Full Year Announcement

2014
The New Zealand Refining Company Limited

Results for announcement to the market
Reporting Period 12 months to 31 December 2014
Previous Reporting Period 12 months to 31 December 2013

The Directors of the New Zealand Refining Company Limited today announced the Company's financial results for the year to 31 December 2014, details of which are attached. This report, including the results for the previous corresponding year, is consistent with the audited financial statements of the New Zealand Refining Company Limited for the year ended 31 December 2014.

Consolidated Results

1. Results $NZ 000
Revenue from ordinary activities
Current year $233,019
Up 4%
Previous corresponding year $223,199

Profit/(loss) from ordinary activities after tax attributable to security holder.
Current year $9,941
Up 299%
Previous corresponding year ($5,007)

Net profit/(loss) attributable to security holders.
Current year $9,941
Up 299%
Previous corresponding year ($5,007)

2. Final Dividend
The Directors have resolved not to pay a final dividend.
There is no dividend reinvestment plan in place.

3. Net Tangible Assets Per Security
As at 31 December 2014 $2.08
As at 31 December 2013 $1.89*
* Restated for number of shares on issue after the institutional placement and share purchase plan (an increase from 280 million to 313 million).
A combination of ‘self-help’, an excellent operational performance in the second half of the year, and an improving business environment saw Refining NZ report a net profit after tax of $10 million for the year ending 31 December, 2014.

Chairman of the Northland based refiner, David Jackson said the robust result was a turnaround on the $5 million net loss after tax in 2013, adding that it vindicated the measures taken as part of the Company’s strategic action plan to counter weakened refinery margins and a strong New Zealand dollar.

“This result owes much to Refining NZ’s employees and contracting community whose commitment to the plan has seen the Company through an extremely difficult business environment, particularly in the first half. On behalf of my fellow directors, I wish to extend the Board’s thanks to Sjoerd and his management team, employees and contractors for their contribution throughout the year.

“We had fully expected 2014 to be volatile. Consequently, the Company’s series of initiatives were squarely focused on improving our margins by generating more of the high-value products from the same barrel of oil, and managing the Company’s cost base through remaining focused on sensible cost practices. The ‘self-help’ action plan proved critical to the operation of the refinery and set the stage for capitalising on the improved margin and forex in the second half of the year.

“During 2014 the Company’s borrowings peaked at $342 million. However, an excellent operational performance and improving margins in the second half saw borrowings reduce to $316 million at the year end [2013: $228 million]”, he said.

KEY PERFORMANCE HIGHLIGHTS

- The margin initiatives on the refinery’s hydrocracker unit were completed successfully and delivered a structural uplift in the Company’s GRM of USD 0.68 per barrel, ahead of the Company’s target of USD 0.66 per barrel.

- The Company bettered its cost promise made to the market at the start of the year by $3 million, ending the year at a total of $142 million.

- The Gross Refinery Margin (GRM) was healthier in the second half of the year, and saw the Company post a November-December GRM of USD 9.98 per barrel, the highest margin achieved in any reporting period over the last five years. The Company improved its uplift over the Singapore Complex Margin, normally around USD 3.00-4.00, to around USD 5.90 in the second half of the year.

- The pro-rata floor payment of around $36 million received from the Company’s oil company customers in the first six months, was paid back by the year end.

- The $365 million Te Mahi Hou project (TMH) is progressing as planned, with $303 million spent to date.

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1 A reconciliation of Non-GAAP information is provided in the Full Year 2014 analyst presentation which will be made available to shareholders via the NZX at www.nzx.com and the Refining NZ website at www.refiningnz.com
BUSINESS ENVIRONMENT

The major shift in refining fortunes during the year was triggered by the decline in crude oil prices despite the strong demand for product. Relentless output growth from the US driven by shale oil, and sustained OPEC production has driven crude oil prices to their lowest levels in six years.

Said Jackson: “The fall to around USD 50 per barrel by the end of the year has made the Company more competitive against imported product by lowering the inventory cost for our customers. The fall-off in the number of new US drilling rigs indicates that lower crude prices are impacting investment in oil. However, market expectations are that a corresponding return to higher crude prices will take time to eventuate.”

The state of refinery margins had a significant impact on the Company’s financial performance in 2014.

“The Company’s average GRM achieved for the year was US $4.96, higher than the previous year [2013: US$4.58]. The GRM averaged USD 1.66 in the first half as a result of a marked decline in the benchmark Singapore Complex Margin, but reached an average of USD 8.24 in the last six months of the year. A particularly strong November-December processing period saw the Company post a GRM of USD 9.98 per barrel, the highest in any reporting period in the last five years.

“Excluding the March-April shutdown, the Company maintained its uplift over the benchmark Singapore Complex Margin, normally USD ~3.00-4.00, and in the second half improved to average USD ~5.90. The healthier refinery margins are a welcome relief, though it remains to be seen how long the high margins that emerged late in 2014 can be sustained.

