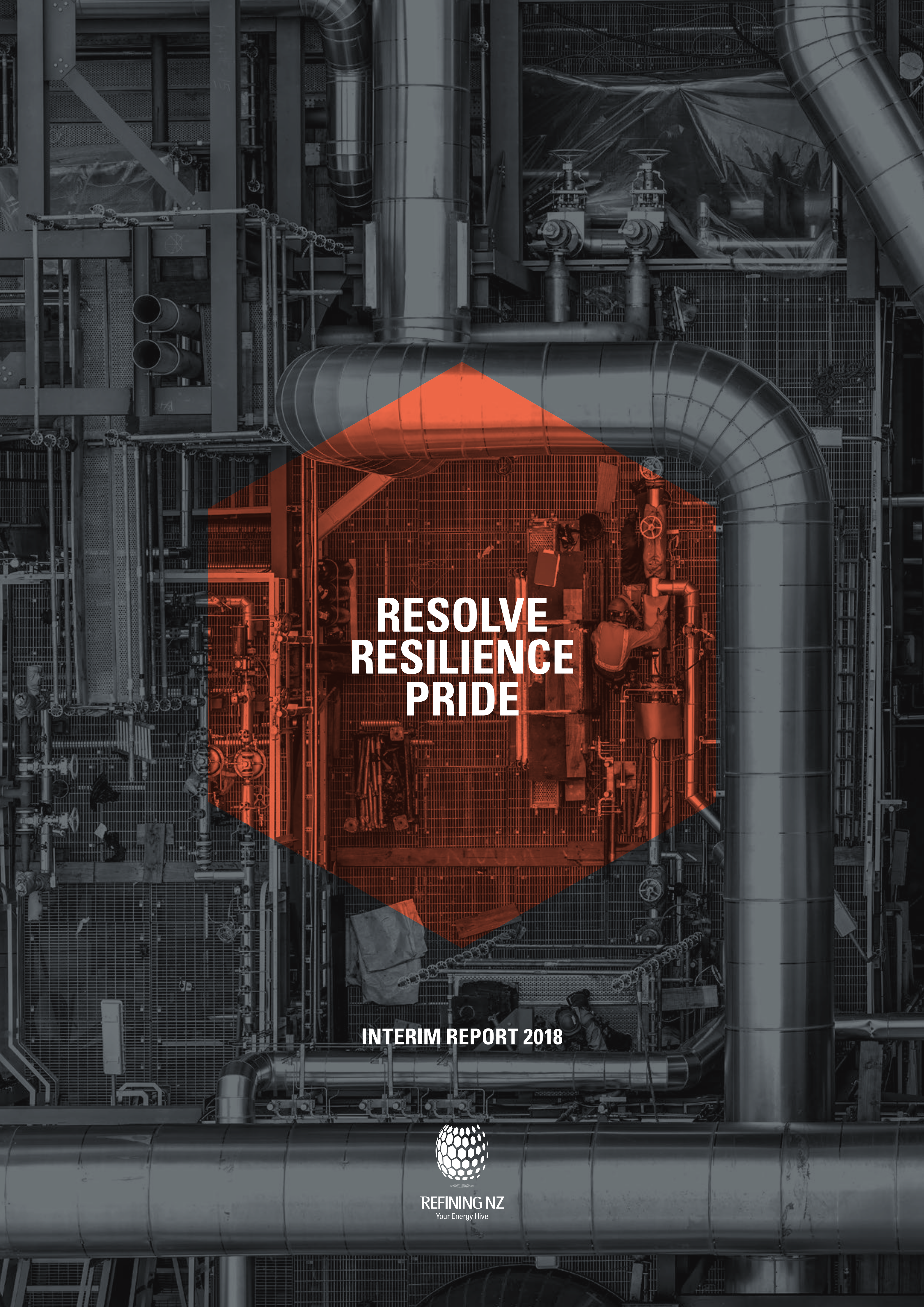


RESOLVE RESILIENCE PRIDE

INTERIM REPORT 2018

REFINING NZ
Your Energy Hive

CONTENTS

ABOUT THIS REPORT

This Interim Report of The New Zealand Refining Company Limited and its subsidiary, Independent Petroleum Laboratory Limited, is for the six-month period ended 30 June 2018 and was approved for issue by the Board of Directors on 22 August 2018.

The Company trades as Refining NZ and so references to this name relate to the Company as a legal entity.

For and on behalf of the Board:

S C Allen
Director

M Tume
Director

21 September 2018

PERFORMANCE HIGHLIGHTS 2018

	GROUP 30 JUNE 2018 $000	GROUP 30 JUNE 2017 $000
OPERATING RESULTS		
Operating revenue ($000)	**147,029**	190,567
Net (loss)/profit before income tax ($000)	**(3,320)**	49,086
Net (loss)/profit after income tax ($000)	**(2,822)**	35,193
SHARE INDICATORS		
Net tangible assets per security*	**$2.41**	$2.47
Earnings per share (annualised)	**(2) cents**	22 cents
NUMBERS		
Shareholders	**4,894**	5,195
Employees	**385**	377

* Net tangible assets per security is a non-GAAP performance measure. It is calculated as 'net assets' disclosed in the balance sheet, minus intangible assets, and plus or minus the value of derivative instruments, divided by the number of shares on issue at the end of the reporting period.

