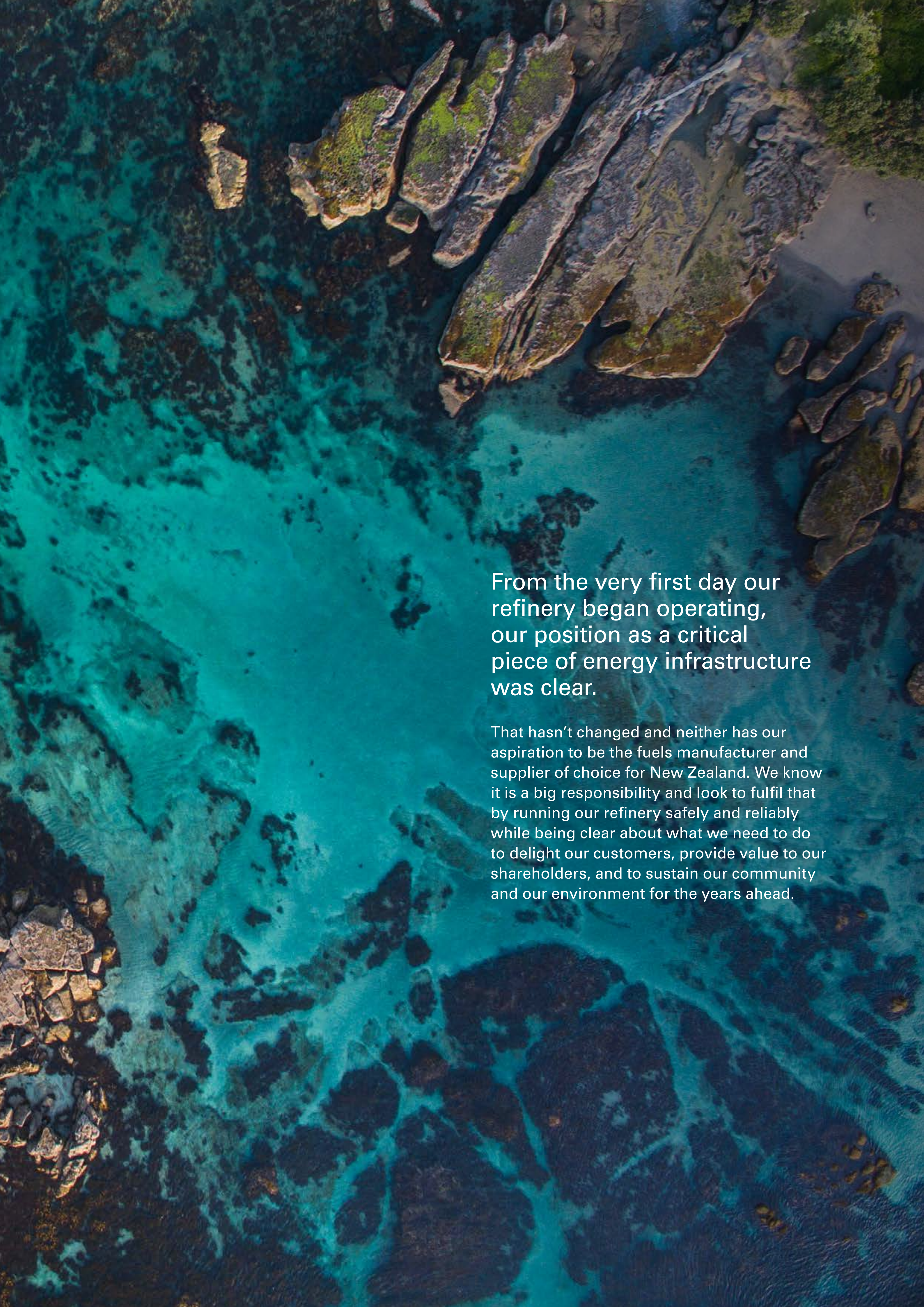
CLEAR.

REFINING NZ
ANNUAL REPORT 2018



From the very first day our refinery began operating, our position as a critical piece of energy infrastructure was clear.

That hasn’t changed and neither has our aspiration to be the fuels manufacturer and supplier of choice for New Zealand. We know it is a big responsibility and look to fulfil that by running our refinery safely and reliably while being clear about what we need to do to delight our customers, provide value to our shareholders, and to sustain our community and our environment for the years ahead.

INVESTED.

For nearly 60 years we've kept New Zealand moving. Our continuous investment in the Refinery's capacity and capability has been pivotal to the success of our company, our region and our country. It's an investment shared by every Northlander who works here. Focusing our skills and expertise on achieving a cleaner, safer and more efficient fuel supply, we are investing in a sustainable energy future – New Zealand's future.

CONFIDENT.

We believe in doing the right things, at the right time and in the right way. As a trusted and capable partner, our ideas, vision and substantial technical knowledge amount to considerable experience and intellectual capital, allowing us to adapt in the ever-changing energy industry. Our confident, practical thinking and collaborative approach provides a solid foundation to create an exciting economic future.

Directors' Statement

The Directors are responsible for the preparation of the consolidated financial statements and other information included in this Annual Report. The consolidated financial statements authorised for issue by the Board of Directors and dated on 21 February 2019 have been prepared in conformity with generally accepted accounting practices to give a true and fair view of the financial position of the Group and the results of its operations and cash flows.

The New Zealand Refining Company Limited ("the Company", "Refining NZ", "RNZ") appoints an independent auditor to audit the consolidated financial statements prepared by the Directors and to express an opinion on these consolidated financial statements.

The independent auditor's report, which sets out their opinion and the basis of that opinion, is set out in the "Independent Auditor's Report" on page 121 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
Chair

J B Miller
Chair, ARFC

14 March 2019

Contents

HIGHLIGHTS.

Gross Refining Margin

USD $6.31 PER BARREL

$8.02 PER BARREL IN FY17

EBITDA[1]

NZD $153M

$220M IN FY17

Net Profit After Income Tax

NZD $30M

$79M IN FY17

TRCF [1]

0.76

0.89 IN FY17

[1] For a full definition refer to Glossary on page 127.

Contribution to
Northland Economy of

~7% p.a.

Successful issue of
subordinated notes

NZD $75M

ON 14 DECEMBER 2018

26 EMERGENCY EXERCISES

&

85 COMMUNITY CALLOUTS

IN 2018

Total fully imputed dividend

7.5CPS

FOR FY2018 (2017: 18.0CPS)

CREATING BETTER ENERGY CHOICES FOR NEW ZEALAND.

Chairman and Chief Executive Officer's Report

The Net Profit after Tax (NPAT) of $29.6 million (2017: $78.5 million) reported for the year ended 31 December 2018 reflects two very different halves to the year: a first half impacted by the first planned full refinery shutdown in 14 years and a second half marked by healthy refining margins, weakening exchange rate and a strong operational performance.

The underlying business fundamentals remain strong.

This was borne out by the reliable running of the Refinery's processing units post shutdown and for the remainder of the year, which saw refinery throughput for the second half of 2018 at its highest ever. This operational performance allowed the Company to capitalise on healthy refining margins.

REFINING MARGINS AT TOP OF HISTORIC RANGE

The Gross Refining Margin averaged USD 6.31 for the year (2017: USD 8.02 per barrel) or USD 7.33 when normalised for the 2018 shutdown. This is at the top of its historical USD 4.00 to USD 6.00 per barrel range, supported by global demand growth and our continued progress in optimising the Refinery's operational efficiency.

RNZ's uplift over the Singapore Complex Margin averaged USD 3.61 per barrel (2017: USD 4.27), reflecting the impact of the 2018 shutdown. The Company benefited from a weaker exchange rate which averaged USD 0.69 for the year (2017: USD 0.71).

While the planned maintenance shutdown took longer than expected, there are rich learnings which our shutdown team is already applying to planning for the next shutdown in 2020: on time, on budget.

A notable success was the major refurbishing of the Refinery's Hydrogen Manufacturing Unit. This refurbishment underpins the Refinery's role in the fuels supply chain and presents the exciting possibility of developing further hydrogen infrastructure, potentially critical to our low carbon economy, and to New Zealand continuing to meet its climate change obligations.

Health, Safety and Environment

We continue to implement the recommendations from the two DuPont reviews of our health and safety management systems. The 2018 Shutdown was an opportunity to rollout two key recommendations of the 2017 review, namely a new, streamlined permit to work system and system of isolations (Log out, Tag out) to safeguard plant for maintenance.

Regrettably, five of the eight recordable cases during the year occurred during the shutdown. In terms of process safety, the most significant event was a manufacturing weld failure on a newly installed isolation valve on the Hydrocracking Unit. Fortunately, no one was hurt and there was no plant damage as a result of this incident.

Our personal and process safety performance in the second half of the year was much improved. We aspire to improve on our performance so that all of our people go home safely every day.

In 2018, we achieved a major milestone with the submission of our Safety Case to WorkSafe, and the rollout of that case to our local community (see the *"What if? The Safety Case provides robust answers"* on page 25). Our action plan for 2019 will look to improve on our safety performance particularly through our ongoing work in cultural safety. The launch of E Tū Tangata - Stand in the Gap - will go a long way to improving our performance through a series of cultural safety initiatives with our people and contracting workforce (see the *"taking a stand for safety" on page 34*).

Customer Promise: Quality, Reliability, Competitiveness

The support we provide to key industries helps drive New Zealand's economic growth. This is highlighted by the continued demand for diesel, but especially for jet fuel which has continued to be driven by increasing international visitor numbers. With an eye to maintaining an attractive value proposition for our customers, we remain focused on improving the quality, reliability and competitiveness of our refining operations.

Pursuing attractive, short pay back, margin enhancing projects has continued to reap benefits with current initiatives delivering excellent results. This reflects the value of ongoing investment in leveraging efficiencies.

PIPELINE CAPACITY UPGRADE DELIVERS RECORD THROUGHPUT

The Refinery to Auckland Pipeline (RAP) capacity upgrade project, to help meet growing Auckland demand saw the Refinery achieve a new annual throughput record on the pipeline. The first two phases of this three-phase upgrade have been completed and following a review of phase three, we are now exploring the use of a drag reducing agent as an alternative de-bottlenecking option. This has the potential to increase pipeline throughput by a further 15% at a lower capital investment.

In May, the Company completed the last piece of remediation on the RAP rupture site near Ruakaka. In December, the Government announced an Inquiry into the pipeline outage. Its purpose is to draw lessons from the outage to inform how the fuel industry and the Government could improve the resilience of fuel supply into the Auckland region. The Refinery is actively working with the Inquiry team. Separately, we are providing information to the Commerce Commission study into retail fuel markets.

DREDGING FOR COMPETITIVE ADVANTAGE AND IMPROVED RETURNS

In December, the Environment Court confirmed the resource consents issued for the Refinery's crude shipping dredging project.

This strategically important project has been de-risked considerably by a set of revised conditions that all parties consider to be effective and workable. Improving the economics of up to half of all crude delivered to the Refinery will help to keep us competitive with imported fuel from Asia Pacific refiners. A date for dredging to commence has yet to be confirmed and is dependent on the successful completion of monitoring activity on the harbour and a final investment decision by the Board.

There is more that we can do to improve our operational performance and competitiveness, while improving returns to our shareholders. This will continue to be a core part of our strategy moving forward.

Sustainability and Community

The Company's core focus on improving operations extends to a continued commitment to deliver a world class environmental performance.

We continue to deliver advances in environmental performance including reductions in sulphur per unit of fuel production as well as the carbon intensity of our refining operation. Maintaining and improving the environmental integrity of our refining site has seen the Company invest over $24 million over the past four years.

We will continue to improve our emissions profile through our partnership with the Energy Efficiency and Conservation Authority (EECA). Together we are progressing projects that will save energy while also improving our carbon profile (see the *"When small gains power a village"* on page 27).

The Company is also reviewing a number of options and working with its customers and the Ministry of Transport to meet the requirements of the IMO[1] MARPOL regulations. MARPOL aims to reduce the sulphur content of fuel oil used in shipping from 3.5% to 0.5%. Our expertise and technology in this space means we are well placed to meet the challenges and opportunities of this market-disrupting regulatory change (see the *"Spec change prompts solutions" on page 37*).

1 IMO International Maritime Organisation – International Convention for the Prevention of Pollution from Ships (MARPOL)

As a major employer we are proud of the Refinery's contribution to our Northland community. Through partnerships with key organisations we continue to support the environmental and educational aspirations of our community. In 2018, our support for a series of new education initiatives included establishing the RNZ scholars programme for Bream Bay College students studying STEM (Science, Technology, Engineering, Maths) related subjects at university.

Vision for a brighter energy future

RNZ's Management and Board have been defining a business strategy that will shape the future direction of the Company. It recognises the major contribution of the Refinery to the national fuels supply chain and to Northland as well as the national economy. It also acknowledges the challenges presented by the need to decarbonise the country's energy infrastructure.

At the heart of our new strategy is a profitable core refining business: commercially attractive, safe and reliable. We are a major employer committed to helping New Zealand meet its climate change obligations and since 2008 have reduced the CO_2 intensity of our products by around 20%.

Our strategy will look to generate further value out of the business, leveraging existing assets and capabilities to lift the Refinery's operational performance. With New Zealand's energy future in mind, we will build on the core through the judicious choice and implementation of highly economic projects.

More detail about our new strategy will be provided in Q2/Q3 at a Company strategy day. A date for the strategy day will be announced shortly.

A REALISTIC STEP BY STEP STRATEGY BACKED BY A COMMITTED WORKFORCE, SUBSTANTIAL EXPERTISE AND NEARLY 60 YEARS OF ENERGY PROBLEM-SOLVING CREDIBILITY

Subordinated notes issue

The Board has been working on the capital structure of the business and on 14 December 2018 the Company issued $75 million of unsecured, subordinated notes for a term of approximately 15 years. The notes provide greater financial flexibility by diversifying RNZ's funding sources. The net proceeds of the Offer were used to repay a portion of the Company's existing bank debt.

Dividend

The Company's Directors resolved to pay a fully imputed final dividend of 4.5 cents per share to be paid on 21 March 2019, with a record date of 7 March 2019. With an interim dividend of 3 cents paid in September, the total dividend payment for the year is 7.5 cents (2017: 18 cents).

Board changes

In March, Mike Bennetts resigned as a Director and was replaced by Lindis Jones. In November James Miller was appointed as an Independent Director who brings a wealth of experience and insight to the Refining NZ Board from the financial markets. In February 2019, Mark Tume resigned as a Director after eleven years on the Board. Mark has made a significant contribution to the Refining NZ Board including two years as the chairman of the Audit, Risk and Finance Committee. He is held in high esteem by fellow Directors for his professionalism, depth of experience and the commercial acumen he brought to the Refining NZ Board table. Thank you to Mike and Mark for their respective contributions and we welcome Lindis and James to the Refining NZ Board.

Outlook

The strong operational performance in the second half of the year highlights the strengths of our refinery and the talented team who continue to run it safely and reliably.

The review of the Company's business strategy looks to build on that strength and opens up the possibility to transform our business in realistic, credible steps, into a sustainable, low carbon energy producer.

14 March 2019

CONNECTED.
Q&A WITH MIKE FUGE

The success of our refining business can never be credited to one person, but instead belongs to the many people we have ties to; our work colleagues, our whanau, our community. Together we are connected, and by working as one team we're able to run our refinery safely and reliably while getting value adding projects off the ground and done in an expert, no-fuss, Northland kind of way.

In a changing landscape, we're tapped into the conversations about New Zealand's energy future and by taking part, by sharing our deep expertise and ideas, we're at the table helping to make that future sustainable for generations to come.

Chief Executive Officer, Mike Fuge joined the Refinery in August 2018. Prior to that he was the CEO of the Australian based renewables energy company, Pacific Hydro and has a background in oil working with Shell internationally, and in electricity with Genesis Energy.

We took a moment to ask Mike a few candid questions about the view from the helm.

You are a relative newcomer to Marsden Point. What attracted you to faraway Northland and have you had any connection with the Refinery before now?

I've worked across New Zealand and around the world, including in Europe, South America, Australia, the Middle East and South East Asia, but I am proud to say that my roots are here in Northland. I am a fourth generation Northlander, so this is where my family whakapapa to and, as a student engineer back in the '80s, I worked at the Refinery during the university break.

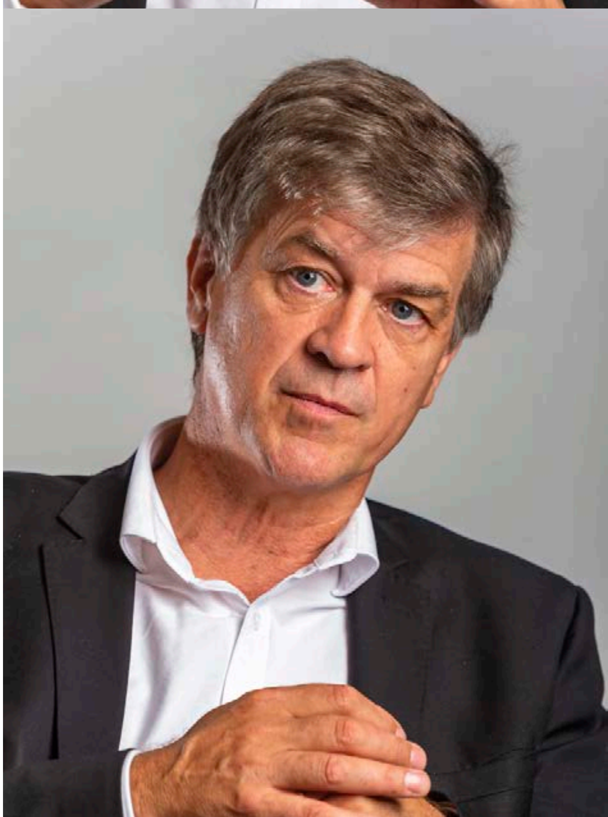
It has definitely been a long time between drinks, but yes, I have been here before.

What do you make of the rise of green alternatives to conventional transport fuels such as petrol, diesel and jet fuel?

We are challenged by climate change, which is a human problem not just a national problem, that demands a solution or set of solutions, capable of stopping or reducing our carbon footprint.

If you ask me whether the answer is electric, hydrogen, gas, or biofuels the answer is all of these. The bottom line is that more diversification is headed our way and we need to understand that it won't be a one-size-fits-all, silver bullet to improve our collective carbon footprint.

While the electric vehicle is an established technology, and rapidly becoming very economic, electric heavy trucks and aeroplanes aren't a technical economic reality yet. And while that is the case, you can expect to see other forms of technology come to play in that space, whether that's biofuels or hydrogen.



So what does that mean for Marsden Point?

With our bias towards diesel and kerosene or jet fuel, I think that we are well positioned in the medium term. I'm talking 15-20 years. Diesel, for heavy transport, and jet fuel will stay for a pretty sustained period which means we will have a strong part to play in the production of those fuels.

Longer term, our deep skills in hydrogen and manufacturing, in processing at high pressure, high temperature, flammable gases and liquids, will form the basis of the long-term future for the Refinery. Whether that's supporting the production of locally produced and export hydrogen or whether it's producing biofuels.

Hydrogen is an exciting opportunity for the energy sector but has been criticised by some as niche, and not economic. Do you see a viable role for hydrogen in a low carbon economy?

Hydrogen very much has a part to play in our energy future, particularly in heavy transport which will be absolutely critical, particularly in biofuels. At the moment these look to be the safest technical bet for aviation and heavy transport going forward.

Hydrogen looks to be more transportable than a lot of the alternatives and there is some exciting technology for export, where you effectively attach the hydrogen to a petrol type substance which is easily transportable.

If you can get the transport option up and running, there is a very good possibility that in the next 10 to 15 years, we will effectively be generating renewable energy in New Zealand, converting it to hydrogen, exporting it to Asia where they don't have the same access to renewable energy, and getting a great return.

From a refinery point of view, we have the ability to flex our hydrogen production. We can turn the plant up or down and make choices about how we firm up an otherwise intermittent supply of renewable energy.

From your first year in charge, what do you make of the Refinery?

What's striking is the incredible enthusiasm from everyone coming through the gate every morning. There's a lot of pride in this refinery and it's a modest place that keeps its talent hidden.

The deep capability we have here is quite unique. The work that some of our process engineers do, our operators, the fuels testing laboratory (IPL), the technology that our mechanical engineers bring, is all quite phenomenal. To give an example, we had identified cracks in steel work on a processing unit and instead of shutting down the unit for a couple of days, the guys safely froze the pipe and took it off to do a live change out.

That sort of innovation, that quiet "let's-get-on-and-do-it" attitude is typical of Northland. At the same time, that understanding of the need to be consistently reliable for our customers day in and day out, is typical of this Refinery and everyone who works here.

Q&A

CREATIVE.

INNOVATION & NEW TECHNOLOGY

We are relentlessly focused on creating the highest performing, most internationally competitive refinery possible. We've come a long way, but to compete against the best in the world requires the constant, diligent pursuit of efficiency. Every little bit counts: every innovation, every new process, initiative and new technology comes from the collective intelligence and expertise of our people. And they combine to make us safer, more productive and well-positioned for a strong sustainable energy future.

1/ WELDING MADE EASIER – ROBOTIC WELDING

Shutdown 2018 gave Refining NZ the opportunity to think outside the box and enlist the help of technology that would ultimately be safer for our people and improve productivity. On two major projects, the Hydrogen Manufacturing Unit (HMU) and the High Vacuum Column, robotic welding helped achieve just this.

The HMU project required the welding of 320 new tube replacements, a staggering amount of work to be done within a tight time frame.

Local contractor, Culham Engineering, provided four robotic welders to complete the task, which otherwise would have required 12 welders working within a confined space.

By using the robotic welder the job was completed to an extremely high standard and more safely.

Our high vacuum unit column required another cutting edge robotic tool, the Adaptarc, specially designed for orbital and linear pipe welding to weld layers of stainless steel cladding inside the column.

The team took an innovative approach with the Adaptarc to achieve the outcome they required. This included building a track system for the weld robot to move around on.

The Adaptarc achieved in a few days what would otherwise have taken four workers a week to achieve by hand. We will now use the robotic welding equipment more widely on site given the excellent results achieved.

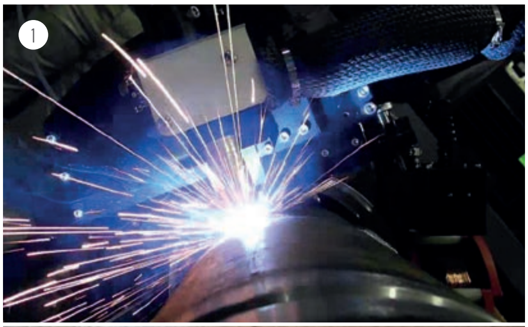
2/ REMOTE PIPE INSPECTOR – ROVER

In the lead-up to the Shutdown 2018, the Refinery engaged Australian company ATMECO to survey the sulphur duct which runs between the Sulphur Recovery Unit and the Multi Flue stack. The duct was last opened 14 years ago and we needed assurance that it was safe for our people to access and inspect.

To avoid putting our people into an unsafe situation, ATMECO purpose-built 'rover', similar to a remote control car, to survey the lining and inspect the flange and expansion joint assemblies. The rover captured 360 degree images with a unique camera sensor. Controlled via a long fibre optic cable providing ethernet communications between the vehicle, on-board sensors and surveyor, the rover could travel beyond the visual line of sight.

The footage gave engineers a good understanding of the integrity of the duct, but importantly confirmed that the duct was in a good shape.

With the help of a company passionate about finding a technology solution, we could eliminate the risk of sending someone into a confined space for a manual inspection.



3/ HIGH FLYING SURVEY – DRONE

The sound of survey drones carrying out inspections overhead caused a real buzz during the Shutdown 2018, but this wasn't entirely new to the Refinery.

Australian company ATMECO last inspected the Refinery's flare structure in 2017 using a 20kg drone. That survey captured high resolution images of the thousands of bolts on the flare structure. Armed with this imagery, the project team built a 3-D model of the upper flare section with a specific focus on the roof. The data verified the structure's dimensions against the original drawings of the flare. This was then used to manufacture a replacement roof.

The visual inspection meant that we knew exactly what was needed and were able to have the replacement roof pre-fabricated and ready to install during the shutdown. This helped to reduce time spent on inspection during an already busy shutdown schedule.

With the advance of such technology we see many opportunities for its use on site – to be safer, better and more productive.

4/ QUALITY PAINT JOB – TANK 13

Keeping workers out of the "line-of-fire" has been a driving factor for the project team at Tank 13.

The large crude tank which towers above its counterparts at 22 metres high and 76m across, is the largest tank at the Refinery and largest of its kind in New Zealand.

Before the tank can be placed back in service a total of 4,500 square metres of roof and floor needs to be prepped and re-coated.

The innovative plan to use an automated system to blast and coat the tank roof was supported by Fitzroy Engineering.

The biggest day for the project team, saw a maximum of 330m^2 of the tank roof blasted and coated, around three times more than what would have been achieved manually.

