

18 May 2017

Announcement to NZX

Refining NZ Throughput and Margin Report for March/April 2017

Refining NZ achieved a Gross Refinery Margin¹⁾ (GRM) of USD 9.35 per barrel and captured Processing Fee income of NZD 48.1 million for the March/April period, compared with NZD 14.8 million for the corresponding period last year.

The positive year on year variance in Processing Fee income reflects the differential impact of a shutdown of primary distillation capacity this year, compared with the shutdown of Refining NZ's hydrocracking capacity last year.

The Singapore Dubai complex margin for the March/April period was USD 3.02 per barrel and Refining NZ's uplift over the Singapore Dubai complex margin was strong at USD 6.33 per barrel. The March shutdown of primary distillation capacity saw Refining NZ's exposure to low hydro-skimming margins reduced and 0.5 million barrels high-margin residue stock drawn down which contributed significantly to the high uplift over the Singapore Dubai complex margin.

Throughput for the period was 5.1 million barrels, 2.3 million barrels less than the corresponding period last year, also largely due to the March shutdown.

The average exchange rate for the March/April period was USD/NZD 0.70.

Appendix I shows further information on throughput, margin and refining income.

Historical Analysis

A five year history of Throughput, Margins and Processing Fees is attached as Appendix II and can also be found on the company's website: www.refiningnz.com

1) Refining NZ's Gross Refining Margin is defined as the typical market value of the products produced minus the typical market value of the feedstock used, expressed per barrel of feedstock used. The margin incorporates the cost of the hydrocarbon used for fuel and incurred as process losses.

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Appendix I – Year to date: 2017

Throughput, Margin and Refining Income

		Total	per bbl	
Jan/Feb	Throughput	Barrels (million)	7.16	
	Gross Refining Margin	USD (million)	47.1	6.58
	Gross Refining Margin (excluding Floor/Cap)	USD (million)	47.1	6.58
	Interim Cap adjustment	NZD (million)	0.0	
	Processing Fee (after Floor/Cap)	USD (million)	33.0	4.60
	Processing Fee (excluding Floor/Cap)	NZD (million)	45.9	
	Processing Fee (after Floor/Cap)	NZD (million)	45.9	
Mar/Apr	Throughput	Barrels (million)	5.14	
	Gross Refining Margin	USD (million)	48.1	9.35
	Gross Refining Margin (excluding Floor/Cap)	USD (million)	48.1	9.35
	Interim Cap adjustment	NZD (million)	0.0	
	Processing Fee (after Floor/Cap)	USD (million)	33.6	6.54
	Processing Fee (excluding Floor/Cap)	NZD (million)	48.1	
	Processing Fee (after Floor/Cap)	NZD (million)	48.1	

Note: The GRM for a period may be above or below the Cap of USD 9.00 per barrel due to previous year price updates, which are not subject to the Floor/Cap in the current year

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Explanatory Note

Throughput

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.

Gross Refining Margin

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 premia, crude market premia and operational performance. Product quality premia 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 premia are the cost differences between the crude types actually processed at Refining NZ and Dubai (used as basis for the Singapore complex margins).

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 131 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.

Gross Refining Margin after Cap/Floor

The Gross Refining Margin adjusted for any impacts of the Cap or Floor.

Processing Fee

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

Notes:

1. The information provided in this announcement relates to refining operations only. Revenue from pipeline or other activities is not included.
2. The Processing Fee results reported in this announcement are subject to change due to post announcement price updates and independent audit.

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Appendix II - Historical Analysis

Intake/Production, Gross Refining Margin and Processing Fee

		2013	2014	2015	2016	2017
Jan/Feb	Barrels 000's	6,786	6,740	7,056	6,826	7,160
	RNZ USD GRM per barrel ¹⁾	4.18	3.86	9.91	7.96	6.58
	Singapore Dubai Complex GRM	3.45	0.70	5.40	4.95	3.42
	Uplift vs. Singapore Dubai Complex ³⁾	0.73	3.16	4.51	3.01	3.16
	NZD Processing Fee (million) ²⁾⁴⁾	23.7	22.0	59.6	57.0	45.9
Mar/Apr	Barrels 000's	7,151	6,146	7,411	7,471	5,140
	RNZ USD GRM per barrel ¹⁾	5.03	-2.84	8.77	1.84	9.35
	Singapore Dubai Complex GRM	2.73	1.36	4.82	3.18	3.02
	Uplift vs. Singapore Dubai Complex ³⁾	2.30	-4.20	3.95	-1.34	6.33
	NZD Processing Fee (million) ²⁾	30.0	20.7	62.3	14.8	48.1
May/Jun	Barrels 000's	7,048	6,976	6,416	6,837	
	RNZ USD GRM per barrel ¹⁾	6.84	3.48	8.55	6.26	
	Singapore Dubai Complex GRM	2.92	0.10	4.24	2.13	
	Uplift vs. Singapore Dubai Complex ³⁾	3.92	3.38	4.31	4.13	
	NZD Processing Fee (million) ²⁾	41.8	21.1	48.9	43.3	
Jul/Aug	Barrels 000's	7,194	6,298	7,519	6,833	
	RNZ USD GRM per barrel ¹⁾	6.05	6.75	7.66	6.20	
	Singapore Dubai Complex GRM	2.42	-0.55	2.52	1.86	
	Uplift vs. Singapore Dubai Complex ³⁾	3.63	7.30	5.14	4.34	
	NZD Processing Fee (million) ²⁾	38.5	21.3	63.5	41.3	
Sept/Oct	Barrels 000's	6,730	6,388	7,221	7,251	
	RNZ USD GRM per barrel ¹⁾	2.95	7.54	9.47	7.49	
	Singapore Dubai Complex GRM	-1.58	2.54	5.12	3.18	
	Uplift vs. Singapore Dubai Complex ³⁾	4.53	5.00	4.35	4.31	
	NZD Processing Fee (million) ²⁾	16.8	21.0	71.8	52.5	
Nov/Dec	Barrels 000's	5,693	7,127	7,017	7,447	
	RNZ USD GRM per barrel ¹⁾	1.82	9.98	10.82	9.20	
	Singapore Dubai Complex GRM	-0.22	4.48	6.37	4.19	
	Uplift vs. Singapore Dubai Complex ³⁾	2.04	5.50	4.45	5.01	
	NZD Processing Fee (million) ²⁾	8.8	62.4	73.0	67.6	
Total	Barrels 000's	40,602	39,676	42,639	42,665	12,300
	USD GRM per barrel ¹⁾	4.58	4.96	9.20	6.47	7.74
	NZD Processing Fee (million) ²⁾	159.7	168.4	379.2	276.6	94.0
	YTD Cap adjustment			14.4		
	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

4) Jan/Feb 2017 excludes a prior period adjustment of (\$1.5m)

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