Processing Fee Revenue

- Revenue earned from processing fees is the main component of Operating Revenue as disclosed in note 1 of the Condensed Consolidated Interim Financial Statements.
- Processing Fees earned for the six months ended 30 June 2018 were 36% lower than the previous corresponding financial period largely due to the impact of the planned refinery shutdown executed in 1H18.
- The Company's processing fee revenue is impacted by the refiners' margin (difference between product and feedstock prices in the international markets), volume of feedstock processed and the exchange rate.

The key variables for the six months ended 30 June can be summarised as follows:

	30 JUNE 2018 $000	30 JUNE 2017 $000
KEY VARIABLES		
Intake ('000 Barrels)	**17,879**	20,055
Gross Refining Margin (USD/Barrel)	**5.65**	7.70
Average USD Exchange rate	**0.73**	0.71

CHAIRMAN'S REPORT

Refining NZ has reported an interim Net Loss after Tax of $2.8 million for the six months ending 30 June 2018 (Net Profit after Tax for 1H 2017: $35.2 million), on the back of the first total refinery maintenance shutdown in 15 years.

The shutdown was a significant achievement for the Company. Everyone in our team deserves full credit for completing over 1,700 individual jobs to a high quality in unseasonably cold weather. This included two complex retrofits – the mid-section replacement of the high vacuum unit and the re-lifing of the hydrogen manufacturing unit.

PERFORMANCE

Refining margins were healthy in the first six months of the year. The Gross Refinery Margin at USD 5.65 per barrel (1H 2017: USD 7.70 per barrel), remained within the Company's historical average margin range of USD 4-6 per barrel. Our average uplift over the Singapore Complex Margin at USD 2.42 per barrel (1H 2017: USD 4.59 per barrel) reflected the impact of the shutdown. We achieved a throughput of 17.9 million barrels (1H 2017: 20.1 million barrels). With the return to the full and reliable operation of the refinery's processing units we expect to capitalise on continuing healthy refining margins in the second half of 2018.

In the lead-up to, and during the shutdown, we worked closely with our customers on planning and scheduling of fuel imports to ensure country fuel stocks were not impacted. We are especially grateful to our customers' respective supply teams for their support and understanding during the shutdown.

Our 2018 Health and Safety Action Plan placed extensive focus on the shutdown where we had 1,800 people work 600,000 hours across multiple and complex work fronts. While it was disappointing that four individuals and their families were impacted by injury we remain committed to ensuring that our people go home safely every day.

Our process safety performance was impacted by a weld failure on a newly installed valve during the hydrocracker restart (a Tier 1 process safety event*). The subsequent emergency shutdown of the unit was managed safely by our operations and emergency services teams with no injury to our team on site or damage to the unit.

In March the Refinery's Safety Case was submitted to WorkSafe. This substantial piece of work outlines the management processes we have in place to run the refinery safely and provides our local community with guidance on personal safety should there be a major event at the refinery. We are in the process of socialising the Safety Case in our local community.

REFINERY TO AUCKLAND PIPELINE (RAP)

In February the Northland Regional Council determined that the refinery had no causative role in the September 2017 rupture on the RAP. Remediation of the RAP rupture site was completed at the end of May. The costs associated with the environmental remediation were largely met by the Company's insurance cover.

* Tier 1 Process Safety Event is an unplanned or uncontrolled release of any material from a process resulting in a lost time incident or fatality, fire, or explosion causing $25,000 (or greater) cost to 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.

"THE SHUTDOWN WAS A
SIGNIFICANT ACHIEVEMENT
FOR THE COMPANY."

Post-incident, the RAP was approved to run at a maximum operating pressure of 75 bar. Further pipeline integrity data and analysis is being collated for submission to the pipeline certifier, Lloyds Register to allow the Company to return to pre-incident operating pressure (87 bar). Due to very wet conditions delaying final inspection activities, this is likely to be in early 2019.

STRATEGY

The government's focus on transitioning the country to net zero emissions by 2050 is an opportunity to apply our capabilities, equipment and refining knowledge to produce biofuels and hydrogen at Marsden Point. Long-term, we are actively looking to the feasibility of a domestic biofuels and hydrogen industry to meet the future needs of aviation and long-haul heavy trucking and are in dialogue with the government and other parties.

In the near-term, we continue to pursue initiatives that will improve energy performance and hence our carbon profile, already greatly improved by Te Mahi Hou and increased access to natural gas.

Negotiations with the government to recognise the refinery's status after our Negotiated Greenhouse Agreement with the Crown expires at the end of 2022 are ongoing.

Strategic initiatives that will grow revenue and contribute to the competitiveness of the refining business are progressing to plan.

Our dredging project has been granted resource consent with conditions. While we are pleased with the decision, we have appealed a small number of conditions that we believe are too restrictive.