The tank team is thrilled that the automated system has met specification and is of a consistent quality with minimal waste. Taking the team out of the line of fire improves workplace safety and results in a quicker turnaround.

Work on the tank floor and shell is well advanced. The power of collaboration aided by technology is consistently helping this important project stay one step ahead.

THE WAY WE DO BUSINESS

We are a critical part of our nation's energy infrastructure and responsible for manufacturing and supplying the bulk of the country's transport fuels. Through our operation we have a significant footprint at a regional and national level and strive to create value for our stakeholders.

Refining NZ operates New Zealand's only oil refinery at Marsden Point near Whangarei. Our core business is processing a wide range of imported crude oil types, producing high quality transport fuels for the New Zealand market in addition to bitumen for roading, sulphur for farm fertiliser and CO_2 for carbonated drinks. We supply around 70% of the total domestic market for petroleum products.

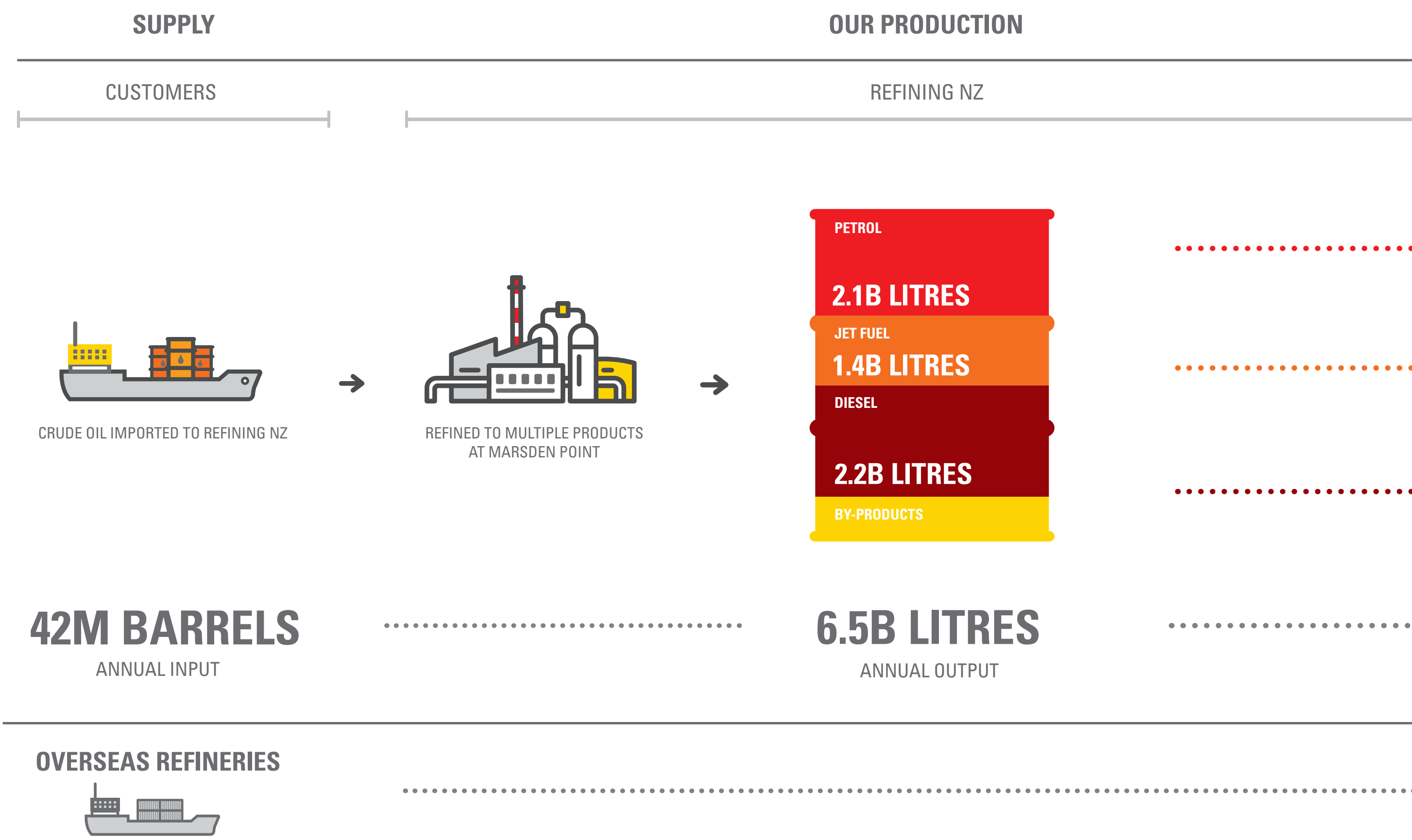
We also play a critical role in the distribution of fuel products by means of the Refinery to Auckland Pipeline (RAP). Auckland represents just over a third of total domestic demand and the pipeline is by far the most efficient means of moving fuel to New Zealand's largest market. Our customers are responsible for distribution to 10 port terminals across the country and into the Northland region from a truck loading terminal opposite the Refinery.

The impact of our business goes far beyond our refinery with the support we provide to key industries such as tourism, agriculture, large manufacturing and heavy transport essential to economic growth in the region and across New Zealand. In this context we are aware of the Treasury's Living Standards Framework, designed to shape public policy to improve intergenerational wellbeing. As a longstanding employer and contributor to Northland, we believe we can help advance these goals.

Our value creation is aligned with the four capitals - Human, Natural, Financial/Physical, Social - as set out in the *Living Standards Framework.*

Our role in Fuelling NZ

Graphic presents a typical year and is prepared based on 2017 production and distribution data.



Our interpretation of these goals is set out under four headings:

HUMAN CAPITAL

Committed to keeping our people safe

As a high-hazard site, safety is paramount. We aim to deliver a world-class health and safety performance and continually strive to improve using a risk-based approach. This mind-set is not limited to our own staff but includes the significant number of contractors on site.

We are committed to being a fair and caring employer. We work hard to build a supportive and inclusive work culture, where staff are able to share values, feel recognised and rewarded, and are given opportunities to develop to their full potential.

NATURAL CAPITAL

Committed to our environment

We aim to deliver a world class environmental performance. As a large emitter of carbon dioxide we are conscious of our responsibility to minimise the environmental impact of our refining operations.

For the medium term New Zealand will need conventional fuels as part of the mix to meet its energy needs. We also acknowledge the role we can play in helping New Zealand achieve its ambitions for a low carbon future.

FINANCIAL AND PHYSICAL CAPITAL

Committed to our nation's economy

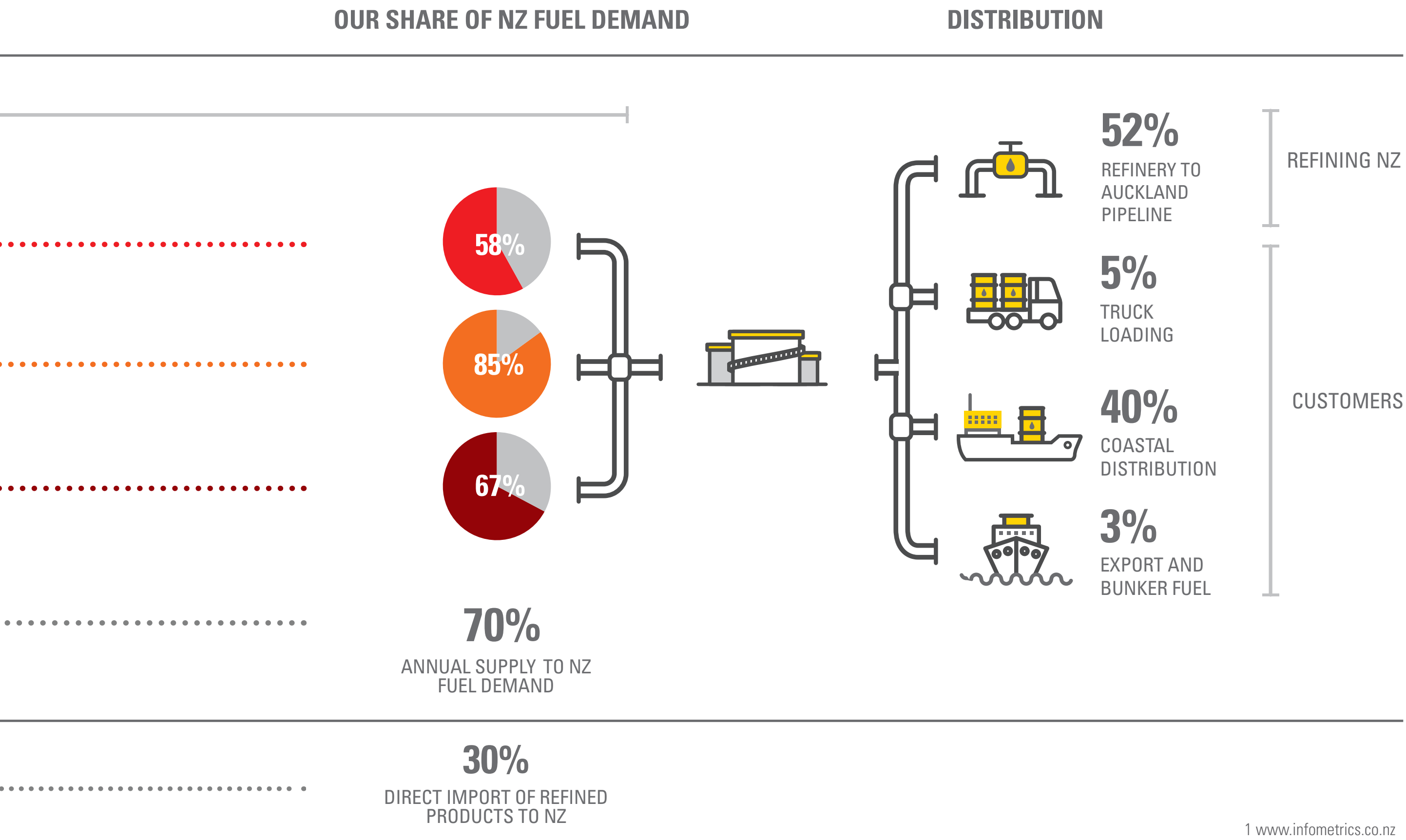
Refining NZ competes against overseas refiners many times larger that offer direct imports of refined products to our major oil company customers. Through our Marsden Point operations we keep a higher share of the fuel value chain in New Zealand and maintain and develop related skillsets in the national workforce.

Our products support a thriving economy and have a very direct impact on economic development. Our continued aspiration is to be the supplier of choice for New Zealand.

SOCIAL CAPITAL

Committed to supporting our local community

We are a responsible corporate citizen and work hard to be a good neighbour and supporter of our region. We are a sizeable part of the Northland economy, contributing almost 7% of the region's GDP[1]. We are proud to be a voice for our region on the national stage. We maintain good working relationships with our community, helping them to achieve their environmental and educational aspirations. At the same time we regularly update our neighbours on our performance, projects and plans for the future.



1 www.infometrics.co.nz

OUR STRATEGY

While our sector is operating in a changing landscape as New Zealand transitions to a low carbon energy supply, profitable refining remains at the core of our strategy.

New Zealand's declared commitment to a carbon neutral energy future is an exciting statement of leadership on the world stage. It is a commitment to which Refining NZ has much to contribute. We have a safe, reliable and efficient infrastructure and continue to improve our environmental footprint. With our substantial technical knowledge, we bring considerable intellectual property to the nation's green energy and growth agendas.

Our strategic review will shape the future direction of our refining business. With New Zealand's energy future in mind, we will build on our core competency of transforming raw feedstock into high quality fuels. Looking ahead, New Zealand's mix of energy sources will include a greater percentage of renewables.

Our business strategy is built around five strategic pillars, each of which is aligned with a set of 14 priority areas. These are the most important issues for the business and help determine how we create value towards the different capitals (refer to page 129 for further information on material issues).

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.

DELIVER A WORLD-CLASS ENVIRONMENTAL PERFORMANCE

We are conscious of our responsibility for minimising the impact of our operations on the surrounding environment, and are continually looking to lift our environmental performance. To achieve this, we have facilities and management processes to minimise the impact of our activities.

BUILD ON THE QUALITY AND RELIABILITY OF OUR CUSTOMER PROMISE

As a toll refiner we can influence our customers' decision whether to make a product at Marsden Point or to import from refineries overseas. We provide a compelling customer proposition based on three elements: Quality, Reliability and Price.

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. Harnessing innovative ideas from both inside and outside the business continues to provide new opportunities to improve our business delivery.

EMBED A HIGH PERFORMANCE CULTURE

Culture, shared values, staff feeling recognised and rewarded and given the opportunities to develop to their potential, are core to the people and capability strategy. The workforce is becoming demonstrably more diverse across a number of fronts, hence inclusivity is another main theme in the people agenda.


HUMAN CAPITALS
DELIVER A WORLD-CLASS HEALTH AND SAFETY PERFORMANCE
1 Process safety
2 Personal safety and wellbeing
3 Business continuity and emergency response
NATURAL CAPITALS
DELIVER A WORLD-CLASS ENVIRONMENTAL PERFORMANCE
4 Energy efficiency
5 Emissions to air, water and ground
6 Greenhouse gas/climate change
BUILD ON THE QUALITY AND RELIABILITY OF OUR CUSTOMER PROMISE
7 Quality and reliability of products
FINANCIAL CAPITALS
IMPROVE OUR COMPETITIVENESS
8 Financial performance
9 Governance and Board independence
10 Risk management
SOCIAL CAPITALS
EMBED A HIGH PERFORMANCE CULTURE
11 Culture and diversity
12 Training and development
13 Community and iwi engagement
14 Contribution to regional economy

IN DIALOGUE WITH OUR STAKEHOLDERS

Strong relationships underpin the ability of our business to create value in the short, medium and long-term. We are committed to nurturing these relationships and by being transparent about our activities and our strategic plan, look to maintain trust and goodwill.

Built on mutual trust

Listening to our stakeholders, engaging in an open dialogue and responding to their views and concerns is very important for us. Rather than one-off consultations around specific topics, we prefer an integrated approach and ongoing dialogue about our role, our products and services, our business performance and other issues. This enables us to fully understand our impact on the value of the four capitals in our strategic framework. For this purpose, we have tailored platforms for different stakeholder groups. For instance, social media plays a major role in our engagement with our direct neighbours. Being a large industrial in a pristine natural setting, we greatly appreciate the valuable support and regular dialogue we have with our community.

Transparent reporting following international standards

Refining NZ has a tradition of communicating in a transparent way and drawing on our values of honesty, integrity and respect with those people and organisations with whom we have important relationships. In that same spirit, and recognising the growing importance to shareholders of our social and environmental performance, we have structured this report to provide in-depth commentary on those issues identified as the most important and material. To ensure we are following accepted international best practice, this report has been prepared in accordance with Global Reporting Initiative (GRI) Standards: Core option. The materiality assessment providing the basis for this disclosure is shown in the GRI Index at the back of this report.

Stakeholders

Shareholders

- Shareholder day at Marsden Point (January 2018)
- Annual shareholder meeting
- Webcast for half year and full year results presentation
- Revitalised investor pages on the company website: www.refiningnz.com
- Reports to NZX including bi-monthly throughputs and margin

Customers

- Regular reporting and meetings
- Ongoing coordination of fuel supply
- Access to pipeline for imported fuels during the 2018 shutdown

Iwi and Community

- Ongoing sponsorship programme
- Memoranda of Understanding with Patuharakeke Te Iwi Trust Board and the Ngatiwai Trust Board
- Periodic business updates
- Programme of education initiatives
- Consultation regarding the dredging project
- Support for shellfish rahui on Mair Bank

Employees

- Business planning days
- New social media platform for employees
- Mentoring programme
- Refreshed values and culture programme
- Acknowledging outstanding staff performance with the introduction of the Hive Awards (see page 34)

Government

- Progressed the Refinery's post NGA (Negotiated Greenhouse Agreement) status
- Business update to key ministers, local MP's and local government

Suppliers

- Regular reporting and meetings
- Integrated working with major suppliers
- Participation in business planning days

OUR PERFORMANCE IN 2018

Deliver a world-class health and safety performance

Safety and wellbeing is a core value, underpinning the way we do business.

The critical importance we place on safety, including personal, occupational health and process safety, is reflected in the way we manage safety issues at our high hazard site. At the core is our Central Safety Committee (CSC). This Committee is chaired by our CEO and includes the Leadership Team alongside subject matter experts, employees and on site contractor representatives. This Committee sets overarching safety principles and reviews ongoing performance. Below the CSC are six sub-committees tasked with the implementation and continuous development of our safety management systems.

We constantly strive to improve our safety performance and the Safety Case discussed on the next page is an element of our management systems. Despite our focused efforts we are not satisfied with our 2018 performance, in particular our Lost Time Injury Frequency (LTIF[1]), which was impacted by five incidents during the year, four of which occurred during the Shutdown 2018. We acknowledge that each incident is one too many. Each incident has been investigated and lessons drawn for our future performance.

Tier 1 incidents represent the most significant process safety event as defined by the American Petroleum Institute, an international standard setting body (refer to the "Glossary" on page 127 for a definition of a Tier 1 incident). In 2018, we recorded two Tier 1 process safety events: a seal leak on a mogas booster pump and a latent manufacturing defect causing a newly installed OEM[1] isolation valve on the Hydrocracking unit to fail.

Our performance by the numbers

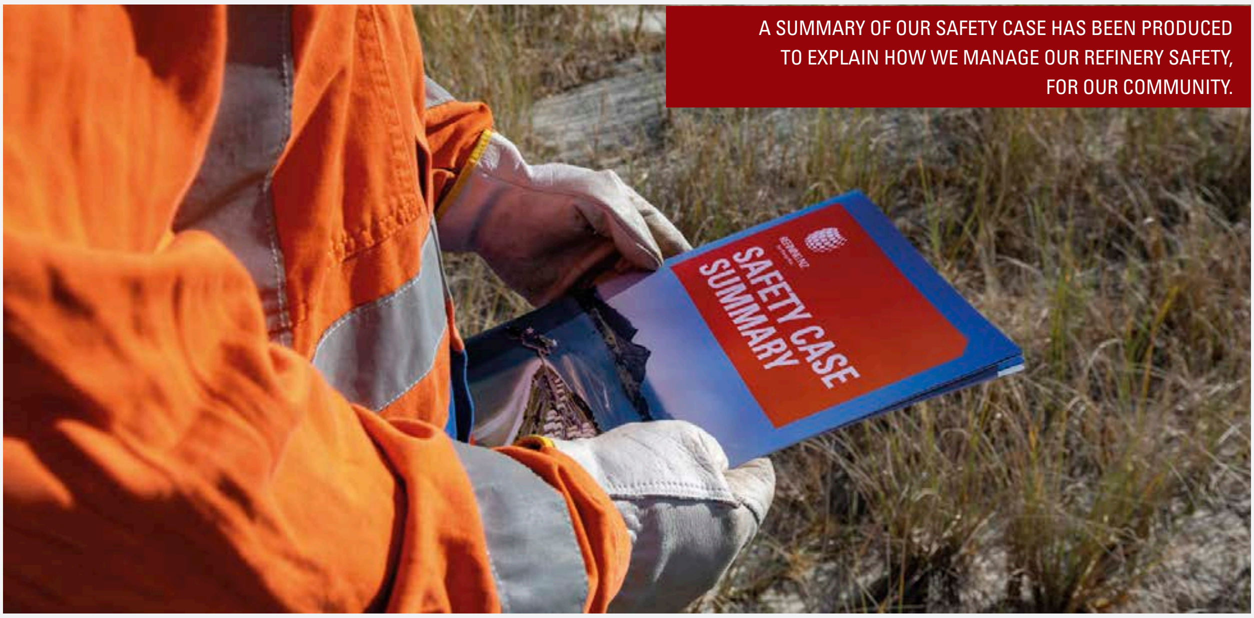
		2018	2017	2016	2015	2014
Total recordable case frequency (TRCF[1])	#/200,000 hrs	0.76	0.89	0.51	1.32	0.86
Lost time injury frequency (LTIF[1])	#/200,000 hrs	0.48	0.26	0.25	0.10	0.19
Tier 1 process safety incidents		2	0	1	1	1
Tier 2 process safety incidents		3	4	0	4	2
Number of major emergency exercises (internal and external)		26	17	13	14	7

– Eight recordable cases which resulted in five lost time injuries.
– Improved personal safety performance in the second half of the year (post Total Refinery Shutdown).
– Tier 2 process safety events included a pump seal leak, corrosion under insulation hydrocarbon leak, and a wet slops pipe leak. All events resulted in a relatively small loss of containment.

[1] See Glossary on page 127.
1 OEM - Original Equipment Manufacturer

WHAT IF? THE SAFETY CASE PROVIDES ROBUST ANSWERS

CASE STUDY



A SUMMARY OF OUR SAFETY CASE HAS BEEN PRODUCED TO EXPLAIN HOW WE MANAGE OUR REFINERY SAFETY, FOR OUR COMMUNITY.

Given the inherently hazardous nature of refining, it's no surprise that our refinery has been designated a major hazard facility under the Major Hazard Facilities Regulation. The Regulation came into being as part of the 2015 Health and Safety at Work Act and was enacted to provide assurance to workers, emergency services, the community, and others that the potential for major incidents has been assessed and that effective controls are in place.

Our refinery is one of 123 such facilities around the country including major industrials such as Methanex in Taranaki and Oji Fibre Solutions in Kawerau. As a Major Hazard facility we are legally obliged and accountable for working in certain ways to ensure that the processes we follow and the things we do are safe. That includes having an accepted Safety Case, a written demonstration that our refinery has the ability and means to control major incident hazards effectively.

While technically a legal requirement, preparing the Safety Case provided us with an opportunity to look at our procedures with a refreshed perspective. In March 2018 we submitted our documentation to WorkSafe which is responsible for overseeing the Major Hazard Facility Regulation. This 535 page document details how the Refinery identifies all the hazards which could result in a major incident (safety assessments), the systems the Refinery uses to manage the risk posed by major incidents (safety management system) and what our team does if the worst were to happen (Emergency Response Management Plan).

At the time of writing, WorkSafe has still to confirm that our Safety Case has been accepted. In the meantime we have taken the case a step further, rolling out a 15 page easy-to-access summary through a series of community briefings. At every session people have most wanted to know what they should do in the unlikely event of an emergency, the types of incidents that we may encounter and the emergency plans and the training we undertake to ensure we're ready for any eventuality.

Our Safety Case highlights the importance we place on the safety of our people and the safe running of the Refinery above all else. Whether we've been in community halls, staff rooms, board rooms or fire stations, our case has had the thumbs up from everyone we've spoken to.

The Safety Case summary is available on the company website: https://www.refiningnz.com/community/

Deliver a world-class environmental performance

We are conscious of the impact of our operation on the surrounding environment and are continually looking to lift our environmental performance. As we operate a mature industrial complex, most of our improvements are incremental and yet significant in size.

Energy is the biggest cost for the Refinery so there is plenty of motivation to be a more efficient consumer of energy. This has driven our robust track record of energy efficiency improvements. Saving energy reduces our air emissions and is another factor that keeps us competitive with bigger, overseas refiners.

We made good progress with our energy initiatives in 2018. The one-in-fourteen year total refinery maintenance shutdown impacted energy demand through reduced electricity consumption. However, most of our energy reduction was the result of systematic initiatives and will therefore have a positive impact on our environmental performance going forward.

Our emissions to air, water and ground have the potential to impact our local environment beyond our fenceline. Unlike carbon dioxide (CO_2) emissions which have an impact at global level, sulphur dioxide (SO_2) affects air quality more at local or regional level. We have achieved further reductions in our SO_2 emissions per unit of fuel production in 2018. We are working with our customers, industry and the Ministry of Transport to reduce the sulphur content in fuel oil used in shipping as RNZ supplies 100% of the domestic demand for shipping fuel. Once these solutions are implemented, SO_2 emissions at ports and along the coastlines will be significantly lowered.

To maintain the environmental integrity of our refining site, we have invested over $24 million in the past four years including improving the resilience of our waste water systems. This has boosted our ability to prevent hydrocarbons leaving the site especially during major rain events.

Our performance by the numbers

		2018	2017	2016	2015	2014
Releases outside consent	#	**5**	4	5	2	3
Direct CO_2 emissions	kg CO_2/t of product	**204**	200	201	227	228
Hydrocarbon Fuel Usage	PJ	**13.2**	14.2	14.1	15.3	14.5
Ex-Crude (refinery produced fuel)	PJ	**9.8**	11.4	11.5	13.5	12.6
Natural gas	PJ	**3.4**	2.8	2.6	1.8	1.9
Electricity Usage	PJ	**1.14**	1.22	1.21	1.03	0.96
Water Usage	Million Tonnes	**1.65**	1.70	1.68	1.65	1.60
Sulphur Dioxide (SO_2) Emissions	Tonnes	**3,404**	3,695	4,332	4,055	3,885
Flare	Amount of Flare as Mass % of Feedstock	**0.08**	0.02	0.09	0.02	0.08

– Higher consumption of natural gas in 2018 has reduced SO_2 and CO_2 emissions.

