CHAIRMAN & CEO ADDRESS

REFINING NZ

ANNUAL GENERAL MEETING

12 APRIL 2019

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Chairman's address

It is a pleasure to welcome you all to the Company's Annual Meeting of Shareholders.

The dominant theme of the Company's performance in 2018 is the essential value that the strong and reliable running of our refinery has for the future of our business, for our shareholders, customers and for New Zealand's energy future.

In 2018 we successfully completed the first planned total refinery shutdown in 14 years which is a credit to the shutdown crew and to everyone at the refinery. This vital re-investment in our infrastructure sets us up well for the years ahead and its successful completion has already contributed to the optimal running of the refinery's processing units as evidenced by the highest ever second half throughput at the refinery.

The Net Profit after Tax (NPAT) of $29.6 million, reported for the year ended 31 December 2018 down from $78.5 million in 2017, reflects the impact of the shutdown in the first half of the year and the higher capital spend this required. This was partially offset by healthy refining margins, a weaker exchange rate and a strong operational performance in the second half of the year. However, we are conscious that the total returns to our shareholders were unsatisfactory. Addressing this issue is of an immediate priority for your board and management and is at the heart of the strategic review which we signalled in February. We are very pleased with the progress made and will have more detail available for shareholders at our strategy day in June.

Performance Highlights

Mike will go into more detail about the Company's performance in his presentation. For now I will focus on a number of the highlights.

The Gross Refining Margin averaged USD 6.31 for the year down from USD 8.02 per barrel the year prior or USD 7.33 when normalised for the 2018 shutdown. This is at the top of its historical USD 4.00 to USD 6.00 per barrel range (prior to the Te Mahi Hou investment), reflecting global demand growth and our continued progress in optimising the Refinery's operations.

The planned maintenance shutdown was completed safely in June. A combination of complex major work, emergent work and inclement weather meant that the shutdown took longer and therefore cost more than was expected. The restart of the Hydrocracker following the shutdown was delayed by eight days due to a manufacturing weld failure on a newly installed isolation valve on the Hydrocracking Unit and we are continuing to follow this up with the supplier involved.

Despite these setbacks, in conjunction with the shutdown we were also able to successfully complete the major refurbishing of the Refinery's Hydrogen Manufacturing Unit. This investment underpins the Refinery's role in the fuels supply chain and presents the exciting possibility of developing further hydrogen infrastructure, which we believe is critical to supporting a low carbon economy, and to New Zealand continuing to meet its climate change obligations.
Health, and Safety

As a high hazard facility we are extremely conscious of our health and safety performance. We hold ourselves accountable for the health and safety of every individual at the refinery and are always looking to lift our safety performance so that all of our people go home safely every day.

In 2018, we achieved a major milestone with the submission of our Safety Case to WorkSafe, a written demonstration that our refinery has the ability and means to control major incident hazards effectively and have engaged extensively with the community on this.

Our personal and process safety performance in 2018 was impacted during the shutdown but was much improved in the second half of the year. We continue to look for ways to improve our health and safety performance and Mike will go into more detail on this in his presentation.
Environment

We aim to deliver a world class environmental performance and as one of the larger industrial emitters of carbon dioxide in New Zealand we are highly conscious of our responsibility to minimise the environmental impact of our refining operations.

Our commitment to improving our energy performance is longstanding and has seen our CO_2 intensity reduce by around 20% since 2008, helped by the agreed reductions pathway under the Negotiated Greenhouse Agreement (NGA) with the Crown and by the Te Mahi Hou project which dropped CO_2 emissions by 120,000 tonnes per year – the emissions equivalent of taking 60,000 Toyota Corollas off the road, or New Zealanders investing $4.6 billion in the Tesla 3.
The work we've undertaken to reduce our carbon emissions means that our refining business is well placed to meet the challenge of climate change and in light of the Government's regulatory agenda – to help New Zealand meet its obligations under the Paris Agreement.

