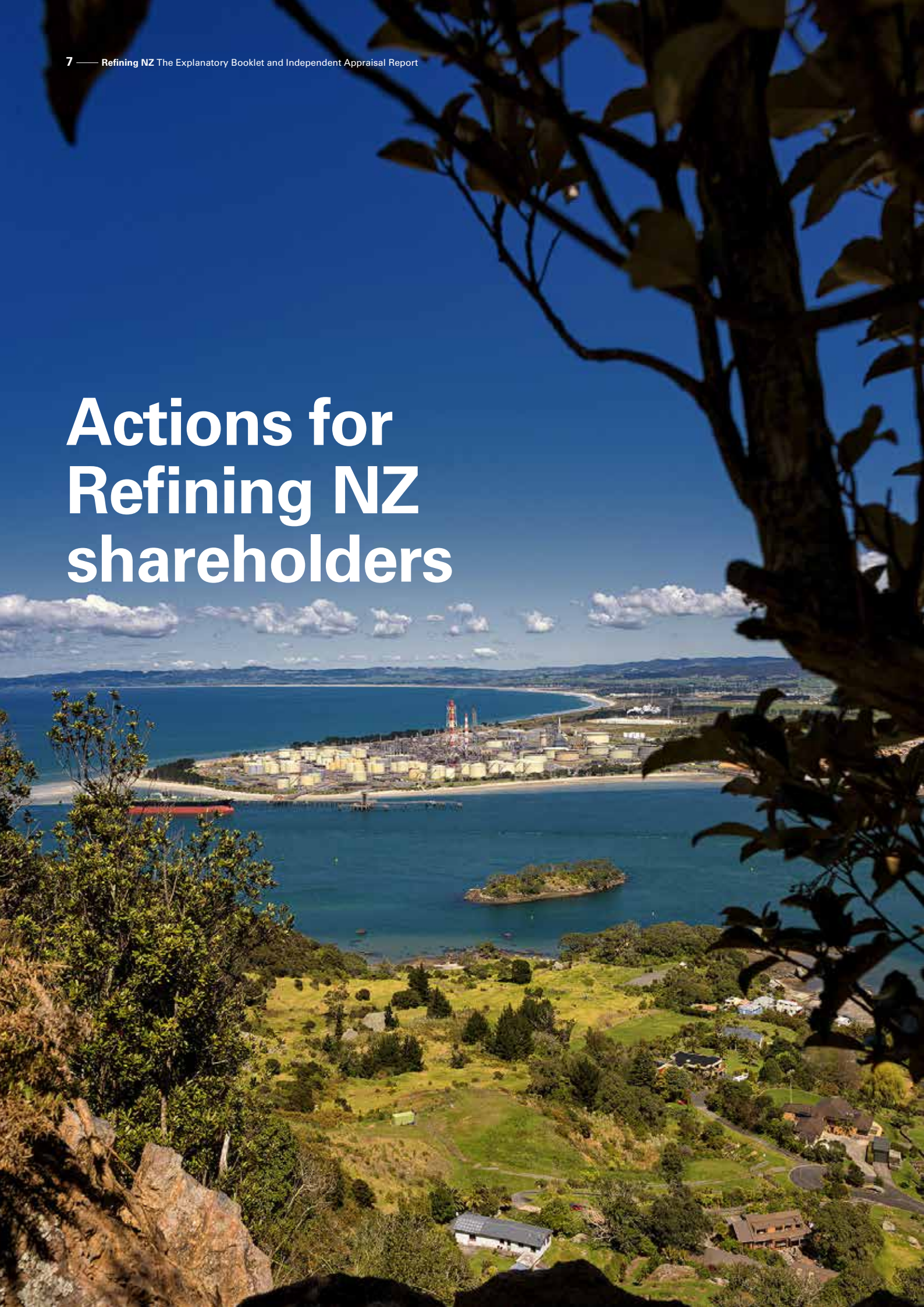
Yours sincerely,



Simon Allen
Chair

[1] Unless explicitly stated, the currency referenced throughout this document is New Zealand dollars.

Actions for Refining NZ shareholders



Carefully read this Booklet

This is an important document regarding the future of Refining NZ which requires your immediate attention. You should read it in its entirety before deciding whether or not to vote in favour of the Proposal. The Proposal involves a major transaction, a change in the nature of Refining NZ's business and related party transactions to enter into new agreements with Customers. The Proposal can only proceed if shareholders approve both resolutions relating to these matters.

There are answers to questions you may have about the Proposal in the 'Proposal Questions & Answers' Section of this Booklet.

If you are in doubt as to any aspect of the Proposal, you should seek advice from your financial, taxation, legal adviser and/or other professional advisers.

An Independent Appraisal Report on the fairness to Non-Customer Shareholders of the terms and conditions that Channel Infrastructure will enter with Customers under the Proposal is set out in Appendix A of this Booklet and should be considered as part of this Proposal.

Vote on the Proposal

Shareholders as at 11.00am on 6 August 2021 are entitled to vote (subject to the voting restrictions applicable to the Customers and their Associated Persons as set out in the Notice of Meeting) at the Meeting to be held at Eden Park, Reimers Avenue, Auckland on 6 August 2021 commencing at 11.00am. You can also attend the Meeting virtually using the instructions explained in the Notice of Meeting under "Virtual Meeting".

You can also vote by casting a postal vote or proxy either by completing a Proxy Form online, by going to **www.investorvote.co.nz** (you will need your CSN/Securityholder Number, postcode/country of residence and the secure access Control Number that appears on the front of your Proxy Form), or by completing and returning the Proxy Form included with the Notice of Meeting no later than 11.00am on 4 August 2021.

Each Refining NZ Independent Director intends to vote all Refining NZ Shares held or directly controlled by him or her (as beneficial owner or as a discretionary proxy holder) in favour of all resolutions before the Meeting.

If you have any questions in relation to this Booklet or the Proposal, please call the Refining NZ Shareholder Information Line on 0800 991 101 (within New Zealand) or +64 9 488 8700 (outside New Zealand) on Business Days between 9.00am and 7.30pm (NZ time), or consult your financial, taxation, legal and/or other professional adviser.

Important dates

Event	Date/time
Deadline by which Proxy Forms must be received by the Share Registrar or online votes cast	11.00am on Wednesday 4 August 2021
Record time and date for determining eligibility to vote at the Meeting	11.00am on Friday 6 August 2021
Meeting	11.00am on Friday 6 August 2021

Any material changes to these dates will be announced to the NZX Main Board (at **www.nzx.com**) and notified on Refining NZ's website at **www.refiningnz.com/.**

Summary of the Proposal

The Proposal

This Proposal is to convert Refining NZ's Marsden Point site into a dedicated fuel import terminal and cease operations as a toll refinery. The vision of the new business is to be "New Zealand's leading independent fuel infrastructure company", and The New Zealand Refining Company Limited (Refining NZ) would be renamed Channel Infrastructure NZ Limited (Channel Infrastructure) under the new ticker code 'CHI'.

Under the Proposal, Channel Infrastructure would utilise its highly strategic infrastructure, including the Refinery to Auckland Pipeline (RAP) to receive, store, test and distribute transport fuels imported by Customers, safely, reliably and efficiently primarily to the Northland and Auckland markets. Over and above the shared Import Terminal Services (**ITS**) storage capacity, additional private storage capacity may be provided and new customers can take up unutilised capacity in the RAP.

The Independent Directors believe that the proposed import terminal model will deliver significantly more stable earnings and superior "through the cycle" returns to shareholders, when compared to the on-going capital investments required and the range of likely returns from continuing to operate the current simplified toll refining operation.

Conversion rationale

Relative to other refineries, the Marsden Point refinery currently has a high cost of production and requires a high Gross Refining Margin (GRM) to be economically competitive with imported transport fuels.

This is due to the smaller scale and age of the refinery, making it less efficient than the newer and much larger scale exporting refineries and integrated refinery facilities in the Asia-Pacific region, coupled with the high energy costs in New Zealand, principally electricity and natural gas. The high cost of coastal shipping required to transport refined fuel from Marsden Point to New Zealand's regional terminals further erodes Refining NZ's competitiveness outside of the Northland and Auckland regions.

A structural change in refining markets arising from the increased supply of refined product and a lower than expected growth in demand for transport fuels in the Asia-Pacific region has resulted in a reduced outlook for refining margins. The global drop in demand triggered by COVID-19 and the expectation of a slow recovery in oil and refined products demand, particularly jet fuel, has further exacerbated the oversupply in the global refining market. This has resulted in very weak refining margins and significant uncertainty regarding refining margins in the future.

Becoming an import terminal would remove Refining NZ's exposure to the competitive market pressures, and the inherent volatility in refining margins. Channel Infrastructure would earn more stable and higher through-the-cycle returns for shareholders from its highly strategic infrastructure assets.

Channel Infrastructure would also be strongly positioned to participate in emerging opportunities to decarbonise the New Zealand energy market including opportunities to re-purpose its Marsden Point site, utilise existing infrastructure to supply greener fuels, and leverage its skills to own and operate other energy infrastructure assets in New Zealand.

Shareholder approvals

Shareholders are being asked to approve:

1. The Proposal as a major transaction and a change in the nature of the business of Refining NZ; and
2. The entry into arrangements with the Customers for the provision of ITS services, including Private Storage Services and transitional arrangements as related party transactions.

The Proposal can only proceed if shareholders approve both resolutions.

Conditions of Proposal

In addition to shareholder approval, the Proposal is subject to:

- Approval of the Proposal by Refining NZ's lenders and entering into final documentation and satisfying the conditions precedent for conversion funding (see Section 3.2);
- Entry into Terminal Services Agreements (TSA) and Transition Agreements with all existing Customers and these agreements becoming unconditional; and
- Final Investment Decision by the Refining NZ Board, based on the Front End Engineering and Design (FEED) assessment by management, which is expected to occur by the end of Q3 of 2021.

It is expected that TSAs and Transition Agreements based on these term sheets will be finalised and executed, preferably with all Customers but at least a majority of Customers, before a Final Investment Decision is taken by the Refining NZ Board to approve and proceed with the Proposal. As noted in Section 3.2, this is to assist Refining NZ in being able to meet the targeted date for commencement of import terminal operations by mid-2022. This would mean that pending the last Customer executing a final TSA and Transition Agreement, the existing Processing Agreement will continue to apply, in the interim, in respect of that Customer (including obligations on Refining NZ to make available refinery capacity, and on the Customer to submit feasible refinery programs, pay Processing Fees and the Fee Floor (if applicable), and rights of the Customer to terminate its Processing Agreement on notice) until agreement is reached on the TSA and Transition Agreement.

If these conditions are ultimately not satisfied then Refining NZ will not be able to proceed with the Conversion and would remain a Simplified Refinery under the existing Processing Agreements, although there is a dispute risk with Customers as outlined in Section 5.6 and these agreements may be terminated by Customers at any time on 12 months' notice (see Section 5 for further details).

Effect on shareholding

The Company would change its name from Refining NZ to Channel Infrastructure, but there would be no change to your shareholding in the Company. You are not being asked to contribute any additional capital at this time, and there is no current proposal to raise additional capital.

Directors' recommendation

The Independent Directors of Refining NZ unanimously recommend that shareholders vote yes to all resolutions put forward at the Meeting.

Independent Appraiser's opinion

The Independent Appraiser has opined that:

1. The new Customer agreements are fair to all Non-Customer Shareholders; and
2. This Booklet contains all the information a shareholder should require to make an informed decision on the Proposal.

Shareholders' Meeting

The Meeting is to be held at 11.00am on Friday 6 August 2021.

Introduction to Channel Infrastructure

We channel New Zealand's energy

Channel Infrastructure will be New Zealand's leading independent fuel infrastructure company, operating a network of fuel importation, pipeline and storage hub assets with an aspiration for growth.

We're passionate about keeping Aotearoa's economy moving today and meeting the needs of tomorrow's fuel and energy markets.

What is Channel Infrastructure and what would it do?

Channel Infrastructure's primary business immediately following the commencement of terminal operations would be owning, operating and maintaining the Import Terminal System (ITS). The ITS is the infrastructure which would:

- Berth ships carrying refined transport fuels (e.g. jet fuel, diesel and petrol) imported by Customers at two deep-water jetties situated at Marsden Point.
- Store the fuel on behalf of Customers on a comingled basis, in approximately 180 million litres of shared product tanks , with capacity to provide additional private storage capacity by refurbishing existing tanks.
- Provide fuel quality testing services as requested by Customers as it is discharged from the ship and before being distributed, using the onsite laboratory services of Channel Infrastructure's wholly-owned subsidiary, Independent Petroleum Laboratory Limited.
- Distribute the fuel, destined primarily for the Auckland and Northland markets via:
  - a 170 kilometre multi-product pipeline that runs from Marsden Point to the Wiri Terminal in South Auckland (the Refinery to Auckland Pipeline RAP); and
  - a short pipeline to the truck loading facility (TLF) adjacent to Channel Infrastructure's site at Marsden Point.

The Wiri Terminal is operated[2] by Wiri Oil Services Ltd (WOSL), a joint venture of Refining NZ's current Customers; the TLF is owned by the Customers and is situated on land owned by Refining NZ.

Channel Infrastructure's new ticker code would be 'CHI'.

Figure 1 set out below illustrates the key components of the ITS.

* Note the TLF and Wiri Terminal end-delivery points do not form part of the ITS assets owned by Refining NZ

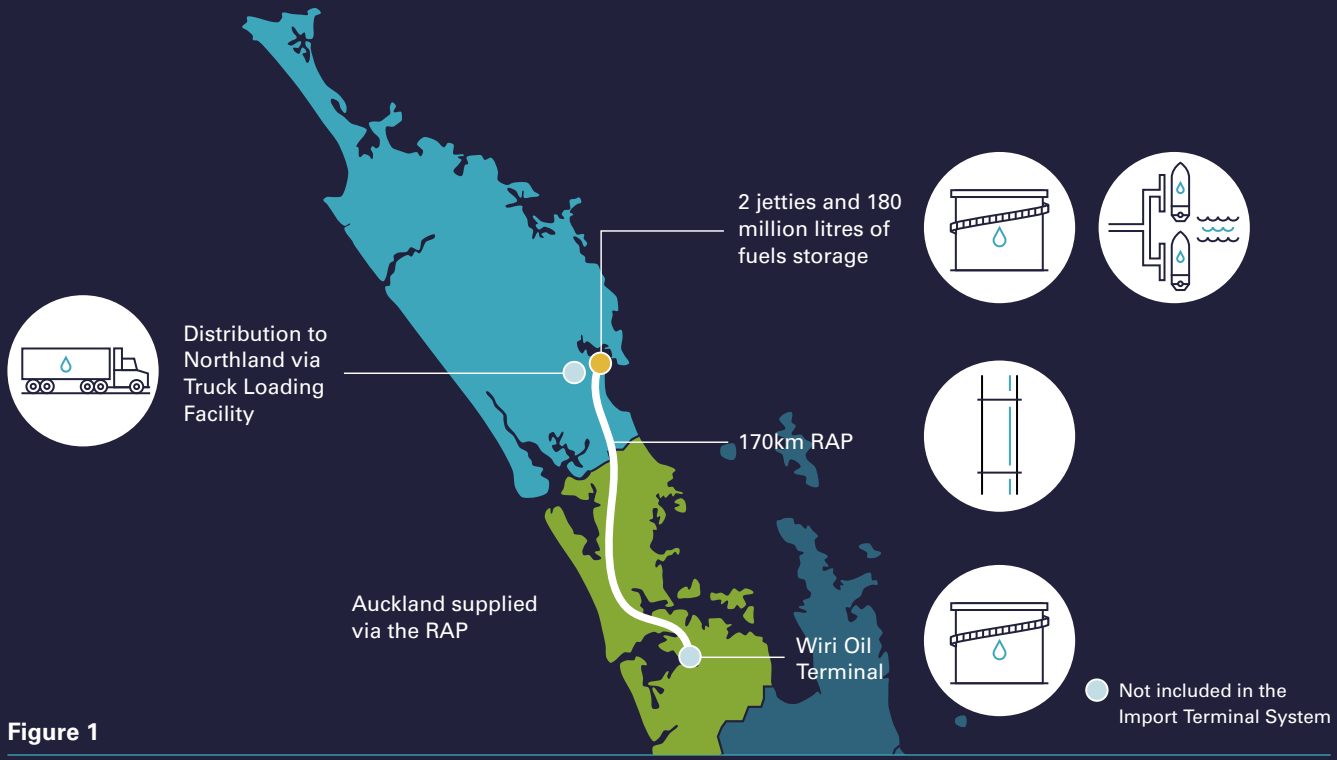


Figure 1

[2] Part of the Wiri Terminal infrastructure is owned by Refining NZ and located on land owned by bp, Mobil and Z Energy and leased by Refining NZ. The infrastructure (including Refining NZ's leasehold interest in the land) is sub-leased by Refining NZ to WOSL (a joint venture of bp, Mobil and Z Energy) under non-cancellable operating leases which expire in February 2025 with no right of renewal. At the end of the lease term, ownership of the infrastructure will revert to bp, Mobil and Z Energy.

Outside of the ITS, Channel Infrastructure would:

- Have bilateral private storage arrangements with customers, with potential for up to an estimated 100 million litres of additional tank capacity;[3]
- Continue to own Independent Petroleum Laboratory Limited (IPL);[4] and
- Consider opportunities to repurpose parts of the Marsden Point site not required for the ITS and further growth options beyond Marsden Point. Refer to Section 2.5.

Summary of new ITS agreements

Channel Infrastructure would (either itself or through a wholly-owned subsidiary[5]) own, operate and maintain the ITS under new long-term terminal services agreements (TSAs) with each of Refining NZ's existing Customers, bp, Mobil and Z Energy.

A description of the new arrangements with Customers is set out in Section 2.4, and commentary on the financial impact of the new arrangements is set out in Section 4. **We recommend that you read both sections in full, together with the Independent Appraisal Report.**

In summary, the new commercial arrangements for the shared ITS facilities provide for:

- **Long-term agreements:** a 10-year initial term, with each Customer having two rights of renewal for a further five years each;
- **Pricing:** the aggregate fees payable by Customers are expected to average approximately $95 million per annum across the initial 10-year term (on a real basis)[6]. This represents a combination of fixed annual fees (which step down over the initial term) and variable throughput fees (based on actual volumes delivered), subject to minimum take-or-pay commitments (which also step down over the initial 10-year term);
- **Private storage:** additional value accretive, Private Storage Services arrangements to be agreed with Customers;
- **Third party access:** Channel Infrastructure may offer third parties access to any unutilised RAP capacity after the first 3 years of the initial term. On current forecasts, there is enough capacity in the RAP to supply Auckland's expected future transport fuel demand (refer to Section 2.3); and
- **Freedom of operation:** Channel Infrastructure is entitled to conduct any other business it wishes to, provided that in so doing it continues to meet its obligations under the TSAs.

[3] Refer to Section 4.5 for additional detail.

[4] IPL is a 100% owned subsidiary of Refining NZ providing specialist laboratory testing services in the Fuels, Biofuels, Industrial and Environmental areas to a wide range of customers throughout New Zealand and the South West Pacific. It has laboratories at Marsden Point and in Taranaki and is ISO 17025 accredited. IPL plays a key role in the testing of transport fuels released into the NZ market, including the Government's fuels monitoring programme, to ensure quality specifications are met.

[5] If the Company proceeds with the Restructure, some or all of the ITS assets will be owned and operated by a wholly-owned subsidiary of the Company. See Section 3.4.

[6] At assumed levels of product throughput reflecting current demand forecasts. See Section 2.3.

Comparison of Channel Infrastructure to Refining NZ today

As Channel Infrastructure, Refining NZ shareholders would be exposed to a fundamentally different investment proposition when compared to the current business model of toll refining and pipeline operations. The key differences between the two business models are summarised in Table 1 set out below:

CHARACTERISTIC	CHANNEL INFRASTRUCTURE	REFINING NZ
Earnings volatility	**Relatively stable expected earnings.** Combination of fixed and variable fees (with minimum take or pay commitments), without linkages to regional refining margins, expected to average approximately $95 million per annum across the initial 10-year term (on a real basis)[7]. All fees denominated in New Zealand dollars. Operating expenses largely fixed, and expected to be in the order of $35 million per annum. Variability in revenue / earnings primarily a function of changes in fuel volume demand with downside risk limited by annual take or pay commitments.	**High earnings volatility.** Direct exposure to Gross Refining Margins (GRM), which is largely driven by the Asia-Pacific region's transport fuels supply and demand, and a material exposure to foreign exchange movements. This results in highly volatile earnings, with annual average GRM's ranging between US$1.63 per barrel to US$11.30 per barrel over the last 15 years. Refer to Section 6 under "Refining Margin and Exchange Rate" risk for further details.
Sustainable earnings	**Limited upside from Core ITS Services.** Core earnings growth would largely depend on increased fuel demand (volume delivered), which is expected to be limited (refer to Section 2.3) beyond any value adding ITS services, including private storage. Customers will be incentivised to maximise utilisation of the ITS through the fixed and variable fee structure. Beyond Core ITS Services and private storage, there is the potential to re-purpose parts of the Marsden Port site as an energy hub and consider acquisitions of other energy infrastructure (refer to Section 2.5).	**Scope for a recovery in earnings.** GRM is inherently volatile. Earnings from refining operations could improve if margins were to recover significantly and/or the US$ was to strengthen. Earnings are also dependent on the level of refinery utilisation by Customers, with Customers having the ability to import refined fuels through other terminals. A GRM recovery will be dependent on improved market fundamentals – a significant reduction in global refining capacity and/or a significant demand recovery. The current Processing Agreements cap earnings upside at a GRM of US$9 per barrel.
	Limited downside from Core ITS Services. Combination of fixed and variable fees (with minimum take or pay commitments). Variability in revenue / earnings primarily a function of changes in fuel demand, or in the future, any value-added services. Significantly reduced exposure to electricity costs and no requirement for gas supply. Relatively broad-based index for fee escalation provides inflation protection. Risk that Conversion costs exceed forecasts (refer to Section 6 under "Conversion Expense and Schedule" risk for further details), to be managed through effective project execution and clear risk mitigation plans.	**Scope for further cost increases.** Current processing Fee Floor protects against very low GRM, but Refining NZ is only cash neutral at the Fee Floor when operating as a Simplified Refinery with lower volumes (at its current cost base). Materially higher exposure to energy (electricity and natural gas) costs, employee cost inflation and carbon costs than an ITS. Refer to Section 6 under "Customer Disputes and Simplified Refinery Model" risk for further details.

[7] At assumed levels of product throughput reflecting current demand forecasts. See Section 2.3.

CHARACTERISTIC	CHANNEL INFRASTRUCTURE	REFINING NZ
Operational risk	**Lower operational risk.** Relatively less complex and less hazardous activity given no refining operations. Operational risks of finished fuel storage and transfer are well understood and there is an ability to mitigate risk with effective operational and safety performance standards.	**Higher operational risk.** More fully described in Section 6 under the "High Hazard Industry" risk. Operational risks of refining are well understood, with effective operational and safety performance standards in place. The operational refining risk is comparatively higher due to the more complex processes and equipment which requires significant ongoing investment (capital and technical skills) to effectively manage those risks.
Capital intensity	**Moderate capital intensity.** Initial investment of circa $200 million to $220 million over 5 to 6 years following Final Investment Decision (**FID**) to fully implement ITS conversion, an additional up to circa $60 million to prepare tanks for Private Storage Services[8], and circa $50 million to $60 million[9] for the demolition of the decommissioned refinery assets, with the timing yet to be determined. Ongoing capital investment of circa $5 million to $10 million per annum.	**High capital intensity.** Estimated sustaining capital investment as a Simplified Refinery of circa $50 million to $60 million per annum until the refinery is forced to convert to an import terminal in the future. This cost reflects the large asset base (processing equipment and associated tanks and linework). Significant investment in maintenance turnarounds and catalysts to maintain safe and reliable refining operations. For example, an estimated $25 million maintenance turnaround is required mid-2022 if the import terminal conversion does not occur by that time.
Carbon exposure	**Lower carbon exposure.** Significant alignment with the Climate Change Response Act 2002, with a circa 98% reduction in Scope 1 and 2 CO2 emissions[10] of over 1 million tonnes per annum. A circa 85% reduction in electricity consumption and no natural gas requirements. Opportunities to participate in decarbonisation of transport fuels and energy through existing infrastructure and repurposing of the Marsden Point site as outlined in Section 2.5.	**Higher carbon exposure.** Growing exposure to New Zealand Emissions Trading Scheme (ETS) more fully described in Section 6 under "Climate Change" risk, with significant uncertainty longer term. Significant exposure to electricity and gas costs and security of supply. Access to capital may be constrained in the future due to Environmental, Social and Governance (ESG) considerations.

[8] This would have an associated opportunity for incremental revenue of up to $10 million per annum (in real terms).

[9] On a real basis.

[10] Compared to current CO2 emissions.

Channel Infrastructure investment features

Channel Infrastructure (either itself or through a wholly-owned subsidiary – see Section 3.4) would own and operate highly strategic critical infrastructure, including the RAP, distributing transport fuels (e.g. jet fuel, diesel and petrol) primarily to the Northland and Auckland markets, including all of the jet fuel to Auckland International Airport (AIA).

In a "normal" (pre-COVID) year, around 75% of all of international airline seat capacity to and from New Zealand is via AIA which means that Channel Infrastructure would be critically linked to New Zealand's largest expected export earner - tourism.

The ITS is expected to handle between 3 and 3.5 billion litres of transport fuels annually, primarily servicing the Northland and Auckland markets, which make up 40% of New Zealand fuel demand.

Channel Infrastructure would have long-term, committed relationships with its Customers underpinning stable earnings, and an intended dividend payout of 60-70% of Free Cash Flow following an initial period of deleveraging, subject to which dividend payments are expected to recommence within 1 to 2 years from commencement of terminal operations. Please refer to the assumptions underpinning the financial forecasts as outlined in Sections 2 and 4 of this Booklet. By comparison, the Independent Appraisal Report notes in Section 6.7 that Refining NZ may not be in a position to pay dividends until FY2026 or FY2027 if it continues to operate as a Simplified Refinery.

The key investment features of Channel Infrastructure as a dedicated import terminal under the negotiated Customer arrangements are as follows:

Ownership of critical and highly efficient infrastructure	• Safe, reliable, efficient and established supply chain for primarily the Auckland and Northland markets, which make up around 40% of the New Zealand transport fuels market • The RAP is a multi-product pipeline that provides the most cost effective and least carbon intensive solution to deliver fuel to Auckland, New Zealand's largest market and eliminates an estimated 120,000 trucking movements each year
Long term Customer contracts	• 10 year initial term, with two five year options for Customers to extend • Initial take-or-pay commitments will enable one off Conversion and decommissioning costs, identified in Section 4.6, to be debt funded • Additional value accretive, private storage arrangements • Provision for third party access to unutilised RAP capacity after three years from commencement
Projected stable earnings, cash flow and dividends	• Fee structure incentivises utilisation of the infrastructure and underpins relative revenue stability • Strong conversion of EBITDA into free cash flow with material tax losses expected from conversion to offset future tax liabilities (subject to loss carry forward rules (Income Tax legislation)) • The Company expects to distribute at least 60-70% of Free Cash Flow to shareholders as dividends within one to two years of commencement of import terminal operations
Focused growth strategy	• Opportunities to repurpose existing assets (outside of ITS) at Marsden Point, including strategic fuels storage and a range of emerging options aligned with a decarbonising New Zealand energy mix • Uniquely positioned to consolidate strategic parts of the national transport fuels supply chain, should those opportunities become available
Supporting decarbonisation of New Zealand economy	• Conversion would reduce New Zealand's direct emissions by almost one million tonnes of CO_2 per annum (or circa 5% of New Zealand's total emissions reduction required by 2030) • Opportunities to participate in decarbonisation of transport fuels and energy through existing infrastructure and repurposing of the Marsden Point site

Channel Infrastructure financial summary

Channel Infrastructure is expected to generate relatively stable earnings and cash flows. Further financial information about Channel Infrastructure is set out in Section 4. Key financial highlights include:

- Fees for Core ITS Services comprising an annual Fixed Fee largely paid by Customers based on their relative ITS utilisation, and variable Throughput Fee based on each Customer's actual product volumes. Aggregate fees are estimated to average circa $95 million per annum[11] (on a real basis excluding annual indexation adjustments) during the 10-year initial term, including a minimum combined Customer take-or-pay commitment of $100 million per annum for the first 3 years of operation as an import terminal;
- Annual operating expenses (including IPL) are estimated to be approximately $35 million once ITS services commence and excluding one-off Conversion expenses;
- Estimated ongoing capital expenditure of approximately $5 million to $10 million per annum;
- Initial one-off costs of approximately $200 million to $220 million to implement the ITS conversion and in the approximately 5-6 years following Final Investment Decision (FID);
- Demolition costs of circa $50 million to $60 million (in real terms) are expected to be incurred, with timing yet to be determined (having regard to repurposing of Marsden Point and not expected to be required within ten years of commencement of ITS services); and
- Estimated tax losses of approximately $300 million to $350 million generated on the decommissioning and write-off of refinery assets (subject to IRD assessment and the Income Tax Act 2007 loss carry forward rules as outlined in Section 4).

In addition to the shared ITS capacity, Customers are seeking Private Storage Services arrangements with Refining NZ. Customer negotiations are ongoing and current estimates are that private storage requirements may involve up to 100 million litres of additional storage capacity. Detailed planning work for this additional capacity is underway, with current conversion cost estimates for 100 million litres of additional storage capacity of circa $60 million and opportunity for incremental revenue of up to $10 million per annum (in real terms).

Refining NZ has received credit approval for debt facilities, subject to conclusion of satisfactory documentation and satisfaction of conditions precedent, to fund the one-off costs of the Conversion and decommissioning identified in Section 4.6 which, together with its existing facilities and subordinated notes, is expected to provide sufficient liquidity through the conversion. Total debt facilities will amount to around $400 million (refer to Section 4.9 for further details).

Timing of recommencement of dividends is subject to achieving the required deleveraging (below 4.5x Net Debt/EBITDA), when the Board expects to resume dividend payments with a policy based on paying at least 60-70% of Free Cash Flow. This is expected to be within 1 to 2 years post commencement of import terminal operations although the Board reserves its right to adjust the payout ratio or expected timing for the recommencement of dividends should the timing, costs or revenue associated with the Conversion (including new services such as Private Storage Services) or the import terminal business change. The dividend policy will be subject to the Board's due consideration of the Company's medium-term asset investment programme; a sustainable financial structure for Channel Infrastructure, recognising a targeted investment grade rating (within five years of the Services Effective Date); and the risks from short and medium term economic and market conditions and estimated financial performance.

Conversion implementation and timing

The Proposal is conditional on a number of matters:

- Shareholder approval (the subject of this Booklet);
- Lender approvals and final agreements and satisfaction of conditions precedent for conversion funding (refer to Section 3.2);
- Final Investment Decision by the Refining NZ Board to approve and proceed with the Proposal, based on Front End Engineering and Design assessment by management, which is expected to occur by the end of Q3 of 2021; and
- Entry into a TSA and Transition Agreement with each Customer and these agreements becoming unconditional. Section 2.4 sets out the conditions to the TSAs that are under negotiation with Customers.

Following FID and entry into the final TSAs and Transition Agreements,the process to transition from a refinery to a dedicated import terminal operation is expected to take between 6 to 9 months from FID, with major activities including:

- The completion of capital projects required to safely and efficiently operate as a terminal;
- Organisational and system process changes;
- Transitioning the workforce; and
- Safe refinery shutdown and closure.

Based on information available to it as at the date of this Booklet, and subject to a FID being made by the end of Q3 2021, the Board would expect Core ITS Services to commence by mid-2022.

For more information on the implementation plan and expected timing of the Proposal, refer to Section 3.

[11] At assumed levels of product throughput reflecting current demand forecasts. See Section 2.3.

Proposal questions & answers

Proposal questions & answers

The following section provides summarised answers to some of the key questions that Refining NZ shareholders may have in relation to the Proposal. More detailed information on each answer is outlined in the corresponding section specified in the table below.

QUESTION	ANSWER	SECTION
Proposal		
What is the Proposal?	The Proposal is to convert the Company's operations to an import terminal (with the Company's name to be changed from Refining NZ to Channel Infrastructure), instead of operating as a tolling oil refinery and distributing transport fuels under the existing Processing Agreements. Channel Infrastructure's operations would include receiving transport fuels (petrol, diesel and jet fuel) imported into Marsden Point, storing and then distributing these products through the Refinery to Auckland Pipeline (RAP) into Wiri or to the truck loading facility (TLF) at Marsden Point. Channel Infrastructure would operate under Terminal Services Agreements (TSA) with Refining NZ's existing Customers and potential new customers. For the Proposal to be implemented, the majority of the votes of Non-Customer Shareholders of Refining NZ voting need to be cast in favour of the proposed Import Terminal System (ITS) commercial terms with Customers, and a majority of 75% of the votes of all shareholders voting, need to be cast in favour of the Proposal. Following approval of the Proposal by shareholders and subject to Final Investment Decision (FID) by the Refining NZ Board by the end of Q3 2021, Refining NZ expects to begin operating as an import terminal by mid-2022.	"Summary of the Proposal"
What are the key advantages of the Proposal?	The key expected advantages of the Proposal compared to Refining NZ's existing operations include: • Lower earnings volatility and high visibility of future cashflows; • Lower operational risk; • Timing of earnings recovery and recommencement of dividends not being a function of gross refining margin GRM; • Post initial Conversion capex, being less capital intensive on an ongoing basis; • Less carbon and energy intensive; and • Release of existing Customer dispute claims.	"Comparison of Channel Infrastructure to Refining NZ today"
What are the key disadvantages associated with the Proposal?	The key disadvantages of the Proposal compared to Refining NZ's existing operations include: • Less medium-term earnings upside without exposure to GRM and foreign exchange rate movements; • Significant upfront Conversion costs which include risks associated with the timing and quantum of these costs; • Requirement to develop a new set of organisational and personnel technical capabilities to operate a terminal; and • Fewer employees in a terminal operation than a refinery. See also Section 6 for the risks associated with Channel Infrastructure and the Transition (refer to Transition Risks).	"Comparison of Channel Infrastructure to Refining NZ today" and Section 6

QUESTION	ANSWER	SECTION
What are the key conditions for implementing the Proposal?	The key conditions required to implement the Proposal include: • Approval by majority of the votes of Non-Customer Shareholders voting in respect of the proposed ITS commercial terms and a majority of 75% of the votes of all shareholders voting in respect of the Proposal overall; • Lender approval and final documentation and satisfaction of conditions precedent for conversion funding; • TSAs and Transition Agreements being entered into with all Customers and these agreements becoming unconditional; and • FID by the Board to approve and proceed with the Proposal, based on Front End Engineering Design assessment by management. See also Section 2.4 for a summary of the material conditions to the TSAs becoming unconditional.	Section 3.2 (pages 48-49)
What happens if the Proposal is not implemented?	If the Proposal is not implemented, Refining NZ will continue to operate a Simplified Refinery under the existing Processing Agreements, although there is a dispute risk with Customers as outlined in Section 5.6 and these agreements may be terminated by Customers at any time on 12 months' notice. It is expected the refinery would be forced to convert to an import terminal at some point in the future, as reduced petrol demand would be expected to make refinery operations infeasible, although this would be subject to commercial terms negotiated at that time with Customers and there is no guarantee these terms would be the same as the Proposal or that Refining NZ will have sufficient capital at that time to fund the conversion. Ongoing refinery capital expenditure is estimated at $50 million to $60 million per annum.	Section 5 (pages 64-68)
What are the agreements Refining NZ will have with its Customers as a terminal?	Refining NZ would be renamed Channel Infrastructure and either itself or a wholly-owned subsidiary (see Section 3.4) would provide ITS services under a Terminal Services Agreement (TSA) with each of its Customers. Key terms of the TSAs include: • 10-year fixed contract term with two five-year renewal options at each Customer's election; • Monthly fee payments comprising fixed and variable components; • Minimum annual take or pay fee commitment; • All fees subject to annual indexation in accordance with PPI movements; and • Third party access to unutilised RAP capacity after the first 3 years of the TSAs term. Refer to Section 2.4 for a summary of the TSA.	Section 2.4 (pages 41-43)
Has Refining NZ committed to the agreements with all three Customers?	Refining NZ is negotiating binding TSAs and Transition Agreements with bp and Z Energy after reaching non-binding in principle agreement on key commercial terms with them earlier this year. At the date of this Booklet, negotiations continue with Mobil based on the term sheets that have been agreed with the other Customers. While negotiations continue in good faith, it is not known at this time when or if these agreements will be concluded.	Section 2.4 (pages 41-43)

QUESTION	ANSWER	SECTION
What are the costs of the Proposal?	Implementation of the Proposal is estimated to cost approximately $200 million to $220 million in upfront conversion and decommissioning costs over five to six years from FID. Refer to Section 4.6 for further details of these costs. Up to $60 million in additional capital investment may be required to convert tanks for Private Storage Services. Refining NZ also expects an additional $50 million to $60 million (in real terms) for the future demolition of decommissioned refining assets, with the timing to be determined having regard to repurposing of the Marsden Point site and is currently not expected to be required within circa 10 years of the Services Effective Date.	Sections 4.5 and 4.6 (pages 58-59)
Does Refining NZ have the capabilities to implement the Proposal to budget and schedule?	Refining NZ has a strong track record of delivering complex capital projects and has complemented its management and project teams' skills with personnel who have delivered similar conversion and major capital projects outside of New Zealand.	N/A
How will the Proposal be funded?	One-off ITS conversion and decommissioning costs (identified in Section 4.6) are expected to be debt-funded, supported by take-or-pay commitments. Additional funding requirements for Private Storage Services is still to be determined with funding plans to be confirmed at the time of FID.	Sections 3.2 and 4.6 (pages 48-49 and page 59)
Are Refining NZ's Customers selling their shares?	The Proposal does not involve any change in shareholding of the Customers. However, as shareholders, the Customers have the right to sell their shares at any time without consulting Refining NZ.	N/A
How do the Refining NZ Independent Directors recommend I vote?	Each Refining NZ Independent Director recommends that you vote in **favour** of the Resolutions before the Meeting. Each Refining NZ Independent Director intends to vote all Refining NZ Shares held or directly controlled by him or her in favour of the Resolutions before the Meeting.	Section 3.2 (pages 48-49)
What is the Independent Appraiser's opinion on the Proposal?	The Independent Appraiser has concluded that: 1. The new Customer agreements are fair to all Non-Customer Shareholders, and 2. This document contains all the information a shareholder should require to make an informed decision on the Proposal.	Appendix A (page 95)
What is the impact of the Proposal on my Refining NZ shareholding?	The Company would change its name from Refining NZ to Channel Infrastructure, but there would be no change to your shareholding in the Company. You are not being asked to contribute any additional capital at this time, and there is no current proposal to raise additional capital.	N/A
What options are available to shareholders if they do not support the Proposal?	A Refining NZ shareholder who does not support the Proposal may: • Sell their Refining NZ Shares at any time; • Vote against the Proposal at the Meeting if they hold a Refining NZ Share at 11.00am on 6 August 2021. If both resolutions are passed by shareholders and the other conditions are satisfied, (refer to Section 3.2), the Proposal will be implemented. Shareholders who vote against the special resolution of shareholders may exercise a minority buyout right in accordance with the provisions of the Companies Act 1993. This is more fully explained in the Notice of Meeting accompanying this Booklet.	N/A

QUESTION	ANSWER	SECTION
Refining NZ after implementation of the Proposal (to be renamed Channel Infrastructure)		
What will Channel Infrastructure's strategic priorities be?	Channel Infrastructure's purpose will be to provide reliable, efficient fuel infrastructure solutions to keep New Zealand moving now and into a lower carbon future and deliver sustainable returns for shareholders. Strategic priorities to support a vision to be "New Zealand's leading independent fuel infrastructure company", include: • Safe, reliable and low-cost operations; • Supporting the transition to lower carbon fuels; and • Growing and diversifying its asset base.	Section 2.1 (page 33)
What will Channel Infrastructure's dividend policy be?	Refining NZ estimates that it will be in a position to recommence dividends one to two years following commencement of the terminal operations. Channel Infrastructure's dividend policy is expected to be based on a payout ratio of 60-70% of Free Cash Flow after an initial period of deleveraging to reduce leverage to below 4.5 times Net Debt/EBITDA and to achieve target leverage of 3-4 times Net Debt/EBITDA within five years of commencement of ITS services. The Board reserves its right to adjust the payout ratio or expected timing for the recommencement of dividends should the timing, costs or revenue associated with the Conversion (including new services such as Private Storage Services) or the import terminal business change. The dividend policy will be subject to the Board's due consideration of the Company's medium-term asset investment programme; a sustainable financial structure for Channel Infrastructure, recognising the targeted investment grade rating (within five years of the Services Effective Date); and the risks from short and medium term economic and market conditions and estimated financial performance.	Section 4.9 (pages 61-62)
What will Channel Infrastructure's debt capital structure be?	Channel Infrastructure will target a Net Debt/EBITDA metric of between three and four times, aligned with an investment grade shadow credit rating, within a five year period post commencement of ITS services.	Section 4.9 (pages 61-62)

QUESTION	ANSWER	SECTION
Voting on the Proposal		
What are the voting thresholds?	In order for the Proposal to proceed, the two Resolutions relating to it must both be passed: • **Resolution 1 (Major transaction and change in nature of business approval)** will be passed if a majority of 75% of all votes cast by shareholders are in favour. • **Resolution 2 (Related party transaction approval)** will be passed by a simple majority of the votes cast by shareholders voting in favour, other than the Customers and their Associated Persons (who are not permitted to vote in favour of Resolution 2).	Section 3.2 and the Notice of Meeting (pages 48-49)
Who is entitled to vote at the Meeting?	Persons with Shares at 11.00am on 6 August 2021 are entitled to vote on all Resolutions before the Meeting, except the Customers and their Associated Persons who are not permitted to vote in favour of Resolution 2.	Notice of Meeting
When is the Meeting?	The Meeting is on 6 August 2021 at Eden Park, Auckland, starting at 11.00am. The Meeting will be a hybrid meeting, with shareholders also able to attend and vote online.	Notice of Meeting
What is the procedure to vote in person?	If you are entitled to vote and wish to do so in person, you should attend the Meeting and bring your Proxy Form (which contains your attendance slip and ballot paper) with you to the Meeting. A corporation may appoint a person to attend the Meeting as its representative in the same manner as that in which it could appoint a proxy. You can also attend the Meeting and vote virtually by following the steps set out in the Notice of Meeting and accompanying "Virtual Meeting Guide".	Notice of Meeting and Proxy Form
What is the procedure to vote by proxy or online?	Accompanying this Notice of Meeting is a personalised Proxy Form. In order to vote by proxy, fill out the Proxy Form and send it to the Share Registrar in accordance with the instructions on the form so that it is received by 11.00am on 4 August 2021. A shareholder may appoint "The Chairman of the Meeting" as proxy. The Chairman intends to vote any undirected proxies held by him in favour of all Resolutions before the Meeting. Note that the Customers (and their Associated Persons, including the Customer Directors) are disqualified from voting on Resolution 2 under the NZX Listing Rules. Therefore, any such persons may only act as proxies in respect of Resolution 2 in accordance with express instructions of the shareholder appointing them as a proxy (i.e. discretionary proxies given to a Customer (or their Associated Persons, including the Customer Directors) for Resolution 2 will not be valid). If you have lost your Proxy Form, please contact the Share Registrar at +64 9 488 8777. If you wish to vote or submit your proxy online, you'll need to login to **www.investorvote.co.nz** by entering your CSN/Securityholder Number, postcode/country of residence and the secure access Control Number that appears on the front of your Proxy Form. Then follow the online prompts to cast your vote or submit your proxy no later than 11.00am on 4 August 2021.	Notice of Meeting and Proxy Form
What if I do not vote at the Meeting or if I vote against the Proposal?	If Resolutions 1 and 2 are approved by the requisite majority of shareholders and the conditions to implementation of the Proposal set out in Section 3.2 are satisfied then the Proposal will be implemented. However, those shareholders voting against Resolution 1 will be entitled to exercise a minority buy-out right as explained in the Notice of Meeting.	Section 3.2 and Notice of Meeting (pages 48-49)

QUESTION	ANSWER	SECTION
Taxation		
What are the tax implications of the Proposal for the Company?	Converting to an import terminal will result in a write-down of Refining NZ's refinery-related assets, and this is expected to generate a tax loss of approximately $300-$350 million. This tax loss, together with existing tax losses, may be used to offset future income tax obligations subject to the loss carry-forward provisions in the Income Tax Act 2007. At this stage, Refining NZ does not know how long it will take to utilise its current and expected tax losses as this will be a function of the size of the tax loss arising on the write-down of its asset base, the performance of Channel Infrastructure in future years, and whether the loss carry forward provisions continue to be met (refer to Section 4.8). It is expected that the tax losses would be used to offset Refining NZ's future taxable income, increasing Channel Infrastructure's free cash flow, which could be paid as a dividend to shareholders, pay down debt or used to fund future energy and infrastructure growth opportunities.	Section 4.8
Other information		
If you have further questions	If you have further questions, it is recommended that you consult an appropriately authorised financial adviser, solicitor, accountant and/or other professional adviser before voting on the Proposal, or email refiningnzvote@computershare.co.nz	N/A

1. Background to the Proposal

VOTE IN FAVOUR

1.1 Structurally challenging conditions for the refining industry

Refining NZ has played a significant role in New Zealand's fuel supply chain since the refinery was originally commissioned in 1964. It is one of the safest and most reliable oil refineries in the Asia-Pacific region and continued investment has helped to ensure that the refinery has kept pace with emerging industry standards, with a particular focus on product quality, operating efficiency and carbon emission reduction.

Notwithstanding this, over recent years there has been a structural change in the external environment in which Refining NZ operates; a weakening gross refining margin (GRM) due to a structural refined fuels global over supply and cost increases has made it increasingly challenging to deliver an economic return to shareholders. Although these structural changes in the business environment had started prior to COVID-19, the pandemic has amplified these challenges with fuel demand falling sharply and the timing of margin recovery uncertain.

Historically, as the GRM has weakened so has Refining NZ's share price; this is reflected in the following chart which shows that there is a high degree of correlation.

Refining NZ share price versus GRM

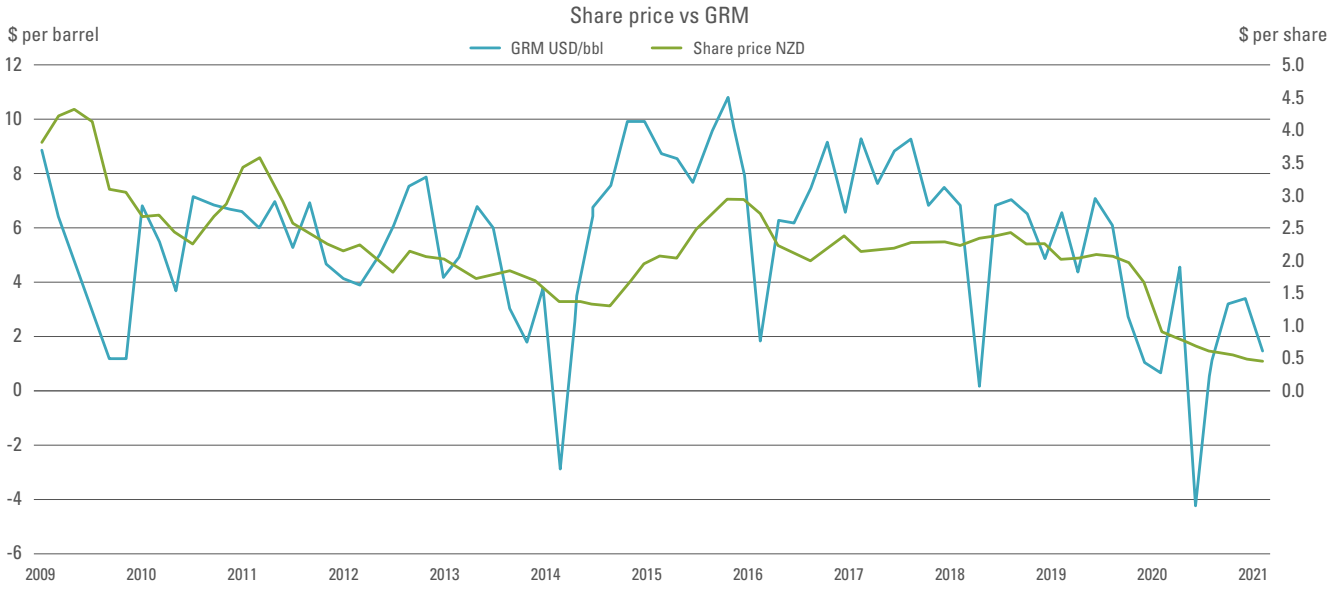


Figure 2: Over the last 15 years, the annual average GRM has ranged from a high of US$11.30 per barrel in 2008, to a low of US$1.63 per barrel in 2020, and over that same timeframe the Company's share price has fallen from around $4 per share to less than $1 per share ($0.67 per share as at 28 June 2021).