WHEN SMALL GAINS POWER A VILLAGE

CASE STUDY

ENERGY MANAGER, JUAN VIDELA KEEPS A CLOSE EYE ON THE ENERGY INTENSITY OF PROCESSING UNITS AND RELATED UTILITIES ACROSS THE REFINERY.

Refining crude oil is an energy intensive process. In fact, our refining operation consumes enough energy every year to power around 375,000 homes.

Refining NZ has been on an energy improvement pathway for many years. It makes simple business sense as energy is our biggest cost. Equally, it is part of our obligations under the Negotiated Greenhouse Agreement (NGA) we have had with the Crown since 2003.

Our steady, year-on-year focus on energy improvement means we have been able to reduce our CO_2 intensity by around 20% since 2008. Te Mahi Hou[1] has been a key contributor, improving energy efficiency across the Refinery and reducing our CO_2 emissions by 10%. On the back of this seminal project we've pursued a host of quick-win projects, working with the Energy Efficiency and Conservation Authority (EECA). These include, for example, re-using a decommissioned compressor to recover hydrogen from our Benzene Recovery Unit which has reduced CO_2 by around 9,000 tonnes a year. Looking ahead, we are working with EECA to optimise our heat exchanger cleaning schedules.

We've also made our own savings, tapping a well of energy improvement ideas to increase hydrogen recovery from Te Mahi Hou and reduce CO_2 by 7,000 tonnes per year. Working with First Gas we've doubled our access to natural gas and switched out crude for a cleaner, efficient fuel. This has reduced CO_2 by 10,000 tonnes a year. The first two phases of the RAP capacity upgrade netted a saving of 4,000 tonnes of CO_2 per year.

On their own each energy saving project is dwarfed by Te Mahi Hou, but the combination of projects completed or on the drawing board nonetheless represents a valuable contribution to our energy conscious refining business.

[1] $365m investment in the Continuous Catalytic Regeneration (CCR) commissioned in 2015.

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 cleaner quality fuels which meet the specific requirements of the New Zealand market. We maintain a quality management system to the requirements of ISO 9001 (Quality Management) which is externally audited on a regular basis.

Our goal is to deliver to our customers in full, on time and to specification. To deliver on this promise we invest in our refining operation and product storage. Keeping unplanned downtime to a minimum is critical and is supported by our strong focus on maintaining equipment. As a result, our operational availability compares well with refineries of a similar size and complexity in the region.

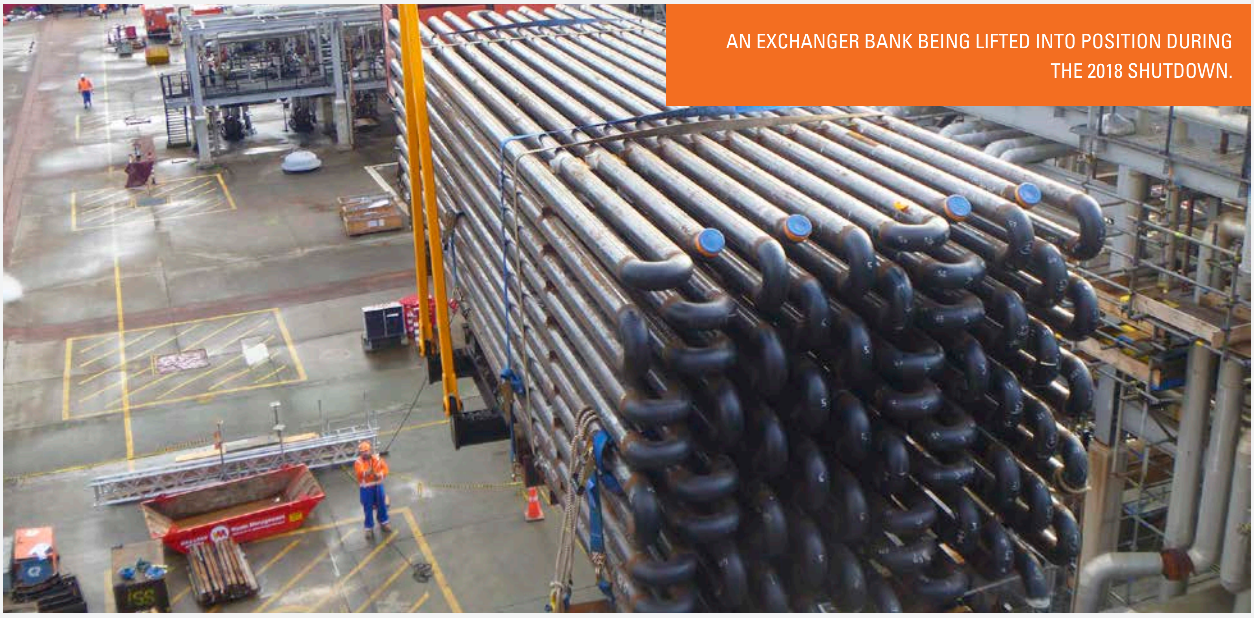
Our performance by the numbers

		2018	2017	2016	2015	2014
Throughput refinery	million barrels	**40.4**	41.7	42.7	42.6	39.7
Throughput pipeline RAP	million barrels	**21.0**	19.8	20.1	18.4	17.9
Operational availability	%	**90.7**	98.0	96.9	97.7	93.5
Unplanned refinery downtime	%	**0.8**	0.6	0.9	0.3	0.2
Unplanned RAP downtime	%	**1.3**	4.6	0.9	0.6	0.9

- 2018 Refinery throughput and operational availability was reduced primarily due to the Planned Total Refinery Maintenance Shutdown.
- The 2018 RAP throughput was an all-time record for the Company.

SHUTDOWN 2018 - AN ENORMOUS LOGISTICAL UNDERTAKING

CASE STUDY



AN EXCHANGER BANK BEING LIFTED INTO POSITION DURING THE 2018 SHUTDOWN.

Our customers depend on the safe and reliable running at Marsden Point 24 hours a day, every day of the year to produce high quality fuel products for New Zealand.

Underpinning that need to remain safe and reliable is the day-to-day maintenance of refining plant and equipment and at periodic intervals, planned maintenance shutdowns for major work, and the hard-to-get-to jobs that can't be done on the run in a live plant. With a typical planned maintenance shutdown, processing units can be brought back into production once maintenance is completed. This means that the Refinery can keep on producing fuels.

In April 2018, we embarked on the first total refinery shutdown at Marsden Point in 14 years. With all processing units, related units and utilities shut down, all production ceased for a period of ten days. The Shutdown 2018 was an enormous logistical undertaking that required two years of planning and marshalling resources from across the country, and around the world. At its peak there were 1,800 workers on site, across multiple work fronts. Over 1,700 jobs were carried out safely and to a high quality, including 2,000 welds with less than a 1% failure rate.

What made 2018 even more remarkable, was the shutdown crew having to work in unseasonably cold weather while managing emergent work and other factors, including the failure of a newly installed OEM isolation valve which impacted the restart of the hydrocracker. The two major "brownfield" retrofits, the mid-section replacement of the high vacuum unit and re-lifing the Hydrogen Manufacturing Unit (HMU), proved more challenging than anticipated.

By far the most valuable outcome from the Shutdown 2018 has been a refurbished HMU which, for a major hydrogen producer, opens up the exciting possibility of developing hydrogen infrastructure for our low carbon economy (see page 14, *Q&A with Mike Fuge)*.

Improve our competitiveness

Refining NZ's location is our competitive edge, enabling us to respond to the specific product and quality requirements of our New Zealand based customers. The structural advantage of being close to market allows us to supply New Zealand with fuel more efficiently.

We regularly tap the knowledge of our team to generate business improvement ideas capable of lifting our performance across our refining business, the fuels supply chain and our offering to customers. The installation of automated process control optimised the operation of our petrol making unit and led to efficiency gains. In 2018, our refining operation saw the full benefit of First Gas's investment in capacity on the Northern gas pipeline which significantly increased our access to natural gas from Takanaki. As a typically price-competitive source of energy in the refining process, this represents a significant opportunity for us to increase our refining margin.

Our performance by the numbers

		2018	2017	2016	2015	2014
Gross Refining Margin	US$/barrel	6.31	8.02	6.47	9.20	4.96
Free Cash Flow[1]	NZ$m	(58)	103	47	139	(141)
Capital investment	NZ$m	162	95	81	129	220
Net profit after tax	NZ$m	30	79	47	151	10
Crude price	USD/barrel	71	54	44	52	99
Exchange rate	USD/NZD	0.69	0.71	0.70	0.70	0.82

- $107m invested in planned total refinery shutdown.
- GRM normalised for the shutdown was USD 7.33 per barrel.

[1] See "Glossary" on page 127

MONITORING PREPARES WAY FOR DREDGING

CASE STUDY

ONE OF SIX REAL-TIME TURBIDITY METERS THAT WILL GATHER DATA BEFORE, DURING AND AFTER DREDGING.

In 2018 the strategically important dredging project came a step closer to getting underway.

In December the Environment Court confirmed the resource consents issued to Refining NZ for its dredging project, subject to minor revisions agreed between the parties to our appeal.

Resource consents with 138 conditions attached had been granted by the Northland Regional Council in July. While the bulk of those conditions were workable, the Company chose to appeal a small number relating to water clarity, turbidity and a seasonal prohibition on dredging.

The Refinery was especially conscious that the revised conditions ensure that the sensitive ecosystems in Whangarei Harbour are not impacted by the dredging. Mair Bank, adjacent to the Refinery, is one such area that is especially important as it forms a natural barrier for us. It also holds significant cultural value for Tangata Whenua.

Key to safeguarding sensitive areas is a sustained programme of turbidity monitoring, using real-time meters. These are to be stationed at key points on the harbour, including adjacent to Mair and Marsden Banks, Motukaroro Marine Reserve and Home Point and will measure the existing level of suspended particles in the water. The programme will gather baseline data for 12 months before dredging can commence and will continue to monitor turbidity throughout the dredging programme.

The importance of this project cannot be underestimated. Improving the economics of up to half of all crude delivered to the Refinery via larger cargoes will help to keep our refinery competitive with imported fuel from Asia Pacific refiners and will ensure employment of over 600 Northlanders who come through the Refinery gates every day.

That the revised conditions were agreed in a relatively short timeframe underlines the fact that having monitoring measures in place before, during and after the dredging is the right thing to do for our community.

A date for dredging to commence has yet to be confirmed and is dependent on the successful completion of monitoring activity on the harbour and a final investment decision by the Board.

Embed a high performance culture

We provide a dynamic, progressive and technically advanced environment for around 390 highly skilled employees and 265 contractors. In our recruiting as well as in the development of our staff, we put a strong emphasis on alignment with our values.

Our core values underpin our culture and we use them to hold ourselves to account, staying "above the line" and celebrating those who model these behaviours best through our Hive awards.

We continue to roll out our "One Team" culture programme. A strength of our culture has been delivering reliably and safely to our customers and we intend to leverage this further.

Diversity and inclusion is also an important aspect of our culture. We understand that diversity of backgrounds and experience is a strength, particularly in robust decision making.

Maori are well represented across the Refinery and in our latest operator intake in October 2018. Our continued participation in the Global Women – Activate Programme and Darden Executive Programme provide an opportunity to develop our female leaders. In addition, six young women from across our community have been identified for scholarship and work experience.

We aspire to having a strong safety culture with initiatives such as E Tũ Tangata – Stand in the Gap – looking to engage our staff and wider community in ensuring we all go home safely every day.

HONESTY

INTEGRITY

WINNING TOGETHER

RESPECT

LEADERSHIP

SAFETY & WELLBEING

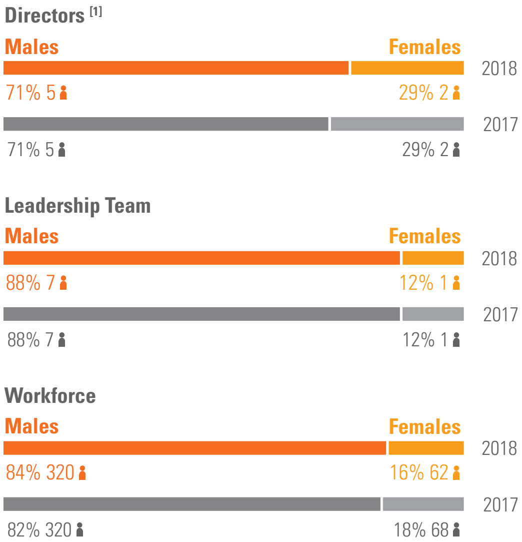
Our performance by the numbers

		2018	2017	2016	2015	2014
Number of staff	Headcount	390	396	386	394	397
Number of contractors	Headcount	265	293	178	96	117
Contribution to regional economy[1]	% of Northland GDP	6.8	6.8	7.3	7.5	7.5

1 Source: www.infometrics.co.nz. Historical information may be occasionally revised by Infometrics as more accurate source data information is available.

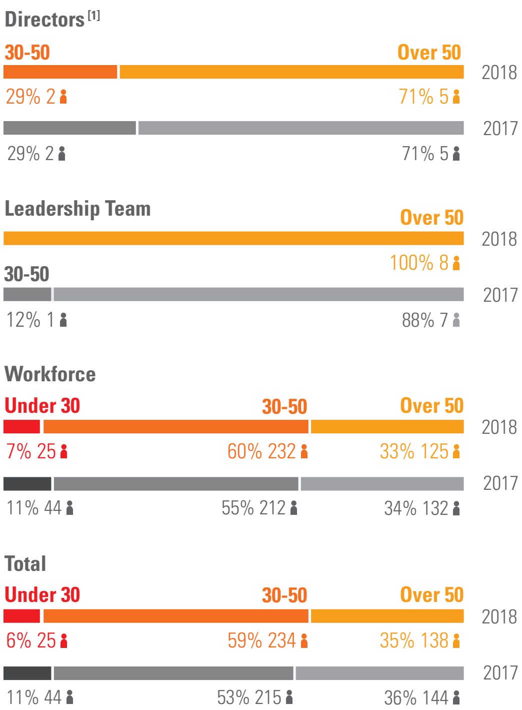
Gender

The following table provides the gender composition of the Group's permanent workforce as at 31 December 2018. By way of comparison, figures for the past year are also included.



Age profile

The age profile of the Group's permanent employees and Board is as follows:

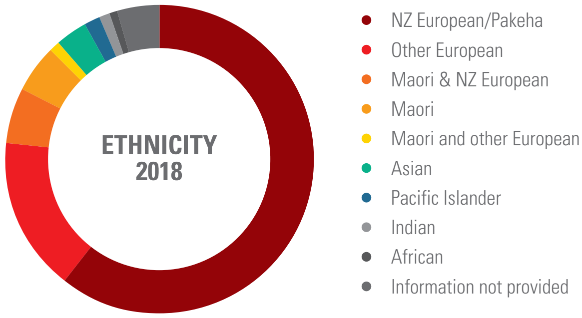


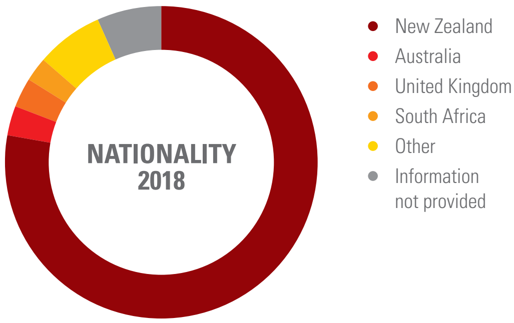
[1] Excludes Mark Tume who resigned on 21 February 2019.

Ethnicity

The Group collects information from all permanent employees on which ethnicity they chose to identify with. We allow employees to select 'other' or chose not to respond. The ethnicity of the Group's permanent employees and Board as at 31 December 2018 is as follows:

	Directors[1]		Leadership Team		Workforce		Total	
	No.	%	No.	%	No.	%	No.	%
NZ European-Pakeha	5	71	5	62	234	62	244	61
Other European	2	29	2	25	58	15	62	16
Maori and NZ European	-	-	-	-	23	6	23	6
Maori	-	-	-	-	19	5	19	5
Maori and other European	-	-	-	-	4	1	4	1
Asian	-	-	-	-	13	3	13	3
Pacific Islander	-	-	1	13	6	2	7	2
Indian	-	-	-	-	4	1	4	1
African	-	-	-	-	4	1	4	1
Information not provided	-	-	-	-	17	4	17	4
Total	7	100	8	100	382	100	397	100





TAKING A STAND FOR SAFETY

CASE STUDY

HEALTH AND SAFETY ADVISOR CORY ABRAHAM IS SPEARHEADING THE ROLLOUT OF OUR SAFETY AND WELLBEING PROGRAMME, E TŨ TANGATA - STAND IN THE GAP

Wiremu and Marsella Edmonds have a powerful story to tell about the impact of health and safety on their family after losing their son Robert in a forestry accident in 2013. Following his death, they chose to engage with industry and developed the ‘Stand in the Gap’ programme.

In 2018 Wiremu and Marsella brought Stand in the Gap to the Refinery. The Edmonds family has a long history of working in forestry. What Wiremu had experienced in forestry was a workplace culture that allowed unsafe practices to go unchecked. These practices got passed through the generations and no one stood in the gap to break the cycle of behaviour that led to injury or, worst of all, fatalities in forestry.

Wiremu and Marsella challenged our people to make a stand for safety and wellbeing recognising that everyone at the Refinery has the right to be safe at work and to go home to family without harm or injury. The programme they developed empowers people to stand up for what’s right in safety and deliver what they say they are going to do, in other words to “stand in the gap”.

During the Hive business planning day in January, programme leaders, Cory Abraham (pictured) and Jared Hemara introduced staff and contractors to E Tũ Tangata – our take on Stand in the Gap, and asked them to make a written commitment to safety and wellbeing for 2019.

E Tũ Tangata will be rolled out across the Refinery, starting with a safety assessment and followed by a series of safety and wellbeing initiatives. Supporting E Tũ Tangata is the new Kaihautu Award which recognises those who live by our safety, wellbeing and environmental values, and go beyond what’s expected of them whether that’s looking out for their own safety and wellbeing or that of their workmates. In choosing our Kaitiaki we will be guided by our ongoing programme of Hauora Hikoi (safety walks) and Hauora Korero (safety talks).

With learnings from Wiremu and Marsella, and the backing of the Stand in the Gap team, we believe E Tũ Tangata will make a positive contribution to the safety of everyone working at Marsden Point.

OUR ACTION PLAN

In 2019, we will focus on the successful delivery of our core operations – recognising the need to deliver on our promises, earn our reputation and build the confidence of investors. It is a year when we "earn the right" to plan towards a brighter energy future.

Lift our Health, Safety and Environmental performance

We are continuing our work to embed safety and wellbeing as a core value.

- We are progressing our Du Pont safety journey with a further audit planned in Q4/2019.
- In 2018, we submitted our Safety Case under the new health and safety regulations. Should the Safety Case be approved in 2019, we will develop a compliance plan.
- We continue our investment in multiple projects to improve our environmental performance.
- We are working with the regional authority to renew our environmental consents that expire after 2022. These consents include discharges to air, land and water, coastal structures and groundwater. Given the changes in the policy landscape, RNZ considers that early reconsenting will provide greater certainty to the Company and its shareholders.

Improve quality and reliability, and grow our revenue

We will progress key growth ideas from our development funnel.

- **Preparation for maintenance projects in 2020**
  We are preparing for the planned maintenance shutdown of our Crude Distillation Unit (CDU1) and Continuous Catalyst Regeneration (CCR) in 2020.
- **Lifestyle asset management**
  Taking a structured approach to our long-term strategic asset management plan will allow us to reprioritise capital projects and shutdown and tank maintenance schedules with the aim of reducing overall maintenance capital costs.
- **Dredging Whangarei Harbour**
  As part of the revised consent conditions we will gather 12 months of baseline water quality data.
- **Further increasing our storage capacity for jet fuel**
  We will start with the second tank conversion to provide increased storage capacity at Marsden Point.
- **Trialling increased pipeline capacity**
  We will trial drag reducing agent (DRA) as an alternative third phase of the RAP capacity upgrade. Indications are that DRA could increase pipeline capacity by around 15%.

Improve our organisational performance

Our journey to high performance continues across five key areas:

- **Rollout of company values**
  Our culture is underpinned by our company values. We now recognise and celebrate those who "walk the talk" through the Hive Awards.
- **Supporting our talented people**
  We continue to support our managers to develop as leaders through mentoring, succession planning and targeted development. Developing a bespoke leadership training programme will provide further momentum in this area.
- **Promoting diversity**
  We continue to work with an external provider to raise awareness of unconscious bias and will build on this through an inclusivity training programme for senior managers.
- **Structuring better ways of working**
  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.

  We continue to employ LEAN principles to lift individual and team performance through eliminating waste, identifying better ways of working safely and visual management of team objectives.
- **Engagement feedback**
  We engage with our employees in annual surveys, facilitated by Aon Hewitt. They provide valuable feedback on management and staff engagement aspects, including leadership and communication.

Profit Matrix 2019

The profitability of a refining business is largely dependent on refiners' margins and the USD exchange rate. These variables are largely outside our 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 2019 net profit after income tax and year end borrowings for given margin and foreign exchange rates.

US$ EXCHANGE RATE / **GRM US$**	0.60	0.65	0.70	0.75
4.00	(34) / 326	(46) / 342	(56) / 356	(65) / 369
5.00	4 / 273	(10) / 293	(23) / 311	(34) / 326
6.00	43 / 220	25 / 244	10 / 265	(3) / 283
7.00	81 / 169	61 / 195	43 / 220	27 / 241
8.00	120 / 131	96 / 154	76 / 174	58 / 198
9.00	158 / 92	131 / 119	109 / 142	89 / 161

44 Production, Mbbl
101 Non processing fee revenue, $m
103 Depreciation, $m

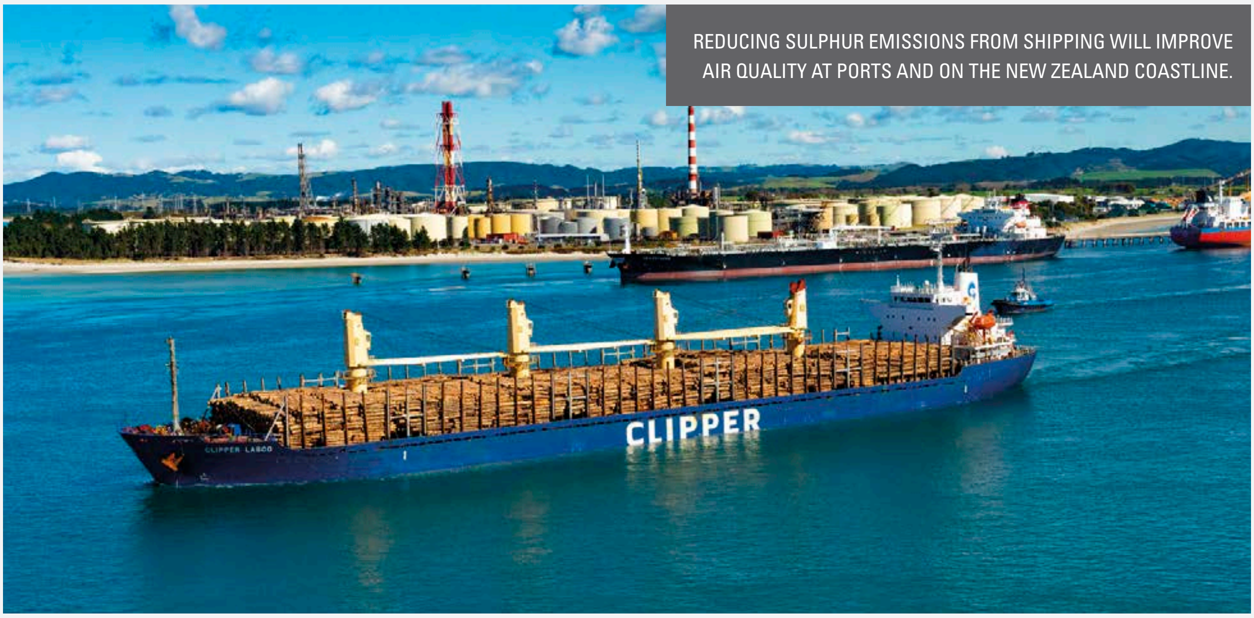
● Net profit after tax
○ Borrowings

2019 Highlights

- No planned maintenance shutdowns
- Higher volumes (~44 million barrels planned throughput)
- Operating costs include one-off costs:
  – resource consent renewal
  – seed funding for new initiatives
  – support for government inquiry and fuel market study.

SPEC CHANGE PROMPTS SOLUTIONS

CASE STUDY



REDUCING SULPHUR EMISSIONS FROM SHIPPING WILL IMPROVE AIR QUALITY AT PORTS AND ON THE NEW ZEALAND COASTLINE.

The market for shipping fuel is entering a period of change with the introduction of international regulations requiring sulphur content to be heavily reduced.

The changes are brought about by the International Maritime Organisation (IMO) treaty, MARPOL Annex VI, which requires a decrease in sulphur emissions through reducing the sulphur content of shipping fuels from 3.5% to 0.5%.

