REFINING NZ

Your Energy Hive

ANNUAL REPORT 2016

Directors' statement

The Directors are responsible for the preparation of the financial statements and other information included in this Annual Report. The financial statements authorised for issue by the Board of Directors and dated on 27 February 2017, have been prepared in conformity with generally accepted accounting practice to give a true and fair view of the financial position of the Group and the results of their operations and cash flows.

The Company appoints an independent licensed auditor to audit the financial statements prepared by the Directors and to express an opinion on these financial statements. The independent licensed auditors' report, which sets out their opinion and the basis of that opinion, is set out on page 83 of the Annual Report.

The Annual Report of The New Zealand Refining Company Limited is signed on behalf of the Board by:

S C ALLEN

M TUME

15 March 2017

Contents

Chairman and CEO's Report

Refining NZ had a good year in 2016. Margins were historically strong and an excellent operational performance allowed the refinery to capture the margins fully and deliver $47 million net profit after tax. Overall, the business had a pleasing safety performance both from a personal and process safety perspective and we made solid progress towards meeting the 2017 regulatory deadlines for high hazard units set down by the new Health and Safety Act.

Before giving more colour to the result, we would like to thank our staff and contractors for the many outstanding contributions that have supported this year's result. Their commitment to the business is truly second to none.

HEALTH, SAFETY AND ENVIRONMENT

Our Health and Safety performance in 2016 was pleasing. As you can see from our Key Strategic Metrics set out on page 3, we finished the year with four recordable injuries to staff and contractors (including one lost time incident) - or a TRCF* of 0.5 and a LTIF* of 0.25 – a major improvement on recent prior years and certainly what we consider 'best-in-class' in New Zealand. We had one high potential product release as a result of equipment malfunction. Fortunately, no one was hurt and there was no significant damage to the plant. In response, we took decisive action to replace 400 items on site which were of a similar design.

Importantly, our April shutdown was completed without injury to staff or inadvertent release of product during the restart of the processing units. We continued to action the key findings of the 2015 DuPont audit, including implementation of a new permit to work system and a new isolation procedure as an additional safeguard to make process plant safe for maintenance.

Environmentally, we continue to invest in improving our performance, as highlighted on page 8 of this report. We reported five environmental incidents in 2016, principally as a result of heavy rainfall events during the time that our storm-water management systems were being upgraded.

*SEE GLOSSARY PAGE 87

BUSINESS ENVIRONMENT

Our 2016 business performance was marked by continued strong demand for gasoline on the back of new vehicle growth – both in New Zealand and Asia - and New Zealand jet fuel demand on the back of continued growth in tourism. Diesel demand was more muted across the region as a result of slower growth in the Chinese economy. The Gross Refining Margin (GRM) for 2016 averaged USD 6.47 per barrel.

Operational availability was 96.9% reflecting the planned hydrocracker shutdown in April 2016 and a world-class unplanned downtime for the year of 0.85% - an excellent achievement, this being the first full year of operations of our new petrol making unit, Te Mahi Hou (TMH). The refinery processed a record 42.7 million barrels of crude oil. Our uplift over the Singapore Complex Margin averaged USD 3.22 per barrel underpinned by the contribution from TMH. Free cash flow* at $47 million was strong and meant we were able to finish the year close to the Company's target gearing ratio (10-20%). This, despite the fact that the exchange rate remained high with the New Zealand dollar averaging USD 0.70 for the year (2015: USD 0.70).

STRATEGY

The Company's aspiration to be the manufacturing and supply partner of choice for New Zealand and the supporting strategies behind that aspiration remain unchanged (see strategy section on page 5 for further detail).

Having successfully commissioned TMH in the fuels supply chain, our growth focus shifted to attractive smaller projects with short payback periods. In 2016 we continued to optimise the performance of TMH, made operational changes to improve the flexibility of our bitumen production, and started to balance our steam make across the refinery. Together these initiatives lifted our GRM by around USD 0.10 per barrel.

Going forward we will continue to invest in a 'funnel' of sustainable, smaller growth projects. Some are already well advanced, notably the First Gas project which will double our access to natural gas in 2017. We are also increasing the pumping capacity on the Refinery Auckland Pipeline (RAP) to ensure we can continue to meet New Zealand's future fuel demand. And finally, we are getting closer to applying for environmental consent for dredging to allow larger crude cargoes to the refinery.

STAFF SHARE SCHEME

In March 2016, our first offer under our staff share purchase scheme was well received. Rewarding our committed and talented team for meeting a set of business performance hurdles, the scheme will add to the culture of high performance we are embedding at Refining NZ.

SHAREHOLDER RETURNS

The Directors resolved to pay a fully imputed final dividend of 6 cents per share to be paid on 30 March 2017, with a record date of 16 March 2017. With an interim dividend of 3 cents paid in September, the total dividend payment for the year is 9 cents.

BOARD CHANGES

At the Annual Meeting in May 2016, shareholder's approved a change to the Constitution of the Company. The Board now consists of a majority of Independent Directors and three Directors from shareholder oil companies.

Independent Director, Peter Springford resigned after nine years on the Board, eight of which were served as Chair of the Board's Audit, Risk and Finance Committee. His role as an Independent Director was replaced by Paul Zealand who has 34 years' experience in the oil and gas sector including roles as Chairman and CEO with Shell New Zealand and CEO of Upstream at Origin Energy. During the year Tim Wall and Stuart Brown resigned. This month Andrew Warrell resigned as a Director. A replacement for Andrew has yet to be confirmed.

We wish to acknowledge Peter for his long-standing and professional contribution as an Independent Director. At the same time we thank Tim, Stuart and Andrew for their respective contributions and welcome Paul to the Refining NZ Board.

FUTURE OUTLOOK

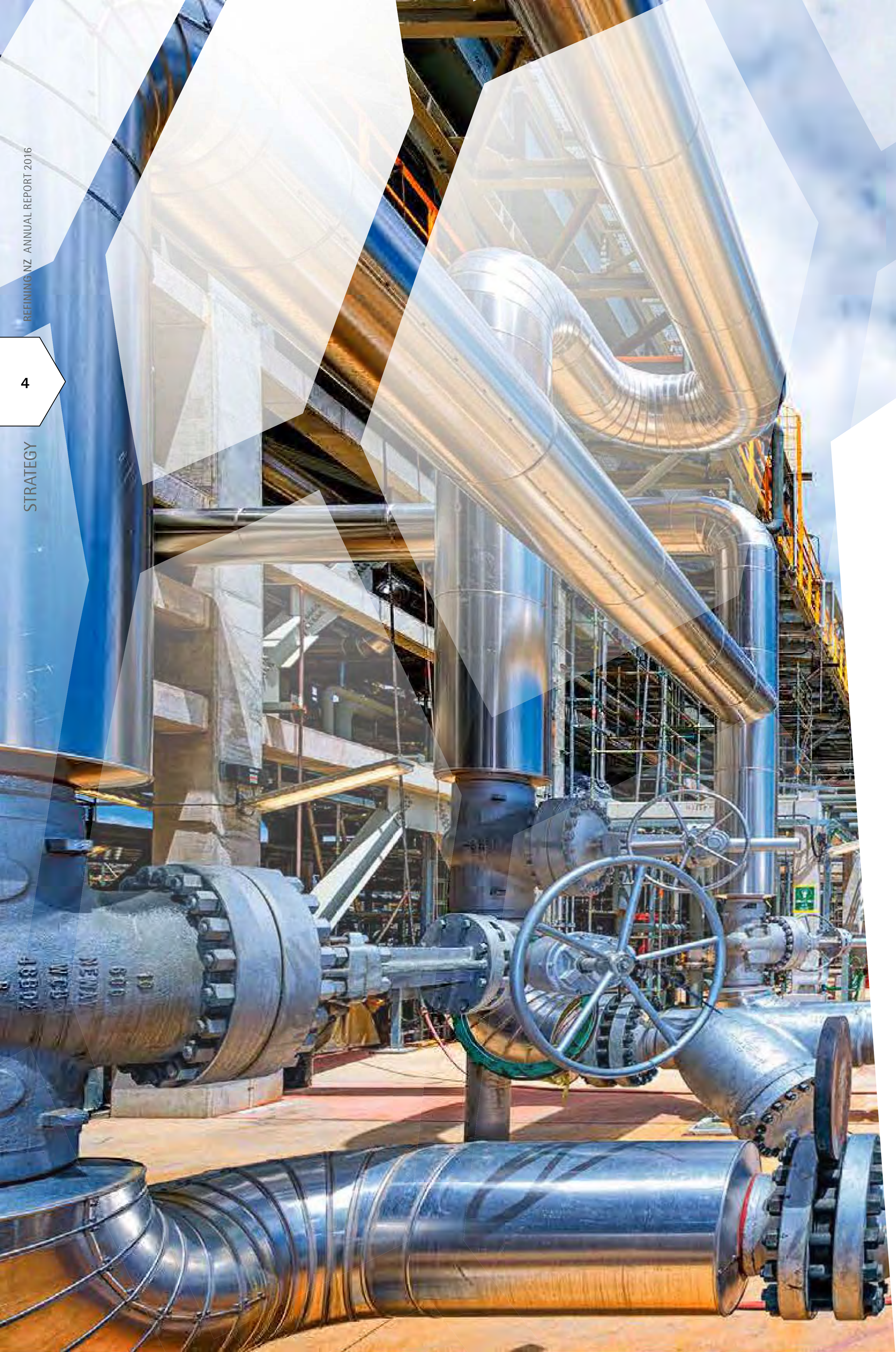
The Directors are confident that we are building a sustainable refining business, able to compete with Asia Pacific refiners, and to manage future market challenges. It is clear that the way forward is based around team performance, solid reliability, outstanding product quality, and investment in growth.

SIMON ALLEN
CHAIRMAN

SJOERD POST
CHIEF EXECUTIVE OFFICER

KEY STRATEGIC METRICS

	UNIT OF MEASURE	FY 16	FY 15
TRCF, rolling 12-mth*	#/200,000 hrs	**0.51**	1.32
LTIF, rolling 12-mth*	#/200,000 hrs	**0.25**	0.10
Tier 1 and 2 process safety incidents*	#	**1**	5
Releases outside consent	#	**5**	2
Throughput (million barrels)	#	**42.7**	42.6
Operational availability	%	**96.9**	97.7
Gross Refinery Margin	US$/barrel	**6.47**	9.20
Free cash flow	NZ$M	**47**	139
Net profit/(loss) after tax - Group	NZ$M	**47**	151
Crude price	US$/barrel	**44**	52
Exchange rate	US$	**0.70**	0.70



Strategy

Operating in an ultra-competitive market

We compete in one of the toughest regional markets in the world, against refiners many times larger and newer than ours at Marsden Point. Our customers have many supply choices, especially with product exports from refineries in Korea, Singapore, India and the Middle East. Ours continues to be a Northland success story with our people being our single most important differentiator for staying competitive and successful.

Our aspiration remains the same

Our continued aspiration is to be the fuels manufacturing and supply partner of choice for New Zealand.

To achieve that aspiration we need to deliver three things:
- a world-class safety and environmental performance;
a fuels offer that is competitive with Asia Pacific's fuel manufacturers; and strong returns for our shareholders.

As a 'toll refiner' we can influence our customers' decision (whether to make product at Marsden Point or to import from other refineries) by providing a compelling customer proposition based on three elements:

- Quality - a core strength of ours, continuing to produce on specification product for our customers;
- Reliability - another core strength, the ongoing safe and reliable running of our processing units proven by a world class rate of unplanned downtime; and
- Price – where product quality and refinery reliability are 'absolutes' for being a supplier of choice, price is at the core of a competitive offer. This is an area we need to keep in focus as a result of the changing competitive dynamic in the Asia-Pacific region described earlier.

Our strategy

Deliver a world-class health and safety performance

We are one of a few high hazard units in the country and have robust management processes in place to keep our refinery running safely. We have a continuous improvement programme in place and a culture focused on personal and process safety to 'raise the bar' in order to become world-class.

Continuing to implement the recommendations of the independent DuPont safety review of 2015 will see us lift our game even further.

Deliver a world-class environmental performance

We support our staff and wider community aspiration of continuing to live in a clean and pristine environment. We are especially conscious of Patuharakeke's mana whenua status (customary authority) and regularly engage the hapu on our environmental performance. We also draw on their cultural expertise for environmental monitoring of key projects.

We have the facilities and management processes to minimise the impact of our refining activities on the surrounding environment. Tightening our controls, improving housekeeping and exploring ways to further reduce the impact of our operations will help us stay in 'sync' with the rising expectations of our neighbours and wider community.

Embed a high-performance culture

A world-class performing business requires a high-performance culture built around engagement, a team of talented, committed individuals, such as we have at Refining NZ, supported by the right structure for our business.

- We have shifted non-core areas of the business to our alliance partners. Going forward, we will strengthen those relationships so that they deliver best practice and further value for the business through innovation, and better ways of working.
- We continue to strive for simplicity with our core processes and procedures and removing duplication and waste from the business. Embedding Lean principles is fundamental to a culture where continuous improvement is 'just the way we do business'.
- Engaging and getting the best out of our talented individuals comes from fostering diversity of thinking and providing support via a range of development opportunities. Equipping our talented individuals enables them to deliver on our promises to our customers, our shareholders, and our community.

Build on the quality and reliability elements of our customer promise

Competing successfully with the best in Asia Pacific starts with playing to our many strengths and continuing to do what we are good at.

- We have a history of investing in plant reliability and the production of quality cleaner fuels. Our operational availability compares well with refineries in the region of a similar size and complexity.
- We have a team of talented and committed people.

Improve our competitiveness

If we are to deliver value for our customers we need to maintain the relentless focus on our cost base and understand how we can produce more of the high-value products from the same barrel of crude oil. These two areas are crucial to delivering our value proposition to our customers, namely our competitiveness, and driving the activities set out in our action plan. Harnessing innovative ideas from both inside and outside the business continues to provide new opportunities to improve our business delivery.

Celebrating outstanding performers

In December our exchanger team was awarded Refining NZ team of the year, a first for a tight-knit crew whose work – changing out our heat exchangers for maintenance - is tough and often grimy. In 2016 this hard-working team repeatedly went beyond the call of duty to keep the plant running safely.

Identifying outstanding team or individual contribution in a workplace where pride in the quality of the work, and a belief that what we do is important for New Zealand, is not difficult. In 2016 we received a large number of nominations for outstanding contributions across six categories: - safety star; team of the year; team player; rookie of the year; going the extra mile; and resilient performance.

Given that most if not all of our employees and contractors turned out at Recognition Day, it is clear that our people appreciate the business taking time to recognise performance. While for some of our winners, public celebration of their outstanding contribution may take time to get used to, at the same time we know that it is critical to engaging our people and making high performance something we can all aspire to.

Our 2017 action plan

In line with our strategy, the major areas of focus in 2017 are our health, safety and environmental (HSE) performance; continuing to scope and implement revenue growth opportunities that will lift our ability to compete with imported fuel products; and improving organisational performance.

1. Lift our HSE performance

MAINTAIN A SAFE WORKPLACE

We continue with our work on strengthening our HSE performance to get to world class.

- We continue to manage the process safety risk of our most critical assets and lift our reliability performance. Our asset management programme focuses on maintaining the current capability of the plant and is supported by well managed shutdowns (completed safely, to the right quality, on time and on budget).
- We are progressing on multiple fronts to complete the recommendations from the independent DuPont safety review of 2015.
- We intend to do a substantial piece of work with our people to validate safety as a core value, adding individual wellbeing to that value. The support of our Health and Safety Steering Committee - a group of experienced, committed individuals – is critical to this piece of work.
- Finally, included in our 2017 actions is a substantial piece of work to finalise our 'Safety Case' under the new health and safety regulations.

Raising the bar on Health and Safety

Three-time gold medalist and world record para-swimmer, Cameron Leslie is living proof that Northlanders can achieve their goals through hard work, the support of family and buddies, and being prepared to prove doubters wrong.

An inspiring speaker, Cameron's guest spot was a highlight for our Safety Hub - a new addition to our HSE safety action plan aimed at strengthening safety leadership, and raising the bar on our HSE performance to world class.

Safety Hub pairs our maintenance supervisors with senior managers, creating a network of leaders regularly engaging with maintenance teams across site, deepening their understanding of how work is carried out safely, and encouraging new thinking about how we can lift our safety performance. Developing our safety leadership is broadening and improving the quality of conversations we have about our safety performance.

Cameron inspired our safety leaders to achieve more. His lasting insight on world-class performance is neatly summed up by his personal motto - na te mahi, he rangatira (what you put in is what you get out). The same can be said about delivering a world-class HSE performance.

MANAGE OUR ENVIRONMENTAL FOOTPRINT

We are conscious of our responsibility for minimising the impact of our 50-year-old refinery on the surrounding environment, and are continually looking to lift our environmental performance. This is underlined by a no spill policy across the refinery, and ongoing major project investment in cleaning and preventing hydrocarbons leaving the site, and bolstering the resilience of our water treatment systems.

2. Grow our revenue

OPTIMISING OUR NEW GASOLINE MANUFACTURING UNIT (TMH)

With TMH successfully starting up late in 2015, we have identified a number of optimisation opportunities over the past year. These opportunities are being scoped as projects and will be executed over time to deliver further margin growth.

IMPROVING PROFITABILITY VIA SMALL TO MEDIUM MARGIN INITIATIVES

Tapping the knowledge of our team generated a 'funnel' of business improvement ideas capable of lifting our performance across many aspects of our refining business, the fuels supply chain, and our offering to customers.

In 2017, we continue to progress a number of smaller growth ideas in our development funnel from ideation to implementation.

OBTAINING A GREATER SUPPLY OF NATURAL GAS

Our agreement with First Gas (formerly Vector) to boost compression on the northern pipeline will double our access to natural gas from around 2.5 to around 5 petajoules in 2017. As an often price competitive source of energy in the refining process, this presents a significant margin opportunity.

BRINGING LARGER CRUDE CARGOES INTO MARSDEN POINT TO IMPROVE FREIGHT ECONOMICS

We continue with our proposal to bring up to half of our crude intake in cargoes of around one million barrels. Further consultation with tangata whenua, community stakeholders and the general public will take place before we apply for resource consent.

INCREASING CAPACITY ON THE REFINERY AUCKLAND PIPELINE

The first phase of a three-phase project to increase RAP capacity by around 15% is underway. Retaining sufficient capacity is crucial to matching demand, as Auckland grows and the number of international arrivals continues to climb.

Investing in our environment

Working at the edge of Whangarei harbour we are conscious of the impact of our refinery on our environment, and take responsibility for minimising that by continuing to invest in our environmental performance.

Keeping hydrocarbons on site is crucial to our environmental performance. Over the last three years we have invested $14 million on cleaning our site and strengthening our water treatment systems so that they remain robust and capable of managing heavy rain events.

In 2016 we continued with the upgrade of our oil traps and boosted the performance of our storm water management capability - cleaning oil traps and holding basins, installing new oil skimmers, clearing canals and installing new bio-treating capability.

Managing coastal erosion is also critical to keeping hydrocarbons on site. In 2016 we invested around $2 million on restoring a dune severely eroded by a series of storm events over the past 10 years. The dune project restored our south eastern boundary and returned part of the coastal environment to tangata whenua and the Ruakaka community.

3. Improve our organisational performance

In 2017 our journey to high performance continues across four key areas:

STRENGTHENING OUR VALUES CULTURE

Our people have asked for 'safety and wellbeing' to be added to our Company's values of honesty and integrity, respect, leadership and winning together. As we introduce safety and wellbeing, we will take the opportunity to re-energise and celebrate our values culture.

EMBRACING TECHNOLOGY

We remain focused on removing complexity in the technology space, through standardisation and by working with our strategic alliance partners to exploit opportunities from innovation and access to new technology.

CONTINUE TO EXPLOIT 'LEAN' MANAGEMENT PRACTICES

We will continue to employ Lean principles to lift individual and team performance through eliminating waste, identifying better ways of working and visual management of key team objectives.

LEADERSHIP DEVELOPMENT

We will continue to support our managers to develop as leaders, through mentoring, succession planning and targeted development, under the umbrella of our overall leadership development model.

In conclusion

We have the ability to be a competitive refining business in the face of a challenging business environment, marked by volatile refiners' margins and strong regional competition.

- Our team has worked hard to embed our new gasoline manufacturing unit, TMH into our 'business as usual' operations. Exploiting further value will come as we continue to optimise the running of this key unit.
- Sustained growth will come from continuing to improve our HSE performance, maintaining reliability and integrity and successful implementation of some of the promising ideas in our innovation funnel.

