HY21 INTERIM RESULTS

NZX Release

19 August 2021

Summary

- The simplified refinery plan, implemented from the beginning of the year, enabled the Company to safely operate cash neutral at the Fee Floor, with net debt at $230 million as at 30 June 2021 (FY20: $231 million).
- The Company's record personal health and safety performance continued with no recordable injuries during the period. Two tier 1 process safety incidents were responded to quickly with no significant damage to the plant and actions taken to prevent reoccurrence.
- The planned maintenance turnaround, including the first statutory inspection of the CCR, was completed safely, to plan and below budget.
- An average Gross Refining Margin of US$3.19 per barrel was earned (HY20: US$1.82), and circa $29 million of Fee Floor subsidies paid by Customers in the six months ended 30 June 2021 (HY20: $39 million).
- A $25 million reduction in total operating costs through refinery simplification and optimisation of the balance sheet, increasing EBITDA by circa 169% to $41.5 million (HY20: $15.4 million).
- A reported net loss after tax of $4.9 million (HY20: ($186.4) million, including a non-cash impairment of $158 million).
- The Company continues to prepare for a final investment decision around the end of Q3/21, following 99% of shareholders voting in support of an import terminal conversion and lender consent being given.

Financial snapshot

Half year (NZ$ m)	2021	2020	Change $	Change %
Income	**115.4**	**119.1**	(3.7)	(3.1%)
EBITDA[1]	**41.5**	**15.4**	+26.1	+169%
Adjusted EBITDA[2]	**34.5**	**20.5**	+14.0	+68%
Capex	**(21.0)**	**(22.0)**	+1.0	+5%
NPAT	**(4.9)**	**(186.3)**	+181.4	+97%
Free cash flow	**1.2**	**(8.3)**	+9.9	<nm>

Refining NZ today released its interim financial results, reporting an EBITDA of $41.5 million –with simplified refinery changes enabling the Company to operate cash neutral at the Fee Floor. Net debt closed flat at $230 million (FY20: $231 million).

The Simplified Refinery operating model, implemented from the start of the year, reduced the Company's refining capacity by circa 18% and bitumen production was ceased. Chief Executive Officer Naomi James commented that the operational change was necessary to enable the Company to operate cash neutral at the Fee Floor, while providing the time to assess the import terminal option and negotiate commercial arrangements with customers.

"In setting the plan for 2021, we had to find a way to continue to safely operate the refinery through an extended period of low margins, earning the Fee Floor under the Processing Agreements, while not losing cash and destroying shareholder value.

"Our customers have all expressed a desire to transition to an import terminal model and we needed time to negotiate long-term commercial arrangements which were both fair to our customers but also delivered fair value for shareholders from our infrastructure, and ensured we had time to ready our workforce and community for this significant change. The Simplified Refinery has enabled us to do that, and we are pleased to have received the strong support of our shareholders and lenders to move to an import terminal model", said Ms James.

Ms James added: "We don't expect a change from refinery to import terminal will involve much change for New Zealanders as we already import a large portion of New Zealand's fuel needs. However, this is a significant change for our people, and the Marsden Point Community, and we thank all those from across the wider Northland region, who have engaged with us throughout our strategic review process over the past 16-months as we worked to find the best operating model for our business moving forward."

[1] EBITDA = Reported Net Profit/(Loss) before depreciation, disposal costs, impairment, finance costs and taxation.
[2] Adjusted EBITDA = EBITDA adjusted for other non-cash expenses and used for bank covenant purposes.[3] Includes non-cash impairment of refining assets of $158 million after tax.

The safety of Refining NZ's workplace and the health and wellbeing of its people are core company values and at the heart of the on-site culture and despite the changes that have taken place through simplification, our commitment to delivering safe operations has never wavered.

Ms James said "We were extremely pleased to continue our strong health and safety track record throughout the period which is a testament to the safety culture on display every day. The result was particularly pleasing given that we undertook a maintenance turnaround during the period. Maintenance turnarounds are complex to plan and execute and to be able to complete it safely, within the scheduled timeframe and under budget, further evidences the skill and commitment of our people."

