Condensed Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2019

Condensed Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2019

Condensed Consolidated Interim Income Statement

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

	NOTE	GROUP 30 JUNE 2019 $000	GROUP 30 JUNE 2018 $000
INCOME			
Operating revenue	1, 2	**169,413**	147,029
Other income	2	**2,179**	1,152
TOTAL INCOME		**171,592**	148,181
EXPENSES			
Purchase of process materials and utilities		**51,220**	37,735
Materials and contractor payments		**15,776**	13,792
Wages, salaries and benefits		**29,653**	28,899
Depreciation and disposal costs		**52,137**	46,216
Administration and other costs		**20,893**	18,323
TOTAL EXPENSES		**169,679**	144,965
NET PROFIT BEFORE FINANCE COSTS		**1,913**	3,216
FINANCE COSTS			
Finance income		**(24)**	(63)
Finance costs		**6,767**	6,599
NET FINANCE COSTS		**6,743**	6,536
Net loss before income tax		**(4,830)**	(3,320)
Add income tax		**(1,327)**	(498)
NET LOSS AFTER INCOME TAX		**(3,503)**	(2,822)
ATTRIBUTABLE TO:			
Owners of the Parent		**(3,503)**	(2,822)

EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE NEW ZEALAND REFINING COMPANY LIMITED	CENTS	CENTS
Basic and diluted earnings per share	**(1.12)**	(0.90)

The above Condensed Consolidated Interim Income Statement is to be read in conjunction with the accompanying notes.

Condensed Consolidated Interim Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

	NOTE	GROUP 30 JUNE 2019 $000	GROUP 30 JUNE 2018 $000
NET LOSS AFTER INCOME TAX		**(3,503)**	(2,822)
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to the Income Statement			
Defined benefit plan and medical scheme actuarial loss	11	**(10,558)**	(453)
Deferred tax on defined benefit plan and medical scheme		**2,956**	127
Total items that will not be reclassified to the Income Statement		**(7,602)**	(326)
Items that may be subsequently reclassified to the Income Statement			
Movement in cash flow hedge reserve		**(1,539)**	(596)
Deferred tax on movement in cash flow hedge reserve		**431**	167
Total items that may be subsequently reclassified to the Income Statement		**(1,108)**	(429)
TOTAL OTHER COMPREHENSIVE LOSS, AFTER INCOME TAX		**(8,710)**	(755)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD, AFTER INCOME TAX		**(12,213)**	(3,577)
ATTRIBUTABLE TO:			
Owners of the Parent		**(12,213)**	(3,577)

The above Condensed Consolidated Interim Statement of Comprehensive Income is to be read in conjunction with the accompanying notes.

Condensed Consolidated Interim Balance Sheet

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

	NOTE	30 JUNE 2019 $000	30 DEC 2018 $000
ASSETS			
Cash and cash equivalents	12	**4,448**	779
Trade and other receivables	12	**149,822**	152,712
Income tax receivable		**9,896**	1,394
Derivative financial instruments	12	**3,632**	6,249
Inventories		**2,404**	2,974
TOTAL CURRENT ASSETS		**170,202**	164,108
NON-CURRENT ASSETS			
Inventories		**19,117**	19,955
Derivative financial instruments	12	**56**	6
Property, plant and equipment	6	**1,169,408**	1,191,948
Right-of-use assets	6, 15	**6,793**	–
Intangibles	6	**11,060**	14,309
TOTAL NON-CURRENT ASSETS		**1,206,434**	1,226,218
TOTAL ASSETS		**1,376,636**	1,390,326
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	10	**154,897**	152,561
Borrowings	5	**61,350**	50,000
Lease liabilities	15	**652**	171
Employee benefits	11	**7,881**	9,948
Derivative financial instruments	12	**764**	1,300
TOTAL CURRENT LIABILITIES		**225,544**	213,980
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**126,247**	131,289
Employee benefits	11	**59,918**	48,087
Provisions	8	**12,520**	10,866
Lease liabilities	15	**5,511**	2,303
Borrowings	5	**198,621**	208,601
Derivative financial instruments	12	**5,081**	5,564
TOTAL NON-CURRENT LIABILITIES		**407,898**	406,710
TOTAL LIABILITIES		**633,442**	620,690
NET ASSETS		**743,194**	769,636

Condensed Consolidated Interim Balance Sheet

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

	NOTE	GROUP 30 JUNE 2019 $000	GROUP 30 DEC 2018 $000
EQUITY			
Contributed equity		**265,771**	265,771
Treasury stock		**(960)**	(969)
Employee share entitlement reserve		**561**	732
Cash flow hedge reserve		**(1,568)**	(460)
Retained earnings		**479,390**	504,562
TOTAL EQUITY		**743,194**	769,636

The Board of Directors of The New Zealand Refining Company Limited authorised these financial statements for issue on 20 August 2019.