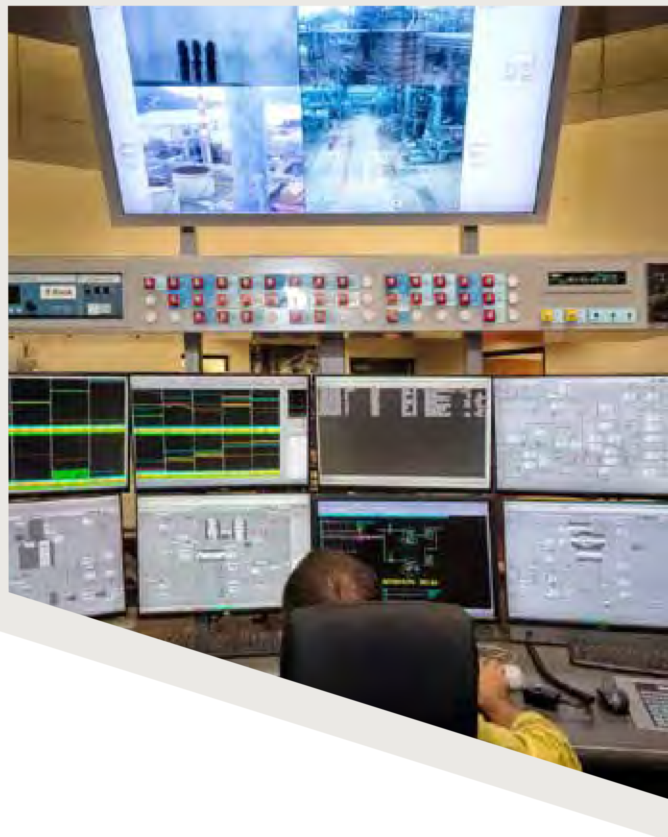
We are well placed to develop our competitive edge with an action plan to grow our business sustainably and a team of talented, innovative and committed Northlanders with a track record of getting the details right.

Innovation at our fingertips

High-end, innovative technology that allows our operations team to optimise the production from key processing units, is critical to the safe and reliable running of our refinery.

Over the past five years we've been upgrading control and safeguarding systems and componentry – automated systems that control operations and provide a real-time view of processing unit production. Key units have been upgraded, with upgrades across the rest of the refinery yet to come. For our operations team, the instalment of new panels in the control room running easy-to-read graphics is the most visible (and welcome) part of this complex upgrade.

At the same time, the introduction of APC (automated process control) is proving a step change for the running of our petrol making unit. Since its introduction in December this high-level, automated control has helped optimise functioning (maximising feed, reducing steam and fuel consumption), all of which is improving the revenue we earn from this new unit.



Governance

Regulatory framework

The New Zealand Refining Company Limited ('the Company', 'Refining NZ') operates in New Zealand and is listed on the Main Board of the New Zealand Stock Exchange (NZX). It is subject to regulatory control and monitoring by both the NZX and the Financial Markets Authority ('FMA'). Corporate Governance Best Practice included in Appendix 16 of the NZX Main Board / Debt Market Listing Rules ('NZX Listing Rules'), as amended on 7 March 2016, sets out some 'Minimum Requirements' for governance and the FMA has also re-issued in December 2014 'Principles and Guidelines – a handbook for directors, executives and advisors'. In this section we provide an overview of our governance rules (for further guidance on our governance rules, including Board charters, constitution and dividend policy, please refer to our website at www.refiningnz.com).

Refining NZ meets the requirements of Appendix 16 apart from paragraph 2.7, which encourages Directors to take a portion of their remuneration under a 'Performance Based Equity Security Compensation plan'. Directors of the Company do not receive any form of performance-based remuneration.

Role of the Board

The Board is responsible for setting the Company's strategic direction and for providing oversight of the management of the Company, with the aim of increasing shareholder value and ensuring the obligations of the Company are properly met. The Board is accountable to shareholders for the performance of the Company, with day-to-day management of the Company delegated to the Chief Executive.

The respective roles of the Board and Management (the Leadership Team) are set out in the Board's Charter.

Board structure

The Board currently consists of six Directors. The Board maintains a skills matrix to ensure that all requisite skills and competencies are covered by the appointed Directors, including refinery or oil industry experience.

The number of Directors is determined by the Board, in accordance with the Company's constitution, to ensure that it is able to provide a range of knowledge, views and experience relevant to the Company's business.

Under the NZX Listing Rules, the Company is obliged to have at least three Independent Directors or, if greater, one third of the Board.

As at 31 December 2016, the Company had four Independent Directors: Simon Allen (Chairman), Vanessa Stoddart, Mark Tume and Paul Zealand, representing a Board majority.

The Company does not have any Executive Directors.

Major shareholders (BP, ExxonMobil and Z Energy) do not have a constitutional right to appoint Directors, although it is accepted that they are entitled to representation. The Nomination and Remuneration Committee, using the same criteria as for all other Directors, considers nominations for these representatives as if they were non-representative Directors.

Representative Directors are able to appoint, subject to approval by a majority of the other Directors, an Alternate Director to act on their behalf and occupy their position for a period of time, if for any reason they are unavailable to attend Board meetings or otherwise act. An Alternate Director has the powers, rights, duties and responsibilities of a Director when acting in the place of an ordinarily appointed Director. However, they are not entitled to receive remuneration from the Company or to be Chairman of the Company. Andrew Warrell (Mobil Oil New Zealand) was the only Director with an Alternate Director during the course of the year. Mr Warrell resigned on 13 March 2017, and at that same time John Crawford ceased to be an Alternate Director.

Each year the Board will appoint a Chairman from among the Independent Directors who is responsible for representing the Board to shareholders.

Directors will generally hold office for an initial three-year term following their appointment, subject to any obligation to retire by rotation in accordance with the Company's constitution and the NZX Listing Rules. If a Director is appointed by the Board, that Director will hold office until the next Annual Meeting, but will be eligible for re-election at that meeting.

On their first appointment, Directors attend an induction programme aimed at deepening their understanding of the business and the environment and markets in which the Company operates.

A Director can accept other Board appointments during their tenure on the Board, as long as the appointment is not in conflict with the Company's business and does not adversely affect the Director's performance. Directors must discuss any other appointments with the Chairman before accepting. A profile for each Director is set out on pages 24 to 27, outlining their individual experience, tenure and entries in the interest register.

The number of Directors' Meetings held (including Meetings of Committees of Directors) during 2016 is as follows:

	DATE OF APPOINTMENT OR RETIREMENT	BOARD MEETINGS		AUDIT, RISK AND FINANCE COMMITTEE		NOMINATION AND REMUNERATION COMMITTEE		INDEPENDENT DIRECTORS' COMMITTEE		SITE WALKS
		ATTENDED	POSSIBLE	ATTENDED	POSSIBLE	ATTENDED	POSSIBLE	ATTENDED	POSSIBLE	ATTENDED
INDEPENDENT										
S C Allen (Chair)	4 Dec 2014	7	7	4	4	3	3	10	10	1
P M Springford	Resigned 7 Dec 2016	7	7	4	4	3	3	10	10	1
V C M Stoddart	20 May 2013	7	7	-	-	3	3	10	10	1
M Tume	1 Aug 2007	6	7	4	4	-	-	10	10	1
P A Zealand	29 Aug 2016	3	3	1	1	-	-	5	5	2
NON-INDEPENDENT										
BP										
M H Elliott	3 May 2012	7	7	-	-	3	3	-	-	2
T J Wall	Resigned 11 Feb 2016	-	-	-	-	-	-	-	-	-
EXXONMOBIL										
S J Brown	Resigned 6 May 2016	2	2	-	-	-	-	-	-	-
A T Warrell	Resigned 13 Mar 2017	6	7	-	-	-	-	-	-	-
Alternate										
J R Crawford	Ceased 13 Mar 2017	-	-	-	-	-	-	-	-	-
Z ENERGY										
M J Bennetts	10 May 2010	7	7	-	-	-	-	-	-	1

Sub-committees of the Board

There are three Board sub-committees: the Audit, Risk and Finance Committee; the Nomination and Remuneration Committee; and the Independent Directors' Committee. Each committee operates in accordance with a written Charter approved by the Board and reviewed periodically by the respective committees. The Committee Charters are available in the Governance section of the company website: www.refiningnz.com

AUDIT, RISK AND FINANCE COMMITTEE

The Audit, Risk and Finance Committee comprises between three to five Directors who have the appropriate financial expertise and understanding of the Company's industry and with at least one member who is considered to be an 'audit committee financial expert'.

The function of the Audit, Risk and Finance Committee is to oversee financial reporting, the treasury function, and the Company's risk management and assurance programmes.

The Committee keeps under review the scope and results of audit work, the cost effectiveness, performance, independence and objectivity of the auditors. Members of the Committee review the financial statements and the NZX announcement of the financial results.

As at 31 December 2016 the Audit, Risk and Finance Committee comprised: Mark Tume (Chair), Simon Allen and Paul Zealand.

NOMINATION AND REMUNERATION COMMITTEE

In respect of nominations, the responsibilities of the Committee include to identify and nominate, for the approval of the Board, candidates to fill Board vacancies and the position of Chief Executive as and when they arise; to regularly review the structure, size and composition (including the skill, knowledge and experience) of the Board and to make recommendations to the Board regarding any changes. In respect of remuneration, the Committee reviews and makes recommendations to the Board regarding the Company's remuneration policy, including changes in Directors' fees. The Committee provides oversight of the Company's Business Performance Factor which sets the base for any individual incentive payments under the Individual Performance Incentive Scheme and the award of shares to participating employees under the 'DC12' Employee Share Scheme.

The Nominations and Remuneration Committee also makes recommendations to the Board regarding the remuneration package of the Chief Executive, including the payment of any Short-Term Incentive Payment and the remuneration packages of the Leadership Team who are profiled on pages 28 to 32.

The Committee reviews the People Strategy on an annual basis including changes to organisation structure, the capability development strategy and succession planning processes including succession planning for executive roles, diversity and inclusiveness initiatives and other strategic people priorities that arise from time to time.

As at 31 December 2016 the Nomination and Remuneration Committee comprised: Vanessa Stoddart (Chair) and Simon Allen.

INDEPENDENT DIRECTORS' COMMITTEE

The three largest shareholders of the Company are also major customers, either directly or through wholly owned subsidiaries, and have representation on the Board which could lead to a conflict of interest. Clause 8.18.1 of the constitution allows for the Independent Directors to act as the Board in respect of matters that pose a conflict of interest if raised at the full Board.

The role of the Independent Directors is:

- to act as the Board in relation to those matters to be decided by the Board in which all of the other Directors have an interest which disqualifies them from forming part of the quorum and voting, and
- to act as a Committee of the Board to deal with matters delegated or referred to it by the Board or the Leadership Team, including ensuring that issues concerning the major customers, and in particular any conflicts of interest, are dealt with in a transparent manner for the benefit of the Company as a whole.

The Independent Directors are listed on pages 25 to 27.

Board performance

The Board periodically evaluates its own performance, and its own processes and procedures to ensure that they are appropriate to assist the Board in effectively fulfilling its role and meeting its duties. Individual Directors undertake a peer and self-assessment based on a methodology agreed by the Board. The last Board review was undertaken in 2016.

Internal financial control

The Board has overall accountability to shareholders and other stakeholders for the Company's system of internal financial control. Responsibility for maintaining the requisite systems and processes is delegated to the Chief Executive. The Company has a comprehensive management system which covers all aspects of the business. The management system incorporates internal financial and operational controls to:

- facilitate effective and efficient operations
- safeguard the Company's assets
- ensure proper accounting records are maintained, and
- ensure that the financial information used within the business and for publication is reliable.

The Company is committed to maintaining management systems that meet the requirements of Occupational Health and Safety (NZS 4801), Environment (ISO 14001) and Quality (ISO 9001), all of these systems embedding continuous improvement processes.

Annual budgets, forecasts and reports on the strategic direction of the Company are regularly prepared by the Leadership Team for review by the Board. HSE, financial and business performance reports are prepared monthly and reviewed by the Board throughout the year to monitor performance against HSE, financial and non-financial targets and strategic objectives.

Directors' and Officers' insurance

The Company has arranged Directors' and Officers' Liability Insurance, which ensures that generally Directors will incur no monetary loss as a result of actions undertaken by them as Directors. Certain actions are specifically excluded, such as the incurring of penalties and fines which may be imposed in respect of breaches of the law.

Independent professional advice

With the approval of the Chairman, Directors are entitled to seek independent professional advice on any aspect of their Director's duties, at the Company's expense.

Use of Company information

The Board did not receive any notices from any Director of the Company or its subsidiaries during the year, requesting to use Company information received in their capacity as a Director, which would not otherwise have been available to them.

Code of business conduct

The Company has a Code of Business Conduct which applies to all Directors and employees. The Code of Business Conduct sets standards and expectations and also provides a decision framework to guide consistency of application, ensuring that decisions are consistent with the Company's values, strategies, legal and policy obligations.

The Company has a 'whistle blowing' procedure and employees are responsible for reporting any breaches in the Code of Business Conduct of which they become aware to either their manager, manager's manager or the Company's Disclosure Officer. Any concerns can be raised anonymously with the Disclosure Officer.

Risk management and assurance

Business risk assessments are conducted by the Leadership Team and reported to the Board of Directors.

The Leadership Team and the Board obtain assurance over the adequacy of the Company's management system from a variety of sources. The Company has an enterprise-wide audit programme, which verifies that operational controls are operating as documented and also assesses the efficiency and effectiveness of internal controls.

During 2016 the Company was subject to 31 audits by external parties, including four audits conducted by the Company's internal auditor, BDO Northland, and 14 audits by in-house operational auditors. The summary results from audits were reported to the Leadership Team and the Audit, Risk and Finance Committee of the Board.

Share dealings

To ensure compliance with the law around insider trading, the Company has issued a share trading policy applicable to Directors, Officers and all employees. A Director or member of the Leadership Team can only enter into share transactions if prior approval has been given as outlined below:

SHARE TRANSACTION BY:	APPROVER OF TRANSACTION:
Chief Executive	Chairman
Company Secretary	Chairman
Other Leadership Team member	Company Secretary
Chairman	Chair of Audit, Risk and Finance Committee
Director	Chairman

A listing of Directors' shareholdings is included with their profiles on pages 25 to 27 of this Annual Report.

Disclosure of information to shareholders

Refining NZ is committed to keeping its shareholders informed and places a high degree of importance on open communication and transparent reporting and to providing comprehensive continuous disclosure to shareholders and other stakeholders, in compliance with the NZX Listing Rules.

A Half Year and Annual Report are published each year and posted on the Company's website. Presentations to analysts are given following the Half Year and Full Year announcements to provide insight into the Company's overall performance and market conditions. These presentations are also posted on the Company's website and to the NZX. The Company provides bi-monthly data on throughput, margins and processing fees, which enables stakeholders to assess the financial performance of the Company.

The Company Secretary takes primary responsibility for communications with the NZX in relation to NZX Listing Rules and disclosure obligations. Shareholders may raise matters for discussion at Annual Meetings.

The Company has made a number of disclosures to the NZX under the continuous disclosure rules. Details are available on the Company website at www.refiningnz.com and on the NZX's website: www.nzx.com.

Role of the Leadership Team

All Board authority conferred on the Leadership Team is delegated through the Chief Executive. The Board and Chief Executive agree specific goals and objectives directed towards the Company's strategic aims. The Chief Executive presents HSE, financial, operational and other reports and proposals to the Board at each meeting. In between meetings, the Chairman maintains an informal link between the Board and the Chief Executive. The Chief Executive keeps the Chairman informed on all important issues and the Chairman is available to provide counsel and advice to the Chief Executive where appropriate. Only decisions of the Board acting as a body are binding on the Chief Executive.

A profile of the Leadership Team is provided on pages 28 to 32.

Diversity

The Board recognises the value of diversity within the workforce, reflected in the Company's people strategy and recruitment processes. The Company is also committed to providing equal employment opportunities with all appointments being merit-based.

GENDER

The following table provides the gender composition of Refining NZ's permanent workforce. By way of comparison, figures for the past year are also included.

	31 DECEMBER 2016		31 DECEMBER 2015	
Directors				
Females	1	14%	1	13%
Males	6	86%	7	87%
Leadership Team				
Females	1	10%	2	22%
Males	9	90%	7	78%
IPL Directors				
Females	1	50%	2	67%
Males	1	50%	1	33%
Workforce (excluding IPL)				
Females	44	13%	34	10%
Males	289	87%	295	90%

AGE PROFILE

The age profile of Refining NZ's permanent employees and Board as at 31 December 2016 is as follows:

	DIRECTORS	LEADERSHIP TEAM	WORKFORCE (EXCLUDING IPL)	TOTAL
	%	%	%	%
Under 30 years	-	-	12%	11%
30-50 years	-	10%	50%	48%
50 years and over	100%	90%	38%	41%

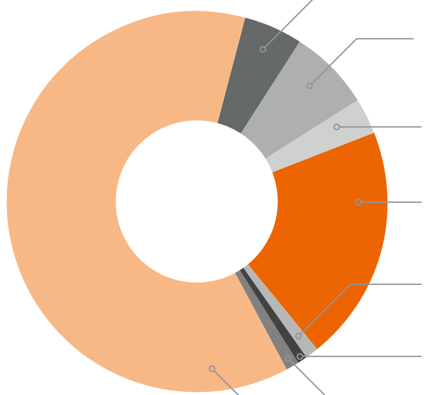
ETHNICITY

At Refining NZ we collect information from all permanent employees on which ethnicity they choose to identify with. We allow employees to select more than one ethnicity, 'other' or choose not to respond. The ethnicity of Refining NZ's permanent employees and Board as at 31 December 2016 is as follows:

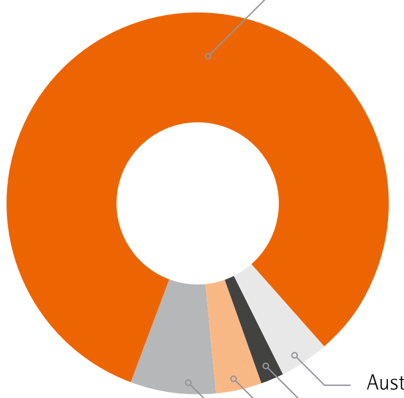
HEADCOUNT

	DIRECTORS		LEADERSHIP TEAM		WORKFORCE (EXCLUDING IPL)		TOTAL	
	#	%	#	%	#	%	#	%
NZ European-Pakeha	4	57.1	3	30.0	211	63.4	**218**	**62.3**
Pacific Islander	-	-	1	10.0	1	0.3	**2**	**0.6**
Maori	1	14.3	-	-	16	4.8	**17**	**4.8**
Maori and NZ European	-	-	-	-	24	7.2	**24**	**6.8**
Maori and Non NZ European	-	-	-	-	1	0.3	**1**	**0.3**
Maori and Pacific Islander	-	-	-	-	1	0.3	**1**	**0.3**
Non NZ European	2	28.6	6	60.0	63	18.9	**71**	**20.3**
Asian	-	-	-	-	9	2.7	**9**	**2.6**
African	-	-	-	-	1	0.3	**1**	**0.3**
Indian	-	-	-	-	2	0.6	**2**	**0.6**
Information not provided	-	-	-	-	4	1.2	**4**	**1.1**
TOTAL	7	100.0	10	100.0	333	100.0	**350**	**100.0**

ETHNICITY



NATIONALITY



Remuneration report

DIRECTORS' REMUNERATION

The Board determines the level of remuneration paid to Directors within the amounts approved by shareholders (that is, from the approved collective pool). The current approved fee pool limit is $850,000 and was approved by shareholders at the Annual Meeting in April 2012. Directors' remuneration in 2016 as advised to shareholders at the Annual Meeting, is set at a level to remain comparable with other companies in New Zealand, taking into account the expertise, skills and responsibilities of Directors. Current Directors' fees are set out in the table on the right:

Board members are also entitled to reimbursement for any direct costs incurred in carrying out their role as Directors, including travel costs. Total value of reimbursements paid to the Directors during the year amounted to $1,200.