In the regulatory space the Company is close to agreeing the status of the refinery for when the Negotiated Greenhouse Agreement we have with the Crown expires at the end of 2022. We are expecting this to be formally confirmed by the Government later in the year. Separately, the early renewal of the refinery's resource consent ahead of their expiry in 2022 provides a platform to pursue a refreshed business strategy based on improved performance and growth opportunities capable of significantly enhancing shareholder value while also contributing to the Government's green agenda.

This aligns with our belief that real and sustained value is created when the benefits are delivered across multiple fronts: - financially, environmentally and socially.

Government Inquiry

In December, the Government commenced its Inquiry into the September 2017 pipeline outage. Its purpose is to draw lessons from the outage to inform how the fuel industry and the Government could improve the resilience of fuel supply to the Auckland region. The Refinery is actively working with the Inquiry team.

While the Company has publicly welcomed the Inquiry, the Board wishes to emphasise the findings from the Northland Regional Council investigation namely, that the rupture was beyond the control of Refining

NZ and could not reasonably have been foreseen or provided against, and that Refining NZ took all reasonable steps to prevent the rupture and adequately mitigated and remedied the environmental effects.

The Board also notes that a considerable amount of management time and expertise is being expended to ensure that the panel has all the information required to conduct a thorough and robust Inquiry. At the same time we are also providing information to the Commerce Commission study into retail fuel markets. Our expectation is that the Inquiry will arrive at constructive measures that will improve the resilience of Auckland's fuel supply and secure the confidence of government, our customers, business and the travelling public.

Since the pipeline was originally commissioned in the mid 1980's, Refining NZ has demonstrated its ability to deliver high quality fuels reliably to NZ's largest market; increasing the capacity on the pipeline, through a substantial capital investment programme, by around 60% or 1.4 billion litres per annum. As a result, a record 21 million barrels of fuel was able to be delivered through the pipeline in 2018 which is equivalent of 101,000 tanker trucks between Marsden Point and Auckland city.

With regards to improving the resilience of fuel supply to Auckland, we remain willing and able to invest and have made a number of recommendations to industry and Government.

Strategy

Over the past seven months, Refining NZ's Management and Board have been focused on defining a business strategy that will shape the future direction of the Company. It recognises the major contribution of the Refinery to the national fuels supply chain and to Northland as well as the national economy. It also acknowledges the challenges presented by the need to decarbonise the country's energy infrastructure.

At the heart of our new strategy we are driving for a profitable core refining business: commercially attractive, safe and reliable. The volatile nature of refining means that in the last 12 months shareholder returns have not been as favourable as they have been over the medium term. The Board and Management are highly aware of this and are looking to establish a more stable earnings base for our shareholders. Our strategy will look to generate further value out of the core business, leveraging existing assets and capabilities to lift the Refinery's operational performance and improve shareholder returns. At the same time we are exploring adjacent energy opportunities that will contribute to a sustainable refining business for the medium and long term.

We are an essential player in the energy sector with a significant role to play in helping New Zealand meet its climate change commitments and shaping the future of transport fuels. With New Zealand's energy future in mind, we are looking to build on the core critical infrastructure that we operate through the judicious choice and implementation of economic new technologies.

As I referred to earlier, there will be more detail to share about our new strategy in June 2019.

Subordinated notes issue

During 2018 the Board evaluated alternatives to optimise the capital structure of the business and this work culminated in the issue on 14th December of $75 million of unsecured, subordinated notes for a term of approximately 15 years. The notes provide greater financial flexibility by diversifying Refining NZ's funding sources. The net proceeds of the issue were used to repay a portion of the Company's existing bank debt.

Dividends

The Company's Directors resolved to pay a fully imputed final dividend of 4.5 cents per share which was paid on 21 March. With an interim dividend of 3 cents paid in September, the total dividend payment for the 2018 year was 7.5 cents. This was in line with the company's dividend policy of paying 80% of Free Cash Flow, subject to the Board's consideration of the Company's medium-term asset investment programme, 20% targeted average gearing level and future circumstances. While this year's dividend was lower than the previous year, as I outlined earlier, the 14 year shutdown did impact the Company's performance in 2018. Our focus remains on building on the investments we have made and continuing to improve our operating efficiency to lift the Company's performance.