For and on behalf of the Board:

S C Allen
Director

J B Miller
Director

Condensed Consolidated Interim Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

GROUP	NOTE	CONTRIBUTED EQUITY $000	TREASURY STOCK $000
AT 1 JANUARY 2018		265,771	(678)
COMPREHENSIVE INCOME			
Net loss after income tax		-	-
Other comprehensive income			
Movement in cash flow hedge reserve		-	-
Defined benefit actuarial loss	11	-	-
Deferred tax on other comprehensive income		-	-
TOTAL OTHER COMPREHENSIVE LOSS, AFTER INCOME TAX		-	-
TRANSACTIONS WITH OWNERS OF THE PARENT			
Equity-settled share-based payments		-	-
Treasury shares purchased		-	(291)
Unclaimed dividends written back		-	-
Dividends paid	4	-	-
TOTAL TRANSACTIONS WITH OWNERS OF THE PARENT		-	(291)
AT 30 JUNE 2018		265,771	(969)
AT 1 JANUARY 2019		**265,771**	**(969)**
COMPREHENSIVE INCOME			
Net loss after income tax		**-**	**-**
Other comprehensive income			
Movement in cash flow hedge reserve		**-**	**-**
Defined benefit actuarial loss	11	**-**	**-**
Deferred tax on other comprehensive income		**-**	**-**
TOTAL OTHER COMPREHENSIVE LOSS, AFTER INCOME TAX		**-**	**-**
TRANSACTIONS WITH OWNERS OF THE PARENT			
Equity-settled share-based payments		**-**	**-**
Shares vested to employees		**-**	**292**
Treasury shares purchased		**-**	**(283)**
Unclaimed dividends written back		**-**	**-**
Dividends paid	4	**-**	**-**
TOTAL TRANSACTIONS WITH OWNERS OF THE PARENT		**-**	**9**
AT 30 JUNE 2019		**265,771**	**(960)**

The above Condensed Consolidated Interim Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

EMPLOYEE SHARE SCHEME ENTITLEMENT RESERVE	CASH FLOW HEDGE RESERVE	RETAINED EARNINGS	TOTAL EQUITY
$000	$000	$000	$000
429	(6,116)	533,369	792,775
-	-	(2,822)	(2,822)
-	(596)	-	(596)
-	-	(453)	(453)
-	167	127	294
-	(429)	(326)	(755)
151	-	-	151
-	-	-	(291)
-	-	(10)	(10)
-	-	(37,509)	(37,509)
151	-	(37,519)	(37,659)
580	(6,545)	492,702	751,539
732	**(460)**	**504,562**	**769,636**
-	**-**	**(3,503)**	**(3,503)**
-	**(1,539)**	**-**	**(1,539)**
-	**-**	**(10,558)**	**(10,558)**
-	**431**	**2,956**	**3,387**
-	**(1,108)**	**(7,602)**	**(8,710)**
121	**-**	**-**	**121**
(292)	**-**	**-**	**-**
-	**-**	**-**	**(283)**
-	**-**	**-**	**-**
-	**-**	**(14,067)**	**(14,067)**
(171)	**-**	**(14,067)**	**(14,229)**
561	**(1,568)**	**479,390**	**743,194**

Condensed Consolidated Interim Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

	NOTE	GROUP 30 JUNE 2019 $000	GROUP 30 JUNE 2018 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**167,765**	166,955
Payment for supplies and expenses		**(73,801)**	(76,387)
Payments to employees		**(30,326)**	(30,137)
CASH GENERATED FROM OPERATIONS		**63,638**	60,431
Interest received		**24**	63
Interest paid		**(5,995)**	(5,514)
Net GST paid		**(905)**	(10,352)
Income tax paid		**(8,830)**	(9,601)
NET CASH INFLOW FROM OPERATING ACTIVITIES	9	**47,932**	35,027
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		**(29,782)**	(109,728)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(29,782)**	(109,728)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank borrowings		**250**	102,000
Unclaimed dividends		**-**	(10)
Dividends paid to shareholders		**(14,067)**	(37,509)
Lease payments		**(381)**	(244)
Purchase of treasury shares		**(283)**	(291)
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES		**(14,481)**	63,946
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**3,669**	(10,755)
Cash and cash equivalents at the beginning of the period		**779**	17,557
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**4,448**	6,802

The above Condensed Consolidated Interim Statement of Cash Flows is to be read in conjunction with the accompanying notes.

Basis of preparation

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

Basis of preparation

These condensed consolidated interim financial statements as at and for the six months ended 30 June 2019 comply with New Zealand Generally Accepted Accounting Practice ('NZ GAAP') and have been prepared in accordance with New Zealand Equivalents to International Accounting Standard ('NZ IAS') 34: Interim Financial Reporting and International Accounting Standard ('IAS') 34: Interim Financial Reporting and, consequently, do not include all the information required for full financial statements. The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2018.