The current challenges impacting the refining sector are described in more detail below.

Weak near-term outlook for Gross Refining Margin

Prior to the COVID-19 pandemic, the global refining industry was undergoing significant structural change. A large number of 'mega-refineries' in the Asia-Pacific region had been commissioned, with the new supply of refined product significantly outstripping growth in demand for transport fuels. The surplus of refined product put significant downward pressure on regional gross refining margins, a key driver of Refining NZ's revenue.

Notwithstanding the announced closure of several refineries in Australia and Asia which have also been impacted by similar industry headwinds, further confirmed capacity additions in Asia through to 2024 are expected to continue to weigh heavily on gross refining margins for the next few years.

With regional Asian and Indian refineries able to meet New Zealand fuel specifications, and utilise spare capacity and relatively cost effective shipping options, it is structurally difficult for small stand-alone refineries like the Marsden Point oil refinery to compete, particularly if not supported by Government or state owned enterprise, or if not integrated in a downstream processing value chain.

To date, refinery closures representing around 2.5 million barrels per day before the end of 2022 have been announced. Expert market commentators are expecting further closures to be announced amounting to an additional 1 million barrels per day of refining capacity closed before the end of 2022. However, additional capacity is expected to come online through to 2024, which is forecast to more than offset confirmed and forecast refinery closures. The market commentators forecast that, by the end of 2022, there will be more than 2 million barrels per day of additional refining capacity globally (when compared with the end of 2019), while demand will be less than 1 million barrels per day higher.

Asia is expected to see fewer refinery capacity additions beyond 2024, while regional demand is expected to grow during this timeframe which could improve margins. There may be some spikes in refiners' margins as the supply/demand balance recovers, however further volatility is expected. Expert market commentators expect that an improvement in refining margins will require a recovery from COVID-19, sustained growth in China and India and global capacity to reduce through further refinery closures.

Refining NZ's historical GRM is illustrated in the chart below, highlighting a downward trend in reported GRM. The annual average GRM earned over the 10-year period to 31 December 2020 was US$5.84 per barrel.

Singapore-Dubai Complex Margins (historical and forecast) versus Refining NZ's historical GRM

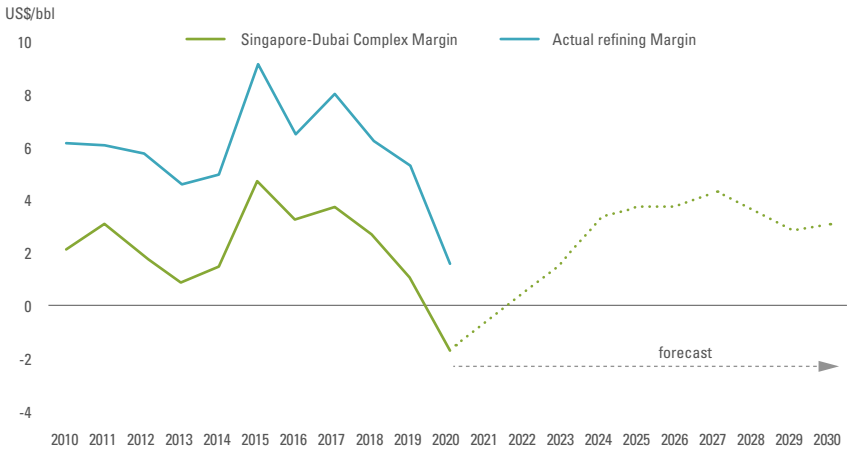


Figure 3 Source: Refining NZ Annual Gross Refining Margin. The forecast Singapore-Dubai complex margin has been calculated based on Facts Global Energy (FGE) price sets[12] using Dubai and Brent crude and Singapore Product Prices, Very Large Crude Carrier (VLCC) freight to Singapore and the International Energy Agency's Dubai complex refinery yields adjusted for fuel and loss.

Historically, Refining NZ has achieved adequate returns on invested capital (ROIC greater than Weighted Average Cost of Capital (WACC)) when the Refining NZ GRM is above US$7-8 per barrel. The outlook for Singapore Dubai Complex margins, derived from price sets produced by FGE, indicate few extended periods of time when the Refining NZ GRM is expected to be at those levels when applying historic Refining NZ uplifts.

[12] FGE Long Term price-set, November 2020

High comparative cost structure

Despite significant ongoing capital investment, Refining NZ's refinery is much smaller, older, and importantly, less energy efficient than many modern Asian exporting refineries with which Refining NZ ultimately competes on an import parity pricing basis. Economies of scale are critical in the refining industry, with larger refineries able to achieve significantly lower 'per litre' operating costs, or able to offset low refining margins with returns from other parts of an integrated processing supply chain. This means that those refineries remain viable at structurally lower GRMs than Refining NZ. Some of these competing refineries are also co-located with petrochemical facilities, which enables a higher margin to be extracted from additional parts of the crude oil processed.

Despite strong efforts on controllable costs, Refining NZ has experienced sustained and substantial increases in its operating costs, particularly energy and labour costs over the past 10 years.

As a reference, spot electricity prices in New Zealand have increased around circa 240% in the last 5 years, from an average of circa $70/MWh to an average of circa $240/MWh[13] in the 2021 year to date. Similarly, natural gas spot prices have increased 135% over the same period, from an average of circa $6.60/GJ[14] to circa $15.50/GJ current year to date (although these are a pass-through cost, they impact the GRM calculation).

This cost escalation is illustrated in Figure 4 below, with major cost components increasing circa 40% from 2014 to 2019.

Refining NZ's Operating Cost Escalation – 2014 to 2020

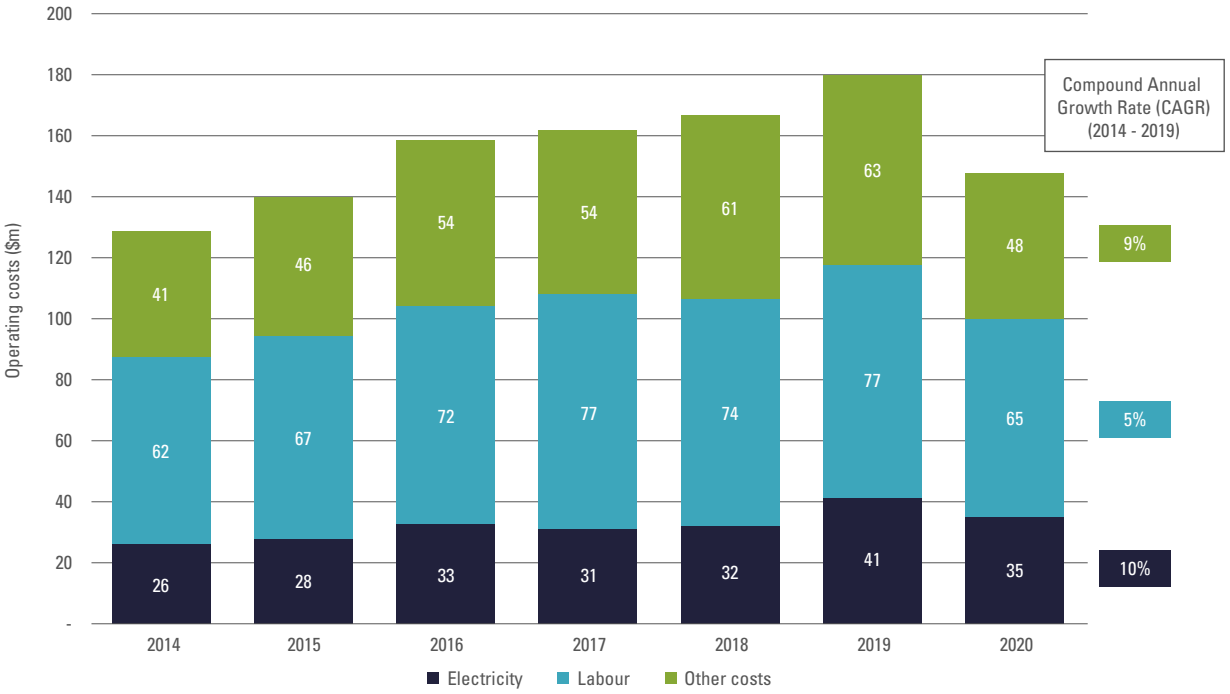


Figure 4

Notes:

[1]: Pass-through costs (Natural gas, sulphur, carbon costs) are excluded from the above chart

[2]: the circa 18% cost reduction in 2020 is a consequence of the 6-week 'hot-park' and 'cyclic operations' of the refinery resulting from a sharp reduction in transport fuels demand caused by COVID-19 and a stop to all non-essential spend.

[13] Five months to 31 May 2021. Source: Spot wholesale electricity prices at Bream Bay node from **www.emi.ea.govt.nz**

[14] Five months to 31 May 2021. Source: MBIE New Zealand nominal average fuel prices **www.mbie.govt.nz**

This cost escalation, together with the on-going capital investment required to maintain safe operations, has meant that Refining NZ has not been able to generate significant positive free cash flow in years when the GRM has been weak (below US$7-8 per barrel). With a reduced outlook for the GRM, Refining NZ's ability to generate sufficient free cash flow to pay dividends to shareholders is significantly reduced. The risks of operating in this manner are set out in Section 6 (see the "Customer Disputes and Simplified Refinery Model" risk and "Refining Margin and Exchange Rate" risk).

A low GRM also impacts Refining NZ's existing Customers, since they retain a share of the GRM (30%) and pay a Fee Floor when GRM is low, impacting on Refining NZ's competitiveness. The 30% share is intended to offset their risk and cost in the supply chain relative to direct product imports, including coastal shipping costs from the refinery to regional terminals. These costs have also escalated over recent years, necessitating higher GRMs for Refining NZ to remain competitive relative to the alternative import supply into other New Zealand terminals.

Decarbonisation of the New Zealand economy

Successive decisions by policy makers have encouraged a change in the way that New Zealanders think about environmental and sustainability issues. In 2019, the Climate Change Response (Zero Carbon) Amendment Act 2019 was passed with bi-partisan support, setting a target for New Zealand to reduce its net emissions of all greenhouse gases (except biogenic methane) to zero by 2050.

As a refinery, Refining NZ is currently a significant carbon emitter, which will make refinery operations increasingly challenging and costly as Refining NZ's exposure to the ETS increases over time. Refining NZ is also exposed to electricity and gas cost increases with increasing carbon and supply costs. The refinery also requires New Zealand markets for the range of products produced from a barrel of oil, including petrol - demand for which is forecast to reduce with increasing use of electric vehicles. This is consistent with a global shift towards more environmental awareness in purchasing decisions.

Channel Infrastructure's product mix is expected to be weighted towards jet and diesel in the future. The Climate Change Commission's (CCC) report released in June 2021 highlighted a near-term focus on decarbonisation of transport through electric light vehicles, with decarbonisation of heavy transport and aviation fuels occurring over a longer period of time[15]. The CCC's report identified that aviation fuels are particularly challenging to decarbonise and there is currently no commercially viable sustainable aviation fuel supply in New Zealand. The CCC report has recommended that the New Zealand Government supports low carbon fuels for heavy vehicles and aircraft including fuel standards and incentives. In June 2021 the Ministry of Business, Innovation and Employment and the Ministry of Transport issued a discussion document outlining a proposal to put in place a sustainable biofuels mandate[16]. As an import terminal, Refining NZ's existing infrastructure has the potential to support a transition to biofuels and sustainable aviation fuels. Refer to Section 2.5.

[15] CCC budgets include a near-term focus on increased electrification of passenger vehicles, and a target for biofuel production of 270m litres by 2035 (c.3.5% of forecast total liquid fuel demand including international transport)

[16] The proposal is for 1.2% emission reductions from domestic transport fuels in 2023, 2.3% in 2024, and 3.5% in 2025 (**https://www.mbie.govt.nz/dmsdocument/15020-increasing-the-use-of-biofuels-in-transport-consultation-paper-on-the-sustainable-biofuels-mandate-pdf**)

1.2 Overview of Strategic Review process

Responding to this challenging refining environment, Refining NZ initiated a Strategic Review in April 2020 to determine the optimal business model and capital structure for its assets to maximise "through the cycle" returns to shareholders while continuing to deliver secure, competitive fuel supply to New Zealand.

The first phase of the Strategic Review was to assess the opportunities to improve the competitiveness of refining operations in New Zealand and options to separate the refining and infrastructure assets or convert to an import terminal business model. The Company engaged extensively with Customers, Government, and other stakeholders to inform its assessment of business model options.

In June 2020, Refining NZ announced that it would take two business model options forward; in the short-term, a Simplified Refinery to improve the near-term viability of its current business model, while continuing to evaluate a possible future staged transition to an import terminal. The detailed work on the import terminal option included exploration of potential commercial frameworks with its Customers who had all expressed a preference for an import terminal model.

The Simplified Refinery was implemented from early January 2021 and resulted in refining capacity being reduced by circa 18% and a cessation of bitumen production. The workforce was also reduced by around 25%. Further, details of the Simplified Refinery model are set out in Section 5.1.

The Customer negotiations in relation to the import terminal model are being overseen by the Independent Directors and culminated in agreed non-binding term sheets with bp and Z Energy. These term sheets document the substantive commercial terms for the provision of Import Terminal System (ITS) services and are summarised in Section 2.4. At the date of this Booklet, negotiations continue with Mobil based on the term sheets that have been agreed with other Customers. While negotiations continue in good faith, it is not known at this time when or if these negotiations will be concluded. It is expected that TSAs and Transition Agreements based on these term sheets will be finalised and executed, preferably with all Customers but at least a majority of Customers, before a Final Investment Decision is taken by the Refining NZ Board to approve and proceed with the Proposal. As noted in Section 3.2, this is to assist Refining NZ in being able to meet the targeted date for commencement of import terminal operations by mid-2022.

It is for these terms that Refining NZ now seeks the approval of its Non-Customer Shareholders. The Independent Appraiser has reviewed these terms and concluded that they are fair to all such shareholders. On the basis of this approval, Refining NZ intends to conclude negotiation of the final TSAs and Transition Agreements with Customers, as more fully explained in Section 2.4.

2. Channel Infrastructure business description

Following Conversion from principally a refinery to a dedicated import terminal, the Channel Infrastructure group would be an owner and operator of highly strategic infrastructure and expects to generate relatively stable earnings with a focus on paying out a high proportion of Free Cash Flow as dividends.

VOTE IN FAVOUR

2.1 Channel Infrastructure strategy

A new strategic framework (refer to Figure 5 below), will be adopted for the business transformation from a refinery operator to an infrastructure company.

Channel Infrastructure's purpose will be to provide reliable, efficient fuel infrastructure solutions to keep New Zealand moving now and into a low carbon future and deliver sustainable returns for our shareholders.

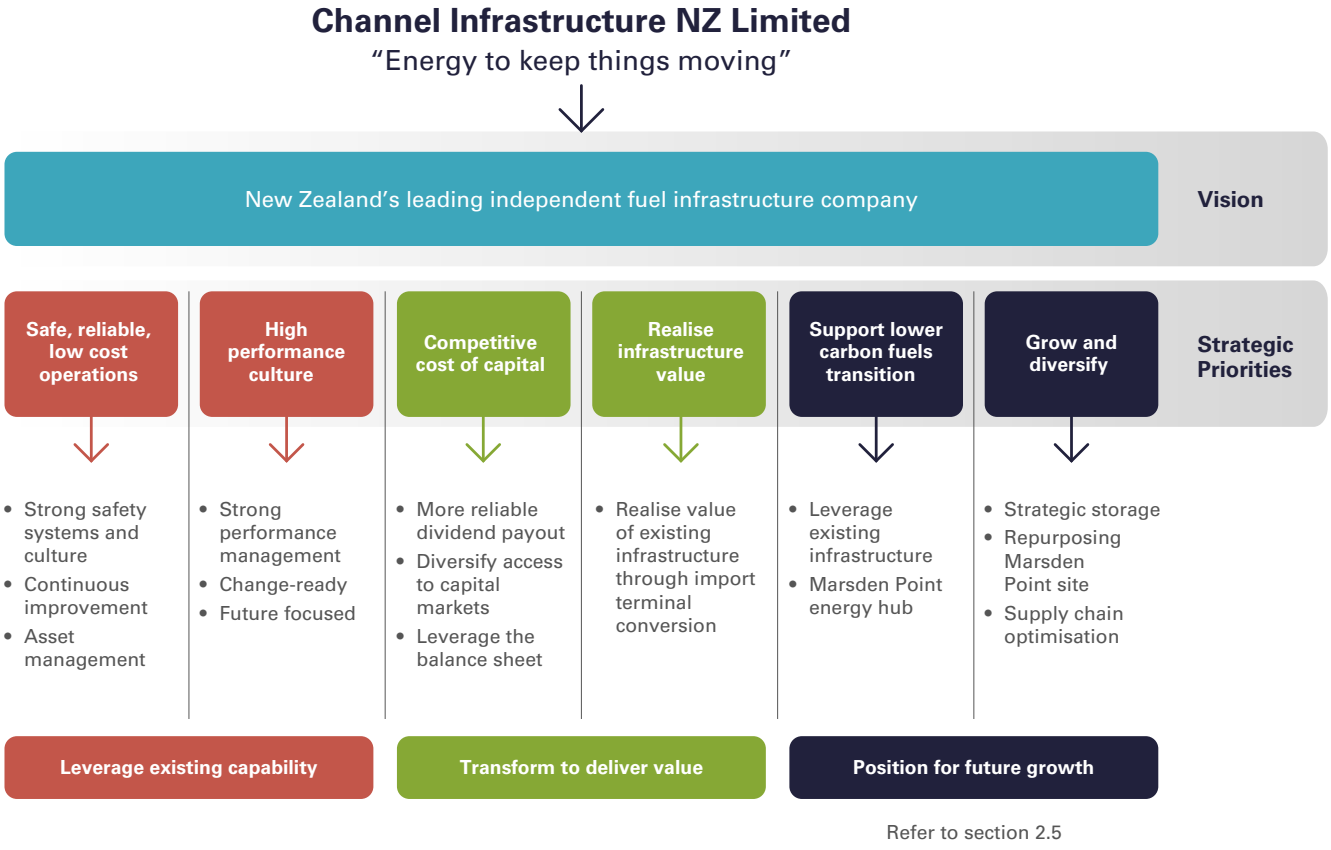


Figure 5: Channel Infrastructure NZ Limited Strategic Framework

2.2 Import Terminal System

The Import Terminal System (ITS) is expected to handle between 3 and 3.5 billion litres of transport fuels annually, primarily servicing the Northland and Auckland markets, which make up 40% of New Zealand fuel demand.

It would initially comprise the following network of largely existing infrastructure assets:

- Two deep-water jetties at Marsden Point, with both able to receive petrol, diesel and jet fuel;
- Approximately 180 million litres of comingled product storage capacity at Marsden Point, implying discharge of a typical vessel approximately every five days during peak seasonal demand;
- The approximately 170km multi-product Refinery to Auckland Pipeline (RAP) which extends from Marsden Point to the Wiri Terminal in South Auckland;
- A short pipeline to the truck loading facility (TLF) adjacent to the Marden Point site; and
- Extensive supporting physical infrastructure at the Marsden Point site.

The Conversion would result in New Zealand's transport fuel requirements being met wholly through the import of refined fuel products, compared to today where crude oil is imported for refining at the refinery, complemented by direct refined fuel imports.

Figure 6 set out below depicts the ITS and the flow of imported product through the system. Note the TLF and Wiri Terminal end-delivery points are owned by Refining NZ's Customers - and do not form part of the ITS.

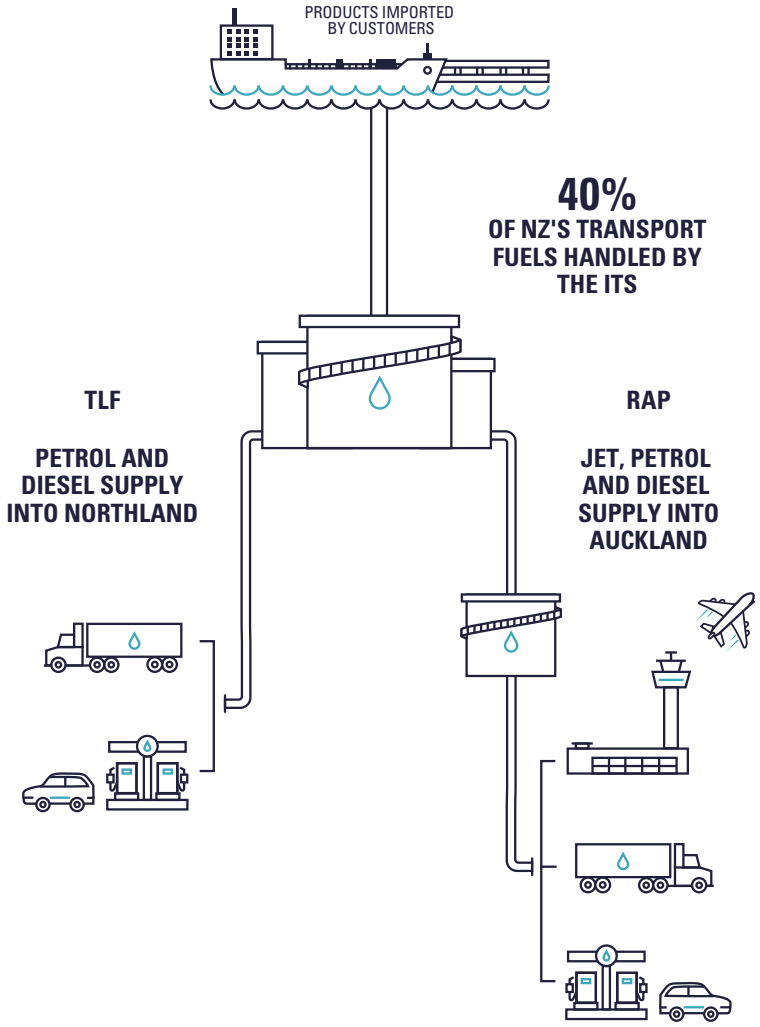


Figure 6

The ITS would store and deliver product on a co-mingled basis, meaning that product is offloaded and combined with other comparable products in the tanks and pipelines irrespective of Customer ownership. The Customers are responsible for collectively supplying product at the required quality specifications and maintaining appropriate product stock levels at Marsden Point to meet their market needs. Channel Infrastructure would not own any of the products stored or moved through the ITS – ownership remains with the Customers.

The provision of Private Storage Services are also expected to be agreed with Customers on a bilateral basis. Sitting outside the ITS for additional value-added service fees, this would provide Customers with additional flexibility particularly in relation to freight optimisation through increased control of available tank capacity. Additional services may also extend to additive dosing services.

Channel Infrastructure would be responsible for scheduling product batches to be delivered through the RAP based on Customer advised demand forecasts, to maintain adequate stock levels at the Wiri Terminal to meet market needs. RAP capacity would initially be the constraining factor in the ITS, and Customers would have priority RAP access. Channel Infrastructure would have the right to introduce new customers to the ITS where there is systematic underutilisation of RAP capacity after the first three years.

Additional detail on the commercial arrangements between Channel Infrastructure and the Customers is summarised in Section 2.4.

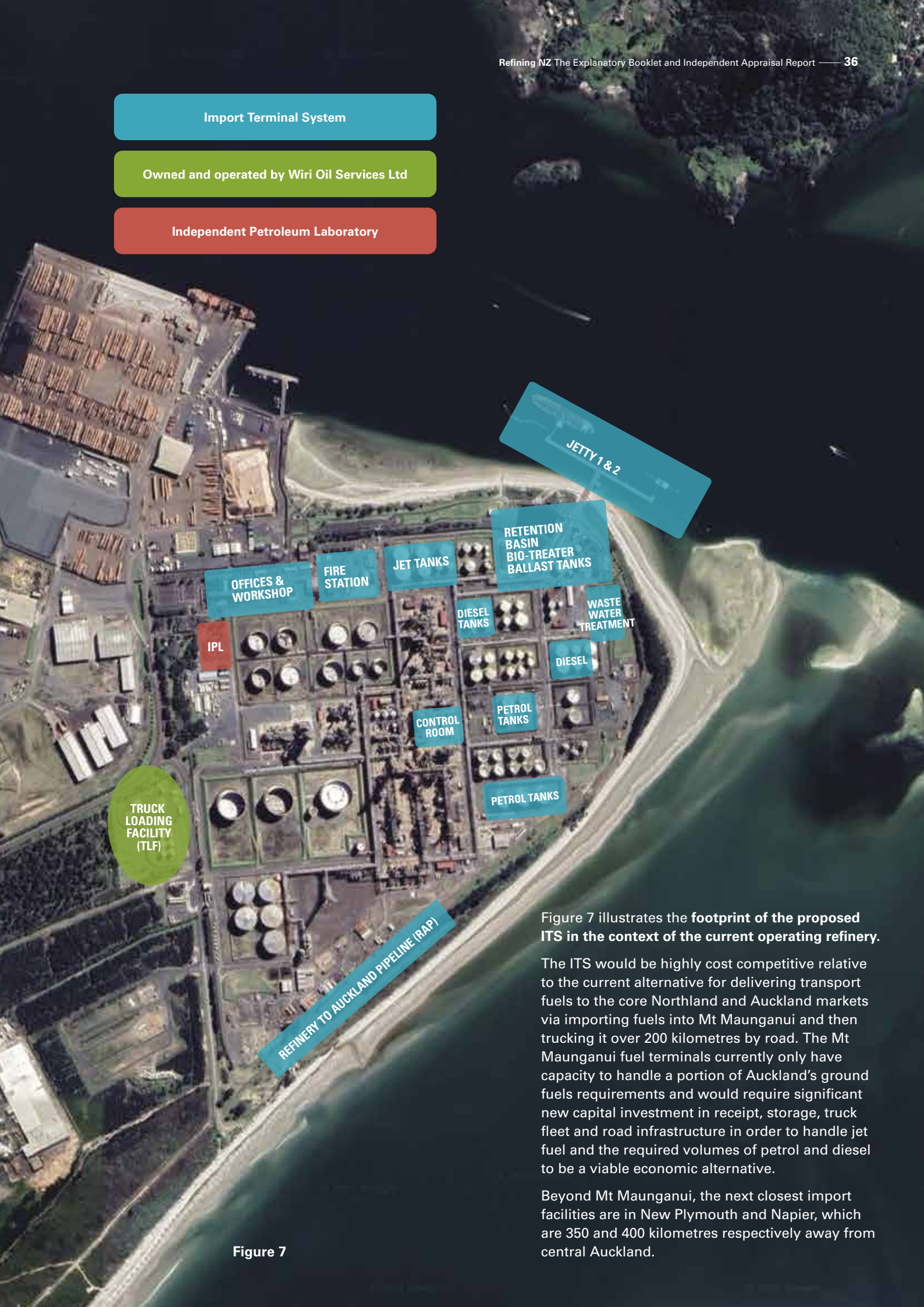


Figure 7

Figure 7 illustrates the **footprint of the proposed ITS in the context of the current operating refinery.**

The ITS would be highly cost competitive relative to the current alternative for delivering transport fuels to the core Northland and Auckland markets via importing fuels into Mt Maunganui and then trucking it over 200 kilometres by road. The Mt Maunganui fuel terminals currently only have capacity to handle a portion of Auckland's ground fuels requirements and would require significant new capital investment in receipt, storage, truck fleet and road infrastructure in order to handle jet fuel and the required volumes of petrol and diesel to be a viable economic alternative.

Beyond Mt Maunganui, the next closest import facilities are in New Plymouth and Napier, which are 350 and 400 kilometres respectively away from central Auckland.

2.3 Transport fuels demand outlook

The key driver of long-term ITS utilisation and therefore value is demand for transport fuels. The transport fuel demand forecasts used in our modelling have been prepared by independent industry experts Hale & Twomey and are illustrated in Figure 8.

New Zealand Product Demand (million litres)

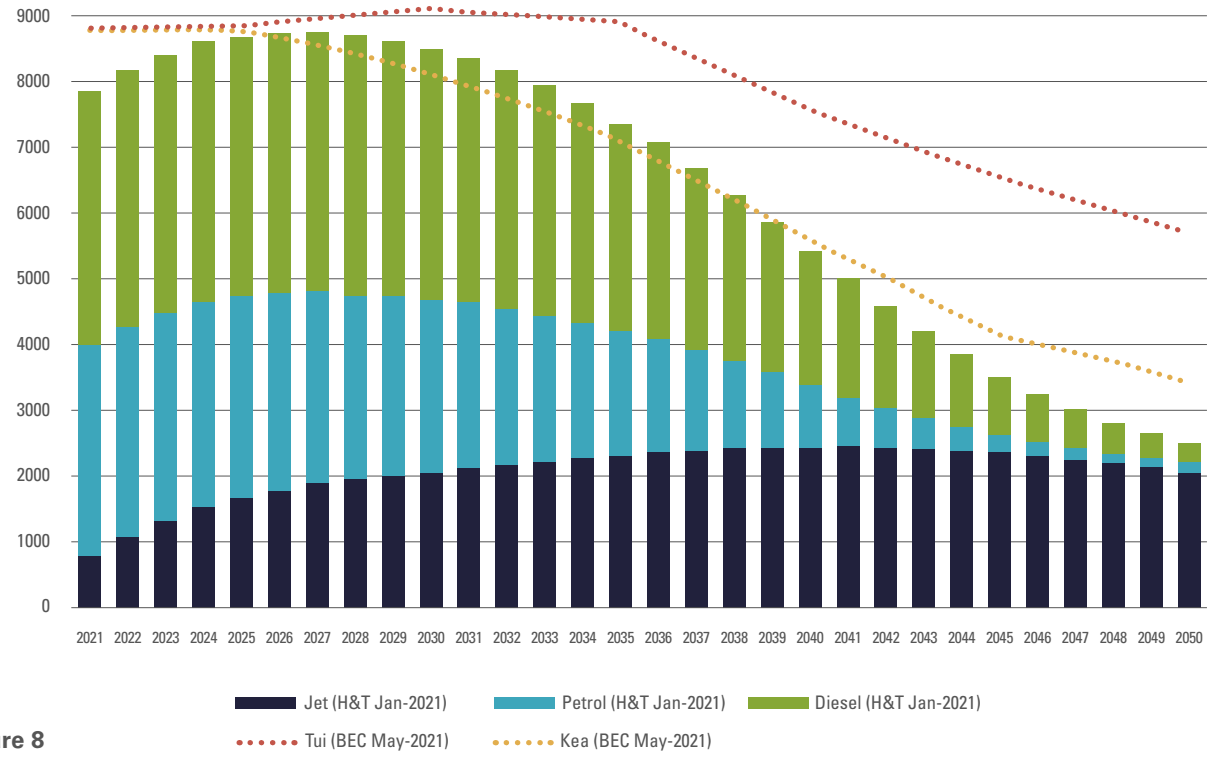


Figure 8

Hale & Twomey's forecast, issued in January 2021, reflects a faster transition away from fossil fuels than previously expected, now factoring in New Zealand's commitment to zero net greenhouse gas emissions by 2050. The forecast is consistent with the decarbonisation pathway proposed by the CCC in its June 2021 report to the Government. The Hale & Twomey forecast reflects a change in consumer sentiment and actions attributable to COVID-19. Further growth and sustained demand for jet fuel is expected to underpin long-term ITS utilisation, in contrast to a long-term decline, initially in petrol and then diesel. The Hale & Twomey forecasts are for fossil fuels only and make no assumptions on bio-fuel substitution. The consultation paper issued by the Government in June 2021 on the Sustainable Biofuels Mandate proposes a 3.5% reduction in domestic transport fuel emissions from biofuel uptake by 2025[17]. As a key part of the transport fuels supply chain into New Zealand's largest market (Auckland), the ITS infrastructure is well placed to benefit from the incremental volumes of low-carbon transport fuels[18].

The Business New Zealand Energy Council (BEC) has recently issued updated energy scenarios (TIMES-NZ 2.0[19]), with the Tui scenario representing a future in which climate change is one of several competing priorities and the Kea scenario representing a future in which climate change is seen as the most pressing issue. These scenarios are shown in the above chart as a comparison against the Hale & Twomey forecast volumes.

A discussion of key drivers underpinning Hale & Twomey's NZ demand forecast for each product is outlined below.

[17] Excludes international aviation

[18] 2nd-generation biofuels are suitable for use on the multi-product RAP, but ethanol-blends (in petrol) are not

[19] BusinessNZ Energy Council energy scenarios published in 2021: https://www.bec.org.nz/our-work/scenarios/times-nz-2.0

Jet fuel

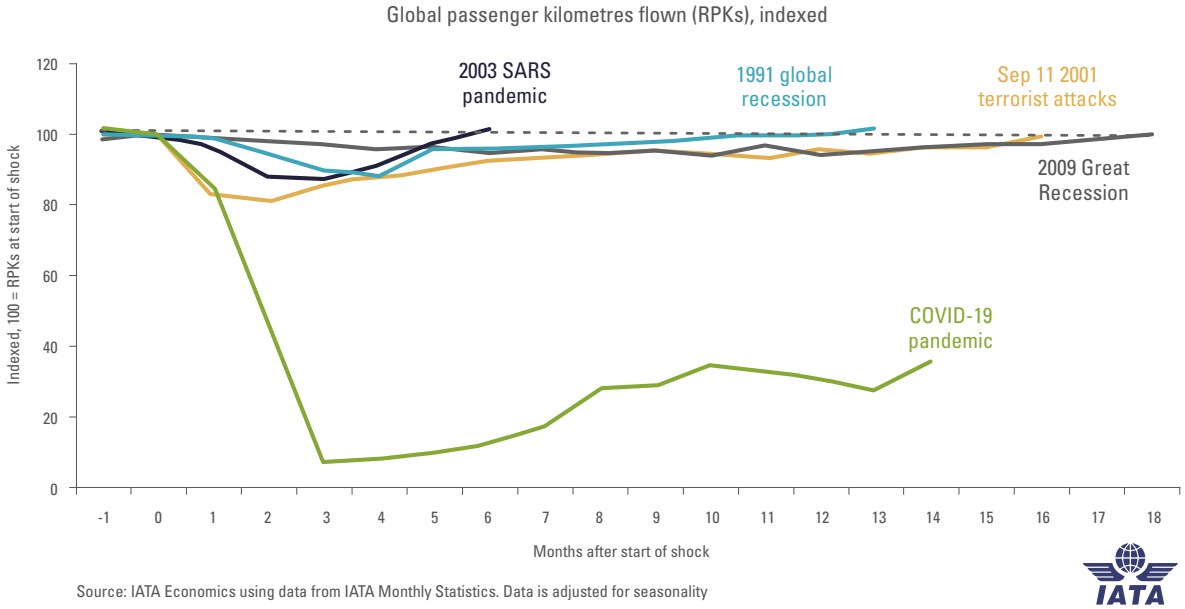
Although domestic demand for petrol and diesel rebounded rapidly to 2019 levels once national and regional travel restrictions were lifted in 2020, jet fuel demand remains soft as a consequence of continued restrictions on international travel.

Domestic air travel has returned to circa 80% of 2019 levels, but domestic travel normally only represents a small portion of New Zealand's jet fuel demand (typically circa 20%) with long-haul international flights normally accounting for most of New Zealand's jet fuel demand. Trans-Tasman flights, and flights to the Pacific provide incremental jet demand, but this is less material than long-haul international flights.

It is therefore expected that New Zealand jet fuel demand will only recover as border controls are gradually relaxed and long-haul flights return.

While the long-term impacts on international air travel from the COVID-19 pandemic remain uncertain, there has historically been full demand recovery after previous demand shocks e.g. SARS, 9/11, and the 2008 Global Financial Crisis – see Figure 9 below from International Air Transport Association (IATA).[20]

Demand shocks do not usually have long-lasting impacts
Previous shocks cut 5-20% from RPKs but recovered after 6-18 months



Source: IATA Economics using data from IATA Monthly Statistics. Data is adjusted for seasonality

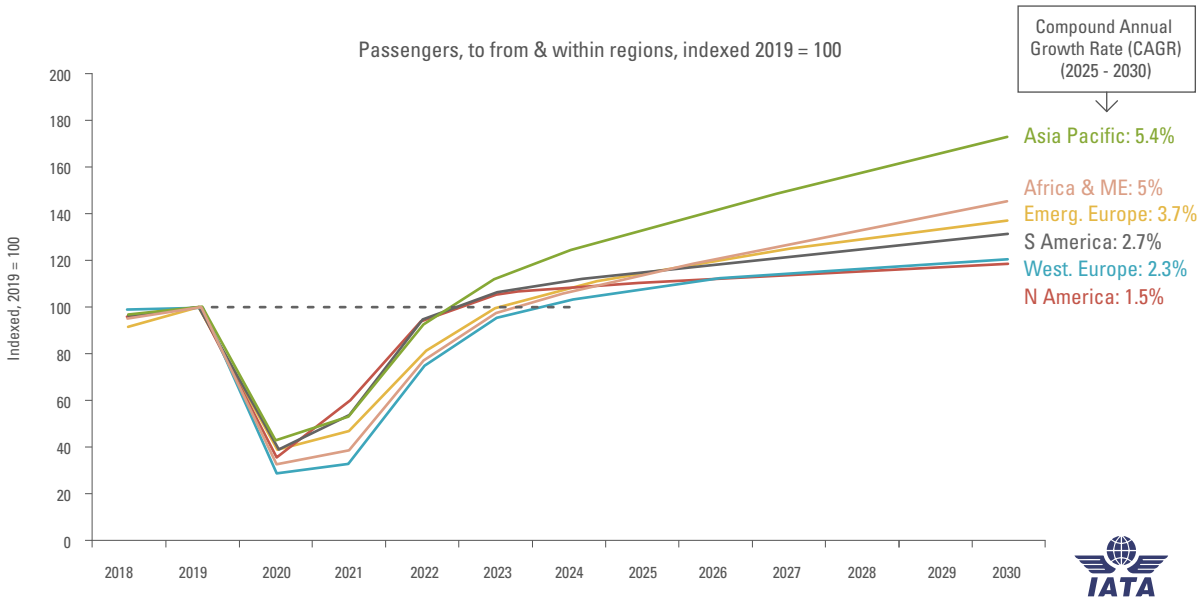
Figure 9

Jet fuel demand growth rates are forecast to return to historical trends, linked to GDP and wealth-trends. People's appetite for travel remains strong (including the tourism, education, and visiting friends and family sectors) and the growth in the population of the middle classes who can afford air travel in Asia is expected to continue. New Zealand is likely to remain a desirable travel destination.

The Hale & Twomey forecast sees jet fuel demand returning to 2019-levels by circa 2027. This represents a slightly slower recovery than the NZ aviation industry's current expectation of a return to 2019 demand by 2024/2025. The IATA expectation is for travel demand in the Asia-Pacific region to return to 2019 levels by 2023, though this includes significant domestic travel (e.g. within China and India).

[20] https://www.iata.org/en/iata-repository/publications/economic-reports/an-almost-full-recovery-of-air-travel-in-prospect/

Regions with large domestic markets recover first
European, Africa & Middle East regions lag due to international markets



Source: IATA Economics using data from Tourism Economic/IATA Air Passenger Forecast, April 2021

Figure 10

The longer-term slowdown in jet fuel demand growth and eventual decline from the 2040s represents an expectation of technology improvements and possible fuel substitution (potentially electric, Sustainable Aviation Fuels (SAF) or hydrogen fuel cell) for some sectors of air travel.

Any SAF imported into, or manufactured, at Marsden Point, would likely utilise the same ITS infrastructure as fossil jet fuel i.e. jetties, tanks and the RAP. The Hale & Twomey forecast is for fossil fuels only and any future SAF demand would be incremental to the volumes shown.

Diesel

Domestic diesel demand is currently stronger than it was in 2019, and demand is expected to continue to grow as the economy grows. Gross Domestic Product (GDP) growth is reflective of increased trucking (transport of goods), forestry, commercial fishing and agriculture - all of which are key drivers of diesel demand.

The relationship between diesel demand and GDP growth is expected to weaken over time with improving fuel efficiency and productivity enhancements,and with the continuation of the shift in the economy from a manufacturing economy to a service economy.

Diesel use for light passenger vehicles and light commercial vehicles is expected to follow a similar reduction curve as petrol. It is assumed that alternatives (such as electric vehicles and hybrid vehicles) will replace the existing light passenger diesel fleet at a similar rate as that for petrol-powered light vehicles.

The Hale & Twomey forecasts assume that diesel use in the agriculture, forestry and fishing sectors will only start reducing from 2030 and decline to circa 25% of current use by 2050. Heavy transport follows a similar profile to light transport but with a five-year lag as that technology (whether electric or hydrogen) is not as advanced or economic. Any bio-diesel demand will be incremental to the volumes shown.

Petrol

Petrol demand has already returned to 2019 levels. No further COVID-19 impacts have been included in the Hale & Twomey forecast although they may occur for periods of time if major domestic travel restrictions are imposed. The impacts of such a restriction would likely be short-term only.

The trend for improving fuel efficiency is expected to continue in the near term, but the main demand erosion will come from a shift towards using electric vehicles instead of petrol vehicles over the next two decades. There is also expected to be an impact from reduced commuting activity as businesses have become more comfortable with staff working from home for a portion of the work week.

Auckland and Northland fuel demand outlook[21]

The ITS will distribute fuel for primarily the Northland and Auckland markets. Based on the Hale & Twomey assessment, the forecast fuel demand in those markets is shown below:

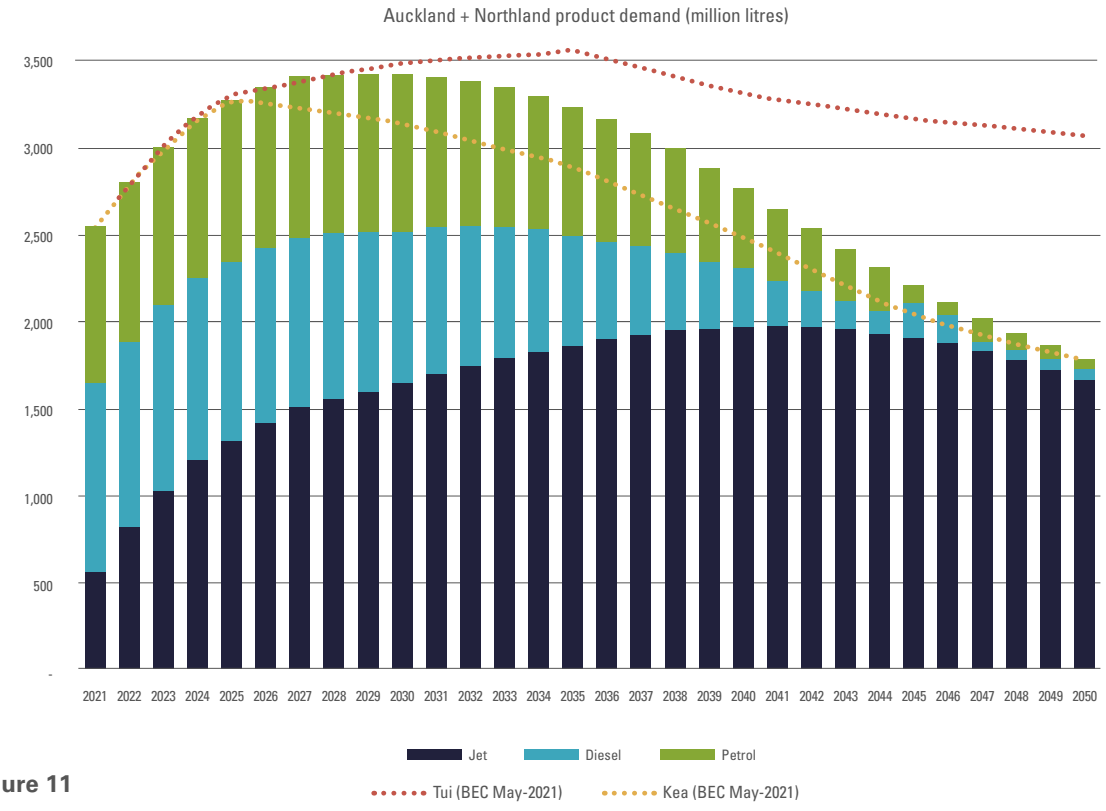


Figure 11

Note: Based on Hale & Twomey's forecast, issued in January 2021, which reflects a faster transition away from fossil fuels than previously expected, now factoring in New Zealand's commitment to zero net greenhouse gas emissions by 2050. The Hale & Twomey forecast reflects a change in consumer sentiment and actions attributable to COVID-19. Further growth and sustained demand for jet fuel is expected to underpin long-term ITS utilisation, in contrast to a long-term decline, initially in petrol and then diesel. The Hale & Twomey forecasts are for fossil fuels only and make no assumptions on biofuel substitution. The Business New Zealand Energy Council (BEC) Tui and Kea scenario implied year on year growth rates have been applied to anticipated Auckland+Northland petrol and diesel volumes from 2023 (Hale & Twomey) and to jet from 2026 (to accommodate Covid-19 jet demand recovery).

[21] Mid-case demand scenario developed by Hale & Twomey. Includes some supply from Wiri into the Waikato.

2.4 ITS commercial agreements

Refining NZ has been negotiating with existing Customers the commercial terms for provision of ITS services under a Terminal Services Agreement (**TSA**). As at the date of this Booklet, Refining NZ has reached in-principle and non-binding agreement on key commercial terms with bp and Z Energy, and negotiations with Mobil are ongoing on the basis of those terms.

The summary below reflects the key commercial terms agreed in principle and on a non-binding basis with bp and Z Energy, as well as expected transitional arrangements under a separate Transition Agreement.

While the in-principle and non-binding commercial terms are not exhaustive, matters which are still to be agreed should not materially impact the assessment of economic value of the TSA or Transition Agreement to Refining NZ. They are largely operational in nature, such as finalisation of delivery scheduling and product comingling rules required for the effective operation of the ITS.

Refining NZ is seeking shareholders' approval to provide ITS services to all of the Customers on the basis of the in principle and non-binding agreement reached with bp and Z Energy as outlined below, in parallel with negotiating binding TSAs and Transition Agreements with all Customers in line with the key terms outlined below and covering all outstanding matters. While negotiations continue in good faith, it is not known at this time when or if these agreements will be concluded.

Shareholders are not prejudiced by this approach, as Refining NZ would seek again shareholders' approval to any terms ultimately agreed with Customers (or their nominees), including with respect to the terms negotiated with Mobil, if they do not reflect the Proposal outlined in this Booklet and/or the ultimate outcome described in this Booklet.

ITEM	KEY TERMS
Conditions	The TSA is subject to the following material conditions being satisfied or waived including: • Each Customer signing a TSA and Transition Agreement (see below); • Import terminal safety case acceptance by WorkSafe; and • Refining NZ giving a minimum period of notice to the Customers of the commencement date for ITS services (Services Effective Date). If these conditions are not satisfied or waived, the Services Effective Date would not occur and Refining NZ would continue to operate as a Simplified Refinery until the conditions are satisfied or waived or the TSAs are terminated by Customers (see below under Termination Rights).
Scope of services	Refining NZ will provide three categories of services, as set out below: **Core ITS services** will include: • Operating and maintaining the ITS; • Priority vessel berthing rights at Marsden Point jetties for ITS customers; • Discharge of product from vessels and storage in tanks at Marsden Point; • Scheduled delivery of product to the TLF and via the RAP to the Wiri Terminal (with the Wiri Terminal and TLF delivery point agreements updated to reflect the provision of services under the TSA); and • Product accounting services. **Ancillary Services** As requested by Customers and for additional fees to be agreed, including: • Jet fuel certification; • Other product-specific activities; • Ad-hoc reloading of product onto vessels and off-specification product management support. **New Services** Customers may request a new service associated with the ITS (e.g. an expansion or enhancement of the ITS), with additional fees to be agreed on a case by case basis. These new services may include private storage (refer Section 4.5 for further details). Private Storage Services would be subject to additional fees and would otherwise be subject to all relevant provisions of the TSA.