BOARD AND MANAGEMENT CHANGES

In February, Chief Executive Sjoerd Post announced he was stepping down from the role and would see the Company through the process of appointing his successor. In June the Company appointed Mike Fuge as his successor. Mike brings significant international and local experience in oil and gas, electricity and hydro generation. He was the Chief Executive of Pacific Hydro based in Melbourne – a global renewable energy owner, operator and developer with over 1 gigawatt of renewable projects in operation or construction. Prior to Pacific Hydro, he was the Chief Operating Officer at Genesis Energy. Mike has also worked for Royal Dutch Shell Group in New Zealand and overseas.

The Board believes that Mike has the leadership skills and experience to lead the refinery in the coming years and to contribute to the initiatives arising from the government's commitment to zero carbon emissions. The transition to a new CEO has been supported by Sjoerd remaining in the role to the end of August, for which the Board is very appreciative.

In March, Mike Bennetts resigned as a director of the Company. He was replaced by Lindis Jones.

DIVIDEND

The Company's Directors have resolved to pay a fully imputed interim dividend of 3 cents per share to be paid on 20 September 2018 with a record date of 13 September 2018.

The 2018 profit matrix has been re-issued to reflect the Company's end-of-year profit and borrowing expectations for a number of margin and exchange rate scenarios (refer to page 4 of this report).

FUTURE OUTLOOK

Completing the 2018 shutdown has set us up for the continued reliable and safe operation of our refinery, the production of high quality products for our customers, and the continued pursuit of attractive, margin improvement opportunities with short pay-back periods.

Looking ahead, our refinery will continue to have an essential role in New Zealand's energy future. The re-lifing of the hydrogen manufacturing unit during the shutdown has strengthened our position as a major hydrogen producer and will be pivotal as we look to the feasibility of a domestic biofuels and hydrogen industry.

Simon Allen – Chairman

PROFIT MATRIX

The profitability of a refining business is largely dependent on refiners' margins and the USD exchange rate. These variables are outside of Refining NZ's control and can have significant volatility. As a result, it is difficult for the Company to provide absolute forecasts of profitability; instead we provide a profit matrix. This indicates our expected net profit after income tax and borrowings at 31 December 2018 for given margin and foreign exchange rates. Throughput and costs (excluding interest and tax) are constant at all levels of the profit matrix.

The 2018 profit matrix was originally issued in February 2018. In August a revised profit matrix was issued by the Company to show 2018 expected net profit/(loss) after tax for a range of margin and exchange rate variables based on the actual loss after tax 'banked' at 30 June, plus our latest estimate of costs and throughput for the year. The 31 December 2018 projected borrowings also takes into account the 3 cents per share interim dividend payable on 20 September 2018.

USD/NZD		0.60	0.65	0.70	0.75
GRM (USD/barrel)					
H2	**FY**				
5.00	5.28	10 / 270	2 / 281	(4) / 290	(10) / 298
6.00	5.85	30 / 250	21 / 259	13 / 266	6 / 276
7.00	6.41	49 / 230	39 / 240	30 / 250	22 / 257
8.00	6.97	69 / 210	57 / 222	47 / 233	38 / 242
9.00	7.54	89 / 190	75 / 204	63 / 216	53 / 226

41 Production, million barrels
99 Non processing fee revenue, $m
97 Depreciation, $m

Net profit after tax / Borrowings

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

	NOTE	GROUP 30 JUNE 2018 $000	GROUP 30 JUNE 2017 $000
INCOME			
Operating revenue	1,2	**147,029**	190,567
Other income	2	**1,152**	67
TOTAL INCOME		**148,181**	190,634
EXPENSES			
Purchase of process materials and utilities		**37,735**	31,592
Materials and contractor payments		**13,792**	12,001
Wages, salaries and benefits		**28,899**	27,092
Depreciation and disposal costs		**46,216**	48,228
Administration and other costs		**18,323**	15,464
TOTAL EXPENSES		**144,965**	134,377
NET PROFIT BEFORE FINANCE COSTS		**3,216**	56,257
FINANCE COSTS			
Finance income		**(63)**	(63)
Finance costs		**6,599**	7,234
NET FINANCE COSTS		**6,536**	7,171
Net (loss)/profit before income tax		**(3,320)**	49,086
(Add)/less income tax		**(498)**	13,893
NET (LOSS)/PROFIT AFTER INCOME TAX		**(2,822)**	35,193
ATTRIBUTABLE TO:			
Owners of the Parent		**(2,822)**	35,193

EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE NEW ZEALAND REFINING COMPANY LIMITED	**CENTS**	**CENTS**
Basic and diluted earnings per share	**(0.90)**	11.25

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

	NOTE	GROUP 30 JUNE 2018 $000	GROUP 30 JUNE 2017 $000
NET (LOSS)/PROFIT AFTER INCOME TAX		**(2,822)**	35,193
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to the Income Statement			
Defined benefit plan actuarial loss	11	**(453)**	(4,457)
Deferred tax on defined benefit actuarial loss		**127**	1,248
Total items that will not be reclassified to the Income Statement		**(326)**	(3,209)
Items that may be subsequently reclassified to the Income Statement			
Movement in cash flow hedge reserve		**(596)**	430
Deferred tax on movement in cash flow hedge reserve		**167**	(121)
Total items that may be subsequently reclassified to the Income Statement		**(429)**	309
TOTAL OTHER COMPREHENSIVE LOSS, AFTER INCOME TAX		**(755)**	(2,900)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, AFTER INCOME TAX		**(3,577)**	32,293
ATTRIBUTABLE TO:			
Owners of the Parent		**(3,577)**	32,293

