REFINING NZ

FULL YEAR ANNOUNCEMENT

OUR CUSTOMER PROMISE

OUR PERFORMANCE

OUR VISION

OUR COMMITMENT

Results for announcement to the market

Reporting Period 12 months to 31 December 2018

Previous Reporting Period 12 months to 31 December 2017

The Directors of the New Zealand Refining Company Limited today announced the Company's financial results for the year to 31 December 2018, 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 2018.

CONSOLIDATED RESULTS

RESULTS

$NZ 000

Revenue from ordinary activities

CURRENT YEAR

$359,576[1] DOWN 13%

PREVIOUS CORRESPONDING YEAR $411,706[1]

Profit from ordinary activities after tax attributable to security holder

CURRENT YEAR

$29,616 DOWN 62%

PREVIOUS CORRESPONDING YEAR $78,530

Net profit attributable to security holders

CURRENT YEAR

$29,616 DOWN 62%

PREVIOUS CORRESPONDING YEAR $78,530

FINAL DIVIDEND

Amount per security

NZ 4.5 CENTS PER SHARE

Imputed amount per security

NZ 1.75 CENTS PER SHARE (FULLY IMPUTED)

Record date

7 March 2019

Dividend payment date

21 March 2019

NET TANGIBLE ASSETS PER SECURITY

As at 31 December **2018**

$2.42

As at 31 December **2017**

$2.54

1 Revenue from ordinary activities represents total income of $362,466 (2017: $414,620k) less insurance recovery of $2,890 (2017: $2,914k), included in 'other income' as disclosed in note 2 of the consolidated financial statements

OUR PERFORMANCE

HIGHLIGHTS

Strong second half operational performance following the planned maintenance shutdown, healthy margins and improved exchange rate together delivered an NPAT of $29.6m (2017: $78.5m).

Gross refining margin (GRM) averaged USD 6.31 per barrel (2017: USD 8.02 per barrel) or USD 7.33 per barrel allowing for the 2018 shutdown.

Total Refinery throughput for the second half of 2018 was the highest in the Refinery's history.

Annual throughput record for the Refinery to Auckland Pipeline (RAP) on the back of the Company's investment in capacity upgrading projects.

Crude intake of 40.4 million barrels (2017: 41.7 million barrels).

COMMENTARY

Refining NZ has reported a Net Profit after Tax (NPAT) of $29.6 million (2017: $78.5 million) for the year ended 31 December 2018.

Commenting, Chief Executive, Mike Fuge acknowledged the impact on earnings of the first planned full refinery shutdown in 14 years in the first half of the year which was partially mitigated in the second half by healthy refining margins, a weakening exchange rate and a strong operational performance.

Fuge confirmed that the underlying business fundamentals remained strong: "While the NPAT result was impacted by the planned maintenance shutdown in April-June the reliable running on processing units for the remainder of the year saw refinery throughput for the second half of 2018 at its highest ever, which allowed the Company to capitalise on healthy refining margins."

REFINING MARGINS AT TOP HISTORIC RANGE

The Gross Refining Margin averaged USD 6.31 for the year (2017: USD 8.02 per barrel) or USD 7.33 when normalised for the 2018 shutdown – at the top of its historical USD 4.00 to USD 6.00 per barrel range – supported by global demand growth and our continued progress in optimising the Refinery's operational efficiency. Looking ahead, Fuge added that refining margins have softened since the beginning of 2019.

RNZ's uplift over Singapore Complex Margins, averaged USD 3.61 per barrel (2017: USD 4.27), reflecting the impact of the 2018 planned maintenance shutdown. The Company benefited from an improved exchange rate which averaged USD 0.69 for the year (2017: USD 0.71).

While the first total refinery shutdown in 14 years took longer than expected to complete, due in large part to the complex refurbishment of key units, there are rich learnings which our shutdown team is already applying to planning for the next maintenance shutdown. A notable success from the 2018 maintenance shutdown was the major refurbishing of the Refinery's Hydrogen Manufacturing Unit.

"As New Zealand's largest producer of pure hydrogen this refurbishment underpins the Refinery's role in the fuels supply chain and presents the exciting possibility of developing further hydrogen infrastructure which is critical to our low carbon economy, and to New Zealand continuing to meet its climate change obligations," said Fuge.