Board and management changes

In November James Miller was appointed as an Independent Director who brings a wealth of experience and insight to the Refining NZ Board from the financial markets. You will have an opportunity to hear from James a little later, when you will be asked to confirm James' election to the Board. In February 2019, Mark Tume resigned as a Director after eleven years on the Board. Mark has made a significant contribution to the Refining NZ Board including two years as the chairman of the Audit, Risk and Finance Committee. He is held in high esteem by fellow Directors for his professionalism, depth of experience and the commercial acumen he brought to the Refining NZ Board table.

Thank you Mark for your significant contribution and I would like to welcome James to the Refining NZ Board.

Following an extensive international search, the Board was pleased to announce the appointment of Mike Fuge to the role of Chief Executive Officer in August of last year. Mike replaced Sjoerd Post who had held the role since 2013. The Board is confident that Mike's leadership and experience in the oil and gas, energy and renewables sectors is extremely well placed to lead Refining NZ through the next phase of the Company's journey as we leverage the Refinery's contribution to the low carbon initiatives arising out of the Government's commitment to zero carbon emissions by 2050.

Outlook

Looking ahead, a secure future for the refinery will be built on continuing to improve our operational performance, which is a core strength for the business, continuing to manage our cost base, and realising the opportunities to continue to transform our business in realistic, credible steps, into a sustainable, lower carbon energy producer.

CEO’s address

This is my first Annual Shareholder Meeting since I joined the Refinery as Chief Executive Officer last August and I am pleased to have this opportunity to present to you today.

I’ve worked across New Zealand and around the world, but am proud to say that I am a fourth generation Northlander. I count myself fortunate to have worked at the Refinery while I was studying engineering at Canterbury University.

In the eight months since re-joining the company I’ve been extremely impressed and encouraged to find the most striking qualities of our team at Marsden Point are their commitment to safety, pride in the refinery and their deep capability, which is unique within New Zealand. The work that some of our process engineers do, our operators, the fuels testing laboratory, the technology that our mechanical engineers bring, is phenomenal. With that capability comes an understanding of the need to be consistently reliable and to always look to improve on our performance.

Those qualities stand us in good stead for an energy future that will look different to what it is today.

The total refinery shutdown was the main event of the year.

This one in 14 year event was an enormous undertaking that required two years of planning and marshalling resources from across the country, and around the world. At its peak there were 1,800 workers on site, across multiple work fronts. Over 1,700 jobs were carried out safely and to a high quality, including 2,000 welds with less than a 1% failure rate. This is no mean feat and an absolute credit to all of our team who have worked tirelessly to achieve this outcome.

The immediate benefit of the 2018 shutdown has been the reliable running of the Refinery’s processing for the remainder of the year, and which saw refinery throughput for the second half of 2018 at its highest ever. That strong operational performance is a core strength for the business and has allowed the Company to capitalise on healthy refining margins.

The rich learnings from the 2018 Shutdown are already being applied to our planning for the 2020 turnaround and as a result we expect to have fewer complex jobs. Overall the turnaround will be smaller, with around half the number of people and under half the number of jobs carried out in the 2018 Shutdown.

Lifting our health and safety performance.

As Simon mentioned, health and safely will always be a key focus for everyone at the Company and we recognise the need to continue to lift our health and safety performance. In 2018 we had eight Total Recordable Cases, five of which occurred during the planned maintenance shutdown. Our performance improved in the second half of the year and this has continued into the first quarter of 2019 with no recordable cases since November.

While our performance compares well in a New Zealand manufacturing context, we will always strive to be better and deliver a world-class health and safety performance outcomes for our people.

Addressing our performance is the focus of our 2019 health and safety action plan, central to which is E Tu Tangata - a programme of safety culture initiatives. The launch and subsequent rollout of the programme is being led by our line management and supported by the Health and Safety team. We expect that E Tu Tangata - backed up by a sustained programme of on-the-ground safety observations across the refinery will make inroads into improving safety performance across our employee and contractor workforce.

We continue to implement the recommendations from the DuPont review of our safety management system and in the 2018 shutdown we rolled out two of its recommendations - a streamlined permit to work system and an isolation system (log out tag out). The next DuPont safety audit in 2020 will provide a further opportunity to build on the progress we have made to date.
We are committed to delivering through improved operations and competitiveness.