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

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30 JUNE 2018 (UNAUDITED)

	NOTE	GROUP 30 JUNE 2018 $000	GROUP 31 DECEMBER 2017 $000
ASSETS			
Cash and cash equivalents		**6,802**	17,557
Trade and other receivables		**109,498**	156,694
Derivative financial instruments	12	**57**	1,193
Income tax receivable		**606**	–
Inventories		**3,181**	2,228
TOTAL CURRENT ASSETS		**120,144**	177,672
NON-CURRENT ASSETS			
Inventories		**18,358**	17,972
Property, plant and equipment	6	**1,204,862**	1,128,933
Intangibles	6	**6,368**	8,148
TOTAL NON-CURRENT ASSETS		**1,229,588**	1,155,053
TOTAL ASSETS		**1,349,732**	1,332,725
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	10	**143,577**	176,199
Income tax payable		**–**	8,453
Loans and borrowings	5	**50,000**	–
Employee benefits	11	**8,268**	10,281
Derivative financial instruments	12	**693**	137
Finance lease liability		**240**	222
TOTAL CURRENT LIABILITIES		**202,778**	195,292
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**121,790**	123,124
Employee benefits	11	**30,700**	29,623
Restoration provision	8	**10,060**	9,888
Bank borrowings	5	**222,000**	170,000
Derivative financial instruments	12	**8,518**	9,550
Finance lease liability		**2,347**	2,473
TOTAL NON-CURRENT LIABILITIES		**395,415**	344,658
TOTAL LIABILITIES		**598,193**	539,950
NET ASSETS		**751,539**	792,775

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30 JUNE 2018 (UNAUDITED)

	GROUP 30 JUNE 2018 $000	GROUP 31 DECEMBER 2017 $000
EQUITY		
Contributed equity	**265,771**	265,771
Treasury stock	**(969)**	(678)
Employee share entitlement reserve	**580**	429
Cash flow hedge reserve	**(6,545)**	(6,116)
Retained earnings	**492,702**	533,369
TOTAL EQUITY	**751,539**	792,775

The Board of Directors of The New Zealand Refining Company Limited authorised these financial statements for issue on 22 August 2018.

For and on behalf of the Board:

S C Allen
Director

M Tume
Director

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

GROUP	NOTE	CONTRIBUTED EQUITY $000	TREASURY STOCK $000	EMPLOYEE SHARE SCHEME ENTITLEMENT RESERVE $000	CASH FLOW HEDGE RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
AT 1 JANUARY 2017		**265,771**	**(308)**	228	(7,846)	494,358	752,203
COMPREHENSIVE INCOME							
Net profit after income tax		–	–	–	–	35,193	35,193
Other comprehensive income							
Movement in cash flow hedge reserve		–	–	–	430	–	430
Defined benefit actuarial loss	11	–	–	–	–	(4,457)	(4,457)
Deferred tax on other comprehensive income		–	–	–	(121)	1,248	1,127
TOTAL OTHER COMPREHENSIVE LOSS, AFTER INCOME TAX		–	–	–	309	(3,209)	(2,900)
TRANSACTIONS WITH OWNERS OF THE PARENT							
Equity-settled share-based payments		–	–	117	–	–	117
Treasury shares purchased		–	(370)	–	–	–	(370)
Dividends paid		–	–	–	–	(18,755)	(18,755)
TOTAL TRANSACTIONS WITH OWNERS OF THE PARENT		–	(370)	117	–	(18,755)	(19,008)
AT 30 JUNE 2017		265,771	(678)	345	(7,537)	507,587	765,488
AT 1 JANUARY 2018		**265,771**	**(678)**	**429**	**(6,116)**	**533,369**	**792,775**
COMPREHENSIVE INCOME							
Net loss after income tax		–	–	–	–	**(2,822)**	**(2,822)**
Other comprehensive income							
Movement in cash flow hedge reserve		–	–	–	**(596)**	–	**(596)**
Defined benefit actuarial loss	11	–	–	–	–	**(453)**	**(453)**
Deferred tax on other comprehensive income		–	–	–	**167**	**127**	**294**
TOTAL OTHER COMPREHENSIVE LOSS, AFTER INCOME TAX		–	–	–	**(429)**	**(326)**	**(755)**
TRANSACTIONS WITH OWNERS OF THE PARENT							
Equity-settled share-based payments		–	–	**151**	–	–	**151**
Treasury shares purchased		–	**(291)**	–	–	–	**(291)**
Unclaimed dividends written back		–	–	–	–	**(10)**	**(10)**
Dividends paid		–	–	–	–	**(37,509)**	**(37,509)**
TOTAL TRANSACTIONS WITH OWNERS OF THE PARENT		–	**(291)**	**151**	–	**(37,519)**	**(37,659)**
AT 30 JUNE 2018		**265,771**	**(969)**	**580**	**(6,545)**	**492,702**	**751,539**