POSITION	2016 FEES (PER ANNUM)
BOARD OF DIRECTORS	
Chairman	$170,000
Independent Director	$88,000
Non-Independent Director	$72,000
AUDIT, RISK AND FINANCE COMMITTEE	
Chairman	$25,000
Member	$12,500
NOMINATION AND REMUNERATION COMMITTEE	
Chairman	$10,000
Member	$5,000

The remuneration and other benefits, excluding reimbursements, received by the individual Directors of the Company during the year were as follows:

2016

DIRECTOR	BOARD FEES	AUDIT, RISK AND FINANCE COMMITTEE FEES	NOMINATION AND REMUNERATION COMMITTEE FEES	TOTAL FEES
INDEPENDENT				
S C Allen, Chairman	170,000	-	-	**170,000**
P M Springford (resigned 7 Dec 2016)	88,000	25,000	5,000	**118,000**
V C M Stoddart	88,000	-	10,000	**98,000**
M Tume	88,000	12,500	-	**100,500**
P A Zealand (appointed 29 Aug 2016)	30,040	4,270	-	**34,310**
NON-INDEPENDENT				
BP				
M H Elliott T J Wall (resigned 11 Feb 2016)	72,000	-	5,000	**77,000**
EXXONMOBIL				
S J Brown (resigned 6 May 2016) A T Warrell (resigned 13 March 2017)	72,000	-	-	**72,000**
Z ENERGY				
M J Bennetts	72,000	-	-	**72,000**
TOTAL	**680,040**	**41,770**	**20,000**	**741,810**

The Directors do not participate in any profit-based incentive system. No Director of the Company has received, or become entitled to receive, a benefit (other than a benefit included in the total emoluments received or due and receivable by Directors shown in this report), including shares, remuneration paid by subsidiary company or other payments from services provided. No loans have been made to Directors. The Company has arranged Liability Insurance for Directors.

REMUNERATION OF THE CHIEF EXECUTIVE

The Chief Executive's employment commenced on 14 January 2013 with an employment agreement that can be terminated by either party on six months' notice. Refining NZ can also terminate the Chief Executive's employment for redundancy or for ill health (on 12 and six months' notice respectively).

The Chief Executive's remuneration is approved by the Board and is reviewed annually. Total remuneration is made up of two components: fixed remuneration and short-term performance incentives.

Fixed remuneration includes base salary of $963,500 per annum, effective 1 April 2016 (2015: $940,000).

The short-term performance incentive (STI), is an incentive up to 60% of base salary per plan year subject to the achievement of agreed Key Performance Indicators (KPIs).

In addition, the Board can award a discretionary bonus in the case of over performance of KPIs. The Chief Executive participates in the Employee Share Purchase Scheme as outlined on page 82.

Short-term performance incentives are deemed 'at risk' payments designed to motivate and reward performance in the financial year. The KPIs relate to areas of health and safety, plant reliability, leadership, financial and in-full on-time on-spec product delivery. The weightings applied are as follows:

KPI CATEGORY	WEIGHTING %
Health and safety (personal and process)	40%
Financial	25%
Leadership	25%
Plant reliability	5%
In-full on-time on-spec product delivery	5%

Each category of KPI is 'scored' against the agreed targets for those KPIs. There are various performance levels within each KPI category; below target, on target, and above target. The individual category scores are weighted and combined to determine the Chief Executive Performance factor (CPF). Maximum CPF equals 60% of base salary, on target performance is an STI equivalent to 40% of Base Salary.

The total remuneration paid to the Chief Executive during his four-year tenure is as follows:

FINANCIAL YEAR	FY2016	FY2015	FY2014	FY2013
Total remuneration paid ($000)	1,539	1,419	1,381	1,403
Percentage STI against maximum	93%	78%	71%	74%

The total remuneration paid over the last two years comprises:

$000	FY2016	FY2015
Base salary	958	940
Other	41	41
Subtotal	999	981
Short term incentive	540	438
Discretionary based KPIs	-	-
TOTAL REMUNERATION	**1,539**	**1,419**

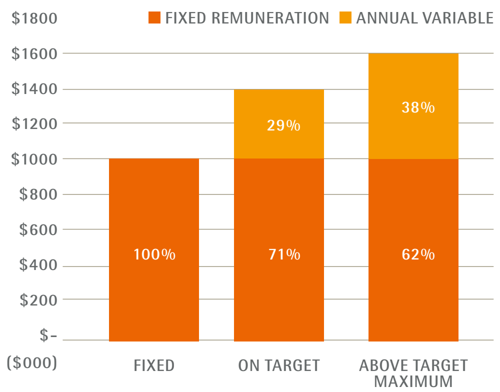
Explanation of the above items:

1 The above information has been prepared on an accrual basis, not cash basis. Note that the short-term incentive and a portion of a superannuation contribution are paid out in the year following the year in which they are earned.

2 Other relates to entitlements due to participation in the Company's Private Car Travel Allowance Scheme and in the New Zealand Refining Company Staff Superannuation Plan in accordance with the plan rules and the relevant investment statement.

SCENARIO CHARTS – CHIEF EXECUTIVE PERFORMANCE PAY FOR 2017

Fixed remuneration comprises base salary and other benefits. The base salary was set as $963,000 until 31 March 2017 and $987,590 from 1 April 2017 (representing a 2.5% increase). The annual variable pays out 40% of base salary for on target performance (which would equate to 29% of total remuneration), and 60% for above target performance (equating to 38% of total remuneration).



Leadership Team and other employees' remuneration profile

The Company's Leadership Team and employees with Individual Employment Agreements (IEAs) are remunerated with a mix of base salary and benefits, and short-term performance incentives. The remuneration of all Leadership Team members was externally benchmarked in early 2016. The determination of fixed remuneration is based on responsibilities, individual performance and experience, and market data. At-risk/variable remuneration comprises individual performance rewards, based on:

- achievement of Company business performance targets (BPFs) which include: the frequency of personal safety incidents (total recordable case frequency), the number of process safety incidents (Tier 1 and Tier 2), level of operating costs, unplanned downtime and delivery in full on time to our customers,
- achievement of individual performance factors (IPFs), and
- values and behaviours demonstrated by the individual.

In addition to the above, the Company established the Employee Share Purchase Scheme ('the scheme') in the 2015 financial year which has been approved by the Commissioner of Inland Revenue as a section DC12 share scheme under the Income Tax Act 2007. The purpose of the scheme was to recognise the important contribution of the employees to the Company's future and to assist the Company in retaining and motivating employees.

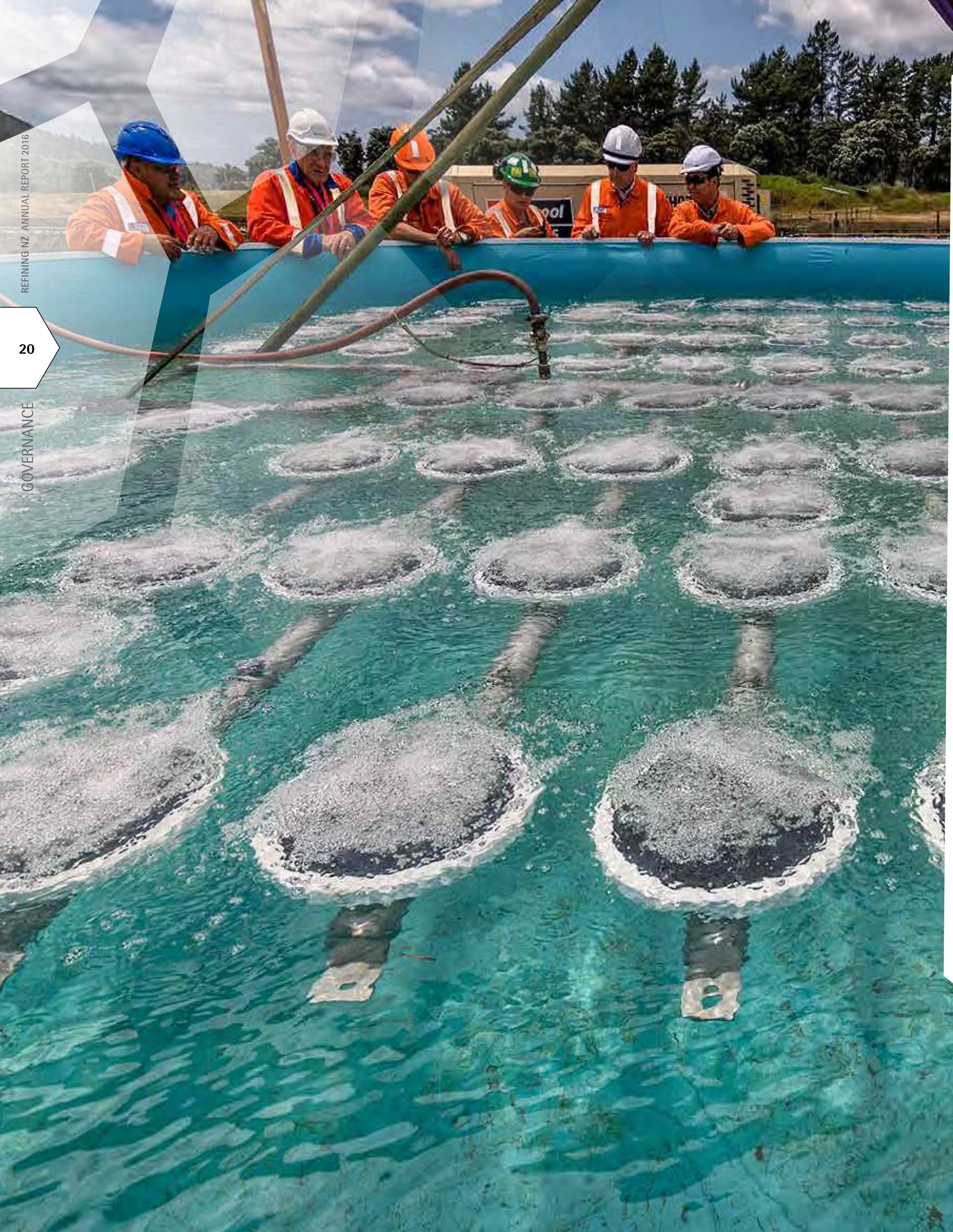
Participating employees were able to acquire $1,026 worth of shares in the Company in respect of the 2015 financial year. This offer was based on the Company contribution of $1,000, multiplied by the 2015 Business Performance Factor (BPF), and increased by an employee contribution of $1. The 2015 BPF of 1.025 was approved by the Board in February 2016.

A trust has been created under the scheme for the purpose of purchasing the Company's shares on the New Zealand Stock Exchange ('the NZX') and holding those shares until they vest with each participating employee over a three year period. The shares were acquired on 21 April 2016 (total of 98,025 shares at the price of $3.14 per share) and will vest over a three year period ending on 21 April 2019.

The Company estimates the annual operating costs of the scheme of approximately $30,000 and the cost of the contribution of approximately $319,800 (based on a BPF of 1.025) per year.

The following table shows the number of employees and former employees (including members of the Leadership Team), not being Directors, who, in their capacity as employees, received remuneration and other benefits during 2016 of at least $100,000. The remuneration figures include all monetary payments actually made during the year and contributions made by the Company as a part of the share scheme; the remuneration excludes amounts paid post 31 December 2016 that relate to performance during the 2016 financial year. No employees appointed as a Director of IPL, a subsidiary company of Refining NZ, receive or retain any remuneration or other benefits for holding this office.

	NUMBER OF EMPLOYEES	NUMBER OF EMPLOYEES
$000	2016	2015
100-109	**22**	22
110-119	**19**	21
120-129	**19**	28
130-139	**38**	28
140-149	**33**	38
150-159	**19**	24
160-169	**32**	30
170-179	**29**	22
180-189	**21**	24
190-199	**12**	22
200-209	**9**	8
210-219	**7**	4
220-229	**6**	2
230-239	**5**	4
240-249	**3**	4
250-259	**1**	3
260-269	**1**	1
270-279	**-**	2
280-289	**2**	2
290-299	**1**	-
310-319	**1**	-
320-329	**-**	1
330-339	**-**	1
340-349	**1**	-
350-359	**1**	1
1,380-1,389	**-**	1
1,430-1,439	**1**	-



The analysis is compiled on a cash basis; variable performance rewards (linked to individual and business performance for a financial reporting period) are paid subsequent to balance date and reported as part of the remuneration banding for the following year. The remuneration above includes individual incentive payments under the Individual Performance Incentive Scheme and the award of shares to participating employees under the DC12 Employee Share Scheme.

The ratio between employee remuneration (median) and Chief Executive's total remuneration for the 2016 financial year (on a cash basis) was 1:11 (2015:1:10).

Other New Zealand Stock Exchange and statutory information

DONATIONS

The Company made donations of $41,000 during the year ended 31 December 2016 (2015: $48,000). No political donations were made in 2016.

AUDITORS

PricewaterhouseCoopers, whose remuneration for audit and other services is detailed in note 2 to the financial statements, have indicated their willingness to continue in office. Each service referred to in note 2 requires prior approval by the Audit, Risk and Finance Committee so that such service does not compromise auditor objectivity and independence. The Committee also reports to the Board on the quality and expertise of the auditor. The Committee also ensures that the auditor rotation provisions of the NZX listing rules are complied with.

NEW ZEALAND EXCHANGE WAIVERS

No NZX waivers were sought or granted in 2016. In 2016 the Company utilised an NZX waiver that was granted and disclosed in 1999 which allows the Company to price certain products in tiers for different quantities to incentivise customers to increase their use of the refinery.

CREDIT RATING

The Company does not have a credit rating.

Going concern

The Directors have considered whether it is appropriate to prepare the 2016 financial statements on the basis that the Company and the Group are a going concern. As part of its normal business practices, the Group prepares annual budgets and longer-term financial and business plans. In reviewing this information, the Directors are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the Group's financial statements.

Shareholder Information

Twenty largest shareholders

AS AT 31 JANUARY 2017

	SHAREHOLDERS	TOTAL SHARES HELD	% OF TOTAL
1	BP New Zealand Holdings Limited	66,240,021	21.19
2	Mobil Oil NZ Limited	53,760,000	17.20
3	Z Energy Limited	47,999,980	15.36
4	Citibank Nominees (New Zealand) Limited – NZCSD	11,499,376	3.68
5	HSBC Nominees (New Zealand) Limited – NZCSD	10,453,596	3.34
6	National Nominees New Zealand Limited – NZCSD	9,381,469	3.00
7	Forsyth Barr Custodians Limited	6,428,378	2.06
8	HSBC Nominees (New Zealand) Limited – NZCSD	6,362,281	2.04
9	BNP Paribas Nominees (NZ) Limited – NZCSD	5,178,646	1.66
10	Accident Compensation Corporation – NZCSD	4,334,101	1.39
11	JP Morgan Chase Bank – NZCSD	3,758,695	1.20
12	Custodial Services Limited	3,543,466	1.13
13	Masfen Securities Limited	3,274,539	1.05
14	Investment Custodial Services Limited	1,957,102	0.63
15	Generate KiwiSaver Public Trust Nominees Limited - NZCSD	1,883,771	0.60
16	FNZ Custodians Limited	1,840,196	0.59
17	JBWere (NZ) Nominees Limited	1,679,969	0.54
18	Investment Custodial Services Limited	1,567,644	0.50
19	Chester Perry Nominees Limited	1,525,724	0.49
20	Rees Hollier John Jones + Moira Marguerite Jones + Walter Mick George Yovich	1,487,672	0.48
	TOTAL	**244,156,626**	**78.13**

In the above table, the shareholding of New Zealand Central Securities Depositary Limited (NZCSD) has been re-allocated to the applicable members of the NZCSD. The shareholder spread table on page 23 groups shares held by NZCSD as single legal holding.

Forsyth Barr Custodians Limited holdings are shown in the geographical spread table as being located in the South Island, however the beneficial owners may be more widely spread.

Shareholder spread

AS AT 31 JANUARY 2017

NO. OF SHARES	SHAREHOLDERS	% HOLDER	SHARES	% OF SHARES
1-499	232	4.50	63,589	0.02
500-999	259	5.02	179,581	0.06
1,000-1,999	699	13.56	942,004	0.30
2,000-4,999	1,430	27.74	4,550,839	1.46
5,000-9,999	986	19.12	6,591,496	2.11
10,000-49,999	1,336	25.91	24,757,038	7.92
50,000-99,999	127	2.46	8,282,291	2.65
100,000-499,999	60	1.16	10,703,928	3.42
500,000-999,999	9	0.18	6,194,129	1.98
1,000,000 upwards	18	0.35	250,311,558	80.08
TOTAL	**5,156**	**100.00**	**312,576,453**	**100.00**

Geographical spread

AS AT 31 JANUARY 2017

LOCATION	SHAREHOLDERS	% HOLDER	SHARES	% OF SHARES
Auckland (Greater)	1,529	29.65	203,976,289	65.26
Wellington (Greater)	652	12.65	57,860,169	18.51
Whangarei/Northland	597	11.58	11,347,948	3.63
Other North Island	1,115	21.63	18,716,345	5.99
South Island	1,133	21.97	19,599,756	6.27
Australia	67	1.30	637,759	0.20
Other Overseas	63	1.22	438,187	0.14
TOTAL	**5,156**	**100.00**	**312,576,453**	**100.00**

Substantial product holders

AS AT 31 JANUARY 2017

The following shareholders hold 5% or more of the issued capital of the Company and have filed notices with the Company under the Financial Markets Conduct Act 2013 that they are substantial product holders in the Company.

	NO. OF ORDINARY SHARES
BP New Zealand Holdings Limited	66,240,021
Mobil Oil NZ Limited	53,760,000
Z Energy Limited	47,999,980

The total number of quoted voting products of the Company on issue at 31 December 2016 and 31 January 2017 was 312,576,453 fully paid ordinary shares.

Directors' Profiles

Simon Allen

BSc, BCom

CHAIRMAN

Mr Allen has over 30 years commercial experience in the New Zealand and Australian Capital Markets. He was Chief Executive of investment bank BZW and ABN AMRO in New Zealand for 21 years and has been actively involved in advising companies, Government and investors on matters relating to their strategies and capital markets participation.

Mr Allen is Chair of Crown Fibre Holdings Limited, and St Cuthbert's College. He is a Director of IAG New Zealand and a trustee of the Antarctic Heritage Trust.

Past governance roles include Auckland Healthcare Services Limited (Director), Financial Markets Authority (Chair), NZSE (Director) and NZX Limited (Chair), Auckland Council Investments Limited (Chair) along with a number of other unlisted companies.

ENTITY	INTEREST
Crown Fibre Holdings Limited	Chairman
St Cuthbert's College	Chairman
Simon Allen Consulting Limited	Director
IAG New Zealand	Director
Antarctic Heritage Trust	Trustee

EQUITY INTEREST IN REFINING NZ

2016: 35,000 (2015: 35,000)
Relevant interest: registered holder (as Trustee) and beneficiary of trust.

Michael Bennetts

BBS, Diploma in Corporate Management

Chief Executive for Z Energy Limited. Previously held senior roles with a global oil major in New Zealand, China, Singapore, South Africa, and the UK. Director experience in both private and public energy related companies in South Africa and Asia Pacific since 1998.

ENTITY	INTEREST
Harbour City Property Investments Limited	Director
Auckland Iron Works Limited	Director
Punakaiki Fund Limited	Director and Shareholder

EQUITY INTEREST IN REFINING NZ

2016: nil (2015: nil)

Matthew Elliott

BCom, Diploma of Commerce (post grad)

Vice President Fuels NZ and Managing Director BP New Zealand Limited. Joined BP in 1994 and has held positions in Retail, Sales and Marketing, General Management with BP in Australia, Fiji, USA and the UK. Previous governance experience in Australia and Fiji.

ENTITY	INTEREST
BP New Zealand Holdings Limited	Director
BP New Zealand Share Scheme Limited	Director
BP Oil New Zealand Limited	Director
BP Pacific Investments Limited	Director
Coro Trading NZ Limited	Director
Europa Oil NZ Limited	Director
RD Petroleum Limited	Director

EQUITY INTEREST IN REFINING NZ

2016: nil (2015: nil)

Mark Tume

BBS

INDEPENDENT DIRECTOR

Professional director with experience in the infrastructure, energy and financial sectors. Directorships include NZ Oil and Gas, Infratil, and Te Atiawa Iwi Holdings Management Ltd.