Entities reporting

The condensed consolidated interim financial statements for the 'Group' are for the economic entity comprising The New Zealand Refining Company Limited ('Parent', 'Company' or 'Refining NZ') and its subsidiary, Independent Petroleum Laboratory Limited. No separate Parent results are disclosed in these condensed interim financial statements.

The Parent and the Group are designated as for profit entities for financial reporting purposes.

Statutory base

The condensed consolidated interim financial statements of the Group have been prepared in accordance with the requirements of the NZX Main Board Listing Rules. Refining NZ is registered under the Companies Act 1993 and is a FMC Reporting Entity under Part 7 of the Financial Markets Conduct Act 2013.

Accounting policies

The accounting policies used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the previously published consolidated interim financial statements as at and for the six months ended 30 June 2018 and the audited consolidated financial statements as at and for the year ended 31 December 2018, except for the adoption of NZ IFRS 16 '*Leases*' during the period.

Adoption of NZ IFRS 16 '*Leases*'

The Group has adopted NZ IFRS 16 '*Leases*' for the first time in the interim reporting period commencing 1 January 2019. The Group applied the simplified retrospective transition approach. Further details on the adoption of NZ IFRS 16 '*Leases*' and the impact on the Group's financial performance and position are disclosed in Note 15.

Use of judgements and estimates

The preparation of the condensed consolidated interim financial statements requires the use of certain critical accounting estimates. It also requires the directors to exercise their judgement in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the process of applying the Group's accounting policies, the following areas involve judgements and assumptions that can significantly affect the amounts recognised in the condensed consolidated interim financial statements:

- Recoverability of the capital work in progress, and useful lives of property, plant and equipment – refer to note 6;
- Provisions – refer to note 8;
- Employee benefits (including defined benefit pension plan obligation) – refer to note 11;
- Inventory obsolescence provision – no significant changes to these estimates have been made in relation to inventory obsolescence provision in these condensed consolidated interim financial statements.

Significant estimates are designated by an E symbol in the notes to the condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

PERFORMANCE

This section focuses on Refining NZ's financial performance and the returns provided to equity holders. The following notes are included:

Note 1:	Operating revenue
Note 2:	Segment information
Note 3:	Related parties

1. OPERATING REVENUE

FOR THE SIX MONTHS ENDED 30 JUNE

	GROUP 30 JUNE 2019 $000	GROUP 30 JUNE 2018 $000
Comprises:		
Processing fees	**117,282**	97,356
Natural Gas recovery	**19,714**	14,078
Other refining related income	**8,915**	7,152
REFINING REVENUE	**145,911**	118,586
Pipeline fee revenue	**18,288**	23,248
Wiri land and terminal lease income	**3,263**	3,263
DISTRIBUTION REVENUE	**21,551**	26,511
Other operating income	**1,951**	1,932
TOTAL OPERATING REVENUE	**169,413**	147,029

Notes to the Condensed Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

2. SEGMENT INFORMATION

(a) Description of segments

The Leadership Team is the chief operating decision-maker. This Team reviews the Group's internal reporting in order to assess performance and allocate resources including the definition of the operating segments – oil refining and distribution. Management has determined the operating segments based on these reports.

The Leadership Team considers the business from an operations perspective and assesses the performance of the two main business segments 'Oil refining' and 'Distribution'.

Oil refining

The Company owns and operates an oil refinery located at Marsden Point, 160 kilometres north of Auckland. The oil refinery is able to process a wide range of crude oil types imported from around the world.

Distribution

The Company owns infrastructure to support the distribution of manufactured products to its customers. The Refinery to Auckland Pipeline transfers product to the Wiri Oil terminal located in South Auckland.

Other

Other segments include the subsidiary company operations and properties. These have not been included in a reportable segment as they are not separately reported to the Leadership Team.

Sales between segments are carried out at arm's length and represent charges by the subsidiary (included in "Other") to Oil Refining. The revenue from external parties reported to the Leadership Team is measured in a manner consistent with that in the Income Statement. All revenue is generated in New Zealand.

(b) Reporting measures

The performance of the operating segments is based on net profit after income tax. This information is measured in a manner consistent with that in the condensed consolidated interim financial statements.

The Group manages assets and liabilities on a central basis and therefore does not provide any segment information of this nature.