Practically speaking, it means that from January 2020 international ships arriving at New Zealand ports will either be carrying low sulphur (0.5%) fuel oil, or be using high sulphur fuel oil (3.5%) but have a scrubber installed to remove excess sulphur. New Zealand has still to sign up to the MARPOL treaty but when we do, our fishing fleet, interisland ferries and other large New Zealand registered vessels will also have to reduce their sulphur emissions.

The Refinery is taking a broad and proactive approach to MARPOL, working with the Government and industry (oil companies, shippers, bitumen suppliers and consumers) on solutions that will allow New Zealand's shipping industry to comply with MARPOL.

That approach starts with producing a MARPOL compliant low sulphur fuel oil. While it is straightforward to remove sulphur from diesel and petrol, the process for doing the same with fuel oil is less so. But by making use of spare desulphurisation capacity the Refinery will be able to produce the components to blend low sulphur fuel oil in 2020.

Roading bitumen has the potential to act as a sulphur sink. To be a workable solution we need to produce more bitumen by freeing up capacity (de-bottlenecking) on the Refinery's Bitumen Blowing Unit and or, install new bitumen technologies. The scoping of technologies that could modernise and lift bitumen production is well underway, but a high tech option, should it prove viable, is likely to be three to four years away from being installed. De-bottlenecking offers a quicker fix.

At the same time we are looking to expand the Refinery's crude diet which is configured towards crudes with a high sulphur content, to include for the first time, competitively priced onshore crudes from the United States. We're also looking to the logistics of exporting high sulphur fuel oil and increasing export parcel sizes to improve freight economics.

MARPOL will bring short-term volatility to the market, however expert commentators believe that this important spec change will benefit middle distillate (diesel) cracks, while forward-thinking shippers who install scrubbers on their vessels can expect to benefit from lower prices for high sulphur fuel oil.

At a local level, the New Zealand shipping industry will be ably supported through this change by the high tech and other solutions being explored at Marsden Point.

GOVERNANCE.

Regulatory framework

The New Zealand Refining Company Limited ("the Company', "Refining NZ", "RNZ") operates in New Zealand and is listed on the NZX's Main Board. It is subject to regulatory control and monitoring by both the NZX and the Financial Markets Authority ("FMA").

Governance at Refining NZ

Our Corporate Governance framework sets out our Board's practices and processes to provide accountability to shareholders for Refining NZ's actions and performance. Through this framework the Board creates the strategic direction and objectives for the business, identifies and manages our risks, strengthens our business culture and strives to continuously improve our performance.

The Board is committed to maintaining the highest standards of corporate governance, business behaviour and accountability. It regularly reviews and assesses the Company's governance structures and processes to ensure that they are consistent with best practice. It also supports best practice reporting and has structured this statement to report against the NZX Corporate Governance Code ("NZX Code") revised in October 2018.

The Board considers that it has followed the recommendations in the NZX Code during the financial year ending 31 December 2018. In this regard, non-compliance during the year prior to the implementation of governance practices reflecting the new NZX Code was the result of Refining NZ following the old NZX Corporate Governance Best Practice Code as detailed in the last year's annual report.

In this section we provide an overview of our governance framework. For further guidance on our governance framework, including Board charters, the Company's Constitution and our corporate governance policies, please refer to the "Investor Centre" section of our website at www.refiningnz.com. References in this section to our website are to the Investor Centre pages.

This governance statement was approved by the Board on 21 February 2019 and is current as at that date.

PRINCIPLE 1

Ethical standards

"Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation."

Refining NZ's Board sets clear and consistent expectations of all Directors, and Refining NZ people (employees, contractors and other agents) through the Code of Conduct.

Refining NZ's framework for ethical behaviour includes a day-to-day business focus and recognises our responsibilities to shareholders, customers, employees, those with whom we do business, our neighbours and society at large.

Code of Conduct

Refining NZ's Code of Conduct sets out clear and consistent expectations for Directors, employees and representatives of the Company and is available on our website and the intranet.

The Code of Conduct reflects recommendation 1.1 of the NZX Code (although a different conflict of interest policy applies), requiring all Refining NZ Directors, employees and representatives to:

- act with high standards of honesty, integrity and fairness in all aspects of their involvement with the Company;
- undertake their duties with care and diligence;
- uphold the integrity and good name of the Company; and
- not knowingly participate in illegal or unethical activity.

The Code of Conduct goes further than recommendation 1.1 of the NZX Code and requires conflict of interest to be avoided. A detailed conflicts policy applies to the Directors and it is set out in the Board Charter and the Independent Directors Committee Charter.

The Code details the escalation process including the right to contact the Disclosure Officer. Employees who expose serious wrongdoing are protected against retaliatory action in accordance with the Protected Disclosures Act 2000 and the Company's Whistle-Blowing Policy.

Compliance is monitored through an annual confirmation by the Leadership Team and the Chief Executive to the Board confirming adequacy of disclosure and transparency with the Board, integrity of reporting, legislative compliance and financial reporting controls ("general assertion statement"). In the case of serious breaches, disciplinary action, including dismissal, is considered by Management.

A biannual training programme, including an "on-line" Code of Conduct training module, was rolled out in 2018.

The Code of Conduct is reviewed bi-annually.

Securities trading

The Company's Securities Trading Policy applies to Directors, Officers and all employees. A Director or member of the Leadership Team can only enter into securities transactions if prior approval has been given.

A listing of Directors' and Leadership Team member shareholdings is included with their profiles on pages 58 to 65 of this Annual Report. A copy of the policy is available on our website.

PRINCIPLE 2

Board composition and performance

"To ensure an effective Board there should be a balance of independence, skills, knowledge, experience and perspectives."

Board role and responsibilities

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 (see Board role and responsibilities chart below).

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

The main functions of the board include:

- reviewing and approving the strategic, business and financial plans prepared by Management;
- monitoring performance against the strategic, business and financial plans;
- assessing the effectiveness of Management's risk management plans, including Health, Safety and Environmental risks;
- appointing, providing counsel to and reviewing the performance of the Chief Executive;
- approving major investments and divestments;
- ensuring ethical behaviour by the Company, Board, Management and employees; and
- assessing its own effectiveness in carrying out its functions.

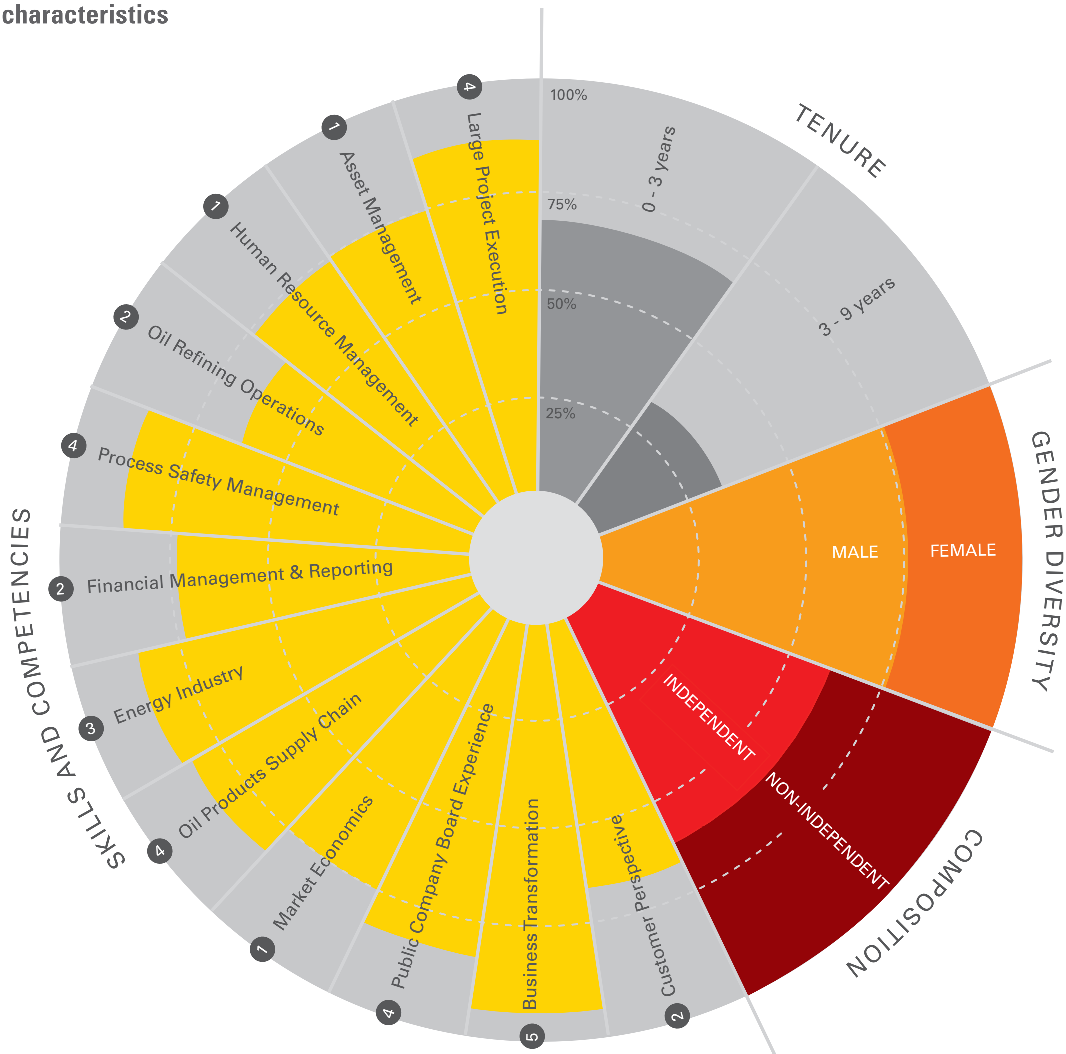
The Board monitors these matters by receiving reports and plans from Management, maintaining an active programme of site visits and through its annual work programme.

The Board uses committees to address certain issues that require detailed consideration by members of the Board who have specialist knowledge and experience. The Board retains ultimate responsibility for the functions of its committees and determines their responsibilities.

The Board has a statutory obligation to reserve responsibility for certain matters. It also deals directly with issues relating to appointments to the Board, strategy, business and financial plans.

All Board authority conferred on the Leadership Team is delegated through the Chief Executive.

Board characteristics



Key
Number of experts in the field

Board composition and appointment

The Board currently consists of seven Directors: Simon Allen (the Chair), Vanessa Stoddart, Paul Zealand and James Miller are Independent Directors. Deborah Boffa, Riccardo Cavallo and Lindis Jones are not Independent. Independence is assessed according to the NZX Main Board Listing Rules criteria.

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 Company's Constitution, the Company is obliged to have at least three Independent 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 ("Representative Directors") as if they were non-representative Directors.

Each year the Board will appoint a Chairman from among the Independent Directors who is responsible for representing the Board to shareholders. The roles of Chairman of the Board, Chair of the Audit, Risk and Finance Committee and Chief Executive must all be held by different people.

The Board is responsible for appointing Directors subject to shareholders' approval at the Annual Shareholders' Meeting. The Nominations and Remuneration Committee manages the appointment process for new Directors and the re-election of existing Directors in order to make a recommendation to the Board. When considering an appointment, the Committee will undertake a thorough check of the candidate and his or her background. Where the Board determines a person is an appropriate candidate, shareholders are notified of that and are provided with all material information that is relevant to the decision on whether to elect or re-elect a Director.

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 to fill a casual vacancy, that Director will hold office until the next Annual Shareholders' Meeting, but will be eligible for election at that meeting.

On their appointment, Directors:

– attend an induction programme aimed at deepening their understanding of the business and the environment and markets in which the Company operates; and
– enter into a written agreement with Refining NZ, establishing the terms of their appointment.

Directors' skills and training

The Board maintains a skills matrix setting out the mix of skills and diversity of the Board. The skills matrix is used to evaluate whether the collective skills and experience of the Directors meet Refining NZ's requirements both currently and into the future. The skills matrix defines the following skills and competencies against which each of the appointed Directors is periodically evaluated:

– business transformation;
– customer perspective;
– market economics;
– public company Board experience;
– financial management and reporting;
– human resources management;
– oil refining operations;
– energy industry;
– oil products supply chain;
– asset management;
– process safety management; and
– large projects execution.

The Board has determined that it needs a minimum of one Director who would be considered expert in respect of each skill/competency.

The Directors undertake appropriate training to remain current on how to best perform their duties as Directors.

Board tenure

The Refining NZ Board does not have a tenure policy although it supports the philosophy that regular rotation of Directors introduces new thinking, perspectives, skills and experience to the Board table.

Director, Board and Committees' performance

The Directors, the Board and all Committees annually evaluate their own performance, processes and procedures to ensure that they are appropriate to assist the Board in effectively fulfilling its role and meeting its duties.

Board meetings open with scheduled "board only" time. Reflecting on the meeting and consideration of any matters requiring disclosure are formal agenda items at the end of each board meeting.

The Board conducts formal performance evaluations; periodically engaging an outside facilitator as well as undertaking peer and self-assessments based on a methodology agreed by the Board. The Chairman had one-on-one discussions with every Director in 2018, with feedback discussed at the Board.

The current mix of skills and experience is considered appropriate for the responsibilities and requirements of governing Refining NZ. The Board actively manages its succession to ensure the successful transition of Directors to the Board, ensuring that there are adequate handover periods. In line with this approach, James Miller was appointed to the Board in 2018 to shadow Mark Tume in his role as Chairman of the Audit, Risk and Finance Committee. Mark retired from the Board in February 2019.

Diversity

Refining NZ recognises the value in diversity of thinking and skills, and seeks to ensure that the Board and workforce both comprise members reflecting diversity. The Company's Diversity and Inclusion Policy is available on the website.

Further information on diversity can be found on pages 32-33 of this report including the Company's diversity initiatives.

PRINCIPLE 3

Board committees

"The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility."

Committees of the Board

Board Committees at Refining NZ are established to perform particular work on an ongoing basis. There are four Board Committees: the Audit, Risk and Finance Committee; the Nominations and Remuneration Committee; the Independent Directors Committee; and the Health, Safety, Environment and Operations Committee.

Each Committee operates in accordance with a written charter approved by the Board and reviewed periodically by the respective Committee. The Committee Charters are available in the corporate governance section of the Company website: www.refiningnz.com.

The Board will also establish non-standing committees, as required, to deal with specific matters. In 2018, the Board established a Due Diligence Committee to oversee the process of the subordinated notes issue.

Audit, Risk and Finance Committee

James Miller (Chair), Simon Allen and Paul Zealand

The Committee members are all Independent Directors. All members of the Committee have the appropriate financial expertise and understanding of the Company's industry and are considered to be "audit committee financial experts".

The role of the Audit, Risk and Finance Committee is defined by the Charter and is to oversee financial reporting, treasury risk management, external and internal audit and assurance, and regulatory conformance.

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. For more information about auditing and reporting Refining NZ's financial performance, see Principles 4 and 7.

The Committee meets with the internal and external auditors (either together or separately) as the Committee Chair considers appropriate.

Nominations and Remuneration Committee

Vanessa Stoddart (Chair), Simon Allen and Paul Zealand

The Nominations and Remuneration Committee comprises three Independent Directors.

The role of the Nominations and Remuneration Committee is defined by the Charter.

In respect of nominations, the responsibilities of the Committee are to identify and nominate, for the approval of the Board, candidates to fill Board vacancies (including development of succession planning) 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 section CW26C of the Income Tax Act 2007 (as amended) (Exempt ESS).

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 62 to 65.

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, culture and engagement as well as other strategic people priorities that arise from time to time.

Independent Directors Committee

Simon Allen (Chair), James Miller, Vanessa Stoddart and Paul Zealand

The four Independent Directors form the Committee, the role of which is defined in the Charter.

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 8.16.1 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 Management, 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.

Health, Safety, Environment and Operations Committee

Paul Zealand (Chair), Simon Allen, Debi Boffa, Riccardo Cavallo, Lindis Jones, James Miller and Vanessa Stoddart

The Board maintains appropriate oversight over matters relating to health and safety, including both personal safety (occupational health) and process safety (major accident hazard risk exposure) and environment.

All Directors are members of the Committee, the role of which is defined by the Charter.

- The Committee is responsible for, among others, reviewing, monitoring and making recommendations to the Board on Refining NZ's health, safety, environment and operational risk management framework, policies and targets;
- seeking assurance that the Company is effectively structured and resourced to manage these risks;
- reviewing selected incidents and considering the appropriateness of actions to minimise the risk of recurrence; and
- reviewing Management's emergency response and crisis management preparedness.

Meeting attendance

Director attendances at Board and sub-committee meetings during 2018 were as follows:

	Board meeting*	Health, safety, environmental and operations committee	Audit, risk and finance Committee	Nominations and Remuneration committee	Independent Directors Meeting	Due diligence committee	Site walks
S C Allen	7/7	6/6	3/3	5/5	4/4	9/9	5
M J Bennetts (resigned 16 March 2018)	1/1	1/1					1
L Jones (appointed 19 March 2018)	6/6	5/5					5
D C Boffa	7/7	6/6					3
R Cavallo	7/7	6/6					4
J Miller (appointed 1 Nov 2018)	1/1	1/1					1
V C M Stoddart	7/7	6/6		5/5	4/4		2
M Tume (resigned 21 February 2019)	6/7	5/6	3/3		4/4		3
P A Zealand	7/7	6/6	3/3	5/5	4/4	9/9	5

* includes April 2018 Annual Shareholders' Meeting.
In addition, 13 meetings were held throughout the year in relation to the appointment of the Chief Executive and the Board's succession, including the appointment of two new Directors.

Takeover Protocols

The Takeover Protocols policy sets out the rules and procedures followed in case of a takeover offer for the Company:

- on receipt of a communication that a takeover offer is likely, the Directors will consider the continuous disclosure obligation of the Company under the NZX Listing Rules 10.1;
- upon receipt of a notice of intention to make a takeover offer ("Takeover notice") Refining NZ will notify the NZX and appoint an independent advisor. The independent advisor's role will be to prepare a report on the merits of the offer, providing an expert opinion to Refining NZ shareholders; and
- an independent takeover panel will be established to oversee the process.

Shareholder communication would include the formal takeover offer, target company statement and the independent advisers report.

PRINCIPLE 4

Reporting and disclosures

"The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosure."

Continuous Disclosure

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. Refining NZ's Continuous Disclosure Policy sets out principles to be followed to provide timely advice to the market of material events and developments affecting the Company as they occur and to ensure a robust investor and media relations programme operates to ensure all market participants have equal opportunities to receive information issued by the Company.

The policy applies to:

- all Refining NZ Directors;
- all employees of the Company and its subsidiaries; and
- contractors, consultants, advisers and other service providers to the Company, where they are under a relevant contractual obligation.

This Policy aims to ensure Refining NZ meets all statutory and NZX Listing Rule obligations, as well as adopting "best practice" for identification, and timely disclosure of material information.

Major Decisions

Directors' commitment to timely and balanced disclosure is set out in its Continuous Disclosure Policy and includes advising shareholders on any major decisions. Where voting on a matter is required the Board encourages investors to attend the meeting or to send in a proxy vote. Shareholders may raise matters for discussion at the Annual Shareholders' Meeting either in person or by emailing the Company with a question to be asked.

Financial Reporting

The Audit, Risk and Finance Committee plays a central role in Refining NZ's commitment to transparent reporting of its financial performance as outlined in the Committee Charter.

The Leadership Team is responsible for implementing and maintaining appropriate accounting and financial reporting principles, policies, and internal controls designed to ensure compliance with accounting standards and applicable laws and regulations.

Refining NZ's external auditor, PricewaterhouseCoopers, is responsible for planning and carrying out each external audit in line with applicable auditing standards. They are accountable to shareholders through the Audit, Risk and Finance Committee and the Board respectively. The Board retains overall responsibility for financial reporting.

The Committee makes sure that it and the full Board are sufficiently informed about good-practice financial reporting and Refining NZ's operations to know whether financial reporting is fit for purpose. This means it represents a balanced viewpoint, is factual and complete and is effectively implemented.

The CEO provides an annual assertion statement to the Board, confirming that Refining NZ's financial records have been properly maintained, and that the financial statements comply with Generally Accepted Accounting Practice and give a true and fair view of Refining NZ's financial position and performance.

The Half Year (interim report) and the Annual Report are available on the Company's website www.refiningnz.com.

Non-financial Reporting

The Company's non-financial reporting is provided annually and reports on material environmental, economic and social sustainability risks against the Global Reporting Initiative, a standard recognised by the Sustainable Stock Exchange Initiative. For the non-financial reporting refer to pages 18 to 65.

PRINCIPLE 5

Remuneration

"The remuneration of Directors and executives should be transparent, fair and reasonable."

The Company has adopted a Director and Executive Remuneration Policy for remuneration of the Board and Leadership Team. Refining NZ's remuneration framework and policies are overseen by the Nominations and Remuneration Committee in line with the Charter. The policy is available on the website.

Remuneration

Refining NZ aims to attract and retain appropriately qualified and experienced individuals. Refining NZ applies a fair and equitable approach to remuneration and reward practices, taking into account internal and external relativities balanced against the commercial environment.

The Board will take independent advice and establish market rates and medians against New Zealand businesses of comparable size and complexity, having regard to industry specific and generic roles. Individual performance, company performance and market relativity are key considerations in setting remuneration levels.

In 2018, the Board took independent advice in relation to the remuneration offered to the Chief Executive and a number of Leadership Team members.

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 $900,000 and was approved by shareholders at the Annual Shareholders' Meeting in April 2018. Directors' remuneration is set at a level to remain comparable with other companies in New Zealand, taking into account the expertise, skills and responsibilities of Directors. The Directors of the subsidiary company, Independent Petroleum Laboratory Limited, do not receive remuneration.

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

	2018 Annual Fees $	2017 Annual Fees $
Board of Directors		
Chairman	**180,000**	170,000
Independent Director	**75,000**	88,000
Non-independent Director	**75,000**	72,000
Audit, Risk and Finance Committee		
Chairman	**30,000**	25,000
Member	**12,500**	12,500
Nominations and Remuneration Committee		
Chairman	**20,000**	10,000
Member	**5,000**	5,000
Independent Directors Committee		
Member	**20,000**	n/a
Health, Safety, Environment and Operations Committee		
Chairman	**10,000**	n/a

		Appointed	Board fees $	ARFC Committee fees $	R&N Committee fees $	Independent Directors Committee fees $	HSEO Commitee fees $	Total fees $
S C Allen	Chairman	4 Dec 2014	180,000					180,000
M J Bennetts*	Z Energy	10 May 2010	16,027					16,027
L Jones	Z Energy	19 Mar 2018	58,973					58,973
D C Boffa	BP	23 Aug 2017	75,000					75,000
R Cavallo	Mobil	12 Apr 2017	75,000					75,000
J Miller	Independent	1 Nov 2018	12,500					12,500
V C M Stoddart	Independent	20 May 2013	75,000		20,000	20,000		115,000
M Tume**	Independent	1 Aug 2007	75,000	30,000		20,000		125,000
P A Zealand	Independent	29 Aug 2016	75,000	12,500	5,000	20,000	10,000	122,500

*M Bennetts resigned as Director effective 16 March 2018. ** M Tume resigned as Independent Director effective 21 February 2019.

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 (including Directors and Officers insurance cover). The Chairman does not receive additional fees for being on a Committee. No loans have been made to Directors.

Chief Executive Remuneration

Mike Fuge commenced as the Company's Chief Executive on 27 August 2018, taking over from Sjoerd Post who completed his tenure with the Company on 31 August 2018.

As a result of the change, the Chief Executive remuneration detail provided below primarily relates to payments made to Mike Fuge. Details of payments made to Sjoerd Post are detailed on page 50.

The Chief Executive's remuneration is approved by the Board and is reviewed annually.

The Chief Executive's Total Remuneration paid in the period from 27 August to 31 December 2018 was $377,293. Total remuneration is made up of two components:

– fixed remuneration – base salary of $316,304 (portion of the annual salary amounting to $900,000); and
– a one-off reimbursement of transition costs and other benefits of $60,989.

The Chief Executive's remuneration package includes a short-term performance incentive (STI) with an "on-target" incentive of 45% of base salary per plan year, up to 65%. The STI payment is subject to the achievement of agreed Key Performance Indicators (KPI's). Short-term performance incentives are deemed "at risk" payments designed to motivate and reward performance in the financial year. The STI is paid in the year following the performance period.

The KPIs agreed for the four months ended 31 December 2018 related to health and safety and operational performance, leadership as well as specific deliverables in terms of the CEO's 90 day plan and the initiation of a broader strategic review as discussed on page 13.

The KPIs agreed for the 2019 financial year relate to areas of health and safety, plant reliability, leadership, financial and in-full on-time in-spec product delivery. The weightings applied are as follows:

KPI category	Weighting %
Health and safety (personal and process)	40
Financial	15
Strategic Projects and critical milestones	15
Leadership	25
Plant reliability	2.5
In-full, on-time, in-spec product delivery	2.5

Each category of KPI is "scored" against the agreed targets for those KPI's. 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 (CEPF). On-target performance is an STI equivalent to 45% of Base Salary, with a maximum of 65% of Base Salary for exceptional performance.