ENTITY	INTEREST
Long Board Limited	Director
Infratil Limited and Subsidiaries	Chairman/ Director
Koau Capital Partners Ltd	Director
Maori Trustee Advisory Board	Member
Yeo Family Trustee Limited	Director
New Zealand Oil and Gas Limited and Subsidiaries	Director
Welltest Limited	Director
Rearden Capital Pty Limited	Director
RA 2014 Pty Limited	Chairman
RA (Holdings) 2014 Pty Limited	Director
Te Atiawa Iwi Holdings Management Limited	Chairman
Netlogix Australia PTY Ltd	Director

EQUITY INTEREST IN REFINING NZ

2016: nil (2015: nil)

Vanessa Stoddart

BCom/LLB (Hons), PGDip Professional Ethics

INDEPENDENT DIRECTOR

A director of The Warehouse Group Ltd, Heartland Bank Ltd, Financial Markets Authority and Alliance Group Ltd, Commissioner for The Tertiary Education Commission and member of MBIE and DOC Audit and Risk Committees amongst other positions. Previously Group General Manager Engineering and People Air New Zealand Ltd. and Chief Executive of the Australian Packaging Division of Carter Holt Harvey Ltd.

ENTITY	INTEREST
Board of Tertiary Education Commission	Commissioner
The Warehouse Group Limited	Director
Alliance Group Limited	Director
Department of Conservation	(Member) Audit, Risk and Finance Committee
Ministry of Business, Innovation and Enterprise	(Chair) Audit, Risk and Finance Committee
Board of the Financial Markets Authority	Director
Heartland Bank Limited	Director

EQUITY INTEREST IN REFINING NZ

2016: nil (2015: nil)

Paul Zealand

BSc (Hons), MBA

INDEPENDENT DIRECTOR

Also a director of Genesis Energy in New Zealand, and Lochard Energy in Australia. Previously CEO of Upstream for Origin Energy, Country Chairman for Shell New Zealand, and has held executive positions in Shell companies in UK, Netherlands, New Zealand and Australia.

ENTITY	INTEREST
Genesis Energy (NZ)	Director
Lochard Energy (AU)	Director
Zoenergy Ltd (NZ)	Director
Zoenergy Pty Ltd (AU)	Director
Zealand Family Trust (NZ)	Director
Zoenergy Family Trust (AU)	Director

EQUITY INTEREST IN REFINING NZ

2016: nil (2015: nil)

IPL Directors

Denise Jensen
CHAIRPERSON

Kevin Still
DIRECTOR
(APPOINTED 17 FEBRUARY 2017)

Peter Gubb
ALTERNATE DIRECTOR

Kathryn Dunn
DIRECTOR
(RESIGNED 27 OCTOBER 2016)

William Parker
DIRECTOR
(RESIGNED 31 DECEMBER 2016)

Leadership Team Profiles

Sjoerd Post

MSC (Mathematics)

CHIEF EXECUTIVE OFFICER

Sjoerd joined the Company in January 2013. He has over 30 years' international commercial business experience. Prior to joining Refining NZ, Sjoerd was a member of the Executive Team of Royal Dutch Shell's Downstream (Refining, Trading, Distribution and Sales and Marketing) business responsible for the overall global Downstream Strategy and Portfolio activities. Sjoerd was also on the Boards of the European Refinery Association Europia and Technical Association CONCAWE. Prior to that he was the Head of Shell's Global Aviation and Marine businesses and has held a variety of roles in Trading, Commercial Sales, Customer Service Management, Marketing and Sales, including assignments in New Zealand, Denmark and London. Born and raised in Holland, Sjoerd has considered New Zealand home since the mid 80s. During the weekends Sjoerd enjoys spending time with his wife and two daughters. He also enjoys music, the visual arts and sailing.

EQUITY INTEREST IN REFINING NZ

2016: 29,255 (2015: 28,929)

Kevin Still

BSc (Chem Eng)

SUPPLY CHAIN AND BUSINESS OPTIMISATION MANAGER

Kevin joined Refining NZ in July 2016 with over 30 years' international experience in the refining and oil and gas sectors.

He has held senior process engineering and production management roles in oil refining and gas processing facilities at Sasol and PetroSA in South Africa and has managed the national and international marketing and outbound logistics functions for PetroSA and for Woodside Energy in Australia. At Woodside Energy he was also responsible for the strategy and commercial functions and business management of several of the company's oil and gas joint ventures, including the North West Shelf project.

Kevin is married with three adult children and in his spare time he enjoys the Northland outdoors, scuba diving and sailing.

RESPONSIBILITIES

- Crude oil and refined products supply chain
- Customer relationships and agreements
- Refinery optimisation and scheduling
- Oil accounting
- Business development
- Strategy and analysis

2016: nil

Peter Gubb

REFINING MANAGER

Peter has held the position of Refining Manager since 2011. Prior to this, Peter progressed through Refining NZ holding various management roles within Operations, IT and Process Services. Peter also held the Leadership Team position of Quality, Health, Safety and Environment Manager. Prior to joining Refining NZ, Peter had previous process experience in the dairy industry.

Peter and his partner have two adult children and he has recently become a grandfather. Outside of work he enjoys golf, watching rugby and getting out on the water for a spot of fishing.

RESPONSIBILITIES

- Refinery and marine/jetty operations
- Refinery to Auckland Pipeline operation and management
- Process engineering
- Process control
- Operational excellence
- Emergency services

EQUITY INTEREST IN REFINING NZ

2016: 326 (2015: nil)

Joe Akari

BEd, Post Grad Diploma (Business Administration)

CHIEF PEOPLE AND CAPABILITY OFFICER

Joe joined the Company in January 2016, having accumulated over 20 years' experience in human resources. Joe has held senior management roles in a range of industries including FMCG, Forestry, Pulp and Paper, Health and Education. Joe had previous careers as a Forest Ranger and also trained as a primary school teacher.

Joe is happily married with two adult children. Outside of work he has an undying passion for watching sports and can be regularly seen, tragically some would say, at Warriors and Blues home games.

RESPONSIBILITIES

- Employee relations
- Staff development
- Recruitment and reward

2016: nil

Denise Jensen

CA

CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

Denise joined Refining NZ in 2005 and was appointed to the position of Chief Financial Officer in 2009 and Company Secretary in 2010. A Chartered Accountant with over 25 years' experience, Denise brings to Refining NZ her passion for leading and managing change and using disciplined financial processes to drive performance and growth. Denise is a member of the Chartered Accountants Australia New Zealand and the Institute of Directors. Denise is also a Director of the Northland District Health Board.

Outside of work Denise enjoys spending time with her husband and three adult children, whilst enjoying Northland's outdoor lifestyle.

RESPONSIBILITIES

- Finance
- Business information systems
- Corporate administration
- Procurement
- Company secretarial
- Investor relations
- Risk and assurance

EQUITY INTEREST IN REFINING NZ

2016: 14,255 (2015: 13,929)

Robin Baxter

BEng

ENGINEERING MANAGER

Prior to joining Refining NZ, Rob had worked as a project engineer and maintenance manager in both the Paper and Steel Production industries in Australia and the UK.

Rob joined Refining NZ in 1995 and over the past 20 years has fulfilled several engineering, maintenance and project management positions.

In early 2006 Rob and his family travelled to Far Eastern Russia, where Rob was seconded on a four-year assignment to work for Shell on the Sakhalin Island LNG project where he led the development, training and implementation of the new LNG maintenance organisation.

Rob was appointed to the Engineering Manager's position in 2013 and enjoys applying his knowledge, skills and experience to improving the delivery of engineering and maintenance services to the benefit of Refining NZ.

RESPONSIBILITIES

- Asset integrity, reliability and performance
- Inspection, integrity assurance, compliance
- Maintenance engineering, planning and scheduling, workshops and mobile equipment
- Discipline engineers and specialists - mechanical, electrical, instrumentation, control systems, civil and facilities

EQUITY INTEREST IN REFINING NZ

2016: 326 (2015: nil)

Julian Young

PhD, BSc

HSSE MANAGER

Julian joined Refining NZ in 2002 as a process engineer for the Semi Regeneration Platformer. Prior to that he worked, in South Africa, both as a process and a control engineer in Caltex and Sasol. From 2009-2012 he concentrated on operations being the Asset Manager for the Hydrocracking complex at Refining NZ. In 2013, he was appointed the HSSE Manager and so became a member of the Refining NZ Leadership Team.

Julian is married with two sons. Outside of work he is a keen gardener and a collector of antique clocks.

RESPONSIBILITIES

- Health and safety
- Process safety
- Environment
- Security

EQUITY INTEREST IN REFINING NZ

2016: 326 (2015: nil)

Greg McNeill

BA (History), Post Grad Diploma (Media), Advanced Certificate of Marketing

COMMUNICATIONS AND EXTERNAL AFFAIRS MANAGER

Greg has over 20 years' experience in corporate communications, gained predominantly in the UK where he worked in the FMCG and B2B sectors for national and global businesses - including Royal Mail, Dairy Crest, Unilever, BOC Industrial Gases. Greg returned to New Zealand with his family in 2008, to work as a media relations advisor for Bank of New Zealand. He joined Refining NZ in 2009 where his role encompasses all areas external and internal communications. Greg joined the Leadership Team in 2013. Outside of work Greg enjoys writing and time with his partner and two teenage sons.

RESPONSIBILITIES

- External communications; corporate publications, Company announcements
- Public affairs: government; media; iwi and community
- Internal communications

EQUITY INTEREST IN REFINING NZ

2016: 326 (2015: nil)

Dave Cunningham

PROJECT MANAGER

Dave joined Refining NZ as an operator in 1984 and has held various management rolls within the Company, mainly in Operations and Maintenance.

In 2001, he completed a short-term secondment as a refinery specialist based in Chicago, executing hydrocracker shutdowns and start-ups around the world. Thereafter he was a key member of the Point Forward Project Management team, before taking on the role of refinery Maintenance Manager. In 2011 as part of the Te Mahi Hou project Dave was based in Los Angeles working closely with Worley Parsons Engineering, moving back to the refinery to oversee the completion of the project as Construction Manager and in 2015, as Project Director.

Outside of work, Dave is a dedicated husband, father of three and a grandfather. He is very keen on water sports especially surfing, diving and fishing, loves building and light engineering, and is passionate about motorsport.

RESPONSIBILITIES

- Deliver a range of selected projects and shutdowns safely, to the agreed quality, on time and budget.

EQUITY INTEREST IN REFINING NZ

2016: 326 (2015: nil)

Napo Henare

REFINING NZ KAUMATUA
(NGATI HINE)

Napo's association with the refinery spans 40 years, principally as the owner of on-site civil contracting company, Henare Contracting, and following his retirement in 2012, as Refining NZ's official kaumatua (Maori elder).

As kaumatua his principle responsibilities are to advise the CEO and the Leadership Team; provide pastoral support for Maori employees and contractors – including where required, lifting tapu from work sites; working with local kaumatua to co-ordinate site blessings, (including the dawn blessing of the Te Mahi Hou commemorative sculpture); advising on protocol (tikanga) and te reo pronunciation.

In the past three years Napo has had a pivotal role in the Company's consultation with tangata whenua, helping introduce hapu and iwi to the Company's crude shipping proposal at a series of hui across the Whangarei region.

Napo is respected for his deep understanding of Te Ao Maori (Maori world view) by our people and contractors as well as in the Marsden Point community where he retains close ties with local hapu, Patuharakeke.

Retired Leadership Team

David Gray

SPECIAL PROJECTS MANAGER
(RETIRED 31 JANUARY 2017)

Economic Performance

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTE	GROUP 2016 $000	GROUP 2015 $000
INCOME			
Operating revenue	2	**353,629**	445,186
Other income	2	**527**	1,585
TOTAL INCOME		**354,156**	446,771
EXPENSES			
Purchase of process materials and utilities	2	**69,294**	59,200
Materials and contractor payments	2	**26,780**	24,279
Wages, salaries and benefits	2	**57,523**	52,798
Depreciation and disposal costs	2, 9	**87,233**	72,109
Administration and other costs	2	**33,306**	25,968
TOTAL EXPENSES		**274,136**	234,354
NET PROFIT BEFORE FINANCE COSTS		**80,020**	212,417
FINANCE COSTS			
Finance income	2	**(151)**	(148)
Finance cost	2	**15,677**	2,903
NET FINANCE COSTS	2	**15,526**	2,755
Net profit before income tax		**64,494**	209,662
Less income tax	4	**17,020**	58,731
NET PROFIT AFTER INCOME TAX		**47,474**	150,931
ATTRIBUTABLE TO:			
Owners of the Parent		**47,177**	150,771
Non-controlling interest		**297**	160
		47,474	150,931

EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE NEW ZEALAND REFINING COMPANY LIMITED:		CENTS	CENTS
Basic and diluted earnings per share	5	**15.1**	48.2

THE ABOVE CONSOLIDATED INCOME STATEMENT IS TO BE READ IN CONJUNCTION WITH THE NOTES ON PAGES 41 TO 82.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTE	GROUP 2016 $000	GROUP 2015 $000
NET PROFIT AFTER INCOME TAX		**47,474**	150,931
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to the Income Statement			
Defined benefit plan actuarial (loss)/gain	18(k)	**(4,566)**	8,213
Deferred tax on defined benefit actuarial loss/(gain)	4	**1,278**	(2,300)
Total items that will not be reclassified to the Income Statement		**(3,288)**	5,913
Items that may be subsequently reclassified to the Income Statement			
Movement in cash flow hedge reserve		**(476)**	(5,167)
Deferred tax on movement in cash flow hedge reserve	4	**133**	1,447
Total items that may be subsequently reclassified to the Income Statement		**(343)**	(3,720)
TOTAL OTHER COMPREHENSIVE (LOSS)/INCOME, AFTER INCOME TAX		**(3,631)**	2,193
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER INCOME TAX		**43,843**	153,124
ATTRIBUTABLE TO:			
Owners of the Parent		**43,546**	152,964
Non-controlling interest		**297**	160
		43,843	153,124

THE ABOVE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME IS TO BE READ IN CONJUNCTION WITH THE NOTES ON PAGES 41 TO 82.

Consolidated Balance Sheet

AS AT 31 DECEMBER 2016

	NOTE	GROUP 2016 $000	GROUP 2015 $000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	15	**1,675**	7,565
Trade and other receivables	14	**142,558**	163,579
Inventories	16	**2,329**	2,166
Assets of disposal group classified as held for sale	13	**-**	5,229
TOTAL CURRENT ASSETS		**146,562**	178,539
NON-CURRENT ASSETS			
Inventories	16	**17,515**	15,307
Property, plant and equipment	9	**1,121,097**	1,137,835
Intangibles	9	**4,425**	-
TOTAL NON-CURRENT ASSETS		**1,143,037**	1,153,142
TOTAL ASSETS		**1,289,599**	1,331,681

	NOTE	GROUP 2016 $000	GROUP 2015 $000
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	**140,932**	169,643
Income tax payable		**3,268**	20,704
Bank borrowings	8	**69,500**	25,000
Employee benefits	18	**10,337**	9,725
Derivative financial instruments	20	**334**	6
Liabilities of disposal group classified as held for sale	13	**-**	1,528
TOTAL CURRENT LIABILITIES		**224,371**	226,606
NON-CURRENT LIABILITIES			
Deferred tax liabilities	4	**119,570**	111,527
Employee benefits	18	**24,268**	17,892
Restoration provision	11	**8,624**	8,046
Bank borrowings	8	**150,000**	175,000
Derivative financial instruments	20	**10,563**	10,415
TOTAL NON-CURRENT LIABILITIES		**313,025**	322,880
TOTAL LIABILITIES		**537,396**	549,486
NET ASSETS		**752,203**	782,195

Consolidated Balance Sheet

AS AT 31 DECEMBER 2016

	NOTE	GROUP 2016 $000	GROUP 2015 $000
EQUITY			
Contributed equity	6	**265,771**	265,771
Treasury stock	6,21	**(308)**	-
Employee share entitlement reserve	6,21	**228**	75
Cash flow hedge reserve	6	**(7,846)**	(7,503)
Retained earnings	6	**494,358**	523,125
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		**752,203**	781,468
Non-controlling interest	6,13	**-**	727
TOTAL EQUITY		**752,203**	782,195

THE BOARD OF DIRECTORS OF THE NEW ZEALAND REFINING COMPANY LIMITED AUTHORISED THESE CONSOLIDATED FINANCIAL STATEMENTS FOR ISSUE ON 27 FEBRUARY 2017.

For and on behalf of the Board:

S C ALLEN DIRECTOR

M TUME DIRECTOR

THE ABOVE CONSOLIDATED BALANCE SHEET IS TO BE READ IN CONJUNCTION WITH THE NOTES ON PAGES 41 TO 82.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2016

GROUP	NOTE	CONTRIBUTED EQUITY $000	TREASURY STOCK $000	EMPLOYEE SHARE ENTITLEMENT RESERVE $000	CASH FLOW HEDGE RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT $000	NON-CONTROLLING INTEREST $000	TOTAL EQUITY $000
AT 1 JANUARY 2015		265,771	-	-	(3,783)	382,068	644,056	623	644,679
COMPREHENSIVE INCOME									
Net profit after income tax		-	-	-	-	150,771	150,771	160	150,931
Other comprehensive income									
Movement in cash flow hedge reserve	20	-	-	-	(5,167)	-	(5,167)	-	(5,167)
Defined benefit actuarial gain	18(k)	-	-	-	-	8,213	8,213	-	8,213
Deferred tax on other comprehensive income		-	-	-	1,447	(2,300)	(853)	-	(853)
TOTAL OTHER COMPREHENSIVE INCOME, AFTER INCOME TAX		-	-	-	(3,720)	5,913	2,193	-	2,193
TRANSACTIONS WITH OWNERS OF THE PARENT									
Equity-settled share-based payments	21	-	-	75	-	-	75	-	75
Unclaimed dividends written back		-	-	-	-	2	2	-	2
Dividends paid	7	-	-	-	-	(15,629)	(15,629)	(56)	(15,685)
TOTAL TRANSACTIONS WITH OWNERS OF THE PARENT		-	-	75	-	(15,627)	(15,552)	(56)	(15,608)
AT 31 DECEMBER 2015		265,771	-	75	(7,503)	523,125	781,468	727	782,195
COMPREHENSIVE INCOME									
Net profit after income tax		-	-	-	-	47,177	47,177	297	47,474
Other comprehensive income									
Movement in cash flow hedge reserve	20	-	-	-	(476)	-	(476)	-	(476)
Defined benefit actuarial loss	18(k)	-	-	-	-	(4,566)	(4,566)	-	(4,566)
Deferred tax on other comprehensive income		-	-	-	133	1,278	1,411	-	1,411
TOTAL OTHER COMPREHENSIVE INCOME, AFTER INCOME TAX		-	-	-	(343)	(3,288)	(3,631)	-	(3,631)
TRANSACTIONS WITH OWNERS OF THE PARENT									
Equity-settled share-based payments	21	-	-	153	-	-	153	-	153
Treasury shares purchased	21	-	(308)	-	-	-	(308)	-	(308)
Unclaimed dividends written back		-	-	-	-	12	12	-	12
Acquisition of non-controlling interest	13	-	-	-	-	(775)	(775)	(869)	(1,644)
Dividends paid	7	-	-	-	-	(71,893)	(71,893)	(155)	(72,048)
TOTAL TRANSACTIONS WITH OWNERS OF THE PARENT		-	(308)	153	-	(72,656)	(72,811)	(1,024)	(73,835)
AT 31 DECEMBER 2016		265,771	(308)	228	(7,846)	494,358	752,203	-	752,203

THE ABOVE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IS TO BE READ IN CONJUNCTION WITH THE NOTES ON PAGES 41 TO 82.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTE	GROUP 2016 $000	GROUP 2015 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		356,773	445,983
Payments for supplies and other expenses		(133,629)	(107,493)
Payments to employees		(54,950)	(48,499)
CASH GENERATED FROM OPERATIONS		168,194	289,991
Interest received		151	148
Interest paid		(14,871)	(2,622)
GST (paid)/received		(618)	4,036
Income tax paid		(25,076)	(26,998)
		(40,414)	(25,436)
NET CASH INFLOW FROM OPERATING ACTIVITIES	15	127,780	264,555
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(81,162)	(128,635)
Proceeds from sale of property, plant and equipment		-	2,656
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(81,162)	(125,979)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from/(repayments of) bank borrowings		19,500	(116,000)
Unclaimed dividends		-	7
Dividends paid to shareholders	7	(71,893)	(15,629)
Dividends paid to non-controlling interest		(155)	(56)
Purchase of treasury stock		(308)	-
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		(52,856)	(131,678)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(6,238)	6,898
Cash and cash equivalents at the beginning of the year		7,913	1,015
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		1,675	7,913
CLASSIFIED AS:			
Cash and cash equivalents		1,675	7,565
Cash and cash equivalents classified as held for sale	13	-	348
		1,675	7,913

THE ABOVE CONSOLIDATED STATEMENT OF CASH FLOWS IS TO BE READ IN CONJUNCTION WITH THE NOTES PAGES 41 TO 82.