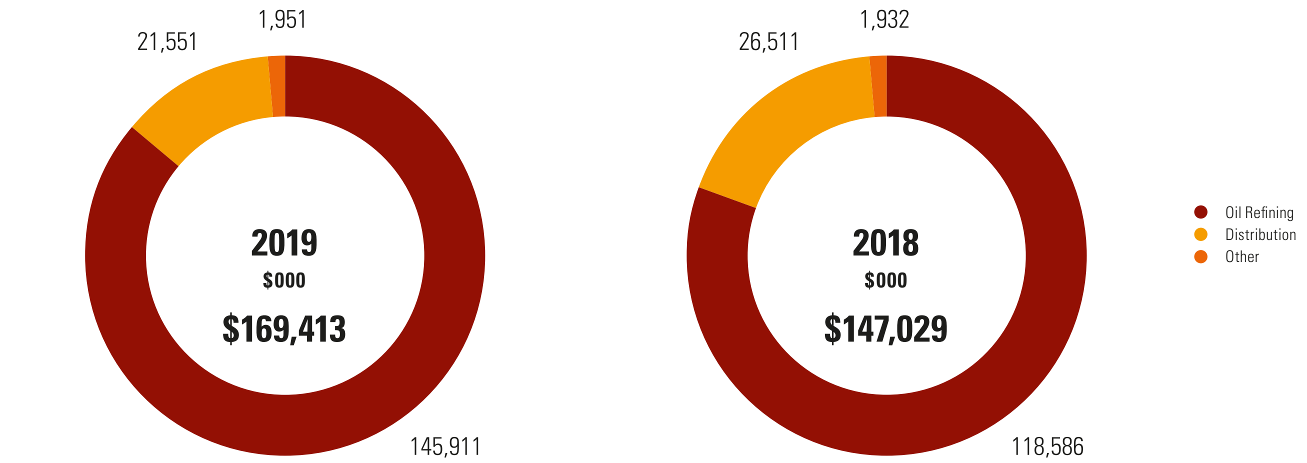
Notes to the Condensed Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

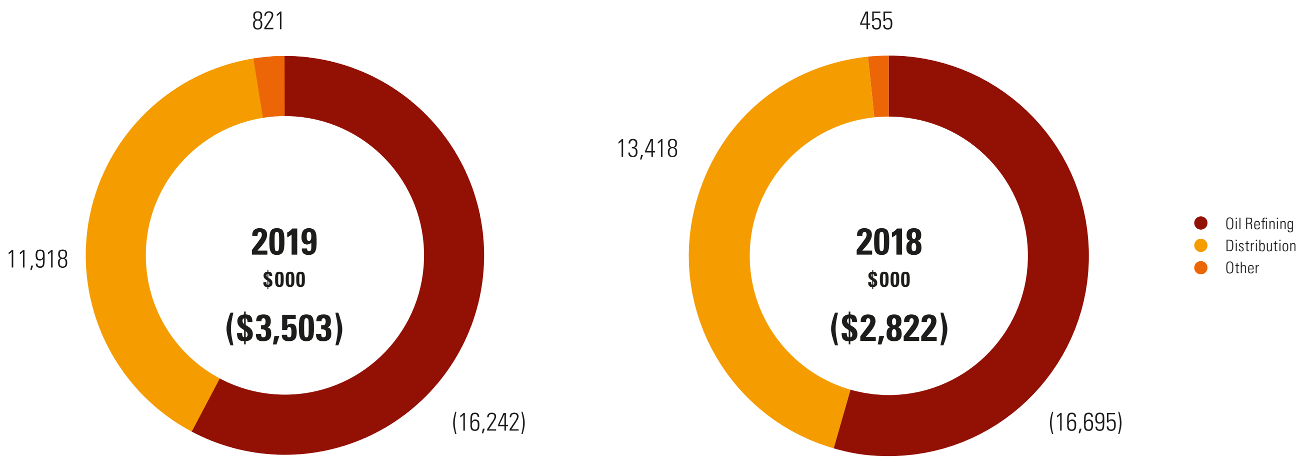
2. SEGMENT INFORMATION (continued)

(c) Segment results

REVENUE FROM EXTERNAL CUSTOMERS ($000)



NET (LOSS) AFTER INCOME TAX ($000)



Notes to the Condensed Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

2. SEGMENT INFORMATION (continued)

30 JUNE 2019	OIL REFINING $000	DISTRIBUTION $000	OTHER $000	TOTAL $000
Total operating revenue	**145,911**	**21,551**	**4,769**	**172,231**
Inter-segment revenue	**-**	**-**	**(2,818)**	**(2,818)**
REVENUE FROM EXTERNAL CUSTOMERS	**145,911**	**21,551**	**1,951**	**169,413**
Other income	**144**	**2,035**	**-**	**2,179**
Finance income	**19**	**-**	**4**	**23**
Finance cost	**(6,714)**	**(52)**	**(1)**	**(6,767)**
Depreciation and disposal costs	**(48,455)**	**(3,398)**	**(284)**	**(52,137)**
Income tax	**6,290**	**(4,635)**	**(328)**	**1,327**
Net (loss)/profit after income tax	**(16,242)**	**11,918**	**821**	**(3,503)**

30 JUNE 2018	OIL REFINING $000	DISTRIBUTION $000	OTHER $000	TOTAL $000
Total operating revenue	118,586	26,511	4,294	149,391
Inter-segment revenue	-	-	(2,362)	(2,362)
REVENUE FROM EXTERNAL CUSTOMERS	118,586	26,511	1,932	147,029
Other income	-	1,082	70	1,152
Finance income	62	-	1	63
Finance cost	(6,589)	-	(10)	(6,599)
Depreciation and disposal costs	(42,527)	(3,434)	(255)	(46,216)
Income tax	5,864	(5,218)	(148)	498
Net (loss)/profit after income tax	(16,695)	13,418	455	(2,822)

3. RELATED PARTIES

The Group enters into transactions with related parties. Details of related parties and the types of transactions entered into during the period ended 30 June 2019 are consistent with those disclosed in the audited financial statements for the year ended 31 December 2018.