ITEM	KEY TERMS
Fees	From the Services Effective Date, Customers will pay monthly fees comprising fixed and variable components (further described in Section 4.2): • **Fixed Fee** – with a per customer base fee and the balance allocated to customers based on their relative ITS utilisation, stepping down over the TSA term; • **Throughput Fee** – based on actual customer volumes handled, with some differentiation between components of the ITS utilised (i.e. wharfage, TLF and RAP) and differential RAP fees based on product flow rates. Ancillary Services and New Services (if any) will be charged in addition to the monthly Fixed Fee and Throughput Fee. **Take or Pay (ToP) Fee:** To the extent the amounts below are higher than the aggregate of the annual Fixed Fee, Throughput Fee and Ancillary Services Fees, Customers will make top-up payments to provide a minimum aggregate (take-or-pay) fee (on a real basis) of: • $100 million per year for the first 36 months from the Services Effective Date; • $90 million per year for the following 36 months; and • $65 million per year for all subsequent years. Each Customers' obligation to the ToP Fees is based on its relative ITS Utilisation. Any efficiencies achieved between the initial best estimate of transition and conversion costs of $200m and actual cost will be shared on a 50/50 basis with Customers up to the amount of ToP Fees payments made. Reductions in ITS operating costs achieved compared with initial estimates will be shared on a 50/50 basis with Customers through reduced fees in any renewal of the TSA or earlier as a result of specific Customer initiatives.
Fee indexation	All fees will be subject to annual indexation in accordance with the 12-month change in the Producers Price Index (PPI) 'Outputs, All Industries' published by Statistics NZ.
Term and renewal rights	The TSA will have an initial term of 10 years from the Services Effective Date, with two rights of renewal for a further 5 years, each on the same terms and exercisable at the Customer's discretion. If not renewed, transitional provisions will apply for 12 months to enable necessary supply chain changes to be made by the Customers.
Key performance indicators (KPIs)	ITS service performance will be measured against specific performance criteria which directly relate to the effective and efficient operation of the ITS (e.g. vessel unloading, RAP pumping and RAP scheduling). Non-compliance with specified performance criteria may result in liability to Customers for prescribed amounts, subject to caps.
Permitted interruptions	ITS operations will be subject to a regime for planned and unplanned maintenance. This regime will specify permitted maintenance timeframes which differentiate between components of the ITS (i.e. jetty, tanks, TLF pipeline and RAP). ITS unavailability outside these timeframes due to Refining NZ's act or omission may result in liability to Customers for prescribed amounts, subject to a cap.
Liability and limitations of liability	Refining NZ's liability to the Customers will be based on the standard of a Reasonable and Prudent Terminal Operator (RPTO), the occurrence of product losses, ITS availability, agreed KPIs (as referred to above) and the Co-mingling Rules to be agreed between Refining NZ and all Customers. For non-compliance with the RPTO standard, the TSA will provide that Refining NZ's liability is limited to a cap based on the greater of an agreed amount or any applicable insurance proceeds received by Refining NZ, unless Refining NZ wilfully defaulted or was grossly negligent or fraudulent. The parties to the TSA will be liable to one another for the reasonable rectification costs for damage to each other's assets, and the TSA will include caps, limitations and exclusions of liability for various circumstances, including in relation to liability for indirect and consequential losses. Negotiations with Customers are continuing whether to retain the existing indemnity under which the Customers indemnify Refining NZ for all claims made by third parties against Refining NZ in respect of jet fuel supplied to them, above US$50m.

ITEM	KEY TERMS
Third party access	After the first 36 months following the Services Effective Date, the Company may offer new customers unutilised RAP capacity. RAP utilisation will be determined having regard to historical seasonal peak demand. All new customers must meet defined financial and operational / technical criteria and make arrangements for use of the Wiri Terminal assets and / or TLF (or other relevant downstream assets) for receipt of product from the ITS.
Freedom of future operation	Refining NZ will be entitled to conduct any other business it wishes to conduct, provided that it continues to meet its obligations under the TSA including priority jetty access for ITS Customers, exclusive access to ITS storage tanks and the TLF and RAP pipelines.
New laws and regulations	ITS fees may be adjusted in accordance with the TSA to reflect the cost-impact of new or changes in laws or regulation that increase the cost of providing the ITS services to customers. Any increase in fees would either be on a cost-recovery or return on investment basis.
Termination rights	The TSA will have no termination for convenience provisions, but it can be terminated for cause in certain circumstances (i.e. default in payment of money, unauthorised assignments, insolvency events, and extended force majeure events). The TSA may also be terminated by Customers if the Services Effective Date is beyond an agreed long-stop date.

Transition Agreement

The purpose of the Transition Agreement is to set out the terms on which refinery operations will be rundown and ITS services ramped up (see Section 3.3) between the TSA being signed and the Services Effective Date. On the Services Effective Date, the Processing Agreement will be terminated (subject to certain residual obligations), and the TSA agreed with that Customer will be in full effect. The proposed key terms of the Transition Agreement, which remain subject to negotiation with Customers, are summarised below:

ITEM	KEY TERMS
Pricing	Processing Agreement pricing for refining services will apply up to the Services Effective Date and ITS pricing under the TSA for ITS services will apply from the Services Effective Date. The pricing obligations under the Processing Agreement and TSA will not chronologically overlap.
Refinery Rundown Plan	Refining NZ will develop, consult on, and provide to Customers a Refinery Rundown Plan to facilitate the shutdown of the refinery (see Section 3.3) and optimise product yield during the process. The Refinery Rundown Plan may amend the Processing Agreement by the temporary imposition of some additional operating constraints to facilitate the Conversion.
ITS Ramp-up Plan	Refining NZ will provide an ITS ramp-up plan to Customers which sets out the process and timing of the matters set out in Section 3.3. Ahead of the Services Effective Date, it is likely that product imports will commence so that product distribution to the market is maintained uninterrupted throughout the transition activities, subject at all times to operational feasibility.
Termination of Processing Agreements	The Processing Agreements terminate on the Services Effective Date. However, as all refinery related hydrocarbons will not have been removed from Refining NZ's facilities by that time, certain provisions of the Processing Agreement will continue in effect until that occurs (e.g. operational matters for hydrocarbon removal, hydrocarbon ownership, invoicing, payment, liability and dispute resolution processes). Customers must remove (whether by export or otherwise) any such hydrocarbons and removal costs will be for each Customer's account. It is expected that upon conversion to an import terminal, all unresolved Dispute Notices under the Processing Agreement issued by Customers (in relation to the simplification of the refinery) or by Refining NZ (in relation to the Fee Floor) will be permanently withdrawn without liability.

2.5 Position for future opportunities

Following the initial focus on a safe and planned transition to an import terminal, a strategic priority for Channel Infrastructure will be to grow and diversify its asset base.

The Marsden Point site is highly strategic with its recently confirmed 35-year industrial resource consent, deep water jetty access, industrial utility connections (electricity, water and natural gas), extensive on-site infrastructure and proximity to New Zealand's largest population base in Auckland. The ITS would only utilise approximately 35% of usable land at Marsden Point and approximately 20% of existing tank capacity, giving rise to a range of potential growth opportunities through repurposing of the Marsden Point site.

Although at an initial stage of assessment and subject to further refinement and change, identified diversification and growth opportunities focus on the following:

- Flexibly developing Marsden Point as an energy hub as part of decarbonising New Zealand's fuels and energy markets; and
- Leveraging Channel Infrastructure's capabilities and position as the independent operator of fuel infrastructure in New Zealand, across a broader asset base.

Strategic fuel storage

The refining operation requires large inventories of crude oil and intermediate product components, making up around 18 days' cover for New Zealand's fuel demand. During the Conversion to an import terminal these stocks would be drawn down, significantly reducing New Zealand's domestic fuel inventories, and also resulting in Channel Infrastructure having surplus tank capacity for refined oil products (subject to conversion works – see Section 4.5).

The New Zealand Government is continuing to assess the fuel security implications of no longer having a domestic oil refinery, including its policy position on domestic fuel stockholdings. In light of recent Australian refinery closures, the Australian Government has announced new fuel security measures, including a domestic stockholding obligation, to address fuel security. If a similar approach were to be adopted in New Zealand, Refining NZ would be strongly positioned to support these requirements with its existing tankage and proximity to the Auckland market.

Growth in electricity

Refining NZ today purchases its electricity via the national grid under both short and longer-term contracts. The electricity requirements of the ITS would be circa 85% lower than for current refinery operations but would still represent a significant portion of the expected import terminal's operating costs.

On 30 October 2019 Refining NZ announced to the market its development of shovel-ready plans for a 26MW solar project called Maranga Ra to be located on Company-owned land adjacent to the main refinery site. The project was subsequently placed on hold due a drop in GRMs and the commencement by Refining NZ of its Strategic Review. A combination of factors including advances in solar and battery technology and current wholesale electricity and transmission/distribution price dynamics could mean some variation of this project remains an attractive investment proposition for Channel Infrastructure – either on a standalone basis or with partners. In combination with a battery solution, the project could have the potential for Marsden Point to have a self-sufficient and wholly renewable source of electricity and reduce or remove its exposure to electricity supply, transmission and distribution costs.

Other repurposing of the Marsden Point site

The Marsden Point site, which adjoins the Northport site, has a wide range of other potential uses with its deep-water jetty and industrial land. These opportunities may include the importation of other products such as fuel oil, bitumen and LNG or as part of Northport's proposed future expansion of its port operations.

Optimisation of fuels supply chain

The national fuels supply chain comprises a network of terminals in nine regional ports, as well as various strategic infrastructure assets including the truck loading facility (TLF) at the Marsden Point terminal, the Wiri Terminal in South Auckland and Wiri to Auckland Airport pipeline, and the Woolston pipeline connecting the Lyttleton terminal to Christchurch. These assets are variously owned and operated by the Customers and other partners.

After shifting its business model from a refinery operator to an infrastructure operator, Channel Infrastructure would be well placed to leverage its skills as a specialist infrastructure owner and operator across other shared fuel infrastructure assets. Refining NZ anticipates that a reduced cost of capital and operational synergies from consolidated asset management processes across multiple terminals, could provide the opportunity for earnings growth and shareholder value.

Transition to future fuels

The CCC's advice to Government identifies electrification as the primary decarbonisation pathway for light vehicles over the next 30 years, while biofuels (including sustainable aviation fuel solutions) and hydrogen-based solutions, are expected to be required to decarbonise heavy transport, aviation and shipping.

Jet fuel and diesel accounted for almost half of the volume carried via the RAP in 2019 (pre-COVID-19). Jet fuel demand is expected to rebound and then gradually increase over the foreseeable future, in line with future growth in New Zealand's tourism industry underpinning long-term ITS utilisation. This, coupled with the RAP being the lowest carbon intensive option to distribute liquid fuels into Auckland, would position Channel Infrastructure to play an active role in supporting a future transition to alternative fuels. This could include the import or production of biofuels, including sustainable aviation fuel and hydrogen at Marsden Point.

3. Implementation and timing for Conversion to an Import Terminal

VOTE IN FAVOUR

3.1 Timetable summary

To implement the Proposal, Refining NZ requires several approvals (**Approval Requirements**) and a number of operational changes (**Operational Requirements**). The Proposal will only be implemented if both the Approval Requirements and Operational Requirements are satisfied. In addition, a Restructure is proposed, which (if it proceeds) may occur before or after commencement of terminal operations.

Figure 12 highlights the required steps in the lead up to and following commencement of the terminal operations with an overview of the transition process discussed below.

Overview of the Transition Process

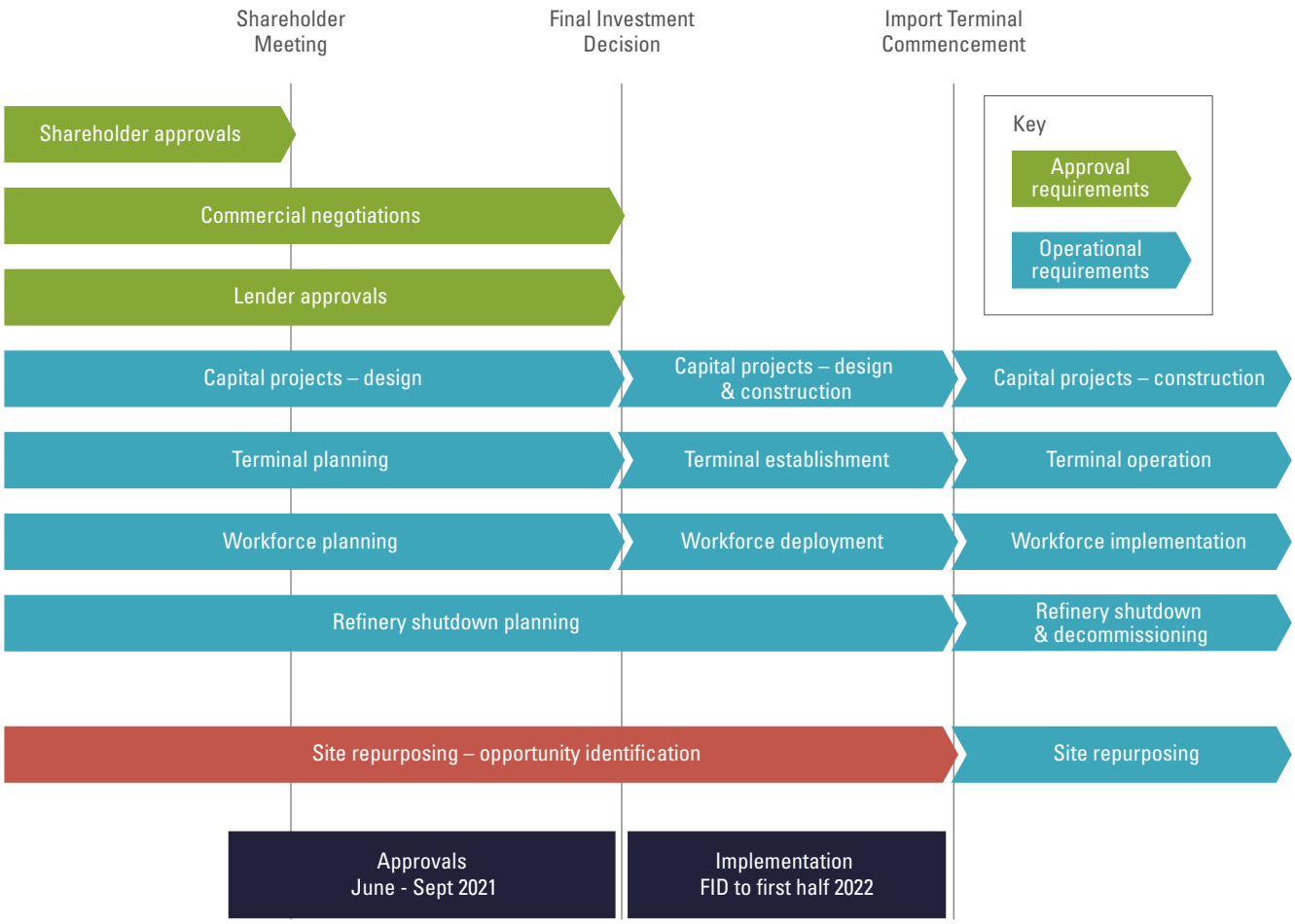


Figure 12

Note: After becoming an import terminal, Refining NZ would have a number of decommissioned assets that would eventually require demolition. Some demolition works would be completed immediately following the refinery shutdown and decommissioning activities highlighted above, with full demolition of the redundant assets expected to be deferred for a number of years.

3.2 Approval Requirements

Binding legal agreements with Customers (including TSA)

The summary of the proposed Import Terminal System (ITS) key commercial terms are set out in Section 2.4. As at the date of this Booklet, Refining NZ has reached in-principle and non-binding agreement on key commercial terms with bp and Z Energy, and negotiations with Mobil are ongoing on the basis of those terms. Refining NZ and its Customers are also currently negotiating the Terminal Services Agreement (TSA) and Transition Agreements. This is expected to occur over the next 2-3 months. As noted in Section 2.4 the matters which are still to be agreed should not materially impact the assessment of economic value of the TSA or Transition Agreement to Refining NZ and are largely operational in nature.

It is expected that the TSAs and Transition Agreements will be finalised and executed with preferably all Customers before a Final Investment Decision (FID) is taken by the Refining NZ Board to approve and proceed with the Proposal. A FID is being targeted by end Q3 2021, which would enable Core ITS Services to begin by mid-2022, avoiding the need to undertake a turnaround of the refinery hydrocracker at an estimated cost of approximately $25 million.

If it is not possible to finalise and agree a TSA and Transition Agreement with a Customer by the end of Q3 2021, the Board may decide to proceed to FID with at least a majority of Customers having executed final TSAs and Transition Agreements. In this way, Refining NZ would be better able to meet the targeted date for closure of the refinery and commencement of import terminal operations by mid-2022, so as to avoid the turnaround cost.

This would mean that pending the final Customer executing a final TSA and Transition Agreement, the existing Processing Agreement will continue to apply in respect of that Customer (including obligations on Refining NZ to make available refinery capacity, and on the Customer to submit feasible refinery programs, pay Processing Fees and the Fee Floor (if applicable), and rights of the Customer to terminate its Processing Agreement on notice) until agreement is reached on the TSA and Transition Agreement.

Refining NZ would only consider proceeding in this manner if it is satisfied that agreement will be reached on a TSA and Transition Agreement with the Customer in question.

Shareholder approval

As more fully explained in the accompanying Notice of Meeting, two Resolutions of shareholders are required:

- **Under NZX Listing Rule 5.1.1 and section 129 of the Companies Act 1993**, given the cost of implementing the Conversion, the assets to be disposed of, the value of the TSA's and Transition Agreements and the change in the nature of Refining NZ's business, shareholder approval of the Proposal as a whole (including the Restructure) is required by way of special resolution (being the approval of a majority of 75% of the votes cast by shareholders entitled to vote and voting). All shareholders can vote on this Resolution and, as explained in the Notice of Meeting, shareholders who vote against the special resolution may exercise a minority buy-out right if the resolution is passed in accordance with the Companies Act 1993.
- **Under NZX Listing Rule 5.2.1, Transactions with Related Parties**, Refining NZ is required to receive approval from unrelated parties (i.e. Non-Customer Shareholders) to provide ITS services to the Customers, who are Related Parties of Refining NZ and the transitional arrangements from the provision of oil refining services under the existing Processing Agreements. This Booklet and the Independent Appraisal Report (included as Appendix A) are intended to assist Non-Customer Shareholders to make an informed decision on whether to vote for the Proposal. The implementation of the proposed import terminal will not commence without approval from Non-Customer Shareholders. To be passed, this Resolution requires the approval of a simple majority of the votes cast by shareholders entitled to vote and voting and excludes the votes of Customers and their Associated Persons, who may not cast their votes in favour of this Resolution.

The Independent Directors unanimously recommend that shareholders vote in favour of all Resolutions put before the Meeting.

Lender approval and financing

Refining NZ requires approval from each of its bank lenders to the Proposal, otherwise the Proposal cannot proceed. Lender consent will be sought in parallel with the shareholder approval process outlined above. There is no requirement for subordinated bondholder consent.

Refining NZ has received credit approval to extend a facility maturing in 2021 and for additional bank facilities to provide liquidity support over the initial conversion period, subject to conclusion of satisfactory documentation and satisfying conditions precedent.

With this additional funding, Refining NZ anticipates maintaining facilities of around $400 million through the conversion period as outlined in Section 4.9.

Final Board approval

As the final form of the TSA and Transition Agreement (refer to Section 2.4) together with the Front-End Engineering and Design (FEED) and associated work remain to be completed (refer to Section 3.3), proceeding with the Proposal remains subject to final Board approval by way of the Final Investment Decision.

Regulatory approvals

The Proposal is not conditional on any regulatory approvals.

However, as noted in Section 2.4, the TSA itself is conditional on a new safety case being accepted by Worksafe so as to conduct terminal operations. As noted in Section 3.3, some operational details remain to be agreed, therefore this condition is required so that when they are finalised the safety case can be obtained for terminal operations.

Although NZ RegCo has reviewed and does not object to this Booklet, NZ RegCo takes no responsibility for any statement in this Booklet.

3.3 Operational Requirements

In parallel with the approvals processes and commercial negotiations, Refining NZ will be focused on building the new capabilities and managing the significant organisational changes that will occur on site during the transition:

- In the period up to the FID, Refining NZ will be completing the necessary design and planning work to underpin this decision by its Board (e.g. FEED work);
- Following a decision to move to an import terminal operation, the focus will shift to the execution to deliver the elements of the transition necessary for the efficient operation of the terminal at the commencement date, while maintaining refinery operations. This work includes delivery of capital projects, developing terminal systems and processes, and managing the workforce transition; and
- At refinery closure, the terminal will commence operation, while the refinery process plants will shut down, and the decommissioning of the redundant equipment will be completed.

A description of the major elements of the transition activities is provided below.

Capital projects

A portfolio of capital projects will be designed, constructed, and commissioned to support the new terminal. The major projects involve fire system and bund upgrades to the terminal tanks, with a number of additional minor projects aimed at improving the operability, flexibility, and optimisation of the terminal to better serve customers. The minor projects will largely be complete prior to the refinery closure, with the fire system and bund upgrades continuing for several years.

Conversion of tanks for Private Storage Services would occur in parallel with ITS capital projects.

Terminal planning and establishment

Refining NZ will be establishing the required organisation, systems and processes to support the terminal. Key deliverables will include developing an organisational design for the workforce, the selection and training of the terminal personnel and the development of the operating, maintenance and safe work processes and procedures to maintain safe and reliable operations on the site. Key regulatory requirements will include an updated safety case to meet the requirements of Worksafe. It is anticipated that the workforce and systems will draw from existing refinery resources, adapted to be fit-for-purpose in a terminal environment.

Refinery shutdown planning and decommissioning

Refining NZ is planning the safe and efficient shutdown of the refinery and the subsequent decommissioning of redundant assets which are not suitable for repurposing (see below under "Site repurposing and remediation"). This includes the de-inventorying, de-energising and isolation of these assets to leave them in a safe condition for future demolition or other uses. These assets include the refinery processing plants, surplus tanks, piping and other equipment not required for terminal operation and redundant utility infrastructure including boilers, gas, and a portion of the electrical system.

The plan aims to maximise the recovery of all hydrocarbons into either product for sale by Customers or aggregated for future re-processing by Customers.

See Section 4.6 for information regarding the estimated expenditure associated with the conversion decommissioning of refinery assets, together with the estimated timeframes involved.

Workforce planning and deployment

The effective transition of the existing refinery workforce is a critical component of the Conversion. Refining NZ is committed to safe and effective operations from FID through Conversion and beyond, including a focus on managing operational and technical risks and the change management related to enabling teams to collectively ramp down existing operations.

As a result of the transition, the current Refining NZ workforce of 300 is expected to reduce over the two years following commencement of import terminal operations to approximately 60 terminal, Independent Petroleum Laboratory Limited (IPL) and corporate support office employees. During this transition period, there will be an ongoing requirement for a workforce to support the shutdown and decommissioning of the refinery site, execution of the capital projects and other transition related activities. Workforce planning remains subject to employee consultation.

Most importantly, Refining NZ is developing and will implement strategies to support employees and their families impacted through this period of transition, with wellbeing, career guidance and other support programs. This will underpin the safe and effective operation of the refinery through to the Conversion and support our people through this change. Refining NZ is working with other members of the Refinery Transition Working Group including central Government, regional and local councils, Northland Inc, Iwi and unions, with the objective of ensuring a planned transition for future changes at Marsden Point which mitigates the impact of changes on refinery workers and the regional economy.

Site repurposing and remediation

Following the refinery closure, the Marsden Point site is well situated for future opportunities. With a deep-water harbour (approximately 14 metre draught), proximity to the large Auckland market and a strong infrastructure footprint, the site is well placed for repurposing as a fuels and energy hub. Refinery assets will be assessed for their future potential use and may be mothballed rather than decommissioned, based on this assessment, and subject to risk mitigation controls.

Assets not suitable for any repurposing initiatives, will ultimately require demolition as noted above.

It is anticipated that a small demolition project will be completed soon after the completion of the decommissioning activities to make safe any higher risk assets. The full demolition of decommissioned refinery assets is not expected to be undertaken for a number of years after the potential repurposing options for the site have been assessed.

The Marsden Point site consents recently granted allow continued operation as a refinery and terminal for a 35-year term. As part of this process Refining NZ undertook an assessment of the environmental impacts associated with continued operations at Marsden Point. This included assessing the effects of its activities on the harbour, land, air quality and the surrounding community.

As a condition of the resource consent, Refining NZ has committed to continuing to ensure the site maintains the current level of environmental standards. Environmental measures at Marsden Point include the operation of a groundwater hydraulic containment system and a 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 to plan for an orderly wind-up of operations, should refinery and import terminal operations on site cease in the future, to ensure on-going compliance with the conditions of the consent.

3.4 Internal restructure

As part of the implementation of the Proposal, the Company is also considering a restructure of its assets and its corporate group. The Company is considering a transfer (whether by way of sale or long-term leases or licences) of some or all of its assets and liabilities to a wholly owned subsidiary of the Company (either a new subsidiary or in an existing subsidiary), with the refining assets and liabilities remaining with Refining NZ (**Restructure**). The intention is that the ITS would be operated by a company that is focused on that purpose. The Restructure would not result in the transfer of any assets to a third party outside of the Group.

The Company is still in the assessment stage, and the Board will decide whether to proceed with the Restructure at the time of the FID.

The Restructure is part of the Proposal and shareholders will be approving the potential Restructure as a major transaction under the Companies Act 1993 in voting on Resolution 1. However, as noted above, the Company will not be bound to undertake the Restructure.

Figure 13 illustrates the Group's corporate structure following the Restructure.

Proposed Corporate Structure following the Restructure

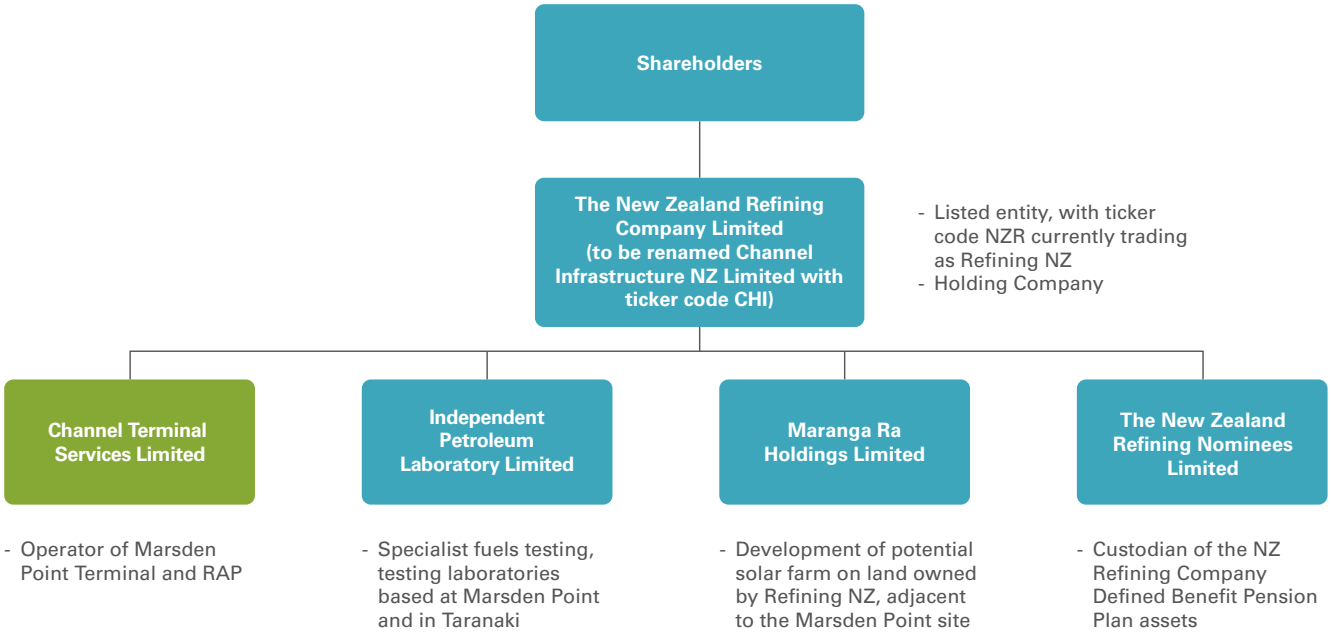


Figure 13

4. Import Terminal financial information

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4.1 Overview

The Import Terminal System (ITS) is expected to have a relatively simple and stable infrastructure-like revenue model, with Terminal Fees for Core ITS Services comprising both a fixed and variable (based on actual throughput volumes) component.

Operating expenses are expected to be largely fixed resulting in relatively stable EBITDA, which coupled with the Company having access to significant tax losses, should result in high conversion to free cash flow. Improved earnings visibility will be further underpinned by minimum take-or pay commitments which step down over time.

ITS transition costs would be incurred both in the period up to commencement of import terminal operations, and in the subsequent five to six years as the refinery is decommissioned and the ITS is upgraded. Refining NZ expects to recommence paying a regular dividend to shareholders once Net Debt/EBITDA is below 4.5 times, which is expected to be one to two years following commencement of terminal operations.

Refining NZ is not required to provide pro-forma financial information for the Simplified Refinery model or the import terminal business. Further, Refining NZ does not consider that this information will be useful to shareholders, as it will not assist them in better assessing the long term value of a business model change as contemplated by the Proposal, taking into account the impact of COVID in FY2020 (in particular the impact on jet fuel).

4.2 Revenue

As an import terminal, Refining NZ would earn most of its revenue from Terminal Fees under the Terminal Services Agreements (TSA) (refer to Section 2.4 for a detailed summary of the terms under which ITS services will be provided). Terminal Fees will be the higher of the annual ToP Fee or the aggregate of the annual Fixed Fee plus the Throughput Fee and any Ancillary Services Fees. All fees will be subject to annual indexation.

Take-or-Pay Fee (ToP)

An annual ToP Fee would operate for the period of the TSAs. Figure 14 below shows the ToP Fee (before annual indexation) stepping down at 36 months after commencement of terminal operations and then at 72 months after commencement of terminal operations. The amount of each Customer's share of the ToP Fee will be based on their relative ITS utilisation.

Fixed Fee

An annual Fixed Fee would consist of an annual base access fee per Customer, plus an annual shared access fee payable by each Customer based on their relative ITS utilisation. A total Fixed Fee of $45 million (before annual indexation) in the first 36 months would step down during the term of the contract as per Figure 14.

Annualised Fixed Fee and ToP Fee over initial contract term

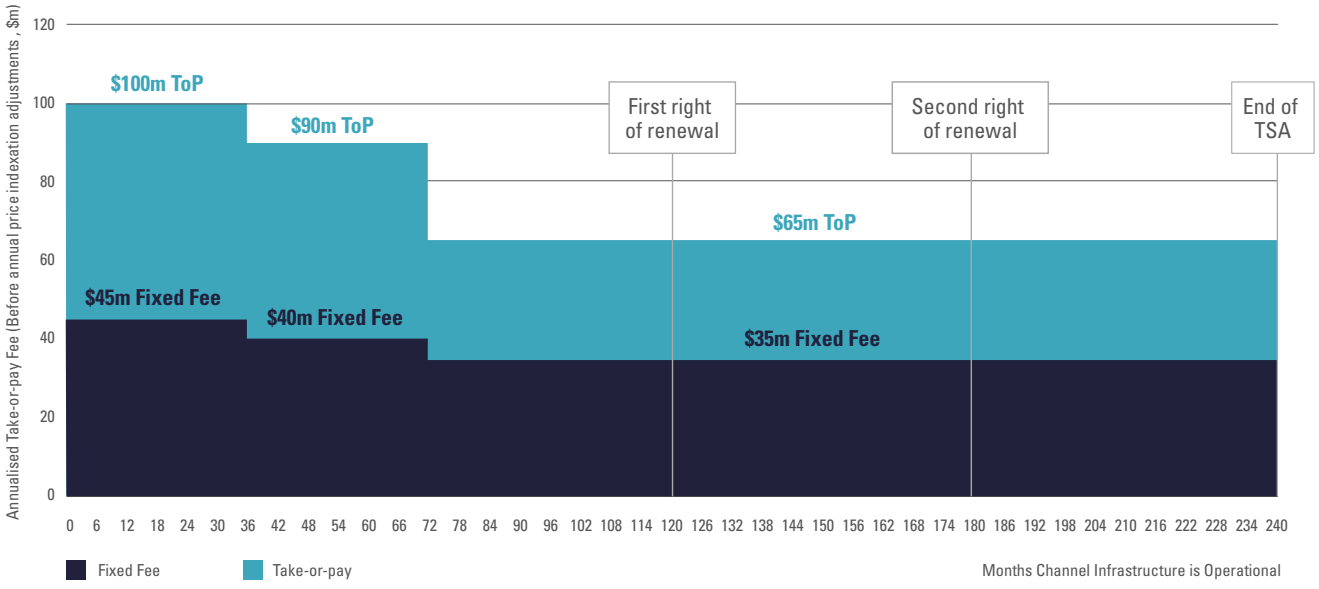

Figure 14

Throughput Fee

The Throughout Fee would be calculated on a cents per litre basis, with separate charges for wharfage and product delivery to either the truck loading facility (TLF) or via the Refinery to Auckland Pipeline (RAP) to Wiri (with RAP fees also differentiated by product type based on differential flow rates).

As an example of the calculation of the Throughput Fee, based on the Hale & Twomey forecasts outlined in Section 2.3, assuming terminal volumes of 2.8 billion litres in 2023 (comprising 1 billion litres jet fuel, 0.9 billion litres petrol and 0.9 billion litres diesel), the Throughput Fee would be circa $50 million.

Assuming this level of Throughput Fee (and excluding any Ancillary Services Fees), the components of the Terminal Fees for 2023 would be as follows:

COMPONENT OF TERMINAL FEE (IN REAL TERMS)	VALUE OF TERMINAL FEE ($M)
ToP Fee	100
Fixed Fee	45
Throughput Fee	50
Total Fixed Fee + Throughput Fee	95
Terminal Fee (higher of the above)	**100**

The ToP Fee set out in Figure 14, is the minimum level of income that Channel Infrastructure would earn in each of those years. The table set out above, demonstrates that if the combination of the Fixed Fee and Throughput Fee (and any Ancillary Services Fees) is greater than the ToP Fee, then the higher amount would be earned as terminal revenue.

Given the uncertainty in future fuel volumes, the Throughput Fee may be different to what is calculated above[22]. (refer to Section 6 under "Product Demand" risk).

Jet fuel volumes are challenging to forecast given current constraints on international travel and uncertainty on the timing of relaxation of international border restrictions. Using the 2023 scenario outlined above, Figure 15 illustrates the volume sensitivity impacts to the Terminal Fee assuming a +/-10% change to total fuel volumes and jet volumes only. Assuming a +/-10% change in total volume, while maintaining the same product mix, the Throughput Fee would fluctuate +/- $5 million. Similarly, assuming a +/-10% change in jet fuel volumes only, the Throughput Fee would fluctuate +/- $2 million. Under both downside volume scenarios, the Fixed Fee and Throughput Fee is lower than the ToP Fee in the first 3 years (excluding any Ancillary Services Fees) and thus the Terminal Fee would be equal to the ToP Fee.

Channel Infrastructure annual revenue sensitivities to changes in volumes:

Figure 15

[22] Both the ToP Fee and Fixed Fee are unaffected by changes in volume

In addition to the Terminal Fee outlined above, Refining NZ expects to earn revenue from:

- Its wholly owned subsidiary, Independent Petroleum Laboratory Limited (IPL) for the provision of laboratory testing services to third parties of approximately $4 million per annum;
- The lease of the Wiri Terminal up until 2025 of approximately $6 million per annum; and
- Private Storage Services arrangements with Customers, which will be priced on a value accretive basis having regard to estimated incremental cost to convert and refurbish existing tanks in line with Customer requirements (notably capacity required by product type) and periodic maintenance costs (refer to Section 4.5).

4.3 Operating expenses

Excluding any one-off Conversion related costs (refer to Sections 4.5 and 4.6 below), the Company expects operating expenses for Channel Infrastructure (including IPL) to be in the order of $35 million per annum. These cost estimates remain subject to completion of ongoing Front-End Engineering and Design (FEED) and detailed planning work prior to Final Investment Decision (FID).

The breakdown of operating expenses is shown in Figure 16.

Channel Infrastructure Group Operating Costs

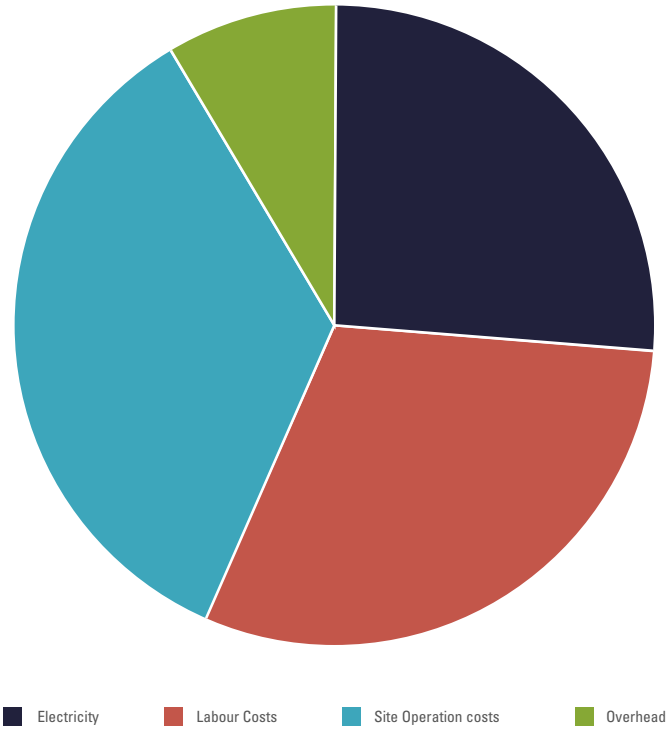

Figure 16

Note: Overhead costs include Director fees and expenses, shareholder costs, listing fees, internal and external audit, annual reporting costs.

As highlighted in the above chart, electricity represents a significant proportion of overall operating costs, with an expected load of circa 4-4.5 MW. It is noted that there is significant uncertainty with respect to both supply, transmission and distribution pricing in the future as outlined in Section 6 (see the 'Customer Disputes and Simplified Refinery Model' risk).

4.4 Capital expenditure and depreciation

Maintenance capital expenditure requirements for the import terminal will be significantly lower than the current refinery operations. Post Conversion capital expenditure is expected to be $5 million to $10 million per annum (in real terms), of which a significant portion relates to tank maintenance.

The import terminal's asset base largely consists of the jetties, tank and pipes infrastructure and land at Marsden Point, and the RAP. For tax purposes, depreciation is expected to amount to circa $15 million per annum post Conversion, reducing over time with diminishing value.

4.5 Private storage fees and investment

In addition to the shared ITS capacity, Customers are seeking private tank storage arrangements at Marsden Point. Customer negotiations are ongoing and current estimates are that private storage requirements may involve up to 100 million litres of additional tank storage capacity. Detailed planning work for this additional capacity is underway, with current cost estimates for 100 million litres of additional storage capacity of approximately $60 million and opportunity for incremental revenue of up to $10 million per annum (in real terms).

Pricing will be set to provide Refining NZ with a fair economic return over a commitment period in line with the initial term of 10 years, having regard to the estimated incremental cost to convert and refurbish existing tanks in line with Customer requirements (notably capacity required by product type) and periodic maintenance costs.

4.6 Conversion and decommissioning one-offs

One-off operating and capital costs of the Proposal are currently estimated at $200 million to $220 million[23] and which will be incurred in the period up to the Services Effective Date and over a subsequent 5-6 year timeframe from FID. This excludes any conversion of tanks for private storage (referenced above), and refinery demolition costs estimated at $50 million to $60 million with timing yet to be determined. These cost estimates remain subject to completion of ongoing FEED and detailed planning work prior to FID. Figure 17 highlights the expected timing of one-off costs of the transition pre and post commencement of ITS services (i.e. the Services Effective Date).

Expected costs of the transition phased

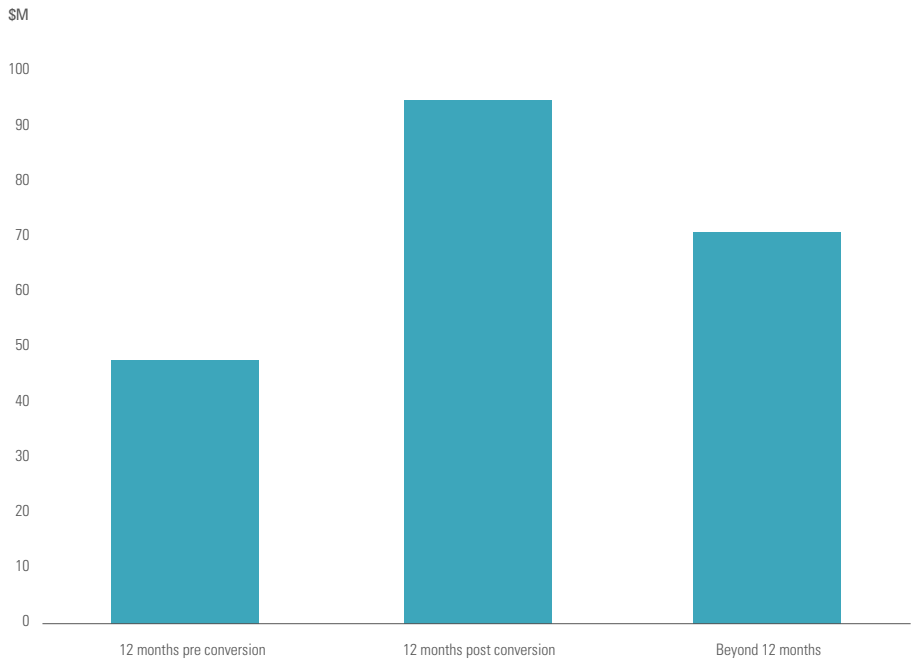

Figure 17

- **Pre-commencement costs** primarily include spending on capital projects required for ITS commencement, preliminary design on projects to be delivered after commencement and program management and planning costs.
- **Post-commencement costs** (within 12 months of the Services Effective Date and beyond) reflect the refinery shutdown and decommissioning costs, continuation of capital project design and construction (primarily tank compound and firefighting systems upgrades) as well as costs associated with employee expenses (including redundancies).
- **Expenditure beyond 12 months** primarily relates to continued tank bunding and firefighting system upgrades and the completion of decommissioning activities.

Refinery demolition costs

The cost of demolition of the decommissioned refinery assets (refer to Section 3.3) is estimated to be $50 million to $60 million on a real basis, over and above the circa $200 million to $220 million[23] costs outlined above, with the timing yet to be determined.

[23] On a real basis.

4.7 Impairment and revaluation implications

Once a FID is made to approve and proceed with the Proposal, the Company will be required to record a non-cash impairment of the refining assets (part of property, plant and equipment) that will not be used in the import terminal operations and to revalue the remaining property, plant and equipment that will be used in the import terminal operations.

The carrying value of refining fixed assets (both those not required and those required for import terminal operations) as at 31 December 2020 was approximately $890 million. The carrying value of these assets at the time of FID will be subject to depreciation recognised and capital expenditure capitalised in the current year, and a testing for impairment of their carrying value as at 30 June 2021.

The remaining property, plant and equipment that will be used in the import terminal operations (primarily the pipeline from Marsden Point to Auckland, Marsden Point jetties and fuel storage facilities had a carrying value of approximately $200 million as at 31 December 2020.

In accordance with the accounting standards the refining assets' impairment will be recorded through the income statement, while the revaluation of import terminal assets will be recorded directly through other comprehensive income. The overall net impact of the write-offs and revaluations is likely to result in a change (increase or decrease) in equity, which is not possible to estimate at this time. Valuation work will be undertaken prior to FID to support the revaluation of import terminal assets.

Offers were recently made to both medical retirees and members of the defined benefit pension plan, to cash out their benefits/entitlements for a cash lump sum, releasing value from the balance sheet and increasing the Company's debt capacity. It is expected that the balance sheet liabilities as at 31 December 2020 in relation to the medical scheme and the defined benefit pension plan will reduce as a result of acceptance of these offers.

4.8 Tax losses

As at 31 December 2020, Refining NZ had tax losses of $54.9 million with an expectation that a similar quantum of tax losses could be generated in the 2021 financial year through to a Services Effective Date in mid-2022. The write-off of refining assets on, or after the Services Effective Date, is expected to generate tax losses of $300 million to $350 million. This means that the Company could have tax losses amounting to $400 million to $450 million on or after the Services Effective Date.

These losses will be available to offset against future taxable income of Refining NZ provided that Refining NZ either:

i. satisfies the shareholder continuity test or, if the shareholder continuity test is not satisfied,

ii. satisfies the business continuity test.

Under the shareholder continuity test, tax losses may be carried forward provided that at least 49% of the shares are held by the same group of people from the start of the income year the losses arose to the end of the income year when the tax losses are utilised. For the purpose of the shareholder continuity test, shareholdings of less than 10% are treated as being held by a notional single shareholder.

If the shareholder continuity test is not met, tax losses are able to be carried forward provided that no major change in the nature of the business activities occurs during the business continuity period (being 5 years from when the shareholder continuity test is not met) or, if there is a major change, it is a permitted major change (summarised in Table 3 below).

The ability to satisfy the shareholder continuity test is beyond the control of Refining NZ. In a hypothetical scenario of a breach in the shareholder continuity test, the business continuity rules would apply as follows:

	PRE-CONVERSION BREACH OF SHAREHOLDER CONTINUITY TEST	POST-CONVERSION BREACH OF SHAREHOLDER CONTINUITY TEST
Pre-Conversion Tax Losses	Tax loss carry forward is subject to the Business Continuity Test and therefore dependent on "there being no major" or a "permitted major change" in the business. A binding ruling may need to be sought from the IRD to confirm whether the change in business model from toll refining/distribution to import terminal model would satisfy this requirement.	The Business Continuity Test applies from the time of breach of the Shareholder Continuity Test and will be satisfied provided that there is no further major changes in the nature of the business activities (i.e. as an import terminal) during the business continuity period (being five years from when a breach in shareholder continuity occurs).
Post-Conversion Tax Losses	No impact - losses do not arise until conversion.	The Business Continuity Test applies from the time of the breach of the Shareholder Continuity Test and will be satisfied provided that there is no further major changes in the nature of the business activities (i.e. as an import terminal) during the business continuity period (being five years from when a breach in shareholder continuity occurs).

Table 3

At this stage Refining NZ does not know whether it will be able to fully utilise its losses as this depends on Refining NZ being able to meet the shareholder continuity test or business continuity test, and assuming these tests are met, how long it will take to fully utilize the tax losses as this will be a function of the amount of tax losses incurred though to the Services Effective Date, the amount of the tax loss that will arise on the write-down of the refining asset base and the performance of the import terminal business in future years.

Significant changes in the Company's shareholding prior to the Services Effective Date, resulting in a shareholder change of more than 49%, would increase the risk of the Company's pre-conversion tax losses being forfeited.

4.9 Balance sheet and capital structure

If Refining NZ becomes an import terminal, the associated one-off Conversion and decommissioning costs (identified in Section 4.6) are expected to be funded by debt leading to an overall increase in debt. Debt is currently expected to peak in the 2 years following the commencement of import terminal operations, but this could change as further work is completed on FEED regarding the conversion plan and timing and/or other economic factors drive changes in the phasing and quantum of free cash flows.

Figure 18 highlights Refining NZ's expected debt maturity profile including the offers received from lenders for which credit approval has been obtained, subject to conclusion of satisfactory documents and satisfaction of conditions precedent.

