



REFINING NZ
Your Energy Hive

FULL YEAR ANNOUNCEMENT

HIGHLIGHTS

- Net profit after tax of \$4.2 million achieved in a challenging, low margin environment in the second half of 2019.
- Gross refining margin (GRM) averaged USD 5.34 per barrel (2018: USD 6.31 per barrel).
- A confluence of negative influences led to a low margin environment and resulted in the Refinery's GRM falling to USD 2.62 per barrel for the last two months of 2019.
- Outstanding personal and process safety performance with a significantly improved lost time injury frequency of 0.13 (2018: 0.48)¹.
- Excellent operational performance. Operational availability on the Refinery's processing units was at 99.7%. The utilisation rate on the Hydrocracker unit was at its highest in ten years.
- Crude throughput of 42.7 million barrels was up around 6% on the previous year (2018:40.4 million barrels), helped by there being no planned maintenance Turnarounds in 2019.
- Highest annual crude and condensate intake, the highest annual refined product make and customer product offtakes.
- Strong volume delivery on the RAP with annual throughput at 20.8 million barrels, the second highest on record.

¹ Per 200,000 hours worked.

COMMENTARY

Refining NZ has reported a Net Profit after Tax (NPAT) of \$4.2 million (2018: \$30 million) for the year ended 31 December 2019.

Managing Director, Paul Zealand described the result as disappointing given how well the business has performed operationally, and that the confluence of market factors have resulted in an unsustainably low margin environment in the latter part of the year.

"The Gross Refining Margin averaged USD 5.34 for the year (2018: USD 6.31 per barrel), weaker than expected global refining margins, the result of a slowdown in the global economy, compounded by US sanctions on Chinese crude tanker companies, and additional refining capacity coming online earlier than expected."

"Demand in the Asia Pacific region was negatively impacted by a glut of diesel and gasoline exports from China and India. Crude freight rates increased from October while the expected lift in diesel margins in the lead up to MARPOL did not

materialise as expert market commentators had forecast, though High Sulphur Fuel Oil margins fell strongly."

Mr Zealand said that given the headwinds in the market, including the impact of Coronavirus on supply and demand, the low margin environment will likely remain into the early part of 2020.

"Expert market commentators are expecting that refining margins will improve in the near-to-mid-term, helped by improving US/China trade relations. International energy consulting company Facts Global Energy (FGE) is also expecting diesel margins to lift as MARPOL compliant fuel demand increases, which will increase hydrocracking margins," he said.

Mr Zealand confirmed that the result aligns with the Company's profit matrix issued in February 2019 taking into account the \$3.8 million NPAT impact of the Transpower outage in November. The FY 2019 result was assisted by a favourable USD/ NZD exchange rate which averaged USD 0.66 for the year (2018: USD 0.69).

RESPONDING TO LOW REFINING MARGINS

Mr Zealand said that the management team has been working with the Board on a comprehensive plan to respond to the weaker than expected margin environment, with the objectives of securing long term value for shareholders and deriving maximum value from the Company's significant infrastructure assets.

"Given the uncertainties the refining sector is facing, we are working to minimise cash spend and increase revenue. At the same time we are looking at all tactical and strategic options available to enable Refining NZ to stay at the core of the fuel supply chain in New Zealand."

"Success will enable the Company to continue to add resilience to the country's fuel supply chain by optimising our essential infrastructure assets (refining, storage and distribution) at Marsden Point."

"Looking ahead, our substantial infrastructure investment and deep technical capability means we will have a critical role in producing the transport fuels New Zealand needs now, and for a future low carbon economy," he said.

SAFETY

Mr Zealand described the Refinery's personal and process safety performance in 2019 as outstanding.

The lost time injury frequency rate (LTIF) at 0.13 was a marked improvement on the prior year (2018: 0.48) with only one lost time injury during 2019. This reflects the success of our safety culture programme E Tu Tangata (Stand in the Gap) rolled out across the Refinery via a series of Hauora Korero (safety talks) and Hauora Hikoi (safety walks). The Refinery's process safety performance was also outstanding in 2019 with no significant process safety incidents (2018: 5).