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

	NOTE	GROUP 30 JUNE 2018 $000	GROUP 30 JUNE 2017 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**166,955**	191,492
Payment for supplies and expenses		**(76,387)**	(60,676)
Payments to employees		**(30,137)**	(29,504)
CASH GENERATED FROM OPERATIONS		**60,431**	101,312
Interest received		**63**	63
Interest paid		**(5,514)**	(7,095)
GST paid		**(10,352)**	(3,083)
Income tax paid		**(9,601)**	(11,900)
NET CASH INFLOW FROM OPERATING ACTIVITIES	9	**35,027**	79,297
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		**(109,728)**	(39,858)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(109,728)**	(39,858)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from/(Repayments of) bank borrowings		**102,000**	(14,500)
Unclaimed dividends		**(10)**	–
Dividends paid to shareholders		**(37,509)**	(18,755)
Finance lease		**(244)**	–
Purchase of treasury stock		**(291)**	(370)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES		**63,946**	(33,625)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(10,755)**	5,814
Cash and cash equivalents at the beginning of the period		**17,557**	1,675
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**6,802**	7,489

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

BASIS OF PREPARATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

Basis of preparation

These condensed consolidated interim financial statements as at and for the six months ended 30 June 2018 comply with New Zealand Generally Accepted Accounting Practice ('NZ GAAP') and have been prepared in accordance with New Zealand Equivalents to International Accounting Standard ('NZ IAS') 34 *Interim Financial Reporting* and International Accounting Standard ('IAS') 34 *Interim Financial Reporting* and, consequently, do not include all the information required for full financial statements. The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2017.

Entities reporting

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

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

Statutory base

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

Accounting policies

The accounting policies used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the previously published consolidated interim financial statements as at and for the six months ended 30 June 2017 and the audited consolidated financial statements as at and for the year ended 31 December 2017.

New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to amend its accounting policies as a result of adopting the following standards:

- NZ IFRS 9 *Financial Instruments* – early adopted by the Group for the year ending 31 December 2017, and
- NZ IFRS 15 *Revenue from Contracts with Customers* – adopted in the current reporting period.

Adoption of NZ IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018 has not resulted in material adjustments to the amounts recognised in the financial statements. Refining revenue is recognised over time as processing services are delivered. Distribution revenue, identified as a separate performance obligation, is recognised over time as refined products are delivered. Revenue from other contracts (primarily relating to provision of services) is recognised over time as goods or services are delivered to customers.

The Group has made an assessment to determine if any additional disclosures are required to comply with the NZ IFRS 15 requirements. Current disaggregation of the revenue from contracts with customers using existing segments and categories, as per notes to these condensed and the recent annual consolidated financial statements, is considered appropriate to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

BASIS OF PREPARATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

Use of judgements and estimates

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

PERFORMANCE

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

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

1 OPERATING REVENUE

FOR THE SIX MONTHS ENDED 30 JUNE	GROUP 30 JUNE 2018 $000	GROUP 30 JUNE 2017 $000
Comprises:		
Processing fees	**97,356**	151,038
Natural Gas recovery	**14,078**	8,891
Other refining related income	**7,152**	4,595
REFINING REVENUE	**118,586**	164,524
Pipeline fee revenue	**23,248**	20,993
Wiri land and terminal lease income	**3,263**	3,263
DISTRIBUTION REVENUE	**26,511**	24,256
Other operating income	**1,932**	1,787
TOTAL OPERATING REVENUE	**147,029**	190,567

In the current financial reporting period, the Parent Company undertook a total refinery shutdown to carry out planned inspection and maintenance activities; major refits were also successfully completed during this one-in-fifteen year event. All critical shutdown works have been completed by 30 June 2018, with some demobilisation activities to be completed post balance date. The refinery has been back in full operation from 6 July 2018. The impact of the shutdown on the 2018 net profit after tax is expected to be in the range of $45-$47 million. The capital cost associated with the shutdown is outlined in note 6.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