With the next planned, lesser-scope, maintenance shutdown planned for 2020, the Company fully expects to lift its operational performance even further and achieve a throughput of around 44 million barrels for the 2019 year.

Fuge confirmed that the RNZ Board had been working on the capital structure of the business and on the 14th of December the Company issued $75 million of unsecured, subordinated notes for a term of approximately 15 years. The Offer provides greater financial flexibility by diversifying RNZ's funding sources. The Offer was fully subscribed, and the net proceeds of the Offer have been applied to repaying a portion of the Company's existing bank debt.

CUSTOMER PROMISE: QUALITY, RELIABILITY, COMPETITIVENESS

The support we provide to key industries such as tourism, agriculture, large manufacturing and heavy transport is both essential to New Zealand's continued economic growth and beneficial for our business. This is highlighted by the continued demand we see for diesel, and especially for jet fuel which has continued to be driven by the increasing number of international visitors to Auckland International Airport. With an eye to maintaining an attractive value proposition for its customers, RNZ remains steadfastly focused on improving the quality, reliability and competitiveness of its refining operations. Fuge noted that the attention given to pursuing attractive, short pay back, margin enhancing projects was continuing to reap benefits.

"Current initiatives are delivering excellent results reflecting the value of on-going investment in leveraging efficiencies where we can.

PIPELINE CAPACITY UPGRADE DELIVERS RECORD THROUGHPUT

"The capacity upgrading project on the RAP to help meet growing Auckland demand saw the refinery achieve a new annual throughput record on the pipeline. The first two phases of this three-phase upgrade have been completed. Following a review of phase three we are exploring the use of a drag reducing agent as an alternative de-bottlenecking option," said Fuge.

In May the Company completed the last piece of remediation on the RAP rupture site near Ruakaka following the September 2017 outage on the fuel pipeline. In December, the Government announced an Inquiry into the pipeline outage. Its purpose is to draw lessons from the outage to inform how the fuel industry and the Government could improve the resilience of fuel supply into the Auckland region. The Refinery is working with the Inquiry team to assist them in their important work. At the same time, we are also providing information to the competition study into retail fuel markets.

DREDGING FOR COMPETITIVE ADVANTAGE AND IMPROVED RETURNS

In December, the Environment Court confirmed the resource consents issued for the Refinery's crude shipping dredging project, with minor revisions agreed between parties to the appeal. As part of the revised conditions the Refinery will establish a monitoring programme to gather baseline turbidity data for 12 months before dredging can commence and will continue to monitor turbidity throughout the dredging programme.

"We consider the revisions to be effective and workable. This strategically important project has been de-risked considerably. Improving the economics of up to half of all crude delivered to the Refinery will help to keep us competitive with imported fuel from Asia Pacific refiners and improve the gross refining margin that we earn as well as save the energy consumed in delivering petroleum products to New Zealand," said Fuge.

A date for the commencement of dredging has yet to be confirmed and is dependent on the successful completion of monitoring activity on the harbour and a final investment decision by the RNZ Board.

"Notwithstanding our overall commercial success in the face of challenges inherent in a volatile refining sector, we recognise that there is more that we can do to improve our operational performance and competitiveness, while improving returns to our shareholders. This will be a core part of our strategy moving forward," said Fuge.

OUR COMMITMENT TO SUSTAINABILITY AND COMMUNITY

Refining has a significant environmental footprint hence the Company's core focus on improving operations extends to a continued commitment to deliver world class environmental performance.

"Gains in energy efficiency go a long way to reducing the impact of emissions at both a regional and national level. We continue to deliver advances in environmental performance including reductions in sulphur per unit of fuel production as well as the carbon intensity of our refining operation. Maintaining the environmental integrity of our refining site has seen the Company invest over $24 million over the past four years including on improving the robustness of the Refinery's waste water systems."

"We are building on the contribution of Te Mahi Hou to an improved emissions profile through our partnership with EECA (Energy Efficiency and Conservation Authority). Together we are progressing a series of energy projects – including the phasing in of LED lighting across the Refinery – that will save energy while also improving our carbon profile."