OPERATIONAL PERFORMANCE

Operational availability on the Refinery's processing units was at 99.7% with the utilisation rate on the Hydrocracker unit at its highest in the past decade. This positive performance was achieved despite a Transpower outage in the region on the 27th of November, which saw a total loss of power to the Refinery.

Several production records were achieved on the back of reliable refining operations including the highest annual crude and condensate intake, the highest annual refined product make and customer product offtakes. Operational availability on the Refinery to Auckland pipeline was greater than 99% with the annual pipeline throughput at 20.8 million barrels, the second highest on record.

Mr Zealand confirmed that operating and capital costs had remained tightly controlled during the year as Refinery operations came under sustained pressure from higher electricity and gas prices.

"Ongoing supply issues with the Pohokura offshore natural gas field meant that access to natural gas supplies had to be carefully managed during the year. Refining NZ has subsequently contracted all of its natural gas requirements for the next three years with a credible market participant with diverse supply options."

MARPOL

The Refinery has worked with its customers to manage the introduction of 0.5% low sulphur fuel oil for shipping under the 2020 IMO MARPOL regulations which came into force on 1 January, 2020.

Said Zealand: "We are broadening our crude diet to minimise the MARPOL impact on our fuel oil make. Four new, lower cost crudes have been successfully tested and forward crude procurement decisions by our customers are already being made as a result. Refining these new crudes will lower crude costs overall and can be expected to improve the Refinery's GRM from Q2 2020 onwards."

2020 TURNAROUND

Preparations for planned maintenance Turnarounds in March and April are well advanced with the preparedness benchmarked as “top quartile” by recognised industry project/Turnaround specialists.

GOVERNMENT INQUIRY

In September the Government Inquiry into the 2017 pipeline outage and improving the resilience of the fuel supply into the Auckland region, concluded that Refining NZ maintained and operated the RAP properly and in keeping with all legal requirements and standard industry practice.

Said Zealand: “Given our essential role in the transport fuels supply chain, we were also encouraged by the Inquiry noting that Refining NZ is working to make timely investment decisions and that we have a clear goal of having new infrastructure in place shortly before it is needed to meet demand, rather than just in time or too late.”

“We continue to push for further legislative protections for the pipeline and are working with the Government and industry on ways to further improve the resilience of Auckland’s fuel supply chain.”

EMISSIONS TRADING SCHEME

In 2019 the Government confirmed that Refining NZ will be brought in to the New Zealand Emissions Trading Scheme (NZETS) as an Energy Intensive Trade Exposed (EITE) business with an allocation of carbon units after the Negotiated Greenhouse Agreement we have with the Crown expires at the end of 2022.

Said Zealand: “This is an imperative for the Company and the country, as we transition to a future based on the production of lower carbon fuels. At the same time, we are mindful of the potential disruption from further legislative reforms to the NZETS currently before Parliament, in particular, a recently announced review of unit allocation to EITE businesses.”

DIVIDEND

Given the challenging low margin environment the Company is operating in, the Company’s Directors have resolved that it is prudent to not pay a final dividend to shareholders. With an interim dividend of two cents paid in September, the total dividend payment for the year is two cents.

OUTLOOK

Mr Zealand said that the poor margin situation at the end of 2019 has continued into the first two months of 2020 with refining margins below the processing fee floor, exacerbated by the ongoing impact of Coronavirus on regional supply and demand.

“Exactly how the supply adjusts to the full effect of Coronavirus, the requirements of MARPOL, and other global factors, remains to be seen. This will likely result in ongoing margin volatility as demand returns, stocks are released and export refining capacity comes back on stream, particularly in China.”

“Expert commentator FGE, is forecasting global oil demand to rebound in 2H 2020 & 1H 2021, driven first and foremost, by growth in China.”

“Our team at Marsden Point remains focused on the safe and reliable performance of our refining operations and the multi-fuel pipeline to Auckland, as well as reducing our operational and capital spending in 2020. These actions should ensure that the Refinery is well placed to benefit when global refining margins improve.”

FURTHER
INFORMATION

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