The New Zealand Refining Company Ltd
60th Annual Meeting of Shareholders
Tuesday 29th June 2021 at 2:00 pm
Held at Level 4 Lounge, South Stand, Eden Park, Reimers Ave, Kingsland,

CEO Naomi James address

Thank you, Simon; it's great to be able to meet with those of you in the room today, in-person this year.

This year is our sixtieth anniversary as a company. In normal times, we would be celebrating those sixty years. Instead, our focus today is on acknowledging the company's resilience in surviving the last year which has been the most challenging in our Company's history, and planning carefully for the company's future.

We met the challenges of 2020 by focusing on the three things we had to get right:

- Operate safely
- Meet our commitments to customers
- And reset our cost base to operate cash neutral

Your company achieved excellent performance in each of these key areas.

We had our best safety performance on record, with no Tier one or two process safety incidents and no recordable personal safety incidents.

We met our commitments to customers.

This safety and operational performance was particularly exceptional in a year that required us to do things we had not done before. Operating the refinery units on a rotating basis and temporarily shutting down the refinery to rebalance fuel supply with the COVID-19 impacts on fuel demand.

Finally, we acted swiftly to reset our cost base to fee-floor levels – reducing planned expenditure in 2020 by eighty million dollars. Our strong financial management resulted in the Company's net debt closing some ten million dollars lower at the end of the 2020 financial year, despite margins remaining below the Fee Floor through the year.

We wouldn't have achieved any of this, without the incredibly capable and committed workforce we have at Marsden Point. I want to acknowledge both the results our people have delivered and the fact they have achieved this in the face of an uncertain future.

The challenging market faced in 2020 came through both margin and fuel demand.

Refining margins were weak at the start of the year due to growth in the supply of refined product from larger, low-cost refineries in the Asia-Pacific region which exceeded the growth in demand for transport fuels.

The global drop in demand triggered by COVID-19, particularly for jet fuel, weighed heavily on the already oversupplied market and placed yet more pressure on margins.

The result was a negative average Singapore Complex Margin across the year of minus one point six-five US dollars per barrel.

The Gross Refining Margin earned was one point six-three US dollars per barrel

– the second lowest since the 1995 Processing Agreements came into effect.

Demand for fuel dropped by fifty per cent during the period New Zealand was in Level four lockdown. Petrol and diesel recovered to more normal levels later in year, however jet demand remained impacted by the ongoing border travel restrictions, resulting in refinery throughput at seventy per cent of 2019 levels.

Having reset our cost base, the Fee Floor in the Processing Agreements protected us to a significant extent from these lower margin and demand levels, with our customers contributing around ninety million dollars in Fee Floor payments. The Fee Floor is the minimum level of processing fees our customers pay for operation of the refinery, irrespective of actual refining margins or throughput, and this was in operation for the whole of 2020 and through the 2021 year to date.

At the beginning of this year, the Company moved to a Simplified Refinery model in order to maintain cash neutral operations at the Fee Floor in 2021.

The Simplified Refinery model has seen primary crude intake reduced by around eighteen per cent, with total refined fuel production levels similar to levels at the time of commencement of the Processing Agreements in 1995. It has also seen the cessation of bitumen production at Marsden Point.

An organisational restructure reduced the workforce by twenty-five per cent. We set ourselves the target of supporting all our employees impacted by these changes to find new work or training opportunities, which we have largely achieved, with support ongoing today for only a couple of employees.

Simplification of refinery operations has provided our Company the time to fully assess and plan for a transition from refinery to import terminal operations, which I will turn to now.

Simon has already covered our Strategic Review process to determine the optimal future operating model for our business.

I will cover in some more detail what an import terminal operation would involve.

- Utilising our deep water harbour and jetty infrastructure, our customers would import refined fuel to Marsden Point, instead of the crude oil they import today for refining.
- Fuel would be stored at the Marsden Point site in existing tanks at what would be the largest fuel terminal in New Zealand, with one hundred and eighty million litres of shared capacity and capacity to provide additional storage.
- We would continue quality fuel testing services both at the Marsden Point site and around New Zealand, through our IPL business.
- Fuel from Marsden Point would be distributed primarily to the Auckland and Northland markets, which make up around forty per cent of New Zealand fuel demand, through the one hundred and seventy kilometre Refinery to Auckland Pipeline and the truck loading facility adjacent to the Marsden Point site.
- Our existing customers would continue to be our foundation customers, with long-term contracts and take-or-pay commitments supporting the investments made through a conversion from refinery to import terminal.
- And if in the future unutilised capacity existed, we would have the ability to bring in new customers.

The import terminal operation would primarily use existing finished product storage tanks, with upgrades required to piping, tank compound bunds, and fire protection systems for site safety and to ensure operational efficiency.

As you can see from the image of the site on the slide, the Import Terminal will only require a small portion of our current facilities and site footprint. This presents the Company with an opportunity for a number of different site repurposing options, some of which I will outline in more detail shortly.