THE CASH FLOWS ARE EXCLUSIVE OF GST.

Basis of Preparation

FOR THE YEAR ENDED 31 DECEMBER 2016

(a) REPORTING ENTITY

The reporting entity is the consolidated group comprising The New Zealand Refining Company Limited ('Parent' or 'Company') and its subsidiary, Independent Petroleum Laboratory Limited. The New Zealand Refining Company is a limited liability company incorporated and domiciled in New Zealand with its registered office at Marsden Point, Whangarei, New Zealand.

The Parent operates New Zealand's only oil refinery at Marsden Point near Whangarei as a toll refiner, and owns and operates a pipeline, running from the refinery at Marsden Point to Wiri, located in South Auckland, transporting refined fuels for consumption within the Auckland market. The subsidiary provides specialised fuels, biofuels, and industrial and environmental laboratory testing services.

The New Zealand Refining Company Limited is registered under the Companies Act 1993, is listed on the New Zealand Stock Exchange (NZX) and is an FMC Reporting Entity under the Financial Markets Conduct Act 2013 ('FMC Act 2013').

These consolidated financial statements were approved by the Directors on 27 February 2017.

(b) BASIS OF PREPARATION

These financial statements have been prepared in accordance with:

- The Financial Markets Conduct Act 2013.
- The NZX Main Board Listing Rules.
- New Zealand Generally Accepted Accounting Practice (NZGAAP).
- New Zealand equivalents to the International Financial Reporting Standards ('NZ IFRS'), International Financial Reporting Standards (IFRS) and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-oriented entities.

The consolidated financial statements are prepared on the basis of historical cost, except for:

- Derivative financial instruments and plan assets (included in the net defined benefit liability) which are measured at fair value, and
- Held-for-sale assets measured at fair value less cost to sell.

The consolidated financial statements are prepared on a GST exclusive basis, except for receivables and payables which are GST inclusive.

Functional and presentation currency

These financial statements are presented in New Zealand dollars ($) which is the Group's functional currency, and the financial information has been rounded to the nearest thousand dollars ($000), unless otherwise stated.

Consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Use of judgements and estimates

The preparation of 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 judgement and assumptions that can significantly affect the amounts recognised in the financial statements:

- Inventory obsolescence provision – refer to note 16;
- Recoverability of the capital work in progress, and useful lives property, plant and equipment – refer to note 9;
- Defined benefit pension plan obligation – refer to note 18;
- Restoration provision – refer to note 11.

E Significant estimates are designated by this symbol in the notes to the financial statements.

Basis of Preparation

FOR THE YEAR ENDED 31 DECEMBER 2016

(c) SIGNIFICANT ACCOUNTING POLICIES

P Accounting policies, disclosed within each of the applicable notes to the financial statements, are designated by this symbol.

Changes in accounting policies and disclosures

The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all periods presented.

New standards and amendments that became effective from 1 January 2016 did not have a significant impact on the Group.

The International Accounting Standards Board has issued a number of standards, amendments and interpretations which are not yet effective and which may have an impact on the Group's financial statements, including:

- NZ IFRS 9 'Financial Instruments – Classification and Measurement', mandatory for the year ending 31 December 2018;
- NZ IFRS 15 'Revenue from Contracts with Customers', mandatory for the year ending 31 December 2018;
- NZ IFRS 16 'Leases', mandatory for the year ending 31 December 2019.

The Group has not yet applied these in preparing these financial statements as the potential impact of these standards to the Group's financial statements has not been assessed yet; these standards are expected to be applied in the periods in which they become mandatory.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

PERFORMANCE

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

1 Segment reporting

(a) Identification and description of reportable segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Leadership Team, identified as the chief operating decision-maker. The Leadership Team reviews the Group's internal reporting of oil refining and distribution separately in order to assess their performance and allocate resources. The operating segments, based on these reports are as follows:

Oil Refining

The Parent 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 Parent 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 (refer note 3).

Other

Other includes 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 Company (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.

Revenue derived from major customers, and the relevant operating segments is disclosed in note 3.

(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 consolidated financial statements.

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

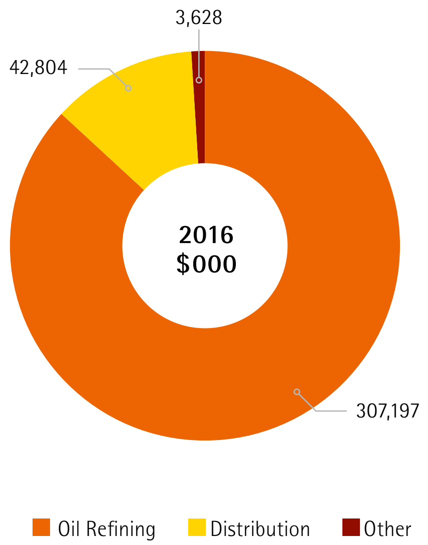
Notes to the Financial Statements

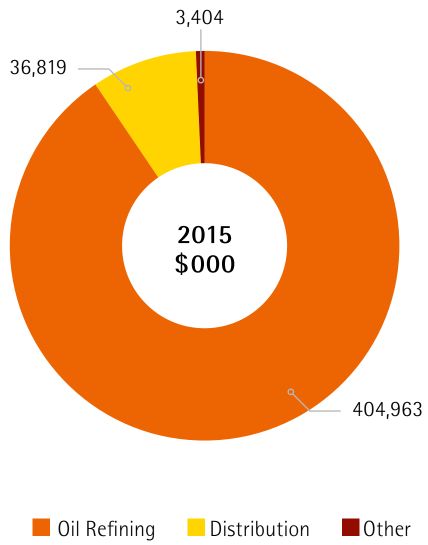
FOR THE YEAR ENDED 31 DECEMBER 2016

1 Segment reporting cont.

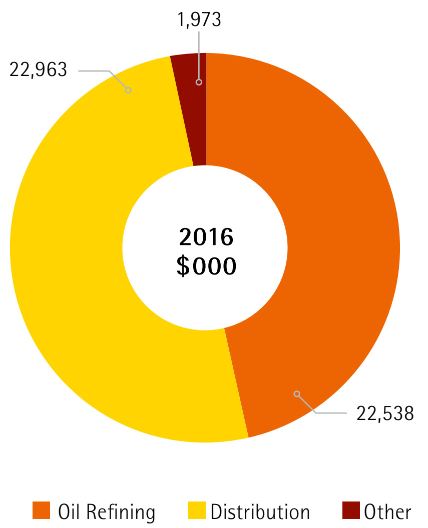
(c) Segment results

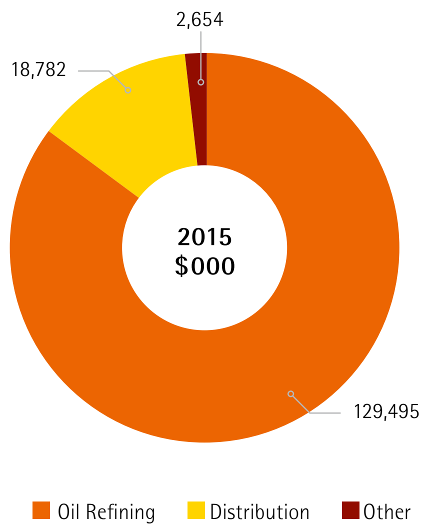
Revenue from external customers ($000)





Net profit after income tax ($000)





Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

1 Segment reporting cont.

31 DECEMBER 2016	OIL REFINING $000	DISTRIBUTION $000	OTHER $000	TOTAL $000
Total operating revenue	307,197	42,804	8,720	358,721
Inter-segment revenue	-	-	(5,092)	(5,092)
REVENUE FROM EXTERNAL CUSTOMERS	307,197	42,804	3,628	353,629
Other income	-	-	527	527
Finance income	147	-	4	151
Finance cost	(15,652)	-	(25)	(15,677)
Depreciation and disposal costs	(79,922)	(6,868)	(443)	(87,233)
Income tax	(7,654)	(8,930)	(436)	(17,020)
Net profit after income tax	22,538	22,963	1,973	47,474

31 DECEMBER 2015	OIL REFINING $000	DISTRIBUTION $000	OTHER $000	TOTAL $000
Total operating revenue	404,963	36,819	7,777	449,559
Inter-segment revenue	-	-	(4,373)	(4,373)
REVENUE FROM EXTERNAL CUSTOMERS	404,963	36,819	3,404	445,186
Other income	59	-	1,526	1,585
Finance income	138	-	10	148
Finance cost	(2,869)	-	(34)	(2,903)
Depreciation and disposal costs	(64,856)	(6,868)	(385)	(72,109)
Income tax	(51,177)	(7,304)	(250)	(58,731)
Net profit after income tax	129,495	18,782	2,654	150,931

2 Income and expenses

P Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. Specific accounting policies are as follows:

Processing fee (oil refining) revenue
Processing fees are recognised when the Group has processed crude oil into refined products for the customer.

Pipeline fee (distribution) revenue
Pipeline fees are recognised when the products have been transferred to the Wiri Oil terminal in South Auckland.

Operating lease income
Rental income from operating leases (including Wiri Oil terminal rental) is recognised on a straight-line basis in accordance with the substance of the relevant agreements.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

2 Income and expenses cont.

	NOTE	GROUP 2016 $000	GROUP 2015 $000
Net profit before income tax includes the following income and expenses:			
OPERATING REVENUE			
Processing fees		**276,590**	379,155
Natural Gas recovery		**21,403**	15,003
Other refining related income		**8,695**	10,805
Refining revenue		**306,688**	404,963
Distribution revenue		**36,788**	30,294
Operating lease income:			
Wiri Oil land and plant	3	**6,525**	6,525
Other		**84**	84
Other operating income		**3,544**	3,320
TOTAL OPERATING REVENUE		**353,629**	445,186
OTHER INCOME			
Other income		**527**	1,563
Gain on disposal of property, plant and equipment		**-**	22
TOTAL OTHER INCOME		**527**	1,585
TOTAL INCOME		**354,156**	446,771
And charging:			
Process materials and utilities		**47,891**	44,197
Natural gas		**21,403**	15,003
PURCHASE OF PROCESS MATERIALS AND UTILITIES		**69,294**	59,200
Contractor payments		**19,819**	20,199
Materials		**6,684**	6,822
Obsolescence provision recognised/(released)		**277**	(2,742)
TOTAL MATERIALS AND CONTRACTOR PAYMENTS		**26,780**	24,279
Wages and salaries		**52,692**	47,734
Defined contribution pension plan contributions		**1,276**	1,091
Defined benefit pension plan expense	18(j)	**3,172**	3,696
Medical plan contributions	18(j)	**230**	202
Equity-settled share-based payments	21	**153**	75
TOTAL WAGES, SALARIES AND BENEFITS		**57,523**	52,798
Depreciation expense	9	**87,177**	72,109
Loss on disposal of property, plant and equipment	9	**56**	-
TOTAL DEPRECIATION AND DISPOSAL COSTS		**87,233**	72,109
Administration and other expenses		**3,724**	3,786
Contract services		**14,242**	10,337
Consultants		**5,264**	2,922
Insurance		**3,334**	2,945
Rates		**1,185**	1,097
Employee related costs		**3,456**	3,147

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

2 Income and expenses cont.

	NOTE	GROUP 2016 $000	GROUP 2015 $000
Auditor's fees			
Audit of financial statements		**138**	190
Treasury market updates		**-**	8
AGM scrutineering		**6**	6
Compliance report on processing fees		**32**	-
Advisory fees for directors' fee benchmarking		**5**	-
Directors' fees		**742**	588
Operating lease expenses:			
Wiri Oil land rental		**500**	500
Other		**637**	394
Donations		**41**	48
TOTAL ADMINISTRATION AND OTHER COSTS		**33,306**	25,968
Interest expense:			
Bank borrowings		**15,255**	16,900
Restoration provision finance charge		**422**	337
Finance costs		**15,677**	17,237
Less: amounts capitalised to qualifying assets		**-**	(14,334)
TOTAL FINANCE COSTS		**15,677**	2,903
Finance income:			
Interest income on short-term bank deposits		**(151)**	(148)
TOTAL FINANCE INCOME		**(151)**	(148)
NET FINANCE COSTS		**15,526**	2,755
TOTAL COSTS		**289,662**	237,109
NET PROFIT BEFORE INCOME TAX		**64,494**	209,662

Auditor's fees
'Audit of financial statements' includes the fees for the annual audit of the financial statements. The 2015 audit fee includes the audit of Independent Petroleum Laboratory Limited (IPL) for the 2015 and preceding two years, to enable audited financial statements to be provided as part of the sale process (refer note 13). Previously, the audit of IPL had been limited to the work required to enable the auditors to provide an opinion on the Group's financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

3 Related parties

(a) Shareholders and other related parties

The Group enters into transactions on an arm's length basis with the oil companies, who are also shareholders of the Parent, and Wiri Oil Services Limited (Wiri Oil), a company that is owned by shareholders of the Parent.

Details of shareholdings at 31 December are:

	2016 %	2015 %
BP New Zealand Holdings Limited (BP)	**21.19**	21.19
Mobil Oil NZ Limited (Mobil)	**17.20**	17.20
Z Energy Limited (Z Energy)	**15.36**	15.36

The nature, transactions and balances with the shareholders and other related parties are as follows:

(i) Revenue from related parties

Revenue from the oil refining and distribution segments is derived from the Oil Companies as follows:

	TRANSACTION VALUES FOR THE YEAR ENDED 31 DECEMBER		BALANCES OUTSTANDING AS AT 31 DECEMBER	
	2016 $000	2015 $000	2016 $000	2015 $000
BP	**88,596**	113,695	**45,913**	36,802
Chevron	**-**	33,020	**-**	-
Mobil	**78,688**	97,700	**24,744**	30,231
Z Energy	**143,065**	130,393	**69,442**	59,443
Wiri Oil	**6,963**	6,934	**39**	185
	317,312	381,742	**140,138**	126,661

Processing fees
The Group has separate processing agreements with each of the three Oil Companies which have been in place since 1995. They are long-term 'evergreen' contracts which continue unless renegotiated or terminated by mutual consent or by a customer on one year's notice. 78% (2015: 85%) of the Group's total operating revenue is earned from processing fees charged under those agreements. Refer note 19(a) for further details.

Leases
The Parent leases land from Wiri Oil Services Limited (Wiri Oil) and owns the Wiri Oil terminal (plant) located on this land. The land and plant is leased back to Wiri Oil. The leases are non-cancellable operating leases, which expire in 2024 with no right of renewal. At the end of the lease term, ownership of the Wiri Oil terminal reverts to Wiri Oil Services Limited. Operating lease income and expenses are disclosed in note 2.

Excise Duty
Excise duty is collected from the Oil Companies and paid to the New Zealand Customs Service on the same day each month (refer note 17) and is included in the above balances outstanding.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

3 Related parties cont.

(ii) Purchases of goods and services

The Group purchases sulphur, a by-product of the refining process which is on sold to third parties, and other fuels, from related parties as follows:

	TRANSACTION VALUES FOR THE YEAR ENDED 31 DECEMBER		BALANCES OUTSTANDING AS AT 31 DECEMBER	
	2016 $000	2015 $000	2016 $000	2015 $000
BP	**483**	1,332	**19**	112
Chevron	**-**	568	**-**	-
Mobil	**487**	1,450	**27**	118
Z Energy	**1,105**	1,740	**114**	172
	2,075	5,090	**160**	402

(iii) Other charges

Insurance
A portion of the Group's material damage and business interruption and contract works and liability insurance is held by companies related to shareholders.

Administration fees
The Parent charges an administration fee to the New Zealand Refining Company Pension Fund. For a description of this plan see note 18.

	TRANSACTION VALUES FOR THE YEAR ENDED 31 DECEMBER		BALANCES OUTSTANDING AS AT 31 DECEMBER	
	2016 $000	2015 $000	2016 $000	2015 $000
Insurance premiums				
BP - Jupiter Insurance Ltd	**437**	392	**-**	-
Administration fees				
The New Zealand Refining Company Pension Fund	**25**	26	**6**	6
	462	418	**6**	6

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

3 Related parties cont.

(b) Directors' fees and key management personnel compensation

Directors' fees are disclosed in note 2.

Key management personnel include all members of the Leadership Team.

	GROUP 2016 $000	GROUP 2015 $000
Salaries and other short-term employee benefits	**3,697**	3,484
Post-employment benefits	**155**	196
TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION	**3,852**	3,680
Number of personnel at 31 December	**10**	9

The above analysis is compiled on a cash basis; variable performance rewards (linked to individual and business performance for a financial reporting period) are paid subsequent to balance date and reported as part of payments to key management personnel for the following year.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

4 Taxation

(a) Income tax expense

P The income tax expense for the year is the tax payable on the current year's taxable income based on the New Zealand income tax rate on the basis of the tax laws enacted or substantially enacted at the end of the reporting period, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and to unused tax losses.

	NOTE	GROUP 2016 $000	GROUP 2015 $000
Net profit before income tax expense		**64,494**	209,662
Tax at the New Zealand corporate income tax rate of 28% (2015: 28%)		**18,058**	58,705
Tax effect of amounts which are either non-deductible or taxable in calculating taxable income:			
Expenses not deductible for tax		**152**	26
Adjustments in respect of current income tax in respect of previous years		**(1,190)**	-
INCOME TAX EXPENSE, REPRESENTED BY:		**17,020**	58,731
Current tax expense		**7,566**	48,124
Deferred tax recognised in the income statement	4(b)	**9,454**	10,607

(b) Deferred tax

P Deferred tax assets and liabilities arise from temporary differences between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements, and are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised in other comprehensive income or directly in equity are also recognised in other comprehensive income or directly in equity, respectively.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

4 Taxation cont.

	NOTE	PROPERTY, PLANT AND EQUIPMENT $000	PROVISIONS $000	DEFERRED TAX LIABILITY/(ASSET) EMPLOYEE BENEFITS $000	FINANCIAL INSTRUMENTS $000	TAX LOSSES $000	TOTAL $000
AT 1 JANUARY 2015		120,230	(4,295)	(7,704)	(1,526)	(6,638)	100,067
Deferred tax in respect of previous years		1,792	(45)	(37)	-	(1,752)	(42)
Deferred tax in respect of current year		2,139	824	(757)	53	8,390	10,649
Deferred tax recognised in the income statement	4(a)	3,931	779	(794)	53	6,638	10,607
Deferred tax on items included in other comprehensive income		-	-	2,300	(1,447)	-	853
AT 31 DECEMBER 2015		124,161	(3,516)	(6,198)	(2,920)	-	111,527
Deferred tax in respect of previous years		**(136)**	**(96)**	**(203)**	**4**	**-**	**(431)**
Deferred tax in respect of current year		**10,486**	**(170)**	**(429)**	**(2)**	**-**	**9,885**
Deferred tax recognised in the income statement	4(a)	**10,350**	**(266)**	**(632)**	**2**	**-**	**9,454**
Deferred tax on items included in other comprehensive income		**-**	**-**	**(1,278)**	**(133)**	**-**	**(1,411)**
AT 31 DECEMBER 2016		**134,511**	**(3,782)**	**(8,108)**	**(3,051)**	**-**	**119,570**

5 Earnings per share

P Earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares on issue during the year. The Company has no dilutive potential ordinary shares at 31 December 2016 (2015: nil) and therefore basic and dilutive earnings per share are the same.

		NOTE	TOTAL 2016	TOTAL 2015
Profit after tax attributable to shareholders of the Company	$000		**47,177**	150,771
Weighted average number of shares on issue	000's	6	**312,508**	312,576
BASIC AND DILUTED EARNINGS PER SHARE			**15.1**	48.2

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

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 (refer note 8). 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 6: Equity
Note 7: Dividends
Note 8: Bank borrowings

6 Equity

Contributed Equity

The issued capital of the Company is represented by 312,576,453 no par value ordinary shares (2015: 312,576,453) issued and fully paid, less 98,025 treasury shares held by CRS Nominees Limited (refer to note 21). All ordinary shares rank equally with one vote attached to each ordinary share.

Treasury stock

Treasury stock represents the value of shares acquired by the Parent on-market in respect of the Employee Share Purchase Scheme (refer to note 21).