The Chief Executive participates in the Employee Share Purchase Scheme as outlined on page 50.

Five year summary – Chief Executive Remuneration

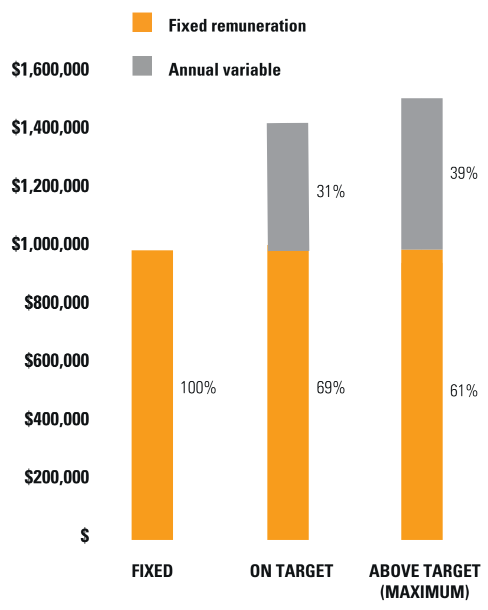
Financial year	CEO	Base salary $000	Other $000	Subtotal $000	Pay for performance (STI) $000		STI against maximum %	Total Remuneration $000
					KPI based	Discretionary		
FY2018	Mike Fuge (from 27 August 2018)	316	61	377	165	-	81	542
FY2018	Sjoerd Post (to 31 August 2018)	705	37	742	300	300	98	1,342
FY2017	Sjoerd Post	982	45	1,027	405	150	94	1,582
FY2016	Sjoerd Post	958	41	999	540	-	93	1,539
FY2015	Sjoerd Post	940	41	981	438	-	78	1,419

Former Chief Executive Remuneration

Former Chief Executive, Sjoerd Post, received remuneration during FY2018 which totalled $1,341,715. This payment included a pro rata STI pay for performance in the 8 month period ended 31 August 2018 of $300,000 and an additional discretionary payment of $300,000 pursuant to the terms of his employment agreement in recognition of an agreed contract extension. The remaining remuneration was a combination of fixed remuneration, accrued annual leave, KiwiSaver and other benefits.

Scenario charts – Chief Executive Performance pay for 2019

The Chief Executive is entitled to a short-term performance incentive payment based on performance against KPI's. The scenario chart below depicts the remuneration proportions for Mike Fuge for the year ended 31 December 2019, as a proportion of total remuneration. Fixed remuneration reflects the base salary plus KiwiSaver contributions. As a percentage of fixed remuneration, for performance that "meets expectations", the STI component would pay out at 45% of fixed remuneration. At "maximum", for performance that exceeds expectations, the STI component would pay out at 65% of fixed remuneration.



Leadership team and other employees' remuneration profile

The 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 the Chief Executive and selected Leadership Team members was externally benchmarked in 2018. 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 which include: the frequency of personal safety incidents (Total Recordable Case Frequency), the number of process safety incidents (Tier I and Tier II), safety walks (Hauora Hikoi) and talks (Hauora Korero), level of operating costs, unplanned downtime and delivery in full, on time, in-spec to our customers and critical project milestones;
- Individual Performance Factors (IPFs) based on achievement of individual performance objectives; and
- values and behaviours demonstrated by the individual.

Employee Share Purchase Scheme

The Company established the Employee Share Scheme which is exempt in accordance with the section CW26C of the Income Tax Act 2007 (as amended). 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.

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. For further details on the scheme refer to note 21 of the consolidated financial statements.

The Company estimates the annual operating costs of the scheme of approximately $15 thousand and the cost of the contribution of approximately $300 thousand per year, depending on the business performance.

Employee Remuneration

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 2018 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 2018 that relate to performance during the 2018 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.

The analysis (see chart) 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 chart below includes the incentive payments paid to the former CEO in respect of both the 2017 and 2018 years.

The ratio between employee remuneration (median) and Chief Executive's total annualised, on-target remuneration for the 2018 financial year (on a cash basis) was 1:11 (2017:1:10)

Amount of remuneration $000	Number of employees 2018	2017
100-109	**16**	17
110-119	**15**	18
120-129	**12**	22
130-139	**27**	22
140-149	**26**	36
150-159	**26**	33
160-169	**31**	34
170-179	**32**	23
180-189	**22**	23
190-199	**24**	22
200-209	**16**	9
210-219	**10**	6
220-229	**5**	2
230-239	**11**	2
240-249	**7**	4
250-259	**3**	3
260-269	**3**	1
270-279	-	1
280-289	**1**	-
290-299	**2**	1
300-309	**-**	1
310-319	**1**	-
320-329	**2**	1
350-359	**1**	-
360-369	**1**	-
370-379	**2**	-
380-389	**-**	1
390-399	**1**	-
400-409	**-**	1
420-429	**-**	1
450-480	**2**	-
1,540-1,549	**-**	1
1,900-1,949	**1**	-

PRINCIPLE 6

Risk management

"Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and materials risks."

Risk management and assurance

The Board is responsible for reviewing and managing risk. The Board delegates day-to-day management of the risk to the Chief Executive Officer. Business risk assessments are conducted by the Leadership Team and reported to the Board of Directors.

Business risks are assessed using the "Bow Tie" risk management methodology. The methodology identifies the "threats" which, if not curtailed or controlled, could manifest as an actual risk event. Against each threat, a number of preventative and mitigating barriers are identified. Preventative barriers are those systems, processes and procedures which are designed to arrest the initiating event so that the risk event does not occur. Should the actual event arise, mitigating barriers are designed to limit the consequences of a risk event occurring.

The Leadership Team and the Board obtain assurance of the adequacy of the Company's management system (covering preventative and recovery or mitigating barriers or controls) from a variety of sources. The Company has:

- an enterprise-wide audit programme conducted by Refining NZ and external auditors, which verifies that operational controls (barriers) are operating as documented and assesses the efficiency and effectiveness of internal controls. During 2018 the Company was subject to 31 audits by external parties, including five audits conducted by the Company's internal auditor, BDO Northland. An additional 13 audits were undertaken by the in-house operational auditor. The summary results from audits were reported to the Leadership Team, and either the Audit, Risk and Finance Committee or the Health, Safety, Environment and Operations Committee of the Board as appropriate;
- detailed operational reports and effective monitoring controls covering both leading and lagging indicators; and
- independent risk assessments carried out by independent third parties.

Health, safety and environment

Refining NZ is designated a high hazard facility in accordance with regulation 19(2) of the Health and Safety at Work Regulations 2016. Health, Safety, Security and Environment (HSSE) risks are an area of significant and continued focus covering both personal and process safety and environmental effects. Refining NZ's Health and Safety and Environmental policies are published on the Company's website (www.refiningnz.com) and the intranet.

Refining NZ's Board approves the annual HSSE plan, receives assurance and performance reports, and oversees the management of the major hazard facility.

The Company's approach and progress on health and safety initiatives can be found "Deliver a world-class health and safety performance" on page 24.

PRINCIPLE 7

Auditors

The Board should ensure the quality and independence of the external audit process.

External auditors

Oversight of the Company's external audit arrangements is with the Audit, Risk and Finance Committee. The Committee Charter outlines Refining NZ's framework for managing the relationship with the external auditor and our procedure for ensuring independence.

Each service provided by the auditor requires prior approval of the Committee, so that such service does not compromise auditor objectivity and independence.

The Committee 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. PricewaterhouseCoopers is the external auditor of Refining NZ and its audit partners rotate on a 5 year basis. Pip Cameron has been the audit engagement partner since 31 December 2014 with the transition to a new engagement partner to be undertaken in 2019.

The PricewaterhouseCoopers' audit report is based on the group financial statements. Total fees paid to PricewaterhouseCoopers in its capacity as auditor for FY18 were $162,000 (2017: $180,875). Total fees paid to PricewaterhouseCoopers for other professional services totalled $703,000 (2017: $76,309). Other services provided in 2018 comprise:

- annual shareholders' meeting procedures;
- remuneration benchmarking; and
- strategic consulting services.

For further details please refer to Note 2 of the Consolidated Financial Statements.

The external auditor has provided the Committee with written confirmation that, in their view, they were able to operate independently during the year.

Refining NZ has invited the auditor to attend the 2019 Annual Shareholders' Meeting to answer shareholder questions relevant to the audit.

Internal audit

The Company has an internal audit function, split across operational aspects of the business and financial systems and processes. The operational auditor role is an in-house function, reporting to the Leadership Team, while BDO Northland are engaged to perform financial internal audits. Both of these functions are independent of the Company's external auditors and report to either the Audit, Risk and Finance Committee or the Health, Safety, Environment and Operations Committee as applicable.

Each year the BDO and operational audit plans are approved by the relevant Committee. The audit programme of work considers the most significant areas of business risk in the Company and is developed following discussions with senior management and business risk assessments. The internal auditor also covers risks in relation to major projects that are planned or underway.

The role of the internal audit function is to:

- assess the design and operating effectiveness of the controls governing key operations, processes and business risks;
- provide the Board with an assessment, independent of Management, as to the adequacy of the Company's internal operating and financial controls, business processes, systems and practices; and
- assist the Board in meeting its corporate governance and regulatory responsibilities.

PRINCIPLE 8

Shareholders' rights and relations

"The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.'

Refining NZ is committed to an open and transparent relationship with shareholders. We communicate with shareholders through multiple channels throughout the year:

Website

The Investors section of our website contains investor-related information and data together with Company contact details. Shareholders can directly access the Board at any time through our dedicated email address corporate@refiningnz.com.

Annual Shareholders' Meeting (ASM)

All shareholders are invited to attend our ASM which is also webcast to allow participation by those who are unable to attend the meeting in person. Shareholders may raise matters for discussion at the ASM. The 2019 ASM will be held at 2pm on Friday, 12 April 2019 at Eden Park, Kingsland, Auckland. The Notice of Meeting will be available on the Refining NZ website.

Annual and interim results announcements

The CEO and CFO briefing on the interim and full-year results is broadcast to allow all shareholders to participate. Our periodic reporting provides an excellent opportunity to communicate with our investors regarding the Company's overall performance and market conditions. These presentations are also posted on the Company's website and to the NZX. An interim report is published in September and an annual report in March each year.

Analyst and Investor briefings

The CEO and CFO periodically meet with analysts and investors.

Regular information disclosures

The Company releases its bi-monthly data on throughput, margins and processing fees via the NZX.

Shareholder Day

On 25 January 2018 the Company hosted a Shareholder Day at Marsden Point.

Electronic communications

We encourage shareholders to provide email addresses to our share registrar to enable them to receive shareholders materials electronically.

Computershare Investor Services Limited
Telephone: + 64 9 488 8777
enquiry@computershare.co.nz

Statutory disclosures

Directors' and Officers' Insurance

The Company has granted indemnities to its Directors and persons whom it has appointed as Directors of its operating subsidiaries in relation to potential liabilities and costs they may incur in those roles. The indemnities are subject to certain limitations that are prescribed by law and they do not cover settlements or admissions prejudicing a successful defence of a claim without the Company's consent as well as unnecessary advisor costs after the defence of a claim has been assumed by the Company.

The Company has arranged Directors' and Officers' Liability Insurance for its Directors, employees and persons whom it has appointed as Directors of its operating subsidiaries, which provide them with insurance in respect of certain liabilities and costs they may incur in those roles. This insurance is limited to cover that is not prohibited by 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.

Donations

The Company made donations of $171,329 during the year ended 31 December 2018 (2017: $53,856). No political donations were made.

New Zealand exchange waivers

No NZX waivers were sought or granted in 2018. In 2018, the Company utilised a 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.

Shareholder and bondholder information

Twenty largest shareholders

As at 31 January 2019

	Shareholders	Total shares held	% of total
1	Mobil Oil New Zealand Limited	53,760,000	17.20
2	Z Energy Limited	47,999,980	15.36
3	BP New Zealand Holdings Limited	31,572,640	10.10
4	HSBC Nominees (New Zealand) Limited	28,469,224	9.11
5	Citibank Nominees (New Zealand) Limited	16,709,955	5.35
6	Accident Compensation Corporation	14,238,600	4.56
7	HSBC Nominees (New Zealand) Limited A/C State Street	13,199,517	4.22
8	BNP Paribas Nominees (NZ) Limited	11,375,819	3.64
9	JP Morgan Chase Bank NA NZ Branch-Segregated Clients Acct	9,988,466	3.20
10	BNP Paribas Nominees (NZ) Limited	4,632,288	1.48
11	FNZ Custodians Limited	4,062,428	1.30
12	Forsyth Barr Custodians Limited	2,685,771	0.86
13	National Nominees New Zealand Limited	2,583,268	0.83
14	Masfen Securities Limited	2,274,539	0.73
15	Tea Custodians Limited Client Property Trust Account	1,908,134	0.61
16	New Zealand Depository Nominee Limited	1,819,847	0.58
17	Chester Perry Nominees Limited	1,625,724	0.52
18	Custodial Services Limited	1,517,173	0.49
19	New Zealand Permanent Trustees Limited	1,500,000	0.48
20	JBWere (NZ) Nominees Limited	1,208,930	0.39
		253,132,303	**80.98**

The shareholder spread table on page 59 groups shares held by NZCSD as single legal holding.

Substantial product holders

As at 31 January 2019

The following shareholders each 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
Mobil Oil NZ Limited	53,760,000
Z Energy Limited	47,999,980
BP New Zealand Holdings Limited	31,572,640
Wellington Management Group LLP	19,242,852

The total number of quoted voting products of the Company on issue at 31 December 2018 and 31 January 2019 was 312,576,453 fully paid ordinary shares.

Shareholder and bondholder spread

As at 31 January 2019

	SHAREHOLDERS				BONDHOLDERS			
No. of shares / bonds	No. of Shareholders	% Holder	Value of Shares	% of shares	No. of Bondholders	% Holder	Value of Bonds	% of bonds
1-499	228	4.85	61,492	0.02				
500-999	273	5.80	190,518	0.06				
1,000-1,999	607	12.90	810,949	0.26				
2,000-4,999	1,338	28.44	4,269,298	1.37				
5,000-9,999	881	18.72	5,915,701	1.89	39	8.55	205,000	0.27
10,000-49,999	1,186	25.21	21,700,738	6.94	289	63.38	5,710,000	7.61
50,000-99,999	117	2.49	7,586,962	2.43	72	15.79	3,962,000	5.28
100,000-499,999	57	1.21	11,595,464	3.71	42	9.21	5,711,000	7.61
500,000-999,999	5	0.11	3,636,980	1.16	3	0.66	1,510,000	2.02
1,000,000 upwards	13	0.28	256,808,351	82.16	11	2.41	57,902,000	77.21
	4,705	**100.00**	**312,576,453**	**100.00**	**456**	**100.00**	**75,000,000**	**100.00**

Geographical spread

As at 31 January 2019

	SHAREHOLDERS				BONDHOLDERS			
Location	No of Shareholders	% Holder	Value of Shares	% of shares	No of Bondholders	% Holder	Value of Bonds	% of bonds
Auckland (Greater)	1,438	30.56	215,150,531	68.83	133	29.17	34,746,000	46.33
Wellington (Greater)	580	12.33	61,405,203	19.64	110	24.12	16,282,000	21.71
Whangarei/Northland	471	10.01	5,801,861	1.86	9	1.97	355,000	0.47
Other North Island	1,000	21.25	14,666,134	4.69	97	21.27	2,790,000	3.72
South Island	1,090	23.17	14,647,099	4.69	102	22.37	20,638,000	27.52
Australia	66	1.40	444,286	0.14				
Other Overseas	60	1.28	461,339	0.15	5	1.10	189,000	0.25
	4,705	**100.00**	**312,576,453**	**100.00**	**456**	**100.00**	**75,000,000**	**100.00**

Board of Directors

Simon Allen

Independent Chairman

BSc, BCom
Tenure: 4 years
Equity Interest: 35,000 shares (2017: 35,000)

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, the Government and investors on matters relating to their strategies and capital markets participation.

Mr Allen is Chair of Crown Fibre Holdings Limited and 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.

DATE OF ENTRY	ENTITY	INTEREST
14/02/94	Xylem Investments Limited	Director
29/10/09	Crown Infrastructure Partners Limited	Chairman
14/12/09	Simon Allen Consulting Limited	Director
01/09/15	IAG (NZ) Holdings Limited	Director
01/09/15	IAG New Zealand Limited	Director
09/09/15	Antarctic Heritage Trust	Trustee
10/08/16	Gibbston Highway Limited	Director
29/09/17	Mt Rosa Farm Limited	Director

Deborah Boffa

Director

BEng (Hons)
Tenure: 1.5 years
Equity Interest: nil

Vice President Fuels NZ and Managing Director BP New Zealand Limited. Ms Boffa joined BP in 1997 and has held positions in Engineering, Terminals, Retail, Sales & Marketing, Strategy and General Management with BP in NZ, Australia and the USA. She is a Director of BP Oil New Zealand Limited, BP Pacific Investments Limited, Rural Fuel Limited, McFall Fuel Limited and RD Petroleum Limited, having held governance positions in the industry since.

Ms Boffa is not an Independent Director as defined in the NZX Main Board Listing Rules.

DATE OF ENTRY	ENTITY	INTEREST
23/08/17	BP New Zealand Holdings Limited	Director
23/08/17	BP New Zealand Share Scheme Limited	Director
23/08/17	BP Oil New Zealand Limited	Director
23/08/17	BP Pacific Investments Limited	Director
23/08/17	Coro Trading NZ Limited	Director
23/08/17	Europa Oil NZ Limited	Director
23/08/17	RD Petroleum Limited	Director
23/08/17	RMF Holdings Limited	Director
23/08/17	McFall Fuel Limited	Director
23/08/17	Rural Fuel Limited	Director

Riccardo Cavallo
Director

ME Chem. Eng.
Tenure: 2 years
Equity Interest: nil

Manager of Refining for ExxonMobil's Australia and New Zealand operations. Mr Cavallo joined ExxonMobil in 2001 and has held several positions at different sites with growing level of responsibility in Manufacturing and Operations in Italy, the UK and Australia. He is a Director of ExxonMobil Australia Pty Limited, Mobil Oil Australia Pty Limited, Vacuum Oil Australia Proprietary Limited and of the Australian Institute of Petroleum. He is also the Chairman and Director of Mobil Refining Australia Pty Limited.

Mr Cavallo is not an Independent Director as defined in the NZX Main Board Listing Rules.

DATE OF ENTRY	ENTITY	INTEREST
11/04/17	Mobil Refining Australia Pty Ltd	Chair and Director
11/04/17	Mobil Oil Australia Pty Ltd	Director
11/04/17	Vacuum Oil Company Pty Ltd	Director
11/04/17	ExxonMobil Australia Pty Ltd	Director
31/01/18	Australian Institute of Petroleum (AIP)	Director

Lindis Jones
Director

BCom (Hons), BSc, MFin
Tenure: 1 year
Equity Interest: nil

Lindis Jones is General Manager Corporate at Z Energy Limited and is a Director of Flick Energy Limited. Mr Jones worked for Shell for 13 years, primarily in retail operations and strategy in Europe, Asia and New Zealand and was Head of Property at ANZ National Bank before joining Z Energy.

Mr Jones is not an Independent Director as defined in the NZX Main Board Listing Rules.

DATE OF ENTRY	ENTITY	INTEREST
21/11/18	Z Energy Limited	General Manager Corporate
25/10/18	Flick Energy Limited	Director

Board of Directors

James Miller
Director

BCom (Hons), FCA, Independent Director
Tenure: 4 months
Equity Interest: 23,000 Shares

James has 15 years' experience in capital markets and has held Board and leadership positions at Craigs Investment Partners and ABN AMRO. He has also had extensive experience in the downstream energy sector. James is chair of NZX Limited, and a Director of the Accident Compensation Corporation and Mercury NZ Limited. He was a Director of Auckland International Airport, an inaugural Director of the Financial Markets Authority, previously a Director of Vector, and a member of the INFINZ and Financial Reporting Standards Board. He is a qualified Chartered Accountant and Fellow of the Chartered Accountants Australia and New Zealand, a Certified Securities Analyst Professional, member of the Institute of Directors in New Zealand, and a graduate of the Advanced Management Program at Harvard Business School. He was appointed to the Board on 1 November 2018.

DATE OF ENTRY	ENTITY	INTEREST
21/11/18	NZX Limited	Chair and Director
21/11/18	Mercury Energy Limited	Director
21/11/18	Accident Compensation Corporation	Director
21/11/18	St Cuthberts Trust Board	Trustee

Vanessa Stoddart
Director

BCom/LLB (Hons), PGDip. Professional Ethics, Independent Director
Tenure: 5.5 years
Equity Interest: nil

Director of Heartland Bank Ltd, Financial Markets Authority, Alliance Group Ltd and New Zealand Global Women Limited, Commissioner for The Tertiary Education Commission and member of MBIE and DOC Audit and Risk Committees amongst other positions. Ms Stoddart was previously Group General Manager of Engineering and People at Air New Zealand Ltd and Chief Executive of the Australian Packaging Division of Carter Holt Harvey Ltd.

DATE OF ENTRY	ENTITY	INTEREST
12/12/13	Board of Tertiary Education Commission	Commissioner
07/04/14	Alliance Group Limited	Director
22/06/15	Department of Conservation - Audit, Risk and Finance Committee	Member
09/02/16	Ministry of Business, Innovation & Enterprise - Audit, Risk and Finance Committee	Chair
23/06/16	Board of the Financial Markets Authority	Director
20/10/16	Heartland Bank Limited	Director
17/02/19	OneFortyOne Plantations Holdings Pty Limited	Director

Paul Zealand

Director

BSc (Hons), MBA, Independent Director
Tenure: 2.5 years
Equity Interest: nil

Director of Genesis Energy in New Zealand and Lochard Energy in Australia. Mr Zealand was previously CEO of Upstream for Origin Energy, Country Chairman for Shell New Zealand, and has held executive positions in Royal Dutch Shell Group in the UK, Netherlands, New Zealand and Australia.

DATE OF ENTRY	ENTITY	INTEREST
30/01/17	Dale Vercoe Community Care Charitable Trust	Trustee
30/01/17	Genesis Energy (NZ)	Director
30/01/17	Lochard Energy (AU)	Director
30/01/17	Zoenergy Ltd (NZ)	Director
30/01/17	Zoenergy Pty Ltd (AU)	Director
30/01/17	Zealand Family Trust (NZ)	Director
30/01/17	Zoenergy Family Trust (AU)	Director

Leadership Team

Mike Fuge
Chief Executive Officer

BE (Hons), MCom (Hons)
Equity Interest: nil

Mike joined the company in August 2018 and brings significant local and international experience in oil and gas, electricity and hydro generation to his new role. He was the Chief Executive of Pacific Hydro in Melbourne – a global renewable energy owner, operator and developer with around 350 staff and operations in Australia, Chile and Brazil. Prior to that he was the Chief Operating Officer at Genesis Energy and also worked for Royal Dutch Shell Group internationally.

Mike's skills and leadership experience, especially in renewables, will be valuable as we contribute to the Government's commitment to a net zero carbon emissions economy.

Joe Akari
Chief People & Capability Officer

BEd, Post Grad Dip (Business Administration)
Equity Interest: 946 (2017: 523)

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 & Paper, Health and Education. Joe worked previously 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

Robin Baxter
Engineering Manager

BSc
Equity Interest: 1,272 (2017: 849)

Prior to joining Refining NZ, Rob worked as a project engineer and maintenance manager in the paper and steel industries in Australia and the UK.

Rob joined Refining NZ in 1995 and has fulfilled several engineering, maintenance and project management positions.

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

Rob was appointed Engineering Manager in 2013. He 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
- Engineers and specialists – mechanical, electrical, instrumentation, control systems, civil and facilities
- Capital projects

Peter Gubb
Refining Manager

Equity Interest: 1,272 (2017: 849)

Peter has held the position of Refining Manager since 2011 and is a Director of Independent Petroleum Laboratory Limited. Prior to this, he progressed through Refining NZ holding 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 process experience in the dairy industry.

Peter and his partner have two adult children and a granddaughter. 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

Leadership Team

Napo Henare
Refining NZ Kaumatua

Ngati Hine
Equity Interest: nil (2017: nil)

Napo's association with the Refinery spans over 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 principal 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, advising on protocol (Tikanga) and Te Reo pronunciation.

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.

Denise Jensen
Chief Financial Officer and Company Secretary

CA
Equity Interest: 15,201 (2017: 14,778)

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 and New Zealand and the Institute of Directors. Denise is also a Director of Independent Petroleum Laboratory Limited and the Northland District Health Board.

Outside of work Denise enjoys Northland's outdoor lifestyle with her husband and three adult children.

Responsibilities

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

Greg McNeill
Communications & External Affairs Manager

BA (History), Post Grad Dip (Media); Advanced Certificate of Marketing
Equity Interest: 1,272 (2017: 849)

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 and 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 of external communications. Greg joined the Leadership Team in 2013. Outside of work, Greg enjoys writing and time with his teenage sons.