Our strong operational performance has continued in January and February with record hydrocracker throughput and excellent plant uptime allowing us to exploit an improvement in refiners' margins and to continue to provide support to key industries that drive New Zealand's economic growth.

We remain focused on improving the quality, reliability and competitiveness of our refining operations. Attractive, short pay back, margin enhancing projects continue to reap benefits and these reflect the value for the business and our shareholders of our ongoing investment in leveraging efficiencies.

The Refinery to Auckland Pipeline or RAP as it's commonly referred to, underwent a capacity upgrade during 2017 and 2018, to help meet growing Auckland demand. This saw the Refinery achieve a new annual throughput record on the pipeline which Simon commented on earlier. The first two phases of this three-phase upgrade have been completed and following a review of phase three, we are now exploring the use of a drag reducing agent as an alternative de-bottlenecking option. This has the potential to increase pipeline throughput by a further 15% at a lower capital investment. Investment in the capacity of the RAP ensures that this vital supply route continues to keep pace with both the population growth in Auckland and growth in tourist numbers.

In terms of improving resilience we have already committed to an investment of $1 million on emergency jet tankering facilities that will make a significant contribution to the security of jet fuel supply should normal supply be disrupted. We are also looking at the active deployment of Lidar surveillance technology on the pipeline.

Dredging Consent

In December, the Environment Court confirmed the resource consents issued for the Refinery's crude shipping dredging project. This strategically important project has been de-risked considerably by a set of revised conditions that all parties consider to be effective and workable. Improving the economics of up to half of all crude delivered to the Refinery is expected to grow our gross refining margin in excess of USD 30 cents per barrel and is expected to help us to remain competitive with imported fuel from Asia Pacific refiners. To put this into context, this level of growth in the gross refining margin could be expected to lift processing fee revenue by between $12 million to $14 million per annum.

A date for dredging to commence has yet to be confirmed and is dependent on the successful completion of monitoring activity on the harbour, which starts this month with turbidity meters installed at critical points in the harbour, and a final investment decision by the Board expected in Q2, Q3 this year.

While this is a significant project with material benefits for the Company, in the meantime, we believe there is more that we can do to improve the operational performance and competitiveness of our core business, while improving returns to our shareholders. This will continue to be a critical element of our strategy moving forward.

We continue to deliver advances in environmental performance.

This includes the reduction in sulphur per unit of fuel production as well as the carbon intensity of our refining operation which has already improved by 20% since 2008.

We are reviewing a number of options and working with our customers and the Ministry of Transport to meet the requirements of the International Maritime Organisation's MARPOL regulations which come into effect in 2020 and aim to reduce the sulphur content of fuel oil used in shipping from 3.5% to 0.5%. Options include producing low sulphur fuel oil, installing new technology that will increase our bitumen production and altering our crude diet to include more low sulphur crudes, including cost competitive crude imports from the US. Our expertise and technology in this space means we are well placed to meet the challenges and opportunities of this market-disrupting regulatory change. Once these solutions are implemented, sulphur dioxide emissions on the coastline and at Auckland and other New Zealand ports will be significantly lowered.

The Company's energy performance is also seeing the benefit of our partnership with EECA, New Zealand's Energy Efficiency and Conservation Authority, which continues to make inroads into improving our energy intensity and hence, reducing our carbon emissions.
Looking forward

New Zealand's energy future will require a mix of conventional fuels as well as fuel alternatives such as hydrogen and biofuels to meet the demands of a low carbon economy. While New Zealand's light vehicle fleet will continue to see the increased penetration of electric vehicles, heavy trucking and aviation remain difficult to decarbonise and to our knowledge have no viable low carbon alternatives to diesel and jet fuel. On that basis we are confident that the demand for these essential fuels will continue to be met by refinery production for the foreseeable future and we are actively investigating greener options for these critical transport sectors.

