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,

Chairman Simon Allen's address

2020 was unique in the Company's and this country's history, with the COVID-19 pandemic requiring an immediate response to maintain the Company's near-term resilience.

In the immediate onset of the COVID-19 pandemic we acted quickly and decisively, working with our customers to manage stocks and supply across the country. We agreed to change the way in which the refinery operated, to enable the refinery to produce at substantially lower rates to help balance fuel supply across the country.

The complex operational changes made during this period were completed while maintaining an exemplary safety performance on site.

In an environment that requires constant vigilance in regard to hazards even during normal times, this is a very significant achievement by both our employees and our contractors working on site. I want to put on record here today the Board's acknowledgement and appreciation of the support received from employees at all levels, to navigate the challenges presented by these unprecedented circumstances.

Turning to the Company's financial results, which reflect the challenging year that we have all had. Not only has the Company been dealing with the impacts of the COVID-19 pandemic, but a structural change in the refining sector meant that we also faced historically low levels of refining margins.

As a result, we acted quickly to reset the cost base, with a reduction of approximately eighty million dollars in 2020 planned expenditure, to keep costs within the Fee Floor and thus enable the Company to operate on a cash neutral basis. We took a range of measures to strengthen the balance sheet, including increasing and extending our bank facilities.

The net loss after tax of one-hundred and ninety-eight point three million dollars reflected the impact of lower volumes and refinery margins, together with a non-cash impairment charge of one-hundred and fifty eight million dollars after tax against the value of the Company's refining assets, reflecting a decline in the outlook for refining margins.

At the same time as addressing the immediate requirements, the Board commenced a Strategic Review process, to develop a clear plan for sustainable shareholder returns in the future.

In April 2020, following the commencement of Naomi as our new CEO, the Board initiated a strategic review to determine the optimal business model and capital structure for the Company.

The context included a significant fall in gross refining margin or GRM at the end of 2019. This was further exacerbated by the impacts of COVID-19 from early 2020 and returns from the refinery below the cost of capital over the previous ten years.

Forecasts prepared by independent expert market commentators suggested that it could be several years before a rebalancing of regional transport fuels supply and demand results in a meaningful recovery in GRM.

And there are structural challenges to the competitiveness of the refinery compared to newer Asian refineries, due to the relatively small scale and higher cost of operating in New Zealand, which includes significant increases in electricity and gas costs.

We were also necessarily conscious of the global movement towards, and New Zealand's focus on, reducing carbon emissions, with the emergence of new challenges and opportunities expected in the transition to low-carbon transport fuels over time.

With our very substantial investment in critical infrastructure which supports New Zealand's fuel supply, and with the need to realise full value and deliver more sustainable returns for shareholders, we considered the Strategic Review necessary to determine the best future use of those assets.

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.

Given the range of stakeholders involved and the long-term horizon for decision-making and implementation that future changes would involve, the Strategic Review process has been highly consultative.

The Board recognises that financial returns to shareholders have not been satisfactory for some years. We are committed to delivering on the outcomes of the review, to realise full value for the Company's assets and deliver more sustainable returns ‘through the cycle’ while continuing to support secure, competitive fuel supply for the country and a fair and well managed transition for employees and other Stakeholders.

Our combined efforts have brought the Company to a position in which short-term viability has been maintained - despite a major shock to both volumes and margins, and therefore revenues -and in which the options for strategic change have been clearly identified and advanced.

Now, to the import terminal.

Throughout this process, we have always maintained that our priorities were to realise full value for the Company’s assets and deliver more sustainable returns ‘through the cycle’, and to support our workforce, and the wider community through what, if approved, will be a significant change to Refining NZ’s operations.

Our customers have all expressed a desire for the Company to convert to an import terminal model. For our customers, an import terminal would offer certainty and stability on the cost of accessing the infrastructure and mitigating the need for Fee Floor payments.

For Refining NZ Shareholders, new long-term agreements with each of the existing refinery Customers (bp, Mobil and Z Energy), would generate significantly more stable earnings compared with the inherent volatility of oil refining to deliver superior “through the cycle” returns to shareholders.

The Company is in regular dialogue with the New Zealand Government on the potential conversion to an import terminal, to ensure that Refining NZ is well positioned to continue its role in operating infrastructure that is critical to New Zealand.

An import terminal would offer safe, reliable, and efficient fuel supply primarily to the Auckland and Northland markets. This proposal would also offer New Zealand's largest transport fuel storage capacity, and through the Refinery to Auckland pipeline, continue to supply nearly all of the jet fuel directly to Auckland International Airport. The import terminal would therefore be critically linked to New Zealand's largest expected export earner: tourism – underpinning long-term asset utilisation.

As you may have seen in recent weeks with the Climate Change Commission's final Advice to Government on carbon budgets, and decarbonisation of the New Zealand economy is a key priority for New Zealand.

As it currently operates, the Marsden Point oil refinery is one of New Zealand's largest carbon emitters. A conversion to an import terminal would result in a significant reduction in Refining NZ's emissions, by almost one million tonnes of C02 per annum.

Naomi will expand on this shortly, but I did also want to point out that a transition to an import terminal, will offer the Company potential opportunities to support the wider decarbonization of the New Zealand energy market through repurposing of the existing infrastructure. And we expect the one-off costs of conversion to an import terminal to be self-funded.

In terms of where we are in this process, you will have seen notification recently that the Company has concluded a non-binding, in-principle agreement on key commercial terms with the second of our three customers, Z Energy.

Negotiations remain ongoing with Mobil.

Ultimately, any decision to proceed with conversion to an import terminal will be subject to a vote by the non-customer shareholders.

Your Board expects to issue the Notice of Meeting and Explanatory Booklet, including an Independent Appraisal Report, shortly for a shareholder vote in August. This will set out the Board's assessment and recommendations on the import terminal proposal and provide you with the information to make this important decision on our Company's future.

I look forward to sharing with you soon our plans for the Company's future, which would generate significantly more stable earnings, deliver superior through the cycle returns to shareholders and strongly position the Company to participate in a decarbonising of the New Zealand energy markets.

I would now like to hand over to CEO Naomi James.

ENDS