

Announcement to NZX

Refining NZ Throughput and Margin Report for November/December 2014

The Gross Refinery Margin¹⁾ (GRM) for the period was USD 9.98 per barrel with a throughput of 7.1 million barrels. This delivered a Processing Fee income of NZD 63.9 million, enabling the Fee Floor²⁾ to be completely paid back to customers. The average exchange rate was USD/NZD 0.78.

For the full year we achieved a GRM of USD 4.96 per barrel with a throughput of 39.7 million barrels, ahead of the updated guidance of 39 million barrels given in the interim results announcement. Processing Fee income was NZD 168 million, 5% ahead of the 2013 Processing Fee.

Singapore complex margins were healthy and averaged USD 4.48 per barrel for November/December. Refining NZ's margin uplift over Singapore complex margins of USD 5.50 per barrel for the period was again higher than the normal range of USD 3 - 4 per barrel, driven by the 2014 margin initiatives, excellent operational performance and favourable crude prices. The crude price movements included an ongoing narrow Brent-Dubai spread and reduced market premia for crude oil over the Brent and Dubai benchmark prices.

We saw crude prices decline further to end the year at around USD 50 per barrel. Lower crude prices improve our competitiveness against imported product due to lower inventory costs for our customers. At the current crude price of below USD 50 per barrel, Refining NZ is competitive at a GRM of USD 4.50 per barrel or better.

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

Historic 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.
- 2) The Fee Floor is the minimum Processing Fee due, for a calendar year, up to a maximum of NZD 126 million for 2014 (see Explanatory Notes for more detail).

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Appendix I – Year to date: 2014

Throughput, Margin and Refining Income

		Total	per bbl
Jan/Feb	Throughput	Barrels (million)	6.74
	Gross Refining Margin	USD (million)	26.0
	Gross Refining Margin (excluding Floor/Cap)	USD (million)	26.0
	Interim Floor adjustment	NZD (million)	0.0
	Interim Cap adjustment	NSD (million)	0.0
	Processing Fee (excluding Floor)	USD (million)	18.2
	Processing Fee (excluding Floor)	NZD (million)	22.0
	Processing Fee (after Floor/Cap)	NZD (million)	22.0
YTD Floor adjustment	NZD (million)	0.0	
Mar/Apr	Throughput	Barrels (million)	6.15
	Gross Refining Margin	USD (million)	25.3
	Gross Refining Margin (excluding Floor/Cap)	USD (million)	-17.4
	Interim Floor adjustment	NZD (million)	34.9
	Interim Cap adjustment	NZD (million)	0.0
	Processing Fee (excluding Floor)	USD (million)	-12.2
	Processing Fee (excluding Floor)	NZD (million)	-14.2
	Processing Fee (after Floor/Cap)	NZD (million)	20.7
YTD Floor adjustment	NZD (million)	34.9	
May/June	Throughput	Barrels (million)	6.98
	Gross Refining Margin	USD (million)	25.9
	Gross Refining Margin (excluding Floor/Cap)	USD (million)	24.3
	Interim Floor adjustment	NZD (million)	1.3
	Interim Cap adjustment	NZD (million)	0.0
	Processing Fee (excluding Floor)	USD (million)	17.0
	Processing Fee (excluding Floor)	NZD (million)	19.7
	Processing Fee (after Floor/Cap)	NZD (million)	21.1
YTD Floor adjustment	NZD (million)	36.3	
Jul/Aug	Throughput	Barrels (million)	6.30
	Gross Refining Margin	USD (million)	26.1
	Gross Refining Margin (excluding Floor/Cap)	USD (million)	42.5
	Interim Floor adjustment	NZD (million)	-13.5
	Interim Cap adjustment	NZD (million)	0.0
	Processing Fee (excluding Floor)	USD (million)	29.8
	Processing Fee (excluding Floor)	NZD (million)	34.8
	Processing Fee (after Floor/Cap)	NZD (million)	21.3
YTD Floor adjustment	NZD (million)	22.8	
Sep/Oct	Throughput	Barrels (million)	6.39
	Gross Refining Margin	USD (million)	23.9
	Gross Refining Margin (excluding Floor/Cap)	USD (million)	48.1
	Interim Floor adjustment	NZD (million)	-21.3
	Interim Cap adjustment	NZD (million)	0.0
	Processing Fee (excluding Floor)	USD (million)	33.7
	Processing Fee (excluding Floor)	NZD (million)	42.3
	Processing Fee (after Floor/Cap)	NZD (million)	21.0
YTD Floor adjustment	NZD (million)	1.5	
Nov/Dec	Throughput	Barrels (million)	7.13
	Gross Refining Margin	USD (million)	69.5
	Gross Refining Margin (excluding Floor/Cap)	USD (million)	71.1
	Interim Floor adjustment	NZD (million)	-1.5
	Interim Cap adjustment	NZD (million)	0.0
	Processing Fee (excluding Floor)	USD (million)	49.8
	Processing Fee (excluding Floor)	NZD (million)	63.9
	Processing Fee (after Floor/Cap)	NZD (million)	62.4
YTD Floor adjustment	NZD (million)	0.0	