Refining NZ Bank Maturity Profile

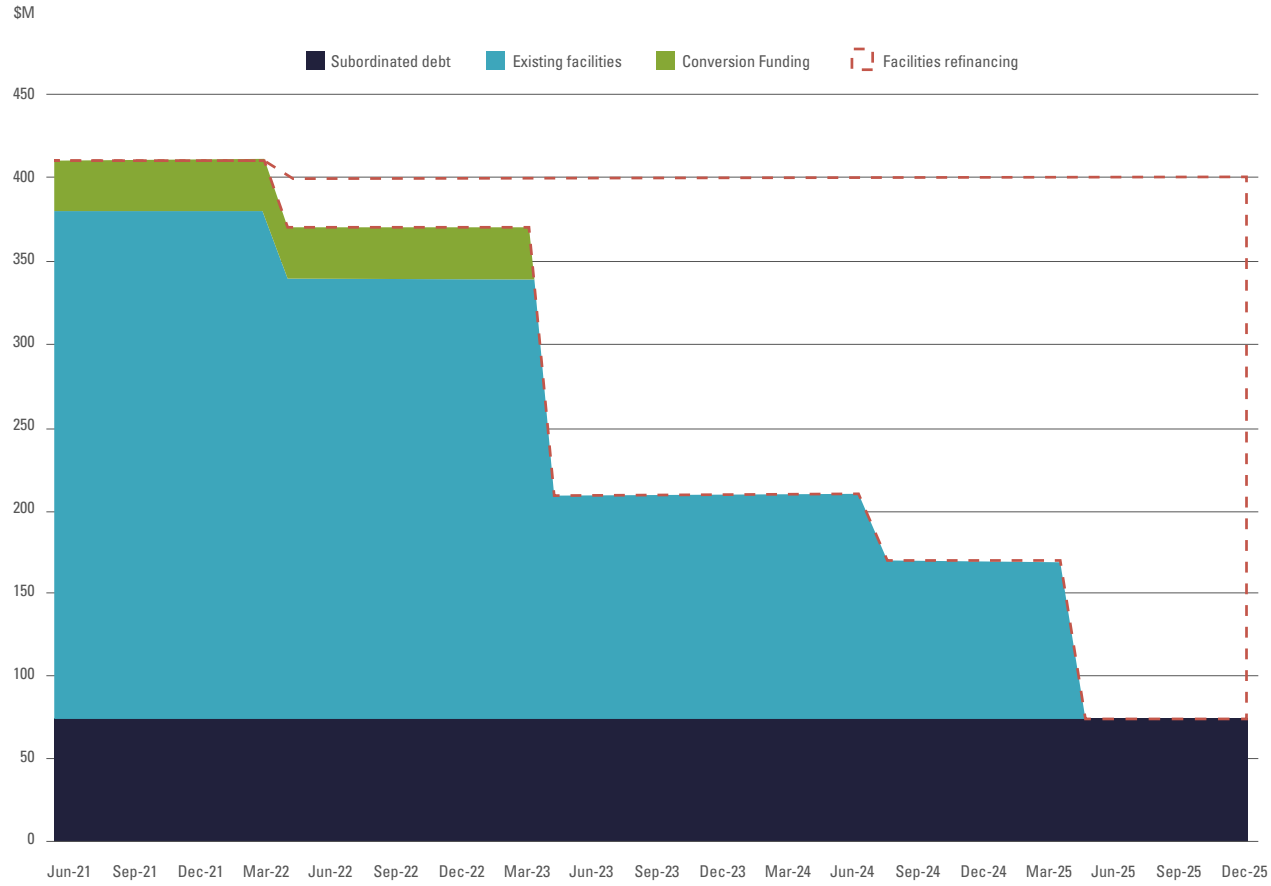

Figure 18

Note:

[1] that the first election date of the subordinated notes is 1 March 2024, with a maturity date of 1 March 2034, if not redeemed prior to that date;

[2] the conversion funding facilities (including the extension to 2023 of facilities expiring in 2021), have received lender credit approval, but are subject to the conclusion of satisfactory documentation and satisfaction of conditions precedent.

The Conversion financing process set out in Section 3.2 is the first step in a longer-term process to establish financing arrangements for the Company (as Channel Infrastructure) that are appropriate for a fuels infrastructure business, including diversification of funding sources and debt tenor. In the longer-term, Channel Infrastructure will look to maintain a shadow credit rating aligned with an investment grade rated entity, with the Board targeting a Net Debt/EBITDA ratio of 3 to 4 times, within 5 years after the Services Effective Date.

The extension and increase in debt facilities, subject to conclusion of satisfactory documentation and satisfaction of conditions precedent, will provide the headroom for the Company (as Refining NZ) to fund the one-off Conversion and decommissioning costs identified in Section 4.6. The Company (as Channel Infrastructure) would then commence the refinancing of facilities commencing in 2022 via an issuance on the debt capital markets, subject to market conditions at the time.

The Board expects to be able to resume dividend payments once the terminal is operational and debt levels are below 4.5 times Net Debt/EBITDA. At this stage Refining NZ estimates it will be able to recommence dividends within 1 to 2 years following the terminal operations commencement (i.e. the Services Effective Date). Channel Infrastructure's dividend policy is expected to target a payout ratio between 60% and 70% of Free Cash Flows. The Board reserves its right to adjust the payout ratio or expected timing for the recommencement of dividends should the timing, costs or revenue associated with the Conversion (including new services such as Private Storage Services) or the import terminal business change. The dividend policy will be subject to the Board's due consideration of the Company's medium-term asset investment programme; a sustainable financial structure for Channel Infrastructure, recognising the targeted investment grade rating (within five years of the Services Effective Date); and the risks from short and medium term economic and market conditions and estimated financial performance.

5. What if the Proposal is not implemented?

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5.1 Overview of Simplified Refinery

If the Proposal is not implemented, Refining NZ will continue to operate as a Simplified Refinery and pipeline operator, under the Processing Agreements that are currently in place. These agreements may be terminated by Customers at any time on 12 months' notice.

Under the Simplified Refinery model, implemented from January 2021, refining capacity was reduced by circa 18% (being an equivalent of circa 34 million barrels per annum) with total refined fuels production levels similar to levels at the time of commencement of the Processing Agreements in 1995 and bitumen production ceased. An organisational restructure was finalised prior to 31 December 2020, at a cost of circa $5.6 million to reduce the workforce by around 25%, with circa 90 employees leaving the Company either through redundancies, retirements or resignations during November 2020 through to April 2021.

However, in the face of a decarbonising world, Refining NZ will not be able to continue refining operations indefinitely. New Zealand's petrol demand[24] is projected to fall below Refining NZ's production capacity as a Simplified Refinery around 2035 and it is expected the refinery would be forced to convert to an import terminal at some point in the future, as the reduced petrol demand would be expected to make refinery operations infeasible. New commercial terms would need to be negotiated at that time with Customers and there is no guarantee these terms would be the same as the Proposal or that Refining NZ will have sufficient capital at this time to fund the conversion.

5.2 Refinery business model

The refinery would continue to operate under the existing Processing Agreements, retaining the Company's exposure to volatility in gross refining margin (GRM), foreign exchange (US$:NZ$) rate movements and operational performance (including turnarounds). The business would also retain significantly higher capital and operating costs (versus the ITS) and be increasingly exposed to the ETS (see below) as well as energy costs in New Zealand. See Section 6 under the "Customer Disputes and Simplified Refinery Model" and "Refining Margin and Exchange Rate" risks.

Under the Processing Agreements, Refining NZ operates as a tolling refiner, charging its Customers a Processing Fee for its services while ownership of the feedstocks and the products are retained by its Customers. As part of the Processing Agreements, Refining NZ also receives an income from distributing fuel via the Refinery-to-Auckland pipeline (RAP) to the Wiri Terminal in Auckland. The Processing Agreements are exclusive, evergreen contracts meaning that Refining NZ is restricted in its ability to sell its services to other customers unless there is structural under-utilised refining capacity. Refining NZ also does not have an express entitlement to terminate the Processing Agreements on a specific period of notice without the consent of its Customers. Customers have the right to terminate the Processing Agreements on 12 months' notice.

The Processing Agreements contain Margin Cap and Fee Floor provisions. The Fee Floor clause guarantees a minimum Processing Fee income for Refining NZ for each calendar year which is subject to escalation, whilst the Margin Cap limits Refining NZ's Processing Fee when the average GRM for the year reaches US$9 per barrel (which is not escalated).

As a result, while the Processing Agreements remain in place Refining NZ will continue to be protected by downside revenue risk through the Fee Floor, regardless of GRM, foreign exchange and throughput. It remains exposed to escalation of operating costs, insofar as these differ to the formulaic escalation of the Fee Floor, and hence its ability to maintain cash-neutral operations may diminish with time (refer to Section 6 under the "Customer Disputes and Simplified Refinery Model" risk for further details). The Fee Floor for 2021 is approximately $141 million.

Refining NZ's gearing as at 31 December 2020 was 33%, compared to a target of 20%. The maturity profile of debt facilities as at 31 May 2021 is set out in Figure 19, which shows that Refining NZ has circa $210 million of bank

[24] Based on Hale & Twomey's base case NZ transport fuels demand projections – refer to Section 2.3

facilities maturing within the next three years. (i.e. before 30 June 2024). In addition, the first election date for the subordinated notes is 1 March 2024. If the Company was to continue to operate as a Simplified Refinery and if GRM does not improve, not only would Refining NZ's cost of debt likely be higher given its weaker credit profile, but lenders may seek a reduction in debt at the next refinancing or will not continue to offer the current level of funding support (also considering ESG matters, see "Climate Change" in Section 6). This is because Refining NZ's ability to repay debt would be limited and, in these circumstances, the current shareholders may be called upon to contribute equity to the Company.

Refining NZ Debt Maturity Profile as at 31 May 2021

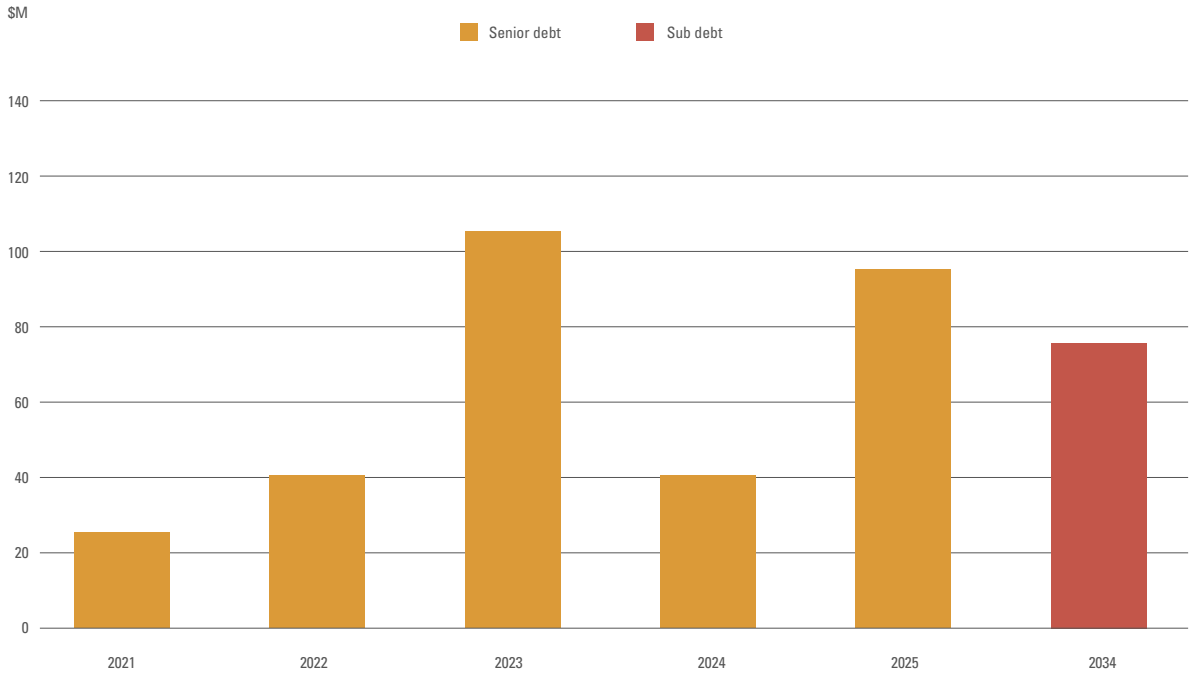

Figure 19

[1] Note that the first election date of the subordinated notes is 1 March 2024, with a maturity date of 1 March 2034, if not redeemed prior to that date

[2] Note that facilities expiring in 2021 have received lender credit approval for extension to 2023, but are subject to the conclusion of satisfactory documentation and satisfaction of conditions precedent.

5.3 New Zealand's demand for transport fuels

The outlook for fuel demand in New Zealand has changed significantly over recent years and this has implications for refining operations. Successive Governments have been targeting net zero emissions by 2050 and the current Government is considering various incentives and regulatory interventions to achieve this. More recently, the COVID-19 pandemic created a sharp drop in fuel demand as travel restrictions were implemented and the expected near-term recovery in fuel demand remains relatively uncertain.

A chart in Section 2.3 shows the volume forecasts that underpin Refining NZ's current view on future fuel demand in New Zealand, based on forecasts provided by independent industry experts Hale & Twomey. The chart highlights a recovery and expected growth in jet fuel demand while petrol and diesel demand is expected to plateau and decline as a result of improved fuel efficiency of the transport fleet, and the growing use of alternative sources of propulsion (e.g. electricity, low-carbon fuels, hydrogen), and other factors (refer to Section 2.3).

Approximately half of refinery throughput is currently supplied to the Northland and Auckland markets and the remaining production is shipped via coastal shipping vessels to ports around New Zealand. The cost of coastal shipping around New Zealand makes New Zealand refined product less competitive compared with the direct import of refined product to these ports.

Under the Processing Agreements, Customers are required to utilise the refinery for fuel supplied through the Marsden Point site and RAP, save in limited circumstances such as planned refinery shutdown periods. However, Customers are free to import already refined product into other terminals around New Zealand. Higher imports of refined product to other New Zealand ports would lead to under-utilisation of the refinery capacity.

5.4 Climate change and energy cost exposure

Refining NZ was the first company to agree a Negotiated Greenhouse Agreement (NGA) with the Crown in 2003. Subsequent investment in major capital projects and focused management has enabled Refining NZ to reduce its energy consumption and emissions intensity over the past 20 years.

Upon expiry of the NGA in December 2022, the Company expects to participate in the New Zealand Emissions Trading Scheme (ETS) from January 2023 as an Emissions Intensive Trade Exposed (EITE) business with an industrial allocation of carbon units that gradually decreases (at 1% per annum) over 2021 to 2030. This allocation would be based on 90% of Refining NZ's 2006-2009 emissions data, meaning that the applicable rate of assistance at the time the Company enters the ETS in 2023 would be 87%.

The Government has signalled that further regulatory reforms, as a result of a review of industrial allocation policy and electricity allocation factors, may result in very different allocative baselines in the future, including the amount that Refining NZ is ultimately allocated when it enters the ETS in 2023. Refining NZ continues to engage with Government during this review process, but no outcome is guaranteed at this stage. Therefore, a significant increase in carbon unit prices, or a change in the allocation of units to the Company under the NZ ETS may have a material financial impact on the future financial performance of the Company.

The refinery is a significant user of electricity and gas and there is currently significant uncertainty in the outlook for electricity and gas supply and costs in New Zealand as outlined in Section 5.5. See also Section 6 under "Climate Change" for a description of the risks to Refining NZ in this regard.

5.5 Simplified Refinery operations outlook

Refining NZ expects the refinery to continue to operate at the Fee Floor for 2021. The regional supply-demand balance for refined fuel products suggests that the GRM will remain volatile but under pressure for much of the next few years which would limit the Company's free cash flow generation and ability to pay dividends.

As noted in Section 5.4, the refinery is a large user of electricity and gas and there is currently significant uncertainty in the outlook for electricity and gas supply and costs in New Zealand. Refining NZ is currently close to fully hedged for electricity supply in 2021 and circa 50% hedged in 2022. Refining NZ is today unable to purchase the natural gas volume required to optimally run the refinery for margin and at the lowest carbon intensity.

Electricity and gas costs have escalated significantly in New Zealand. In the first 5 months of 2021, spot electricity prices averaged $240/MWh[25], which is around three and a half times the average over the last 5 years. Electricity transmission and distribution costs are also expected to increase as a result of changes to the Transmission Pricing Methodology which will place increased costs on electricity users in the north of New Zealand.

The decline in local gas production, changes to transmission and distribution pricing and the significantly elevated prices of both natural gas and electricity presents the refinery with a significant challenge, including to its competitiveness, with Customers not obliged to utilise the refinery if they can import refined product more cheaply, albeit they are obliged to pay the Fee Floor irrespective of their utilisation of the refinery.

[25] Refining NZ had hedged its 2021 exposure at less than spot, but at a significantly higher price than the average five years ago.

5.6 Risk of Customer claims

Refining NZ has received contractual dispute notices from each of its three Customers in relation to the steps it has taken to simplify its refinery to enable cash-neutral operations at the Fee Floor in 2021[26]. Refining NZ's Customers have each given notice that they object to the simplification changes. The Customers have either indicated that they expect to suffer significant losses because of the changes, for which they say Refining NZ will be contractually liable or they have reserved their rights.

Refining NZ believes that it is entitled under the Processing Agreements to simplify its refinery operations. However, if a Court or arbitrator ultimately determines that Refining NZ was not entitled to simplify its refinery operations, Refining NZ may be liable for losses sustained by the Customers as a result of the Simplified Refinery. It is not clear at this stage what the quantum of such claims for losses would be as they would depend on various undetermined factors and limitations of liability under the Processing Agreements.

Refining NZ will seek the release of these unresolved disputes relating to the refinery operations with effect from conversion of the refinery to an import terminal as part of the commercial arrangements with Customers.

[26] Refer to note 24 of the FY20 Annual Report

6. Risks to Refining NZ Group's business and plans

VOTE IN FAVOUR

This section describes the circumstances of which Refining NZ is aware that exist or are likely to arise that significantly increase the risk to Refining NZ's financial position, financial performance or stated plans. The description is based on the knowledge of the Directors as at the date of this Booklet. There is no guarantee or assurance that the significance of each risk will not change or that other risks will not emerge over time.

As further described in Sections 1 and 3, Refining NZ is undergoing a period of significant change as the Proposal seeks to convert the refinery into an import terminal. During the Conversion process, Refining NZ will continue to operate as a refinery until the Services Effective Date and the Proposal is implemented. The summary table below provides an overview of the risks applicable to the Company, many of which will apply to the Company either as a Simplified Refinery or an import terminal. This summary table does not comment on the likelihood of the risk eventuating, rather it is intended only to indicate a change in risk profile as a result of the Conversion. We have also indicated which risks apply only to the Simplified Refinery or the Import Terminal System (ITS) as the case may be. Detailed disclosures for each of these risks follow the summary table.

SUMMARY OF RISKS	IMPACT ON RISK FROM CONVERSION
High hazard industry: Refining NZ manufactures under high pressure and temperatures and handles large volumes of highly flammable product, so the nature of many of its operations are inherently hazardous , and include numerous risks such as fire, explosion, loss of containment pipeline, Refinery to Auckland Pipeline (RAP) and storage tank leaks and ruptures and marine transportation incidents (such as tankers damaging the jetty).	**Significantly lower**
Natural perils: Asset damage and business interruption resulting from natural disasters such as an earthquake or a tsunami could result in a significant impact on Refining NZ's financial position.	**Neutral**
Customer concentration: Refining NZ operates with a high degree of customer concentration, with the majority of revenue derived from three major Customers.	**Potentially lower in medium term**
Refining Margin and Exchange Rate: Refining NZ is currently exposed to volatility in refining margins and exchange rates which directly impact on revenue, which exposes its revenues and profitability to considerable volatility.	**Risk applicable only to Simplified Refinery**
Customer disputes and the Simplified Refinery Model: The Simplified Refinery was implemented to maintain cash-neutral operations in a low margin environment. There is a risk that this may not be sustainable (for example due to cost escalation) or that Customers successfully challenge the implementation or continuation of the Simplified Refinery model.	**Risk applicable only to Simplified Refinery**
Climate change: Successive Governments have been introducing regulatory responses to greenhouse gas emissions to address the impacts of climate change.	**Significantly lower**
Resource consent: Refining NZ's operations are subject to maintaining its resource consents, the loss or amendment of which could have an impact on Refining NZ's financial position, and a breach of which may result in the imposition of fines or other sanctions.	**Neutral**

SUMMARY OF RISKS	IMPACT ON RISK FROM CONVERSION
Access to skilled labour: There is a risk that Refining NZ may not be able to acquire or retain the necessary skilled labour for its current or future operations and development projects (including the Conversion).	**Higher during Conversion – Lower post Conversion**
Product demand: Whether it is a refinery or an import terminal, Refining NZ's revenue is dependent on the demand for refined oil products in New Zealand, until new energy or infrastructure opportunities are captured.	**Neutral**
Cyber security and IT: Refining NZ's refinery, pipeline and terminal operations are heavily reliant on information technology for the efficient and timely production and movement of crude, intermediate and refined products.	**Neutral**
Conversion expense and schedule: The closure of the refinery and Conversion to an import terminal is a complex and costly project and will be completed over a number of years, noting that conversion remains subject to final TSAs and Transition Agreement being concluded. As such there is the potential that the schedule for Conversion may be delayed or costs of the Conversion may materially exceed those estimated by Refining NZ in Section 4 of this Booklet.	**Risk applicable only to ITS**

Detailed explanation of the risks

Single site/Concentration of Operations

Refining NZ operates at a single site at Marsden Point, near the entrance to Whangarei harbour. The single site creates a risk that Refining NZ is not able to redirect operations to another location in the event that, for any reason, operations were disrupted at the site (including the jetty). In particular, the following events could cause a disruption to Refining NZ's operations at Marsden Point.

HIGH HAZARD INDUSTRY

Description of risk	The nature of many of Refining NZ's operations are inherently hazardous. These hazards include, but are not limited to, pipeline (RAP) and storage tank leaks and ruptures, tanker oil spills, explosions and fires, mechanical failures, catastrophic events, and marine transportation incidents (such as tankers damaging the jetty).
Why is it significant?	The above hazards, whether due to the actions or omissions of Refining NZ or a third party, or act of God (such as severe weather event or natural disaster), may cause personal injury and/or loss of life, damage to property and contamination of the environment, which may result in the suspension of operations and the imposition of civil or criminal penalties, including fines, expenses for remediation claims brought by governmental entities or third parties and first party losses of income (for example our Customers cannot meet their contractual commitments), clean-up costs and reconstruction costs which may adversely impact Refining NZ's financial performance and reputation. This risk is of particular significance for Refining NZ given that it operates from a single site and has only one pipeline (the RAP). Therefore, the occurrence of any of these events, would mean that Refining NZ would not be able to redirect operations to another site, provide for equivalent alternative storage capacity, or arrange for alternative distribution of refined oil products in the volumes achievable by the RAP. This means that the financial impact and time needed to resolve any such disruption may be exacerbated. Refining NZ maintains Material Damage and Business Interruption insurance for property damage and consequential business interruption as a mitigation of these risks. On Conversion the scope of cover would be adjusted to reflect that of the terminal business.

Refining NZ's assessment of the likelihood, nature and potential magnitude of any impact	The degree of this risk varies with the use of the Marsden Point site. While the risk is always inherent in Refining NZ's operations, it is at its highest when the Company operates as a refinery including during the Conversion process but is considerably reduced if the Company becomes a terminal. This decrease in risk is the result of the closure of hazardous refinery processes, removal of higher hazard materials, and simplification of operations resulting from the closure of the complex refinery process plant. Refining NZ has adopted a range of preventative measures using well established engineering, inspection, incident response and process safety techniques and training, as well as BCP, system configuration, and security measures to deliver what it believes are robust management systems with respect to its refining operations, which will be adapted to reflect terminal only operations. Refining NZ has also engaged industry experts to assist with the Conversion and minimise the risks associated with planning and execution of capital works and other processes to support import terminal operations (refer to Section 3.3), including the management of staff changes, while continuing to operate the refinery. The focus is to achieve continued process safety, maintain reliability and integrity, and optimise operating costs and availability. All operations at Refining NZ's marine terminal are required to be carried out in accordance with recommendations of the International Safety Guide for Oil Tankers and Terminals on the safe handling of crude oil and petroleum products. The Whangarei harbour is controlled by the Harbour Master.

NATURAL PERILS

Description of risk	Asset damage and business interruption resulting from natural disasters such as an earthquake or a tsunami could potentially result in a significant impact on Refining NZ's financial position.
Why is it significant?	The occurrence of these natural disasters could cause significant disruption to operations and consequent financial impact on revenue and expenses in repairing damage. However, this is of particular significance to Refining NZ because it operates from a single site and only has one pipeline to distribute fuel to Auckland (the RAP). Therefore, these events can be especially significant for Refining NZ.
Refining NZ's assessment of the likelihood, nature and potential magnitude of any impact	An earthquake of strong magnitude could render Refining NZ's high-pressure plant and equipment, tanks and the RAP unsafe to operate, resulting in a business disruption. In 2007, New Zealand's Institute of Geological and Nuclear Sciences (GNS) reported that the Refinery is located in New Zealand's lowest seismicity region, Northland. Accordingly, the likelihood of a large-scale earthquake at Marsden Point would appear to be lower than elsewhere in New Zealand – although it remains a possibility. The location of the refinery and import terminal at the entrance to the Whangarei harbour means that it is vulnerable to the risk of a tsunami and flooding of the site could result in asset damage and business disruption. A 2013 study by GNS reported that the Northland coastline in the vicinity of the Marsden Point Refinery could expect to experience a 3.8 - 6.2 metre tsunami (16th to 84th percentile) in a 500-year return period. The Refinery is situated 4.3 metres above mean sea level and is protected by a headland at the harbour entrance and a natural fore-dune barrier of between 6 to 12 metres. Rising sea levels resulting from climate change may in the future reduce the effectiveness of the fore-dune barrier and necessitate strengthening or change the GNS forecasts above. This risk remains whether Refining NZ is operating a refinery or import terminal. Refining NZ maintains Material Damage and Business Interruption insurance for property damage and consequential business interruption as a financial mitigation of these risks. On Conversion the scope of cover would be adjusted to reflect that of the terminal business.

Customer concentration

Refining NZ operates with a high degree of customer concentration, with the majority of revenue derived from three major customers.

CUSTOMER CONCENTRATION

Description of risk	Refining NZ is heavily dependent on relatively few customers and their supply chains to and from Marsden Point for its revenue.
Why is it significant?	Refining NZ currently has in place Processing Agreements with the Customers which are long term "evergreen" contracts which continue unless renegotiated or terminated. If the Proposal is approved, these would remain in place until the Services Effective Date with limited application thereafter (refer to Section 2.4), and the TSAs would come into full effect from the Services Effective Date. The TSAs, unlike the Processing Agreements, are not evergreen and cannot be terminated by either party for convenience. Rather, the TSAs have an initial term of 10 years with two five-year rights of renewal at the Customer's option. Therefore, any failure by the Company to maintain, renew or replace the TSAs on commercially acceptable terms (or the Processing Agreements if the Proposal is not approved), or any failure by a counterparty to perform its obligations under the Processing Agreements or TSAs (including as a result of the failure of supply chains to and from Marsden Point which would result in reduced Terminal Fees), could have a material adverse effect on the Company's business, operations and financial performance (such as failure to pay the Fee Floor – see the 'Customer Disputes and Simplified Refinery Model Risk'). The Company can take on new customers, including offering unutilised RAP capacity to new customers after 3 years of terminal operations.
Refining NZ's assessment of the likelihood, nature and potential magnitude of any impact	The terms of the TSA mitigate this risk by not allowing Customers to terminate the TSA for convenience and permitting Channel Infrastructure to obtain new customers after the first three years following the Services Effective Date, should the RAP have unutilised capacity. However, as an intermediary infrastructure provider, the Company is also dependent on its Customers' supply chains to Marsden Point and the operation of downstream infrastructure, such as the Wiri Oil Terminal (where the RAP ends) and the Auckland JUHI. Failure of these supply chains and/or infrastructure could result in the Customers being unable to comply with their obligations or a decrease in the volume of refined fuels products. This would result in Refining NZ receiving lower fees under the TSAs, subject to any claim Refining NZ may have under the TSAs or availability of insurance cover. The Company continues to explore growth options with a view to further diversifying revenue streams for the business (refer to Section 2.5).

Financial exposure

Refining NZ revenue is currently dependent on commodity market risks including crude oil and product prices, shipping rates and exchange rates. Further, the construct of the Processing Agreements with the current level of the Fee Floor has necessitated the simplification of refinery operations in order to deliver cash-neutral operations.

REFINING MARGIN AND EXCHANGE RATE

Description of risk	Refining NZ is currently exposed to the volatility in refining margins and exchange rates which directly impact on revenue, which exposes its revenues and profitability to considerable volatility.
Why is it significant?	Operating revenue is derived from Processing Fees from Customers that reflect both the refining margin, and the NZD/USD exchange rate. These changes are fundamentally driven by changes in the supply and demand balance for products from regional refineries, including construction of new refineries, expansion in existing refineries and closure of others. Refer to Section 1.1 for further detail of the factors impacting refining margins. This exposure to refining margins results in volatility in earnings for Refining NZ which is further influenced by other factors such as Customers' choice of crude slate, operational reliability (see above), "Product Demand" risks and regulatory changes. While this is mitigated to some extent by the Fee Floor provision in the Processing Agreements, the Fee Floor has proven to be insufficient to maintain the financial viability of the full refinery operations at the Marsden Point site (see 'Simplified Refinery' below). The volatility in earnings can impact on Refining NZ's financial position and potentially creditworthiness. Additionally, this can result in Refining NZ failing to deliver an adequate return on investment.
Refining NZ's assessment of the likelihood, nature and potential magnitude of any impact	Refining NZ has operated under the current refinery Processing Agreements since 1995 and has experienced this volatility. Consequently, the business operates with prudent financial management and has shifted to be a Simplified Refinery. The refinery also aims to optimise operations to maximise margins for both Refining NZ and Customers. Under terminal operations, assuming the Proposal is implemented once all conditions are satisfied (see Section 3.2), the direct exposure to refining margins and foreign exchange volatility is eliminated. Channel Infrastructure revenue is based on a fixed and variable fee arrangement with volatility restricted to volume of fuel distributed through the ITS (refer to Section 4 for further details).

CUSTOMER DISPUTES AND SIMPLIFIED REFINERY MODEL

Description of risk

Refining NZ is currently operating as a Simplified Refinery in order to maintain cash-neutral operations in a low margin environment. There is a risk that cash-neutral operation may not be sustainable or that Customers successfully challenge the implementation or continuation of the Simplified Refinery model.

Why is it significant?

Due to a historically low GRM, Refining NZ's Processing Fee revenue under the Processing Agreements has been, and currently is, at the Fee Floor. However, as the Fee Floor was inadequate to cover Refining NZ's cash costs of the refinery as configured in 2019 (such as higher energy and compliance costs – refer to Section 5), Refining NZ has simplified its operations so that it can maintain cash-neutral operations when GRM is low and the Fee Floor is in effect.

Based on independent expert forecasts, Refining NZ does not expect the GRM to significantly recover in the near or medium term, meaning a failure to maintain the cost savings of the Simplified Refinery could result in Refining NZ sustaining cash losses which may adversely affect its ability to continue operations.

Further, the Customers have each given notice that they object to the changes to the refinery's capacity that resulted from the simplification of the refinery. They have served formal contractual dispute notices under the Processing Agreements expressing the view that Refining NZ is not entitled to make the changes. They have either indicated that they expect to suffer significant losses as a result of the changes, for which they say Refining NZ will be contractually liable, or they have reserved their rights. In addition, Z Energy Limited has stated that it does not consider it is required to pay Fee Floor top up payments as a result of Refining NZ's changes to the refinery capacity. However Z Energy has to date paid the Fee Floor top-up payments in respect of FY21, and has further stated it will continue to pay Fee Floor top up payments until the obligation under its Processing Agreement to pay Fee Floor top up payments ceases under the terms of the import terminal transition arrangements agreed with Refining NZ. Z Energy has expressly reserved its position and has indicated it will reassess its decision to pay Fee Floor top up payments if the conversion to an import terminal does not proceed. Refining NZ has issued a counter dispute notice to bp and Z Energy in respect to the quantum of the Fee Floor.

Refining NZ's assessment of the likelihood, nature and potential magnitude of any impact

Refining NZ has been operating the Simplified Refinery since early 2021. As at the date of this Booklet it remains cash neutral (as an operating refinery and excluding Strategic Review and Conversion costs).

However, as a refinery, Refining NZ is subject to operational costs such as energy and compliance costs that are rising and proportionately higher than regional competitors – refer to Sections 1.1 and 5). Should the Proposal not become unconditional (including as a result of negotiations on a final TSA and Transition Agreement with each Customer failing, or being delayed such that a Customer exercises a termination right (see Section 2.4)), and refinery operations continue, cash-neutral operations may not be feasible if these costs continue to rise at a pace in excess of Fee Floor escalation (see also "Climate Change" below). Further, as a refinery, Refining NZ has significant capital expenditure costs (such as turnarounds, one of which is due by mid-2022 at the cost of circa $25 million) which if not executed correctly can be materially higher than expected. Refining NZ may also not be able to obtain necessary funding on satisfactory terms or at all to cover these costs given the return on investment associated with cash-neutral operations and the high risk of volatile revenue as noted above. Finally, Refining NZ is the sixth of seven defendants in High Court proceedings brought by climate change activist Mike Smith. Refining NZ is awaiting the decision of the Court of Appeal in which it and the other defendants sought to strike out the claim. Refining NZ does not view the claim as a material risk if the Proposal is implemented.

Refining NZ believes that it is entitled under the Processing Agreements to simplify its refinery operations. However, if a Court or arbitrator ultimately determines that Refining NZ was not entitled to simplify its refinery operations, Refining NZ may be liable for losses sustained by the Customers as a result of the Simplified Refinery. It is not clear at this stage what the quantum of such claims for losses would be as they would depend on various undetermined factors and limitations of liability under the Processing Agreements (including Refining NZ's own dispute notices) but they may be material and could materially adversely affect the financial position of Refining NZ. Refining NZ will seek the release of these unresolved disputes relating to the refinery operations with effect from conversion of the refinery to an import terminal as part of the commercial arrangements with Customers.

Regulatory change

Refining NZ operates in an environment where changes in regulation can impact the business operations and performance.

CLIMATE CHANGE

Description of risk	There is significant and growing public concern about the environmental impact of climate change, and a number of national governments, including the New Zealand Government (through the CCC), have introduced, or are contemplating the introduction of, regulatory responses to greenhouse gas emissions to address the impacts of climate change.
Why is it significant?	Refining NZ is exposed to this risk through three primary mechanisms. Firstly, as an oil refinery operator, Refining NZ is a direct carbon emitter through emissions from operations. Secondly, the fuel products distributed from the site to the Customers and ultimately to other businesses and consumers contribute to carbon emissions though their use. Finally, Refining NZ consumes utilities at the site (notably natural gas and electricity) which are material contributor to carbon emissions. Regulatory changes to address climate change can materially impact the financial and operational viability of operations at the Marsden Point site. As of 1 January 2023, Refining NZ will join the New Zealand Emissions Trading Scheme (**ETS**) as an Emissions Intensive Trade Exposed (EITE) business with an industrial allocation of carbon units. The industrial allocation would be based on 90% of Refining NZ's 2006-2009 emissions data, which will phase out 1% per year over 2021 to 2030, meaning that the applicable rate of assistance at the time Refining NZ enters the ETS in 2023 would be circa 87%, although the Government has signalled that very different allocative baselines may apply in the future.
Refining NZ's assessment of the likelihood, nature and potential magnitude of any impact	If Refining NZ continues refinery operations, the phase out or amendment of assistance rates or significant increase in carbon unit prices will mean that Refining NZ's carbon costs will materially increase given its energy intensive operations. This could mean that the Simplified Refinery cannot maintain cash-neutral operations ultimately affecting Refining NZ's financial viability. In this event, equity and debt funding may be harder to obtain on satisfactory terms or at all, including as a result of investors lowering their exposure to emissions intensive businesses. If the Conversion occurs Refining NZ's exposure to carbon cost would be significantly reduced as its Scope 1 and Scope 2 emissions would be reduced by circa 98% by comparison to the Simplified Refinery emissions. The remaining exposure is associated with Scope 2 emissions from electricity consumption which is included in the wholesale electricity price, noting that electricity consumption would decrease by circa 85% following Conversion by comparison to the Simplified Refinery consumption. While the exposure to national and international climate regulatory controls is lower following Conversion on the basis that direct emissions are lower, Refining NZ would still be engaged in distributing refined oil products. As such it is exposed to various indirect impacts of climate change, including but not limited to: • Negative public attitude towards fossil fuels and Government incentives for alternative fuels could impact on demand (see "Product Demand" below); • As investing in low emissions businesses becomes more prevalent, Refining NZ's social licence to operate and access to equity and debt funding may be adversely impacted; and • Rising sea levels and stronger weather events can also intensify the existing risks that Refining NZ faces (see "Natural Perils" and "High Hazard Industry" above).

RESOURCE CONSENT

Description of risk	Refining NZ's operations are subject to maintaining its resource consents, the loss or amendment of which could have an impact on Refining NZ's financial position, and a breach of which may result in the imposition of fines or other sanctions.
Why is it significant?	Under the Marine and Coastal Area Act 2011, iwi, hapu and whanau were able to apply either to the High Court or directly to the Crown for the recognition of either or both of Customary Marine Title (**CMT**) and Protected Customary Rights (**PCR**) in a common marine and coastal area. A CMT grants a Resource Management Act 1991 permission right which allows the group to give or decline permission, on any grounds, for activities for which a resource consent is sought in the area covered by the CMT. Refining NZ would be required to consult a CMT holder about any new resource consent application, or a consent that is up for renewal with the title owner having the right to refuse consent. Separately, recognition of a PCR means that local authorities cannot grant resource consents for other activities that would have more than a minor adverse effect on that right.
Refining NZ's assessment of the likelihood, nature and potential magnitude of any impact	Additional conditions attached to, or non-renewal of, consents that are integral to Refining NZ's licence to operate, could have a significant adverse impact on Refining NZ. This would include further investment requirements, an adverse effect on profitability and, in the worst case, Refining NZ's continued operations. Further, a breach of a resource consent could result in sanctions against Refining NZ, including fines and revocation of consent. While Refining NZ's resource consents under the Resource Management Act 1991 have recently been renewed until 2056 for refinery and import terminal operations, applications under the Marine and Coastal Area Act 2011 are now either before the Courts or are the subject of direct consultation with the Crown. There are 31 applications applying to Popouwhenua (that is, the Marsden Point Site). The outcome of these applications is not yet known.

Other material issues

Other risks that relate to ongoing operations at the Marsden Point site include retaining capable people for operations, the ongoing demand for the use of the company infrastructure and cyber security exposure.

ACCESS TO SKILLED LABOUR

Description of risk	There is a risk that Refining NZ may not be able to acquire or retain the necessary skilled labour for its current or future operations and development projects (including the Conversion).
Why is it significant?	There is a finite availability of skilled labour in the New Zealand market with expertise in the sector in which Refining NZ operates, and certain operations may be reliant on particular individuals with specialist knowledge of a particular asset or a unique specialist skill set. The loss or failure to retain such skilled labour and individuals with specialist knowledge may impede the ability of Refining NZ to undertake activities as efficiently and effectively as it otherwise would have been able to, particularly on and during Conversion to its new business as an import terminal. Refining NZ is also exposed to the risk that industrial disputes may arise (for example, in relation to claims for higher wages or better conditions in order to retain employees) which might disrupt Refining NZ's business and lead to increases in project costs and delays to scheduled start-up dates of projects.
Refining NZ's assessment of the likelihood, nature and potential magnitude of any impact	This risk is greater in refinery operations as the wider range of highly complex process plant in a refinery necessitates Refining NZs access to specialist skills in the operations, maintenance, planning and optimisation of the refinery. The less complex nature of terminal facilities reduces the range of specialist skills required for safe and efficient operations. This risk is also heightened during the Conversion process as it will necessitate significant changes to the number of employees and the operating conditions at Refining NZ. This means that the make-up and size of the workforce will change significantly and therefore there is the greater potential to lose or to be unable to retain employees, including as a result of industrial action. These effects could result in an increase in labour costs, operational disruptions, distribution service interruptions and potentially projects being delayed. To mitigate these risks Refining NZ has begun, and will continue, an extensive consultation process with its employees regarding these impacts as well as enhanced redundancy and notice provisions and transition support programmes.

PRODUCT DEMAND

Description of risk	Whether it is a refinery or an import terminal, Refining NZ's revenue is ultimately dependent on the demand for refined oil products in New Zealand.
Why is it significant?	Currently, Refining NZ earns Processing Fees for the crude oil it processes, which varies depending on refining margins, the US dollar exchange rate and the volume of crude oil processed, albeit Refining NZ has the benefit of the Fee Floor (see 'Customer Disputes and Simplified Refinery Model' risk and 'Refining Margin and Exchange Rate' risk). As an import terminal, Channel Infrastructure will earn fees under the TSAs which have fixed and variable components, the latter of which changes with the volume and category of product that is distributed through the Refining NZ assets. As such any decrease in the demand for refined oil products in New Zealand will adversely impact Refining NZ's revenue.
Refining NZ's assessment of the likelihood, nature and potential magnitude of any impact	Refined oil products may be displaced or suffer reduced demand due to increased access to, or adoption of, new technologies, products and services to meet changing customer demands over time. For example, there may be a more rapid increase in the uptake of alternative fuel vehicles, such as electricity, biofuels, hydrogen, or gas-powered vehicles including following on from the CCC's carbon budget work (see "Climate Change" and Section 5.4 above). The adoption of alternative technologies may be accelerated or facilitated by Governmental support (or example, in the form of subsidies) or regulation. There is also a risk that conventionally powered forms of transport will continue to reduce their fuel consumption of as a result of fuel efficiency improvements. Further, downstream customers may seek to reduce their consumption of refined oil products in the interests of minimising potential harmful impacts to the environment. Each of these factors may depress demand for refined oil products in the future. With respect to COVID-19, although New Zealand's demand for refined oil products used for land transport has recovered to pre-COVID-19 levels (assuming no further material lockdowns depress demand), aviation fuel has not and remains at circa 40% of pre-COVID-19 levels. How long a recovery will take and whether international travel returns to pre-COVID-19 levels is uncertain and some independent experts are forecasting that the recovery from COVID-19 will be slow, potentially to 2027. If demand for aviation fuel does not recover as expected (or is displaced for the reasons noted above) there could be a material adverse impact on Channel Infrastructure's revenue and financial performance, given the expected significance of aviation fuel volume to Channel Infrastructure in light of the expected drop in petrol and then diesel demand, and its expectation of being the sole aviation fuel distributor to Auckland Airport.

CYBER SECURITY AND IT

Description of risk	Refining NZ's refinery, pipeline and terminal operations are heavily reliant on information technology for the efficient and timely production and movement of crude, intermediate and refined products.
Why is it significant?	The systems involved include servers, storage, databases and telecommunications infrastructure, as well as software applications and control and processing systems at the refinery and in due course the terminal only operations. While these systems are subject to regular review and maintenance, unauthorised access to or a breach or failure of Refining NZ's IT infrastructure due to cyber-attacks, negligence, system error or other actions could disrupt Refining NZ's operations and result in the loss or misuse of data or sensitive information, loss of revenue, injury to people, harm to the environment or Refining NZ's assets, legal or regulatory breaches and potential legal liability. Individually or collectively, such effects could adversely affect Refining NZ's profitability.
Refining NZ's assessment of the likelihood, nature and potential magnitude of any impact	As noted above Refining NZ conducts regular review and maintenance of its IT and control system infrastructure, which is managed by a small in-house team supported by an on-site contractor team given the specialised nature of Refining NZ's infrastructure and equipment. Certain systems are also operated or maintained by third parties whom Refining NZ does not control, and the failure of third parties to effectively or efficiently perform such services may disrupt Refining NZ's operations and/or cause harm to its reputation. Further, Refining NZ's assets could be a strategic target as energy-related assets and transportation assets, so they may be at greater risk of future cyber-attacks than other targets in New Zealand.

Transition risks

This section outlines the risks for Refining NZ in managing the transition from refinery to terminal operations.

CONVERSION EXPENSE AND SCHEDULE

Description of risk	The closure of the refinery and conversion to an import terminal is a complex and costly project and will be completed over a number of years noting that conversion remains subject to final TSAs and Transition Agreement being concluded. As such there is the potential that the schedule for Conversion may be delayed or costs of the Conversion may materially exceed those estimated by Refining NZ in Section 4 of this Booklet.
Why is it significant?	While Refining NZ has and continues to undertake a significant amount of work to assess the Conversion (refer to Section 3.3), there are significant risks involved in the project. As a major project with both capital and operating expenses, there is the potential for schedule delays and costs overruns in the execution of the Conversion, which may include unbudgeted regulatory requirements as the Conversion develops, supply chain delays or the inability to access required skilled labour. These may impact the commencement date of the terminal. Additionally, there may be operational impacts including unplanned shutdowns, early closure (including where a significant incident prior to the Services Effective Date makes the restart of the refinery uneconomic) or supply disruptions prior to the Services Effective Date. Further, as Refining NZ remains in negotiations with Customers regarding the final TSA and Transition Agreements, it is possible that this may also delay the Board making a FID and/or the targeted Services Effective Date. Either outcome may add cost to the Conversion process. Aside from the capital costs associated with the Conversion (refer to Sections 4.5 and 4.6), there are other major cash outflows and inflows associated with the refinery closure and Conversion, including refinery closure and decommissioning costs during the initial Conversion period, organisational and system transition costs and future demolition costs and remediation (in addition to existing measures to reduce the extent of legacy contamination over time as part of Refining NZ's ongoing remediation of the site under its resource consents, there will be additional remediation costs both during the Conversion, and as part of demolition of refinery assets in due course) that may be materially different in their quantum and/or timing than those projected by Refining NZ.
Refining NZ's assessment of the likelihood, nature and potential magnitude of any impact	While Refining NZ believes that it has adequately provided for the potential costs above, with acceptable ranges of contingency costs, some of these are early estimates and the actual cashflows could materially differ from current estimates, particularly if refining assets degrade faster than expected and demolition and remediation costs are required to be incurred sooner than expected by Refining NZ. The complexity of the capital projects is relatively low; therefore risk of design failure is also relatively low. Further, while negotiations continue in good faith with Customers, it is not known at this time when or if these agreements will be concluded. Therefore, such delays may cause additional costs to the Conversion process by either compressing it so that the targeted Services Effective Date can be achieved or delaying altogether. During the course of such delay, Refining NZ would continue to be exposed to the risks of a refiner (see "Customer disputes and Simplified Refinery Model" and the "Refining Margin and Exchange Rate" risks above). As noted in Section 3.2, Refining NZ may be able to mitigate this exposure by proceeding with FID with a majority of Customers having entered into a TSA and Transition Agreement, if it is satisfied that agreement will be reached on a TSA and Transition Agreement with the Customer in question. If the additional costs eventuate, then Refining NZ may need to seek debt and/or equity funding to complete the Conversion. Refining NZ may not be able to obtain this additional funding in full or in part or on terms that are favourable to Refining NZ. It is also possible that Refining NZ's ability to pay dividends as described in Section 4 may be materially adversely impacted.

7. Statutory and other disclosures

VOTE IN FAVOUR

7.1 Directors, Senior Managers and individual relevant parties

Set out below are biographies of the Company's Directors and Senior Managers. In accordance with the Board Charter, the Board annually reviews its membership to ensure the Board has an effective composition, size and commitment to adequately discharge its responsibilities and duties.

The first review following the Final Investment Decision (FID) would take into account the different scope of the Company's activities in carrying out this assessment.

DIRECTORS

Simon Allen (Chairman, Independent Director) BSc, BCom	Mr Allen is Chairman of Refining NZ and joined the Board in 2014. Mr Allen has over 30 years commercial experience in the New Zealand and Australian Capital Markets. He was Chief Executive of investment bank BZW and ABN AMRO in New Zealand. Mr Allen is Chair of IAG New Zealand, a Director of IAG Australia, and a trustee of the Antarctic Heritage Trust. Mr Allen has previously been Chair of the Financial Markets Authority, NZX Limited, Crown Infrastructure Partners Limited (previously Crown Fibre Holdings Limited) and Auckland Council Investments Limited and a Director of Auckland Healthcare Services Limited and, NZSE.
James Miller (Independent Director) BCom, CFInstD, CSAP and FCA	Mr Miller is Chair of the Audit, Finance & Risk Committee of Refining NZ and joined the Board in 2018. Mr Miller has over 15 years' experience in capital markets. He has held Board and leadership positions at Craigs Investment Partners and ABN AMRO, was a member of the INFINZ and Financial Reporting Standards Boards and has extensive experience in the downstream energy sector. Mr Miller is also Chair of NZX Limited, Deputy Chair of Accident Compensation Corporation and a Director of Mercury NZ Limited.[27] He has previously been a Director of Auckland International Airport and Vector and a member of the Financial Markets Authority.
Vanessa Stoddart (Independent Director) BCom/LLB (Hons), PGDip Prof Ethics	Ms Stoddart is Chair of the People Nominations & Remuneration Committee of Refining NZ and joined the Board in 2013. Ms Stoddart has 30 years' experience in manufacturing, packaging, airline, engineering and legal businesses with an emphasis on operations, health and safety, risk, people and culture. She was Group General Manager of Engineering and People at Air New Zealand Ltd and Chief Executive of the Australian Packaging Division of Carter Holt Harvey Ltd. Ms Stoddart is also a Director of OneFortyOne Plantations Holdings Pty Ltd Group of Companies, a member of the Financial Markets Authority and Chair of MBIE's Audit and Risk Committee. She has previously been a Director of Warehouse Group Limited, Paymark Limited, Heartland Bank Limited and Alliance Group Limited.
Paul Zealand (Independent Director) BSc (Hons), MBA	Mr Zealand is Chair of the Health, Safety, Environment & Operations Committee and joined the Board in 2016. Mr Zealand has more than 40 years' operating and leadership experience in High Hazard Facilities in the Oil, Gas, and Energy industries. He has held executive leadership positions globally on oil refineries, gas plants and oil production facilities, including Country Chairman for Shell in New Zealand and CEO (Upstream) for Origin Energy in Australia. Mr Zealand is also a Director of Genesis Energy, Lochard Energy and Port Nelson Limited.