2 SEGMENT INFORMATION

(a) Description of segments

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

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

Oil refining

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

Distribution

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

Other

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

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

(b) Reporting measures

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

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

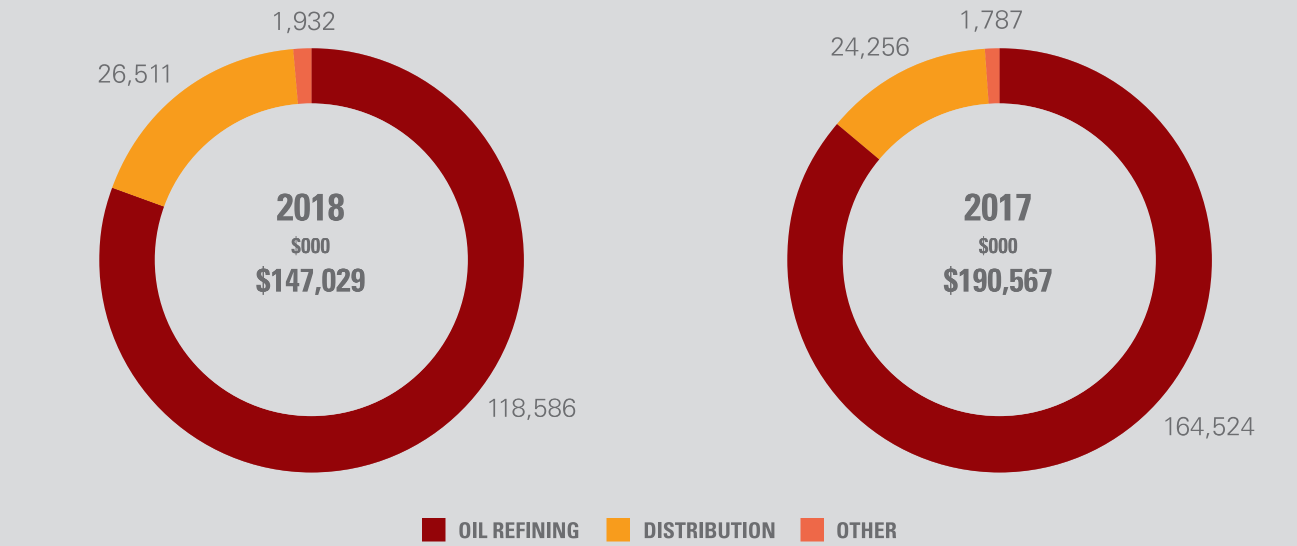
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

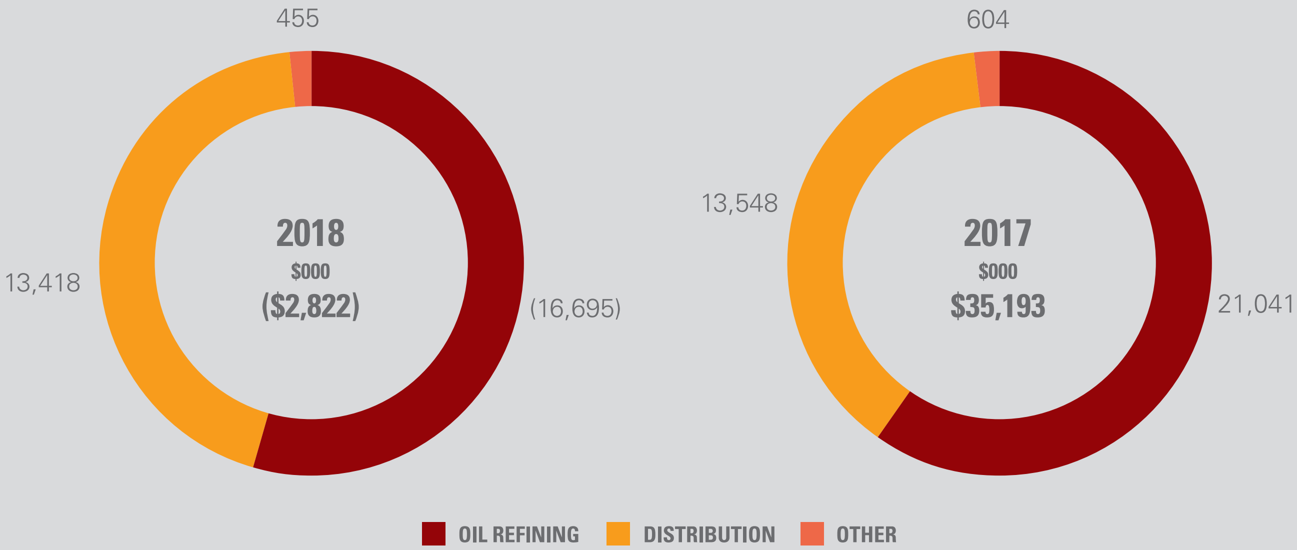
2 SEGMENT INFORMATION (continued)

(c) Segment results

REVENUE FROM EXTERNAL CUSTOMERS ($000)



NET (LOSS)/PROFIT AFTER INCOME TAX ($000)



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

2 SEGMENT INFORMATION (continued)

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

30 JUNE 2017	OIL REFINING $000	DISTRIBUTION $000	OTHER $000	TOTAL $000
Total operating revenue	164,524	24,256	4,294	193,074
Inter-segment revenue	–	–	(2,507)	(2,507)
REVENUE FROM EXTERNAL CUSTOMERS	164,524	24,256	1,787	190,567
Other income	–	–	67	67
Finance income	62	–	1	63
Finance cost	(7,226)	–	(8)	(7,234)
Depreciation and disposal costs	(44,581)	(3,434)	(213)	(48,228)
Income tax	(8,338)	(5,269)	(286)	(13,893)
Net profit after income tax	21,041	13,548	604	35,193

Comparatives for total operating revenue and income tax for the Oil Refining and Distribution segments have been updated to ensure consistency between financial reporting periods.