"The Company is reviewing a number of options and working with its customers and the Ministry of Transport to meet the requirements of the IMO[2] MARPOL regulations which are aimed at reducing the environmental impacts of nitrogen dioxide, particulates and sulphur dioxide from shipping. This will require a reduction in the sulphur content of fuel oil used in shipping from 3.5% to 0.5%. Our expertise and technology in this space means we are well placed to meet the challenges and opportunities of market-disrupting regulatory change such as MARPOL" said Fuge.

As a major manufacturer and employer we are proud of the Refinery's contribution to our Northland community. Through partnerships and links with key organisations we continue to support the environmental and educational aspirations of our community.

2 **IMO** International Maritime Organisation - International Convention for the Prevention of Pollution from Ships (MARPOL)

VISION FOR A BRIGHTER ENERGY FUTURE

New Zealand's declared commitment to a low carbon energy future is an exciting statement of leadership on a world stage, where there is a determination to act on climate change. It's a commitment to which RNZ has much to contribute: we continue to improve our environmental footprint and our substantial technical knowledge brings considerable intellectual property to the nation's green energy and growth agendas.

To that end, RNZ's Management and Board have been defining a business strategy that will shape the future direction of the Company. It recognises the major and continuing contribution of the refinery to the national fuels supply chain as well as to the Northland and national economies. Further, it acknowledges the challenges presented by the need to decarbonise the country's energy infrastructure.

Commenting, RNZ Chairman Simon Allen said: "We have new leadership, a healthy balance sheet, strong free cash flow with a healthy short-term outlook, and deep capability.

"Importantly, our government and other key stakeholders are fully aware of the need for a phased transition to a low carbon economy – and are highly receptive to ideas that promote energy innovation, emissions reduction and sustainable development, especially from companies such as RNZ: traditional industries that make a significant contribution to their local community and to their respective regional economies.

"At the heart of our new strategy we will continue to be a profitable core refining business which is always looking to be commercially attractive, safe and reliable and a major employer fully committed to helping New Zealand meet its climate change obligations. A prime example of that commitment is the $365 million investment in Te Mahi Hou which reduced carbon emissions by around 120,000 tonnes a year - the equivalent of carbon emissions from 60,000 Toyota Corollas."

Allen said the Company's strategic review will look to generate further value out of the business, leveraging existing assets and capabilities to lift the Refinery's operational performance and with New Zealand's energy future in mind, build on the core through the judicious choice and implementation of highly economic projects.

"On the horizon is a new look, low carbon energy industry based on a mix of energy sources including a greater percentage of renewables. The way forward - whether in electricity or transport fuels - is to harness more of our natural resources such as solar and hydrogen to support our existing business.

A REALISTIC STEP BY STEP STRATEGY BACKED BY A COMMITTED WORKFORCE, SUBSTANTIAL EXPERTISE, AND 60 YEARS OF ENERGY PROBLEM-SOLVING CREDIBILITY

"We have a proud record of meeting business challenges head-on using our extensive industry experience and technical expertise. Continuing to do so will help us build a sustainable future in a low carbon economy for our refinery, our community and the 500 plus people who come through the refinery gates every day," he said.

We will be providing more details on our new strategy in quarter two or quarter three of this year at a specially-arranged Strategy Day. We look forward to announcing a date very soon.

DIVIDEND

Allen confirmed that the Company's Directors resolved to pay a fully imputed final dividend of 4.5 cents per share to be paid on 21 March 2019, with a record date of 7 March 2019.
With an interim dividend of 3 cents paid in September, the total dividend payment for the year is 7.5 cents.

OUTLOOK

CEO Mike Fuge said that the strong operational performance in the second half of the year highlights the existing strengths of our refinery and the talented team who continue to run it safely and reliably.

"The review of the Company's business strategy looks to build on that strength and opens up the possibility to transform our business, in realistic, credible steps, into a sustainable, low carbon energy producer.

"Such a transformation of our refining business would contribute to New Zealand's climate change efforts, promote prudent investment, innovation, jobs and skills development and be highly valued by investors, the Government and our Northland community," he said.

ENDS

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