Responsibilities

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

Jack Stewart
HSSE Manager

BE (Mech.)
Equity Interest: 1,272 (2017: 849)

Jack joined Refining NZ in 2002 as a mechanical engineer fulfilling a number of maintenance and project management positions within the engineering team. In 2009, Jack transferred to operations as Asset Manager and subsequently held this position across all three operations teams. Jack became a member of the Leadership Team in 2019 with his appointment to the HSSE Manager role.

Outside of work Jack enjoys many outdoor pursuits with his wife and two children; skiing during the winter months and boating, fishing and camping in summer.

Responsibilities

- Health and safety
- Process safety
- Environment
- Security

Kevin Still
Supply Chain and Business Optimisation Manager

BSc (Chem.Eng) Hons
Equity Interest: 946 (2017: 523)

Kevin joined Refining NZ in July 2016, with over 30 years' international experience in the refining and oil and gas sectors. Kevin is a Director of Independent Petroleum Laboratory Limited. 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 managed the national and international marketing and outbound logistics functions for both PetroSA and 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

Julian Young
Chief Development Officer

BSc, PhD (Chemical Engineering)
Equity Interest: 1,272 (2017: 849)

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 was the Asset Manager for the Hydrocracking complex at Refining NZ. In 2013, he was appointed the HSSE Manager and became a member of the Leadership Team.

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

Responsibilities

- Renewable energy technologies
- New Boundary Business ventures

NUMBERS.

Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTE	GROUP 2018 $000	GROUP 2017 $000
INCOME			
Operating revenue	2	**359,316**	411,611
Other income	2	**3,150**	3,009
TOTAL INCOME		**362,466**	414,620
EXPENSES			
Purchase of process materials and utilities	2	**81,140**	70,391
Materials and contractor payments	2	**29,003**	30,997
Wages, salaries and benefits	2	**61,268**	59,049
Depreciation and disposal costs	2, 10	**97,075**	96,146
Administration and other costs	2	**38,408**	33,834
TOTAL EXPENSES		**306,894**	290,417
NET PROFIT BEFORE FINANCE COSTS		**55,572**	124,203
FINANCE COSTS			
Finance income	2	**(104)**	(244)
Finance cost	2	**13,904**	13,991
NET FINANCE COSTS		**13,800**	13,747
Net profit before income tax		**41,772**	110,456
Less income tax	4	**12,156**	31,926
NET PROFIT AFTER INCOME TAX		**29,616**	78,530
ATTRIBUTABLE TO:			
Owners of the Parent		**29,616**	78,530

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	**9.5**	25.1

The above Consolidated Income Statement is to be read in conjunction with the notes on pages 75 to 120.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTE	GROUP 2018 $000	GROUP 2017 $000
NET PROFIT AFTER INCOME TAX		**29,616**	78,530
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to the Income Statement			
Defined benefit plan actuarial loss	18(k)	**(16,024)**	(2,802)
Deferred tax on defined benefit actuarial loss	4	**4,487**	785
Total items that will not be reclassified to the Income Statement		**(11,537)**	(2,017)
Items that may be subsequently reclassified to the Income Statement			
Movement in cash flow hedge reserve	20	**7,856**	2,403
Deferred tax on movement in cash flow hedge reserve	4	**(2,200)**	(673)
Total items that may be subsequently reclassified to the Income Statement		**5,656**	1,730
TOTAL OTHER COMPREHENSIVE LOSS, AFTER INCOME TAX		**(5,881)**	(287)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER INCOME TAX		**23,735**	78,243
ATTRIBUTABLE TO:			
Owners of the Parent		**23,735**	78,243

The above Consolidated Statement of Comprehensive Income is to be read in conjunction with the notes on pages 75 to 120.

Consolidated Balance Sheet

as at 31 DECEMBER 2018

	NOTE	GROUP 2018 $000	GROUP 2017 $000
ASSETS			
Cash and cash equivalents	15	**779**	17,557
Trade and other receivables	14	**152,712**	156,694
Income tax receivable		**1,394**	-
Derivative financial instruments	20	**6,249**	1,193
Inventories	16	**2,974**	2,228
TOTAL CURRENT ASSETS		**164,108**	177,672
NON-CURRENT ASSETS			
Inventories	16	**19,955**	17,972
Derivative financial instruments	20	**6**	-
Property, plant and equipment	10	**1,191,948**	1,128,933
Intangibles	10	**14,309**	8,148
TOTAL NON-CURRENT ASSETS		**1,226,218**	1,155,053
TOTAL ASSETS		**1,390,326**	1,332,725
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	**152,561**	176,199
Income tax payable		**-**	8,453
Borrowings	8	**50,000**	-
Finance lease liabilities	9	**171**	222
Employee benefits	18	**9,948**	10,281
Derivative financial instruments	20	**1,300**	137
TOTAL CURRENT LIABILITIES		**213,980**	195,292
NON-CURRENT LIABILITIES			
Deferred tax liabilities	4	**131,289**	123,124
Employee benefits	18	**48,087**	29,623
Restoration provision	12	**10,866**	9,888
Finance lease liabilities	9	**2,303**	2,473
Borrowings	8	**208,601**	170,000
Derivative financial instruments	20	**5,564**	9,550
TOTAL NON-CURRENT LIABILITIES		**406,710**	344,658
TOTAL LIABILITIES		**620,690**	539,950
NET ASSETS		**769,636**	792,775

Consolidated Balance Sheet

as at 31 DECEMBER 2018

	NOTE	GROUP 2018 $000	GROUP 2017 $000
EQUITY			
Contributed equity	6	**265,771**	265,771
Treasury stock	6, 21	**(969)**	(678)
Employee share entitlement reserve	6, 21	**732**	429
Cash flow hedge reserve	6	**(460)**	(6,116)
Retained earnings		**504,562**	533,369
TOTAL EQUITY		**769,636**	792,775

The Board of Directors of The New Zealand Refining Company Limited authorised these Consolidated Financial Statements for issue on 21 February 2019.

For and on behalf of the Board:

S C Allen
Director

M Tume
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2018

GROUP	NOTE	CONTRIBUTED EQUITY $000	TREASURY STOCK $000
AT 1 JANUARY 2017		265,771	(308)
COMPREHENSIVE INCOME			
Net profit after income tax		-	-
Other comprehensive income			
Movement in cash flow hedge reserve	20	-	-
Defined benefit actuarial loss	18(k)	-	-
Deferred tax on other comprehensive income	20	-	-
TOTAL OTHER COMPREHENSIVE LOSS, AFTER INCOME TAX		-	-
TRANSACTIONS WITH OWNERS OF THE PARENT			
Equity-settled share-based payments	21	-	-
Treasury shares purchased	21	-	(370)
Unclaimed dividends written back		-	-
Dividends paid	7	-	-
TOTAL TRANSACTIONS WITH OWNERS OF THE PARENT		-	(370)
AT 31 DECEMBER 2017		265,771	(678)
AT 1 JANUARY 2018		**265,771**	**(678)**
COMPREHENSIVE INCOME			
Net profit after income tax		**-**	**-**
Other comprehensive income			
Movement in cash flow hedge reserve	20	**-**	**-**
Defined benefit actuarial loss	18(k)	**-**	**-**
Deferred tax on other comprehensive income	20	**-**	**-**
TOTAL OTHER COMPREHENSIVE LOSS, AFTER INCOME TAX		**-**	**-**
TRANSACTIONS WITH OWNERS OF THE PARENT			
Equity-settled share-based payments	21	**-**	**-**
Treasury shares purchased	21	**-**	**(291)**
Unclaimed dividends written back		**-**	**-**
Dividends paid	7	**-**	**-**
TOTAL TRANSACTIONS WITH OWNERS OF THE PARENT		**-**	**(291)**
AT 31 DECEMBER 2018		**265,771**	**(969)**

The above Consolidated Statement of Changes in Equity is to be read in conjunction with the notes on pages 75 to 120.

EMPLOYEE SHARE SCHEME ENTITLEMENT RESERVE	CASH FLOW HEDGE RESERVE	RETAINED EARNINGS	TOTAL EQUITY
$000	$000	$000	$000
228	(7,846)	494,358	752,203
-	-	78,530	78,530
-	2,403	-	2,403
-	-	(2,802)	(2,802)
-	(673)	785	112
-	1,730	(2,017)	(287)
201	-	-	201
-	-	-	(370)
-	-	7	7
-	-	(37,509)	(37,509)
201	-	(37,502)	(37,671)
429	(6,116)	533,369	792,775
429	**(6,116)**	**533,369**	**792,775**
-	**-**	**29,616**	**29,616**
-	**7,856**	**-**	**7,856**
-	**-**	**(16,024)**	**(16,024)**
-	**(2,200)**	**4,487**	**2,287**
-	**5,656**	**(11,537)**	**(5,881)**
303	**-**	**-**	**303**
-	**-**	**-**	**(291)**
-	**-**	**(1)**	**(1)**
-	**-**	**(46,885)**	**(46,885)**
303	**-**	**(46,886)**	**(46,874)**
732	**(460)**	**504,562**	**769,636**

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTE	GROUP 2018 $000	GROUP 2017 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**352,384**	422,036
Payment for supplies and other expenses		**(161,369)**	(128,785)
Payments to employees		**(58,858)**	(56,350)
CASH GENERATED FROM OPERATIONS		**132,157**	236,901
Interest received		**104**	244
Interest paid		**(13,727)**	(14,068)
Net GST paid		**(2,347)**	(2,004)
Income tax paid		**(11,551)**	(23,075)
		(27,521)	(38,903)
NET CASH INFLOW FROM OPERATING ACTIVITIES	15	**104,636**	197,998
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		**(162,316)**	(94,570)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(162,316)**	(94,570)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds/(repayments of) from bank borrowings		**15,300**	(49,500)
Proceeds from subordinated notes	8	**73,301**	-
Unclaimed dividends		**(1)**	7
Dividends paid to shareholders	7	**(46,885)**	(37,509)
Finance lease		**(522)**	(174)
Purchase of treasury shares	21	**(291)**	(370)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES		**40,902**	(87,546)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(16,778)**	15,882
Cash and cash equivalents at the beginning of the year		**17,557**	1,675
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**779**	17,557

The above Consolidated Statement of Cash Flows is to be read in conjunction with the notes on pages 75 to 120.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

(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 Group). 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 21 February 2019.

(b) BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with:

- The Financial Markets Conduct Act 2013;
- The NZX Main Board Listing Rules;
- Generally Accepted Accounting Practice (GAAP);
- New Zealand equivalents to the International Financial Reporting Standards ('NZ IFRS'), International Financial Reporting Standards (IFRS) and other authoritative pronouncements of the External Reporting Board, as appropriate for for-profit 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 pension plan liability) which are measured at fair value.

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 consolidated 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

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 consolidated financial statements:

- Inventory obsolescence provision – refer to note 16;
- Recoverability of the capital work in progress, and useful lives of property, plant and equipment – refer to note 10;
- Defined benefit pension plan obligation – refer to note 18;
- Restoration provision – refer to note 12.

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

(c) SIGNIFICANT ACCOUNTING POLICIES

Accounting policies are disclosed within each of the applicable notes to the consolidated financial statements and are designated by a P symbol.

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

New and amended standards adopted by the Group

The Group has adopted NZ IFRS 15 *'Revenue from Contracts with Customers'* for the first time for their annual reporting period commencing 1 January 2018.

NZ IFRS 15 was issued by the International Accounting Standards Board (the IASB) and replaced IAS 18 which covered contracts for goods and services and IAS 11 which covered construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. Adoption of NZ IFRS 15 from 1 January 2018 has not resulted in material adjustments to the amounts recognised in the Group's consolidated 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. With respect to all revenue streams the Group applies an output method to measure progress of the services provided.

NZ IFRS 9 *'Financial Instruments*' mandatory for the year ended 31 December 2018 was early adopted by the Group in 2017.

Other new and amended standards mandatory for the year ended 31 December 2018 were not applicable to the Group.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

New and amended standards not yet effective and not early adopted by the Group

The IASB has issued a number of standards, amendments and interpretations which are not yet effective and which may have an impact on the Group's consolidated financial statements, including NZ IFRS 16 *'Leases'*, mandatory for the year ending 31 December 2019.

IFRS 16 was issued in February 2016. It will result in more leases being recognised on the balance sheet for lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions applicable for the Group are short-term and low-value leases. The accounting treatment for lessors will not significantly change.

The standard will primarily affect the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of $2.8 million (2017: $3.6 million) as disclosed in note 13. Management has reviewed 86% of the Group lease contracts that will be in force at 31 December 2019, being the six out of seven material lease arrangements, to assess the impact of the new accounting standards on the Group's financial results. The assessment involved lease subject matter experts and external consultants. Based on the detailed analysis the Group estimated that the majority of the leases will be recognised in the balance sheet from 2019 onwards, with the approximate value as at 31 December 2019:

	$million
• Right of use assets	3.5
• Lease liabilities	(3.2)
• Provisions	(0.5)

The expected impact on the consolidated income statement for the year ended 31 December 2019 amounts to $0.2 million, and involves a reclassification from operating expenses to depreciation and interest expense.

The analysis above does not cover finance leases which will only be reclassified in the consolidated balance sheet.

The Group expects to apply the simplified retrospective transition approach under which comparative periods in the consolidated financial statements will not be restated. In addition, the Group expects to take advantage of the transitional provisions allowing for this standard not to be applied to contracts that were not previously identified as containing a lease applying NZ IAS 17 and NZ IFRIC 4.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

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 (RAP) 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.

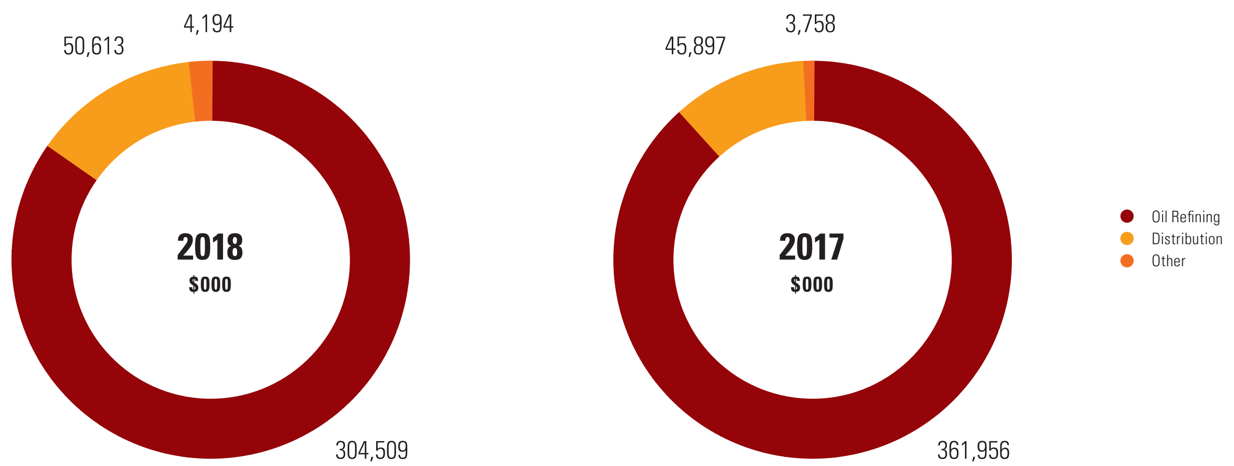
Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

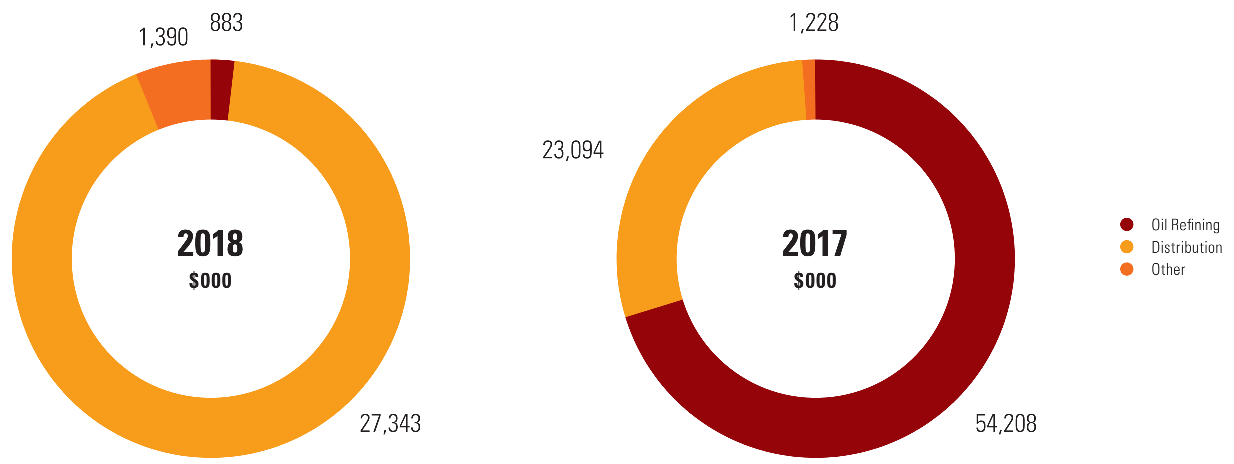
1. SEGMENT REPORTING (continued)

(c) Segment results

REVENUE FROM EXTERNAL CUSTOMERS ($000)



NET PROFIT AFTER INCOME TAX ($000)



Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

1. SEGMENT REPORTING (continued)

	NOTE	OIL REFINING $000	DISTRIBUTION $000	OTHER $000	TOTAL $000
31 DECEMBER 2018					
Total operating revenue		**304,509**	**50,613**	**9,336**	**364,458**
Inter-segment revenue		**-**	**-**	**(5,142)**	**(5,142)**
REVENUE FROM EXTERNAL CUSTOMERS		**304,509**	**50,613**	**4,194**	**359,316**
Other income	2	**-**	**2,890**	**260**	**3,150**
Finance income		**102**	**-**	**2**	**104**
Finance cost		**(13,892)**	**-**	**(12)**	**(13,904)**
Depreciation and disposal costs		**(89,648)**	**(6,868)**	**(559)**	**(97,075)**
Income tax		**(1,079)**	**(10,634)**	**(444)**	**(12,156)**
Net profit after income tax		**882**	**27,343**	**1,391**	**29,616**

	NOTE	OIL REFINING $000	DISTRIBUTION $000	OTHER $000	TOTAL $000
31 DECEMBER 2017					
Total operating revenue		361,956	45,897	8,915	416,768
Inter-segment revenue		-	-	(5,157)	(5,157)
REVENUE FROM EXTERNAL CUSTOMERS		361,956	45,897	3,758	411,611
Other income	2	-	2,914	95	3,009
Finance income		240	-	4	244
Finance cost		(13,966)	-	(25)	(13,991)
Depreciation and disposal costs		(88,823)	(6,868)	(455)	(96,146)
Income tax		(22,410)	(8,981)	(535)	(31,926)
Net profit after income tax		54,208	23,094	1,228	78,530

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

2. INCOME AND EXPENSES

P Revenue is recognised when control of a good or service transfers to a customer. Processing fees, pipeline fees and other services provided by the Group are identified as distinct performance obligations which are satisfied over time and for which a transaction price is separately determined and allocated. No significant judgement is involved in the price determination and allocation. An output method is applied to measure progress of the services provided. The Group does not have contracts with customers where significant financing components, non-cash considerations or consideration payable to customers, obligations for refunds or specific warranties would be existent. Specific accounting policies are as follows:

Refining revenue

Processing fees and other processing related fees, such as blending and reprocessing (presented as "Other refining related income") are recognised over time as processing services are delivered. The revenue from processing and other processing related fees is recognised in the amounts invoiced, applying the practical expedient in NZ IFRS 15, reflecting actual volumes processed (including intermediate products), adjusted for fee floor and cap, when applicable.

The cost of natural gas, used by the Parent in the refining process, is recovered from customers and presented as a component of refining revenue; the Parent acts as principal with respect to procuring and selling natural gas.

Distribution revenue

Pipeline and terminalling fee revenue is recognised over time as refined products are delivered to the Wiri Oil terminal in South Auckland, and in the amount to which the Group has a right to invoice customers, applying the practical expedient in NZ IFRS 15, within an operating period.

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.

Other revenue

Revenue from other contracts (primarily relating to provision of services) is recognised over time as goods or services are delivered to customers.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

2. INCOME AND EXPENSES (continued)

Net profit before income tax includes the following income and expenses:

	NOTE	GROUP 2018 $000	GROUP 2017 $000
OPERATING REVENUE			
Processing fees		**258,873**	327,446
Natural gas recovery		**31,987**	24,442
Other refining related income		**13,649**	10,068
Refining revenue		**304,509**	361,956
Pipeline and terminalling fee revenue		**44,088**	39,372
Wiri land and terminal lease income	13	**6,525**	6,525
Distribution revenue		**50,613**	45,897
Other operating income		**4,194**	3,758
TOTAL OPERATING REVENUE		**359,316**	411,611
OTHER INCOME			
Other income		**3,150**	3,009
TOTAL OTHER INCOME		**3,150**	3,009
TOTAL INCOME		**362,466**	414,620
And charging:			
Process materials and utilities		**49,153**	45,949
Natural gas		**31,987**	24,442
PURCHASE OF PROCESS MATERIALS AND UTILITIES		**81,140**	70,391
Contractor payments		**20,856**	22,338
Materials		**8,124**	8,683
Obsolescence provision recognised / (released)		**23**	(24)
TOTAL MATERIALS AND CONTRACTOR PAYMENTS		**29,003**	30,997
Wages and salaries		**55,854**	54,102
Defined contribution pension plan contributions		**1,597**	1,411
Defined benefit pension plan expense	18(j)	**3,272**	3,110
Medical plan contributions	18(j)	**242**	225
Equity-settled share-based payments	21	**303**	201
TOTAL WAGES, SALARIES AND BENEFITS		**61,268**	59,049
Depreciation expense	10	**96,424**	94,736
Loss on disposal of property, plant and equipment	10	**651**	1,410
TOTAL DEPRECIATION AND DISPOSAL COSTS		**97,075**	96,146

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

2. INCOME AND EXPENSES (continued)

	NOTE	GROUP 2018 $000	GROUP 2017 $000
Administration and other expenses		**5,090**	4,053
Contract services		**16,202**	16,116
Consultants		**4,873**	3,708
Insurance		**3,964**	3,119
Rates		**1,282**	1,255
Employee related costs		**4,151**	3,476
Auditor's fees:			
Audit of financial statements		**169**	180
Consulting fee – strategic review		**681**	-
AGM scrutineering		**6**	6
Compliance report on processing fees		**-**	27
Advisory fees for remuneration benchmarking		**16**	9
Treasury advice – the renewal of banking facilities		**-**	35
Directors' fees		**780**	689
Operating lease expenses:			
Wiri Oil land rental	13	**500**	500
Other		**523**	607
Donations		**171**	54
TOTAL ADMINISTRATION AND OTHER COSTS		**38,408**	33,834
Interest expense:			
Bank borrowings		**13,975**	13,634
Subordinated notes		**243**	-
Restoration provision finance charge		**345**	357
Interest capitalised to qualifying asset		**(659)**	-
TOTAL FINANCE COSTS		**13,904**	13,991
Finance income:			
Interest income on short-term bank deposits		**(104)**	(244)
TOTAL FINANCE INCOME		**(104)**	(244)
NET FINANCE COSTS		**13,800**	13,747
TOTAL COSTS		**320,694**	304,164
NET PROFIT BEFORE INCOME TAX		**41,772**	110,456

Comparatives for "Refining revenue" and "Distribution revenue" have been updated to ensure consistency between financial reporting periods.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

2. INCOME AND EXPENSES (continued)

Maintenance shutdown

In the current financial year, 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 were completed and the refinery was back in full operation from 6 July 2018.

The estimated impact of the shutdown on the 2018 net profit after tax, due to lost processing revenue, was $43.2 million. The capital cost associated with the shutdown is outlined in note 10.

Insurance recoveries

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.

The Company had insurance policies to cover both environmental remediation and loss of revenue following the incident. In this financial year the following insurance recoveries were recognised as "Other income":

- $1.1 million (2017: $2.9 million) in respect of environmental remediation costs incurred during the year;
- $1.8 million (2017: $Nil) under the material damage and business interruption policy for loss of revenue.

Auditor's fees

'Audit of financial statements' include the fees for the annual audit of the consolidated financial statements of $155 thousand (2017: $142 thousand) and reimbursement of travel and accommodation of $14 thousand (2017: $15 thousand); other one-off audit related fees amounted to Nil (2017: $23 thousand).

Following the appointment of the new Chief Executive, the Board engaged Strategy&, part of the PwC global network, to undertake a one-off strategic review identifying opportunities to leverage the Company's strategic advantages and core competencies, to help deliver improved shareholder returns over the medium and longer term. The strategic review process continued in 2019. Prior to appointing Strategy&, the Board considered the comparatively low level of non-audit fees paid to PwC historically. The services were provided by a consulting team based out of Australia and separate to the audit team. The Board and management retained full responsibilities for all management and strategic decisions made during and following the review.

