REFINING NZ
Your Energy Hive

22 May 2020

Refining NZ Operational Update for March/April 2020

HIGHLIGHTS

- The Company operated on a cash neutral basis during the COVID-19 lockdown and continues to plan to run cash neutral through FY20.
- Refining NZ responded quickly to the COVID-19 situation to agree arrangements with customers to operate the refinery on a rotating basis in response to significant fuel demand reductions.
- COVID-19 customer arrangements have been extended to the end of August 2020.
- Gross Refining Margin (GRM) was USD 0.67 per barrel and Processing Fee revenue was NZD 23.7 million, predominantly Fee Floor payments of NZD 20.1 million.
- Refinery throughput for March/April was 4.7 million barrels (33% lower than January/February). Refinery to Auckland Pipeline (RAP) throughput for March/April was 2.0 million barrels (44% lower than January/February).
- Process and personal safety performance remained excellent with no Tier 1 or Tier 2 process safety events or recordable injuries.
- Refining NZ deferred all non-essential activity due to the current environment. Capex estimates for 2020 reduced from $70 million to $40 million, including deferral of the maintenance turnaround of the main crude distiller and the gasoline manufacturing unit until March 2021 (from May 2020).
- Refining NZ net debt was $252 million as at the end April reflecting cash neutral operations at the Fee Floor since moving to operate the refinery on a rotating basis.
- Refining NZ extended and expanded its bank facilities in March and its total available debt funding facilities amount to $400 million (including the Company's $75 million subordinated notes on issue) with no significant maturities until March 2022.
- Workstreams for the major Strategic Review are ongoing and proceeding to schedule. Refining NZ expects to provide an update on the Strategic Review process in June 2020.

COMMENTARY

Refining NZ agreed with its customers in March to change the way it operated the refinery in response to the unprecedented fuel demand reduction, which was caused by global COVID-19 travel and transport restrictions. The refinery's processing facilities have been operated on a rotating basis through April to enable production at substantially lower rates.

New Zealand refined fuel demand fell to approximately 20% of pre-lockdown levels during Alert Level 4 COVID-19 travel and transport restrictions. Gasoline and diesel demand recovered during Alert Level 3 and then further into Alert Level 2 to be circa 60% and 80% of pre-lockdown demand respectively at the date of this Update. However, jet fuel demand remains low at approximately 25% of pre-lockdown levels. Refining NZ has adopted strategies aimed at minimising jet fuel production while meeting gasoline and diesel requirements.

The COVID-19 mode of operating has been extended to the end of August. This includes several weeks in July and August when all the processing units will be put on standby to balance fuel supply across the country.

The refinery throughput was 4.7 million barrels during March/April. The GRM was low at USD 0.67 per barrel, reflecting a weak Singapore Dubai complex margin of USD 0.19 per barrel and the impact of the rotating mode of operation. The Company's Processing Fee revenue was NZD 23.7 million, predominantly made up of Fee Floor payments of NZD 20.1 million.

During the Level 4 lockdown period, Refinery to Auckland Pipeline (RAP) throughput was less than 30% of pre-lockdown levels. RAP throughput during Level 2 restrictions has recovered to approximately 60% of pre-lockdown levels.

As part of the Company's response to COVID-19, all major maintenance was suspended, except where required to maintain Refining NZ's uncompromising focus on health and safety. The main change has been the deferral of the main crude distiller and gasoline manufacturing unit maintenance turnaround, which is now scheduled to occur in March 2021. Meanwhile, a partial catalyst change on the hydrocracking facility was completed as planned in March and other critical maintenance activities were completed in April, to enable the continued safe operation of plant until the rescheduled turnaround date.

As a result, capex guidance for the year has been reduced from $70 million to $40 million. The Company operated on a cash neutral basis during the COVID-19 lockdown and continues to plan to operate cash neutral through the year, when factoring in the Processing Fee Floor and reduced RAP income. Net debt was $252 million at the end of April. Refining NZ extended and expanded its bank facilities in March and its total available debt funding facilities amount to $400 million (including the Company's $75 million subordinated notes on issue) with no significant maturities until March 2022.

The refinery continued to operate as an essential service throughout COVID Alert Levels 3 and 4. Refining NZ established a Co-ordinated Incident Management System structure to implement business continuity plans during this time and this continues at Level 2.

Refining NZ's excellent health, safety and environment performance continued in March and April, with no Tier 1 or Tier 2 process safety events. There were again no recordable injuries and the recordable injury frequency is 0.28 per 200,000 work hours.

Workstreams for the major Strategic Review announced to the market on 15 April 2020 are ongoing and proceeding to schedule. Refining NZ expects to provide an update on the Strategic Review process in June 2020.