The proposed Import Terminal, and the opportunities for using the site, are underpinned by our long-term commitment to Marsden Point, reflected in the granting this year, of a thirty five-year Resource Consent to operate as a heavy industrial site. This consent, our deep harbour and jetty access, industrial electricity and gas connections, and proximity to the largest population base in New Zealand all support our commitment to ongoing operations at Marsden Point over the long term.

As part of our Strategic Review, we have looked closely at future fuel demand in New Zealand and the Climate Change Commission's important work to develop advice for Government on New Zealand's first carbon budgets and plans to achieve these.

As you can see from the forecasts, our product mix is expected to be weighted towards jet and diesel in the future. The Climate Change Commission's report this year has 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. The Commission'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.

As an import terminal, Refining NZ's existing infrastructure and repurposing of the Marsden Point site has the potential to support a transition to biofuels and sustainable aviation fuels.

There is a strong link between the energy challenges facing New Zealand today and the opportunities that exist for the Marsden Point site in the future.

Through a transition from local refining to imports, we need to ensure we hold sufficient fuel stock in-country, a role that has been performed up to now by our refinery with its crude and intermediate product stocks.

We face significant challenges in reliable and affordable gas and electricity supply today. A shift to imports will both reduce our exposure to, and demand for, gas and electricity and make a significant contribution to New Zealand's near-term emissions reduction. Finding solutions which deliver affordable and reliable supply of electricity and transport fuels, as well as reduced emissions, is the key problem to solve in achieving a decarbonisation of New Zealand's energy sector.

We are open to all options for the Marsden Point site, whether that's strategic fuel storage, the import, blending or production of biofuels or electricity supply and storage. Our focus will be on identifying opportunities where our infrastructure can both support the decarbonisation of New Zealand's economy and provide a return on investment for our shareholders.

The Company continues to work with customers to negotiate long-term arrangements for the import terminal model. Importantly, we have reached in-principle agreement with bp and Z Energy on key commercial terms, including price. Negotiations with Mobil are on-going.

The in-principle agreements we have reached include:

- Long-term commitments of at least ten years;
- A combination of fixed and volume-based fees, as well as take-or-pay commitments to deliver minimum revenues, and support the debt-funding of conversion costs;
- Fees averaging an estimated ninety-five million dollars across the initial ten-year term on a real basis; and
- The ability for new customers to access underutilised infrastructure, such as the RAP, or storage tanks.

Current Front-end Engineering and Design and detailed planning work is ongoing and work to date has not resulted in any material change to our previous guidance on costs.

Finally, we expect to generate significant tax losses from decommissioning of refining assets, which will be available to offset future earnings, subject to the loss carry forward rules.

I look forward to sharing more detail on these commercial arrangements and the financial implications for the Company, including for you as shareholders when we issue the notice of meeting and explanatory booklet ahead of a shareholder vote in the coming weeks.

As you can see from the timeline behind me, we are currently targeting a final investment decision by the end of Q-three this year.

In the meantime, we are progressing our customer negotiations and working on obtaining lender approvals and expect to shortly issue the Notice of Meeting and Explanatory booklet for a shareholder vote in August.

On these estimated timeframes, the likely time for the conversion to be completed would be in the first half of 2022.

Before concluding, I wanted to take a moment to reflect on our journey to reach this point, and to put on record my gratitude for the enormous work that has been put in by a huge number of people across the Company and the support we have had from a range of stakeholders.

I liken this process to a jigsaw puzzle, in that we have been working hard over the last year to find a long-term sustainable future for our business, and bring together a range of sometimes competing priorities.

I want to acknowledge firstly the support of our customers as we worked through options for our business, responded to the near-term challenges presented by COVID-19 and worked together on new long-term arrangements. These are always robust commercial discussions – as they should be – but throughout we have all remained focused on the need to keep the market supplied and safely operate what is a major hazardous facility.

I want to acknowledge our lenders who have supported us with additional lines through COVID-19 and continue to support us with the import terminal proposal, including funding for the transition.

I want to acknowledge the engagement we have had with Government, working together to ensure the key issues to manage through a transition are considered and addressed.

I also want to thank the members of the Refinery Transition Working Group formed last year, which provided support for our employees impacted by the simplification changes. This group is now focused on ensuring a planned transition for future changes at Marsden Point, which mitigates the impact of changes on refinery workers and the regional economy.

Finally, and of critical importance is our workforce and contractors who continue each and every day to focus on what's needed to operate our refinery safely and reliably, while planning for a very different future which will involve significant change for everyone at Marsden Point.

A just transition means a well-planned and managed transition, and my management team and I are focused on each piece of the puzzle as we go forward. We believe this is both the right thing to do and critical to setting our Company up for a long-term sustainable future, which delivers value for our shareholders.

The pieces of this complex puzzle are now coming together and I am looking forward to sharing more details with you of what's involved in the coming month.

Simon, back to you.

ENDS