Notes to the Condensed Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

DEBT AND EQUITY

The Group's objective when managing capital (net assets of the Group) is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefit for other stakeholders and to maintain an appropriate capital structure. The Group borrows under a negative pledge arrangement. The Group monitors rolling forecasts which take into consideration the Group's debt financing plans and covenant compliance, to ensure that it is able to continue meeting funding requirements.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, or issue new shares.

This section outlines Refining NZ's capital structure and includes the following Notes:

Note 4:	Dividends
Note 5:	Loans and borrowings

4. DIVIDENDS

	CENTS PER SHARE	TOTAL 30 JUNE 2019 $000	TOTAL 30 JUNE 2018 $000
Final dividend paid for 2017	12.0	**-**	37,509
Final dividend paid for 2018	4.5	**14,067**	-
TOTAL		**14,067**	37,509

The dividends were fully imputed. Supplementary dividends were paid to shareholders who were not tax residents in New Zealand for which the Group received a foreign investor tax credit entitlement.

Dividend declared post balance date

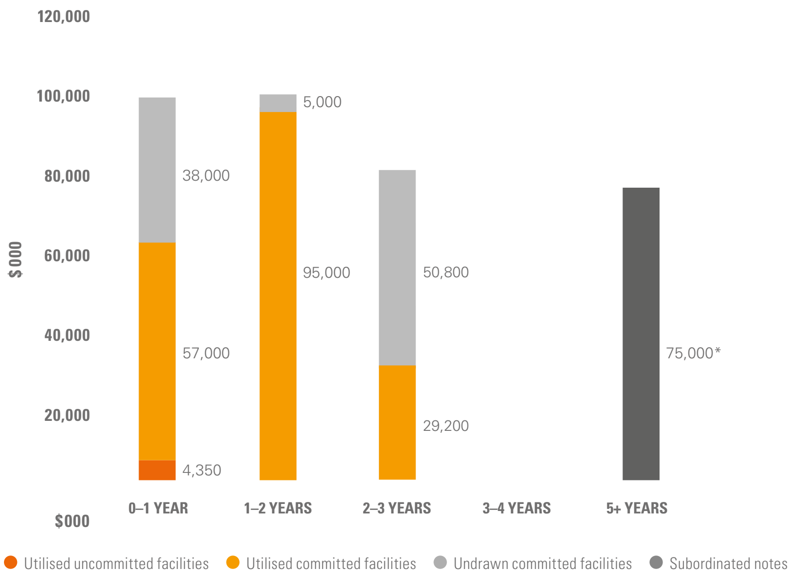
The Group has declared a dividend of 2 cents per share, fully imputed, payable on 19 September 2019 (2018: 3 cents per share).

Notes to the Condensed Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

5. LOANS AND BORROWINGS

The chart below outlines the maturity profile of the facilities:



(*) *The carrying value of the subordinated notes as at 30 June 2019 amounts to $74.4 million. The difference between the carrying value and the $75 million face value is due to interest and issue costs.*

In February 2019 the Company reduced its existing committed bank facility limits from $350 million to $275 million and extended the $50 million facility expiring in March 2019 to March 2021. As at 30 June 2019 the Company held $15 million of uncommitted facilities, with a further $20 million becoming available in July 2019. The purpose of the uncommitted facilities is to support short dated debt drawings.

The carrying amounts of bank borrowings approximate their fair value. The borrowings are unsecured. The Parent borrows under a negative pledge arrangement which requires certain certificates and covenants. All these requirements have been met and no breaches of these covenants are forecast.

The Parent has the ability to determine which revolving cash advance facility will be drawn upon to meet funding requirements.

Notes to the Condensed Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

OPERATING ASSETS AND LIABILITIES

This section shows the assets used to generate the Group's trading performance and the liabilities incurred as a result. Liabilities relating to the Group's financing activities are detailed in the Debt and Equity section of the Notes.

