REFINING NZ
Your Energy Hive

22 July 2020

Refining NZ Operational Update for May/June 2020

HIGHLIGHTS

- Excellent personal and process safety performance through period of changed operating mode.
- Refinery and Refinery to Auckland pipeline throughput was circa 55% and 60% respectively, compared with the previous corresponding period, due to the impacts of COVID-19 on transport fuel demand, with gasoline and diesel recovering close to previous levels by the end of May.
- Gross Refining Margin (GRM) remained at the Processing Fee floor due to COVID-19 impacts on New Zealand refined product demand.
- Refining NZ net debt was $250 million as at the end June reflecting cash neutral operations at the Fee Floor since April 2020.
- Phase 1 of Strategic Review completed, with an update to the market on 25 June. Detailed planning now underway for a simplified refinery and, in parallel, evaluation of a possible future staged transition to an import terminal.

COMMENTARY

Refining NZ's excellent health, safety and environment performance continued in May and June, with no Tier 1 or Tier 2 process safety events or recordable cases, despite the changes made to operations in response to COVID-19.

New Zealand refined fuel demand increased from April levels as COVID-19 travel and transport restrictions were eased to Alert Level 2 in mid-May and then to Alert Level 1 in early June. Gasoline and diesel demand recovered to end the period at circa 95% and 100% respectively of demand compared to the same period last year. However, jet fuel demand remained low at approximately 35% of prior levels.

Through May and June, as previously signalled, Refining NZ operated the refinery in cyclic mode to produce a substantially lower output. The Company continued with strategies aimed at minimising jet fuel production while meeting gasoline and diesel requirements, and refinery throughput was constrained by the jet fuel demand destruction. Refinery throughput was 3.9 million barrels during May/June, circa 55% compared with the same period last year, before process units were put on standby from early July to mid-August to balance fuel supply across the country.

Refinery to Auckland Pipeline (RAP) throughput during May/June was approximately 60% compared to the same period last year.

Refining NZ has agreed with its customers to operate the refinery in a reduced production mode from August, when the refinery resumes production, to the end of October.

The GRM improved significantly compared to the prior period to be USD 4.59 per barrel, with an above average uplift of USD 8.37 per barrel over a weak Singapore Dubai complex margin of USD -3.78 per barrel. Key contributors to the increased uplift were due to COVID-19 impacts on demand.

Firstly, significant demand for floating storage caused increases in both crude oil VLCC shipping costs to Singapore and finished product shipping costs to New Zealand. Secondly, Abu Dhabi crudes processed at the refinery were heavily discounted relative to Dubai crude.

The Company's Processing Fee revenue was NZD 23.3 million, with Fee Floor payments by our customers of NZD 3.5 million.

Net debt was circa $250 million at the end of June, reflecting three months of cash neutral operations at the Fee Floor. The Company continues to plan to operate cash neutral through the balance of the year, when factoring in the Processing Fee Floor and reduced RAP income.

Refining NZ completed Phase 1 of its Strategic Review and provided a market update on June 25.   The Company is now developing plans to simplify refinery operations and structurally reduce operating costs. In parallel the Company will continue to evaluate a possible future staged transition to an import terminal. Refining NZ expects to provide a further update on the Strategic Review process around the end of the third quarter.

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OPERATIONAL DATA

		May/Jun 2020	May/Jun 2019	YTD 2020	FY 2019
Health, Safety & Environment					
LTI	#	0	0	0	1
LTIF	#/200,000hrs	-	-	0.15	0.13
TRC	#	0	0	0	2
TRCF	#/200,000hrs	-	-	0.31	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	1	1	1
Refining					
Brent Crude Oil Price	US$/bbl	34.5	67.6	39.7	64.4
Exchange Rate	US$/NZ$	0.63	0.66	0.63	0.66
Operational availability	%	99.0	99.9	96.8	99.7
Unplanned process downtime	%	34.0	4.6	16.9	1.6
Refining throughput	Mbbl	3.87	6.95	15.43	42.69
Gross Refining Margin	US$/bbl	4.59	4.36	1.82	5.34
Gross Refining Margin (including Fee Floor/Margin Cap)	US$M	20.9	30.3	62.7	227.9
Processing Fee (including Fee Floor/Margin Cap)	US$M	14.6	21.2	43.9	159.5
Processing fee (including Fee Floor/Margin Cap)	NZ$M	23.3	32.2	70.0	242.0
Distribution					
RAP throughput	Mbbl	2.0	3.3	7.5	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.

HISTORICAL INFORMATION - REFINING

Appendix II 2020

		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	3,867
	RNZ USD GRM per barrel [1)]	6.26	7.63	0.18	4.36	4.59
	Singapore Dubai Complex GRM	2.13	2.90	2.02	0.17	-3.78
	Uplift vs. Singapore Dubai Complex [3)]	4.13	4.73	-1.84	4.19	8.37
	NZD Processing Fee (million) [2); 5)]	43.3	58.4	0.7	32.2	23.3
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**	**15,432**
	USD GRM per barrel [1)]	**6.47**	**8.02**	**6.31**	**5.34**	**1.82**
	NZD Processing Fee (million) [2)]	**276.6**	**328.9**	**258.7**	**242.0**	**70.0**
	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.