[27] The consideration of all matters relating to Refining NZ by NZ RegCo and Accident Compensation Corporation occurs independently of Mr. Miller.

DIRECTORS

Riccardo Cavallo

(Non-Independent Director)

ME Chem Eng

Mr Cavallo joined the Refining NZ Board in 2017.

Mr Cavallo is the Manager of Refining for ExxonMobil's Australia and New Zealand operations. He has worked for Exxon Mobil for the past 20 years in manufacturing and operations in Italy, the United Kingdom and Australia. He is also a member of the board of the Australian company for ExxonMobil and board member of Australian Institute of Petroleum.

Mr Cavallo is not an Independent Director as defined in the NZX Main Board Listing Rules.

Lindis Jones

(Non-Independent Director)

BCom (Hons), BSc, MFin

Mr Jones joined the Refining NZ Board in 2018.

Mr Jones is the Chief Financial Officer at Z Energy Limited and has held various Executive roles since joining Z Energy in 2010. He worked for Shell for 13 years, primarily in retail operations and strategy in Europe, Asia and New Zealand and was Head of Property at ANZ National Bank before joining Z Energy.

Mr Jones is not an Independent Director as defined in the NZX Main Board Listing Rules.

Lucy Nation

(Non-Independent Director)

BEng, Diploma Applied Finance and Investment

Ms Nation joined the Refining NZ Board in 2021.

Ms Nation is currently bp's Vice President of Regions, Cities and Solutions for Asia-Pacific, leading a team which focuses on green energy transition for bp and its customers in the region. Ms Nation has worked for bp for the last 23 years, in finance, strategy, operational, commercial, and management roles and brings extensive experience in refining, terminals, fuel supply chain and the transition to low carbon fuels. She is a Managing Director of bp Australia Pty. Ltd and a Non-Executive Director of Ocwen Energy Pty Ltd.

Ms Nation is not an Independent Director as defined in the NZX Main Board Listing Rules.

SENIOR MANAGERS

Naomi James

(Chief Executive Officer)

LLB (Hons), MLM

Ms James is Chief Executive Officer of Refining NZ. Ms James joined Refining NZ in April 2020.

Ms James has held executive roles for the past 13 years in the oil and gas, steel and iron ore industries in Australia and New Zealand. Prior to joining Refining NZ, Ms James was Executive Vice President at Santos Ltd, Australia's second largest independent oil and gas producer, where she was responsible for Santos' midstream infrastructure assets including oil and gas processing facilities. She has extensive experience in roles involving strategy development and execution, business restructuring, change management, M&A and governance.

Denise Jensen

(Chief Financial Officer)

CA

Ms Jensen is Chief Financial Officer for Refining NZ and is responsible for Refining NZ's financial affairs, treasury, investor relations, risk management and insurance.

Ms Jensen is a Chartered Accountant with over 30 years' experience in professional services and executive leadership roles. Ms Jensen joined Refining NZ in 2005 and was appointed to the position of Chief Financial Officer in 2009 and Company Secretary in 2010.

Prior to joining Refining NZ, Ms Jensen was with Coopers and Lybrand (PwC) in the audit division for over 10 years.

Jack Stewart

(Chief Operating Officer)

BE(Mech.)

Mr Stewart is Chief Operating Officer at Refining NZ and is responsible for Refining NZ's operations, including refinery and RAP operations, maintenance, personal and process safety, and environmental management.

Mr Stewart started his career with Refining NZ in 2002 as a mechanical engineer and has performed a broad range of leadership roles over the past 20 years across engineering, maintenance, project management, operations, health and safety and environment. Mr Stewart was appointed to the position of Chief Operating Officer in 2020

7.2 Substantial shareholdings in Refining NZ and relevant interests held by Directors and Senior Managers

Substantial shareholdings

As at the date of this Booklet, no shareholder has a relevant interest in 5% or more of the Shares other than as set out in the table below. As the Proposal does not effect a change in shareholding, the below interests are not expected to change as a result of the Proposal.

NAME	LEGAL OWNERSHIP OR OTHER NATURE OF THE RELEVANT INTEREST	ORDINARY SHARES IN WHICH PERSON HAS RELEVANT INTEREST AS AT 25 JUNE 2021	
		ORDINARY SHARES	%
Mobil Oil New Zealand Limited	Registered holder and beneficial owner	53,760,000	17.15%
Z Energy Limited	Registered holder and beneficial owner	47,999,980	15.31%
BP New Zealand Holdings Limited	Registered holder and beneficial owner	31,572,640	10.07%
Accident Compensation Corporation	Registered holder and beneficial owner	26,781,763	8.54%

Director and Senior Manager shareholdings

The table below sets out the equity securities in Refining NZ that the Directors and Senior Managers have an interest in as at the date of this Booklet. As the Proposal does not effect a change in shareholding, the below interests are not expected to change as a result of the Proposal:

NAME	LEGAL OWNERSHIP OR OTHER NATURE OF THE RELEVANT INTEREST	ORDINARY SHARES IN WHICH PERSON HAS RELEVANT INTEREST AS AT 25 JUNE 2021	
		ORDINARY SHARES	%
Simon Allen	Registered holder and beneficial owner	35,000	0.01%
James Miller	Registered holder and beneficial owner	23,000	0.01%
Naomi James	Nil	N/A	N/A
Denise Jensen	Beneficial owner	4,932	0.01%
	Registered holder	13,929	
Jack Stewart	Beneficial owner	4,932	0.001%

7.3 Other equity securities of Refining NZ

Share rights plan

Refining NZ has a share rights plan, under which eligible employees are offered share rights for incentive and retention purposes. Each share right converts on a 1:1 basis for nil cash consideration into fully paid ordinary shares at the end of a specified vesting period, provided that the eligible employee remains employed during the specified vesting period and satisfies any other vesting conditions applicable to the award. Shares are then issued (or transferred) in respect of the vested share rights as soon as reasonably practicable after vesting.

Share rights under the plan rank behind Refining NZ's ordinary shares, are non-transferable, cannot be encumbered and have no voting or other share rights. Share rights are otherwise subject to terms of the individual offer letters and the rules of the plan, including that a participant's share rights lapse automatically in the event of fraud, dishonesty or wilful default.

Set out below are the relevant interests of the Senior Managers under the share rights plan.

NAME	LEGAL OWNERSHIP OR OTHER NATURE OF THE RELEVANT INTEREST	SHARE RIGHTS IN WHICH PERSON HAS RELEVANT INTEREST AS AT 25 JUNE 2021	
		RIGHTS	%
Naomi James	Registered holder	2,428,782	55.70%
Denise Jensen	Registered holder	174,634	4.00%
Jack Stewart	Registered holder	174,634	4.00%

7.4 Interests of Directors and Senior Managers

Director remuneration

The table below sets out the total remuneration each Director received during FY20, as well as the nature of services to which that remuneration relates.

		APPOINTED	BOARD FEES	EXECUTIVE SALARY	AUDIT, RISK AND FINANCE COMMITTEE FEES	PEOPLE, REMUNERATION AND NOMINATION COMMITTEE FEES	INDEPENDENT DIRECTORS COMMITTEE FEES	HEALTH, SAFETY, ENVIRONMENT AND OPERATIONS COMMITTEE FEES	TOTAL FEES
			$	$	$	$	$	$	$
S C Allen	Independent Chairman	4 Dec 2014	180,000	-	-	-	-	-	180,000
D C Boffa	Non-independent	23 Aug 2017	75,000	-	-	5,000	-	-	80,000
R Cavallo	Non-independent	12 Apr 2017	75,000	-	-	-	-	-	75,000
L Jones	Non-independent	19 Mar 2018	75,000	-	12,500	-	-	-	87,500
J Miller	Independent	1 Nov 2018	75,000	-	30,000	5,000	20,000	-	130,000
V C M Stoddart	Independent	20 May 2013	75,000	-	-	20,000	20,000	-	115,000
P A Zealand	Independent	29 Aug 2016	75,000	187,000	9,375	5,000	15,000	7,500	298,875

The Directors do not participate in any profit-based incentive system. No Director of the Company has received, or become entitled to receive, a benefit (other than a benefit included in the total emoluments received or due and receivable by Directors), including shares, remuneration paid by subsidiary company or other payments from services provided. The only exception to this is Mr. Zealand, who was paid an executive salary for his tenure as managing director to cover the transition from the Company's prior CEO to Ms James, from 1 February 2020 until 6 April 2020. The Chairman does not receive additional fees for being on a Committee. No loans have been made to Directors.

Under the Constitution, the Directors are entitled to be paid by Refining NZ for all travelling, hotel and other expenses incurred by them in and about the business of Refining NZ, including their expenses of travelling to and from Board or committee meetings. Further, Refining NZ arranges Directors and Officers insurance for the Directors and has granted indemnities, as permitted by the Companies Act 1993 and Financial Markets Conduct Act 2013, in favour of each of its Directors.

It is not expected that the remuneration of Directors will differ in FY2021, however, we note that Ms. Boffa has retired and been replaced by Ms. L Nation with effect from 1 February 2021.

Employee remuneration

All Senior Managers have entered into employment agreements with a member of the Group.

The following table shows the number of employees and former employees, not being Directors, who, in their capacity as employees, received remuneration and other benefits during 2020 of at least $100,000.

The remuneration figures include all monetary payments made during the year and contributions made by the Company as part of the Employee Share Purchase Scheme (ESS) and share rights plan. No employees appointed as a Director of a subsidiary company of Refining NZ, receive or retain any remuneration or other benefits for holding this office.

The analysis (see chart) is compiled on a cash basis.

The 2020 remuneration does not include amounts paid past 31 December 2019 that relate to performance during the 2019 financial year as there was no short-term incentive payments made to staff in relation to 2019 performance. However, all employees participating in the ESS received a contribution of $981 to part fund the acquisition of Shares on 11 June 2020 under the ESS. Other than a nominal $500 payment to each employee, there was also no short-term incentive payment made to staff post 31 December 2020 in relation to 2020 performance.

It is expected that total remuneration paid to employees in FY21 will be substantially lower than it was in FY20 as a result of Refining NZ having operated as a Simplified Refinery since early 2021 (as announced to the market on 5 October 2020). The proposal to operate as a Simplified Refinery included a circa $20 million reduction in operating expenses compared with 2020 primarily through lower labour and other costs. If the Proposal is approved, it is expected that total remuneration expenses will decline.

AMOUNT OF REMUNERATION ($000)	NUMBER OF EMPLOYEES IN 2020
$100 - $109	27
$110 - $119	11
$120 - $129	27
$130 - $139	20
$140 - $149	35
$150 - $159	39
$160 - $169	37
$170 - $179	34
$180 - $189	36
$190 - $199	14
$200 - $209	8
$210 - $219	3
$220 - $229	4
$230 - $239	3
$240 - $249	1
$250 - $259	1
$270 - $279	1
$310 - $319	1
$330 - $339	1
$350 - $359	1
$360 - $369	1
$380 - $389	1
$390 - $399	1
$430 - $439	1
$500 - $509	1
$810 - $819	1*

* Naomi James (CEO) received 1,250,000 performance share rights on 16 April 2020, having a value on the date of grant equal to $995,000 being her base salary.

Employee Share Purchase Scheme

Certain employees participate in the Employee Share Purchase Scheme (**ESS**). Under the ESS, those employees are invited to acquire a number of Shares in Refining NZ, whereby they contribute $1 and the Company contributes the remaining entitlement (for example, the most recent contribution was $1,000 per eligible employee). These funds are provided to CRS Nominees Limited (**Trustee**), as trustee of the ESS, to acquire the Shares for cash as fully paid ordinary shares. The Shares are then held by the Trustee for the participants until they are withdrawn by the participants following a restricted period of 3 years from the acquisition date, unless released earlier in certain circumstances (e.g. death, sickness). The participants may vote the Shares and receive dividends, if paid.

7.5 Other material governance disclosures

Under the Constitution, the Board must have no fewer than three Directors and there is no maximum number. At least two of the Directors shall be ordinarily resident in New Zealand and the minimum number of Independent Directors on the Board shall be three. In addition, if there are eight or more Directors, one-third of the Directors must be Independent Directors (rounded down to the nearest whole number of Directors) provided that there must always be, at least, three Independent Directors.

Refining NZ, in general meeting, may subject to the provisions of the Constitution, from time to time appoint new Directors and may alter their qualifications. No person (other than a Director retiring at the meeting) may be elected as a Director at a meeting of shareholders of the Company unless that person has been nominated by a shareholder who will be entitled to attend and vote at the meeting as if he, she or it continues to hold equity securities on the date on which the entitlement to attend and vote at the meeting is determined. Refining NZ must comply with the nomination process set out in the Constitution.

If there is a casual vacancy, the Board shall have the power, at any time, to appoint any other qualified person as a Director, either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall retire at the next annual meeting of the Company but shall be eligible for election at that meeting.

7.6 Historical financial information

The below table provides key historical financial information about the Refining NZ Group. Full financial statements are available on **www.refiningnz.com/**. If you do not understand this financial information, you can seek advice from a financial adviser or an accountant. See also Section 4 of this Booklet for further financial information concerning the Proposal.

The financial information is disclosed in New Zealand dollars and is rounded, which may result in some discrepancies between the sum of the components and totals within tables, and also certain percentage calculations.

(a) Selected financial information

The information in the below table is statutory historical financial as reported in Refining NZ's financial statements determined in accordance with NZ GAAP.

	FY2020 ($000)	FY2019 ($000)	FY2018 ($000)
Revenue	245,747	348,375	362,466
EBITDA	50,423	118,235	152,647
Net (loss)/profit after tax	(198,279)	4,165	29,616
Dividends on all equity securities of Refining NZ	-	6,250	23,444
Total assets*	1,167,898	1,405,666	1,414,764
Cash and cash equivalents	43,289	5,255	779
Total liabilities*	603,968	648,922	645,128
Total borrowings	274,611	246,616	258,601
Net cash flows from operating activities	31,624	117,125	104,636

* Total assets and total liabilities for FY2018 and FY2019 have been restated to align with the presentation of deferred taxes in FY2020 to present deferred tax assets and deferred tax liabilities on a gross basis, to increase the transparency of the deferred tax asset in relation to tax losses accumulated by the Company.

(b) Explanatory notes for selected financial information

Revenue

The majority of Refining NZ's revenue is derived from Processing Fees paid by the Customers for refining their crude oil and other feedstock into high-quality transport fuels. As a toll refiner, the Company processes a range of crude oils imported from offshore markets to produce premium and regular petrol, diesel, jet and fuel oils for the three Customers, bp Oil New Zealand Limited, Mobil Oil New Zealand Limited and Z Energy Limited[28]. The crude oils and feedstocks that are refined by the Company are owned by the Customers.

The Processing Fee is set at 70% of the gross refining margin generated, subject to the Fee Floor and Margin Cap. The key drivers of Processing Fee revenue earned are the volumes processed, the gross refining margin and USD/NZD exchange rate. The Company is guaranteed a minimum processing Fee Floor payment under the Processing Agreements which was triggered in FY20 due to weak refining margins and lower volumes processed due to the significant reduction in demand for fuel products due to COVID-19.

The table below summarises the metrics that make up the Processing Fee earned in each of the last three financial years.

	2020	2019	2018
Barrels processed – intake (000s barrels)	29,876	42,687	40,440
Gross refining margin (US$/barrel)	1.63	5.34	6.31
US$ exchange rate (US$/NZD)	0.65	0.66	0.69
Processing Fee ($000)	141,601*	241,970	258,873
% of Total Revenue	58%	69%	71%

* In 2020 Processing Fee revenue was at the Fee Floor.

The Company's other main source of revenue is from pipeline fees earned for the transport of refined products along the purpose-built pipeline from Marsden Point to Wiri in South Auckland. Pipeline fees are based on throughput, which were also negatively impacted by COVID-19 in 2020 due to the significant demand reduction.

EBITDA

Significant reduction in EBITDA in recent years was primarily attributable to lower Processing Fees as outlined in the above table, coupled with higher operating costs, principally energy which increased by circa 27% between 2018 and 2019. Operating costs, excluding natural gas, in FY20 were around 13% lower than 2019 as a result of reducing non-essential activity on site and lower production in response to COVID-19.

Net (loss)/profit after tax

The net loss after tax reported by the Group in FY20 included a non-cash impairment of the refining assets amounting to circa $158 million (circa $219 million pre-tax) primarily due to revised refining margin assumptions, reflecting the outlook of excess refining capacity in the Asia-Pacific region and the effects of the COVID-19 pandemic on transport fuel demand.

[28] Z Energy Limited includes Z Energy 2015 Limited.

Dividends

The Company's dividend policy over the historic period in the table above was to pay 80% of Free Cash Flow (**FCF**) as ordinary dividends subject to the Board's due consideration of the Company's medium-term asset investment programme, 20% targeted average gearing level and future circumstances, including the profitability, growth opportunities, and the financial and taxation position of Refining NZ. FCF is the Net Cash from Operating Activities less normalised stay-in-business capital. Payments of dividends are not guaranteed and are at the discretion of Directors, and dividends (if any) will be declared only after meeting appropriate solvency requirements.

Between FY2018 and FY2020, Refining NZ has declared net and gross dividends per Share (gross dividends include imputation credits) as set out in the table below. Note that no dividends have been declared after August 2019.

DATE DIVIDEND WAS DECLARED	NET (PER SHARE)	GROSS (PER SHARE)
23 August 2018 (FY18 interim)	$0.03	$0.0417
21 February 2019 (FY18 final)	$0.045	$0.0625
21 August 2019 (FY19 interim)	$0.02	$0.0278

(cps) = cents per share

Total assets

The significant decrease in total assets in FY20 was due to the non-cash impairment of the refining assets amounting to approximately $219 million as outlined above (refer net (loss)/profit after tax).

Cash and cash equivalents

In response to COVID-19, the Group maintained cash and cash equivalent balances of between circa $15 million and $45 million throughout the 2020 year.

Total liabilities

The decrease in total liabilities in 2020 is primarily attributable to a reduction in deferred tax liability as a result of the non-cash impairment of refining assets as outlined above (refer net (loss)/profit after tax).

Total borrowings

Total borrowings are made up of bank debt and subordinated notes. The higher bank borrowings as at 31 December 2020 were offset by additional cash and cash equivalents held in response to COVID-19 as outlined above.

Net cash flows from operating activities

The significant decrease in cash flow from operating activities in 2020 reflected the impact of Processing Fee income at the Fee Floor, offset by a significant reduction in operating costs and capital expenditure to enable the Group to operate cash neutral in FY20.

8. Glossary

VOTE IN FAVOUR

Ancillary Services has the meaning in Section 2.4.

Ancillary Services Fees means the fees payable for Ancillary Services as referred to in Section 2.4.

Approval Requirements means the approvals Refining NZ requires to implement the Proposal as set out in Section 3.2.

Associated Person has the meaning as set out in the NZX Listing Rules.

Board means the Board of Directors of Refining NZ.

Booklet means this Explanatory Document.

Business Day means a day that is not a Saturday, Sunday, bank holiday or public holiday in Auckland, New Zealand.

CCC means the Climate Change Commission.

Chairman means Simon Allen.

Channel Infrastructure means Channel Infrastructure NZ Limited.

CMT means Customary Marine Title.

Constitution means the constitution of Refining NZ.

Company means The New Zealand Refining Company Limited.

Computershare means Computershare Investor Services Limited.

Conversion means:

- the Company's staged cessation of refinery activities ultimately resulting in the repurposing or decommissioning, demolition and remediation of refining assets and land, as applicable, and as described in Sections 3.1 and 3.3;
- the capital and operational expenditure required to enable the Company to provide ITS services and establish the required organisation, systems and processes to support the same, as described in Sections 3.1 and 3.3 including Private Storage Services;
- any ancillary or consequential expenditures or processes required to achieve the above, including compliance with any obligations under a TSA or Transition Agreement; and
- carrying out the Restructure.

Core ITS Services has the meaning in Section 2.4.

Customer means any of bp Oil New Zealand Limited, Mobil Oil New Zealand Limited and Z Energy Limited, and Customers means all of them.

Customer Director means any of Riccardo Cavallo, Lucy Nation and Lindis Jones.

Director means a director of Refining NZ.

EBITDA means Earnings Before Interest, Taxes, Depreciation, and Amortization.

EITE means Emissions Intensive Trade Exposed.

ESS means Employee Share Purchase Scheme.

ETS means Emissions Trading Scheme.

FCF means Free Cash Flow.

Fee Floor means the minimum fee payable by the Customers for refining services per annum as calculated under the Processing Agreements, which for 2021 is approximately NZ$141 million.

FEED means Front End Engineering and Design.

FID means Final Investment Decision by the Refining NZ Board.

Fixed Fee means the fixed fee as referred to in Section 2.4.

Free Cash Flow means adjusted net cash generated from operations less maintenance capex.

GNS means New Zealand's Institute of Geological and Nuclear Sciences.

GRM means Gross Refining Margin.

Group means Refining NZ and its subsidiaries.

Independent Appraiser means Grant Samuel & Associates Limited.

Independent Appraisal Report means the Independent Appraisal Report set out in Appendix A.

Independent Director means any of Simon Allen, James Miller, Vanessa Stoddart and Paul Zealand.

IPL means Independent Petroleum Laboratory Limited.

ITS means Import Terminal System as described in Section 2.2.

Margin Cap means the cap on the Company's Processing Fee when the average GRM for the year reaches US$9/per barrel.

Meeting means the special meeting of shareholders to which this Booklet relates.

Net Debt means gross debt less cash and cash equivalents.

New Business means the provision of import terminal and infrastructure services, including as contemplated under the TSAs, Transition Agreements, and Section 2.5.

New Services has the meaning in Section 2.4.

NGA means Negotiated Greenhouse Agreement.

Non-Customer Shareholders means the shareholders of the Company other than the Customers and their Associated Persons.

Notice of Meeting means the Notice of Special Meeting to which this Booklet relates, dated 5 July 2021.

NZ GAAP means generally accepted accounting practice in New Zealand.

Operational Requirements means the operational changes Refining NZ requires to implement the Proposal, as described in Section 3.3.

PCR means Protected Customary Rights.

Permitted Interruption has the meaning in Section 2.4.

Private Storage Services means a New Service under which the Company provides additional tank storage capacity to Customers to that provided as a Core ITS Service, as further described under Section 4.5.

Processing Agreements means the existing Processing Agreements in place with each of the Customers, and **Processing Agreement** means any one of them.

Processing Fee means the fee earned under the Processing Agreements for the provision of toll refining services.

Proposal means carrying out the Conversion and carrying on the New Business.

Proxy Form means the proxy form which accompanies the Notice of Meeting.

RAP means Refinery to Auckland pipeline.

Refining NZ means The New Zealand Refining Company Limited.

Related Parties has the meaning set out in the NZX Listing Rules.

Restructure means the Company's proposal to transfer (whether by way of sale or long-term leases or licences) some or all of its assets and liabilities to a wholly owned subsidiary of the Company (either a new subsidiary or in an existing subsidiary), with the refining assets and liabilities remaining with Refining NZ, as described in Section 3.4.

Reasonable and Prudent Terminal Operator (RPTO) means the standard of care, diligence and skill that would reasonably and ordinarily be expected from a skilled and experienced terminal operator familiar with international practice and operating under the same or similar circumstances (including, without limitation, the same or similar legal, regulatory, asset and operating circumstances).

Senior Manager means a senior manager of Refining NZ, being Naomi James, Denise Jensen and Jack Stewart.

Services Effective Date has the meaning in Section 2.4.

Shares means ordinary shares in Refining NZ.

Share Registrar means Computershare.

Simplified Refinery means the Company's refinery operations as conducted on the date of this Booklet and described in Section 5.1.

Strategic Review means the review of the Company's operations as announced on NZX on 15 April 2020 under which the Company sought to determine the optimal business model and capital structure for its assets in order to maximise returns to shareholders and deliver secure, competitive fuel supply to New Zealand.

Terminal Fees means the higher of:

- the annual ToP Fee; or
- the annual aggregate of the Fixed Fee,the Throughput Fee and the Ancillary Services Fees.

Throughput Fee means the throughput fees payable for Core ITS Services as referred to in Section 2.4.

TLF means truck loading facility.

ToP Fee means the Take-or-Pay Fee referred to in Section 2.4.

Transition Agreement means the agreement to be agreed with Customers on the basis of the principles set out in Section 2.4 to facilitate the transition from refining services (and the termination of the Processing Agreements) to ITS services.

Trustee means CRS Nominees Limited.

TSA means the Terminal Services Agreement to be agreed with each of the Customers on the basis of the terms described in Section 2.4.

Wiri Terminal means the Wiri Oil Terminal being the infrastructure where the RAP ends.

WOSL means Wiri Oil Services Limited.

Appendix A - Independent Appraisal Report

GRANT SAMUEL

THE NEW ZEALAND REFINING COMPANY LIMITED
INDEPENDENT REPORT

GRANT SAMUEL

JULY 2021

GRANT SAMUEL

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GRANT SAMUEL

GLOSSARY

TERM	DEFINITION
DCF	Discounted cash flow
Companies Act	Companies Act 1993
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EV	Enterprise value
Fee Floor	The minimum processing fee that the Shareholding Customers are obligated to pay to Refining NZ in a calendar year
GRM	Gross Refining Margin
Grant Samuel	Grant Samuel and Associates Limited
Import Terminal	The proposed option which involves Refining NZ receiving finished fuel products, storing products in tanks at Marsden Point, and distributing products to the Auckland and Northland markets
Non-Customer Shareholders	Shareholders other than bp Oil New Zealand Limited, Mobil Oil New Zealand Limited and Z Energy Limited (and their related entities)
NZX	New Zealand Stock Exchange
Refining NZ	The New Zealand Refining Company Limited
Shareholding Customers	bp Oil New Zealand Limited, Mobil Oil New Zealand Limited and Z Energy Limited (and their related entities)
Simplified Refinery	The status quo option that involves continued refining operations at Marsden Point
YTD	Year-to-date

1 Executive Summary

1.1 Introduction

On 15 April 2020 The New Zealand Refining Company Limited (**Refining NZ** or the **Company**) announced that it had commenced a strategic review to determine the optimal business model and capital structure for its assets. The strategic review was initiated in the context of:

- Refining NZ having been unable to consistently earn an economic return on its invested capital over an extended period;
- the Marsden Point Refinery being a relatively small-scale and high cost operation. A significant increase in much larger and more efficient refinery capacity being commissioned in Asia is also expected to constrain a medium-term recovery in refining margins and therefore profitability;
- the unprecedented effects of COVID-19 on product demand amplifying this structural cost competitiveness challenge;
- Refining NZ having a significant investment in infrastructure assets critical to the New Zealand fuel supply chain, alongside a refinery able to provide critical skills and capabilities as the economy transitions to a low carbon future.

The strategic review resulted in two potential options for the future of the Marsden Point Site. These options are set out below and are what Refining NZ's shareholders are being asked to vote on:

- ***Simplified Refinery Operations:*** This is the status quo option and involves continued refining operations at Marsden Point (**Simplified Refinery**). Refining NZ's largest shareholders currently have arrangements with the Company to have their crude oil products refined at Marsden Point. These shareholders are Mobil Oil New Zealand Limited (**Mobil**), Z Energy Limited (**Z Energy**) and bp New Zealand Holdings Limited (**bp**), together, they and their related entities are Refining NZ's **Shareholding Customers**.
- ***Transition to an Import Terminal:*** This would see the Marsden Point Refinery cease refining operations and instead operate as an end-to-end import terminal. Terminal operations would include receiving finished fuel products, storing products in tanks at Marsden Point, and distributing products to the Auckland and Northland markets (**Import Terminal**). As at the time of writing Refining NZ has entered into non-binding in-principle arrangements with Z Energy and bp, to provide Import Terminal services at Marsden Point. Negotiations with Mobil are ongoing.

In order for the transition to an Import Terminal to proceed, approval must be obtained from shareholders other than Mobil, Z Energy and bp (the **Non-Customer Shareholders**) by way of an ordinary resolution. Further, approval must be obtained from all shareholders by way of a special resolution for the proposal as a major transaction and the resulting change in the nature of Refining NZ's business.

The Independent Directors of Refining NZ have appointed Grant Samuel & Associates Limited (**Grant Samuel**) to prepare an Independent Appraisal Report (the **Report**) to be sent to the Non-Customer Shareholders of Refining NZ together with the Notice of Meeting as required under the NZX Listing Rules. The purpose of the Report is to assist the Non-Customer Shareholders in appraising whether the proposed transition to an Import Terminal is fair and assist them in evaluating the implications of the proposed transition.

If the proposed transition to an Import Terminal is approved and the other conditions identified in the Notice of Meeting are satisfied, refining operations at Marsden Point will cease and import terminal operations would commence by mid-2022. If the proposed transition is not approved it is expected that the transition to an Import Terminal will necessarily occur by around 2035, at which point national petrol demand is forecast to have fallen below Refining NZ's viable production level.

1.2 Key Considerations

In Grant Samuel's opinion maintaining the Simplified Refinery until 2035 would be a sub-optimal outcome for Refining NZ and its shareholders. On the basis of the non-binding in-principle terms which have been agreed with bp and Z Energy Grant Samuel believes the transition to an Import Terminal is fair to the Non-Customer Shareholders of Refining NZ. This opinion reflects the following key considerations:

1.2.1 Transitioning to an Import Terminal is likely to be value accretive to Refining NZ's shareholders.

Grant Samuel has compared the estimated value outcomes of operating as a Simplified Refinery and Import Terminal under a range of scenarios. The analysis focuses on the relative value of the Simplified Refinery and Import Terminal. The analysis indicates that if Refining NZ's Gross Refining Margin (**GRM**) does not improve to levels that are materially higher than long-term historical averages then Refining NZ's Non-Customer Shareholders would be better off if Marsden Point operated as an Import Terminal.

If the GRM was to improve materially then transitioning to an Import Terminal would remove Refining NZ's ability to benefit from this change. This benefit is limited by an expectation it will be necessary to transition to an Import Terminal by around 2035, when the level of national petrol demand is forecast to have fallen below Refining NZ's viable production level. Given the current refining industry outlook and historical GRM volatility, Grant Samuel placed a greater weighting on the valuation outcomes of the GRM curves that are more aligned with historical averages. These curves result in less favourable valuation outcomes for the Simplified Refinery compared with the Import Terminal.

1.2.2 Transitioning to an Import Terminal should transform Refining NZ from a complex business with volatile earnings to a more stable infrastructure investment.

The Import Terminal is a relatively simple business model that leverages Refining NZ's highly strategic and critical infrastructure, including the Refinery to Auckland pipeline (**RAP**). If the transition occurs, the Import Terminal would primarily supply the Northland and Auckland markets, comprising approximately 40% of New Zealand fuel demand. Operating Marsden Point as an Import Terminal will likely result in less volatility in earnings than if it continued to be operated as a Simplified Refinery. This is primarily a result of the removal of exposure to the GRM as a Simplified Refinery, and the introduction of a fixed and variable fee structure (and initial take-or-pay commitments) which would incentivise the Shareholding Customers to maximise the utilisation of the Import Terminal. More stable earnings will enable Refining NZ to pay more consistent dividends. Refining NZ currently expects to resume dividends within 1-2 years of Import Terminal operations commencing, which is approximately three years earlier than currently expected under the Simplified Refinery.

The Import Terminal will likely be assessed as an infrastructure asset. This may attract a wider pool of investors and consequently improve the liquidity of Refining NZ shares.

1.2.3 Transitioning to an Import Terminal is likely to enable Refining NZ to improve its capital structure.

Operating as a Simplified Refinery with the GRM below US$4.40 (the Fee Floor equivalent margin) has meant that Refining NZ is cash breakeven only. Refining NZ's banking syndicate may seek a significant reduction in debt or may not continue to offer the current level of funding support should Marsden Point continue to operate as a Simplified Refinery and the GRM does not materially improve. This is because Refining NZ's ability to repay debt would be limited. In these circumstances, the current shareholders may be called upon to contribute equity to the Company. The conversion to an Import Terminal is forecast to improve cash flow and therefore the Company will be better

able meet its borrowing obligations. Over the longer term operating an Import Terminal may lead to improved financing terms for Refining NZ and it will be well positioned to achieve a shadow investment grade credit rating if its forecasts are achieved.

1.2.4 Transitioning to an Import Terminal is likely to resolve the disputes between Refining NZ and its Shareholding Customers.

Refining NZ has received contractual dispute notices from each of its three Shareholding Customers in relation to the steps it took to simplify the refinery. Transitioning Marsden Point to an Import Terminal is likely to resolve these disputes while continuing as a Simplified Refinery is likely to cause these disputes to become active again. The outcome of such disputes cannot be known but any process would likely be lengthy, costly and distract management from the day-to-day operations of Refining NZ.

1.2.5 An Import Terminal will have lower carbon emissions and reduced energy consumption.

Refining NZ is currently one of New Zealand's largest carbon emitters. The transition to an Import Terminal is expected to result in Refining NZ's carbon emissions reducing by 98% or over 1 million tonnes of CO_2 compared with the Simplified Refinery. Refining NZ is one the larger users of electricity in the New Zealand, accounting for just under 1% of the national load at approximately 290 GWh p.a. Refining NZ expects that converting to an Import Terminal would result in its electricity consumption falling by approximately 85% compared with operating the Simplified Refinery.

1.2.6 An Import Terminal allows for new business opportunities to be pursued.

The transition to an Import Terminal presents Refining NZ with a range of opportunities in the future, which under a Simplified Refinery it would be unable or restricted in its ability to pursue. Converting to an Import Terminal would result in approximately 80% of existing tank capacity and approximately 65% of usable land at Marsden Point being surplus to the Import Terminal's requirements. Shareholding Customers are already seeking private storage arrangements at Marsden Point which may involve up to 100 million litres of additional storage capacity. The additional value that these business opportunities may generate has not been quantified in this Report but are expected to be value accretive.

1.2.7 Due to a forecast decline in fuel demand it is unlikely that Refining NZ will be able to continue to operate as a refinery indefinitely.

If the Import Terminal conversion is not implemented, Refining NZ will continue to operate as a simplified toll refinery and pipeline operator, under the processing agreements that are currently in place. Refining NZ does not expect to be able to continue refining operations indefinitely, with the refinery expected to be required to convert to an import terminal at some point in the future, due to declining New Zealand petrol demand. If the Simplified Refinery is maintained and the transition to an Import Terminal occurs at a later date then new arrangements would need to be negotiated with the Shareholding Customers at that time. There is a risk that such arrangements may not be as favourable as the in-principle terms currently agreed, especially if global refining market conditions do not materially improve.

1.3 Other Matters

This is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary. A detailed assessment of the fairness of the proposed transition to an Import Terminal is outlined in section 8 of this report. Grant Samuel's opinion is to be considered as a whole. Selecting portions of the analyses or factors considered by it, without considering all the factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

GRANT SAMUEL & ASSOCIATES LIMITED

July 2021

2 Background to the Report

2.1 Background to the proposed transition to an Import Terminal

The New Zealand Refining Company Limited (**Refining NZ** or the **Company**) was established in 1961 and operates the Marsden Point Refinery – New Zealand's sole oil refinery. In 1964 the Marsden Point Refinery was commissioned and began operating as a toll refiner. As a toll refiner Refining NZ is paid a processing fee for its services and does not take any ownership of the crude oil it processes or the refined products it produces. Refining NZ also owns the Refinery to Auckland pipeline (**RAP**) which distributes refined products to the large Auckland market.

Refining NZ's three largest shareholders are, or are related companies of, its three customers:

- Mobil Oil New Zealand Limited (**Mobil**), which has a 17.2% shareholding;
- Z Energy Limited (**Z Energy**), which has a 15.3% shareholding; and
- bp New Zealand Holdings Limited (**bp**), which has a 10.1% shareholding.

Together, Mobil, Z Energy and bp (and their related entities) are Refining NZ's **Shareholding Customers**.

On 15 April 2020 Refining NZ announced it had commenced a strategic review to determine the optimal business model and capital structure for its assets in order to maximise returns to shareholders while continuing to deliver secure, competitive fuel supply to New Zealand. The strategic review was initiated in the context of:

- Refining NZ being unable to consistently earn an economic return on its invested capital over an extended period;
- the Marsden Point Refinery being a relatively small-scale and high cost operation. A significant increase in much larger and more efficient refinery capacity being commissioned in Asia is also expected to constrain a medium-term recovery in refining margins and therefore profitability;
- the unprecedented effects of COVID-19 on product demand amplifying this structural cost competitiveness challenge;
- Refining NZ having a significant investment in infrastructure assets critical to the New Zealand fuel supply chain, alongside a refinery able to provide critical skills and capabilities as the economy transitions to a low carbon future.

The strategic review assessed alternative long-term operating models for the Marsden Point Refinery. The two options that resulted from the review were to simplify existing refinery operations and in parallel explore with customers the potential to transition to an import terminal model:

- ***Simplified Refinery Operations:*** This is the status quo option and involves continuing refining operations at Marsden Point (**Simplified Refinery**). This currently means Refining NZ is:
  - incurring the lowest cost of delivery of its processing agreement obligations with its Shareholding Customers;
  - targeting cash neutral operations at the Fee Floor (being the minimum processing fee that the Shareholding Customers are obligated to pay to Refining NZ in a calendar year);
  - continuing to have its profitability largely determined by externally determined refining margins, with the potential for improving profitability if the refining margins increase; and
  - reliant on a near-term, significant and sustained recovery in refining margins to maintain lender support through future refinancing and ultimately deliver value to shareholders.

This option also provides Refining NZ with the flexibility to convert to an import terminal at a future date, subject to agreeing new arrangements with customers at that time and Refining NZ's ability to fund conversion costs.

It should be noted that the current Simplified Refinery arrangements have resulted in disputes between Refining NZ and the Shareholding Customers – refer section 6.3.

- ***Transition to an Import Terminal:*** Since mid-2020 Refining NZ has been assessing the opportunity to transition to an import terminal. This would see the Marsden Point Refinery:
  - cease refining operations by mid-2022; and
  - thereafter operate as an end-to-end import terminal receiving imported fuel products, storing products in tanks at Marsden Point, and distributing products primarily to the Auckland and Northland markets (Import Terminal).

As part of this assessment Refining NZ has been negotiating with its Shareholding Customers regarding the commercial terms for providing Import Terminal services. Non-binding in principle agreement on key terms including price has been reached with bp and Z Energy. Negotiations with Mobil are ongoing.

The choice for Refining NZ's shareholders is between the Company continuing to operate as a Simplified Refinery or transitioning to an Import Terminal. In order for the transition to an Import Terminal to proceed, approval must be obtained from shareholders other than Mobil, Z Energy and bp (the **Non-Customer Shareholders**) by way of an ordinary resolution. Further, approval must be obtained from all shareholders by way of a special resolution for the proposal as a major transaction and resulting change in the nature of Refining NZ's business.

If Refining NZ's Non-Customer Shareholders choose to maintain the Simplified Refinery at this time then the transition to an Import Terminal would necessarily occur by around 2035, when the level of national petrol demand is expected to have fallen below Refining NZ's viable production level. On this basis this report assesses the merits of converting to an Import Terminal in 2022, or maintaining the Simplified Refinery and transitioning to an Import Terminal from 2036.

3 Scope of the Report

3.1 Purpose of the Report

The Independent Directors of Refining NZ have appointed Grant Samuel & Associates Limited (**Grant Samuel**) to prepare an Independent Appraisal Report (the **Report**) to be sent to the Non-Customer Shareholders of Refining NZ together with the Notice of Meeting as required under the NZX Listing Rules. The purpose of the Report is to assist the Non-Customer Shareholders in appraising whether the proposed transition to an Import Terminal is fair and assist them in evaluating the implications of the proposed transition. Shareholder approval of the proposed transition is governed by the NZX Listing Rules and Companies Act 1993 (**Companies Act**).

This Report will accompany the Notice of Meeting and Explanatory Booklet and will be sent to all Refining NZ shareholders. This Report is for the benefit of the Non-Customer Shareholders of Refining NZ. The Report should not be used for any purpose other than as an expression of Grant Samuel's opinion as to the fairness of the proposed transition to an Import Terminal. This Report should be read in conjunction with the Qualifications, Declarations and Consents outlined in Appendix A.

This Report has been prepared without taking into account the objectives, financial situation or needs of individual Refining NZ Non-Customer Shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Notice of Meeting and Explanatory Booklet issued by Refining NZ in relation to the proposed transition to an Import Terminal.

Voting for or against the proposed transition to an Import Terminal is a matter for individual shareholders based on their views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the proposed transition to an Import Terminal should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in Refining NZ. These are investment decisions upon which Grant Samuel does not offer an opinion and are independent of a decision on whether to vote for or against the proposed transition. Shareholders should consult their own professional adviser in this regard.

3.2 Shareholder Approval and Requirements of the NZX Listing Rules

The provision of terminal services to Shareholding Customers and the arrangements for transitioning from the existing processing agreements are material transactions for the purposes of NZX Listing Rule 5.2.1, Transactions with Related Parties. Listing Rule 5.2.1 prohibits an issuer from entering into a material transaction if a related party is, or is likely to become a direct party to the material transaction, or a beneficiary of a guarantee or other transaction which is a material transaction, unless that material transaction is approved by an ordinary resolution or is conditional on such approval. The Shareholding Customers are related parties of Refining NZ through their respective shareholdings in the Company.

Listing Rule 6.3.1 prohibits related parties from voting in favour of the resolution under Listing Rule 5.2.1, meaning that an ordinary resolution would require the approval of Refining NZ's Non-Customer Shareholders. An ordinary resolution requires a simple majority of votes of the Non-Customer Shareholders that vote on the resolution.

A material transaction for the purposes of the NZX Listing Rules includes a transaction or related series of transactions where an issuer acquires or disposes of assets with an aggregate net value above 10% of the issuer's average market capitalisation and transactions where an issuer provides or obtains services where the gross cost to the issuer in any financial year is likely to exceed an amount equal to 1% of the issuer's average market capitalisation. Under the proposed transition to an Import Terminal, Refining NZ would be:

- in relation to the services provided, the gross cost to Refining NZ in any financial year will exceed an amount equal to 1% of Refining NZ's average market capitalisation;
- in relation to the rights acquired by Refining NZ under the documents for the provision of terminal services, the market value of those rights will exceed 10% of Refining NZ's average market capitalisation; and
- the transitional arrangements from the processing agreements will or are likely to constitute a material variation to existing material transactions (i.e. the processing agreements).

In this Report, a reference to the proposed transition to an Import Terminal includes the provision of terminal services to Shareholding Customers and the transitional arrangements from the existing processing agreements.

This Independent Appraisal Report is a requirement under the NZX Listing rules to assist the Non-Customer Shareholders in evaluating whether the proposed transition to an Import Terminal is fair in relation to Listing Rule 5.2.1.

The term "fair" has no legal definition in New Zealand either in the NZX Listing Rules or in any other statutes dealing with securities or commercial law. Grant Samuel has assessed the fairness of the proposal to transition to an Import Terminal based on a consideration of quantitative and qualitative factors including the factors set out at section 3.3 below.

In accordance with NZX Listing Rule 7.10.2, Grant Samuel states that:

- this Report has been prepared for the benefit of the Non-Customer Shareholders;
- **the terms and conditions of the proposed transition to an Import Terminal are fair to the Non-Customer Shareholders.** The grounds for this opinion are set out in this Report;
- the information to be provided by Refining NZ is considered sufficient to enable the Non-Customer Shareholders to make an informed decision in respect of the proposed transition to an Import Terminal. The main source of information is the Notice of Meeting, Explanatory Booklet and this Report;
- all the information needed for the purposes of preparing this Report has been provided; and
- the material assumptions on which this opinion has been based are clearly set out in the body of this Report.

Approval for the proposed transition to an Import Terminal also needs to be obtained from Refining NZ's shareholders under NZX Listing Rule 5.1.1 and section 129 of the Companies Act. Section 129 of the Companies Act requires shareholders to approve any transaction, by way of special resolution, that is likely to have the effect of Refining NZ disposing of assets, or acquiring rights or incurring obligations or liabilities the market value of which is more than half the market value of Refining NZ's gross assets before the transaction. Further, Listing Rule 5.1.1 provides that Refining NZ, as a listed issuer, must not enter into any transaction or a series of related transactions that would significantly change the nature of its business or if the gross value of the transaction would exceed 50% of the issuer's average market capitalisation unless approval is obtained from Refining NZ's shareholders by way of a special resolution. Approval requires not less than 75% of the votes cast by shareholders entitled to vote and voting. All shareholders are entitled to vote on this resolution.

The Shareholder Meeting to consider the proposed transition to an Import Terminal is scheduled for 6th August 2021, and if the proposed transition is approved and the other conditions identified in the Notice of Meeting are satisfied, import terminal operations are expected to commence by mid-2022.

3.3 Basis of Evaluation

Grant Samuel has evaluated the proposed transition to an Import Terminal by reviewing the following factors:

- the current trading conditions and outlook for Refining NZ operating under its processing agreements with the Shareholding Customers, having specific regard to the timing and circumstances surrounding the proposed transition (notably including near-term profitability and the outlook for refining margins);
- the financial impact of the proposed transition including a historical and forecast comparison resulting from a change in business model (notably including relative earnings stability and tax implications);
- the impact of the proposed transition on capital structure, funding requirements and cost of capital;
- the potential impact of the proposed transition on future dividend payments and growth opportunities;
- the value implications arising from the implementation of the proposed transition; and
- evaluating advantages and disadvantages for Refining NZ's Non-Customer Shareholders in relation to the proposed transition to an Import Terminal compared with the Simplified Refinery business model.

Grant Samuel's opinion is to be considered as a whole. Selecting portions of the analyses or factors considered by it, without considering all the factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

4 International Refining Industry

4.1 Background to the Refining Industry

Oil refining is the process of transforming crude oil into petroleum products such as diesel, gasoline, jet fuel and heating oils.

For refiners a critical measure of refinery profitability is the refining margin. A refining margin is the difference in value of petroleum products produced by the refinery and the value of the crude oil processed by the refinery. Gross refining margins are influenced by product supply and demand. Product demand is influenced by growth in economic activity, geopolitical factors and more recently the COVID-19 pandemic. Product supply is impacted by the amount of refining capacity available to convert crude oil to final products. Refining NZ's refining margin is a key factor for the Marsden Point refinery and is discussed at section 5.2 of this report.

Economies of scale provide a key competitive advantage in refining, with larger refineries having lower unit costs of production. Economies of scale arise from increased capacity as well as lower capital and labour costs per unit of production. New refineries also benefit from the latest technology by being more energy efficient and having lower maintenance costs. The relatively small Australasian refineries offer limited economies of scale benefits and increasing the capacity of these refineries can be too costly compared to the investment required to develop refineries in parts of Asia. The taxation and investment regimes applying in some parts of Asia are also highly attractive for new facility construction and for substantial refinery upgrades.