3 RELATED PARTIES

The Group enters into transactions with related parties. Details of related parties and the types of transactions entered into during the period ended 30 June 2018 are consistent with those disclosed in the audited financial statements for the year ended 31 December 2017.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

DEBT AND EQUITY

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

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

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

Note 4: Dividends
Note 5: Loans and borrowings

4 DIVIDENDS

	CENTS PER SHARE	TOTAL 30 JUNE 2018 $000	TOTAL 30 JUNE 2017 $000
Final dividend paid for 2016	6.0	–	18,755
Final dividend paid for 2017	12.0	**37,509**	–
TOTAL		**37,509**	18,755

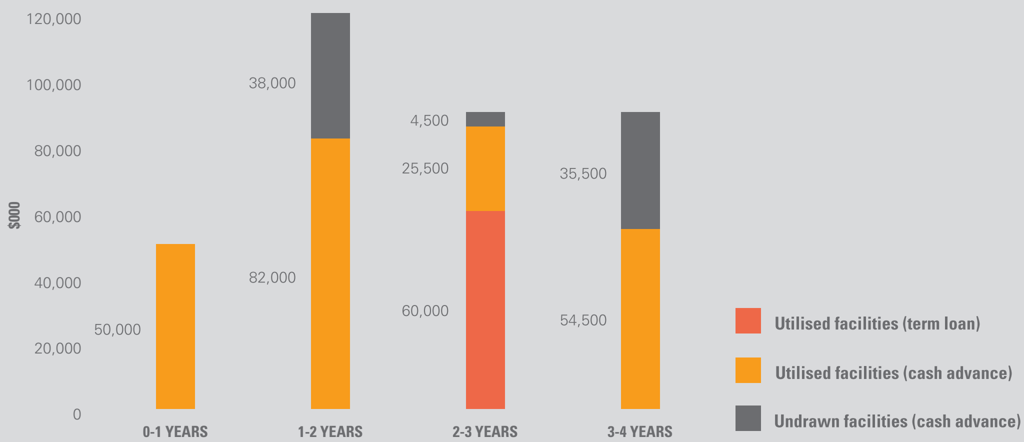
The dividends were fully imputed. Supplementary dividends were paid to shareholders who were not tax residents in New Zealand for which the Group received a foreign investor tax credit entitlement.

Dividend declared post balance date

The Group has declared a dividend of 3 cents per share, fully imputed, payable on 20 September 2018 (2017: 6 cents per share).

5 LOANS AND BORROWINGS

The chart below outlines the maturity profile of the facilities.



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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

OPERATING ASSETS AND LIABILITIES

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

This section includes the following notes:

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

6 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

	GROUP 30 JUNE 2018 $000	GROUP 30 JUNE 2017 $000
OPENING NET BOOK AMOUNT	**1,137,081**	1,125,522
Additions	**122,387**	43,536
Depreciation and disposals cost	**(46,216)**	(48,228)
Transfers	**(2,022)**	(500)
CLOSING NET BOOK AMOUNT	**1,211,230**	1,120,330
Comprises:		
Property, plant and equipment	**1,204,862**	1,116,406
Intangibles	**6,368**	3,924
CLOSING NET BOOK AMOUNT	**1,211,230**	1,120,330

Property, plant and equipment additions for the six months ended 30 June 2018 includes $98 million invested during the planned maintenance shutdown (refer to note 1). Total cost of the shutdown is estimated to be approximately $110 million.

Intangibles includes the New Zealand Units (NZUs) issued by the Crown to the parent company, pursuant to the company's Negotiated Greenhouse Agreement (NGA), which is valid until 2022. The Company is currently exempted from the Emissions Trading Scheme (ETS) due to the NGA and the company's demonstrated commitment to progress in reduction of energy intensity along a world's best practice pathway.

No impairment losses have been recognised in relation to property, plant and equipment, work in progress, and intangibles (30 June 2017: nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

7 CAPITAL COMMITMENTS

	GROUP 30 JUNE 2018 $000	GROUP 30 JUNE 2017 $000
Capital expenditure contracted for in relation to property, plant and equipment at the end of the period but not yet incurred	**24,308**	19,256

8 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.

The restoration provision is measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax interest rate that reflects the current market assessments of the time value of money and the risks specific to the obligation.

At 30 June 2018 the Company has reassessed the value of the future expenditures and amended the discount rate assumptions (from 3.48% as at 31 December 2017 to 3.37% as at 30 June 2018). An increase in the provision, as a result of the passage of time (unwinding of discount), of $172 thousand was recognised as a finance cost.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

9 CASH AND CASH EQUIVALENTS

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

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

FOR THE SIX MONTHS ENDED 30 JUNE	NOTE	GROUP 30 JUNE 2018 $000	GROUP 30 JUNE 2017 $000
NET PROFIT AFTER INCOME TAX		**(2,822)**	35,193
Adjusted for:			
Depreciation and disposal costs		**46,216**	48,228
Movement in deferred tax		**(1,334)**	760
Add: deferred tax on items included in other comprehensive income		**294**	1,127
Movement in provisions		**172**	1,097
Less: increase in provisions included in property, plant and equipment	8	**–**	(914)
Non-cash items		**(38)**	498
Defined benefit pension plan expense		**1,231**	1,110
Impact of changes in working capital items:			
Decrease/(Increase) in trade and other receivables		**47,196**	(9,337)
(Decrease)/Increase in trade and other payables		**(32,622)**	4,555
Add: decrease/(increase) in trade payables included in property, plant and equipment		**(10,399)**	104
Decrease in employee entitlements (excl. defined benefit pension plan)		**(2,469)**	(3,639)
(Decrease)/Increase in income tax payable		**(9,059)**	107
(Increase)/decrease in inventories		**(1,339)**	408
NET CASH FLOWS FROM OPERATING ACTIVITIES		**35,027**	79,297