Employee share entitlement reserve

The employee share entitlement reserve is used to recognise the fair value of shares granted but not vested. Amounts are transferred to share capital when the shares vest to the employee (refer to note 21).

Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in the income statement.

Non-controlling interest

Non-controlling interest represent equity in a subsidiary non attributable, directly or indirectly, to the Parent. Changes in the Parent's ownership interest in a subsidiary that do not result in the Parent losing control of the subsidiary are equity transactions. Any profits or losses realised on transactions between shareholders is recognised directly in retained earnings. For details on transactions between shareholders refer to note 13.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

7 Dividends

	CENTS PER SHARE	TOTAL 2016 $000	TOTAL 2015 $000
Interim dividend for 2015	5.0	-	15,629
Final dividend for 2015	20.0	**62,515**	-
Interim dividend for 2016	3.0	**9,378**	-
TOTAL		**71,893**	15,629

The dividends were fully imputed. Supplementary dividends of $1.307 million (2015: $0.266 million) were paid to shareholders who were not tax residents in New Zealand for which the Group received a foreign investor tax credit entitlement.

Imputation credits available to shareholders for subsequent reporting periods amount to $31.693 million (2015: $52.329 million).

Dividend declared post balance date
The Group has declared a final dividend of 6 cents per share, fully imputed, payable 30 March 2017 (2015: 20 cents per share).

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

8 Bank borrowings

P Bank borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

	GROUP 2016 $000	GROUP 2015 $000
BANK BORROWINGS		
Current bank borrowings:		
Revolving cash advances (expiry June 2016)	**-**	25,000
Revolving cash advances (expiry June 2017)	**69,500**	-
Total current bank borrowings	**69,500**	25,000
Non-current bank borrowings:		
Revolving cash advances (expiry June 2017)	**-**	25,000
Revolving cash advances (expiry December 2019)	**50,000**	50,000
Term Loan (expiry December 2020)	**100,000**	100,000
Total non-current bank borrowings	**150,000**	175,000
TOTAL BANK BORROWINGS	**219,500**	200,000
EFFECTIVE INTEREST RATE		
Bank loans	**6.0%**	6.4%
UNDRAWN FACILITIES		
The Group has the following undrawn borrowing facilities:		
Revolving cash advances (expiry June 2016)	**-**	75,000
Revolving cash advances (expiry June 2017)	**130,500**	175,000
TOTAL UNDRAWN BORROWING FACILITIES	**130,500**	250,000

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, including debt to total debt and equity, security to tangible assets and EBITDA to interest ratios. 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. The revolving cash advances expiring in June 2017 are in the process of being renewed.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

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. Taxation assets and liabilities are detailed in the Performance section of these Notes.

This section includes the following Notes:

9 Property, plant and equipment and intangibles

P

Property, plant and equipment and intangibles are initially recognised at cost which includes expenditures directly attributable to the acquisition. Cost also includes transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment, and borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced asset is derecognised.

Major inspections associated with planned plant shutdowns and tank maintenance are capitalised at cost and recognised in the carrying amount of the refining plant, provided the recognition criteria are met.

When an asset is disposed of, any gain or loss on disposal is calculated as the difference between the disposal proceeds and the carrying value of the asset, and is recognised as a gain or loss on disposal of property, plant and equipment and presented in 'Other gains' or 'Total depreciation and disposal costs' in the Income Statement.

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Income Statement for the amount by which the asset's carrying amount exceeds its recoverable amount, being the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

9 Property, plant and equipment and intangibles cont.

Depreciation is provided on a straight-line basis on all property, plant and equipment other than freehold land, capital work in progress and precious metals (rhenium, platinum) contained in certain catalysts.

Included within the intangible assets are carbon credits received in the form of New Zealand Units (NZU's).

E

The Group applies judgements in relation to the appropriateness and recoverability of the capital work in progress, and useful lives applied to the property, plant and equipment. Capital work in progress as at 31 December 2016 has been assessed by Management as recoverable.

During the financial year there have been no significant changes in estimates relating to useful lives of assets. The useful lives applied are as follows:

	Useful lives (years)
Freehold improvements	20
Buildings and jetties	20
Refining plant	
- tankage	40-50
- rotating equipment	20-30
- piping	20-50
- vessels and columns	25-40
- instruments	10-15
- electrical and electrical cabling	15-25
- plant shutdown and tank maintenance	2-20
- other refining plant	10-65
Catalysts	3-10
Refinery to Auckland Pipeline	6-70
Wiri Oil terminal (leased)	20
Equipment and vehicles	3-7
Capital work in progress	n/a

Property, plant and equipment are included in the negative pledge arrangement as detailed in note 8.

During the year, the Group has not capitalised any borrowing costs on qualifying assets (2015: capitalised \$14.334 million, at the weighted average rate of its general borrowings of 6.0%).

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

9 Property, plant and equipment and intangibles cont.

GROUP	FREEHOLD LAND AND IMPROVEMENTS $000	BUILDINGS AND JETTIES $000	REFINING PLANT $000	CATALYSTS $000	REFINERY TO AUCKLAND PIPELINE $000	WIRI OIL TERMINAL (LEASED) (NOTE 3) $000	EQUIPMENT AND VEHICLES $000	CAPITAL WORK IN PROGRESS $000	TOTAL PROPERTY, PLANT AND EQUIPMENT $000	INTANGIBLES $000
AT 1 JANUARY 2015										
Cost	69,556	108,281	2,438,478	98,574	222,000	44,169	86,912	385,229	3,453,199	-
Accumulated depreciation	(48,199)	(86,199)	(1,972,092)	(58,219)	(98,772)	(39,729)	(74,344)	-	(2,377,554)	-
NET BOOK AMOUNT	21,357	22,082	466,386	40,355	123,228	4,440	12,568	385,229	1,075,645	-
YEAR ENDED 31 DECEMBER 2015										
Opening net book amount	21,357	22,082	466,386	40,355	123,228	4,440	12,568	385,229	1,075,645	-
Additions/transfers	-	670	436,133	9,339	-	-	1,260	(307,016)	140,386	-
Disposals	-	(218)	(42)	(2,014)	-	-	(433)	-	(2,707)	-
Depreciation charge	(1,361)	(1,898)	(51,438)	(8,526)	(5,260)	(429)	(3,197)	-	(72,109)	-
Transferred to disposal group Classified as held for sale	-	(1,389)	-	-	-	-	(1,991)	-	(3,380)	-
CLOSING NET BOOK AMOUNT	19,996	19,247	851,039	39,154	117,968	4,011	8,207	78,213	1,137,835	-
AT 31 DECEMBER 2015										
Cost	69,556	106,713	2,873,547	105,744	222,000	44,169	79,251	78,213	3,579,193	-
Accumulated depreciation	(49,560)	(87,466)	(2,022,508)	(66,590)	(104,032)	(40,158)	(71,044)	-	(2,441,358)	-
NET BOOK AMOUNT	19,996	19,247	851,039	39,154	117,968	4,011	8,207	78,213	1,137,835	-
YEAR ENDED 31 DECEMBER 2016										
Opening net book amount	**19,996**	**19,247**	**851,039**	**39,154**	**117,968**	**4,011**	**8,207**	**78,213**	**1,137,835**	**-**
Additions/transfers	**-**	**413**	**27,706**	**4,327**	**-**	**-**	**10,537**	**24,132**	**67,115**	**4,425**
Reclassification of additions	**3,619**	**82,636**	**(104,140)**	**-**	**-**	**-**	**17,885**	**-**	**-**	**-**
Disposals	**(40)**	**(119)**	**103**	**-**	**-**	**-**	**-**	**-**	**(56)**	**-**
Depreciation/amortisation charge	**(1,435)**	**(4,490)**	**(60,318)**	**(8,915)**	**(5,229)**	**(429)**	**(6,361)**	**-**	**(87,177)**	**-**
Transferred from disposal group reclassified from held for sale	**-**	**1,389**	**-**	**-**	**-**	**-**	**1,991**	**-**	**3,380**	**-**
CLOSING NET BOOK AMOUNT	**22,140**	**99,076**	**714,390**	**34,566**	**112,739**	**3,582**	**32,259**	**102,345**	**1,121,097**	**4,425**
AT 31 DECEMBER 2016										
Cost	**73,122**	**191,833**	**2,679,447**	**90,718**	**222,000**	**44,169**	**114,108**	**102,345**	**3,517,742**	**4,425**
Accumulated depreciation	**(50,982)**	**(92,757)**	**(1,965,057)**	**(56,152)**	**(109,261)**	**(40,587)**	**(81,849)**	**-**	**(2,396,645)**	**-**
NET BOOK AMOUNT	**22,140**	**99,076**	**714,390**	**34,566**	**112,739**	**3,582**	**32,259**	**102,345**	**1,121,097**	**4,425**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

10 Capital expenditure commitments

P

Commitments are presented for the assets purchases contracted as at the reporting date but not provided for in the financial statements.

	GROUP 2016 $000	GROUP 2015 $000
Capital commitments in relation to property, plant and equipment	**14,382**	15,912

11 Restoration provision

The restoration provision relates to restoration obligations in relation to a lease agreement for the seabed upon which the jetty is situated at Marsden Point.

P

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.

Changes in the estimates during the year are recorded as a change in the restoration provision and the respective asset. Increase in the provision due to passage of time (unwinding of discount) is recognised as finance costs.

	GROUP 2016 $000	GROUP 2015 $000
AT 1 JANUARY	**8,046**	7,928
Unwinding of discount	**422**	337
Change in assumptions – discount rate	**156**	(219)
AT 31 DECEMBER	**8,624**	8,046

E

The present value of the restoration provision depends on a number of assumptions including estimated timing, restoration costs and the discount rate used. Management assesses the appropriateness of the assumptions at each balance date. Any changes in these assumptions will impact the carrying amount of the restoration provision.

The lease agreement expires in 2025 and this provision will be utilised, at that time, if the lease is not renegotiated for a further term. An interest rate of 4.24% (2015: 4.53%) has been applied and set with reference to New Zealand Government Bonds as a risk free rate.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

12 Operating lease commitments

P

Leases in which a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight-line basis over the period of the lease.

	GROUP 2016 $000	GROUP 2015 $000
Commitments for operating leases where the Group is a **lessee**		
- No later than one year	**937**	1,009
- One to five years	**2,482**	2,787
- Beyond five years	**1,125**	1,625
TOTAL	**4,544**	5,421

The Group leases a small number of equipment and vehicles under non-cancellable operating leases. The Group leases process industrial platinum under non-cancellable operating leases to be returned to the owners at the end of the lease periods, subject to renegotiation options.

The Group also leases land under a non-cancellable operating lease that expires in 2024 with no right of renewal.

The operating lease expenditure charged to the Income Statement during the year is disclosed in note 2.

	GROUP 2016 $000	GROUP 2015 $000
Commitments for operating leases where the Group is a **lessor**		
- No later than one year	**6,609**	6,609
- One to five years	**26,392**	26,434
- Beyond five years	**14,681**	21,248
TOTAL	**47,682**	54,291

The Group leases land and refining plant to Wiri Oil Services Limited (refer to note 3) under a non-cancellable operating lease, which expires in 2024 with no right of renewal. The Group also leases land under an agreement that has two rights of renewal for 21 years each.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

13 Transactions between shareholders

The Company's only subsidiary, Independent Petroleum Laboratory Limited and certain property, plant and equipment leased to this subsidiary by the Parent, were presented as a disposal group held for sale as at 31 December 2015 following the initiation of a process to sell these assets.

In October 2016 the Parent decided to withdraw from the sale process and the assets previously reported as held for sale were reclassified as held for use. The assets held for use are recognised at the lower of the estimated recoverable amount and the carrying value that would have been recognised had the assets never been classified as held for sale.

On 31 December 2016, the Company acquired BP Oil New Zealand Limited's 25.8% minority shareholding in Independent Petroleum Laboratories Limited for $1.644 million to become a wholly owned subsidiary from that date. The excess of the purchase price over the historic value of the non-controlling interest acquired of $0.869 million was recognised in retained earnings.

The purchase of the remaining 25.8% minority interest in Independent Petroleum Laboratory Limited on 31 December 2016, means that there are no non-controlling interests at balance date.

14 Trade and other receivables

P Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less impairment.

	NOTE	GROUP 2016 $000	GROUP 2015 $000
Processing fees		**29,858**	31,975
Product distribution		**3,822**	2,992
Excise duty	17	**105,651**	123,857
Other		**3,227**	4,755
TOTAL TRADE AND OTHER RECEIVABLES		**142,558**	163,579

Trade receivables are non-interest bearing and are normally settled on 7 to 21 day terms. No allowance for impairment loss has been recognised as at 31 December 2016 (2015: nil). Trade and other receivables related party balances are disclosed in note 3.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

15 Cash and cash equivalents

P Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

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

	GROUP 2016 $000	GROUP 2015 $000
NET PROFIT AFTER INCOME TAX	**47,474**	150,931
Adjusted for:		
Depreciation and disposal costs	**87,233**	72,109
Gain on sale property, plant and equipment	**-**	(22)
Movement in deferred tax	**8,042**	11,460
Add/(less) deferred tax on items included in other comprehensive income	**1,412**	(853)
Movement in provisions	**578**	118
Movement between defined benefit pension plan employer contributions and expense	**2,190**	1,954
Other non-cash movements	**8**	755
Impact of changes in working capital items		
Increase in trade and other receivables	**17,808**	(2,940)
Increase in trade and other payables	**(30,164)**	22,814
Less increase in trade and other payables relating to property, plant and equipment	**14,203**	(12,283)
Less accrual relating to acquisition of non-controlling interest	**(1,644)**	-
Increase in employee entitlements	**306**	2,754
Less to other comprehensive income	**(75)**	(484)
Increase in income tax	**(17,509)**	21,126
Increase in inventories	**(2,082)**	(2,884)
NET CASH INFLOW FROM OPERATING ACTIVITIES	**127,780**	264,555

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

16 Inventories

P Inventories comprise spare parts and consumables, and are stated at the lower of cost, determined using the weighted average cost method, or net realisable value.

Inventories are classified as current assets where usage is expected to be within 12 months and as non-current assets where usage is expected after 12 months.

	GROUP 2016 $000	GROUP 2015 $000
INVENTORIES		
Current inventories:		
Inventories at weighted average cost	**2,884**	2,733
Obsolescence provision	**(555)**	(567)
Total current inventories	**2,329**	2,166
Non-current inventories:		
Inventories at weighted average cost	**21,607**	19,109
Obsolescence provision	**(4,092)**	(3,802)
Total non-current inventories	**17,515**	15,307
TOTAL INVENTORIES	**19,844**	17,473

E Inventories are reviewed annually for impairment. The inventory obsolescence depends on a number of assumptions, including age and condition of each individual inventory item. As at 31 December 2016 Management has written down the carrying value of some inventories to estimated net realisable value, taking into account the above assumptions.

The consumption of inventories and any associated write downs are recognised as part of materials expense disclosed in note 2.

Inventories are included in the negative pledge arrangement (refer note 8).

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

17 Trade and other payables

P Trade payables, including collected excise duty, are initially recognised at amounts payable. Provisions are recognised when the Group has a legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

	NOTE	GROUP 2016 $000	GROUP 2015 $000
Trade payables		**35,281**	35,786
Deconstruction provision		**-**	10,000
Excise duty	14	**105,651**	123,857
TOTAL TRADE AND OTHER PAYABLES		**140,932**	169,643

Trade payables are unsecured, non-interest bearing and are usually paid within 30 days of recognition.

The deconstruction provision related to the decommissioned Semi-Regeneration Platformer which the Group was obligated to complete, following the commissioning of the Continuous Catalyst Regeneration Platformer in 2015. The deconstruction of the Semi-Regeneration Platformer was completed in 2016.

Changes to excise duties have no direct impact on the results of the Group as they are collected from the oil companies (note 14) and paid to the New Zealand Customs Service on the same day each month.

Trade and other payables related party balances are disclosed in note 3.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

18 Employee benefits

Liabilities for employee benefits comprise the following:

GROUP	NOTE	2016 CURRENT $000	2016 NON - CURRENT $000	2016 TOTAL $000	2015 CURRENT $000	2015 NON - CURRENT $000	2015 TOTAL $000
Defined benefit pension plan	18(b)	**-**	**13,278**	**13,278**	-	6,597	6,597
Medical plan	18(b)	**170**	**5,534**	**5,704**	154	5,406	5,560
Wages, salaries, annual leave and sick leave		**5,455**	**-**	**5,455**	5,408	-	5,408
Employee incentive scheme		**3,664**	**-**	**3,664**	3,031	-	3,031
Long-service leave and retirement bonus		**1,048**	**5,456**	**6,504**	1,132	5,889	7,021
TOTAL		**10,337**	**24,268**	**34,605**	9,725	17,892	27,617

P **Defined benefit pension plan (scheme closed since 31 December 2002)**
The Parent contributes to a defined benefit pension plan (the 'Plan') for eligible employees. The liability recognised in the Balance Sheet in respect of the defined benefit pension plan is 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 annually by independent actuaries using the projected unit credit method. The present value of the defined benefit pension plan obligation is determined 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 Income Statement.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

18 Employee benefits cont.

P **Medical plan**
The Parent 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.

P **Wages, salaries, annual leave and sick leave**
These liabilities are measured at the amounts expected to be paid when settled.

P **Employee incentive schemes**
The Company offers a short-term incentive scheme to eligible employees which recognises both individual and Company performance. The Group recognises a provision where contractually obliged or where there is past practice that has created a constructive obligation.

P **Long-service leave and retirement bonus**
Long-service leave and retirement bonuses are measured based on an actuarial assessment and represent the present value of the estimated future cash outflows, which are expected as a result of employee services provided up to the balance sheet date.

(a) Defined benefit pension plan

Nature of benefits
At retirement, the 92 (2015: 107) active 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 31 December 2016 the Plan had 110 (2015: 106) pensioners receiving regular pension payments. There were also 6 (2015: 6) members receiving disability pensions, which can be paid from the Plan until normal retirement age.

Description of regulatory framework
The Financial Markets Authority licenses and supervises regulated superannuation schemes. The Fund transitioned from the Superannuation Schemes Act 1989 to the Financial Markets Conduct Act 2013 (the Act) on 11 November 2016 as an employer related restricted workplace savings scheme.

The Act requires an actuarial valuation to be performed for each defined benefit superannuation scheme at least every three years to assess whether the Company's current level of contributions to the Plan is sufficient to meet future obligations (funding valuation). For detail regarding the latest funding valuation see note 18(h).

At each balance date an accounting update is performed by an independent actuary in accordance with NZ IAS 19 'Employee Benefits' for recording in the Balance Sheet. The last full actuarial valuation performed under the Superannuation Schemes Act 1989 was as at 31 March 2016.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

18 Employee benefits cont.

Description of other entities' responsibilities for the governance of the Fund
The Trustees of the Fund are responsible for the governance of the Fund. The Trustees are appointed by the Company and have a legal obligation to act solely in the best interests of the Fund beneficiaries. The Trustees have the following roles:

- Administration of the Fund and payment to the beneficiaries from Plan assets when required in accordance with the Plan rules.
- Management and investment of the Plan assets.
- Compliance with superannuation law and other applicable regulations.

Description of risks
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. There are a number of risks that could expose the Company to such a shortfall; the more significant risks being:

- Investment returns – the funding valuation assumes a certain return on assets, which will be available to fund liabilities. Lower than assumed returns could require the Company to increase contributions to offset the shortfall.
- Life expectancy – the majority of the Plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the Plan's liabilities.

The Plan liabilities are calculated, for financial reporting purposes, using a discount rate 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.

Description of significant events
There were no Fund amendments, curtailments or settlements during 2016.