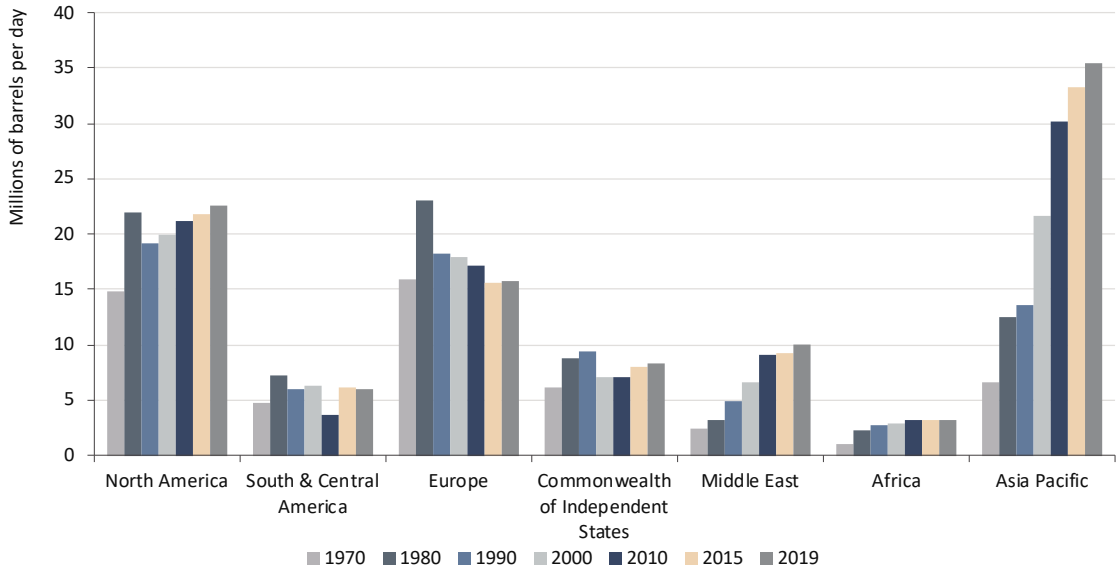
4.2 Current Trends

The current trends within the global refining industry include:

- increases in regional capacity, especially in Asia where mega-refineries have come online and more are currently in development. This increased capacity is outpacing demand and putting pressure on smaller and older refineries and may result in longer term capacity rationalisation;
- the adoption of electric vehicles and alternative fuel sources (e.g. renewable fuels or biofuels) is expected to impact the demand for refined oil products;
- smaller, independent refineries (outside of China) are likely to face pressure to close down or change their operations. This group comprises refineries in countries including Australia, Indonesia, Japan, the Philippines, Malaysia and Thailand;
- petrochemical integrated export refineries are relatively efficient while national oil companies are often supported by central governments and are less likely to close down;
- COVID-19 and the volatility of refining margins has resulted in delays in some new refinery projects; and
- an imbalance between the supply and demand for refined products caused by new refineries coming online and demand falling due to COVID-19.

The following graph shows the trend in world refining capacity between 1970 and 2019:

WORLD REFINING CAPACITY (1970-2019)[1]



Source: BP Statistical Review of World Energy.

The Asia Pacific region has seen the largest increase in refining capacity since the 1970s, with China having become a major refining hub. Between 2010 and 2015 China added on average approximately 1 million barrels per day (**mb/d**) of refining capacity. By contrast, between 2008 and 2018 approximately 4 mb/d of older refining capacity ceased in North America, Europe, Japan and Australia.[2] This is indicative of the progressive shift away from numerous smaller, older refineries to there being a lesser number of modern refineries operating at scale. The International Energy Agency (**IEA**) commented:[3]

> *"Currently, the global sector is struggling with excess capacity. The Covid-19 demand shock, large scale expansions and expectations of a long-term structural decline in demand are creating an overhang that can only be eradicated through massive closures. A third wave of worldwide refinery rationalisation is currently underway. Global shutdowns of 3.6 mb/d have already been announced, but a total of at least 6 mb/d will be required to allow utilisation rates to return to above 80%.*
>
> *Operations east of Suez are expected to account for all the growth in refining activity to 2026 from 2019 levels. As a result, Asian crude oil imports are projected to surge to nearly 27 mb/d by 2026, requiring record levels of both Middle Eastern crude oil exports and Atlantic Basin production to fill the gap. The centre of gravity for refined products trade is also set to shift to Asia, resulting in the region's oil import dependence rising by 82% by 2026"*

In 2019 refining capacity grew by 1.5 mb/d, the largest increase since 2009. Growth was driven by additional output from China (540,000 barrels per day) the Middle East (310,000 barrels per day) and the US (210,000 barrels per day). Globally there was also a record low number of refinery closures. However, global refinery utilisation fell sharply, dropping by 1.2 percentage points to 85%, the largest decline since 2009.[4]

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1 The Commonwealth of Independent States comprises Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan and Uzbekistan.

2 Australian Institute of Petroleum, Downstream Petroleum Report, 2019.

3 International Energy Agency, Analysis and Forecast to 2026.

4 BP Statistical Review of World Energy (2020).

COVID-19 has compounded difficulties already faced by the refining industry. Facts Global Energy (**FGE**), an energy market consultant commented in August 2020:[5]

> *"The COVID-19 crisis remains the biggest challenge ever for refiners. This, together with the ramping up of recently commissioned refineries, has dragged down refining margins to unprecedented low levels. We see margins staying relatively weak in 2020-2021."*

As countries eased their initial COVID-19 lockdown measures product demand picked up. However, a full recovery requires significant COVID-19 vaccination coverage and the recovery of economic activity globally. Aviation fuel demand is not expected to return to 2019 levels until 2023 at the earliest. Refining margins are expected to remain at low levels as a result of this excess refining capacity through to 2025 and possibly beyond.

4.3 Australian Experience

The Australian refining industry is a useful comparison for Refining NZ. Over the past decade it has faced significant restructuring with operators required to make decisions that are comparable to the decisions currently facing Refining NZ and its shareholders. Like Refining NZ, the Australian refining industry has faced ongoing challenges and is heavily influenced by the supply and demand in the Asian refining industry.

Australia has three refineries currently operating in Altona, Lytton and Geelong. These refineries were constructed in the 1950s and 1960s and like the Marsden Point Refinery have been extensively upgraded since commissioning. In a global context these refineries are relatively small and do not offer the economies of scale of the Asia mega-refineries.

Some Australian refinery operations have transitioned to an import terminal model such as the Clyde oil refinery, in New South Wales which converted in 2012. Operating as a refinery was no longer viable because Clyde was a small refinery that was not regionally competitive, it did not generate sufficient cash flow to justify further investment or the ongoing risk profile, and alternative cheaper product could be sourced from Asia.

Over the past decade other Australian refineries have been shut down or repurposed. These include:

- the closure of the Point Stanvac refinery in Adelaide in 2003 by Mobil;
- the closure of the Kurnell refinery in Sydney in 2014 by Caltex; and
- the closure of the Bulwer Island refinery in Brisbane in 2015 by bp.

Further change is underway in the Australian refining industry. Ongoing pressures have forced refiners to re-evaluate their operating models. bp Australia announced in October 2020 that its Kwinana refinery would cease refining operations and convert to an import terminal, and in February 2021 Mobil announced the conversion of its Altona refinery to an import terminal.

In May 2021 the Australian Government announced its decision to pay up to AU$2.3 billion to ensure Australia's last remaining refineries in Geelong and Lytton are upgraded to ensure cleaner fuel supply and continued operation for at least 10 years.[6] Following this decision, the Lytton refinery, which had been undergoing a strategic review, decided it would remain open with this support. The Geelong oil refinery had considered a possible shutdown due to extreme pressures on the refinery which had been worsened by Victoria's lockdown restrictions. It has also decided to remain open on the basis of receiving Government support.

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5 Facts Global Energy, August 2020.

6 Australian Financial Review, 16 May 2021.

4.4 Refining NZ Relative Size and Efficiency

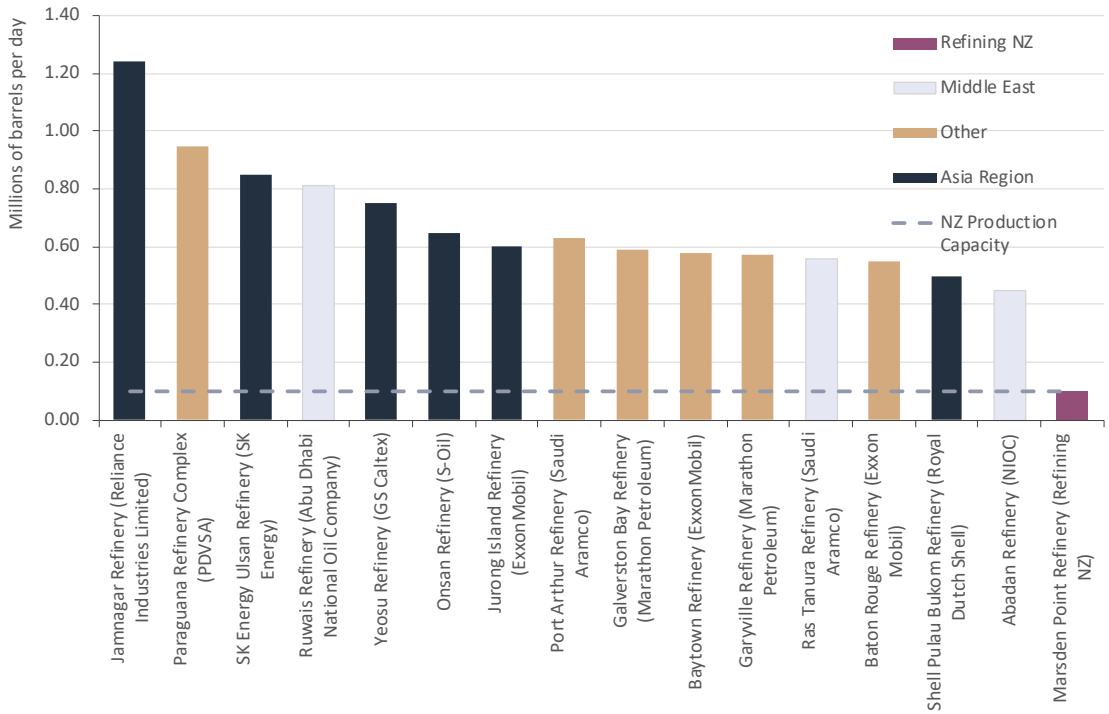
Refining NZ is New Zealand's only oil refinery and has played an important role in New Zealand's fuel security since it began operating. The refinery itself currently produces approximately 60% of New Zealand's transport fuels, with the remaining 40% imported by Refining NZ's Shareholding Customers, Pacific Petroleum and Gull New Zealand primarily from large Asian refineries. These other refineries are significantly larger than the Marsden Point Refinery and most are in the top 15 refineries (by size) globally. The newer, more technologically advanced refineries are able to achieve significantly lower per litre operating costs and are therefore generally more competitive. Many of these other refineries are also co-located with petrochemical facilities, which enables more products to be produced on site allowing for further value generation and efficiency from production streams.

The Marsden Point Refinery is older, smaller and less energy efficient than more modern refineries in the Asia Pacific region, which typically have improved energy integration across their sites. Energy efficiency is crucial to maximising profitability as energy is one of the refinery's largest operating costs. In addition, New Zealand has relatively high coastal shipping, labour and energy costs. The high coastal shipping cost limits Refining NZ's competitiveness outside of Auckland and Northland. Over the past 10 years Refining NZ's labour and energy costs have increased significantly and made it difficult for Refining NZ to remain competitive with overseas refineries and import options available.

Recently electricity and gas costs have escalated significantly in New Zealand. Since the start of 2021 the average spot electricity price has been three and a half times the average over the last 5 years. Future reductions are dependent on hydro-generation and the closure of Tiwai Point.

The graph below shows the relative capacity of the Marsden Point Refinery when compared to the largest oil refineries in the world. The graph shows that the Marsden Point Refinery is significantly smaller in terms of intake.

LARGEST OIL REFINERIES WORLDWIDE COMPARED WITH MARSDEN POINT REFINERY (BARRELS/DAY CAPACITY)



Source: Refining NZ

5 Overview of Refining NZ

5.1 History

The New Zealand Refining Company Limited (**Refining NZ**) was formed in 1961 to establish an oil refinery at Marsden Point. Shell and the New Zealand government carried out the initial establishment work, with bp, Caltex, Europa and Mobil joining soon after. The Company was listed on the New Zealand Stock Exchange in 1962 and refining operations began in 1964. Following the oil shocks of the 1970s the New Zealand Government actively promoted projects to reduce the country's reliance on imported energy, one of which was the expansion of the refinery. The expansion commenced in 1981 and was completed in 1986 at a cost of approximately $1.8 billion. The RAP was completed as part of the expansion in 1985. The RAP is a ~170 kilometre underground pipeline that distributes diesel, petrol and jet fuel from the Marsden Point Refinery to the Wiri Terminal in South Auckland.

The refinery was deregulated in May 1988. This meant the Shareholding Customers could acquire fuel products by either:

- importing refined products into New Zealand directly; or
- continuing to import crude oil into New Zealand and refine it at the Marsden Point Refinery.

Prior to deregulation the refinery derived its income from a formula agreed each year with the Ministry of Energy. Essentially, the refinery's income was equal to its fixed operating costs plus a 12.5% return on shareholders' funds. From 1988 until 31 December 1994, various interim arrangements were applied while extensive negotiations between the refinery and the oil company customers took place.

On 1 January 1995 a new structure was implemented that moved the processing fee to a market-related import parity fee based on the GRM. A 70/30 spilt of the GRM was eventually accepted by all parties and a fee floor of NZ$80 million for 1995 (subject to PPI-based escalation) and a GRM cap of US$9/barrel was also introduced. The fee floor and margin cap effectively created a band within which the refining margin could fluctuate.

Since 2005 approximately $735 million has been invested on major projects to increase the refinery's capacity and capabilities, including:

- Future Fuels (2005) allowed the refinery to produce cleaner fuels, removing benzene from petrol and reducing the sulphur content of diesel;
- Point Forward (2009) increased the capacity of the refinery's principal Crude Distillation Unit (**CDU**); and
- Te Mahi Hou (2015) was a $365 million expansion project (excluding funding costs).[7] This increased petrol production by around two million barrels per annum, significantly improved energy efficiency, and reduced Refining NZ's CO_2 emissions by approximately 120,000 tonnes per annum.

Today, Refining NZ supplies the majority of New Zealand's jet fuel, diesel and petrol, and most of the fuel into the Auckland market via the RAP.

5.2 Current Arrangements with the Shareholding Customers

The current processing arrangements provide the Shareholding Customers with a right to the exclusive use of the capacity offered by the Marsden Point Refinery and the RAP. Refining NZ charges processing fees for converting the Shareholding Customers' crude oil into transport fuels on a tolling basis. Shareholding Customer crude oil and fuel products are held and refined on a co-mingled basis, meaning that crude oil is

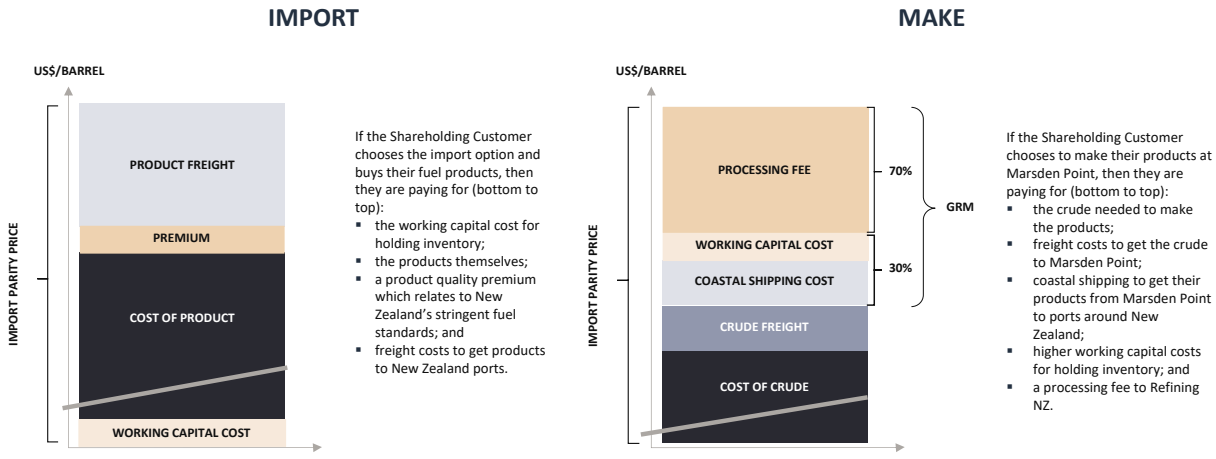
[7] With funding costs included Te Mahi Hou cost $425.5 million.

offloaded from ships and combined with other Shareholding Customers' crude oil in Refining NZ's tanks, and then refined into transport fuels and stored and distributed.

As a result of deregulation in the 1980s a fully market-based processing fee agreed between Refining NZ and its Shareholding Customers came into effect. This fee was based on the GRM which is the difference in value between the final refined products (including product freight), and the costs of materials to manufacture those products (such as crude and crude freight). It is essentially intended to reflect the value difference between importing refined products to a New Zealand port (i.e. Wellington) and the landed crude prices at the Marsden Point Refinery. The determination of GRM is complex and based on a number of factors including foreign exchange rates, Far East and Middle Eastern crude oil prices and refined product prices. It is the most critical (and sensitive) element to determining revenue and profitability of the refinery. GRM is expressed per barrel on a US dollar basis.

The current arrangements are based on a margin-sharing principle, with Refining NZ retaining 70% of the GRM as its Processing Fee income (in New Zealand dollars), while the remaining 30% is retained by the Shareholding Customers. The 70/30 split was chosen to reflect the costs and risks borne by the Company and its Shareholding Customers. The Shareholding Customers incur the holding cost of the large hydrocarbon inventory, are exposed to oil price and exchange rate volatilities, and the cost of coastal shipping to deliver the refined products to the regional ports where they compete with internationally refined products. Refining NZ carries the risk of maintaining operations and plant integrity to provide reliable supply to the New Zealand market.

As mentioned in section 5.1 the Shareholding Customers can choose to have refined products made at Marsden Point or to import refined products from overseas. The components of the import and make options are set out below:



Source: Refining NZ, Explanation of the Refining NZ Processing Fee.

The processing arrangements also contain a margin cap and fee floor mechanism. The margin cap and fee floor work as follows:

- ***Fee Floor.*** The Fee Floor provides the minimum amount that Refining NZ can earn from refining in a calendar year regardless of the level of GRM or the volume of crude oil processed for the Shareholding Customers (**Fee Floor**). If the year-to-date processing fee is below the year-to-date Fee Floor then the Shareholding Customers make a pro-rata Fee Floor payment to Refining NZ. If the Fee Floor is subsequently exceeded in the following months of the calendar year, then the excess of the floor amount paid by the Shareholding Customers is proportionately repaid to them. Originally, the Fee Floor was set in 1995 at NZ$80 million to reflect the cash costs of operating the refinery at that time and is

inflated each year with an agreed basket of Labour Cost and Producer Price Indices. In the 2021 calendar year the fee floor is approximately NZ$141 million.

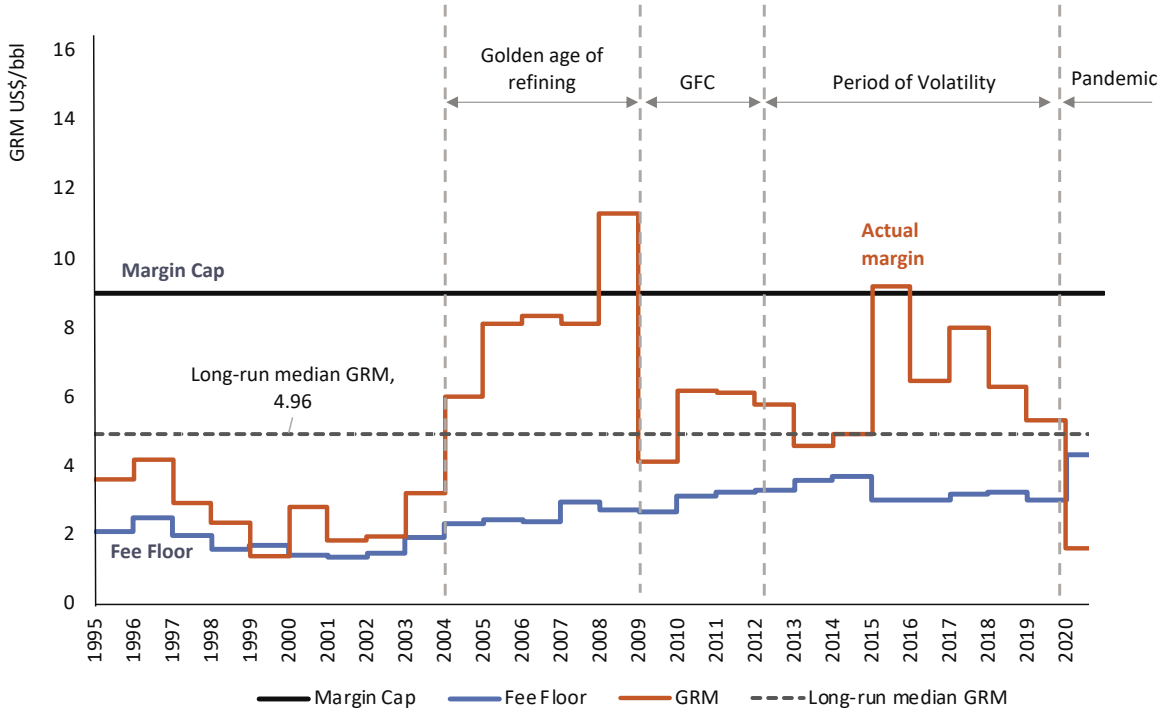
- ***Margin Cap.*** The margin cap provides a limit on the refining margin Refining NZ receives and is set at US$9 per barrel over the calendar year and on a per Shareholding Customer basis (**Margin Cap**). Where a Shareholding Customer's calculated GRM exceeds US$9/b for a calendar year, then that Shareholding Customer's processing fee will be calculated as though its GRM was US$9/b. This is calculated monthly throughout the year on a year-to-date basis, such that by year end a Shareholding Customer is not invoiced for any GRM in excess of US$9/b.

The Fee Floor and the Margin Cap limits are designed to provide protection to both Refining NZ and the Shareholding Customers from a particularly low or high GRM. The Fee Floor provides a guaranteed minimum income to Refining NZ during periods of low GRM. For the Shareholding Customers they obtain certainty that their processing fees will fall within a predictable range, with the margin cap providing a limit on the level of GRM paid to Refining NZ.

The processing arrangements have no expiry date and only the Shareholding Customers have an express right to terminate their processing agreement on one year's notice. No Shareholding Customer has given notice of termination. Since the current arrangements were put in place, they have been subject to periodic reviews. These arrangements have worked for an extensive period of time and reflect a sharing of the risk between Refining NZ and the Shareholding Customers.

The following graph sets out Refining NZ's historical GRM to December 2020, including Margin Cap, Fee Floor and long-run median GRM:

GRM LEVELS TO DECEMBER 2020



Source: Refining NZ

The introduction of the processing agreements with a Processing Fee fully derived from a calculated GRM in 1995 created greater risk and volatility in Refining NZ's income versus prior fee structures where only a portion of the fee was market related. Using a fully market-based measure has at different times benefitted

Refining NZ and its Shareholding Customers. It has been subject to large swings in fuel supply and demand and increasing refinery capacity in Asia.

The graph above highlights the volatility of GRM over time. Notably, the Fee Floor has been trending upwards as a result of the indexation mechanism, while the Margin Cap has remained at US$9 per barrel. The Fee Floor has increased over time by inflation only, while the Refinery's operating costs have risen not only due to inflation but also the increased capacity of the Refinery from expansion projects. As a result the Fee Floor did not cover all of Refining NZ's operating costs prior to simplification of refinery operations. Currently the GRM is below the Fee Floor – the only other time this occurred was in 1999. Over its history the GRM has been through several phases as follows:

- **Introduction of the 1995 Processing Agreements** – the GRM declined towards the new millennium as a result of increased global refinery capacity and weakening demand from Asia. By 2000 the world surplus of refined products was 18%. Post 2000 the GRM recovered, operating above the Fee Floor as refining capacity and consequently surplus refined product dropped.
- **Golden Age of Refining** – Between 2004 and 2009 the GRM continued to trend upwards, operating well above the Fee Floor as a result of global demand growth for refined product (mainly driven by China) and a shortfall in refining capacity. The GRM exceeded the Margin Cap for the first time at the end of this period. This is the highest point the GRM has ever reached.
- **Global Financial Crisis** – 2009 saw a sharp drop in the GRM initially following the GFC, with a partial rebound in 2010. The rebound was due to an increase in global demand for oil products, driven primarily by non-OECD countries. Asian refining margins returned to higher levels as a result of refining capacity reductions and refined production run cuts.
- **Period of volatility** – Following the impact of the GFC, more large overseas refineries came online, with margins being volatile during this period. The Margin Cap was exceeded again in 2015. From 2017, the GRM began to drop each year.
- **Pandemic** – the GRM dropped even further during this period to its second lowest level, being significantly below the Fee Floor. Demand for refined products dropped significantly resulting in part from travel restrictions due to the pandemic. The Shareholding Customers have had to make significant Fee Floor payments to Refining NZ.

5.3 Financial Performance

The financial performance of Refining NZ for the years ended 31 December 2016 to 2020 (**FY16-FY20**) is shown below:

REFINING NZ – FINANCIAL PERFORMANCE ($000)

YEAR END 31 DECEMBER	2016	2017	2018	2019	2020
Processing fees	276,590	327,446	258,873	241,970	141,601
Other refining related income	8,695	10,068	13,649	16,287	18,139
Refining revenue	**285,285**	**337,514**	**272,522**	**258,257**	**159,740**
RAP fees	36,788	39,372	44,088	36,400	29,283
Other operating income	6,525	6,525	6,525	6,598	11,750
Operating revenue	**43,313**	**45,897**	**50,613**	**42,998**	**41,033**
Other income	4,155	6,767	7,344	7,541	14,818
Total income	**332,753**	**390,178**	**330,479**	**308,796**	**215,591**
Purchase of process materials and utilities	(47,891)	(45,949)	(49,153)	(58,503)	(51,963)
Materials and contractor payments	(26,780)	(30,997)	(29,003)	(31,340)	(19,992)
Wages, salaries and benefits	(57,523)	(59,049)	(61,268)	(61,247)	(61,532)
Administration and other costs	(33,306)	(33,834)	(38,408)	(39,471)	(31,681)
Operating expenses	**(165,500)**	**(169,829)**	**(177,832)**	**(190,561)**	**(165,168)**
EBITDA	**167,253**	**220,349**	**152,647**	**118,235**	**50,423**
Depreciation and disposal costs	(87,233)	(96,146)	(97,075)	(99,931)	(87,218)
EBIT	**80,020**	**124,203**	**55,572**	**18,304**	**(36,795)**
Impairment of assets	-	-	-	-	(223,697)
Net finance costs	(15,526)	(13,747)	(13,800)	(13,445)	(10,920)
Income tax	(17,020)	(31,926)	(12,156)	(694)	73,133
Net (loss)/ profit	**47,474**	**78,530**	**29,616**	**4,165**	**(198,279)**

Source: Refining NZ – Annual Report

REFINING NZ – KEY FINANCIAL METRICS[8]

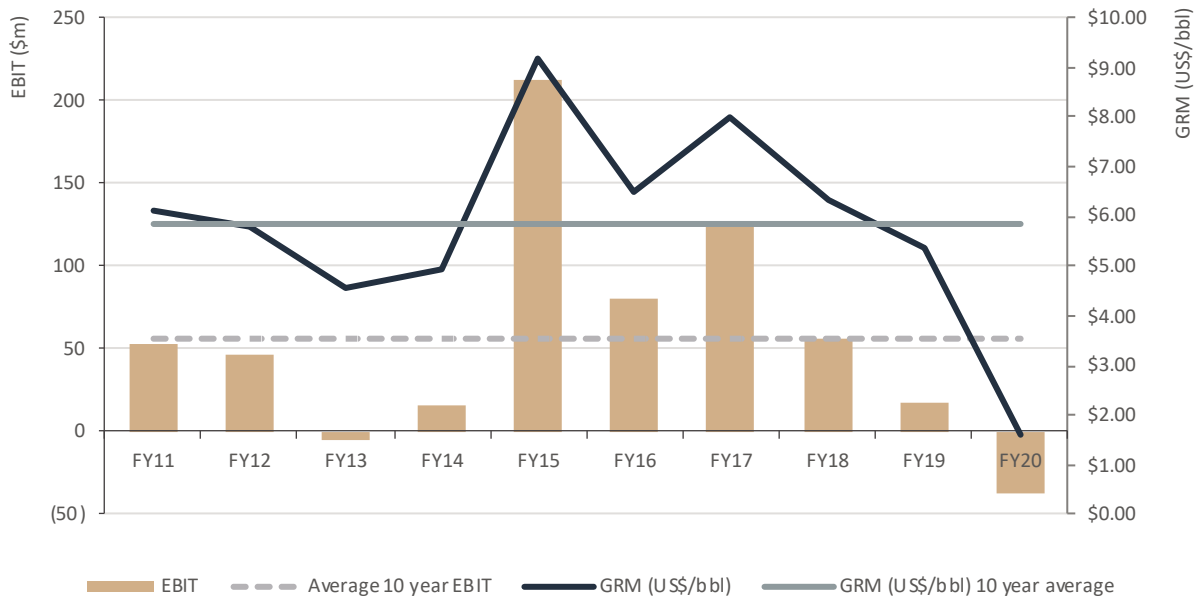
YEAR END 31 DECEMBER	2016	2017	2018	2019	2020
GRM (US$ barrel)	$6.47	$8.02	$6.31	$ 5.34	$1.63
GRM (NZ$ barrel)	$9.24	$11.30	$9.14	$8.09	$2.51
Barrels 000's	42,665	41,724	40,440	42,687	29,876
EBIT Margin %	24.0%	31.8%	16.8%	5.9%	(17.1%)
Exchange rate (NZ$/US$)	$0.70	$0.71	$0.69	$0.66	$0.65
RAP throughput (000s barrels)	20,147	19,828	21,015	20,828	14,713
RAP throughput (NZ$ per barrel)	$1.83	$1.99	$2.10	$1.75	$1.99

Source: Refining NZ – Annual Report

- Refining NZ's financial performance is volatile primarily due to movements in GRM and throughput. As shown in the graph below, over the last ten years Refining NZ's EBIT has only exceeded $100 million twice and it made a loss in FY13 and FY20 when the GRM fell materially below the long run average GRM. Refining NZ's average EBIT over the last ten years was $56.3 million.

[8] Metrics are Pre-Fee Floor adjustments.

HISTORICAL EBIT AND GRM



- Since FY17 Refining NZ has experienced sustained and substantial increases in its operating costs, including:
  - energy, which represented approximately 21% of operating expenses in FY19 and FY20. The average cost of $111/MWh[9] was approximately 50% higher than the cost in FY17;
  - wage increases; and
  - regulatory costs, including health and safety.
- Refining NZ purchases natural gas and passes this cost directly on to the Shareholding Customers. Over the last five years the revenue received has matched the cost. The financial performance above has been adjusted to remove both the revenue and cost. Gas is treated as a feedstock and is included in the calculation of GRM.
- As noted in section 2.1, in response to an unprecedented decline in fuel demand due to the travel restrictions resulting from the COVID-19 pandemic, Refining NZ moved quickly to reset its cost base. The steps taken included a reduction of approximately $80 million in FY20 planned expenditure, to keep expenditure and capital investment low and enable the Company to operate on a cash neutral basis. In FY20 operating costs decreased by approximately $35 million, with savings achieved in electricity, process material, labour and other costs through changes in operations and by stopping all non-essential activity. Capital expenditure was reduced by approximately $45 million following changes to asset management strategies.
- In FY20 the GRM declined to the second lowest point in 25 years and throughputs at the refinery and the RAP were approximately 30% lower than the prior year as result of COVID-19 travel restrictions. Gasoline and diesel demand largely recovered through the year to pre-COVID-19 levels. Demand for jet fuel did not recover and remained at 30% to 40% of the average 2019 RAP throughput.
- The decline in the GRM and throughput resulted in a $93 million revenue decline in FY20. Fee Floor payments from customers totalling approximately $90 million provided significant protection for Refining NZ. FY20 was only the second time the Fee Floor has come into effect for a full year in the 25 years since the processing

[9] Excluding transmission and interconnection fees and levies.

agreements commenced. The Fee Floor payments increased the effective GRM from US$1.63 to US$4.40 per barrel during FY20.

5.4 Financial Position

The financial position of Refining NZ on a consolidated basis as at 31 December 2019 and 2020 is set out below.

REFINING NZ – FINANCIAL POSITION ($000)

AS AT	31 DECEMBER 2019	31 DECEMBER 2020
Trade and other receivables	17,482	25,101
Derivative financial instruments	629	8,412
Income tax receivable	5,895	677
Inventories	3,340	4,431
Total current assets	**27,346**	**38,621**
Trade and other payables	(33,814)	(23,472)
Employee benefits	(7,861)	(11,269)
Current liabilities	**(41,675)**	**(34,741)**
Working capital	**(14,329)**	**3,880**
Inventories	19,410	14,176
Property, plant and equipment	1,171,301	887,134
Lease liabilities	574	(807)
Intangibles	22,137	9,968
Deferred Income	(9,623)	(3,487)
Deferred tax liability	(132,811)	(62,017)
Derivative financial instruments	(5,017)	(974)
Employee benefits	(6,029)	(4,901)
Provisions	(12,643)	(7,802)
Employee Pension Scheme	(34,865)	(39,918)
Net operating assets	**998,105**	**795,252**
Cash and cash equivalents	5,255	43,289
Borrowings	(246,616)	(274,611)
Net debt	**(241,361)**	**(231,322)**
Net assets	**756,744**	**563,930**
Net Debt/EBITDA	2.0x	4.6x
Net Debt/Equity	0.3x	0.4x

Source: Refining NZ – Annual Report

- Refining NZ increased and extended its bank facilities in FY20 from $275 to $325 million. As at 31 December 2020 Refining NZ had liquidity headroom with cash and undrawn debt facilities of approximately $80 million, excluding facilities maturing in the next 12 months. Refining NZ was also holding $43 million of cash at this time, which added to its borrowing capacity.
- During FY20 Refining NZ remained in compliance with its debt covenants, with headroom on interest cover ratios expected to increase in FY21 due to the maturing of historical interest rate swaps in December 2020 and the benefit of lower floating interest rates.

- Intangibles relate to Refining NZ's New Zealand Units (**NZUs**).[10] These are recognised at historical cost with an indefinite useful life. Carbon units are issued by the Crown, pursuant to Refining NZ's Negotiated Greenhouse Agreement (**NGA**), which expires in 2022. Refining NZ is currently exempted from the Emissions Trading Scheme (**ETS**) due to the NGA.
- Excise duty is due from the Shareholding Customers and collected by Refining NZ on behalf of the New Zealand Customs Service. The balance sheet receivable and payable has been removed from the balance sheet above.
- As at 31 December 2020 Refining NZ had total employment benefit liabilities of $56 million which included $40 million of liabilities associated with a defined benefit pension plan and a medical plan.
- In June 2020 Refining NZ assessed for impairment purposes the carrying value of its assets to reflect a decline in outlook for refining margins and COVID-19 impacts. The review resulted in an impairment of approximately $223 million ($158 million after tax).

5.5 Cash Flow

The cash flows of Refining NZ as at 31 December 2016 to 2020 are summarised below:

REFINING NZ – CASH FLOWS ($000)

YEAR END 31 DECEMBER	2016	2017	2018	2019	2020
Net cash flow from operating activities	**127,780**	**197,998**	**104,636**	**117,125**	**31,624**
Capital expenditure	(81,162)	(94,570)	(162,316)	(77,695)	(33,939)
Proceeds from the sale of equipment & intangibles	-	-	-	-	13,320
Net cash flow from investing activities	**(81,162)**	**(94,570)**	**(162,316)**	**(77,695)**	**(20,619)**
Movement in bank borrowings	19,500	(49,674)	88,079	(13,200)	27,900
Dividends paid	(72,048)	(37,502)	(46,886)	(20,317)	-
Other	(308)	(370)	(291)	(1,437)	(871)
Net cash flow from financing	**(52,856)**	**(87,546)**	**40,902**	**(34,954)**	**27,029**
Net cash flow	**(6,238)**	**15,882**	**(16,778)**	**4,476**	**38,034**
Declared Dividend (cents per share)	*9.0*	*18.0*	*7.5*	*2.0*	-

Source: Refining NZ – Annual Report

- In April 2018, Refining NZ embarked on the first total refinery shutdown at Marsden Point in 14 years. All processing units, related units and utilities shut down and all production ceased for a period of ten days. The $107 million cost of the shutdown was capitalised.
- Refining NZ's dividends have fluctuated due to the volatility of its earnings. The volatility in earnings in part stems from the volatility in GRM.
- Given the challenging, current low-margin environment Refining NZ's Directors resolved to not pay a dividend for the FY20 year.

[10] NZUs are carbon credits issued to New Zealand's carbon emitters. 1 NZU is equivalent to 1 tonne of carbon dioxide.

5.6 Capital Structure and Ownership

As at 3 June 2021 Refining NZ had 313,484,559 shares on issue. There is only one class of shares on issue. The Company's substantial shareholders as at 3 June 2021 are shown in the table below:

REFINING NZ – LARGEST SHAREHOLDERS AS AT 22 JUNE 2021

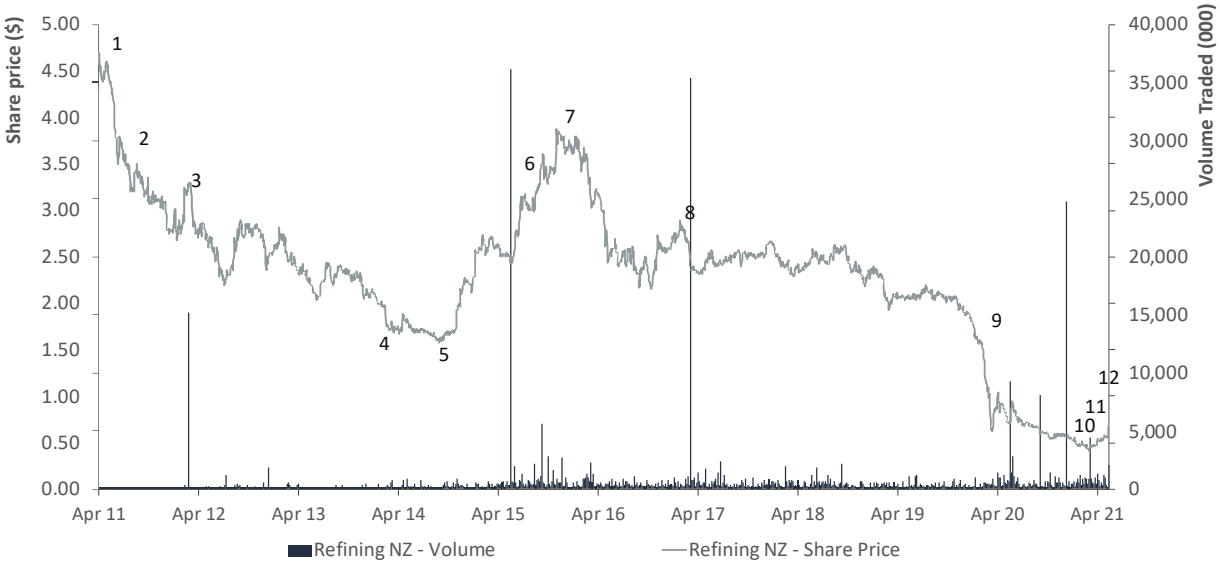
SHAREHOLDER	SHARES (000S)	%
Mobil Oil New Zealand Limited	53,760	17.2%
Z Energy Limited	48,000	15.3%
BP New Zealand Holdings Limited	31,573	10.1%
Total Shareholding Customers	**133,333**	**42.6%**
Accident Compensation Corporation	26,782	8.5%
Total Substantial Shareholders	**160,115**	**51.1%**
Other Shareholders	153,370	48.9%
Total	**313,485**	**100.0%**

- Refining NZ's shares are not widely held for a listed company, having approximately 4,730 registered shareholders. This is in part due to the unique structure of Refining NZ, where its Shareholding Customers together own 42.6% of the Company.
- Refining NZ operates an employee share purchase scheme (**ESS**) under which certain employees are invited to acquire shares in the Company for a nominal amount, with Refining NZ paying the balance.
- Refining NZ's shares are listed on the NZX. Refining NZ also has issued subordinated notes for $75 million that are also listed on the NZX yielding 4.5% as at 22 June 2021 with a maturity date of 1 March 2034.

5.7 Share Price History

Refining NZ's share price movements indicate a high correlation with movements in GRM. Over time as GRM has increased or decreased the share price has often had a corresponding change. In particular, large drops in GRM have coincided with Refining NZ's share price falling. The share price and trading volume history of Refining NZ from 1 April 2011 to 27 May 2021 is depicted below:

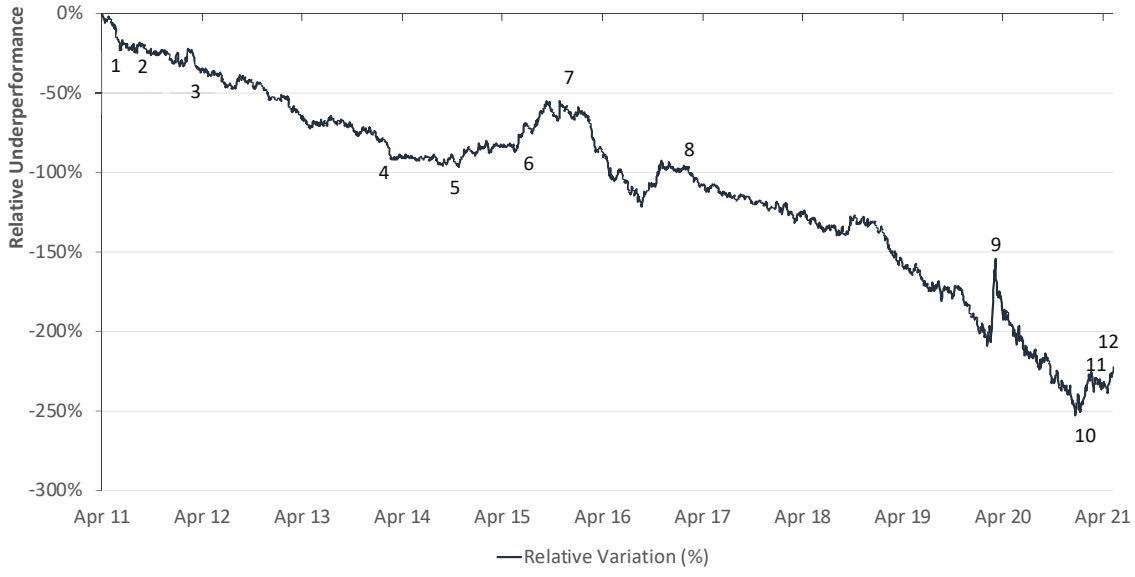
REFINING NZ – SHARE PRICE PERFORMANCE (APRIL 2011 – MAY 2021)



Source: Capital IQ

Refining NZ's share price history compared with the NZX50 index is set out in the graph below.

REFINING NZ VS NZX50 PRICE INDEX (APRIL 2011 – MAY 2021)



Source: Capital IQ

The following reference points are referred to numerically in the charts above:

1) During March and April 2011 the GRM was impacted by a 10 day outage of Refining NZ's hydro-cracker,[11] as maintenance was carried out on the hydrogen manufacturing unit. This limited Refining NZ's ability to upgrade lower cost feedstocks into high value products during the period of the outage.

2) A continued weakening US dollar throughout 2011 had a marked impact on Refining NZ's processing fee revenue and consequently Refining NZ's share price.

3) On 21 February 2012 the Directors confirmed support for the Te Mahi Hou expansion of the refinery's petroleum making facilities. On 27 April 2012 Refining NZ's shareholders approved the $365 million Te Mahi Hou expansion of petrol making facilities at the Marsden Point Refinery.

4) On 3 March 2014 Refining NZ completed the placement of $48 million worth of shares to selected institutions and habitual investors. The capital raise was in response to Refining NZ facing a low GRM, an unfavourable USD/NZD exchange rate and the Te Mahi Hou expansion.

5) September/October 2014 the GRM rose to US$7.54 per barrel from US$6.75 in July/August as a result of the falling price of crude oil.

6) On 28 May 2015 Deutsche Craigs announced entry into a block trade agreement with Chevron New Zealand (**Chevron**) to sell Chevron's 11.37% shareholding in Refining NZ by way of a bookbuild.

7) Te Mahi Hou went live on 2 December 2015. The same day Refining NZ was added to MSCI ACWI + Frontier markets (ACWI FM) All cap index.

8) On 17 March 2017 bp conducted a process to reduce its shareholding in Refining NZ, resulting in it selling 11.1% of the 21.19% of shares it previously held.

9) On 25 March 2020 the New Zealand Government announced a state of national emergency as a result of the COVID-19 pandemic. On the same date Refining NZ announced that it agreed to operate the refinery at reduced capacity for a period of three months in response to significant fuel demand reductions resulting from COVID-19 and related transport restrictions.

10) On 17 February 2021 Refining NZ announced it had reached a non-binding in principle agreement with bp on the key commercial terms for the potential future Import Terminal at Marsden Point.

11) On 1 April 2021 Refining NZ announced it received renewal of its resource consent to operate refinery and Import Terminal operations at Marsden Point for a further 35 years.

12) On 25 May 2021 Refining NZ announced it had reached an in-principle agreement with Z Energy on key commercial terms for the potential future Import Terminal at Marsden Point. On the day of the release of the news Refining NZ's share price increased 7.14% to $0.60 and it has remained above $0.60 since the announcement. As at 24 June 2021 the share price was $0.68.

[11] A hydro-cracker uses hydrogen and a catalyst to break down heavy crude oil molecules into various distillates and gasoline. It is a crucial tool for many refiners.

6 Effect of maintaining the Simplified Refinery

6.1 Background

Refining NZ's board initiated a strategic review in April 2020 to determine the optimal business model and capital structure for its assets in order to maximise returns to shareholders. At this time Refining NZ was facing highly challenging market conditions that have been outlined previously, in particular a significant decline in GRM at the end of 2019 and the subsequent impacts of COVID-19 in 2020.

The strategic review identified the Simplified Refinery as a model for the business to continue to safely and reliably meet its contractual obligations to its Shareholding Customers under the processing agreements. This mode of operating was implemented in January 2021 to improve the near-term viability of the Marsden Point Refinery.

This section sets out the key features of the Simplified Refinery (the status quo) and the impact of maintaining a Simplified Refinery until 2035. If the Non-Customer Shareholders do not approve the proposed transition to an Import Terminal the Marsden Point Refinery will continue to operate as a Simplified Refinery with the option to convert to an Import Terminal in the future.

6.2 Consequences of Operating and Maintaining a Simplified Refinery

Refinery simplification has involved a significant change to the operations of the Marsden Point Refinery. The objective of simplification is to continue to deliver on processing agreement obligations safely and reliably, while targeting break-even cash flows across the entire business when processing fees are at the Fee Floor. For Refining NZ, operating a Simplified Refinery has involved:

- reducing primary crude intake by approximately 18%, with crude distillation unit (**CDU**) 1 continuing to operate at approximately 34 million barrels per annum in a non-turnaround year;
- mothballing CDU 2 (the smaller of the two CDUs) as a first step toward decommissioning;
- the cessation of bitumen production and the retiring of the associated infrastructure;[12]
- revising the asset maintenance strategy, including adopting a campaign approach and predictive maintenance techniques focussing on repairing rather than replacing assets, including a shorter two-yearly turnaround cycle; and
- an organisation-wide restructure involving flattening management layers, reducing the workforce and lowering operational expenses.

Under a Simplified Refinery model, operations and maintenance strategies are focussed on ensuring CDU 1, secondary processes and utilities are available as the capacity constraint in refinery operations.

Operating as a Simplified Refinery has significantly reduced operating costs, which in 2021 are budgeted to be 26% lower (approximately a $48 million reduction) than in 2019 (which is a more comparable year due to changes made in 2020).[13] This has been achieved in the following main areas:

- electricity costs have reduced through lower volumes being refined at Marsden Point;
- staffing costs have reduced with an approximate 25% reduction in staff; and
- lower contractor and material costs.

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[12] This resulted in the avoidance of near-term bitumen and tank investment and deferral of near term crude tank investment.

[13] Excluding pass through costs such as natural gas.

Operating the Simplified Refinery model maintains the option of converting to an Import Terminal in the future. It is expected that transition to an Import Terminal will necessarily occur by around 2035, at which point national petrol demand is projected to have fallen below Refining NZ's viable production level.[14]

The consequences of maintaining the Simplified Refinery include the following:

- Refining NZ would continue to be required to make available refining capacity to the Shareholding Customers and the Shareholding Customers would be required to continue to pay processing fees and make Fee Floor payments (if applicable).
- Refining NZ would continue to be protected by downside revenue risk through the Fee Floor and revenue upside limited by the Margin Cap.
- The refinery is likely to continue to operate at a maximum annual crude capacity of approximately 34 million barrels.
- Both Refining NZ and the Shareholding Customers would remain exposed to the volatility of the largely externally determined GRM – both favourable and unfavourable.
- Unless the GRM improves materially from current levels the refinery would continue to operate at around breakeven cashflows. This will likely make the refinancing of upcoming debt maturities more challenging, and limit Refining NZ's ability to pay dividends to shareholders.