Notes to the Consolidated Financial Statements

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:

	2018 %	2017 %
BP New Zealand Holdings Limited (BP)	**10.10**	10.10
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	
	2018 $000	2017 $000	2018 $000	2017 $000
BP	**90,661**	107,813	**32,766**	44,159
Mobil	**83,567**	98,449	**26,420**	26,679
Z Energy	**164,164**	187,622	**74,365**	79,918
Wiri Oil	**7,047**	7,000	**24**	204
	345,439	400,884	**133,575**	150,960

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. 71% (2017: 79%) of the Group's total operating revenue is earned from processing fees charged under those agreements. Refer to 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 Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

3. RELATED PARTIES (continued)

(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	
	2018	2017	2018	2017
	$000	$000	$000	$000
BP	**1,087**	522	**170**	100
Mobil	**996**	631	**145**	86
Z Energy	**2,689**	1,086	**328**	370
	4,772	2,239	**643**	556

(iii) OTHER CHARGES

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

	TRANSACTION VALUES FOR THE YEAR ENDED 31 DECEMBER		BALANCES OUTSTANDING AS AT 31 DECEMBER	
	2018	2017	2018	2017
	$000	$000	$000	$000
BP – Jupiter Insurance Ltd	**619**	395	**-**	-

Notes to the Consolidated Financial Statements

3. RELATED PARTIES (continued)

(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.

	2018 $000	2017 $000
Salaries and other short-term employee benefits	**4,489**	4,019
Post-employment benefits	**160**	149
TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION	**4,649**	4,168
Number of personnel at 31 December	**8**	8

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.

Key management personnel compensation in 2018 includes:

- the short-term incentives paid to the former CEO and members of the Leadership Team in respect of the 2017 performance year, and,
- $600 thousand paid to the former CEO in respect of the 2018 performance year, comprising: a pro-rata short-term incentive payment pursuant to the achievement of 2018 key performance indicators and an additional discretionary payment, pursuant to the terms of his employment agreement, in recognition of an agreed contract extension.

The 2017 total key management personnel compensation includes the salaries and the short-term incentive payments, in respect of the 2016 performance year, totalling $316 thousand, paid to two members of the Leadership Team who retired during that year.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

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 consolidated financial statements and to unused tax losses.

	NOTE	GROUP 2018 $000	GROUP 2017 $000
NET PROFIT BEFORE INCOME TAX EXPENSE		**41,772**	110,456
Tax at the New Zealand corporate income tax rate of 28% (2017: 28%)		**11,696**	30,928
Tax effect of amounts which are either non-deductible or taxable in calculating taxable income:			
Expenses not deductible for tax		**285**	401
Adjustments in respect of current income tax in respect of previous years		**175**	597
INCOME TAX EXPENSE, REPRESENTED BY:		**12,156**	31,926
Current tax expense		**1,704**	28,260
Deferred tax recognised in the income statement	4(b)	**10,452**	3,666

(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 Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

4. TAXATION (continued)

		DEFERRED TAX LIABILITY/(ASSET)					
		PROPERTY, PLANT AND EQUIPMENT	PROVISIONS	EMPLOYEE BENEFITS	FINANCIAL INSTRUMENTS	TAX LOSSES	TOTAL
	NOTE	$000	$000	$000	$000	$000	$000
1 JANUARY 2017		134,511	(3,782)	(8,108)	(3,051)	-	119,570
Deferred tax in respect of previous years		72	(113)	34	-	-	(7)
Deferred tax in respect of current year		4,635	(234)	(728)	-	-	3,673
Deferred tax recognised in the income statement	4(a)	4,707	(347)	(694)	-	-	3,666
Deferred tax on items included in other comprehensive income		-	-	(785)	673	-	(112)
31 DECEMBER 2017		139,218	(4,129)	(9,587)	(2,378)	-	123,124
Deferred tax in respect of previous years		**(899)**	**(197)**	**12**	**-**	**-**	**(1,084)**
Deferred tax in respect of current year		**17,018**	**(82)**	**(790)**	**-**	**(4,610)**	**11,536**
Deferred tax recognised in the income statement	4(a)	**16,119**	**(279)**	**(778)**	**-**	**(4,610)**	**10,452**
Deferred tax on items included in other comprehensive income		**-**	**-**	**(4,487)**	**2,200**	**-**	**(2,287)**
31 DECEMBER 2018		**155,337**	**(4,408)**	**(14,852)**	**(178)**	**(4,610)**	**131,289**

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's share-based payments described in note 21 have no material dilutive effect on the earnings per share.

	NOTE	TOTAL 2018	TOTAL 2017
Profit after tax attributable to shareholders of the Company ($000)		**29,616**	78,530
Weighted average number of shares on issue (000)	6	**312,243**	312,376
BASIC AND DILUTED EARNINGS PER SHARE		**9.5**	25.1

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

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:	Borrowings
Note 9:	Finance lease liabilities

6. EQUITY

Contributed equity

The issued capital of the Company is represented by 312,576,453 no par value ordinary shares (2017: 312,576,453) issued and fully paid, less 375,848 (2017: 252,833) 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

7. DIVIDENDS

	CENTS PER SHARE	TOTAL 2018 $000	TOTAL 2017 $000
Final dividend for 2016	6.0	**-**	18,754
Interim dividend for 2017	6.0	**-**	18,755
Final dividend for 2017	12.0	**37,508**	-
Interim dividend for 2018	3.0	**9,377**	-
TOTAL		**46,885**	37,509

The dividends were fully imputed. Supplementary dividends of $1.532 million (2017: $0.964 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 $30.441 million as at 31 December 2018 (2017: $45.478 million).

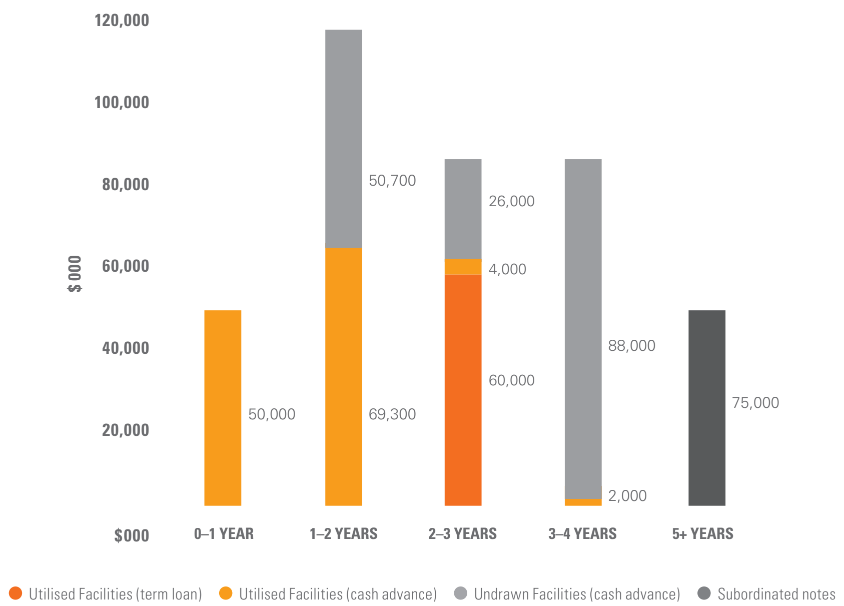
Dividend declared post balance date

The Group has declared a final dividend of 4.5 cents per share, fully imputed, payable on 21 March 2019 (2017: 12 cents per share).

8. BORROWINGS

P 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 date.

The chart below outlines the maturity profile of the borrowings:



Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

8. BORROWINGS (continued)

In December 2018, the Company issued on the NZDX $75 million of unsecured, subordinated notes for a term of approximately 15 years maturing on 1 March 2034, if not redeemed earlier. The Company has the discretion to invoke early redemption after 5 years (1 March 2024) or at each anniversary date thereafter.

The proceeds from the subordinated notes were applied towards repaying a portion of the Company's existing bank debt.

The subordinated notes pay a semi-annual interest of 5.1% p.a., which is reset every five years. The effective interest rate, including the costs of issue, is currently 5.41% p.a.

The table below presents the year end borrowings with their maturity dates, as well as undrawn facilities at 31 December:

	MATURITY DATE	GROUP 2018 $000	GROUP 2017 $000
BORROWINGS			
Current borrowings:			
Revolving cash advances	Mar-19	**50,000**	-
Total current bank borrowings		**50,000**	-
Non-current borrowings:			
Revolving cash advances	Mar-19	**-**	50,000
Revolving cash advances	Mar-20	**2,000**	-
Revolving cash advances	Mar-20	**67,300**	50,000
Revolving cash advances	Mar-21	**4,000**	5,000
Revolving cash advances	Mar-22	**2,000**	5,000
Term loan	Mar-21	**60,000**	60,000
Subordinated notes	Mar-34	**73,301**	-
Total non-current borrowings		**208,601**	170,000
TOTAL BORROWINGS		**258,601**	170,000
EFFECTIVE INTEREST RATE			
Bank loans		**5.6%**	6.4%
Subordinated notes		**5.4%**	-
UNDRAWN FACILITIES			
Revolving cash advances	Mar-20	**50,700**	70,000
Revolving cash advances	Mar-21	**26,000**	25,000
Revolving cash advances	Mar-22	**88,000**	85,000
TOTAL UNDRAWN BORROWING FACILITIES		**164,700**	180,000

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

8. BORROWINGS (continued)

The carrying amounts of 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.

Subsequent to balance date and following the issue of the subordinated notes on 14 December 2018, the Company has reduced its existing bank facility limits from $350 million to $275 million and extended the $50 million facility expiring in March 2019 to March 2021.

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

9. FINANCE LEASE LIABILITIES

P Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. The corresponding rental obligations, net of finance charges, are included in current finance lease liability and non-current finance lease liability. The property, plant and equipment acquired under finance lease is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

	GROUP 2018 $000	GROUP 2017 $000
Commitments in relation to finance lease are payable as follows:		
– No later than one year	**432**	500
– One to five years	**1,302**	1,422
– Beyond five years	**3,558**	3,870
MINIMUM LEASE PAYMENTS	**5,292**	5,792
Future finance charges	**(2,818)**	(3,097)
RECOGNISED AS FINANCIAL LIABILITY	**2,474**	2,695
The present value of finance lease liability is as follows:		
– No later than one year	**171**	222
– One to five years	**360**	438
– Beyond five years	**1,943**	2,035
MINIMUM LEASE PAYMENTS	**2,474**	2,695

The carrying value of the equipment under the finance lease arrangement is $2.3 million as at 31 December 2018 (2017: $2.5 million).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

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:

10. 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 any transfers from the cash flow hedge reserve as a basis adjustment, 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 income' 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 Consolidated 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).

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.

Intangibles includes the New Zealand Units (NZUs) issued by the Crown to the Parent company, pursuant to the company's Negotiated Greenhouse Agreement (NGA), which is valid until 2022. The Company is currently exempted from the Emissions Trading Scheme (ETS) due to the NGA and the Company's demonstrated commitment to progress in reduction of energy intensity along a world's best practice pathway (the Company is in dialogue with the Government to include Refining NZ in the ETS as Energy Intensive Trade Exposed to benefit from a partial free CO_2 emissions allocation post 2023). The NZUs are measured at historical cost and used to offset liabilities arising from carbon dioxide emissions. An assessment of impairment is performed annually with reference to external sources of information (market values of NZUs).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

10. PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLES (continued)

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. In preparation of these financial statements, the Group has estimated the recoverable amount of its assets on a value in use basis, and determined that there is no impairment under a range of reasonably possible scenarios. This is in the context of the market capitalisation of the Company being less than the carrying amount of the Group's net assets as at 31 December 2018 and the understanding that the operations resource consents are due to be renewed in 2022. The capital work in progress as at 31 December 2018 has been assessed by Management, Company's project engineers and project managers 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	5-50
Buildings and jetties	5-50
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	
– pipeline	50
– plant and equipment	10-34
Wiri Oil terminal (leased)	20
Equipment and vehicles	3-25
Capital work in progress	n/a

Property, plant and equipment additions in 2018 include $107 million invested during the planned maintenance shutdown (refer to note 2).

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

10. PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLES (continued)

	FREEHOLD LAND AND IMPROVEMENTS	BUILDINGS AND JETTIES	REFINING PLANT
	$000	$000	$000
AT 1 JANUARY 2017			
Cost	73,122	191,833	2,679,447
Accumulated depreciation	(50,982)	(92,757)	(1,965,057)
NET BOOK AMOUNT	22,140	99,076	714,390
YEAR ENDED 31 DECEMBER 2017			
Opening net book value	22,140	99,076	714,390
Additions/transfers	1,308	6,511	54,242
Disposals	-	-	(4)
Depreciation/amortisation charge	(1,648)	(4,609)	(69,006)
CLOSING NET BOOK AMOUNT	21,800	100,978	699,622
AT 31 DECEMBER 2017			
Cost	74,430	198,344	2,733,237
Accumulated depreciation	(52,630)	(97,366)	(2,033,615)
NET BOOK AMOUNT	21,800	100,978	699,622
YEAR ENDED 31 DECEMBER 2018			
Opening net book value	**21,800**	**100,978**	**699,622**
Additions/transfers	**3,835**	**1,947**	**153,895**
Disposals	**-**	**-**	-
Depreciation charge	**(1,349)**	**(4,492)**	**(68,979)**
CLOSING NET BOOK AMOUNT	**24,286**	**98,433**	**784,538**
AT 31 DECEMBER 2018			
Cost	**78,265**	**200,291**	**2,887,124**
Accumulated depreciation	**(53,979)**	**(101,858)**	**(2,102,586)**
NET BOOK AMOUNT	**24,286**	**98,433**	**784,538**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

CATALYSTS $000	REFINERY TO AUCKLAND PIPELINE $000	WIRI OIL TERMINAL (LEASED) (note 3) $000	EQUIPMENT AND VEHICLES $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000	INTANGIBLES $000
90,718	222,000	44,169	114,108	102,345	3,517,742	4,425
(56,152)	(109,261)	(40,587)	(81,849)	-	(2,396,645)	-
34,566	112,739	3,582	32,259	102,345	1,121,097	4,425
34,566	112,739	3,582	32,259	102,345	1,121,097	4,425
10,837	246	-	11,009	19,829	103,982	3,723
(757)	-	-	7	(656)	(1,410)	-
(7,872)	(5,306)	(429)	(5,866)	-	(94,736)	-
36,774	107,679	3,153	37,409	121,518	1,128,933	8,148
83,349	222,247	44,167	124,869	121,518	3,602,161	8,148
(46,575)	(114,568)	(41,014)	(87,460)	-	(2,473,228)	-
36,774	107,679	3,153	37,409	121,518	1,128,933	8,148
36,774	**107,679**	**3,153**	**37,409**	**121,518**	**1,128,933**	**8,148**
14,190	**6,103**	**-**	**10,654**	**(30,534)**	**160,090**	**8,183**
(633)	**(1)**	**-**	**(17)**	**-**	**(651)**	**(2,022)**
(9,046)	**(5,365)**	**(428)**	**(6,765)**	**-**	**(96,424)**	**-**
41,285	**108,416**	**2,725**	**41,281**	**90,984**	**1,191,948**	**14,309**
80,885	**224,497**	**44,167**	**129,739**	**90,984**	**3,735,952**	**14,309**
(39,600)	**(116,081)**	**(41,442)**	**(88,458)**	**-**	**(2,544,004)**	**-**
41,285	**108,416**	**2,725**	**41,281**	**90,984**	**1,191,948**	**14,309**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

11. CAPITAL EXPENDITURE COMMITMENTS

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

	GROUP 2018 $000	GROUP 2017 $000
Capital commitments in relation to property, plant and equipment	**19,103**	24,601

12. 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 2018 $000	GROUP 2017 $000
AT 1 JANUARY	**9,888**	8,624
Unwinding of discount	**345**	356
Change in discount rate and cost of restoration	**633**	908
AT 31 DECEMBER	**10,866**	9,888

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 2.74% (2017: 3.48%) has been applied and set with reference to New Zealand Government Bonds as a risk free rate.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

13. 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 Consolidated Income Statement on a straight-line basis over the period of the lease.

	GROUP 2018 $000	GROUP 2017 $000
Commitments for operating leases where the Group is a **lessee**		
– No later than one year	**715**	805
– One to five years	**2,005**	2,195
– Beyond five years	**125**	625
TOTAL	**2,845**	3,625

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 from Wiri Oil Services Limited under a non-cancellable operating lease that expires in 2024 with no right of renewal.

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

	GROUP 2018 $000	GROUP 2017 $000
Commitments for operating leases where the Group is a **lessor**		
– No later than one year	**6,609**	6,609
– One to five years	**26,225**	26,309
– Beyond five years	**1,631**	8,156
TOTAL	**34,465**	41,074

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. The annual Wiri land and terminal lease income and cost associated with the Wiri Oil land rental are disclosed in note 2.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

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. Trade receivables are measured at amortised cost on the basis that they are held within a business model in order to collect, on specified dates, contractual payments of principal.

	NOTE	GROUP 2018 $000	GROUP 2017 $000
Processing fees		**15,532**	14,239
Product distribution		**5,245**	4,112
Other trade receivables		**3,008**	2,826
Excise duty	17	**112,102**	129,944
Derivatives pending settlement		**11,599**	-
Other receivables and prepayments		**5,226**	5,573
TOTAL TRADE AND OTHER RECEIVABLES		**152,712**	156,694

Trade receivables in respect of processing fees and distribution are due from customers, and non-interest bearing and are normally settled on 7 to 21 day terms.

Excise duty receivable is due from customers and collected by the Parent on behalf of the New Zealand Customs Service and paid on the same day each month (corresponding offset is presented as a payable in note 17).

Other receivables and prepayments generally arise from transactions outside the usual operating activities of the Group, for example prepaid insurance premiums.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

No allowance for impairment loss has been recognised as at 31 December 2018 (2017: Nil). Credit risk disclosures required pursuant to NZ IFRS 9 are outlined in note 19(b).

The carrying value of trade receivables approximates their fair values.

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

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 Consolidated Statement of Cash Flows, the deposits placements and withdrawals and bank borrowings receipts and repayments 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:

	NOTE	GROUP 2018 $000	GROUP 2017 $000
NET PROFIT AFTER INCOME TAX		**29,616**	78,530
Adjusted for:			
Depreciation and disposal costs	2	**97,075**	96,146
Movement in deferred tax	4(b)	**8,165**	3,554
Add movement in deferred tax on items included in other comprehensive income	4(b)	**2,287**	112
Movement in restoration provision	12	**978**	1,264
Less increase in restoration provision relating to property, plant and equipment	12	**(633)**	(908)
Movement in employee share scheme entitlement reserve	21	**303**	201
Increase in intangibles	10	**(6,161)**	(3,723)
Other non-cash movements		**(386)**	625
Impact of changes in working capital items			
Decrease/(increase) in trade and other receivables	14	**3,982**	(14,136)
(Decrease)/increase in trade and other payables	17	**(23,638)**	35,267
Less (decrease)/increase in trade and other payables relating to property, plant and equipment, and intangibles		**3,517**	(6,261)
Increase in employee benefits	18	**18,131**	5,300
Less employee entitlements included in other comprehensive income	18(k)	**(16,024)**	(2,802)
(Decrease)/increase in income tax payable		**(9,847)**	5,185
Increase in inventories	16	**(2,729)**	(356)
NET CASH INFLOW FROM OPERATING ACTIVITIES		**104,636**	197,998

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

15. CASH AND CASH EQUIVALENTS (continued)

The below sets out an analysis of the Group's liabilities for which cash flows have been, or will be, classified as financing activities in the statement of cash flows:

	LIABILITIES FROM FINANCING ACTIVITIES					
	CASH AND CASH EQUIVALENTS	FINANCE LEASE DUE WITHIN ONE YEAR	FINANCE LEASE DUE AFTER ONE YEAR	BORROWINGS DUE WITHIN ONE YEAR	BORROWINGS DUE AFTER ONE YEAR	TOTAL
	$000	$000	$000	$000	$000	$000
NET DEBT AS AT 1 JANUARY 2017	(1,675)	126	218	69,500	150,000	218,169
Cash flows	(15,882)	-	-	(69,500)	20,000	(65,382)
Finance lease	-	(174)	-	-	-	(174)
Other non-cash movements	-	270	2,255	-	-	2,525
NET DEBT AS AT 1 JANUARY 2018	(17,557)	222	2,473	-	170,000	155,138
Cash flows	**16,778**	**-**	**-**	**-**	**88,601**	**105,379**
Finance lease	**-**	**(222)**	**-**	**-**	**-**	**(222)**
Other non-cash movements	**-**	**171**	**(171)**	**50,000**	**(50,000)**	**-**
NET DEBT AS AT 31 DECEMBER 2018	**(779)**	**171**	**2,302**	**50,000**	**208,601**	**260,295**

Cash and cash equivalents include $2 thousand (2017: $962 thousand) Refining NZ's electricity futures broker as collateral.

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 2018 $000	GROUP 2017 $000
INVENTORIES		
Current inventories:		
Inventories at weighted average cost	**3,471**	2,752
Obsolescence provision	**(497)**	(524)
Total current inventories	**2,974**	2,228
Non-current inventories:		
Inventories at weighted average cost	**24,103**	22,075
Obsolescence provision	**(4,148)**	(4,103)
Total non-current inventories	**19,955**	17,972
TOTAL INVENTORIES	**22,929**	20,200

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

16. INVENTORIES (continued)

E Inventories are reviewed annually for impairment. The inventory obsolescence depends on a number of assumptions, including age and condition of each of the individual inventory items. As at 31 December 2018 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).

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 2018 $000	GROUP 2017 $000
Trade payables		**29,677**	36,192
Goods services tax payable		**3,783**	6,096
Deferred income	10	**6,999**	3,967
Excise duty	14	**112,102**	129,944
TOTAL TRADE AND OTHER PAYABLES		**152,561**	176,199

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

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.

Deferred income relates to the New Zealand Units (NZUs) received in advance – refer to note 10.

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

18. EMPLOYEE BENEFITS

Liabilities for employee benefits comprise the following:

		2018			2017		
		CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
	NOTE	$000	$000	$000	$000	$000	$000
Defined benefit pension plan	18(b)	**-**	**34,428**	**34,428**	-	16,648	16,648
Medical plan	18(b)	**207**	**7,990**	**8,197**	193	7,229	7,422
Wages, salaries, annual leave and sick leave		**5,737**	**-**	**5,737**	5,552	-	5,552
Employee incentive scheme		**2,905**	**-**	**2,905**	3,346	-	3,346
Long-service leave and retirement bonus		**1,099**	**5,669**	**6,768**	1,190	5,746	6,936
TOTAL		**9,948**	**48,087**	**58,035**	10,281	29,623	39,904

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 Consolidated Balance Sheet in respect of the defined benefit pension plan is the present value of the defined benefit pension plan obligation at the balance 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 Consolidated Income Statement.

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 date.

Notes to the Consolidated Financial Statements

18. EMPLOYEE BENEFITS (continued)

(a) Defined benefit pension plan

Nature of benefits

At retirement, the 74 (2017: 85) 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 2018 the Plan had 118 (2017: 112) pensioners receiving regular pension payments. There were also 7 (2017: 8) 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 is an employer related restricted workplace savings scheme under the Financial Markets Conduct Act 2013 (the Act).

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 Consolidated Balance Sheet. The last full actuarial valuation performed under the Superannuation Schemes Act 1989 was as at 31 March 2016.

