REFINING NZ
Your Energy Hive

Chief Executive Officer's address

Thank you Chairman, good afternoon, to all of you.

Before I go in the detail of last year's performance, I would also like to acknowledge and thank my previous Chairman David Jackson, grateful as I am today for being given the opportunity to lead this fine company.

Most of you will be aware that Refining NZ was recognized at the Deloitte TOP 200 Awards Gala as winner of the most improved company award. We were up against stiff competition from such brilliant New Zealand companies as Zespri and Comvita and it was a privilege to receive the award on behalf of all Refining NZ staff and contractors.

What does the performance of a "most improved company" look like? Well here is a snapshot. Let's start with safe operations. Our lost time injury frequency rate came down and we almost finished the year without a lost time injury. While we will not rest until we have no lost time injuries at all, given the very physical nature of the work that our staff and contractors engage in, this presented a pleasing improvement.

Our total recordable case frequency was a different story. While good in a comparative New Zealand context, the rate went up and the 12 injuries that the TRCF represents, were 12 injuries too many. Some of these were minor; a couple of strains and dust in eyes as examples. Some were more serious or - equally importantly - had the potential to be much more serious.

I note that we include all on site contractors in our statistics and that we calculate our rates on a million hour basis. Hence they look five times as bad as statistics of typical New Zealand companies who divide by 200,000 work hours.

Moving from personal safety to process safety, you also see that we had one Tier 1 process safety incident. This is a classification of the American Petroleum Institute and –simplifying the definition a little - means an escape of product of more than 1,500 litres or causing damage worth more than US$25K.

Our single incident was escape of product onto the floating roof of a tank. A risk that is on our list of process safety improvement priorities for this year. I am pleased to report that as of last week, we believe we have identified the root cause of this problem.

We are totally committed to improving our safety performance and commissioned DuPont to carry out a review of both personal and process safety at Refining NZ. The review was positive with a set of practical improvement suggestions. We have translated these suggestions into an action plan for 2016 and part of 2017.

As operators of possibly the single largest high hazard unit in the country, we support fully the passing of the new Health and Safety law. We will be compliant in the required time frame, and we look forward to working with WorkSafe to improve on our record of safe operations.

At a personal level, I stepped down from the Board of the Business Leaders' Health and Safety Forum. I continue to support fully the forum's work. However, I felt it was important that small to medium enterprises got a bigger say in the evolving storyline of the forum.

On the environment side, you see we had two relatively minor consent breaches. When we have a severe weather event, we sometimes struggle to stay within consent and we have had and will continue to have, significant spend underway to improve our robustness in such cases.

Moving on to the jewel in the crown, our operational and financial performance - at the risk of repetition - you can see that it was an exceptional year from a barrels processed, operational availability and unit margin perspective.

Refining is a team sport and the RNZ crew deserves a lot of credit for the improvement over the past year. I feel honoured to be involved with the success of the team.

Recapping a little what Simon already talked about, let's have a quick look at our financial performance. Walking from left to right, you see that:

- Singapore margins provided NZ$99 million incremental income versus 2014. Let me expand on this a little, to add some colour to our results. I am often asked whether low crude prices are good or bad for our results. Normally, a low crude price environment is indicative of a world in economic recession. When the world is in recession demand for our products is low, hence product prices are low and margins are low. So normally, refinery margins are low in a low crude price environment. Not so this time, and in that sense 2015 was a pretty unique year, certainly in the 30+ years I have worked in the industry. Crude prices were low because there was too much crude as a result of the success of fracking the US, but product demand, particularly gasoline demand, was strong.

This unique circumstance meant that low crude prices were good for refining. Firstly, because we consume about 5% of our crude intake in the manufacturing process, 5% of US$100/bbl oil is US$ 5/bbl, 5% of US$50/ bbl oil is US$ 2.50/bbl; this gives an incremental US$2.50/bbl in refinery margin. Secondly, low crude prices were good for refining because of the strong demand for gasoline that resulted from the low price. In fact, the entire community of petroleum industry professionals and analysts were taken by surprise by the elasticity of gasoline demand to price. People saw lower gasoline prices and got their wallets out to buy SUVs. The US leading the trail, but for example, in China, consumers bought 2.5 million cars this January, up 7.8% from a year ago, with sales of SUVs soaring. Something similar is also happening in New Zealand.

