17 March 2016

Announcement to NZX

Refining NZ Throughput and Margin Report for January/February 2016

The Gross Refinery Margin[1)] (GRM) for the January/February period – prior to Cap adjustments – was USD 7.96 per barrel, at the top end of the historical margin range. The resulting Processing Fee income was NZD 57.0 million, including a Margin Cap[2)] adjustment for the period of NZD 0.7 million. This amount will be recovered in future months if the GRM moves below the Margin Cap.

Throughput was below expectation at 6.8 million barrels, due to late crude ship arrivals which caused slowdowns of the crude distillers and sub-optimal refinery operation during the last two weeks of February.

The Singapore Dubai complex margin for the period remained strong at an average of USD 4.95 per barrel as a result of weak Dubai crude prices. Refining NZ's margin uplift over this Singapore complex margin was USD 3.01 per barrel. The uplift for the period was affected by a number of factors including a weakening of the freight uplift by USD 1.25 per barrel, light crude price increases versus Dubai of around USD 0.80 per barrel (priced off Brent as benchmark) and sub-optimal refinery operation. Te Mahi Hou continued to operate in line with expectations.

The average exchange rate for the period was USD/NZD 0.66.

A planned shutdown of the hydrocracker and related units to replace some of the catalyst and to perform maintenance work, will take place in April. The impact has been factored into the profit matrix for 2016, presented with our analyst briefing. Refining NZ's margin during the March/April period will be negatively impacted as a result of the hydrocracker being off-line, since this limits the company's ability to upgrade lower cost feedstock into high value products.

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

Historical 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) The Margin Cap limits the Processing Fee to a maximum Gross Refining Margin of 9 USD per barrel for over a calendar year. The Margin Cap applies to each Customer severally (see Explanatory Notes for more detail).
2) 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.

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Appendix I – Year to date: 2015

Throughput, Margin and Refining Income

			Total	per bbl
Jan/Feb	Throughput	Barrels (million)	6.83	
	Gross Refining Margin	USD (million)	53.7	7.86
	Gross Refining Margin (excluding Floor/Cap)	USD (million)	54.3	7.96
	Interim Cap adjustment	NZD (million)	0.7	
	Processing Fee (after Floor/Cap)	USD (million)	37.6	5.50
	Processing Fee (excluding Floor/Cap)	NZD (million)	57.7	
	Processing Fee (after Floor/Cap)	NZD (million)	57.0	
	YTD Cap adjustment	NZD (million)	0.7	

Note: The GRM for a period may be above or below the Cap of USD 9.00 per barrel due to previous year price updates, which are not subject to the Floor/Cap in the current year

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

Margin Cap/Fee Floor Adjustment

The processing agreements with our customers contain both Floor and Margin Cap clauses, both effective over a full calendar year.

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

The Margin Cap limits the Gross Refining Margin for each customer to a maximum of USD 9.00 per barrel over the calendar year. Should the Gross Refining Margin fall below the Cap in future months any pro-rata Cap reductions that have been made are repaid by the Customers.

The Cap and the Floor are subject to year-to-date adjustments.

Any balance remaining at the end of the year cannot be carried over to the next year.

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.

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 subject to change due to post announcement price updates and independent audit.

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Appendix II - Historical Analysis

Intake/Production, Gross Refining Margin and Processing Fee

		2012	2013	2014	2015	2016
Jan/Feb	Barrels 000's	7,285	6,786	6,740	7,056	6,826
	USD GRM per barrel 1)	4.16	4.18	3.86	9.91	7.96
	NZD Processing Fee (million) 2)	25.9	23.7	22.0	59.6	57.0
Mar/Apr	Barrels 000's	6,635	7,151	6,146	7,411	
	USD GRM per barrel 1)	3.97	5.03	-2.84	8.77	
	NZD Processing Fee (million) 2)	22.5	30.0	20.7	62.3	
May/Jun	Barrels 000's	6,602	7,048	6,976	6,416	
	USD GRM per barrel 1)	4.84	6.84	3.48	8.55	
	NZD Processing Fee (million) 2)	28.8	41.8	21.1	48.9	
Jul/Aug	Barrels 000's	7,296	7,194	6,298	7,519	
	USD GRM per barrel 1)	6.07	6.05	6.75	7.66	
	NZD Processing Fee (million) 2)	38.6	38.5	21.3	63.5	
Sept/Oct	Barrels 000's	7,400	6,730	6,388	7,221	
	USD GRM per barrel 1)	7.56	2.95	7.54	9.47	
	NZD Processing Fee (million) 2)	47.8	16.8	21.0	71.8	
Nov/Dec	Barrels 000's	6,898	5,693	7,127	7,017	
	USD GRM per barrel 1)	7.88	1.82	9.98	10.88	
	NZD Processing Fee (million) 2)	46.1	8.8	62.4	73.0	
Total	**Barrels 000's**	**42,116**	**40,602**	**39,676**	**42,639**	**6,826**
	USD GRM per barrel 1)	**5.77**	**4.58**	**4.96**	**9.20**	**7.96**
	NZD Processing Fee (million) 2)	**209.7**	**159.7**	**168.4**	**379.2**	**57.0**
	YTD Cap adjustment				**14.4**	**0.7**
	NZD Processing Fee (million) 1)					**57.7**

1) Excludes Fee Floor/Cap adjustment
2) Includes Fee Floor/Cap adjustment

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