REFINING NZ
Your Energy Hive

NZX Announcement

22 January 2021

Operational Update for November/December 2020 – corrected version

This is a corrected version of the announcement released at 8.37am today. Refining NZ anticipates providing an update to the market regarding potential import terminal conversion prior to its full year results announcement in February 2021 (not its half year results as incorrectly stated in the earlier announcement).

HIGHLIGHTS

- Excellent health and safety performance continued during the period, with no Tier I or Tier II process safety events or recordable injuries.
- Processing Fee revenue remained at the Fee Floor due to continuing negative international refining margins.
- Refinery and Refinery to Auckland pipeline throughput continue to be impacted by low jet fuel demand due to COVID-19 travel restrictions.
- The year end net debt position closed at $231 million, $10 million lower than FY19.
- Preparations for simplified operations were completed, ready for transition from January 2021.
- Import terminal negotiations are continuing with all customers.

COMMENTARY

Refining NZ's excellent health and safety performance continued with no Tier I or Tier II process safety events, and no recordable cases in 2020. Refining NZ acted promptly to address causes of two minor releases outside consent during the period.

New Zealand gasoline and diesel demand was at normal seasonal levels for the November/December period, while jet fuel demand continued to be significantly impacted by COVID-19 travel restrictions. Refining NZ continued to adopt strategies that minimised jet fuel production while meeting gasoline and diesel requirements.

Refining throughput was 6.5 Mbbls, slightly less than the 6.8 Mbbls in the same period last year. RAP throughputs were c70% compared to the same period last year due to the depressed jet fuel demand at Auckland International Airport.

The Gross Refining Margin (GRM) remained below Fee Floor levels during November/December due to weak global refining margins which continue to be impacted by reduced demand due to COVID-19. The Singapore Dubai complex margin for the period was weak at US$ -1.54 per barrel reflecting a surplus of refining capacity globally and an operating environment of low utilisation and low margins.

Refining NZ's November/December uplift over the Singapore Dubai complex margin was strong at US$ 4.78 per barrel due to the Middle Eastern crudes processed by the refinery trading at a discount to Dubai crude. GRM for the two months was US$ 3.24 per barrel. Processing Fee revenue for the two months was NZ$ 24.6 million, including NZ$ 3.6 million of Fee Floor payments by our customers.

The year end net debt position closed at $231 million, $10 million below 31 December 2019. This reflects the impact of resetting the 2020 cost base, the proceeds of asset sales and simplification restructuring costs.

Preparation is complete for the planned four week maintenance turnaround, commencing in late February 2021. The turnaround includes the first statutory inspection for the CCR Platformer (Te Mahi Hou Project commissioned in 2015) and routine inspection and maintenance for the crude distillation unit and associated plant. During the turnaround, all other processing units not undergoing maintenance will be temporarily shut down, with customers importing refined products during this time.

Preparations for simplified refining operations, which will enable Refining NZ to continue to safely operate the refinery in 2021 in a low margin environment, were completed ready for transition from January 2021 with workforce reductions occuring through Q4 2020 and Q1 2021. Refining NZ has worked positively and collaboratively with Government and Northland regional agencies on a planned transition to help manage the impact of changes on the refinery's workforce.

Import terminal discussions are continuing with all customers. Refining NZ anticipates providing an update to the market regarding potential import terminal conversion prior to full year results. [1]

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[1] Any proposal in relation to the terminal will be a matter for consultation with the relevant unions and union members at the appropriate time.

OPERATIONAL DATA

		Nov/Dec 2020	Nov/Dec 2019	FY 2020	FY 2019
Health, Safety & Environment					
LTI	#	0	0	0	1
LTIF	#/200,000hrs	-	-	0.00	0.13
TRC	#	0	0	0	2
TRCF	#/200,000hrs	-	-	0.00	0.27
Tier I Process Safety Events	#	0	0	0	0
Tier II Process Safety Events	#	0	0	0	0
Releases outside of consent	#	2	0	5	1
Refining					
Brent Crude Oil Price	US$/bbl	46.3	65.0	41.7	64.4
Exchange Rate	US$/NZ$	0.70	0.65	0.65	0.66
Operational availability	%	99.6	99.7	98.2	99.7
Unplanned process downtime	%	1.7	3.5	23.2	1.6
Refining throughput	Mbbl	6.46	6.80	29.88	42.69
Gross Refining Margin	US$/bbl	3.24	2.62	1.63	5.34
Gross Refining Margin (including Fee Floor/Margin Cap)	US$M	24.5	17.8	131.6	227.9
Processing Fee (including Fee Floor/Margin Cap)	US$M	17.2	12.5	92.1	159.5
Processing fee (including Fee Floor/Margin Cap)	NZ$M	24.6	19.2	141.6	242.0
Distribution					
RAP throughput	Mbbl	2.6	3.8	14.7	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)	43.3	58.4	0.7	32.2	23.3
Jul/Aug	Barrels 000's	6,833	7,511	7,615	7,419	1,766
	RNZ USD GRM per barrel 1)	6.20	8.87	6.86	7.10	-4.18
	Singapore Dubai Complex GRM	1.86	4.70	2.57	3.23	-2.46
	Uplift vs. Singapore Dubai Complex 3)	4.34	4.17	4.29	3.87	-1.73
	NZD Processing Fee (million) 2)	41.3	63.6	54.3	56.2	23.7
Sept/Oct	Barrels 000's	7,251	6,816	7,639	7,245	6,219
	RNZ USD GRM per barrel 1)	7.49	9.31	7.09	6.16	1.15
	Singapore Dubai Complex GRM	3.18	4.73	2.47	3.55	-1.64
	Uplift vs. Singapore Dubai Complex 3)	4.31	4.58	4.62	2.61	2.79
	NZD Processing Fee (million) 2)	52.5	62.2	57.8	49.3	23.3
Nov/Dec	Barrels 000's	7,447	7,342	7,307	6,803	6,459
	RNZ USD GRM per barrel 1)	9.20	6.83	6.53	2.62	3.24
	Singapore Dubai Complex GRM	4.19	3.67	1.80	-1.55	-1.54
	Uplift vs. Singapore Dubai Complex 3)	5.01	3.16	4.73	4.16	4.78
	NZD Processing Fee (million) 2)	67.6	50.7	49.2	19.2	24.6
Total	**Barrels 000's**	**42,665**	**41,724**	**40,440**	**42,687**	**29,876**
	USD GRM per barrel 1)	**6.47**	**8.02**	**6.31**	**5.34**	**1.63**
	NZD Processing Fee (million) 2)	**276.6**	**328.9**	**258.7**	**242.0**	**141.6**

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.