This section includes the following Notes:

Note 6:	Property, plant and equipment and intangibles
Note 7:	Capital commitments
Note 8:	Provisions
Note 9:	Cash and cash equivalents
Note 10:	Trade and other payables
Note 11:	Employee benefits

6. PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLES

	GROUP 30 JUNE 2019 $000	GROUP 30 JUNE 2018 $000
OPENING NET BOOK AMOUNT	**1,206,257**	1,137,081
Additions	**31,486**	168,273
Right-of-use asset (adoption of IFRS 16)	**4,905**	-
Depreciation and disposals cost	**(52,137)**	(96,424)
Transfers	**(3,250)**	(2,673)
CLOSING NET BOOK AMOUNT	**1,187,261**	1,206,257
Comprises:		
Property, plant and equipment	**1,169,408**	1,191,948
Right-of-use asset	**6,793**	-
Intangibles	**11,060**	14,309
CLOSING NET BOOK AMOUNT	**1,187,261**	1,206,257

Intangibles includes the New Zealand Units (NZUs) issued by the Crown to the parent company, pursuant to the company's Negotiated Greenhouse Agreement (NGA), which is valid until 2022. The Company is currently exempted from the Emissions Trading Scheme (ETS) due to the NGA and the Company's demonstrated commitment to progress in reduction of energy intensity along a world's best practice pathway. The NZUs are measured at historical cost and used to offset liabilities arising from carbon dioxide emissions. An assessment of impairment is performed annually with reference to external sources of information (market values of NZUs). Right-of-use asset relates to leased assets recognised by the Group at transition to NZ IFRS 16 '*Leases*' (refer to Note 15 for details).

E

The Group applies judgements in relation to the appropriateness and recoverability of capital work in progress, and useful lives applied to the property, plant and equipment. In preparing these condensed consolidated interim financial statements, the Group has estimated the recoverable amount of its assets on a value in use basis, and determined that there is no impairment under a range of reasonably possible scenarios. This is in the context of the market capitalisation of the Company being less than the carrying amount of the Group's net assets as at 30 June 2019 and the understanding that:

- the operations resource consents will be renewed in 2022 and
- the Governments' current review of the Emissions Trading Scheme, will deliver an acceptable carbon credit regime for Refining NZ as an Energy Intensive Trade Exposed entity, at the expiration of the Company's Negotiated Greenhouse Agreement in 2022.

The capital work in progress as at 30 June 2019 has been assessed by management, company project engineers and project managers as being recoverable.

Notes to the Condensed Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

7. CAPITAL COMMITMENTS

	GROUP 30 JUNE 2019 $000	GROUP 30 JUNE 2018 $000
Capital expenditure contracted for in relation to property, plant and equipment at the end of the period but not yet incurred	**17,462**	24,308

8. PROVISIONS

	GROUP 30 JUNE 2019 $000	GROUP 31 DEC 2018 $000
Jetty restoration provision	**11,669**	10,866
Platinum reclamation provision	**851**	-
PROVISIONS	**12,520**	10,866

The jetty restoration provision relates to restoration obligations in relation to a lease agreement for the seabed upon which the jetty is situated at Marsden Point. The restoration provision is measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax interest rate that reflects the current market assessments of the time value of money and the risks specific to the obligation.

At 30 June 2019 the Company has reassessed the value of the future expenditures and amended the discount rate assumptions (from 2.74% as at 31 December 2018 to 1.83% as at 30 June 2019) which resulted in an increase in the provision and the corresponding asset by $655 thousand. An increase in the provision as a result of the passage of time (unwinding of discount) of $148 thousand was recognised as a finance cost.

The platinum reclamation provision relates to leased platinum recognised at transition to NZ IFRS 16 '*Leases*' (refer to Note 15 for further details).

Notes to the Condensed Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

9. CASH AND CASH EQUIVALENTS

In the statement of cash flows, the deposits' placements and withdrawals and bank borrowings receipt and repayment are presented on a net basis as their turnover is quick, amounts are large and the maturities are relatively short.

The table below presents a reconciliation of net cash flow from operating activities to reported profit:

	30 JUNE 2019 $000	30 JUNE 2018 $000
NET LOSS AFTER INCOME TAX	**(3,503)**	(2,822)
Adjusted for:		
Depreciation and disposal costs	**52,137**	46,216
Movement in deferred tax	**(5,042)**	(1,334)
Add deferred tax on items included in other comprehensive income	**3,387**	294
Movement in provisions	**819**	172
Less increase in provisions included in property, plant and equipment	**(656)**	21
Movement in employee share scheme entitlement reserve	**121**	151
Decrease in intangibles	**3,249**	1,780
Other non-cash movements	**1,129**	(59)
Impact of changes in working capital items:		
Decrease in trade and other receivables	**2,890**	47,196
Increase/(decrease) in trade and other payables	**2,336**	(32,622)
Less increase in trade payables included in property, plant and equipment	**(1,047)**	(12,179)
Decrease in employee benefits	**9,764**	(936)
Less employee entitlements included in other comprehensive income	**(10,558)**	(453)
Decrease in income tax receivable	**(8,502)**	(9,059)
Decrease/(increase) in inventories	**1,408**	(1,339)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**47,932**	35,027

Comparatives have been updated to ensure consistency between financial reporting periods.