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

10 TRADE AND OTHER PAYABLES

	GROUP 30 JUNE 2018 $000	GROUP 31 DECEMBER 2017 $000
Trade payables	**47,360**	46,255
Excise duty	**96,217**	129,944
TOTAL TRADE AND OTHER PAYABLES	**143,577**	176,199

Trade and other receivables, and trade and other payables both include excise duties of $96.2 million (31 December 2017: $129.9 million). Changes to excise duties have no direct impact on the results of the Group as they are collected from the oil companies and are paid to the New Zealand Customs Service on the same day of each month.

11 EMPLOYEE BENEFITS

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

The non-current portion of the employee benefits includes the defined benefit pension plan obligation at 30 June 2018 representing the accounting valuation performed, as at that date, by an independent actuary in accordance with NZ IAS 19 *Employee Benefits*. The actuarial assumptions used in the 30 June 2018 valuation are consistent with those adopted as at 31 December 2017. The discount rate adopted at 30 June 2018 was 3.0% (December 2017: 3.0%) and is set with reference to New Zealand Government Bonds.

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

	GROUP 30 JUNE 2018 $000	GROUP 30 JUNE 2017 $000
Actuarial losses	**(390)**	(6,211)
Actual return on plan assets less interest income	**87**	3,225
Contributions tax	**(150)**	(1,471)
TOTAL RECOGNISED IN OTHER COMPREHENSIVE INCOME INCLUDING CONTRIBUTIONS TAX	**(453)**	(4,457)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

FINANCIAL RISK MANAGEMENT

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

This section includes the following notes:

Note 12: Financial instruments

12 FINANCIAL INSTRUMENTS

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

	GROUP 30 JUNE 2018 $000	GROUP 31 DECEMBER 2017 $000
Trade and other receivables	**109,498**	156,694
Cash and cash equivalents	**6,802**	17,557
TOTAL LOANS AND RECEIVABLES	**116,300**	174,251
Trade and other payables	**(47,360)**	(46,255)
Bank borrowings	**(272,000)**	(170,000)
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	**(319,360)**	(216,255)
Derivative liabilities designated in hedging relationships		
Forward foreign exchange contracts	**57**	458
Electricity futures	**(989)**	668
Interest rate swaps	**(8,222)**	(9,620)
TOTAL DERIVATIVE LIABILITIES DESIGNATED IN HEDGING RELATIONSHIPS	**(9,154)**	(8,494)
Classified as:		
Current assets	**57**	1,193
Current liabilities	**(693)**	(137)
Non-current liabilities	**(8,518)**	(9,550)
TOTAL DERIVATIVE LIABILITIES DESIGNATED IN HEDGING RELATIONSHIPS	**(9,154)**	(8,494)

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 (2017: level 2).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

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

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

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 13:	Contingent assets and liabilities
Note 14:	Events after balance date

13 CONTINGENT ASSETS AND LIABILITIES

Contingent asset

Following the Refinery to Auckland pipeline rupture on 14 September 2017, the Parent Company incurred costs associated with repairs to the pipeline and the recovery and remediation of the leak site (completed May 2018). The Company's financial results have been impacted with reduced processing fee revenue in 2017 and distribution revenue in both 2017 and 2018 (as a result of the pipeline operating below its maximum allowable operating pressure post incident).

The Company had insurance policies to cover both environmental remediation and loss of revenue following the incident. In the six months ended 30 June 2018:

- Insurance recoveries of $1.1 million were recognised as "Other income" in respect of environmental remediation costs incurred during the period.
- The Parent Company was advised that its claim under the material damage and business interruption policy for loss of revenue, had been accepted by insurers.
  The claim, yet to be finalised, is expected to be in the range of $2-3 million based on the Parent Company's assessment. This potential insurance recovery has not been recognised in the financial statements, pending confirmation and acceptance of the claimed amounts by insurers.

Contingent liabilities

The Group has no contingent liabilities at 30 June 2018 (30 June 2017: nil).

14 EVENTS AFTER BALANCE DATE

No events after balance date occurred, except for the declared interim dividend as per note 4.

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Bank of New Zealand
MUFG Bank, Limited
Bank of China (New Zealand) Limited

Legal Advisers
Minter Ellison Rudd Watts
Chancery Green

Auditor
PricewaterhouseCoopers

Chairman
S C Allen (independent director)

Independent Directors
V C M Stoddart
M Tume
P A Zealand

Non-Independent Directors
M J Bennetts (resigned 16 March 2018)
D C Boffa
R Cavallo
L Jones (appointed 19 March 2018)

Chief Executive Officer
S Post (resignation effective 31 August 2018)
M Fuge (appointment effective 27 August 2018)

Company Secretary
D M Jensen

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