6.3 Simplified Refinery Arrangements with the Shareholding Customers

Under the Simplified Refinery the current arrangements in place with the Shareholding Customers under the processing agreements would remain in place unless Refining NZ and the Shareholding Customers agree to vary the arrangement. In addition, the Shareholding Customers may terminate their processing agreement with Refining NZ.

The current Simplified Refinery arrangements have resulted in disputes arising between Refining NZ and the Shareholding Customers. Each of the Shareholding Customers has issued a dispute notice under their processing agreement with Refining NZ in relation to Marsden Point operating as a Simplified Refinery. The Shareholding Customers have indicated that they expect to suffer material losses because of the change to a Simplified Refinery. They either believe Refining NZ is contractually liable for these losses or they have reserved their rights. Refining NZ believes it was entitled to simplify refining operations under the processing agreements.

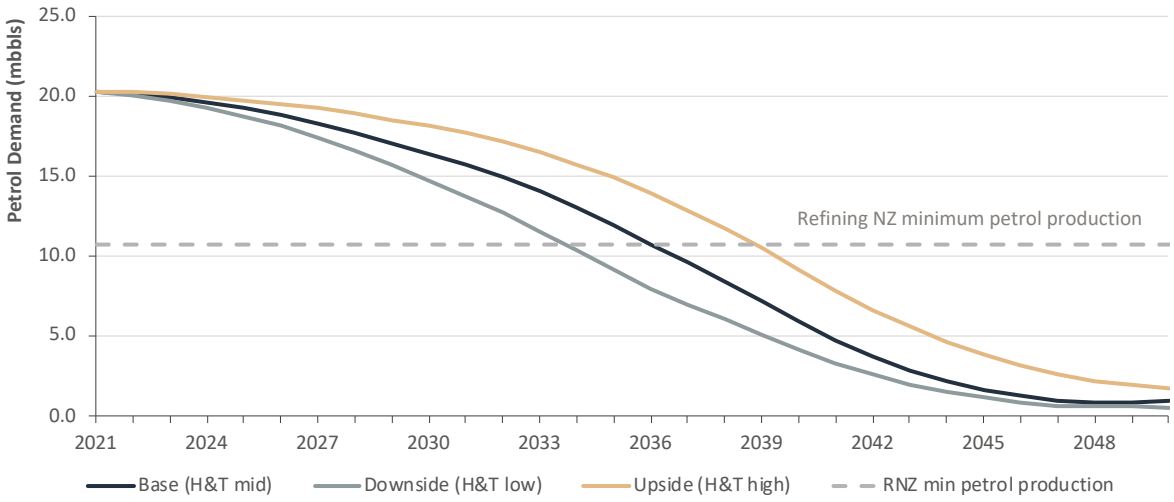
Refining NZ also issued (or indicated it would issue) a dispute notice under the processing agreements to each of the Shareholding Customers in relation to a separate claim that the Fee Floor payable by all the Shareholding Customers in combination should be $70 million per annum higher. The Shareholding Customers and Refining NZ have agreed to defer the disputes while they negotiate the potential future transition of Marsden Point to an Import Terminal.

[14] Based on Hale & Twomey's base case NZ transport fuels demand projections. See section 6.4 below.

6.4 Fuel Demand Outlook Impact on Refinery

The utilisation of the Import Terminal and Simplified Refinery and their profitability is impacted by the demand for transport fuels. Accordingly, Refining NZ engaged independent industry experts Hale & Twomey (**H&T**) to forecast New Zealand fuel demand by fuel type through to 2050. The H&T petrol demand scenarios, issued in January 2021, are shown below:

H&T FORECAST PETROL DEMAND (2021 – 2050)



Source: H&T

The demand curves above reflect H&T's downside, base and upside scenarios as well as Refining NZ's minimum viable petrol production level. The mid product demand case estimates there should be sufficient petrol demand to enable Refining NZ to efficiently operate under the Simplified Refinery model until the end of 2035. After 2035, based on the mid product demand case H&T have forecast that petrol demand will fall below Refining NZ's viable production level. At this point it is not efficient to operate the refinery given ongoing capital expenditure requirements and fixed operating costs. The alternative is to continue to run at capacity and export petrol to other Asian markets. When considering the cost to transport the crude to New Zealand and then transport refined products to overseas markets, it is likely this will be uneconomic. If demand for petrol has declined to this point it is highly likely that the global market would also be oversupplied. Therefore this alternative is also not considered viable.

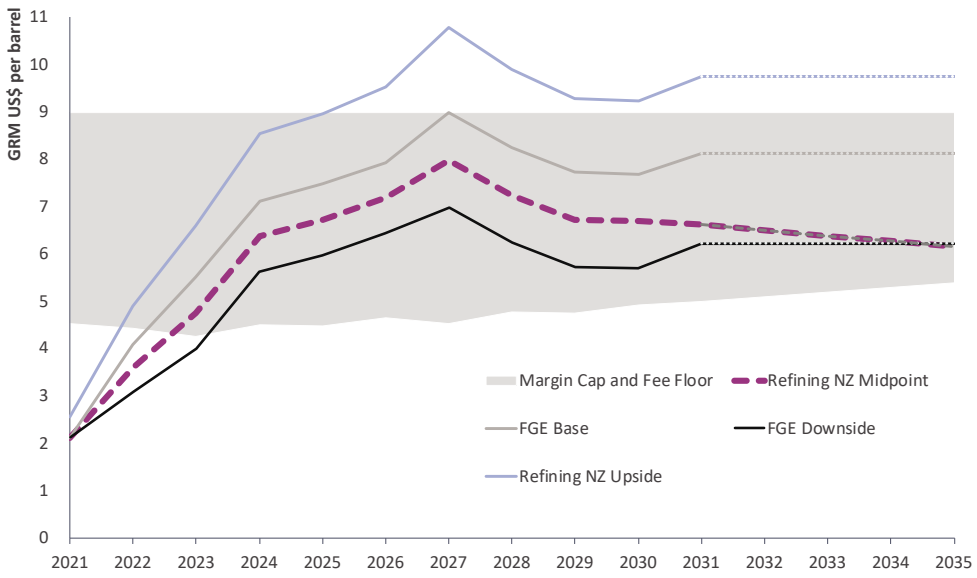
The main reason for the forecast reduction in petrol demand in the curves above is the expected shift towards Electric Vehicle use. In addition, petrol demand is also expected to decrease as a result of more people working from home and the consequent reduction in commuting activity. Under the H&T low and high demand scenarios it is forecast that total New Zealand petrol demand will fall below Refining NZ's efficient refinery production levels by 2034 and 2039 respectively. Therefore, based on these demand scenarios the optimal timing of conversion may adjust accordingly.

6.5 GRM Outlook

The following graph shows a range of Refining NZ GRM scenarios out to 2035. This has been prepared by Refining NZ based on crude oil and refined product price forecasts provided by FGE to 2030, and extrapolated by Refining NZ thereafter. These forecasts are referred to in the analysis in section 6.6, 6.7 and 8.3 below, and anticipate a meaningful increase from the mid-2020s as regional refining supply and demand comes back into balance.

The forecasts are based on FGE analysis dated November 2020. Prior to finalising this Report Refining NZ received FGE's latest analysis, and has confirmed FGE's latest view is consistent with the below forecasts.

FORECAST GRM (2021 – 2035)



Source: FGE and Refining NZ Management

The above graph shows several forecast GRM curves for Refining NZ as well as the Margin Cap and Fee Floor. It shows two cases based on FGE analysis, being a Base and Downside case. Refining NZ has also provided a Midpoint and Upside case. These forecasts reflect:

- FGE Base case – medium term margins will be under pressure as Asia sees a wave of mega-refinery additions to 2024 which more than offset confirmed and forecast refinery closures.
- FGE Downside case – an assumption that all refinery expansion projects proceed, fewer than the projected refinery closures to 2023 occur, and Asia Pacific refined product demand growth is less than FGE's Base forecast.
- Refining NZ Midpoint case – midpoint between FGE Base and Downside cases to 2030 reflecting a more conservative assessment of the rate of COVID-19 recovery and the extent of regional supply and demand coming back into balance than the FGE Base case, and then trending to the FGE Downside case by 2035.
- Refining NZ Upside case – sensitivity assuming GRM is 20% above the FGE Base case.

Grant Samuel has compared the above forecasts against historical averages and notes that they are significantly higher than currently observed margins and are all higher than historical averages from FY24 onwards. Grant Samuel has created two additional GRM curves based on historical averages as an approximation of a market equilibrium refining margin:

- the Average Historical (FY11-FY20) case, which is the average GRM for Marsden Point from FY11-FY20 of US$5.84 per barrel; and
- the Average Historical (1995 onwards) case, which is the average GRM for Marsden Point from 1995 (when GRM came into effect) of US$4.96 per barrel.

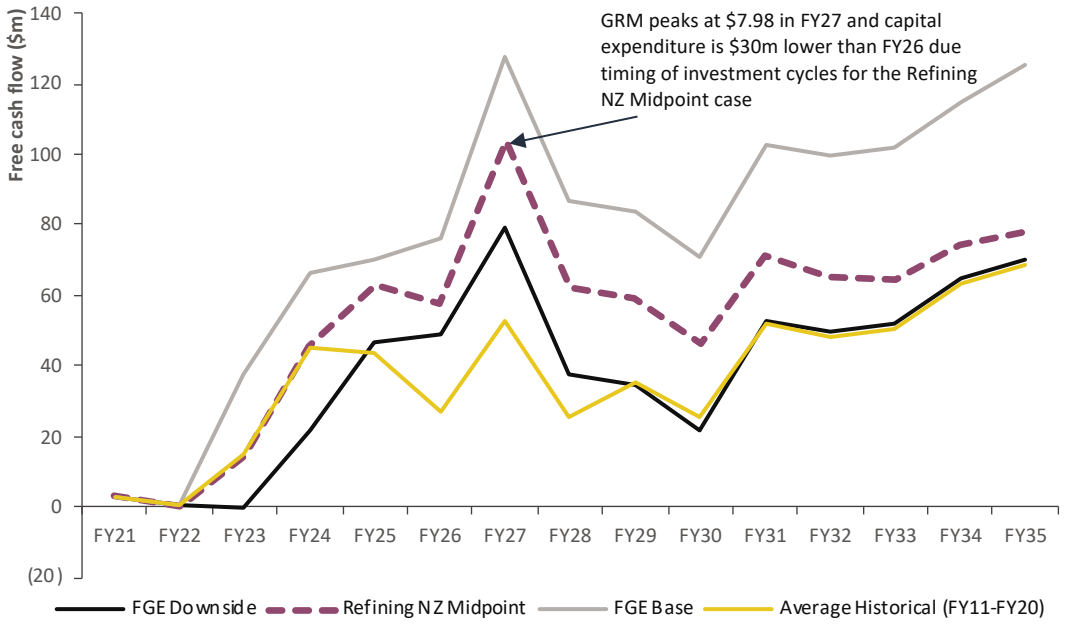
Medium-term refining margins are expected to be under pressure as Asia sees a wave of mega-refinery additions to 2024 which more than offset confirmed and forecast refinery closures. The forecast is for a gradual recovery in GRM from 2024-2030 as Asia fuel demand grows and capacity utilisation improves. GRM is forecast to peak in 2027 as a result of less additional refined product supply coming online from Asia's new mega refineries and as older, less efficient refineries close.

The longer term is less certain and will be influenced by factors including the recovery from COVID-19 and subsequent transport trends, growth in key regions such as China and India and whether longer term refined product supply and demand become more balanced. It is expected that while there will be a recovery in margins this will not last. FGE forecasts that there will be a growing surplus of refined products from the Atlantic basin which will have an impact, especially on Asian refining margins in the late 2020s.[15] Asian refineries are expected to have a surplus of gasoil barrels and European demand is forecast to decline steeply post-2025. This combined with competition from Middle Eastern refiners is expected to push refining margins down towards the end of the decade.

6.6 Forecast Free Cash Flow Impact

Refining NZ's forecast free cash flow from continuing to operate as a Simplified Refinery has been examined under different GRM cases. Free cash flow has been examined as it is a key measure of valuation and the cash Refining NZ will have available to repay borrowings and/or pay dividends. The following graph shows the forecast free cash flow for the years ending 31 December 2021 to 2035 (**FY21-FY35**):

SIMPLIFIED REFINERY FREE CASH FLOW FORECAST



[15] Asia Pacific Petroleum Databook 3: Oil Product Balances and Prices, FGE, Spring 2021.

The Refining NZ Midpoint case forecast free cash flow is based on the following assumptions:

- a GRM forecast which increases above the Fee Floor in FY23 and averages US$6.74 from FY24 to FY35 (as summarised in section 6.5 above);
- the H&T mid product demand case which assumes there is sufficient petrol demand to enable Refining NZ to operate at full capacity until 2035 (and convert to an import terminal from 1 January 2036);
- a sustainable capital expenditure range of $35-$70 million per annum over the forecast period (an average of approximately $50 million per annum on a nominal basis);
- Inflation based on averages provided by retail banks, investment banks, NZ Treasury and the Reserve Bank of New Zealand (**RBNZ**). Inflation forecast beyond 2023 is based on the 20 year long-run historic median of 1.9%;
- Bloomberg's forward foreign exchange curve as at 31 May 2021; and
- Electricity price forecasts are supplied by EnergyLink as at April 2021 and highlight a medium-term decline in electricity prices due to expected oversupply (largely resulting from the closure of the Tiwai Point aluminium smelter), before recovering over the long-run.

Under the Refining NZ Midpoint case, Refining NZ is forecast to generate positive free cash flows in FY23 when GRM is forecast to rise to US$4.75. From 1 January 2023 free cash flow is forecast to average approximately $62 million per annum.

As a Simplified Refinery Refining NZ's free cash flow forecast is very sensitive to GRM. For example, if instead of using the Refining NZ Midpoint case the Average Historical (FY11-FY20)[16] case is applied from 1 January 2023 then average free cash flow is forecast to reduce by $20 million per annum.

In FY27 free cash flow is forecast to peak at approximately $100 million. This is in part the result of GRM peaking at $7.98 that year (as shown in the graph in section 6.5 above). Capital expenditure in FY27 is also expected to be lower due to the refinery's investment cycle, with capital expenditure forecast to be $41.6 million, approximately $30 million lower than the prior year.

6.7 Forecast Net Debt and Dividends

As at 28 May 2021 Refining NZ had liquidity headroom with cash and undrawn debt facilities of approximately $90 million, excluding facilities maturing during the next 12 months. Approximately 55% of Refining NZ's current bank debt facilities will mature before 31 March 2023 meaning it will need to enter new lending arrangements in the near term.

The Refining NZ Midpoint case for the Simplified Refinery assumes that reducing debt will be prioritised and that dividends will not be paid until Refining NZ's net debt to net debt plus equity ratio reduces to approximately 20%, in line with the current published dividend policy. Under this scenario, based on the forecast GRM outlined in section 6.5, Refining NZ would likely be able to commence paying dividends again in FY26. If the less optimistic Average Historical (FY11-FY20) case was applied, then Refining NZ would not be in a position to pay dividends until FY27. This shows that lower GRM scenarios will mean Refining NZ will take longer to reduce its debt with the consequence that it will take longer to begin to pay meaningful dividends. Higher GRM scenarios result in Refining NZ paying off its debt faster and taking less time to return to paying meaningful dividends.

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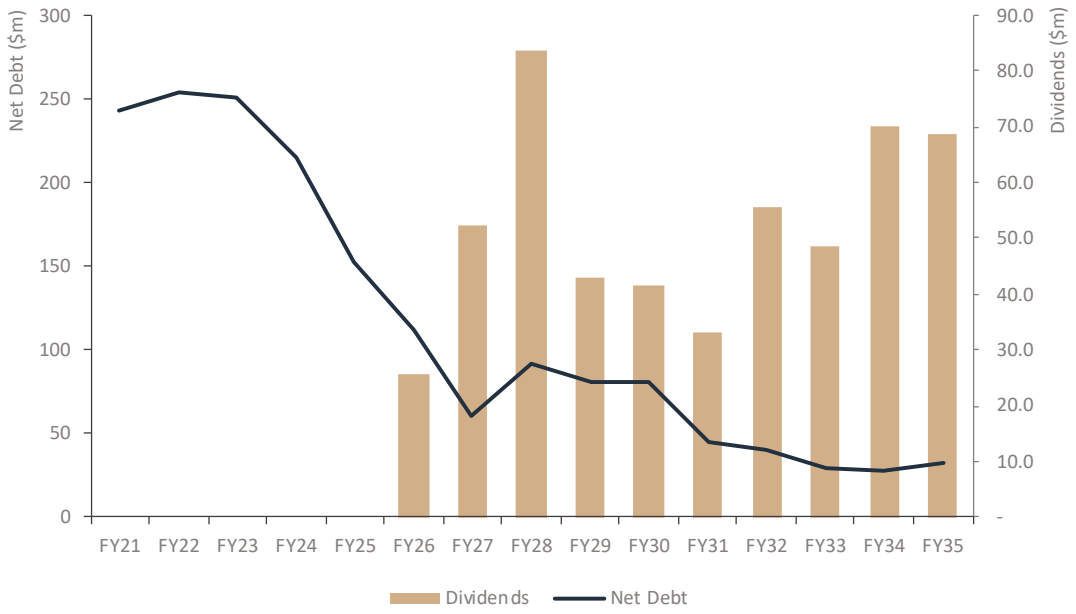
16 The Average Historical (FY11-FY20) case's GRM is US$5.84 per barrel.

GRANT SAMUEL

The following forecast net debt and dividends are modelled outputs based on the assumptions referenced above and should not be interpreted as an express or implied commitment from Refining NZ as to how it intends to manage its capital structure over time.

SIMPLIFIED REFINERY NET DEBT AND DIVIDEND FORECAST



7 Effect of the transition to an Import Terminal

7.1 Background

Refining NZ's strategic review considered a wide range of options for the future of the Marsden Point Refinery. This review resulted in two potential alternatives:

- continue to operate as a Simplified Refinery; and
- in parallel explore the potential to convert to an Import Terminal.

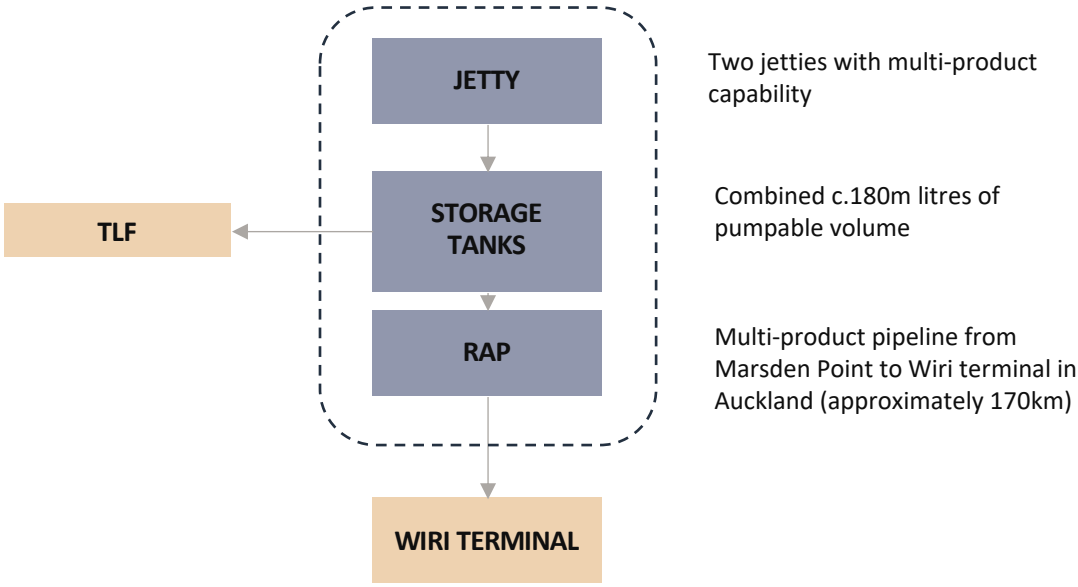
This section sets out the key features of the Import Terminal, which will be implemented if the Non-Customer Shareholders provide the requisite approval and the other conditions set out in the Notice of Meeting are satisfied. If approval is provided and other conditions are met Refining NZ will commence Import Terminal operations by mid-2022.

7.2 Consequences of becoming an Import Terminal in 2022

If the proposed transition to an Import Terminal is approved and the other conditions are met the following will happen:

- Refining operations will cease and Refining NZ will convert to an Import Terminal.
- The Import Terminal will receive, store and deliver finished fuel products (being petrol, diesel and jet fuel) primarily to the Northland and Auckland markets, including all of the jet fuel to Auckland International Airport (**AIA**).
- Delivery will be via the RAP to the Shareholding Customer-owned Wiri Oil Terminal in Auckland, and to the Shareholding Customer-owned Truck Loading Facility (**TLF**) located at Marsden Point.
- One-off transition and conversion costs are estimated at $200-220 million over five to six years (excluding refinery demolition costs). Approximately 25% of this cost is expected to occur before the commencement of Import Terminal operations. The rest is expected to be incurred post-commencement and will include refinery process unit decontamination and decommissioning, and storage asset upgrades.
- The one-off transition costs for the conversion are expected to be debt funded, in conjunction with initial take-or-pay commitments from the Shareholding Customers.
- Future demolition costs are estimated at $50-60 million (on a real basis), with demolition timing yet to be confirmed.

The following diagram sets out the proposed Import Terminal system:



The key components of the Import Terminal owned by Refining NZ would consist of:

- the RAP and associated infrastructure;
- two deep-water jetties (currently in place) and associated line work;
- finished product storage tanks with approximately 180m litres of storage capacity;
- linework to the Shareholding Customer owned TLF (located adjacent to the Marsden Point Terminal);
- a fuels laboratory (for product testing and certification); and
- supporting utilities and on site infrastructure.

Customer fuel products would continue to be stored and distributed on a co-mingled basis. It is expected that the Import Terminal would handle between 3 and 3.5 billion litres of transport fuels per annum.

Alongside core Import Terminal operations Refining NZ plans to:

- offer up to 100 million litres of additional private product storage as a new service under the TSAs. This would require the conversion of additional existing tanks which would occur in parallel with Import Terminal conversion work. Detailed planning for this additional storage capacity is currently in progress, with an indicative cost estimate of up to $60 million and an indicative revenue estimate of up to $10 million per annum. Refining NZ expects a minimum commitment period from the Shareholding Customers would be 10 years, with fees providing a fair economic return over this period. This opportunity remains subject to ongoing assessment and negotiation with all Shareholding Customers;
- continue to own the fuels testing business Independent Petroleum Laboratories Limited (**IPL**); and
- consider additional opportunities for repurposing the Marsden Point site, some of which are outlined in section 8.4.

7.3 Import Terminal arrangements with the Shareholding Customers

Refining NZ has reached non-binding in-principle agreement with bp and Z Energy on the key commercial terms for Marsden Point to operate as an Import Terminal. Mobil has not agreed to terms at the time of writing. These agreements with Z Energy and bp set out the basis upon which Refining NZ proposes services would be provided under a Terminal Services Agreement (**TSA**) to all Shareholding Customers. A summary of the key terms is below, and while this summary does not reflect the full terms that are to be agreed with the Shareholding Customers, Refining NZ believes the matters that remain to be agreed should not materially impact the value resulting from the TSAs and Import Terminal.

- **Scope of Services** – Core Import Terminal services for the Shareholding Customers will include:
  - operating and maintaining the Import Terminal;
  - priority jetty access at Marsden Point;
  - the discharge of products from vessels and a specified capacity of co-mingled tank storage; and
  - delivery of products to the TLF and via the RAP to the Wiri Terminal.

  Ancillary services will be available to Shareholding Customers for additional fees. Any new services (such as private storage) will be considered and negotiated on a case-by-case basis.
- **Key Performance Indicators** – Refining NZ is to operate the Import Terminal as a reasonable and prudent terminal operator (**RPTO**). There will be a limited number of operational key performance indicators (e.g. vessel unloading, RAP pumping and RAP scheduling) with specified performance criteria. The fees Refining NZ receives from the Shareholding Customers may be reduced by specified amounts subject to a cap as a result of Refining NZ failing to meet these KPIs.
- **Term** – The initial agreement term is 10 years. Shareholding Customers will also have the option to extend for two further five-year periods on terms applying at the end of the initial term. Notice of extension is to be given at least 24 months prior to the expiry of the current term.
- **Import Terminal Fees** – The monthly fees charged to the Shareholding Customers for core Import Terminal services comprise fixed and variable fees (all real and subject to indexation):
  - **Fixed access fees** consist of a base access fee per Shareholding Customer, plus a shared access fee payable by each Shareholding Customer based on their relative Import Terminal utilisation. A total fixed access fee of $45 million per annum in the first 36 months decreases to $40 million per annum for the subsequent 36 months, and then $35 million per annum for the remainder of the term.
  - **Variable throughput fees** are charged based on actual volumes delivered for each Shareholding Customer and comprise wharfage fees and delivery fees which differentiate between RAP volumes (by type of fuel) and TLF volumes.
- **Take-or-Pay** – The three Shareholding Customers also share a minimum take-or-pay commitment. To the extent the aggregate of the fixed and variable fees plus any ancillary fees is below $100 million per annum in the first 36 months a monthly top-up payment to achieve a fixed minimum of $100 million per annum will be paid. For the subsequent 36 months the fixed minimum drops to $90 million per annum and then to $65 million per annum for the remainder of the term.
- **Fee Indexation** – All fees are subject to annual indexation in accordance with the 12-month change in the Producers Price Index (**PPI**) published by Statistics NZ.
- **Efficiency sharing** – Any efficiencies achieved between the initial best estimate of transition and conversion costs of $200m and actual cost will be retrospectively shared on a 50/50 basis with the Shareholding Customers, up to the level of take-or-pay payments received. Efficiencies in Import

Terminal operating costs achieved compared with initial estimates will be shared on a 50/50 basis with the Shareholding Customers through reduced fees in any renewal of the TSA, or earlier as a result of specific Shareholding Customer initiatives.

- **Interruptions to Services** – A regime for planned and unplanned maintenance will apply. Import Terminal unavailability outside specified timeframes (which differentiate between jetty, tanks, TLF pipeline and RAP) may result in liability for specified amounts subject to a cap.
- **Liability for Non-Performance** – Refining NZ's liability to the Shareholding Customers will be based on the standard of RPTO, the occurrence of product losses, key performance indicators and service interruptions (both referenced above) and the Co-mingling Rules agreed between Refining NZ and all of the Shareholding Customers. For non-compliance with the RPTO standard, the TSA will provide that Refining NZ's liability is limited to a cap based on the greater of an agreed amount or any applicable insurance proceeds received by Refining NZ, unless Refining NZ wilfully defaulted or was grossly negligent or fraudulent. The parties to the TSA will be liable to one another for the reasonable rectification costs for damage to each other's assets and the TSA will include caps, limitations and exclusions of liability for various circumstances, including in relation to indirect and consequential losses.
- **Termination Rights** – The TSAs will include termination for cause provisions in set circumstances (such as insolvency events). The TSAs will not have termination for convenience provisions.
- **Freedom of future operation** – Refining NZ is entitled to conduct any other business, provided it continues to meet its obligations under the TSAs.
- **Third Party Access** – After the first 36 months of operating the Import Terminal the Company may offer new customers unutilised RAP capacity.

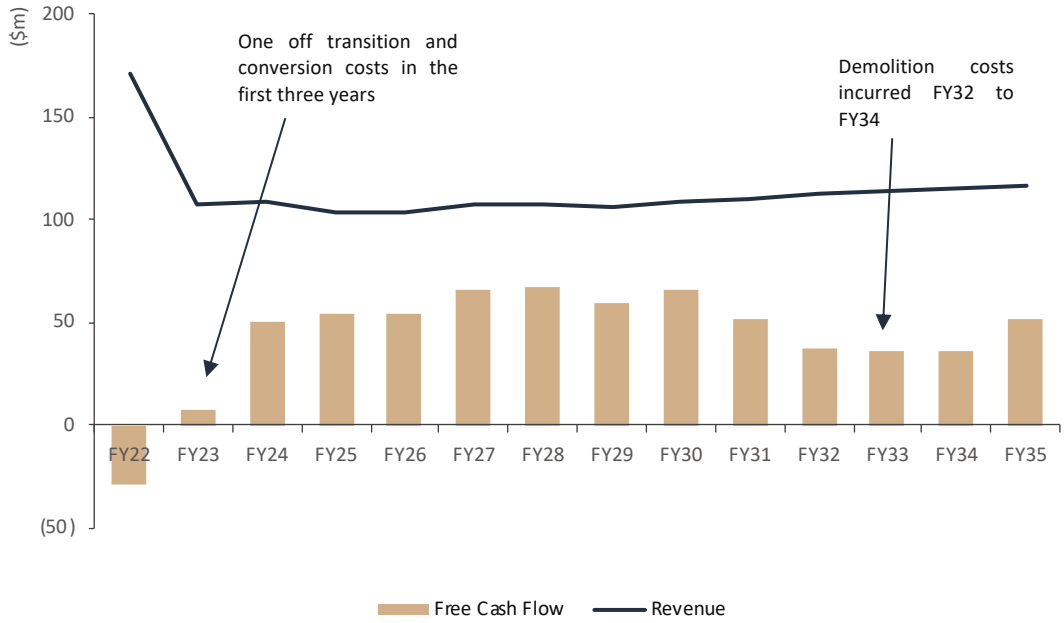
If the transition to an Import Terminal proceeds, then Refining NZ and the Shareholding Customers will need to terminate their current processing agreements and enter into the new TSAs, setting out the full set of terms between the parties, with transitional arrangements between the two facilitated under transition agreements between Refining NZ and the Shareholding Customers.

Aggregate fees earned by Refining NZ through these arrangements (excluding any new services) is estimated to average $95 million per annum over the first 10 years (on a real basis excluding indexation adjustments). This assumes levels of product throughput that reflect current demand forecasts.

7.4 Forecast Free Cash Flow Impact

Refining NZ has prepared a base case forecast for the Import Terminal. Refining NZ's base case forecast revenue and free cash flow of the Import Terminal for the years ending 31 December 2022 to 2035 (**FY22-FY35**) is set out below:

IMPORT TERMINAL REVENUE AND FREE CASH FLOW FORECAST



The Import Terminal is forecast to have relatively stable revenues. Under Refining NZ's base case the Import Terminal's free cash flow is negative in FY22 and low in FY23 due to the one-off transition and conversion costs that are incurred during these periods.

Refining NZ's base case forecast free cash flow of the Import Terminal is based on the following assumptions:

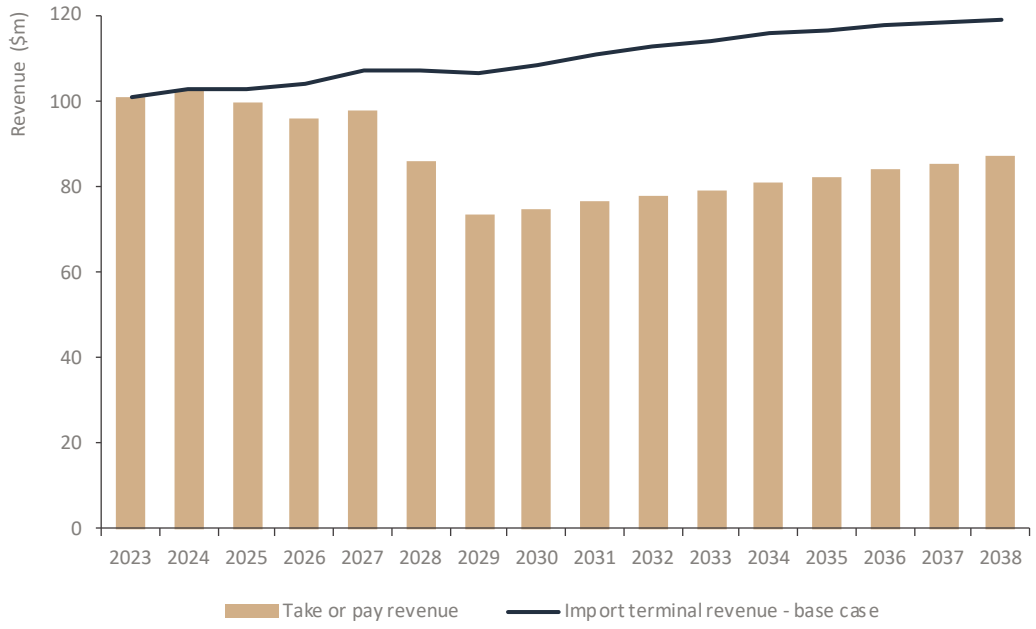
- the key terms as summarised in section 7.3 above including the terminal fees and minimum take or pay commitments;
- one-off transition and conversion costs of approximately $200-220 million over five to six years (excluding refinery demolition costs);
- approximately $50-60 million (on a real basis) of demolition costs to be incurred during FY32-FY34;
- Hale & Twomey's (**H&T**) mid product demand case;
- Maintenance capital expenditure requirements for the Import Terminal will be significantly lower than the current refinery operations. Sustainable capital expenditure is forecast to be between $5-10 million per annum from FY23, the majority of which relates to tank maintenance;
- Near-term inflation is based on averages across retail banks, investment banks, NZ Treasury and RBNZ. Inflation forecast beyond 2023 based on the 20 year long-run historic median of 1.9%;
- As at 31 December 2020, Refining NZ had tax losses to carry forward amounting to $54.9 million, with an expectation that a similar quantum of tax losses could be generated in the 2021 financial year through to the Import Terminal commencement in mid-2022. The write-off or disposal of refining assets that will no longer be used in the Import Terminal business is expected to generate a significant tax loss of $300 million to $330 million. This means that Refining NZ could have tax losses amounting

to $400 million to $440 million on or after the commencement of Import Terminal operations. The free cash flow forecast assumes these losses can be used to offset future taxable profits earned by Refining NZ;[17]

- electricity price forecasts were supplied by EnergyLink as at April 2021 and highlight a medium-term decline in electricity prices due to expected oversupply (largely due to closure of Tiwai Point aluminium smelter), before prices recover over the long-run; and
- the Simplified Refinery will operate until June 2022 and then convert to an Import Terminal.

Refining NZ's revenue from the proposed Import Terminal operation will be dependent on future demand for transport fuels. However, revenue is expected to be more stable than historical earnings as a toll refiner as the Marsden Point Terminal will be acting solely as an import and distribution facility. The growing trend in Import Terminal revenue set out in the graph below largely reflects the impact of indexation on the prices charged to the Shareholding Customers over time.

IMPORT TERMINAL REVENUE FORECAST



As outlined in section 7.3 under the proposed terms there is a minimum take-or-pay commitment from the three Shareholding Customers. From FY25 Refining NZ's base case assumes that the Import Terminal revenues from the fixed and variable fees will be higher than the take-or-pay revenues. While there is a risk that demand for fuels is lower than forecast, in these circumstances the take-or-pay arrangements would enable Refining NZ to cover its cash outgoings (e.g. operating, finance and capital expenditure).

Refining NZ's base case Import Terminal forecast does not include costs or revenue relating to the proposed additional private fuel storage that may be developed and made available to the Shareholding Customers. The provision of private fuel storage would be provided as a new service under the TSAs. A description of the provision of private fuel storage is provided in section 7.2. Refining NZ will not pursue new revenue opportunities, including the provision of private fuel storage, unless they are assessed for reasonableness and meet or exceed its return on capital thresholds.

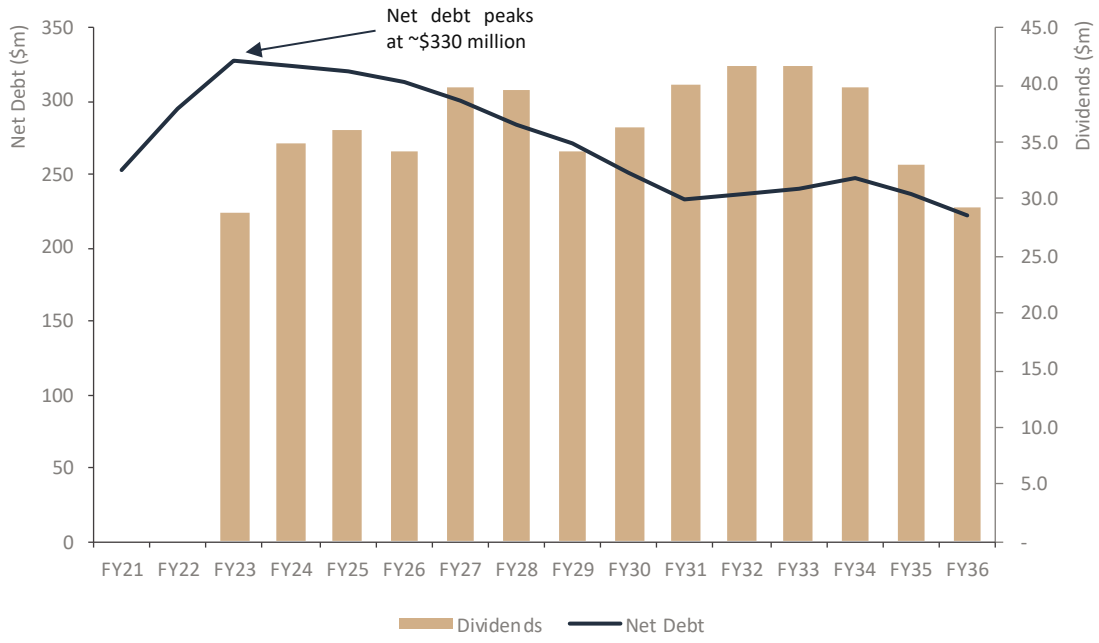
[17] The NPV difference analysis in section 8 includes the benefit of the tax losses under both the Import Terminal and Simplified Refinery scenarios, adjusted for the time of conversion.

7.5 Forecast Net Debt and Dividends

Refining NZ has completed detailed capital structure analysis to determine the optimal debt facility size, financing sources, tenor and covenants. Refining NZ has received credit approval from lenders, subject to the conclusion of satisfactory documentation and satisfaction of conditions precedent, to extend and increase the available facilities by approximately $30 million. The $30 million short term liquidity facility will provide the headroom for Refining NZ to fund one-off transition and conversion costs. Refining NZ would commence the refinancing of facilities in 2022, which may include an issuance via the debt capital markets, subject to market conditions at the time. Additional funding requirements for private storage are still to be determined.

If Refining NZ converts to an Import Terminal, the associated conversion costs will increase debt in the short term. The Import Terminal base case scenario forecasts that net debt will peak in FY23 before declining to approximately $220 million by FY31. The following forecast net debt and dividends are modelled outputs based on the assumptions referenced below and should not be interpreted as an express or implied commitment from Refining NZ as to how it intends to manage its capital structure over time.

IMPORT TERMINAL NET DEBT AND DIVIDEND FORECAST

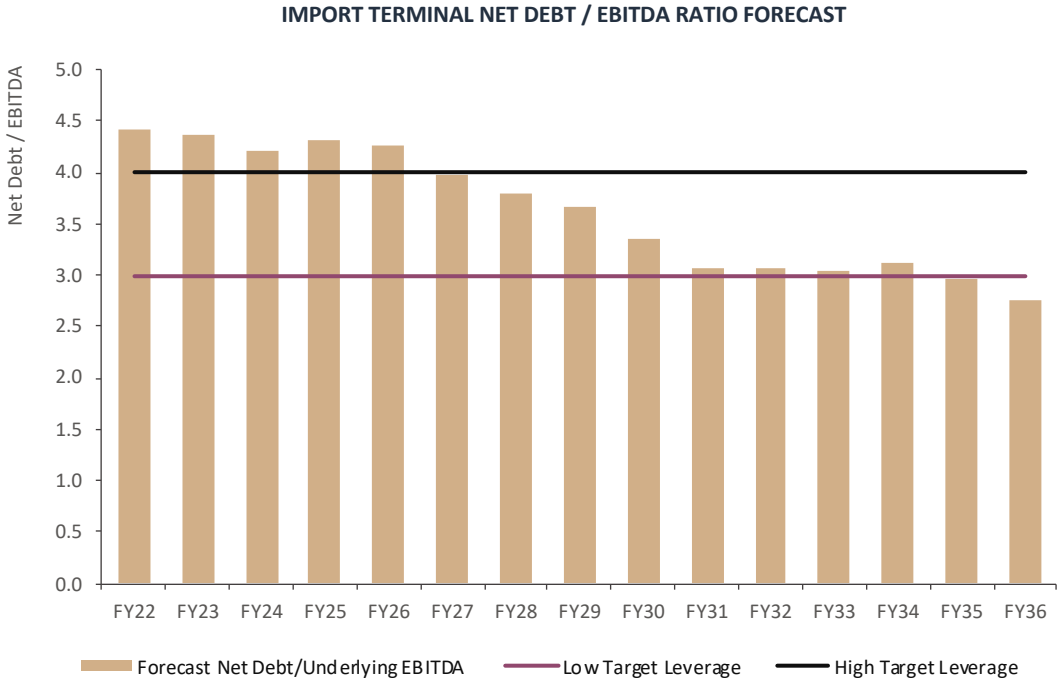


Forecast dividends assume dividend payments resume once the terminal is operational and debt levels have reduced to below 4.5 times Net debt/EBITDA, and a base case payout ratio of 60-70% of free cash flow. Based on current projections Refining NZ would be in a position to recommence dividend payments within one to two years following terminal operations commencing.

7.5.1 Target Capital Structure Post Conversion

The conversion financing process is the first step in a longer-term process to ensure Refining NZ's financing arrangements are appropriate for a fuels infrastructure business. In the longer term, Refining NZ will look to maintain a shadow investment grade credit rating, with the Board targeting a net debt/EBITDA metric of between 3 and 4 times within a five-year period post conversion. This reflects the relatively stable earnings outlook, including a fixed and variable fee structure and high near-term take-or-pay commitments.

The following graph shows Refining NZ's forecast Net Debt/EBITDA to FY35 based on the assumptions referenced above:



7.5.2 Debt Requirements

Having a competitive cost of debt and access to capital is crucial for the capital structure going forward. Stronger credit ratings usually result in lower cost of debt and may allow a broader range of financing instruments to be accessible, including through the debt capital markets. If the transition proceeds Refining NZ currently intends to place a greater reliance on debt capital markets as a funding source. Such an approach aligns with other listed infrastructure peers and would help extend the term of Refining NZ's financing arrangements.

Refining NZ's proposed debt position if the transition to an Import Terminal proceeds aims to reduce net debt/EBITDA over time. This would provide Refining NZ with some debt headroom if future growth initiatives arise. Such opportunities may include repurposing the Marsden Point site, including utilising the land and storage tanks that will become available . Even with such headroom, if the transition to an Import Terminal occurs and Refining NZ choses to pursue significant growth opportunities it is likely that the Company would also need access to new capital. Acting on such opportunities is likely to be one of the only reasons for Refining NZ conducting a future capital raise. Further context for these significant growth opportunities is provided at section 2.5 of the Explanatory Booklet.

Based on Refining NZ's Import Terminal base case, Refining NZ is forecast to operate within its target Net Debt/EBITDA within five years post conversion to the Import Terminal.

8 Evaluation of the transition to an Import Terminal

8.1 Approach to Evaluation

Refining NZ's shareholders are being asked to approve the proposed transition of the Marsden Point Refinery from the current Simplified Refinery to an Import Terminal.

The evaluation of the proposed transition to an Import Terminal requires assessing whether it is fair to Refining NZ's Non-Customer Shareholders in relation to NZX Listing Rule 5.2.1. Grant Samuel has carried out both qualitative and quantitative analysis in this assessment. In terms of qualitative analysis the assessment involves weighing up the advantages and disadvantages of the transition for shareholders. This involves judgments about advantages and benefits such as the removal of the impact of GRM and therefore less volatility in earnings versus the disadvantages such as forgoing potential strong and sustained recovery in refining margins.

8.2 Rationale for transition to an Import Terminal

The decision by Refining NZ to propose transitioning to an Import Terminal follows a strategic review which focused on an assessment of the options that would allow the Company to operate in the most efficient and effective way to deliver consistent profitability and value to its shareholders.

Refining NZ believes that the advantages of proceeding with the transition are superior when compared with the status quo option of operating the Simplified Refinery. Factors considered by Refining NZ when evaluating the merits of the transition to an Import Terminal compared with the Simplified Refinery include:

- relative to more efficient overseas refineries the Marsden Point refinery has a high cost of production and requires a high GRM to be competitive with imported transport fuels;
- the GRM currently being at very low levels and below the Fee Floor and the expectation for it to remain challenging in the short to medium term;
- the competitive environment, including increased refining capacity in Asia;
- high operating expenses that are largely fixed and necessary for maintaining refining operations, including current challenges with both electricity and gas costs and future uncertainty associated with electricity, gas and carbon costs;
- the Shareholding Customers' desire to move to an Import Terminal model; and
- the current demand outlook for refined products in New Zealand, in particular petrol which is expected to fall below Refining NZ's viable production level by around 2035.

8.3 Financial Analysis – Import Terminal vs Simplified Refinery

8.3.1 Overview and Methodology

The quantitative analysis focuses on comparing the difference in value for shareholders between the Import Terminal and the Simplified Refinery options under a range of scenarios (rather than absolute values). In Grant Samuel's opinion this is the key factor for Refining NZ's shareholders to focus on.

Grant Samuel has placed primary reliance on discounted cash flow (**DCF**) analysis in evaluating the transition and Simplified Refinery. A DCF valuation involves calculating the net present value (**NPV**) of expected future cash flows. The cash flows are discounted using a discount rate that reflects the time value of money and the risks associated with the cash flow stream.

Grant Samuel has placed primary reliance on DCF analysis primarily due to:

- the availability of Refining NZ's financial model which sets out forecast monthly cash flows to December 2050. This financial model incorporates both the Simplified Refinery and Import Terminal options and allows for the value differences between the two to be assessed in detail;
- a DCF approach allows the future revenue and earnings to be modelled explicitly and captures the potential valuation impacts of the Simplified Refinery and Import Terminal options which may not be reflected in other valuation methods;
- a range of assumptions in Refining NZ's model can be referenced against historical industry data and forecasts; and
- the ability to undertake sensitivity analysis with a DCF approach. This allows for the assessment of risks associated with the cash flows under the transition to an Import Terminal and Simplified Refinery.

It should be noted that any projections contained in any forward-looking model are inherently uncertain. In the case of the Import Terminal and Simplified Refinery scenarios this uncertainty is exacerbated by a number of factors including:

- the long timeframes over which the Simplified Refinery or Import Terminal will operate;
- the complexity of the refining industry;
- the unique nature of the Marsden Point Refinery and Refining NZ's underlying business;
- the pace of technological change with alternative sources of fuel becoming more common;
- the demand for refined products in New Zealand over a long time horizon; and
- potentially regulatory uncertainty which could have unknown consequences for either the Import Terminal or Simplified Refinery. For example, if central or local government creates incentives to move away from traditional fuels (e.g. by encouraging/subsidising electric vehicles or increased use of regional fuel taxes).

8.3.2 The discount rate applied to determine the NPV

The Import Terminal and Simplified Refinery operating models are materially different and therefore have different risk profiles. The Simplified Refinery's free cash flow is materially impacted by a range of variables including GRM, foreign exchange, product demand and energy costs. The Import Terminal's free cash flow, based on the proposed terms, is relatively stable with product demand being the key variable that impacts free cash flow.

Given these differences Grant Samuel has calculated a weighted average cost of capital (**WACC**) using the Capital Asset Pricing Model (**CAPM**) and referencing comparable benchmarks to estimate a cost of equity for the Import Terminal and Simplified Refinery. CAPM is probably the most widely accepted and used

methodology for determining the cost of equity capital. While the theory underlying CAPM is logical, the practical application is subject to substantial shortcoming and limitations. Results from the CAPM should only be regarded as a general guide.

Based on Grant Samuel's analysis it has applied the following WACCs to assess the forecast cash flows:

- 8.0% for the Simplified Refinery; and
- 6.0% for the Import Terminal.

A higher discount rate for the Simplified Refinery is consistent with the higher inherent volatility of operating a refinery compared with an import terminal. Import terminals generally have steadier earnings and a lower risk profile than refining operations.

8.3.3 NPV Analysis

The financial modelling for the Import Terminal and Simplified Refinery scenarios required assumptions to be made on many variables and future outcomes and required flexing key inputs. The following key variables were flexed for the purposes of assessing the two options:

- GRM;
- USD/NZD exchange rate;
- operating expenses;
- capital expenditure;
- demand for fuel; and
- energy costs.