So, this time round low crude prices were good for us, with the incremental Singapore margin of NZ$99 million mainly due to very strong gasoline demand growth (US$1.25/bbl) and low crude prices (US$2.50 /bbl) offset by weakness in diesel demand (-US$0.50/bbl).

- Our plant achieved another NZ$43 million uplift over that margin during the year. The two key contributing factors were our margin initiatives that we have talked about ($0.35/bbl) and plant availability ($0.72/bbl) with good operations and a hydrocracker shut in 2014 as the major explanatory variables;

- The extra barrels processed had a big impact on the result too, with NZ$23 million extra contribution over 2014;

- You see the impact of the cap at a negative NZ$14 million;

- Forex delivered a hefty NZ$58 million improvement over 2014. You have heard us talk about a cent on the exchange rate being worth NZ$2 million net income. With the average exchange rate moving 12 cents in our favour from an average 82 to 70 cents between 2014 and 2015, you see the impact per cent being of the order of NZ$5million. This of course as a consequence of the remarkably high unit gross refinery margin for 2015;

- Paradoxically, you see the early start of TMH leading to higher cost, for example for extra electricity, and you see our dredging feasibility work showing as extra cost between 2014 and 2015.

RMA application readiness for dredging the harbour is a high bar needing a multitude of studies and extensive community consultation. We are running multiple studies in parallel: a study to look at the impact of dredging on tidal flows and sedimentation, a

study on the impact on marine mammals such as whales and dolphins, a study on the impact of the benthic seabed population, a study on the impact of recreational fishing, a study on where to place the spoils, a study on safe channel design etc. etc.

We are making solid progress and hope to be able to present a comprehensive, consent application late this year or possibly early next year. I would like to acknowledge our local hapu, Patuharakeke who are guiding us through the tangata whenua consultation process.

No RNZ presentation on 2015 is complete without mention of Te Mahi Hou. Simon mentioned it's early and on budget 'go live'. We have had relatively few teething problems to date, we are on track for the extra gasoline production. While there are pluses and minuses in the performance of the unit and refinery in general, we are pleased with where we are.

So a really pleasing year with progress along many fronts and critical learning on improvements going forward.

Let's now spend a moment on our future plans. As Simon mentioned, the Board had a strategy away day in November, and the key take out was that our simple aspiration and strategies remain relevant going forward. The oil industry in general and refining in particular, is a long-term business of challenges and opportunities.

In pursuit of our dream of customers seeing us as their partner of choice we need to make sure we remain competitive and reliably deliver quality product to our customers. This is underpinned with a culture of pride in working safely, in protecting the environment and in our contribution to Northland's and New Zealand's economic and social success. If we do all that, then we will be well placed to deliver for you, our shareholders.

But it is not completely a "no change" story. We intend to shift our capital growth strategy from occasional big bullets to a more evenly spread spend over the next few years. Of the order of $10-$50 million per annum. This year our key growth initiatives are:

- our natural gas project;
- our dredging project;
- feasibility of extra crude tankage;
- an automatic pilot for the CCR; and
- near infrared spectroscopy as an efficient way to establish key product properties in our blend and final product specification performance.

Total growth spend for 2016 is budgeted at NZ$8 million.

All of which leads to the 2016 profit matrix. We tabulate for a set of GRMs and exchange rates our net income and end of year borrowing pre dividend.

As an example, if you expect the average exchange rate to be US70 cents and the average GRM to be $7/bbl, our net income is NZ$57 million and our end of year borrowing pre dividend is NZ$208 million.

Thank you

Sjoerd Post
Chief Executive Officer

4 May 2016