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OPERATIONAL DATA

		Mar/Apr 2020	Mar/Apr 2019	YTD 2020	FY 2019
Health, Safety & Environment					
LTI	#	0	0	0	1
LTIF	#/200,000hrs	-	-	0.14	0.13
TRC	#	0	0	0	2
TRCF	#/200,000hrs	-	-	0.28	0.27
Tier I Process Safety Events	#	0	0	0	0
Tier II Process Safety Events	#	0	0	0	0
Releases outside of consent	#	0	0	0	1
Refining					
Brent Crude Oil Price	US$/bbl	25.2	68.7	42.3	64.4
Exchange Rate	US$/NZ$	0.60	0.68	0.63	0.66
Operational availability	%	91.6	99.9	95.6	99.7
Unplanned process downtime	%	16.3	0.7	8.2	1.6
Refining throughput	Mbbl	4.66	7.31	11.56	42.69
Gross Refining Margin	US$/bbl	0.67	6.63	0.89	5.34
Gross Refining Margin (including Fee Floor/Margin Cap)	US$M	20.4	48.5	41.7	227.9
Processing Fee (including Fee Floor/Margin Cap)	US$M	14.3	34.0	29.2	159.5
Processing fee (including Fee Floor/Margin Cap)	NZ$M	23.7	50.1	46.7	242.0
Distribution					
RAP throughput	Mbbl	2.0	3.5	5.6	20.8

Notes:

1. The information provided in this announcement excludes Revenue from other activities.
2. The Processing Fee results reported in this announcement are subject to change due to post announcement price updates and independent audit.
3. A five-year history of Throughput, Margins and Processing Fees is attached below.
4. Refer to the explanatory notes/glossary for a definition of terms.

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HISTORICAL INFORMATION - REFINING

		2016	2017	2018	2019	2020
Jan/Feb	Barrels 000's	6,826	7,160	7,011	6,963	6,909
	RNZ USD GRM per barrel [1)]	7.96	6.58	7.54	4.88	1.04
	Singapore Dubai Complex GRM	4.95	3.42	3.37	-0.32	-1.58
	Uplift vs. Singapore Dubai Complex [3)]	3.01	3.16	4.17	5.20	2.62
	NZD Processing Fee (million) [2)]	57.0	45.9	50.8	34.9	23.0
Mar/Apr	Barrels 000's	7,471	5,140	6,958	7,312	4,656
	RNZ USD GRM per barrel [1)]	1.84	9.35	6.82	6.63	0.67
	Singapore Dubai Complex GRM	3.18	3.02	3.75	0.75	0.19
	Uplift vs. Singapore Dubai Complex [3)]	-1.34	6.33	3.07	5.88	0.48
	NZD Processing Fee (million) [2)]	14.8	48.1	45.8	50.1	23.7
May/Jun	Barrels 000's	6,837	7,755	3,910	6,945	
	RNZ USD GRM per barrel [1)]	6.26	7.63	0.18	4.36	
	Singapore Dubai Complex GRM	2.13	2.90	2.02	0.17	
	Uplift vs. Singapore Dubai Complex [3)]	4.13	4.73	-1.84	4.19	
	NZD Processing Fee (million) [2); 5)]	43.3	58.4	0.7	32.2	
Jul/Aug	Barrels 000's	6,833	7,511	7,615	7,419	
	RNZ USD GRM per barrel [1)]	6.20	8.87	6.86	7.10	
	Singapore Dubai Complex GRM	1.86	4.70	2.57	3.23	
	Uplift vs. Singapore Dubai Complex [3)]	4.34	4.17	4.29	3.87	
	NZD Processing Fee (million) [2)]	41.3	63.6	54.3	56.2	
Sept/Oct	Barrels 000's	7,251	6,816	7,639	7,245	
	RNZ USD GRM per barrel [1)]	7.49	9.31	7.09	6.16	
	Singapore Dubai Complex GRM	3.18	4.73	2.47	3.55	
	Uplift vs. Singapore Dubai Complex [3)]	4.31	4.58	4.62	2.61	
	NZD Processing Fee (million) [2)]	52.5	62.2	57.8	49.3	
Nov/Dec	Barrels 000's	7,447	7,342	7,307	6,803	
	RNZ USD GRM per barrel [1)]	9.20	6.83	6.53	2.62	
	Singapore Dubai Complex GRM	4.19	3.67	1.80	-1.55	
	Uplift vs. Singapore Dubai Complex [3)]	5.01	3.16	4.73	4.16	
	NZD Processing Fee (million) [2)]	67.6	50.7	49.2	19.2	
Total	**Barrels 000's**	**42,665**	**41,724**	**40,440**	**42,687**	**11,565**
	USD GRM per barrel [1)]	**6.47**	**8.02**	**6.31**	**5.34**	**0.89**
	NZD Processing Fee (million) [2)]	**276.6**	**328.9**	**258.7**	**242.0**	**46.7**
	YTD Cap adjustment					
	NZD Processing Fee (million) [1)]					

1) Excludes Fee Floor/Cap adjustment
2) Includes Fee Floor/Cap adjustment
3) RNZ uplift vs. Singapore Dubai Complex GRM is in USD per barrel

EXPLANATORY NOTES/GLOSSARY

LTI (Lost time injuries) and LTIF (Lost time injury frequency)

Lost time injuries refer to fatalities, permanent disabilities or time lost from work.