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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 Arab Light or Dubai (used as basis for the Singapore complex margins).

Cap/Floor Adjustment

The processing agreements with our customers contain both Floor and Cap clauses, both effective over a full calendar year. The Floor is operative if the annual Processing Fee is below approximately NZD 126 million. The Cap limits the Gross Refining Margin for each customer to a maximum of US D9.00 per barrel over the calendar year. The Cap and the Floor are subject to year-to-date adjustments.

The Fee Floor is the minimum Processing Fee due, for a calendar year, up to a maximum of NZD 126 million for 2014. 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.

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.

YTD Gross Margin above Cap

Refining NZ may utilise this amount if the Gross Refining Margin generated during the remainder of the calendar year falls below USD9.00 per barrel for each customer. Any balance remaining at the end of the year cannot be carried over to the next year. Because the Processing Fee is 70% of the Gross Refining Margin, only 70% of this can be considered a contingent asset.

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 provided subject to independent external audit.

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Appendix II - Historic Analysis

Intake/Production, Gross Refining Margin and Processing Fee

		2010	2011	2012	2013	2014
Jan/Feb	Barrels 000's	7,009	6,652	7,285	6,786	6,740
	USD GRM per barrel ¹⁾	6.85	6.59	4.16	4.18	3.86
	NZD Processing Fee (million) ²⁾	47.2	40.2	25.9	23.7	22.0
Mar/Apr	Barrels 000's	6,764	7,251	6,635	7,151	6,146
	USD GRM per barrel ¹⁾	5.57	6.04	3.97	5.03	-2.84
	NZD Processing Fee (million) ²⁾	37.3	40.1	22.5	30.0	20.7
May/Jun	Barrels 000's	6,387	7,057	6,602	7,048	6,976
	USD GRM per barrel ¹⁾	3.73	7.03	4.84	6.84	3.48
	NZD Processing Fee (million) ²⁾	24.1	43.1	28.8	41.8	21.1
Jul/Aug	Barrels 000's	6,824	6,853	7,296	7,194	6,298
	USD GRM per barrel ¹⁾	7.16	5.26	6.07	6.05	6.75
	NZD Processing Fee (million) ²⁾	47.9	29.9	38.6	38.5	21.3
Sept/Oct	Barrels 000's	5,305	6,978	7,400	6,730	6,388
	USD GRM per barrel ¹⁾	6.94	6.96	7.56	2.95	7.54
	NZD Processing Fee (million) ²⁾	34.8	42.5	47.8	16.8	21.0
Nov/Dec	Barrels 000's	6,663	6,421	6,898	5,693	7,127
	USD GRM per barrel ¹⁾	6.75	4.67	7.88	1.82	9.98
	NZD Processing Fee (million) ²⁾	41.3	27.3	46.1	8.8	62.4
Total	Barrels 000's	38,952	41,211	42,116	40,602	39,676
	USD GRM per barrel ¹⁾	6.17	6.11	5.77	4.58	4.96
	NZD Processing Fee (million) ²⁾	232.6	223.0	209.7	159.7	168.4

1) Excludes Fee Floor/Cap adjustment

2) Includes Fee Floor/Cap adjustment