Notes to the Condensed Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

10. TRADE AND OTHER PAYABLES

	GROUP 30 JUNE 2019 $000	GROUP 31 DEC 2018 $000
Trade payables	**29,493**	29,677
Goods services tax payable	**2,878**	3,783
Deferred income	**2,725**	6,999
Excise duty	**119,801**	112,102
TOTAL TRADE AND OTHER PAYABLES	**154,897**	152,561

Trade and other receivables and trade and other payables both include excise duties of $119.8 million (31 December 2018: $112.1 million). Changes to excise duties have no direct impact on the results of the Group as they are collected from the oil companies and are paid to the New Zealand Customs Service on the same day of each month.

11. EMPLOYEE BENEFITS

Employee benefits comprise defined benefit pension and medical plan, wages, salaries, annual leave, and long-service leave and retirement bonus.

The defined benefit pension plan is a contributory defined benefit scheme where the Company contributes towards pensions of eligible employees. The scheme was closed to new members at the end of 2002. At retirement, the members have pension entitlements based on final salary and membership. Members may elect to exchange part, or all, of their pension for a cash lump sum. At 30 June 2019 the Plan had 127 pensioners (including disability and deferred pensioners) receiving regular pension payments.

Under the defined benefit pension plan the Group has a legal obligation to pay further contributions if the Fund does not hold sufficient assets to pay all employees the benefits they are entitled to.

The liability, presented as non-current liability, is recognised in the consolidated balance sheet at the present value of the defined benefit pension plan obligation at the balance sheet date less the fair value of plan assets. The defined benefit pension plan obligation is calculated at each balance date by an independent actuary using the projected unit credit method. The present value of the defined benefit pension plan obligation is determined in accordance with NZ IAS 19 'Employee Benefits' by discounting the estimated future cash outflows using interest rates of government bonds that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in the Consolidated Income Statement.

The actuarial assumptions used in the 30 June 2019 valuation are consistent with those adopted as at 31 December 2018. The discount rate adopted at 30 June 2019 was 1.7% (December 2018: 2.5%) and is set with reference to New Zealand Government Bonds. A decrease in the government bond yield will increase Plan liabilities for financial reporting purposes, but not necessarily impact upon the funding requirements of the Company.

Notes to the Condensed Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

11. EMPLOYEE BENEFITS (continued)

The total amount recognised in other comprehensive income is as follows:

	GROUP 30 JUNE 2019 $000	GROUP 30 JUNE 2018 $000
Actuarial losses	**(16,392)**	(390)
Actual return on plan assets less interest income	**7,854**	87
Contributions tax	**(2,020)**	(150)
TOTAL RECOGNISED IN OTHER COMPREHENSIVE INCOME INCLUDING CONTRIBUTIONS TAX	**(10,558)**	(453)

The medical plan is a scheme where Company pays health insurance premiums in respect of a limited number of former employees and a limited number of current employees when they retire, until their death. This arrangement is no longer offered to new employees. The medical plan is accounted for in a similar manner to the defined benefit plan outlined above, with an accounting valuation performed by an independent actuary at each balance date.

Notes to the Condensed Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

FINANCIAL RISK MANAGEMENT

This section outlines the key risk management activities undertaken to manage the Group's exposure to financial risk.

This section includes the following Notes:

Note 12:	Financial instruments

12. FINANCIAL INSTRUMENTS

All financial assets other than derivatives are classified as loans and receivables. All financial liabilities other than derivatives are classified as measured at amortised cost. The fair value of financial assets and liabilities approximates their carrying value.

	GROUP 30 JUNE 2019 $000	GROUP 31 DEC 2018 $000
Trade receivables	**30,021**	40,610
Cash and cash equivalents	**4,448**	779
TOTAL LOANS AND RECEIVABLES	**34,469**	41,389
Trade payables	**(29,493)**	(29,677)
Bank borrowings	**(259,971)**	(258,601)
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	**(289,464)**	(288,278)

Derivative liabilities designated in hedging relationships		
Forward foreign exchange contracts	**4**	17
Electricity futures	**3,684**	6,238
Interest rate swaps	**(5,845)**	(6,864)
TOTAL DERIVATIVE LIABILITIES DESIGNATED IN HEDGING RELATIONSHIPS	**(2,157)**	(609)
Classified as:		
Current assets	**3,632**	6,249
Non-current assets	**56**	6
Current liabilities	**(764)**	(1,300)
Non-current liabilities	**(5,081)**	(5,564)
TOTAL DERIVATIVE LIABILITIES DESIGNATED IN HEDGING RELATIONSHIPS	**(2,157)**	(609)

Notes to the Condensed Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

12. FINANCIAL INSTRUMENTS (continued)

Financial instruments are measured at fair value using the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1),
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2), and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's financial instruments have been measured at the fair value measurement hierarchy of:

- Level 1 for electricity futures;
- Level 2 for interest rate swaps and forward exchange contracts.