Globally, diesel and jet fuel demand are expected to grow significantly in 2019/2020, due to IMO 2020 marine fuel oil sulphur spec changes. At the same time the level of new refining capacity coming on stream is unable to meet the unprecedented demand growth for both these fuels. Demand growth for both fuels in Asia is forecast to outstrip supply through to at least 2025.

At the local level, ongoing jet fuel demand growth will be driven by increased visitor numbers to Auckland airport which are forecast to increase to 40 million by 2044 – triple the number in 2013 - and flight numbers which are expected to hit around 260,000 by 2044 – around double the number five years ago.

The MARPOL regulations are expected to have a beneficial impact on diesel demand as shippers look for a lower carbon alternative to high sulphur fuel oil. Given the bias of our refining operations with diesel making up a third of our 2018 production, we expect to see a corresponding uplift in diesel margins.

Gasoline will be impacted by the increased penetration of electric vehicles over the next 30 years. We anticipate the impact will largely be felt by imports ahead of Marsden Point production which currently accounts for around half of New Zealand's demand.

Over the mid to long term, we expect refining margins to be supported by the continued demand for diesel and jet fuel, with the caveat that refining margins are inherently volatile. This is borne out by the dip in global refining margins in the first two months of 2019 on the back of gasoline margins as low as negative USD 2 per barrel followed by the strengthening of the Gasoline margin to almost USD 6 per barrel.

A brighter energy future begins with a profitable refining business

As Simon referred to in his address we have been working through a new business strategy at the heart of which we are driving for a profitable core refining business: commercially attractive, safe and reliable.

A key contributor to our expected ongoing profitability is the careful management of the refinery's cost base.

We've already stepped up our game with our maintenance programme trialling new technological solutions and innovative methods during the 2018 shutdown. These new methods included robotic pipe welding on the Hydrogen Manufacturing unit which required the welding of 320 new tube replacements, automated painting of our largest crude tank, and drone inspections of the refinery's flare structure. Each of these solutions has improved safety on the job and lifted productivity while also reducing the time to complete each job and lowering maintenance costs.

Over the next 12 months we will maintain a relentless focus on managing cost within the business. As we reported last month, costs in January and February were well managed and within budget. This rigour has continued throughout March as well.

We've pushed out the planned maintenance programme so that there is no planned maintenance shutdown in 2019. At the same time we are developing a long term strategic capital and asset management plan to reprioritise spend on capital projects, shutdown and maintenance schedules - all of which will reduce overall maintenance capital costs.

A full long-term plan will be announced later in the year. As a first step, this will outline our capital spend for the next five years, split out across safety critical projects, margin enhancing projects, projects that are critical to maintaining ongoing operations, and growth projects that meet our long term strategic goals. The objective will be to reduce our asset lifecycle cost through improved efficiency and increased use of technology.

Over the next 12 months our priorities are to complete our 2019 tank maintenance programme, which will allow us to get our dredging project underway, finish the refurbishment of our jetties, complete the construction of a new, on-site sulphur plant, and renew the refinery's resource consents which are due to expire in 2022.

The Company's profit matrix has been reissued for 2019. This reflects expert forecasts that support the strengthening of global refining margins over the medium term. Included in the profit matrix are our plans to bring forward minor, on-the-run planned maintenance. Also included are $10m of one-off costs relating to the early renewal of the refinery's resource consents, the costs associated with the Inquiry and retail fuel market study, and seed funding for the development of new business opportunities.

There is an exciting future ahead for the refinery

The Refinery is a critical piece of energy infrastructure that we are confident will continue to have a role to play in producing a mix of fuels, both conventional and alternatives to meet the demands of New Zealand's low carbon economy.

There is the potential to use our deep capability, our extensive engineering and refining expertise built up over nearly 60 years to produce sustainable fuels.

We are New Zealand's largest producer of Hydrogen and have spoken publicly about its potential for the transport and energy sectors while scoping the possibilities for Marsden Point and for New Zealand. We are discussing the potential of green Hydrogen with the Government and other parties and expect to have more to say in the coming months.

The fundamentals of our business are strong. By continuing to improve our operational performance and competitiveness, and through careful management of our cost base, and exploring attractive opportunities to strengthen our fuels portfolio we believe there is a secure future for our refining business for many years to come.

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