The table below sets out the different scenarios that have been examined when evaluating maintaining the Simplified Refinery and the Import Terminal conversion:

VALUE DRIVER SCENARIOS

VALUE DRIVER	SCENARIOS
GRM	Under a Simplified Refinery GRM remains the key determinant of Refining NZ's processing fee, profitability and free cash flows. As the Import Terminal would not carry out refining operations GRM is irrelevant. The NPV analysis scenarios for GRM are based on the following assumptions: • Low case – GRM follows the FGE Downside case scenario price path up to a maximum of $5.84 at the start of FY25 and remains constant until 2035 (the date of Import Terminal conversion). • Mid case – Refining NZ's Midpoint case, which is based on the mid point between FGE's low case and medium case scenario. This assumes an average GRM from 1 January 2023 to 31 December 2035 of $6.59 (versus the historical 10 year average of $5.84). • High case – Based on FGE's Base case scenario. This assumes an average GRM from1 January 2023 to 31 December 2035 of $7.71 (versus the historical 10 year average of $5.84).
NZD/ USD	GRM is calculated in USD and paid in NZD and therefore the Simplified Refinery's free cash flow is impacted by NZD/USD fluctuations. Under the proposed terms of the Import Terminal fees are payable in NZD, meaning NZD/USD risk is eliminated. The NPV analysis scenarios for NZD/USD are based on the following assumptions: • Low case – the NZD/USD is on average 5 cents higher than the mid case. • Mid case – the Bloomberg forward curve as at 31 May 2021. • High case – the NZD/USD is on average 5 cents lower than the mid case.

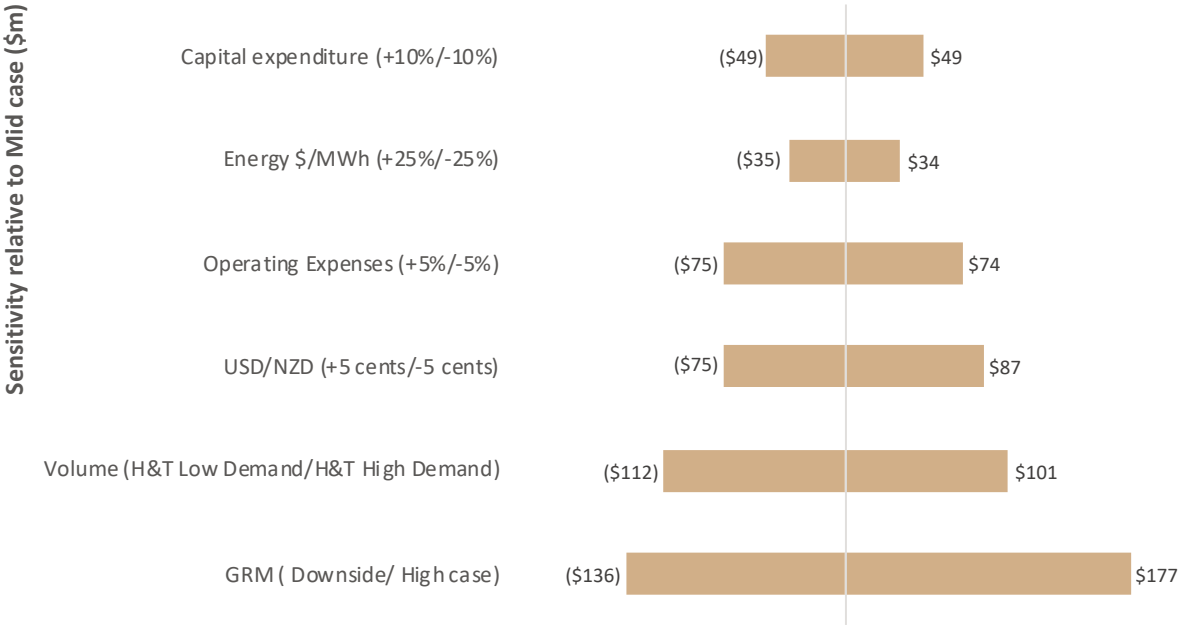
Operating expenses	The Simplified Refinery has materially higher operating expenses than the Import Terminal. The NPV analysis scenarios for operating expenses are based on the following assumptions: • Low case – Operating expense is on average 5% higher than the mid case. • Mid case – As modelled under both Simplified Refinery and the Import Terminal base cases. • High case – Operating expense is on average 5% lower than the mid case.
Capital expenditure	Simplified Refinery's average capital expenditure on maintenance is materially higher than the Import Terminal. The NPV analysis scenarios for operating expenses are based on the following assumptions: • Low case – Maintenance capital expenditure is on average 10% higher than the mid case. • Mid case – As modelled under both Simplified Refinery and the Import Terminal base cases. • High case – Maintenance capital expenditure is on average 10% lower than the mid case.
Throughput/ volume	The Simplified Refinery and the Import Terminal are sensitive to volume changes. The NPV analysis scenarios for volume are based on the following assumptions: • Low case – H&T low case which assumes there is sufficient demand to enable Refining NZ to operate at full capacity until 31 December 2033. • Mid case – H&T mid product demand case which assumes there is sufficient demand to enable Refining NZ to operate at full capacity until 31 December 2035. • High case – H&T high case which assumes there is sufficient demand to enable Refining NZ to operate at full capacity until 31 December 2039.
Energy costs	The Simplified Refinery is a materially higher user of energy than the Import Terminal. The NPV analysis scenarios for energy are based on the following assumptions: • Low case – Electricity prices are 25% higher than the base case from FY24. • Mid case – Electricity price forecasts are supplied by EnergyLink as at April 2021. • High case – Electricity prices are 25% lower than the base case from FY24.

Maintaining the Simplified Refinery will mean that Refining NZ will have continued exposure to GRM and USD/NZD exchange rate movements, and have higher operational and ongoing capital investment costs relative to the Import Terminal. The risk profiles of the Import Terminal and Simplified Refinery are fundamentally different. The Import Terminal is expected to provide stable ongoing revenues, while maintaining the Simplified Refinery is a more uncertain operating model. The uncertainty from the Simplified Refinery model stems largely from the volatility in GRM.

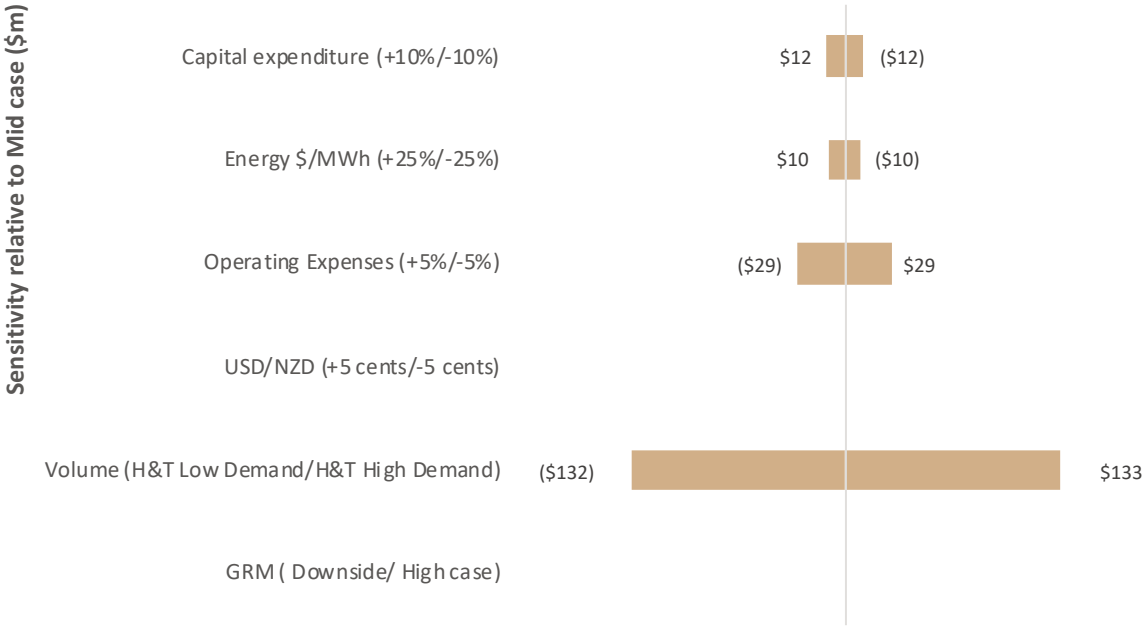
The following two graphs demonstrate the NPV ranges, relative to its base case, for each of the Import Terminal and Simplified Refinery individually when key value drivers are flexed. Note that the Import Terminal graph has no sensitivity to the USD/NZD exchange rate or GRM, rather the key value driver is volume of product stored and distributed via the terminal. For the Simplified Refinery the main value driver that influences the NPV is GRM followed secondly by volume. The Simplified Refinery's NPV is subject to a wider range of factors that can influence value outcomes than the Import Terminal, some of which can vary significantly. Together these graphs show the relative volatility of the Simplified Refinery compared with the Import Terminal:

GRANT SAMUEL

SIMPLIFIED REFINERY NPV RANGES (NPV DIFFERENCE $MILLIONS)



IMPORT TERMINAL NPV RANGES (NPV DIFFERENCE $MILLIONS)



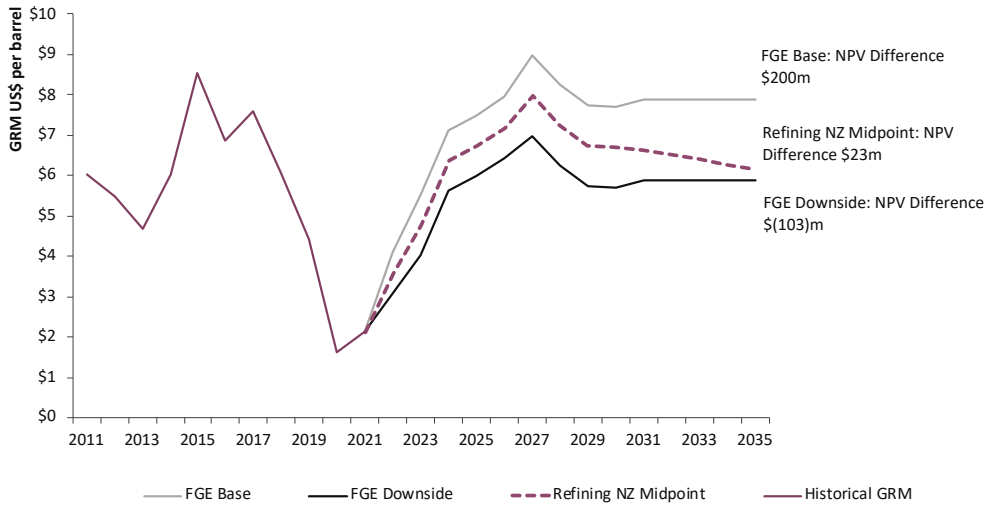
Based on Refining NZ's mid case the Simplified Refinery's NPV is approximately $23 million higher than the Import Terminal. This means that the Simplified Refinery has a more positive NPV outcome than the Import Terminal under the mid case. However, given the time horizon of the analysis, which extends to the end of 2050, this NPV difference is not considered material.

GRANT SAMUEL

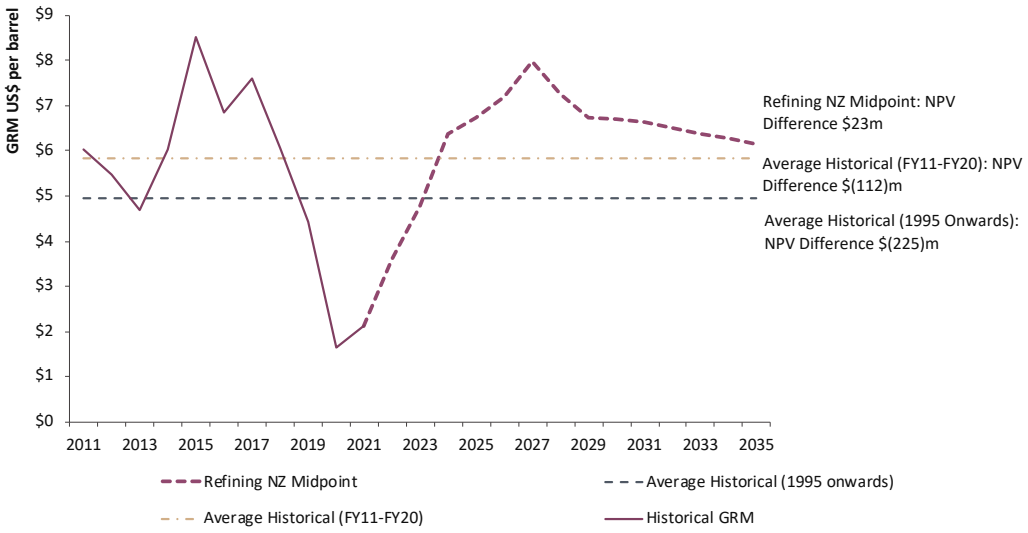
When assessing the differences in NPVs Grant Samuel also observes:

- the NPV analysis is most sensitive to movements in GRM. The GRM price path assumed in the base case developed by Refining NZ is informed by the FGE analysis outlined in section 6.5 and assumes a significant increase from current pricing as well as relative to long-term averages. The following two graphs summarise the NPV difference based on the forecast GRM price paths and includes the historical and long term GRM averages to enable comparison and assessment of the reasonableness of the forecast GRMs:

HISTORICAL AND FORECAST GRM – FGE AND REFINING NZ FORECASTS



HISTORICAL AND FORECAST GRM – REFINING NZ MIDPOINT AND ACTUAL AVERAGES[18]



[18] The NPV difference analysis using the two Historical Average curves assumes the Refining NZ Midpoint for FY21 to FY24 to reflect the short term outlook for GRM recovery.

- Forecasting GRM is extremely difficult and history indicates, as shown in the historical GRM graph in section 5.2, it is highly volatile. Care therefore needs to be taken when examining different GRM price paths.
- FGE's Downside case in the graph above shows GRM recovering in the short to medium term from the impact of COVID-19 and from excess refinery capacity. Under the FGE Downside case GRM peaks in FY27 at US$6.98, before declining back to a GRM that is relatively in line with the ten-year historical average of US$5.84. Based on FGE's Downside case the Import Terminal's NPV is approximately $100 million higher than the Simplified Refinery.
- The graph above shows that for the Simplified Refinery to have a higher NPV the GRM would have to be materially higher than the Average Historical (FY11-FY20) and Average Historical (1995 onwards) GRM cases from FY24 to FY35. Given the current refining industry outlook and historical GRM volatility, Grant Samuel has placed a greater weighting on the NPV outcomes of the lower GRM curves. These curves result in less favourable NPV outcomes for the Simplified Refinery compared with the Import Terminal.
- If GRM continues to remain weak in most circumstances the transition to an Import Terminal will be more beneficial to Refining NZ and its shareholders than maintaining the Simplified Refinery. It should also be noted that there are a number of consequences and risks which cannot be quantified if Marsden Point continues to operate as a Simplified Refinery, some of which are noted in sections 8.4 and 8.5.1.
- As the GRM is priced in USD the Simplified Refinery is sensitive to movements in foreign exchange. If the NZ dollar weakened against the US dollar the NPV improves for the Simplified Refinery and vice versa. The Import Terminal is not directly sensitive to the movement in the NZD/USD exchange rate.
- The Import Terminal's NPV is most sensitive to volume. The Import Terminal earns a higher proportion of revenue from throughput fees (directly linked to volume) which combined with largely fixed operating costs means a change in volume has a slightly greater impact on NPV (both positive and negative) relative to the Simplified Refinery. It is noted that under the high volume scenario the Import Terminal has a $9.1 million higher NPV than the Simplified Refinery.
- The NPV analysis is less sensitive to energy costs as this impacts both business models.
- Testing sensitivities of the NPV analysis is relatively simplistic in that it only assumes one variable moves at a time. Many of the key variables move directionally together but the precise impact of one variable on another and in combination is not possible to predict (e.g. GRM and NZD/USD).

8.3.4 Comparison of Financial Performance

The operating models of the Import Terminal and Simplified Refinery are materially different. To compare the financial performance of the two operating models Grant Samuel has reviewed the financial performance during FY26 based on H&T's base case volume forecast and GRM under the Average Historical (FY11-FY20) case, FGE Downside and FGE Base cases outlined in section 8.3.3 above. FY26 was selected as the most appropriate year for comparison because under both operating models there are no extraordinary costs in this financial year (e.g. conversion and demolition), in other words these can be proxies for normal operating years. This enables a like for like comparison:

IMPORT TERMINAL AND SIMPLIFIED REFINERY COMPARISON OF FINANCIAL PERFORMANCE FY26 ($MILLIONS)

	IMPORT TERMINAL		SIMPLIFIED REFINERY		
SCENARIO	**Base Case**		**Average Historical (FY11-FY20)**	**FGE Downside**	**FGE Base**
GRM	**NA**		**$5.84**	**$6.43**	**$7.93**
Total revenue	103.9		246.1	265.9	315.8
Total Operating Expenses	(30.5)		(135.1)	(135.1)	(135.1)
EBTIDA	**73.4**		**111.1**	**130.8**	**180.7**
Maintenance capital expenditure	(5.8)		(69.6)	(69.6)	(69.6)
EBITDA less maintenance capital expenditure	**67.6**		**41.5**	**61.2**	**111.1**

When assessing the differences in financial performance Grant Samuel observes the following:

- GRM can cause significant swings on the Simplified Refinery's revenue and consequently, EBITDA. EBITDA for the Simplified Refinery ranges under the three cases from $111.1 million to $180.7 million (a difference of $69.6 million).
- There is a substantial difference in operating costs between the Simplified Refinery cases above and the Import Terminal. The Import Terminal's forecast annual operating expenses are $104.6 million lower than those of the Simplified Refinery.
- The low and largely fixed operating costs of the Import Terminal (and the take or pay arrangements) are expected to provide relatively consistent income and EBITDA. The take-or-pay arrangements guarantee that the Import Terminal's revenue will be at least $100 million for the first three years, declining to $90 million for the following three years and then $65 million thereafter.[19] The effect of these arrangements and the fixed operating costs is that EBITDA (excluding one off extraordinary items) is forecast to be at least $70 million every year for the first six years of operation and beyond. This assumes the forecast volumes received by the Import Terminal are achieved and operating costs do not increase materially.
- The Import Terminal will have significantly lower maintenance capital expenditure. Ceasing refining operations means that no refining plant and equipment would need to be maintained for operations. As a result, the Import Terminal's maintenance capital expenditure is $63.8 million lower than the Simplified Refinery.
- To compare the impact on free cash flow Grant Samuel has used EBITDA less maintenance capital expenditure as a proxy. The outcomes of this in the financial performance comparison above are consistent with the NPV difference analysis outlined in section 8.3.3 above. The forecast financial performance in FY26 implies that GRM would need to be materially higher than the long-term historical

[19] Take-or-pay payments are subject to an annual escalation based on a combination of PPI indices published by Statistics NZ.

averages to generate superior free cash flows from operating as a Simplified Refinery than operating as an Import Terminal.

- The provision of private fuel storage if the Import Terminal transition proceeds has not been factored into the financial analysis above. This opportunity remains subject to ongoing assessment and negotiation with customers. Indicative numbers have been provided at section 7.2. Grant Samuel has discussed the provision of private fuel storage with Refining NZ's management and reviewed forecast expenditure and revenues. Grant Samuel understands the proposal will be for fixed monthly rental payments regardless of actual usage over a minimum period of 10 years, and is expected to be generate a return above Refining NZ's cost of capital. Based on Refining NZ's management forecasts the provision of private storage will be value accretive. Refining NZ's debt and ability to pay dividends are not likely to be materially impacted from the provision of this service.

In Grant Samuel's opinion, when considering less optimistic GRM curves, such as those representing historical averages, operating Marsden Point as an Import Terminal would be value accretive to Refining NZ's Non-Customer Shareholders and Shareholding Customers.

8.4 Benefits of the transition to an Import Terminal vs maintaining the Simplified Refinery

8.4.1 Removing Dependence on GRM

Refining NZ's profits are currently based primarily on its processing fees, which themselves are largely determined by the level of GRM. GRM is a measure which Refining NZ has no control or influence over. By moving to an Import Terminal model, reliance on GRM is removed and both Refining NZ and its Shareholding Customers will not be subject to the volatility in revenues and earnings that are a consequence of this exposure. Converting to an Import Terminal will likely mean more stable earnings and this may correspond to Refining NZ having the ability pay a more consistent dividend year-to-year.

8.4.2 Improved Financing Flexibility

Refining NZ has worked with its banking syndicate on funding a conversion to an Import Terminal and two of its existing banks have indicated a willingness to consider both extending and increasing their funding lines to fund the conversion. The banks have indicated that converting to an Import Terminal will improve Refining NZ's credit metrics but they expect a pathway to deleveraging.

Operating as a Simplified Refinery with GRM below US$4.40 (the Fee Floor equivalent margin) has meant that Refining NZ is operating cash breakeven but not generating positive net cash flows. The banking syndicate may seek a significant reduction in debt or will not continue to offer the current level of funding support should Marsden Point continue to operate as a Simplified Refinery and if GRM does not improve. This is because Refining NZ's ability to repay debt would be limited. In these circumstances, the current shareholders may be called upon to contribute equity to the Company. By contrast, the transition to an Import Terminal will likely allow Refining NZ to improve long term cash flow generation and therefore be more able to meet its debt obligations. This may also provide Refining NZ with improved financial flexibility to pursue future growth opportunities.

8.4.3 Potential Shareholding Customer action if Simplified Refinery is maintained

The following are three potential options available to the Shareholding Customers if the Simplified Refinery is maintained:

- terminate the processing agreements on 12 months' notice;
- re-commence pursuing the current disputes with Refining NZ in relation to the Simplified Refinery; and
- continue operating under the processing agreements but not re-commence pursuing the current disputes with Refining NZ in relation to the Simplified Refinery.

If the Simplified Refinery is maintained and the Shareholding Customers terminate their processing agreements this would likely force Refining NZ and the Shareholding Customers to negotiate an outcome, enter new processing agreements or for the Shareholding Customers to rely solely on imported refined product. If negotiations were to occur the length of these cannot be known but such negotiations would likely be difficult and may not result in a satisfactory outcome for Refining NZ, the Shareholding Customers or the Non-Customer Shareholders.

If the Simplified Refinery is maintained then the disputes between Refining NZ and its Shareholding Customers are likely to become active again. These disputes could result in an extended period of negotiation to attempt to come to a resolution, which may take several years. The disputes could also escalate and result in litigation, which is likely to be both lengthy and costly and will distract management from the day-to-day operations of Refining NZ and may damage the relationship between Refining NZ and its Shareholding Customers. By contrast, if the transition to an Import Terminal proceeds then the disputes are likely to be resolved.

8.4.4 Potential resumption of dividend payments

The dividend policy of Refining NZ will continue to be determined by the Board whether the transition to the Import Terminal proceeds or the Simplified Refinery is maintained. Dividends will only be declared if appropriate solvency requirements are met.

If the transition to an Import Terminal is approved then Refining NZ aims to resume a meaningful dividend payment policy as soon as possible post-conversion, while achieving target leverage levels outlined in section 7.5.2 above. Grant Samuel understands Refining NZ currently intends to pay dividends of between 60-70% of free cash flow if the transition were to occur. Refining NZ currently expects to resume the payment of regular dividends 1-2 years after terminal operations commence subject to deleveraging.

8.4.5 Take-or-Pay Protection will Provide a Minimum Income

The in-principle terms agreed with the Shareholding Customers provide for minimum payments to be made to Refining NZ whether its services are used or not. These have been described at section 7.3 and ensure that Refining NZ receives a guaranteed level of income which will enable it to cover its operational expenditure and meet its planned additional borrowing obligations. Based on the forecast demand, the take or pay protection may only be required to be relied upon in the first two years of operating the Import Terminal as positive and stable operational earnings are expected to be generated from its first year of operations onwards (excluding one off extraordinary items such as conversion and shut down costs).

Under Refining NZ's existing processing agreements similar protections to the take-or-pay arrangements exist in the form of the Fee Floor payments. However due to the costly nature of the Simplified Refinery's operations the Fee Floor enables Refining NZ to only operate at a cash flow break even and GRM has to exceed approximately US$4.40 to achieve a profit, while the take-or-pay payments under the Import Terminal allow Refining NZ to operate materially above the cash flow break even level as summarised in section 7.4 above.

8.4.6 Impact on liquidity of Refining NZ shares

An Import Terminal that has consistent earnings and dividend payments is likely to be assessed as being a more stable infrastructure investment. This may be more attractive to wider range of future investors than if Refining NZ continued to operate Marsden Point as a Simplified Refinery. If this were to occur then the liquidity of Refining NZ's shares may improve.

8.4.7 Reduced Operational Complexity

The Marsden Point Refinery is a complex industrial operation which requires considerable skill to ensure the safe and efficient conversion of crude oil into petrol, diesel and jet fuels. It is capital intensive and requires significant investment to maintain safe operations. Despite recovering substantial Fee Floor payments from its Shareholding Customers when GRM is lower than approximately US$4.40 it is only able to operate at low or breakeven cash flows under the Simplified Refinery. An Import Terminal is significantly less capital intensive, has a much smaller workforce, and generates reasonably predictable positive cash flows.

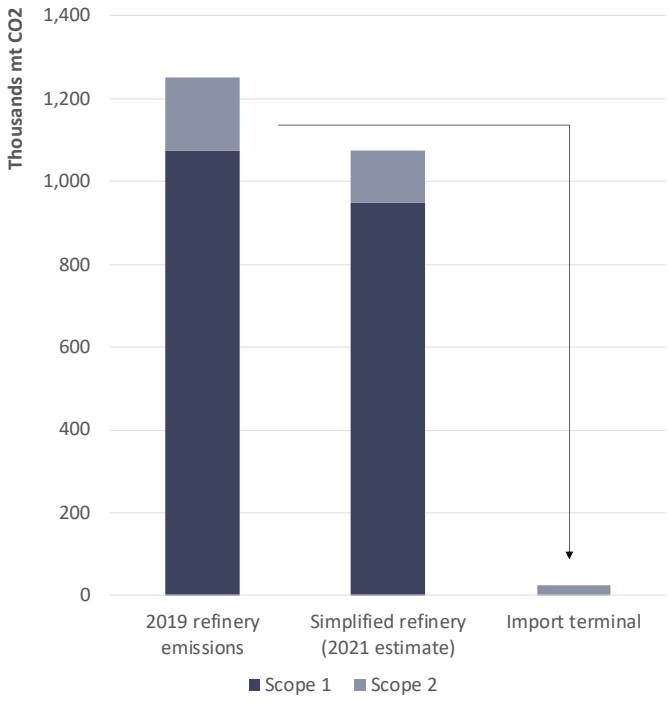
8.4.8 Lower Carbon Emissions for Refining NZ and New Zealand

Refining NZ is currently one of New Zealand's largest carbon emitters. The transition to an Import Terminal is expected to result in Refining NZ's carbon emissions reducing by 98% or over 1 million tonnes of CO_2 compared with the Simplified Refinery. This would result in a significant reduction in New Zealand's direct emissions and is equivalent to approximately 5% of New Zealand's total emissions reduction target by 2030.

An Import Terminal would be the lowest cost option and the least carbon intensive to deliver fuel to the Auckland and Northland markets.[20]

While operating as a Simplified Refinery has resulted in lower emissions than in 2019, operating in this lower output mode is less efficient and has meant an increase in the intensity of emission (per tonne of refined product produced). The following chart shows a comparison of the emissions under the Simplified Refinery and Import Terminal:

REFINING NZ SCOPE 1 AND 2 CO_2 EMISSIONS[21]



8.4.9 Reduced Electricity Consumption

Refining NZ is one the larger users of electricity in the New Zealand, accounting for just under 1% of the national load at approximately 290 GWh p.a. Refining NZ expects that converting to an Import Terminal system would result in its electricity consumption falling by approximately 85% compared with operating the Simplified Refinery. Electricity would still remain a significant operating cost under an Import Terminal. This reduced consumption and Refining NZ's potential Maranga Ra solar farm project are potential ways for Marsden Point to further reduce carbon emissions while also reducing electricity costs.

Refining NZ is also a large user of gas in New Zealand. Refining NZ is today unable to purchase the natural gas volume required to optimally run the refinery and at the lowest carbon intensity.

8.4.10 Regulatory Relief and Less Uncertainty in a Changing Regulatory Environment

The regulatory environment is expected to become more challenging for Refining NZ if it plans to continue refining operations in the long term. Refining NZ is currently exempt from the Climate Change Response Act 2002 (**CCRA**). This exemption expires in on 31 December 2022 and unless the exemption is extended or there is other regulatory change, Refining NZ will be subject to the full obligations of the CCRA if it continues to operate as a Simplified Refinery. Accordingly, Refining NZ will be subject to the ETS as an Emissions Intensive

Trade Exposed (**EITE**) business. This means Refining NZ will receive a free allocation of carbon credits based on its 2006-2009 emissions data. The Climate Change Response (Emissions Trading Reform) Amendment Act 2020 provides for a 1% per annum phase out of rates of assistance over 2021 to 2030. This phase out and Refining NZ using up its allocated units will mean further emissions units will need to be acquired. It can do this by:

- buying them from other participants or at government auction;
- earning them by ETS removal activities; or
- buying them from external offset mechanisms

A material increase in carbon unit prices or a change in the units allocated to Refining NZ could have a material financial impact on the Company. If Refining NZ instead transitions to an Import Terminal then it will significantly reduce its carbon emissions.

8.4.11 New Business Opportunities

The transition to an Import Terminal presents Refining NZ with a range of opportunities in the future, which under a Simplified Refinery it would be unable or restricted in its ability to access. Converting to an Import Terminal will result in 80% of existing tank capacity and approximately 65% of usable land at Marsden Point being surplus to import terminal requirements.

Refining NZ's Marsden Point site and existing infrastructure could transition to importing, producing, storing and distributing biofuels and sustainable aviation fuels (**SAF**), liquefied natural gas (**LNG**) and hydrogen. Exporting and blending opportunities also exist. The additional tank capacity and land space could be used to store fuels or provide services for customers outside the Shareholding Customers. The additional land available could also be leased or sold. Such decisions in relation to future opportunities will be made by Refining NZ having regard to the strategic objectives of the Company and its funding capacity. The NPV analysis summarised in section 8.3.3 does not include any value for these business opportunities.

8.4.12 Known and Predictable Transition Plan Today

If the Marsden Point Refinery is converted to an import terminal in 2022 then the costs of carrying out the conversion are reasonably known. Total one-off costs are estimated at approximately $200-220 million over 5-6 years (excluding refinery demolition costs). In addition, engineering and planning work has already been carried out. Under the Simplified Refinery model the conversion to an import terminal is still planned to be completed during 2035.

8.4.13 Import Terminal Advantages for Auckland and Northland

The Import Terminal is likely to offer several advantages compared with importing fuel through Mt Maunganui or another import facility and trucking it via road tanker to Auckland and Northland. Trucking from another import facility would be very expensive and unpopular given the resulting additional number of tankers on the road. In addition, Mt Maunganui fuel terminals do not currently have sufficient capacity to meet Auckland and Northland's fuel requirements. Other fuel terminals are further away than Mt Maunganui and also lack the required capacity. In Grant Samuel's opinion importing and trucking via Mt Maunganui is an unlikely outcome that the Shareholding Customers could take.

8.5 Costs, Disadvantages and Risks

8.5.1 Contrasting risks between the Import Terminal and the Simplified Refinery

A Simplified Refinery and Import Terminal are fundamentally different business propositions and have different risk exposures. The following table shows some of the key risk factors and the extent of exposure relevant to operating an Import Terminal and the Simplified Refinery.

	RISK FACTOR EXPOSURE	
RISK FACTOR	**SIMPLIFIED REFINERY**	**IMPORT TERMINAL**
GRM	**High** Under a Simplified Refinery GRM remains the key determinant of Refining NZ's processing fee and profitability. Since the introduction of GRM it has varied from US$1.40 to US$11.30 per barrel.	**N/A** Under an Import Terminal there is no exposure to GRM.
NZD/USD	**High** Exposure to NZD/USD fluctuations remains through GRM (which is measured in USD).	**N/A** All fees are payable in NZD.
Throughput/ volume	**Medium** As demand for fuels products falls, the proportion produced at Marsden Point will likely increase and the proportion imported by the Shareholding Customers will likely fall as the Fee Floor incentivises them to utilise Marsden Point. In other words volume decline is assumed to displace imports (until 2035) rather than locally refined product.	**Medium** Due to the take or pay arrangement for the first three years there is limited risk in relation to throughput/volume as this is the 100% take-or-pay period where the Shareholding Customers either have to supply full volumes or pay the equivalent fee to Refining NZ. Longer term there is scope for inter-year volatility and volume decline.
OPEX	**High** Includes a high proportion of costs related to energy and a specialist workforce. In addition, there is some future carbon price uncertainty.	**Low** Materially lower and largely fixed cost base. However, there may be some long-term exposure to indexation versus actual costs (i.e. actual costs may rise faster than PPI).
CAPEX	**Medium** Refining assets are more operationally complex than an Import Terminal, with greater uncertainty regarding future maintenance requirements.	**Low** Once established an Import Terminal has relatively limited ongoing capital requirements, primarily related to tank maintenance.
Transition and conversion costs	**Medium** If the Simplified Refinery is maintained, conversion to an import terminal is assumed to commence from 2036. Future conversion costs are uncertain – related considerations include expected lower storage requirements, and negotiation of commercial terms and funding in the context of lower demand.	**Medium** Converting to an import terminal is a complex process completed over several years. A detailed plan and set of cost estimates has been developed, however there is potential for cost overruns.

Customer	**High** Shareholding Customers have stated a clear preference to transition to an import terminal model, and have raised disputes under the processing agreements over the move to the Simplified Refinery model. The processing agreements provide Shareholding Customers with exclusive access to the refinery and RAP, while maintaining the ability to import through other ports and the right to terminate on 12 month's notice. The majority of Refining NZ's revenue is generated by the Shareholding Customers. If the transition to an Import Terminal does not occur, Shareholding Customers may for example explore the option of supplying coastal markets with more efficiently sourced imported products.	**Low** Shareholding Customers have stated a clear preference to transition to an import terminal model, and non-binding in principle agreement has been reached with Z Energy and bp. The import terminal will provide safe and efficient delivery of fuel products primarily to the Northland and Auckland markets. There is potential for new customers to have access to these facilities if the Shareholding Customers do not fully utilize the RAP.

8.5.2 Lost Profit Opportunities if the GRM Improves

If the GRM was to improve materially then transitioning to an Import Terminal would remove Refining NZ's ability to benefit from this change. This benefit is limited by an expectation it will be necessary to transition to an Import Terminal by around 2035, when the level of national petrol demand is forecast to fall below Refining NZ's viable production level.

8.5.3 Loss of Refining Capacity in New Zealand

One of the main disadvantages of transitioning to an Import Terminal would be that New Zealand would lose its only refinery. This means New Zealand will be dependent on other countries to manufacture refined products for the New Zealand market. This disadvantage should be seen in the context of the Shareholding Customers currently having to bring crude to the Marsden Point Refinery from overseas – crude oil is not sourced from New Zealand. This means that regardless of whether there is a refinery in New Zealand or not, New Zealand is and will remain dependent on overseas markets for both crude and refined products. In effect New Zealand only loses the end part of the production process of refined products, which it does not do competitively.

8.5.4 Risks to New Zealand's fuel security

The transition to an Import Terminal and consequent loss of refining functions will mean a significant reduction in national fuel inventory. Under the current Simplified Refinery arrangements Marsden Point typically holds crude oil and intermediate components equivalent to approximately 18 days' cover for New Zealand's fuel demand. Under the transition to an Import Terminal Refining NZ will hold no crude product and would hold refined product only for the Auckland and Northland markets. If there were a fuel crisis resulting in the inability or restriction on shipping refined products to New Zealand then this could increase the prospect of short-term fuel shortages or supply issues to the public, notwithstanding the point at 8.5.3 above regarding New Zealand's reliance on imports for crude. Refining NZ has capacity to continue to play a key role in New Zealand's fuel security options under consideration by the government by providing strategic fuel storage including keeping reserve fuel on site. The approximate amount of refined product to be held has not been determined at this time, however the unused tank capacity at the Marsden Point site from the transition has the potential to provide extra fuel storage.

8.5.5 Shareholding Customers are unlikely to invest in establishing competing operations

While low refined product demand negatively impacts the profitability of Refining NZ and its Shareholding Customers insofar as this results in a depressed GRM, the fee arrangements provide a disincentive for the Shareholding Customers to invest in competing infrastructure when Refining NZ's revenue falls to Fee Floor levels. This is because the Shareholding Customers are required to pay Fee Floor amounts regardless of whether they use the refinery or not. Lower utilisation of refining capacity results in greater Fee Floor contribution payments.

When the GRM rises above Fee Floor levels, but remains low, then refinery production may not be competitive with imports in the coastal ports because the Shareholding Customers' 30% share of GRM is insufficient to offset coastal shipping costs. This could incentivise customers to under-utilise their refining capacity and increase import volumes. If this was to occur it would reduce Refining NZ's throughput and Refining NZ may need to convert to an import terminal earlier than 2035.

Transitioning to an Import Terminal means Refining NZ would still have to be competitive with alternate supply chains into the Auckland and Northland markets, noting that the Shareholding Customers are contracted for an initial term of ten years and are incentivised to maximise utilisation under the TSA. The risk that Marsden Point will not be competitive as an Import Terminal and that the Shareholding Customers would invest in alternate supply chains is assessed as low.

8.5.6 One-off Import Terminal Conversion Costs

The transition to an Import Terminal would result in Refining NZ incurring one-off Terminal conversion costs. Refining NZ has estimated the total costs to transition to an Import Terminal will be approximately $200-220 million in the period up to commencement of terminal operations and over the subsequent 5-6 year period, with an additional $50-60 million (on a real basis) expected estimated for demolition costs. Refining NZ will have to fund this.

While significant, this cost is more than counterbalanced by predictable and stable cash flows from operating an Import Terminal. Refining NZ has received credit approval from lenders, subject to the conclusion of satisfactory documentation and satisfaction of conditions precedent, to extend the $25 million facilities maturing in the current year and increase the available facilities by approximately $30 million.

8.6 Tax Issues

The transition to an Import Terminal would be expected to result in significant tax losses of approximately $300-330 million being generated from the write-off, or disposal, of obsolete refining assets. In addition, approximately $55 million of tax losses were recognized at 31 December 2020 and a similar level of additional losses could be generated in the 2021 financial year through to the commencement of Import Terminal operations. This means that Refining NZ's tax losses could amount to $400-440 million on or after the commencement of Import Terminal operations.

Tax losses would be used to offset future taxable income provided that Refining NZ meets the loss carry forward rules prescribed by the Income Tax Act 2007 either relating to the shareholder continuity test or alternatively the business continuity tests.

Refining NZ does not know whether it will be able to fully utilise its losses as this will depend on Refining NZ being able to meet the shareholder continuity test or business continuity test. Assuming these tests are met, how long it will take to fully utilize the tax losses will be a function of the amount of tax losses incurred though to the commencement of Import Terminal operations, the amount of the tax loss that will arise on the write-down of the refining asset base and the performance of the Import Terminal business in future years.

Refining NZ currently has $21 million of imputation credits available which will allow for $55 million of fully imputed dividends. Once the imputation credits are utilised all dividends will be taxed at each individual

shareholder's marginal tax rate until tax losses are utilised. At this point income tax will become payable again and imputation credits will be generated.

The paragraphs set out above only outlines the major tax consequences of the transition. It does not purport to represent formal tax advice regarding the proposed taxation consequences for Refining NZ or its shareholders.

8.7 Possible outcomes of the Shareholders Vote

8.7.1 Voting Threshold outcomes

If the transition to an Import Terminal is approved then Refining NZ will cease operations as a refinery by mid-2022 and begin operating as a facility dedicated to importing, storing and distributing refined fuel products primarily to the Auckland and Northland regions.

If the Non-Customer Shareholders do not approve the transition then the Marsden Point Refinery will continue to operate as a Simplified Refinery, with the current expectation of transitioning to an Import Terminal by 2035 due to falling petrol demand.

If such a transition was deferred until this or another future date Refining NZ would seek the requisite shareholder approvals at that time. The approvals that would be required under current law are:

- 75% of the votes cast by shareholders entitled to vote and voting under NZX Listing Rule 5.1.1 and section 129 of the Companies Act; and
- a simple majority of the votes cast by the Non-Customer Shareholders entitled to vote and voting under listing rule 5.2.1.

8.7.2 Terms obtainable with Shareholding Customers may not be as favourable in the future

The non-binding in-principle terms agreed with bp and Z Energy have been negotiated on an arms-length basis, with oversight by the independent directors of Refining NZ in line with its board charter and independent directors charter. The agreed terms have taken a significant amount of time and resource to negotiate, including coordination with three Shareholding Customers.

If the Simplified Refinery is maintained and the transition to an Import Terminal occurs at a later date then new arrangements would need to be negotiated with the Shareholding Customers at that time. There is a risk that such arrangements may not be as favourable as the in-principle terms currently agreed, especially if circumstances within the global refinery and fuels industries do not improve.

In addition, any such future arrangements agreed with the Shareholding Customers would likely require the approval of at least a majority of Refining NZ's Non-Customer Shareholders, depending on the application of Companies Act and the NZX Listing Rules. This approval may be difficult to obtain if the terms are less favourable.

8.8 Shareholder Decisions

The decision of each shareholder whether to vote in favour of the transition to an Import Terminal is a matter for individual shareholders based on each shareholder's view of the transition to an Import Terminal including value and future market conditions and their particular circumstances including risk profile and investment strategy. Shareholders who are in doubt as to what action they should take in relation to the transition should consult their own professional adviser.

Any decision to continue to hold shares in Refining NZ is a separate investment decision upon which Grant Samuel does not offer an opinion. Shareholders should consult their own professional adviser in this regard.

8.9 Conclusion

Refining NZ has entered into non-binding in-principle arrangements with two of its Shareholding Customers, Z Energy and bp, to implement an Import Terminal at Marsden Point.

In Grant Samuel's opinion maintaining the Simplified Refinery until 2035 would be a sub-optimal outcome for Refining NZ and its shareholders. Grant Samuel believes the transition to an Import Terminal on the basis of the non-binding in-principle terms which have been agreed is fair to the Non-Customer Shareholders of Refining NZ. This opinion reflects the following key considerations:

- **Grant Samuel has compared the estimated value outcomes of operating as a Simplified Refinery and Import Terminal under a range of scenarios. The analysis focuses on the relative value of the Simplified Refinery and Import Terminal. The analysis indicates that if the GRM does not improve to levels that are materially higher than the long-term historical averages then Refining NZ's Non-Customer Shareholders would be better off if Marsden Point operated as an Import Terminal.**
- **Operating Marsden Point as an Import Terminal will likely lead to less volatility in earnings than if it continued to be operated as a Simplified Refinery. This is primarily a result of the removal of exposure to the GRM. More stable earnings would better enable Refining NZ to pay more consistent dividends year to year. In addition, Refining NZ currently expects to resume dividends within 1-2 years of Import Terminal operations commencing, which is approximately three years earlier than currently expected under the Simplified Refinery.**
- **The conversion to an Import Terminal may lead to Refining NZ improving cash flow generation and therefore be better able meet its borrowing obligations. Over the longer term operating an Import Terminal may lead to improved financing terms for Refining NZ and Refining NZ will be well positioned to achieve shadow investment grade credit rating if its forecasts are achieved.**
- **Transitioning Marsden Point to an Import Terminal is likely to resolve the disputes between Refining NZ and its Shareholding Customers. By contrast, continuing as a Simplified Refinery is likely to cause these disputes to become active again. The outcome of such disputes cannot be known but any process would likely be lengthy, costly and distract management from the day-to-day operations of Refining NZ.**
- **Refining NZ would likely be assessed as a more stable infrastructure investment if the conversion to an Import Terminal proceeds. This may attract a wider pool of investors and consequently improve the liquidity of Refining NZ shares.**

GRANT SAMUEL

APPENDIX A – QUALIFICATIONS, DECLARATIONS AND CONSENTS

1. Qualifications

The Grant Samuel group of companies provides corporate advisory services in relation to mergers and acquisitions, capital raisings, corporate restructuring and financial matters generally. One of the primary activities of Grant Samuel is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 400 public expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Michael Lorimer, BCA, Christopher Smith, BCom, PGDipFin, MAppFin and Myles Snaddon, LLB, BCom, CFA. Each has a significant number of years of experience in relevant corporate advisory matters.

2. Limitations and Reliance on Information

Grant Samuel's opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. The report is based upon financial and other information provided by the directors, management and advisers of Refining NZ. Grant Samuel has considered and relied upon this information. Grant Samuel believes that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld.

The information provided has been evaluated through analysis, enquiry, and review for the purposes of forming an opinion as to the underlying value of Refining NZ. However in such assignments time is limited and Grant Samuel does not warrant that these inquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose.

This timeframe restricts the ability to undertake a detailed investigation of Refining NZ. Grant Samuel has not undertaken a due diligence investigation of Refining NZ. In addition, preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Refining NZ. It is understood that, where appropriate, the accounting information provided to Grant Samuel was prepared in accordance with generally accepted accounting practice and in a manner consistent with methods of accounting used in previous years.

An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of the management of the relevant enterprise. That information was also evaluated through analysis, enquiry and review to the extent practicable. However, it must be recognised that such information is not always capable of external verification or validation.

The information provided to Grant Samuel included projections of future revenues, expenditures, profits and cash flows of Refining NZ prepared by the management of Refining NZ. Grant Samuel has used these projections for the purpose of its analysis. Grant Samuel has assumed that these projections were prepared accurately, fairly and honestly based on information available to management at the time and within the practical constraints and limitations of such projections. It is assumed that the projections do not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise.

However, Grant Samuel in no way guarantees or otherwise warrants the achievability of the projections of future profits and cash flows for Refining NZ. Projections are inherently uncertain. Projections are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of management. The actual future results may be significantly more or less favourable.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue. In forming its opinion, Grant Samuel has assumed, except as specifically advised to it, that:

- the title to all such assets, properties, or business interests purportedly owned by Refining NZ is good and marketable in all material respects, and there are no material adverse interests, encumbrances, engineering, environmental, zoning, planning or related issues associated with these interests, and that the subject assets, properties, or business interests are free and clear of any and all material liens, encumbrances or encroachments;
- there is compliance in all material respects with all applicable national and local regulations and laws, as well as the policies of all applicable regulators other than as publicly disclosed, and that all required licences, rights, consents, or legislative or administrative authorities from any government, private entity, regulatory agency or organisation have been or can be obtained or renewed for the operation of the business of Refining NZ, other than as publicly disclosed;
- various contracts in place and their respective contractual terms will continue and will not be materially and adversely influenced by potential changes in control; and
- there are no material legal proceedings regarding the business, assets or affairs of Refining NZ, other than as publicly disclosed.

3. Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of the value of Refining NZ. Grant Samuel expressly disclaims any liability to any Refining NZ security holder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

4. Independence

Grant Samuel and its related entities do not have any shareholding in or other relationship or conflict of interest with Refining NZ that could affect its ability to provide an unbiased opinion in relation to the value of Refining NZ. Grant Samuel will receive a fixed fee for the preparation of this report.

5. Information

Grant Samuel has obtained all the information that it believes is desirable for the purposes of preparing this report, including all relevant information which is or should have been known to any Director of Refining NZ and made available to the Directors. The following information was used and relied upon in preparing this report:

5.1 Publicly Available Information

- Refining NZ Annual Reports;

- Refining NZ NZX announcements;
- Refining NZ Notice of Meeting and Explanatory Booklet;
- brokers' reports and press articles on Refining NZ and the refining industry; and
- share market data and related information Refining NZ and other businesses engaged in the refining industry sourced from Capital IQ and NZX Company Research Services.

5.2 Non Public Information

- Board minutes and discussion papers;
- Strategic plans and forecast financial guidance;
- H&T forecast demand analysis;
- FGE GRM forecasts;
- other confidential documents, presentations and working papers.

6. Declarations

Refining NZ has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a Court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. Refining NZ has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action. Any claims by Refining NZ are limited to an amount equal to the fees paid to Grant Samuel.

Advance drafts of this report were provided to the directors and executive management of Refining NZ. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

REFINING NZ

The Marsden Point Conversion Proposal

Explanatory Booklet and Independent Appraisal Report