Electricity futures are traded on the Australian Securities Exchange (ASX), and the Group uses ASX mark-to-market settlement prices to determine the fair value of the futures contracts.

Interest rate swaps and forward foreign exchange contracts are not traded in an active market and their fair value is determined by using valuation techniques. Specific valuation techniques used by the Group refer to observable market data and include:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves, and
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

Notes to the Condensed Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

OTHER

This section contains additional notes and disclosures that aid in understanding Refining NZ's performance and financial position.

This section includes the following Notes:

13. CONTINGENT ASSETS AND LIABILITIES

The Group has no contingent assets or liabilities at 30 June 2019.

14. EVENTS AFTER BALANCE DATE

The following events occurred after balance date:

- An interim dividend was declared as per note 4;
- Uncommitted bank facilities totalling $20 million became available in July 2019 as per note 5;
- The Reserve Bank of New Zealand announced a larger than expected reduction in the Official Cash Rate (from 1.5% to 1%). A decrease in interest rates may impact the valuation of the Group's financial instruments, particularly interest rate swaps, and defined benefit plan and medical plan obligations due to a lower discount rate. A decrease in the discount rate will increase the defined benefit plan and medical plan obligations for financial reporting purposes, but not necessarily impact upon the funding requirements of the Company as per note 11. A 1% reduction of the pension fund discount rate would increase the defined benefit obligation at 30 June 2019 by $15.7 million, all other factors held constant.

Notes to the Condensed Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

15. ADOPTION OF NZ IFRS 16 '*LEASES*'

NZ IFRS 16 '*Leases*' was issued in February 2016 and is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. It has resulted in more leases being recognised on the balance sheet for lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exemptions for the Group are short-term and low value leases. The accounting treatment for lessors has not significantly changed under the new standard.

The Group applied the simplified retrospective transition approach where outstanding lease payments are discounted using the incremental borrowing rate at 1 January 2019. This results in the right-of-use asset being recognised at an amount equal to the lease liability. The Group applied the transitional provisions of NZ IFRS 16 *'Leases'* which allowed it to not account for:

- leases, where the lease term ends within 12 months of 1 January 2019, and
- contracts which had been previously recognised in accordance with either NZ IAS 17 '*Leases*' or NZ IFRIC 4 *'Determining whether an Arrangement contains a Lease'*.

The right-of-use assets are presented in the Group's balance sheet under Property, plant and equipment and disclosed in Note 6.

The right-of-use assets recognised by Group relate to the lease of:

- land on which Wiri Oil terminal is located in South Auckland. The right-of-use asset is depreciated over the period until the expiry of the lease.
- land, foreshore license and barge ramp where the oil tanker jetty is located. The right-of-use asset is depreciated over the period until the expiry of the lease.
- platinum held in catalysts used in the oil refining process. The leased platinum must be returned to the lessor at the end of the lease term. The estimated cost of reclamation, discounted to present value, is included as a provision in the Group's balance sheet, refer to Note 8. The lease payments are variable and represent interest paid to the lessor based on an agreed fixed rate and with reference to the market value of the leased platinum.

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the balance sheet at the date of initial application was 3.9%. The variance between Operating lease commitments disclosed at 31 December 2018 of $2,845 thousand (applying NZ IAS 17) and Lease liabilities at 1 January 2019 of $4,071 thousand was a result of adjustments due to different treatment of extension and termination options and discounting using the incremental borrowing rate at the date of initial application.

The impact of the adoption of NZ IFRS 16 '*Leases*' as at and for the period ended 30 June 2019 is as follows:

- **Income statement:** increase in Depreciation and disposal costs of $375 thousand and in Administration and other costs of $94 thousand, and decrease in Finance costs of $332 thousand;
- **Balance sheet:** Increase in Property, plant and equipment of $4,530 thousand, Current lease liabilities of $564 thousand, Non-current lease liabilities of $3,252 thousand and Non-current provisions of $851 thousand;
- **Statement of cash flow:** decrease in Payment for supplies and expenses of $332 thousand, and increase in Interest paid of $77 thousand and Lease payments of $255 thousand.

Corporate Directory

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Bankers
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Bank of New Zealand
The Bank of Tokyo-Mitsubishi UFJ, Limited
Bank of China (New Zealand) Limited

Legal Advisers
Minter Ellison Rudd Watts
Chancery Green

Auditor
PricewaterhouseCoopers

Chairman
S C Allen (independent director)

Independent Directors
J B Miller
V C M Stoddart
M Tume (resigned 21 February 2019)
P A Zealand

Non-Independent Directors
D C Boffa
R Cavallo
N L Jones

Chief Executive Officer
M J Fuge

Company Secretary
D M Jensen

Managing your shareholding online
To change your address, update your payment instructions and to view your registered details including transactions, please visit: www.computershare.co.nz/investorcentre

Please assist our registrar by quoting your CSN or shareholder number.

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