“The strong New Zealand dollar weighed on the Company’s first half year performance, but waned in the second half to average USD 0.82 for the year [2013: USD0.82],” Jackson said.

STRATEGIC ACTION PLAN

David Jackson confirmed that strategic ‘self-help’ initiatives had lifted the Company’s performance markedly in 2014.

“The margin improvements from a series of initiatives carried out on the hydrocracker unit, were completed successfully and delivered US$0.68 per barrel, ahead of our target of US$0.66 per barrel.

“The Company remained focused on managing cost, ending the year at a total of $142 million, in part, as a result of achieving $3 million more cost savings than the $7 million cost promise made to the market at the start of the year. This result was also assisted by ‘one-off’ items, which included reviews of inventory and of the Company’s defined benefit scheme.

“Modern procurement practices contributed to this improved cost saving, with the development of strategic alliances enabling the outsourcing of non-core parts of the organisation: maintenance to Maintenir; internal audit to BDO; IT to Reversa; and process control to Honeywell.”
TE MAHI HOU (TMH)

David Jackson described TMH as well advanced and running safely to plan.

“In August the project reached a million hours without a lost time injury, a credit to the many employees and contractors working on the project, given the sustained period of construction in the last 12 months. Of particular note was the success of the ‘heavy lifts window’ in October, when all major heavy structures and modules were in lifted into place, safely and ahead of schedule.

“To date $303 million has been invested in TMH with around $60 million still to be spent, prior to commissioning. We remain on track for TMH to ‘go live’ in December 2015.”

RELIABILITY AND PERFORMANCE

“Our operational availability and performance were outstanding in the second half of the year. Unplanned downtime, an indicator of our reliability, was 0.26% in 2014, an improvement on the previous year [2013: 1.1%].

“Total intake at 39.7 million barrels, was down on 2013 [40.6 million barrels] due largely to the shutdown of the hydrocracker in May. The strong performance in the second half put us ahead of our revised guidance 39 million barrels, even with the processing of residue stocks that the Company had built-up during the shutdown in the first half of the year.”

PROCESSING ARRANGEMENTS

David Jackson said the 2014 result highlighted the robustness of the Company’s processing arrangements: “In the first half of the year the weakening margin environment saw the Company rely on a pro-rata floor payment of $36 million from oil company customers but by capitalising on the healthier margins in the second half the Company was able to pay back the floor in its entirety by the year end.”

“This was only the second time that the floor had been invoked since the processing arrangements were agreed in 1995. The floor was put in place to counter the type of conditions the Company has experienced in the last 18 months and it remains a unique and enduring mechanism in the refining sector”, he said.

DIVIDEND

Said Jackson: “The Company’s return to profitability represents a remarkable turnaround in 12 months. However, we are conscious that year-end borrowings have pushed gearing to 33% when our targeted ratio, outlined in the Company’s dividend policy, is 10-20%, and that further investment is required to successfully complete TMH. Bearing this in mind, the Directors resolved to not pay a final dividend to shareholders. As no interim dividend was paid, there is no dividend payment to shareholders this year.”
BOARD CHANGES

“In December I announced my intention to retire from the Refining NZ Board at the Annual Meeting in April. Investing in the safety and reliability of the refinery has always been a focus for the Company and in my ten years as an Independent Director and six years as Chairman, I have seen the Company grow its capacity and capabilities, notably through Future Fuels, Point Forward and Te Mahi Hou, projects that amount to a combined investment of around $735 million.

“On a personal note, I am proud to have helped shepherd these major investments. I have always been impressed by the ‘can-do’ attitude and mettle of our employees and contractors, and their clear commitment to Refining NZ. I wish them and the Company, well for the future.

“In December the Board appointed Simon Allen to succeed my Independent Director role. Simon is a professional director and joined the Board having chaired the Financial Markets Authority since its establishment in 2011 and the NZX from 2001 until 2008.

“In November, ExxonMobil director, Kim MacMillan resigned and was replaced by Stuart Brown. A qualified solicitor specializing in tax law, Stuart has worked in private practice, as a senior tax advisor for Esso Australia and since 2000 has held senior tax roles in ExxonMobil.

“Further to the announcement about directors fees made at the half year, BP, ExxonMobil and Z Energy have confirmed that the waiving of the fees for a second director is henceforth permanent. Retaining a second director is a mark of these shareholders’ commitment to Refining NZ, maintains valuable oil industry expertise and ensures continuity of director experience, for which the Board is highly appreciative.”

FUTURE OUTLOOK

“The Company’s performance in 2014 has proven that by sticking to a robust strategic plan of action there is much we can do to lift the refinery’s performance, particularly through harnessing the many business improvement opportunities identified by our talented and committed employees.

“The Directors are confident that the refinery’s strong cash generating ability, exemplified by the excellent second half financial performance, sets a solid platform for the Company to complete TMH and to continue to explore other attractive and profitable, future growth opportunities”, David Jackson said.

ENDS

For further information:
Greg McNeill
Communications and External Affairs Manager
T: 094325115; M: 021 873623; E: greg.mcNeill@refiningnz.com