(b) Reconciliation of the medical plan and pension plan net liabilities

GROUP	NOTE	MEDICAL PLAN 2016 $000	MEDICAL PLAN 2015 $000	PENSION PLAN 2016 $000	PENSION PLAN 2015 $000
Present value of the defined benefit obligation	18(c)	**(5,704)**	(5,560)	**(95,741)**	(89,565)
Fair value of plan assets	18(c),18(d)	**-**	-	**86,845**	85,145
DEFICIT	18(c)	**(5,704)**	(5,560)	**(8,896)**	(4,420)
Contributions tax		**-**	-	**(4,382)**	(2,177)
LIABILITY IN THE BALANCE SHEET		**(5,704)**	(5,560)	**(13,278)**	(6,597)

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

18 Employee benefits cont.

(c) Movements in the net liabilities recognised in the Balance Sheet

GROUP	NOTE	MEDICAL PLAN PRESENT VALUE OF OBLIGATION $000	MEDICAL PLAN FAIR VALUE OF PLAN ASSETS $000	MEDICAL PLAN TOTAL $000	PENSION PLAN PRESENT VALUE OF OBLIGATION $000	PENSION PLAN FAIR VALUE OF PLAN ASSETS $000	PENSION PLAN TOTAL $000
NET LIABILITY AT 1 JANUARY 2015 EXCLUDING TAXES		(5,003)	-	(5,003)	(90,165)	81,227	(8,938)
Current service cost	18(j)	-	-	-	(2,147)	-	(2,147)
Interest (expense)/income	18(j)	(202)	-	(202)	(3,455)	3,126	(329)
Actual return on plan assets less interest income	18(k)	-	-	-	-	3,172	3,172
Actuarial gains/(losses):							
Actuarial gains arising from changes in demographic assumptions		52	-	52	2,801	-	2,801
Actuarial gains/(losses) arising from changes in financial assumptions		98	-	98	(1,208)	-	(1,208)
Actuarial gains/(losses) arising from liability experience		(634)	-	(634)	1,061	-	1,061
Defined benefit actuarial gain/(loss)	18(k)	(484)	-	(484)	2,654	-	2,654
Contributions:							
- Employers		-	129	129	-	1,168	1,168
- Plan participants		-	-	-	(669)	669	-
Benefits paid		129	(129)	-	4,054	(4,054)	-
Premiums and expenses paid		-	-	-	163	(163)	-
NET LIABILITY EXCLUDING TAXES 31 DECEMBER 2015		(5,560)	-	(5,560)	(89,565)	85,145	(4,420)

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

18 Employee benefits cont.

GROUP	NOTE	MEDICAL PLAN PRESENT VALUE OF OBLIGATION $000	MEDICAL PLAN FAIR VALUE OF PLAN ASSETS $000	MEDICAL PLAN TOTAL $000	PENSION PLAN PRESENT VALUE OF OBLIGATION $000	PENSION PLAN FAIR VALUE OF PLAN ASSETS $000	PENSION PLAN TOTAL $000
NET LIABILITY EXCLUDING TAXES 1 JANUARY 2016		**(5,560)**	**-**	**(5,560)**	**(89,565)**	**85,145**	**(4,420)**
Current service cost	18(j)	-	-	-	(1,966)	-	(1,966)
Interest (expense)/income	18(j)	(230)	-	(230)	(3,288)	3,129	(159)
Actual return on plan assets less interest income	18(k)	-	-	-	-	1,540	1,540
Actuarial gains/(losses):							
Actuarial losses arising from changes in demographic assumptions		-	-	-	(2,265)	-	(2,265)
Actuarial losses arising from changes in financial assumptions		(188)	-	(188)	(686)	-	(686)
Actuarial gains/(losses) arising from liability experience		113	-	113	(1,598)	-	(1,598)
Defined benefit actuarial loss	18(k)	(75)	-	(75)	(4,549)	-	(4,549)
Contributions:							
- Employers		-	161	161	-	658	658
- Plan participants		-	-	-	(630)	630	-
Benefits paid		161	(161)	-	3,986	(3,986)	-
Premiums and expenses paid		-	-	-	271	(271)	-
NET LIABILITY EXCLUDING TAXES 31 DECEMBER 2016		**(5,704)**	**-**	**(5,704)**	**(95,741)**	**86,845**	**(8,896)**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

18 Employee benefits cont.

(d) Fair value of defined benefit pension plan assets

GROUP	SIGNIFICANT OBSERVABLE INPUTS LEVEL 2 $000
Net current assets/(liabilities)	**(85)**
Debt instruments	**9,364**
Investment Funds – Composite Funds	**77,566**
TOTAL ASSETS	**86,845**

The percentage invested in each asset class at the Balance Sheet date are:

GROUP	PENSION PLAN 2016	PENSION PLAN 2015
Australasian Equity	**9.9%**	11.0%
International Equity	**28.5%**	28.2%
Fixed Income	**34.6%**	34.6%
Cash	**10.8%**	10.1%
Property and Infrastructure	**16.2%**	16.1%

The fair value of plan assets includes no amounts relating to:

- Any of the Group's own financial instruments
- Any property occupied, or other assets used, by the Group.

(e) Principal actuarial assumptions at the balance sheet date

E

The present value of the defined benefit pension plan obligation depends on a number of factors that are determined by an independent actuary using a number of assumptions, including the expected rate of salary increases, mortality in retirement and an appropriate discount rate. These assumptions are determined by the Group, in consultation with the independent actuary who performs an accounting valuation in accordance with IAS 19 'Employee Benefits' at each balance sheet date. Any changes in these assumptions will impact the carrying amount of pension obligations.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

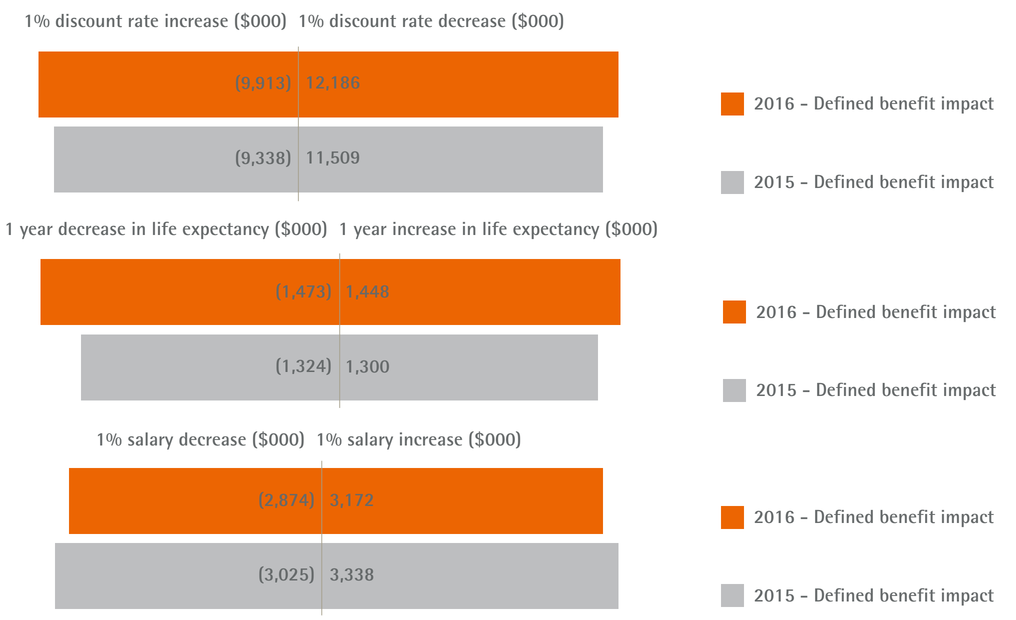
18 Employee benefits cont.

As at 31 December 2016 the following actuarial assumptions were applied:

GROUP	2016 MEDICAL PLAN	2016 PENSION PLAN	2015 MEDICAL PLAN	2015 PENSION PLAN
Discount rate	**4.0%**	**3.6%**	4.2%	3.8%
Expected rate of future salary increases	**-**	**2.5%**	-	3.0%
Pension increases	**-**	**No provision**	-	No provision
Mortality in retirement		New Zealand Life Tables 2012-2014 mortality table, set back by 1 year, together with an age related future mortality improvement scale		
Health insurance premium increase rate	**7.0%**	**-**	7.0%	-
Rate of Fringe Benefit Tax	**49.25%**	**-**	49.25%	-

(f) Sensitivity analysis – pension plan

The sensitivity of the defined benefit obligation to changes in the principal assumptions is shown in the graphs below.



The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

The methods and types of assumptions used in preparing the sensitivity analysis are consistent with those applied during the comparative reporting period.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

18 Employee benefits cont.

(g) Maturity profile of defined benefit obligation

The average term at which the expected future discounted cash flows are due is 11.8 years (2015: 12 years). The average undiscounted expected term of all liabilities is 16.1 years (2015: 16.7 years).

(h) Funding arrangements

The Actuary determines the Pension Plan's financial position (funding valuation) every three years in accordance with the Financial Markets Conduct Act 2013 and formerly the Superannuation Schemes Act 1989. The last funding valuation was completed as at 31 March 2016, at which time the Plan was fully funded based on the assumptions used by the Actuary. These assumptions were consistent with the actuarial assumptions presented in the note 18(e), except for the discount rate determined based on the expected long-term future returns of the plan rather than the risk free rate of return.

The funding objective adopted at the 31 March 2016 funding valuation is to ensure that the Fund's assets are not less than the value of accrued benefits.

In that investigation, the recommended Company contributions to the Fund were at a rate of 8% of the salaries of the members including contributions tax at 33%. The Company accepted this recommendation and has continued to contribute at a rate of 8% of members' salaries.

The next statutory valuation is due no later than as at 31 March 2019.

(i) Expected contributions

FINANCIAL YEAR ENDING	MEDICAL PLAN 2017 $000	PENSION PLAN 2017 $000
Expected employer contributions (net)	**170**	**507**

(j) Amounts recognised in the Income Statement

GROUP	MEDICAL PLAN 2016 $000	MEDICAL PLAN 2015 $000	PENSION PLAN 2016 $000	PENSION PLAN 2015 $000
Service cost	**-**	-	**1,966**	2,147
Net interest cost	**230**	202	**159**	329
Plan expense	**230**	202	**2,125**	2,476
Contributions tax	**-**	-	**1,047**	1,220
PLAN EXPENSE PLUS TAXES	**230**	202	**3,172**	3,696

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

18 Employee benefits cont.

(k) Amounts recognised in the Statement of Comprehensive Income

GROUP	2016 $000	2015 $000
Defined benefit actuarial (loss)/gain	**(4,549)**	2,654
Actual return on plan assets less interest income	**1,540**	3,172
Actuarial loss on medical scheme	**(75)**	(484)
Total recognised in other comprehensive income	**(3,084)**	5,342
Contributions tax	**(1,482)**	2,871
TOTAL RECOGNISED IN OTHER COMPREHENSIVE INCOME WITH CONTRIBUTIONS TAX	**(4,566)**	8,213

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

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 19:	Financial risk management
Note 20:	Derivative financial instruments

19 Financial risk management

The Group's activities expose it to a variety of financial risks (market, credit and liquidity) in the normal course of the Group's business.

Risk management is performed by Group Management who evaluate and hedge certain financial risks including currency risk and interest rate risk under a Treasury Policy that is approved by the Board of Directors.

a) MARKET RISK
Market risk includes refining margin, electricity pricing, currency and interest rate risk.

Refining margin risk
The refining margin (margin) generated by the Group is a key input to the calculation of the processing fee, representing the Group's income, set at 70% of the margin generated, subject to a fee floor of $130 million (2015: $128 million), and margin cap of USD 9.00 per barrel for each customer. This reflects that Refining NZ's customers bear the risks and associated costs of crude purchasing, the finance and currency costs and risks associated with maintaining crude, feedstock and product inventories, shipping and demurrage risks and guaranteeing a minimum processing fee.

The margin is calculated as the typical market value of all the products produced, minus the typical market value of all feedstock processed. The typical market value of products is determined by using quoted prices for the products in Singapore plus the typical freight cost to New Zealand plus product quality premia. The typical value of feedstock is determined by using the market value for crude oil and other feedstock at the point of purchase, plus the typical cost of freight to New Zealand.

Refining margin risk is the risk of volatility in the typical product and feedstock prices to which the Group is exposed. The Group's revenue is likely to be impacted, favourably or unfavourably, during periods of market price volatility. The Group does not hedge this risk. The downside in the volatility of margin and foreign exchange risk is limited by the processing fee floor, which comes into effect if the total processing fee for a calendar year does not exceed a minimum value. The fee floor is subject to annual Producers Price Index (PPI) based escalation.

Electricity
The Group is also exposed to commodity price risk in relation to the purchase of electricity. This exposure exists as a result of the Group purchasing electricity via the New Zealand Electricity Wholesale Market, which is subject to price volatility caused by both demand/supply and transmission constraints. The Group has entered into contracts with a fixed unit price for 2016 in order to mitigate the volatility.

Currency risk
The Group is exposed to foreign exchange risk as a result of transactions denominated in currencies other that the Group's functional currencies. The primary currencies giving rise to the currency risk are US dollar, Pounds Sterling, Euro and Australian dollar. Currency risk arises from the processing fee (being calculated in US dollars and billed in New Zealand dollars) and future commercial transactions (purchase of property, plant and equipment, goods or services).

The Group may enter into hedging agreements with Board approval and in accordance with the Group's Treasury Policy which requires all purchases of all capital items of value exceeding certain thresholds to be hedged with either forward exchange contracts or currency options.

Notes to the Financial Statements

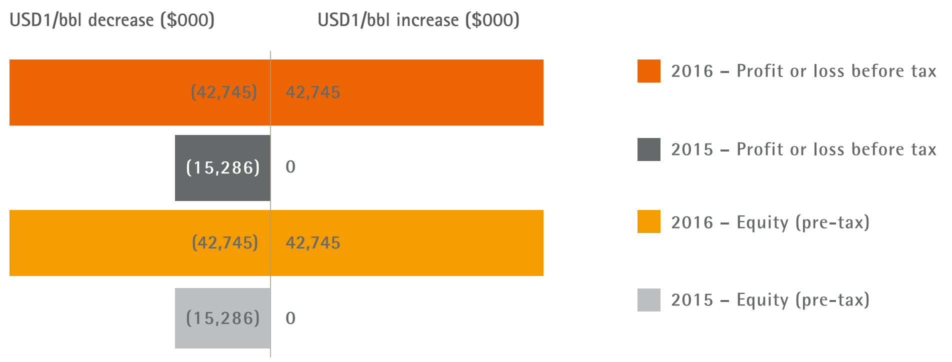
FOR THE YEAR ENDED 31 DECEMBER 2016

19 Financial risk management cont.

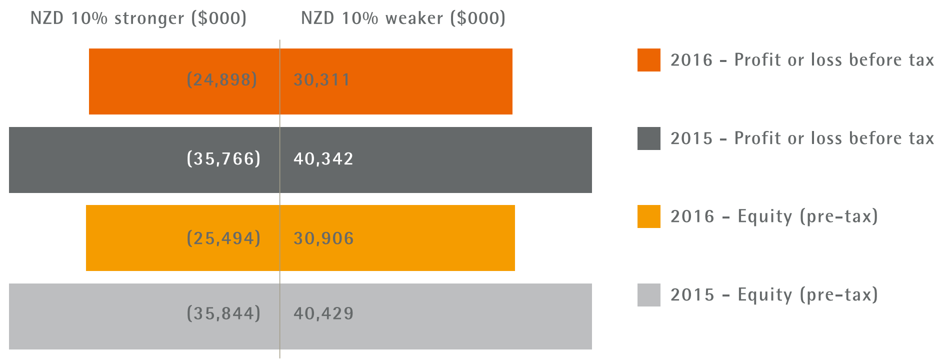
Interest rate risk
The Group's interest rate risk arises from fixed term borrowings at floating interest rates. The Group uses interest rate swaps to manage the interest rate risk.

Sensitivity analysis
The graphs below summarise the potential impact of each type of market risk exposures on the Group's profit before tax and equity (assuming all other factors remain unchanged), except for electricity risk which was effectively acquired at fixed price in 2016:

- **Price risk** - an increase and decrease of refining margin by USD 1.00 per barrel.



- **Currency risk** - the sensitivity analysis is presented based on the impact of the New Zealand dollar weakening or strengthening against other foreign currencies. A 10% movement in foreign currencies is considered as reasonably possible given the volatility in foreign exchange rates in the prior years.

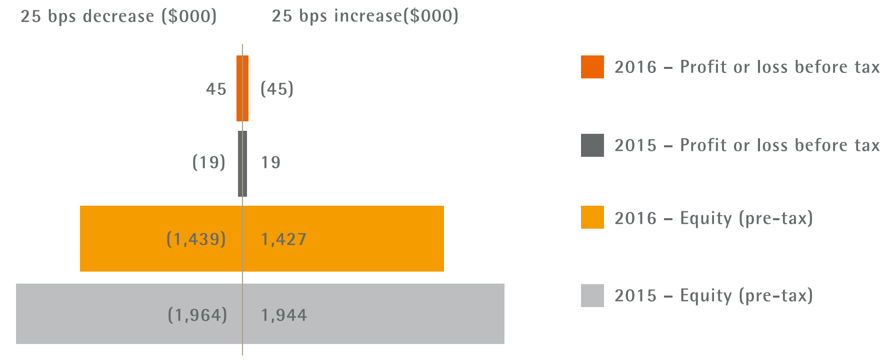


Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

19 Financial risk management cont.

- **Interest rate risk** – change in interest rates by 25 basis points (bps) is considered by the Group reasonably possible over the short term.



b) CREDIT RISK
Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers from outstanding receivables and committed transactions.

For banks and financial institutions only parties with a minimum long-term Standard and Poor's rating of A+ or A1 are accepted. Gross limits are set for financial institutions and the usage of these limits is determined by assigning product weightings to the principal amount of the transaction.

Transactions are spread across a number of counterparties to avoid concentrations of credit exposure. No credit limits were exceeded during the reporting period and Management does not expect any losses from non-performance by counterparties.

The receivables the oil companies (as disclosed in the related party note 3) present a concentration of credit risk, however, Management has assessed the credit quality of these customers as being high. No collateral is held over receivables.

The maximum exposure to credit risk at balance sheet date is the carrying amount of the financial assets.

Overdue trade receivable balances at 31 December 2016 totalled $126 thousand (2015: $40 thousand). Management consider that these balances are not impaired.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

19 Financial risk management cont.

c) LIQUIDITY RISK

The Group monitors rolling forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on the Group's undrawn borrowing facilities (note 8).

Surplus cash held by the Group over and above the balance required for working capital management is invested in interest bearing current accounts, term deposits, and money market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts.

Non-derivative financial liabilities

The following table sets out the maturity analysis for non-derivative financial liabilities based on the contractual terms as at balance date. The amounts presented are the contractual undiscounted cash flows, therefore consequently do not reconcile to the carrying amounts as per the consolidated balance sheet, and maturity dates for bank borrowings are based on the next rollover date of the draw-downs, rather than the expiry of the facility.

The liquidity analysis set out below, discloses cash outflows resulting from the financial liabilities only, and does not consider expected net cash inflows from financial assets (including trade receivables) or undrawn debt facilities which provide liquidity support to the Group.

GROUP 2016	CARRYING AMOUNT $000	CONTRACTUAL CASH FLOWS LESS THAN 6 MONTHS $000	BETWEEN 6 MONTHS -1 YEAR $000	BETWEEN 1-2 YEARS $000	BETWEEN 2-5 YEARS $000	OVER 5 YEARS $000	TOTAL CASH FLOWS $000
NON-DERIVATIVE FINANCIAL LIABILITIES							
Trade and other payables	**(35,282)**	**(35,282)**	**-**	**-**	**-**	**-**	**(35,282)**
Bank borrowings	**(219,500)**	**(221,401)**	**-**	**-**	**-**	**-**	**(221,401)**
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**(254,782)**	**(256,683)**	**-**	**-**	**-**	**-**	**(256,683)**

GROUP 2015	CARRYING AMOUNT $000	CONTRACTUAL CASH FLOWS LESS THAN 6 MONTHS $000	BETWEEN 6 MONTHS -1 YEAR $000	BETWEEN 1-2 YEARS $000	BETWEEN 2-5 YEARS $000	OVER 5 YEARS $000	TOTAL CASH FLOWS $000
NON-DERIVATIVE FINANCIAL LIABILITIES							
Trade and other payables	(45,786)	(45,786)	-	-	-	-	(45,786)
Liabilities of disposal group	(1,455)	(1,455)					(1,455)
Bank borrowings	(200,000)	(202,191)	-	-	-	-	(202,191)
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	(247,241)	(249,432)	-	-	-	-	(249,432)

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

19 Financial risk management cont.

Derivative financial liabilities

The table below details the liquidity risk arising from derivative liabilities held by the Group at balance date. Derivative financial liabilities are split into the gross settled derivatives which include foreign exchange forward contracts with the inflow being based on the foreign currency converted at the closing spot rate, and the net settled derivatives which include interest rate swaps with the floating rate being based on the most recent rate set.