Lost time injury frequency refers to the number of lost time injuries over a rolling 12-month period, per 200,000 hours worked.

TRC (Total recordable cases) and TRCF (Total recordable case frequency)

Total recordable cases refer to lost time injuries, medical treatment and restricted work cases.

Total recordable case frequency refers to the number of recordable injuries over a rolling 12-month period, per 200,000 hours worked.

Tier 1 Process Safety Event (API 754)

A tier 1 Process Safety Event (PSE) is an unplanned or uncontrolled release of any material, including non-toxic and non-flammable, from a process which results in one or more of the following: A LTI and/or fatality; a fire or explosion resulting in greater than or equal to $25,000 of direct cost to the company; a release of material greater than the threshold quantities given in Table 1 of API 754 in any one-hour period; an officially declared community evacuation or community shelter-in-place.

Tier 2 Process Safety Event (API 754)

A tier 2 Process Safety Event (PSE) is an unplanned or uncontrolled release of any material, including non-toxic and non-flammable, from a process which results in one or more of the following: A recordable injury; a fire or explosion resulting in greater than or equal to $2,500 of direct cost to the company; a release of material greater than the threshold quantities given in Table 2 of API 754 in any one-hour period.

Operational availability

Operational availability is the percent of time available for manufacturing after subtracting maintenance and regulatory/process downtimes.

Unplanned process downtime

A unit downtime is "planned" if the refinery is aware of and has scheduled that unit outage in the previous year. Unplanned process downtime is the weighted average of unplanned downtime across all process units.

Refining throughput

Refining throughput is the volume of feedstock intake, comprising crude oil, residues, natural gas and blendstock, measured in barrels. One barrel equates to approximately 159 litres.

Turnaround

A scheduled outage of one or more process units, planned well in advance and typically occurring in cycles of 2 years or more, for the purpose of significant mechanical inspection and repair.

Gross Refining Margin (excluding Fee Floor/Margin Cap)

The Gross Refining Margin is calculated in USD as the difference between the value of products and the cost of feedstock for each refining customer. The value of products use Singapore quoted prices adjusted for New Zealand quality and the cost of importing those products to New Zealand. Feedstocks are valued using the notional market values adjusted for the cost of getting the feedstock to the refinery. The Gross Refining Margin incorporates the cost of hydrocarbon used as fuel and incurred as process losses.

Typically, Refining NZ has an uplift over the Singapore complex margins of around USD 3.00 to 4.00 per barrel. The value of the uplift varies due to fluctuations in freight rates, product quality premium, crude market premium and operational performance. Product quality premium are the cost differentials between products made to New Zealand quality and products made to the quality that applies to quoted prices in Singapore. Crude market premium are the cost differences between the crude types actually processed at Refining NZ and Dubai (used as basis for the Singapore complex margins). Refining NZ's crude diet comprises of crudes that price off Dubai as well as crudes that price off different markers such as Brent. The fluctuations of these price markers relative to each other impact the uplift.

Margin Cap/Fee Floor Adjustment

The processing agreements with our customers contain both Floor and Margin Cap clauses, both effective over a full calendar year.

The Fee Floor is the minimum Processing Fee due, for a calendar year, up to a current maximum of NZD 140.0 million. If the year-to-date Processing Fee is below the pro-rata Fee Floor, then an interim pro-rata Fee Floor payment is made by the Customers. Should the Processing Fee exceed the Fee Floor in future months any pro-rata Fee Floor payments that have been made are repaid to the Customers.

The Margin Cap limits the Gross Refining Margin for each customer to a maximum of USD 9.00 per barrel over the calendar year. Should the Gross Refining Margin fall below the Cap in future months any pro-rata Cap reductions that have been made are repaid by the Customers.

The Cap and the Floor are subject to year-to-date adjustments.

Any balance remaining at the end of the year cannot be carried over to the next year.

Processing Fee (after Fee Floor/Margin Cap)

The Processing Fee is 70% of the Gross Refining Margin after any adjustment for the Margin Cap or Fee Floor. The Processing Fee is paid by our customers in NZD.

RAP throughput

RAP throughput is the volume of refined products, comprising gasoline, jet fuel and diesel that are delivered via the Refinery to Auckland Pipeline (RAP) to the Wiri oil terminal.