The first statutory inspection for the CCR Platformer (Te Mahi Hou Project) and routine inspection and maintenance for the crude distillation unit and associated plant was successfully completed. During the turnaround, all other processing units not undergoing maintenance were temporarily shut down and customers imported refined fuel into Marsden Point during this period.

Two process safety incidents were recorded during the period with both responded to quickly, resulting in no significant damage to the plant. The Company recorded unauthorized releases outside of consent when non-compliant firefighting foam was used during recent fire training exercises. Ms James said "We are extremely disappointed that this incident has occurred after we stopped the use of such foams for training purposes a number of years ago. We quickly commissioned an independent investigation to determine what had occurred. The Company has taken action to mitigate the effects of the discharge and to further strengthen on-site controls, and there is on-going testing to determine if any further treatment or remediation is required."

Refinery throughput for the six months was 13 million barrels compared with 15.4 million barrels in the six months ended 30 June 2020, reflecting the reduced capacity from the refinery simplification and the impact of the planned four-week maintenance turnaround. Pipeline throughput was 7.1 million barrels compared with 7.5 million barrels in the prior corresponding period, with the lower volumes predominantly reflecting the reduction in demand for jet fuel into Auckland International Airport due to ongoing COVID-19 border restrictions.

Singapore complex margins (SCM) remained negative throughout the first half of 2021, averaging negative US$2.09 per barrel (HY20 negative US$1.60); the uplift earned by Refining NZ over the SCM was strong at USD5.28 per barrel (HY20 USD3.42 per barrel). The uplift is primarily due to the lower price for crudes processed by Refining NZ relative to the Dubai crude price, coupled with a lower fuel oil make.

Processing fee revenue prior to Fee Floor payments was $41 million, compared to $31 million in the prior period. In addition, Refining NZ customers were invoiced $29 million in Fee Floor payments, compared to $39 million in the same period in 2020. In the 18 months ended 30 June 2021, our Customers have made Fee Floor subsidy payments amounting to circa $118 million.

"Very little has changed in the broader environment in which we operate. Refining margins continue to be weak and excess refining capacity in the Asia Pacific region remains. We have seen little improvement in the supply/demand balance and expert analysis agree that we should not expect a significant improvement in margins in the near term." said Ms. James.

Operating costs, excluding natural gas costs passed through to customers and one offs, were around $22 million lower than the previous corresponding period, when the full refinery was operating in cyclic mode following the COVID-19 outbreak. The implementation of the simplified refinery model accounted for approximately $13 million of the total cost reduction through changes to maintenance philosophies, reduced variable costs and a circa 25% reduction in staff numbers. The Company also recorded a non-cash settlement gain of approximately $9 million following the “cash out” of defined benefit pension fund and medical retirees’ obligations, as part of the Company’s plan to optimize the balance sheet.

Following shareholder approval at the 6 August Special Meeting, the Board is now progressing to a Final Investment Decision around the end of quarter three of this year which would enable a conversion to occur by mid-2022. The vote received strong shareholder support, with 99 per cent voting in favour of the proposed import terminal, including all of our Oil Company shareholders; we are working to conclude a binding agreement with all 3 customers ahead of this final investment decision.

We continue to work with our workforce to support them in preparing for this change. We are working with our local community leaders and central Government through the Northland Refinery Transition Working Group to identify opportunities for jobs and economic activity that can help reduce the impact of a closure of the refinery on the Northland region. Refining NZ has completed its initial assessment of repurposing opportunities for the Marsden Point site and identified a number of site repurposing opportunities where further work will be progressed.

Looking ahead to the remainder of this year, Refining NZ will continue to focus on operating the simplified refinery safely and meeting its commitments to customers under the Processing Agreements while operating within the Fee Floor. With the expected transition to the import terminal next year, to be underpinned by new long-term agreements with each of BP, Mobil and Z Energy, the company is expected to generate significantly more stable earnings compared with the inherent volatility of oil refining, deliver superior “through the cycle” returns to shareholders and be strongly positioned to participate in a decarbonisation of the New Zealand transport and energy market, including through opportunities to repurpose its Marsden Point industrial site.

Results call

Refining NZ will host a results presentation call for investors and analysts at 11:00am, Thursday 19 August 2021. To access the audioconference link and to register to view the presentation, go to www.refiningnz.com.

FURTHER INFORMATION

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