GROUP 2016	CARRYING AMOUNT $000	CONTRACTUAL CASH FLOWS LESS THAN 6 MONTHS $000	BETWEEN 6 MONTHS -1 YEAR $000	BETWEEN 1-2 YEARS $000	BETWEEN 2-5 YEARS $000	OVER 5 YEARS $000	TOTAL CASH FLOWS $000
DERIVATIVE FINANCIAL INSTRUMENTS							
Net settled derivatives	**(10,819)**	**(2,324)**	**(2,310)**	**(4,232)**	**(6,903)**	**-**	**(15,769)**
Gross settled derivatives							
Outflows	**-**	**(3,089)**	**(2,175)**	**(847)**	**-**	**-**	**(6,111)**
Inflows	**-**	**2,996**	**2,079**	**802**	**-**	**-**	**5,877**
Total gross settled derivatives	**(77)**	**(93)**	**(96)**	**(45)**	**-**	**-**	**(234)**
TOTAL DERIVATIVE FINANCIAL LIABILITIES	**(10,896)**	**(2,417)**	**(2,406)**	**(4,277)**	**(6,903)**	**-**	**(16,003)**

GROUP 2015	CARRYING AMOUNT $000	CONTRACTUAL CASH FLOWS LESS THAN 6 MONTHS $000	BETWEEN 6 MONTHS - 1 YEAR $000	BETWEEN 1-2 YEARS $000	BETWEEN 2-5 YEARS $000	OVER 5 YEARS $000	TOTAL CASH FLOWS $000
DERIVATIVE FINANCIAL INSTRUMENTS							
Net settled derivatives	(10,415)	(1,581)	(1,581)	(3,159)	(8,137)	-	(14,458)
Gross settled derivatives							
Outflows	-	(953)	-	-	-	-	(953)
Inflows	-	942	-	-	-	-	942
Total gross settled derivatives	(6)	(11)	-	-	-	-	(11)
TOTAL DERIVATIVE FINANCIAL LIABILITIES	(10,421)	(1,592)	(1,581)	(3,159)	(8,137)	-	(14,469)

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

19 Financial risk management cont.

d) FAIR VALUE ESTIMATION

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 2 (2015: level 2).

Interest rate swaps and forward foreign exchange contracts are not traded in an active market and their fair value is determined by using accepted 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.

20 Derivative financial instruments

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The fair value of financial assets and liabilities approximates their carrying value. The derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge). The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in other operating gains/losses in the Income Statement.

The net movement in the cash flow hedge reserve comprises:

GROUP	2016 $000	2015 $000
Foreign exchange hedges transferred to property, plant and equipment	-	150
Foreign exchange contracts entered into during the year	**(67)**	(17)
Movement in value of foreign exchange contracts held throughout the year	**(5)**	104
Movement in value of interest rate swaps held throughout the year	**(404)**	(5,404)
Net movement in cash flow hedge reserve	**(476)**	(5,167)

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

20 Derivative financial instruments cont.

P

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months.

GROUP	2016 ASSETS $000	2016 LIABILITIES $000	2015 ASSETS $000	2015 LIABILITIES $000
Cash flow hedges:				
- forward foreign exchange contracts	**-**	**(69)**	-	(6)
- interest rate swaps	**-**	**(265)**	-	-
TOTAL CURRENT PORTION	**-**	**(334)**	-	(6)
Cash flow hedges:				
- forward foreign exchange contracts	**-**	**(9)**	-	-
- interest rate swaps	**-**	**(10,554)**	-	(10,415)
TOTAL NON-CURRENT PORTION	**-**	**(10,563)**	-	(10,415)

At balance sheet date all contracts had been designated as hedges and there was no ineffectiveness to be recorded from cash flow hedges.

At 31 December 2016 the Group had entered into forward exchange contracts to sell the equivalent of $6.110 million (2015: $0.953 million). The forward exchange contracts are hedging committed or highly probable forecast purchases of property, plant and equipment denominated in foreign currency expected to occur at various dates with maturities up to February 2018. The forward exchange contracts are timed to mature when the liability is scheduled to be settled.

Interest rate swaps are hedging highly probable cash flows associated with interest costs on borrowings and are used to convert floating rate positions into fixed rate positions. At 31 December 2016 the notional principal amounts of the outstanding interest rate swap contracts were $200 million (2015: $200 million), with final expiry dates in 2020. Fixed interest rates vary from 3.01% to 4.84% (2015: 3.01% to 4.84%) and the floating rates are Bank Bill Market (BKBM).

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

20 Derivative financial instruments cont.

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:

Note 21: Employee share-based payments

Note 22: Contingent liabilities

21 Employee share-based payments

P Share-based payments with employees, classified as equity-settled transactions, are recognised as an expense with a corresponding entry to employee share entitlement reserve, and measured at the fair value of the equity instruments granted at grant date. The amount recognised as an expense is adjusted to reflect the number of shares that will ultimately vest over the vesting period. The shares purchased by the Parent on market are accounted for as Treasury Stock.

The Company operates an Employee Share Purchase Scheme ('scheme') approved by the Inland Revenue Department as a Section DC 12 share scheme under the Income Tax Act 2007.

Eligible employees are offered $1,000 worth of shares, multiplied by the Business Performance Factor (BPF) during the year of award and increased by an employee contribution of $1. The shares are purchased on-market and held by CRS Nominees Limited, during a three year vesting period.

On 7 April 2016, 317 eligible employees were offered $1,026 worth of shares (represented by a Company contribution of $1,025 and increased by an employee contribution of $1) in respect of the 2015 financial year's performance. With regards to the 2015 share offering, on 21 April 2016 the Parent acquired 98,025 shares on-market at an average price of $3.14 per share ($308 thousand). The shares will vest over a three-year period ending on 21 April 2019.

As at 31 December 2016 a total of $153 thousand (2015: $75 thousand) had been recognised as an expense relating to the share-based payments.

22 Contingent liabilities

The Group has no contingent liabilities at 31 December 2016 (2015: nil).

Independent Auditor's Report

TO THE SHAREHOLDERS OF THE NEW ZEALAND REFINING COMPANY LIMITED

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The consolidated financial statements comprise:

- the balance sheet as at 31 December 2016;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements.

OUR OPINION

In our opinion, the consolidated financial statements of The New Zealand Refining Company (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 December 2016, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

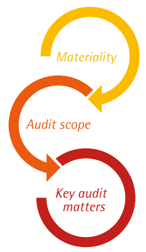
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of scrutineering at the Annual General Meeting, compliance assurance services on processing fees and consulting services on director fee benchmarking. The provision of these other services has not impaired our independence as auditors of the Group.

OUR AUDIT APPROACH

OVERVIEW



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall group materiality: $3.4 million, which represents 5% of a five-year weighted average of profit before tax from 2012 to 2016.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We applied a weighted average approach due to the volatility of earnings over the past five years, caused mainly by significant changes in US dollar denominated refiners' margins and the NZ dollar/US dollar exchange rate.

- Recognition of processing fees
- Useful life of Te Mahi Hou

MATERIALITY

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Independent Auditor's Report

TO THE SHAREHOLDERS OF THE NEW ZEALAND REFINING COMPANY LIMITED

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AUDIT SCOPE

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry industries in which the Group operates.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
RECOGNITION OF PROCESSING FEES Processing fees are the Group's main source of revenue, and represent material related party transactions with the Group's shareholding oil companies. Processing fee revenue for 2016 was \$276.6 million (2015: \$379.1 million). We focused on this area because the processing fee calculation is complex and includes many variables, so there is a risk that processing fees may be calculated inaccurately. Refer to notes 2 and 3 of the financial statements for details of accounting policies and an analysis of processing fee revenue. Refer to note 19(a) which discusses the method of calculation of the refining margin.	Our audit procedures included a combination of controls and substantive testing to test processing fees revenue. We tested controls over access restriction to the processing fee calculation, and review controls performed by management. On a sample basis, we then agreed calculation inputs to source documentation and reperformed the calculation of the gross refining margin for each of the major oil companies for selected months. We also agreed the processing fee formula used to recognise revenue to the processing fee agreement and tested the payments received from the oil companies during the year. Finally, we agreed post year-end cash receipts from each of the oil companies to the outstanding receivables at year end.
USEFUL LIFE OF TE MAHI HOU Property, plant and equipment represents the largest balance in the Group's balance sheet amounting to \$1.13 billion at year end. In 2016, the Te Mahi Hou platformer became fully operational. The total cost of the new platformer was \$425.5 million and depreciation of \$16.5 million was recorded for the year. In 2015, we checked that management's cost allocation methodology applied to the new platformer was consistent with the measurement criteria in NZ International Accounting Standard 16, Property, plant and equipment. We also tested a sample of capitalised costs to check that capitalisation was justifiable. Our audit in 2016 focused on the useful life of Te Mahi Hou which management determined by identifying the major functional components of the asset and engaging internal engineering experts to estimate the appropriate useful life of each component. This was a focus area of the audit because of the significant degree of estimation involved in determining these useful lives. Refer to note 9 of the financial statements.	We performed the below described audit procedures to satisfy ourselves that management's estimation of the useful lives of the new platformer remains appropriate. We assessed the competence, capabilities and objectivity of the internal engineering experts who estimated the useful lives. We compared the overall useful life of Te Mahi Hou to a sample of other refineries. Our procedures included comparing the useful life of Te Mahi Hou against industry averages of other offshore refineries. We selected a sample of Te Mahi Hou costs to check that they were classified in the correct asset component category and compared the depreciation rate and useful life used to the Group's accounting policy. We then recalculated the depreciation expense recognised during the year by dividing each asset category component by its equivalent useful life and did not identify significant variances. Finally, we performed an overall sense check on the total Te Mahi Hou depreciation expense by dividing the amount by the total cost of the new platformer and found that the implied overall useful life approximated the design life of the platformer of 25 years.

Independent Auditor's Report

TO THE SHAREHOLDERS OF THE NEW ZEALAND REFINING COMPANY LIMITED

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INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard except that the other information has not yet been approved by the Board.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https: //xrb.govt.nz/Site/Auditing Assurance Standards/Current Standards/Page1.aspx

This description forms part of our auditor's report.

WHO WE REPORT TO

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Pip Cameron. For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
27 February 2017

AUCKLAND

Trend Statement

FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL PERFORMANCE	2016 $000	2015 $000	2014 $000	2013 $000	2012 RESTATED $000
Total income	**354,156**	446,771	233,019	223,199	278,513
Total expenses	**274,136**	234,354	216,549	228,775	232,162
Net profit/(loss) before finance cost and income tax	**80,020**	212,417	16,470	(5,576)	46,351
Net finance cost	**15,526**	2,755	2,480	1,237	3,214
Net profit/(loss) before income tax	**64,494**	209,662	13,990	(6,813)	43,137
Income tax	**17,020**	58,731	3,967	(1,862)	12,084
Net profit/(loss) after income tax	**47,474**	150,931	10,023	(4,951)	31,053

FINANCIAL POSITION	2016 $000	2015 $000	2014 $000	2013 $000	2012 RESTATED $000
Funds employed					
Contributed equity	**265,771**	265,771	265,771	212,400	212,400
Retained profits	**494,358**	523,125	382,068	378,960	379,872
Other	**(7,926)**	(6,701)	(3,160)	(259)	(3,819)
Total equity	**752,203**	782,195	644,679	591,101	588,453
Loan funds – non-current	**150,000**	175,000	316,000	228,000	62,000
Other non-current liabilities	**163,025**	147,880	137,289	123,293	147,638
Total funds employed	**1,065,228**	1,105,075	1,097,968	942,394	798,091
Funds utilised					
Non-current assets	**1,143,037**	1,153,142	1,088,462	942,444	802,766
Working capital^	**(77,809)**	(48,067)	9,506	(50)	(4,675)
Total funds utilised	**1,065,228**	1,105,075	1,097,968	942,394	798,091

^ 2016 INCLUDES $69.5M (2015:$25M) OF LOAN FACILITIES EXPIRING IN JUNE 2017 (2015:JUNE 2016). THE PARENT HAS THE ABILITY TO DETERMINE WHICH REVOLVING CASH ADVANCE FACILITY TO DRAW UPON TO MEET FUNDING REQUIREMENTS. THE FACILITIES EXPIRING IN JUNE 2017 ARE IN THE PROCESS OF BEING RENEWED (REFER NOTE 8).

Trend Statement

FOR THE YEAR ENDED 31 DECEMBER 2016

ANALYTICAL INFORMATION	2016 $000	2015 $000	2014 $000	2013 $000	2012 RESTATED $000
Number of shareholders	**5,156**	4,511	3,551	3,639	3,756
Earnings per share ($)*	**0.151**	0.482	0.032	(0.018)	0.111
Effective tax rate (%)	**26**	28	28	28	28
Net asset backing per share ($)*	**2.43**	2.53	2.08	2.11	2.12
Working capital ratio	**0.7**	0.8	1.1	1.0	1.0

DIVIDEND INFORMATION**	2016 $000	2015 $000	2014 $000	2013 $000	2012 RESTATED $000
Dividend per share (cents)	**6**	25	-	2	7
Dividend declared ($000)	**28,134**	78,144	-	5,600	19,600
Dividends declared per share					
- interim (paid 22 September 2016)	**3.0 cps**	5.0 cps	-	2.0 cps	2.0 cps
- final (payable 30 March 2017)	**6.0 cps**	20.0 cps	-	-	5.0 cps
Dividend cover	**1.69**	1.93	-	(0.88)	1.58

MANUFACTURING	2016 $000	2015 $000	2014 $000	2013 $000	2012 RESTATED $000
Barrels processed – intake (000s barrels)	**42,665**	42,639	39,676	40,602	42,118
Gross refining margin (USD/barrel)	**6.47**	9.20	4.96	4.58	5.77
USD exchange rate (NZD)	**0.70**	0.70	0.82	0.82	0.81
Pipeline throughput (000s barrels)	**20,147**	18,449	17,990	17,520	17,435

* EARNINGS PER SHARE FOR 2014 IS BASED ON A WEIGHTED AVERAGE CALCULATION OF SHARES.
** DIVIDEND INFORMATION IS STATED IN THE YEAR TO WHICH IT RELATES, RATHER THAN WHEN PAID.

Glossary

TRCF (Total Recordable Case Frequency) Total Recordable Case Frequency. The sum of injuries resulting in fatalities, permanent total disabilities, lost workday cases and medical treatment cases per two hundred thousand hours worked.

LTIF (Lost Time Injury Frequency) The sum of work related injury cases per two hundred thousand hours worked, where the injured person is deemed medically unfit for any work as a result of the injury.

Free cash flow calculated as operating cash flow minus capital expenditures.

A Tier 1 Process Safety Event (PSE) is an unplanned or uncontrolled release of any material, including non-toxic and non-flammable, from a process which results in one or more of the following: an LTI and/or fatality; a fire or explosion resulting in greater than or equal to $25,000 of direct cost to the company; a release of material greater than the threshold quantities given in Table 1 of API 754 in any one-hour period; an officially declared community evacuation or community shelter-in-place.

A Tier 2 Process Safety Event (PSE) is an unplanned or uncontrolled release of any material, including non-toxic and non-flammable, from a process which results in one or more of the following: a recordable injury; a fire or explosion resulting in greater than or equal to $2,500 of direct cost to the company; a release of material greater than the threshold quantities given in Table 2 of API 754 in any one-hour period.

Corporate directory

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Whangarei

Mailing Address
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Whangarei 0148
Telephone: +64 9 432 5100

Website
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Share Register
Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
Telephone: + 64 9 488 8777
enquiry@computershare.co.nz

Bankers
ANZ Bank New Zealand Limited
Bank of New Zealand
The Bank of Tokyo-Mitsubishi UFJ, Limited

Legal Advisers
Minter Ellison Rudd Watts
Chancery Green

Auditor
PricewaterhouseCoopers

Chairman
S C Allen (independent director)

INDEPENDENT Directors
P M Springford (resigned 7 December 2016)
V C M Stoddart
M Tume
P A Zealand (from 29 August 2016)

NON-INDEPENDENT DIRECTORS
M J Bennetts
S J Brown (resigned 6 May 2016)
M H Elliott
T J Wall (resigned 10 February 2016)
A T Warrell (resigned 13 March 2017)

Alternate Directors
J R Crawford (ceased 13 March 2017)

Chief Executive Officer
S Post

Company Secretary
D M Jensen

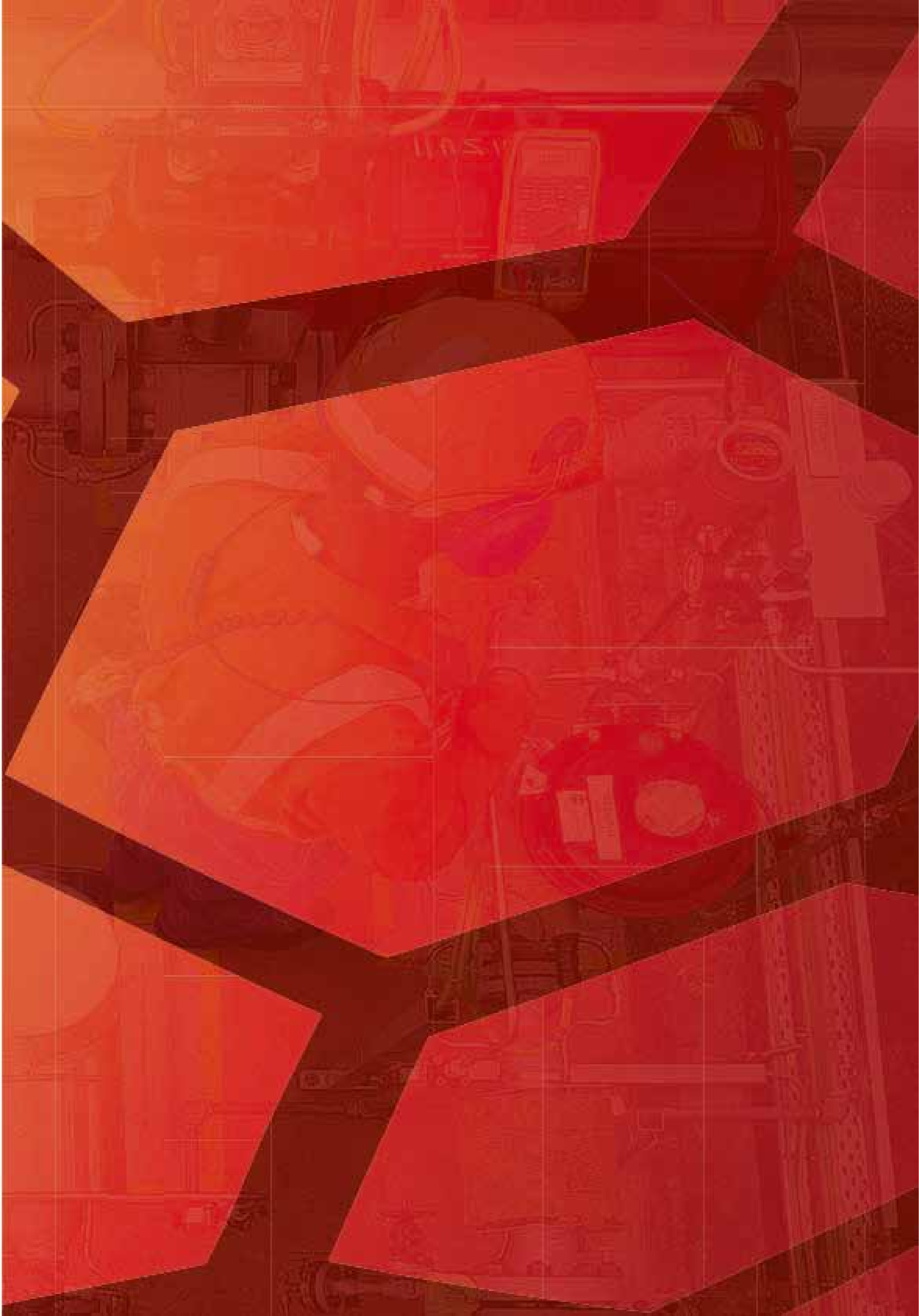
Financial calendar

Annual General Meeting
Wednesday 3 May at 2:00pm
Meeting Room – Top of the Town
Pullman Hotel
Corner Princes Street and
Waterloo Quadrant
Auckland 1010

Proxies lodged
By 2:00pm 1 May 2017

2017 results announced
Half year – August 2017
Annual – Late February 2018

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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Your Energy Hive

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