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 2018 (2017: Nil).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

18. EMPLOYEE BENEFITS (continued)

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

		MEDICAL PLAN		PENSION PLAN	
		2018	2017	2018	2017
	NOTE	$000	$000	$000	$000
Present value of the defined benefit obligation	18(c)	**(8,197)**	(7,422)	**(106,120)**	(104,436)
Fair value of plan assets	18(c),18(d)	**-**	-	**83,054**	93,282
DEFICIT	18(c)	**(8,197)**	(7,422)	**(23,066)**	(11,154)
Contributions tax		**-**	-	**(11,362)**	(5,494)
LIABILITY IN THE BALANCE SHEET		**(8,197)**	(7,422)	**(34,428)**	(16,648)

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

		MEDICAL PLAN			PENSION PLAN		
		PRESENT VALUE OF OBLIGATION	FAIR VALUE OF PLAN ASSETS	TOTAL	PRESENT VALUE OF OBLIGATION	FAIR VALUE OF PLAN ASSETS	TOTAL
	NOTE	$000	$000	$000	$000	$000	$000
AT 1 JANUARY 2017 EXCLUDING TAXES		(5,704)	-	(5,704)	(95,741)	86,845	(8,896)
Current service cost	18(j)	-	-	-	(1,769)	-	(1,769)
Interest (expense)/income	18(j)	(225)	-	(225)	(3,309)	2,995	(314)
Remeasurements							
Actual return on plan assets less interest income	18(k)	-	-	-	-	7,257	7,257
Actuarial losses arising from changes in financial assumptions		(1,748)	-	(1,748)	(6,927)	-	(6,927)
Actuarial (losses)/gains arising from liability experience		74	-	74	(1,086)	-	(1,086)
DEFINED BENEFIT ACTUARIAL GAIN/(LOSS)	18(k)	(1,674)	-	(1,674)	(8,013)	7,257	(756)
Contributions:							
– Employers		-	-	-	-	581	581
– Plan participants		-	-	-	(563)	563	-
Benefits paid		181	-	181	4,683	(4,683)	-
Premiums and expenses paid		-	-	-	276	(276)	-
NET LIABILITY EXCLUDING TAXES 31 DECEMBER 2017		(7,422)	-	(7,422)	(104,436)	93,282	(11,154)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

18. EMPLOYEE BENEFITS (continued)

		MEDICAL PLAN			PENSION PLAN		
	NOTE	PRESENT VALUE OF OBLIGATION $000	FAIR VALUE OF PLAN ASSETS $000	TOTAL $000	PRESENT VALUE OF OBLIGATION $000	FAIR VALUE OF PLAN ASSETS $000	TOTAL $000
AT 1 JANUARY 2018 EXCLUDING TAXES		**(7,422)**	**-**	**(7,422)**	**(104,436)**	**93,282**	**(11,154)**
Current service cost	18(j)	-	-	-	(1,863)	-	(1,863)
Interest (expense)/income	18(j)	(242)	-	(242)	(3,012)	2,682	(330)
Remeasurements							
Actual return on plan assets less interest income	18(k)	-	-	-	-	(4,607)	(4,607)
Actuarial losses arising from changes in financial assumptions		(665)	-	(665)	(6,185)	-	(6,185)
Actuarial (losses)/gains arising from liability experience		(61)	-	(61)	543	-	543
DEFINED BENEFIT ACTUARIAL LOSS	18(k)	**(726)**	**-**	**(726)**	**(5,642)**	**(4,607)**	**(10,249)**
Contributions:							
– Employers		-	-	-	-	529	529
– Plan participants		-	-	-	(482)	482	-
Benefits paid		193	-	193	9,043	(9,043)	-
Premiums and expenses paid		-	-	-	271	(271)	-
NET LIABILITY EXCLUDING TAXES 31 DECEMBER 2018		**(8,197)**	**-**	**(8,197)**	**(106,120)**	**83,054**	**(23,066)**

(d) Fair value of defined benefit pension plan assets

	SIGNIFICANT OBSERVABLE INPUTS LEVEL 2 $000
Net current assets/(liabilities)	1,305
Debt instruments	8,540
Investment Funds – Composite Funds	73,209
TOTAL ASSETS	**83,054**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

18. EMPLOYEE BENEFITS (continued)

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

	PENSION PLAN	
	2018	**2017**
Australasian equity	**10.1%**	10.6%
International equity	**31.2%**	29.6%
Fixed income	**36.4%**	34.1%
Cash	**10.5%**	9.3%
Property and other	**11.8%**	16.4%

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

- Any of the Group's own financial instruments;
- Any property occupied by, 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 NZ IAS 19 "Employee Benefits" at each balance date. Any changes in these assumptions will impact the carrying amount of pension obligations.

As at 31 December 2018 the following actuarial assumptions were applied:

	2018		2017	
	MEDICAL PLAN	**PENSION PLAN**	**MEDICAL PLAN**	**PENSION PLAN**
Discount rate	**2.8%**	**2.5%**	3.3%	3.0%
Expected rate of future salary increases	**-**	**2.5%**	-	2.5%
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	**8.0%**	**-**	8.0%	-
Rate of Fringe Benefit Tax	**49.25%**	**-**	49.25%	-

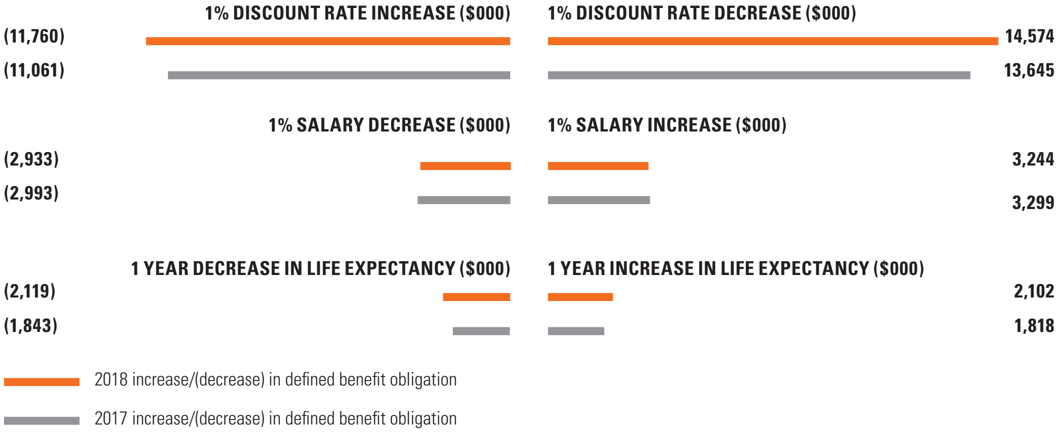
Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

18. EMPLOYEE BENEFITS (continued)

(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.

(g) Maturity profile of defined benefit obligation

The average term at which the expected future discounted cash flows are due is 12 years (2017: 12 years).
The average undiscounted expected term of all liabilities is 16 years (2017: 16 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. 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 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 31 March 2019.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

18. EMPLOYEE BENEFITS (continued)

(i) Expected contributions

FINANCIAL YEAR ENDING	MEDICAL PLAN 2019 $000	PENSION PLAN 2019 $000
Expected employer contributions (net)	**207**	**995**

(j) Amounts recognised in the Consolidated Income Statement

	MEDICAL PLAN		PENSION PLAN	
	2018 $000	2017 $000	2018 $000	2017 $000
Service cost	**-**	-	**1,863**	1,769
Net interest cost	**242**	225	**330**	314
Plan expense	**242**	225	**2,193**	2,083
Contributions tax	**-**	-	**1,079**	1,027
PLAN EXPENSE PLUS TAXES	**242**	225	**3,272**	3,110

(k) Amounts recognised in the Statement of Comprehensive Income

	2018 $000	2017 $000
Defined benefit actuarial loss	**(5,642)**	(8,013)
Actual return on plan assets less interest income	**(4,607)**	7,257
Actuarial loss medical scheme	**(726)**	(1,674)
Total recognised in other comprehensive income	**(10,975)**	(2,430)
Contributions tax	**(5,049)**	(372)
TOTAL RECOGNISED IN OTHER COMPREHENSIVE INCOME WITH CONTRIBUTIONS TAX	**(16,024)**	(2,802)

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:

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 $134 million (2017: $131 million), and margin cap of USD9.00 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. In 2017 the Group entered into contracts with a fixed unit price to mitigate the volatility. Effective 1 January 2018 the Group uses electricity futures for the electricity price risk hedging purposes.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

19. FINANCIAL RISK MANAGEMENT (continued)

Currency risk

The Group is exposed to foreign exchange risk as a result of transactions denominated in currencies other than the Group's functional currency. The primary currencies giving rise to the currency risk are US dollar, Singaporean dollar, 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.

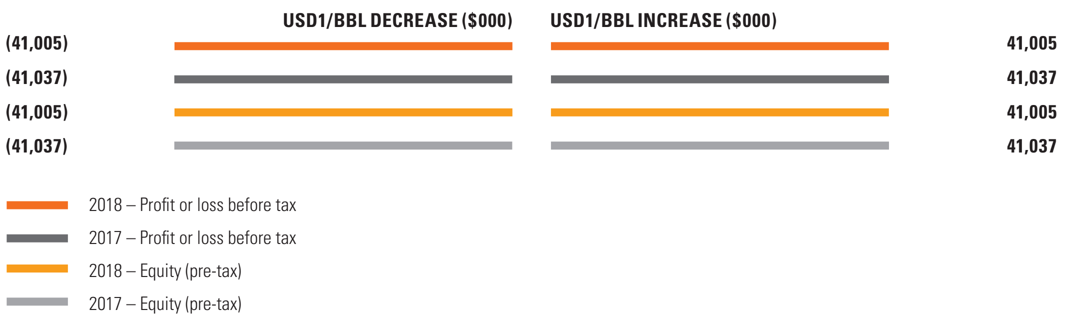
Interest rate risk

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. The swaps are floating-to-fixed interest rate swaps under which the Group agrees with other parties to exchange the difference between fixed contract rates and floating interest rates calculated, on a quarterly basis, with reference to the agreed notional amounts. Refer to note 20 for further information.

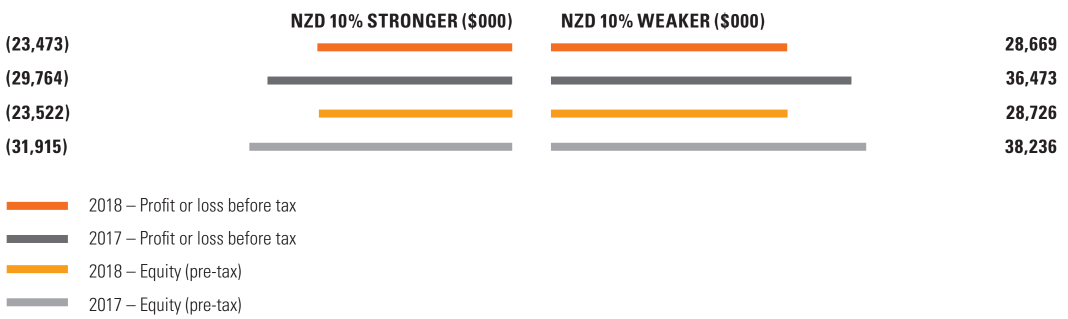
Sensitivity analysis

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 hedged in 2017 and 2018.

- **Price risk** – an increase and decrease of refining margin by USD1.00 per barrel.

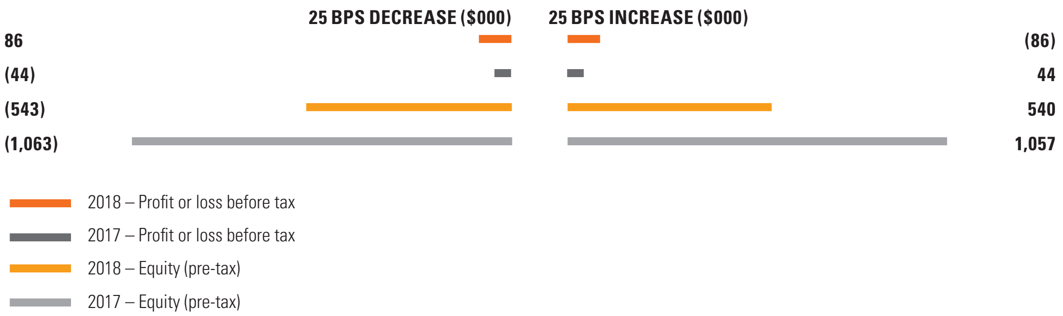


- **Currency risk** – the sensitivity analysis is presented based on the impact of the New Zealand dollar weakening or strengthening against foreign currencies, such as US dollar, Singaporean dollar, Euro and Australian dollar. A 10% movement in foreign currencies is considered as reasonably possible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



19. FINANCIAL RISK MANAGEMENT (continued)

- **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 only parties with a minimum long-term credit 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 Group is exposed to credit risk if counterparties fail to make payments as they fall due in respect of payment of trade receivables as invoices fall due 7-14 days for the Parent and 30 days for its subsidiary after being raised. The receivables from 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. Based on the analysis of the historical payments of the Group's customers and with reference to their credit rating and short payment terms, the Group assessed the expected credit losses to be immaterial. No collateral is held over trade receivables.

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

Overdue trade receivable balances at 31 December 2018 totalled $1.206 million (2017: $0.713 million). Management consider that these balances are not impaired.

(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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

19. FINANCIAL RISK MANAGEMENT (continued)

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 and are based on the expiry of the bank facility or maturity of the subordinated notes.

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.

		CONTRACTUAL CASH FLOWS					
	CARRYING AMOUNT	LESS THAN 6 MONTHS	BETWEEN 6 MONTHS - 1 YEAR	BETWEEN 1-2 YEARS	BETWEEN 2-5 YEARS	OVER 5 YEARS	TOTAL CASH FLOWS
GROUP 2018	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
NON-DERIVATIVE FINANCIAL LIABILITIES							
Trade and other payables	**(29,677)**	**(29,677)**	**-**	**-**	**-**	**-**	**(29,677)**
Bank borrowings	**(185,300)**	**(2,216)**	**-**	**(100,000)**	**(85,300)**	**-**	**(187,516)**
Subordinated notes	**(73,301)**	**(807)**	**(1,913)**	**(3,825)**	**(11,475)**	**(115,162)**	**(133,182)**
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**(288,278)**	**(32,700)**	**(1,913)**	**(103,825)**	**(96,775)**	**(115,162)**	**(350,375)**

		CONTRACTUAL CASH FLOWS					
	CARRYING AMOUNT	LESS THAN 6 MONTHS	BETWEEN 6 MONTHS - 1 YEAR	BETWEEN 1-2 YEARS	BETWEEN 2-5 YEARS	OVER 5 YEARS	TOTAL CASH FLOWS
GROUP 2017	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
NON-DERIVATIVE FINANCIAL LIABILITIES							
Trade and other payables	(46,255)	(46,255)	-	-	-	-	(46,255)
Bank borrowings	(170,000)	(1,287)	-	(50,000)	(120,000)	-	(171,287)
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	(216,255)	(47,542)	-	(50,000)	(120,000)	-	(217,542)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

19. FINANCIAL RISK MANAGEMENT (continued)

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.

		CONTRACTUAL CASH FLOWS					
	CARRYING AMOUNT	LESS THAN 6 MONTHS	BETWEEN 6 MONTHS - 1 YEAR	BETWEEN 1-2 YEARS	BETWEEN 2-5 YEARS	OVER 5 YEARS	TOTAL CASH FLOWS
GROUP 2018	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
DERIVATIVE FINANCIAL INSTRUMENTS							
Net settled derivatives	**(627)**	**2,457**	**(373)**	**(2,824)**	**-**	**-**	**(740)**
Gross settled derivatives							
Outflows	**-**	**(697)**	**(576)**	**(191)**	**(71)**	**-**	**(1,535)**
Inflows	**-**	**700**	**581**	**193**	**71**	**-**	**1,545**
Total gross settled derivatives	**17**	**3**	**5**	**2**	**-**	**-**	**10**
TOTAL DERIVATIVE FINANCIAL LIABILITIES	**(610)**	**2,460**	**(368)**	**(2,822)**	**-**	**-**	**(730)**

		CONTRACTUAL CASH FLOWS					
	CARRYING AMOUNT	LESS THAN 6 MONTHS	BETWEEN 6 MONTHS - 1 YEAR	BETWEEN 1-2 YEARS	BETWEEN 2-5 YEARS	OVER 5 YEARS	TOTAL CASH FLOWS
GROUP 2017	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
DERIVATIVE FINANCIAL INSTRUMENTS							
Net settled derivatives	(8,952)	(3,154)	2,056	4,267	2,944	-	12,421
Gross settled derivatives							
Outflows	-	(15,614)	(266)	-	-	-	(15,880)
Inflows	-	16,032	270	-	-	-	16,302
Total gross settled derivatives	458	418	4	-	-	-	422
TOTAL DERIVATIVE FINANCIAL LIABILITIES	(8,494)	3,572	2,060	4,267	2,944	-	12,843

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

20. DERIVATIVE FINANCIAL INSTRUMENTS

P At initial recognition, the derivative financial instruments are measured at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The fair value of derivative financial instruments approximates their carrying value.

Derivatives are only used for economic hedging purposes and not as speculative investments. 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).

At inception each transaction is documented, detailing the economic relationship and the hedge ratio between hedging instruments and hedged items, the risk management objective and strategy, and the assessment, initially and on an ongoing basis, of whether the derivatives used in the hedging transaction are highly effective.

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. Hedge effectiveness is determined at inception of the hedge relationship, and through periodic effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. 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:

	2018 $000	2017 $000
Foreign exchange hedges transferred to property, plant and equipment	**(457)**	78
Foreign exchange contracts entered into during the year	**18**	396
Movement in value of foreign exchange contracts held throughout the year	**(1)**	61
Interest rate swaps maturing in the year 2018	**137**	-
Movement in value of interest rate swaps held throughout the year	**2,619**	1,199
Electricity futures entered into during the year	**3,740**	669
Electricity futures settled in the year 2018	**(735)**	-
Movement in value of electricity futures held throughout the year	**2,535**	-
Gross movement in cash flow hedge reserve	**7,856**	2,403
Deferred tax	**(2,200)**	(673)
NET MOVEMENT IN CASH FLOW HEDGE RESERVE	**5,656**	1,730

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.

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).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

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

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

Interest rate swaps and forward foreign exchange contracts are not traded in an active market and their fair value is determined by using 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 date, with the resulting value discounted back to present value.

	2018		2017	
	ASSETS	**LIABILITIES**	**ASSETS**	**LIABILITIES**
	$000	**$000**	**$000**	**$000**
Cash flow hedges:				
– forward foreign exchange contracts	**12**	**-**	458	-
– electricity futures	**6,237**	**-**	735	-
– interest rate swaps	**-**	**(1,300)**	-	(137)
TOTAL CURRENT PORTION	**6,249**	**(1,300)**	1,193	(137)
Cash flow hedges:				
– forward foreign exchange contracts	**6**	**-**	-	-
– electricity futures	**-**	**-**	-	(67)
– interest rate swaps	**-**	**(5,564)**	-	(9,484)
TOTAL NON-CURRENT PORTION	**6**	**(5,564)**	-	(9,550)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The effects of the derivative financial instruments on the Group's financial position and performance are as follows:

	FOREIGN EXCHANGE FORWARD CONTRACTS				INTEREST RATE SWAPS	ELECTRICITY FUTURES
	AUD	EUR	SGD	USD		
31 DECEMBER 2018						
Carrying amount – net asset/(liability) ($000)	**(3)**	**12**	**8**	**-**	**(6,864)**	**6,237**
Notional amount (equivalent of NZ$000)	**139**	**759**	**375**	**-**	**150,000**	**16,459**
Maturity date	**2019**	**2019-2020**	**2019-2021**	**-**	**2019-2020**	**2019**
Hedge ratio	**1:1**	**1:1**	**1:1**	**-**	**1:1**	**1:1**
Change in fair value of hedging instrument ($000)	**(23)**	**(148)**	**(16)**	**(254)**	**2,757**	**5,569**
Weighted average hedged rate	**AU$/NZ$ 0.9356**	**EUR/NZ$ 0.5892**	**SG$/NZ$ 0.9290**	**US$/NZ$ -**	**5.73%**	**$79.2/MWh**

	FOREIGN EXCHANGE FORWARD CONTRACTS				INTEREST RATE SWAPS	ELECTRICITY FUTURES
	AUD	EUR	SGD	USD		
31 DECEMBER 2017						
Carrying amount – net asset/(liability) ($000)	20	160	24	254	(9,621)	668
Notional amount (equivalent of NZ$000)	1,719	4,182	596	9,384	170,000	12,387
Maturity date	2018	2018	2018	2018	2018-2020	2018-2019
Hedge ratio	1:1	1:1	1:1	1:1	1:1	1:1
Change in fair value of hedging instrument ($000)	42	216	24	254	1,198	668
Weighted average hedged rate	AU$/NZ$ 0.9177	EUR/NZ$ 0.6093	SG$/NZ$ 0.9849	US$/NZ$ 0.7276	5.73%	$76.5/MWh

For all hedges the quantity of the hedging instrument matched the quantity of the hedged items therefore hedge ratios were 1:1.

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 between 2019 and 2021. At balance date all forward exchange contracts had been designated as hedges and there was no ineffectiveness to be recorded from these cash flow hedges.

Interest rate swaps are used to hedge highly probable cash flows associated with interest costs on borrowings and are used to convert floating rate positions into fixed rate positions. As all critical terms matched during the year, the economic relationship was 100% effective, and there was no ineffectiveness recorded from these hedges.

Electricity futures are used to hedge highly probable cash flows associated with purchases of electricity at spot market and an ineffective portion of the hedge may occur due to a volume mismatch and location factor. At balance date the hedge ineffectiveness from these cash flow hedges amounted to $29 thousand (2017: Nil).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

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:

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") which qualifies as an "Exempt ESS" under section CW26C of 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. As at 31 December 2018 none of the shares have been vested to the Company employees.

The details on the scheme, including expenses arising from the scheme (as presented in Employee Share Entitlement Reserve), are as follows:

PERFORMANCE YEAR	GRANT DATE	VESTING DATE	NUMBER OF ELIGIBLE EMPLOYEES	COMPANY CONTRIBUTION PER EMPLOYEE	EXPENSES ARISING FROM THE SCHEME				
				$	2015 $000	2016 $000	2017 $000	2018 $000	TOTAL $000
2015	7 April 2016	21 April 2019	299	1,025	75	62	62	85	284
2016	29 March 2017	4 May 2020	297	1,250	-	91	62	80	233
2017	26 March 2018	8 May 2021	302	1,050	-	-	77	70	147
2018 (*)	-	-	-	-	-	-	-	68	68
					75	**153**	**201**	**303**	**732**

(*) A share offer in relation to the performance year 2018 has not been made by the Company to its employees as at 31 December 2018.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

21. EMPLOYEE SHARE-BASED PAYMENTS (continued)

Set out below are summaries of shares acquired by the Company during the financial year, included in Treasury Stock until vesting date:

	2018			2017		
	NUMBER OF SHARES	AVERAGE PURCHASE PRICE	VALUE OF SHARES ACQUIRED	NUMBER OF SHARES	AVERAGE PURCHASE PRICE	VALUE OF SHARES ACQUIRED
	000's	$ PER SHARE	$000	000's	$ PER SHARE	$000
AT 1 JANUARY	**252.8**	**2.68**	**678**	98.0	3.14	308
Shares acquired	**123.0**	**2.37**	**291**	154.8	2.39	370
AT 31 DECEMBER	**375.8**	**2.58**	**969**	252.8	2.68	678

22. CONTINGENT LIABILITIES

The Group has no contingent liabilities at 31 December 2018 (2017: nil).

Independent Auditor's Report

To the shareholders of The New Zealand Refining Company Limited

We have audited the consolidated financial statements which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Our opinion

In our opinion, the accompanying consolidated financial statements of The New Zealand Refining Company Limited (the Company), including its subsidiary (the Group), present fairly, in all material respects, the financial position of the Group as at 31 December 2018, 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.

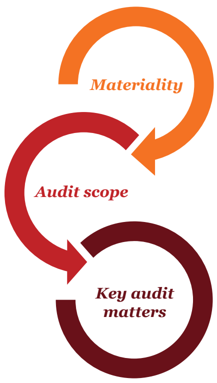
We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional 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 strategic review advice, executive remuneration benchmarking and AGM scrutineering. The provision of these other services has not impaired our independence as auditor of the Group.

Independent Auditor's Report

To the shareholders of The New Zealand Refining Company Limited

OUR AUDIT APPROACH



Overview

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

Overall Group materiality: $4 million, which represents 5% of a five-year weighted average profit before tax.

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 refining margins and the NZ dollar/US dollar exchange rate. The current year was particularly affected by the full maintenance shutdown, resulting in lower profitability compared to prior years.

We have determined that there is one key audit matter:

- Recognition of processing fees

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.

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 in which the Group operates.

Independent Auditor's Report

To the shareholders of The New Zealand Refining Company Limited

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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

Recognition of processing fees

Processing fees revenue for 2018 was $258.9 million (2017: 327.4 million) of the total operating revenue of $359.3 million (2017: $411.6 million).

Processing fees are the Group's main source of revenue and represent material related party transactions with the Group's shareholding oil companies, who are also its customers.

The processing fee calculation is complex and includes many variables. The calculation is based on an agreed formula defined in the processing agreement with each of the oil companies. Note 19(a) discusses the method of calculation of the refining margin, which is a key input into the calculation of the processing fees.

Management reviews the processing fees calculation on a monthly basis including crude, product premia and freight costs.

Notes 2 and 3 of the consolidated financial statements detail the accounting policies and an analysis of processing fee revenue.

How our audit addressed the key audit matter

Our audit procedures described below included a combination of controls and substantive testing over the processing fees calculation and recognised revenue.

Controls testing included:

- Testing access controls over restriction to the processing fee calculation through inspection of the access log and comparing it against the approved user listing; and
- Testing a sample of management's monthly review controls over the processing fee calculation.

For substantive procedures:

- On a sample basis, we agreed calculation inputs for crude oil costs, product premia and freight to source documentation;
- We agreed the processing fee formula used to recognise revenue to the processing fee agreement and, on a sample basis, reperformed the calculation of the refining margin for each of the oil companies; and
- We tested the payments received from the oil companies during the year and agreed post year-end cash receipts from each of the oil companies to the outstanding receivables at year end.
- We reviewed the Group's accounting policy in conjunction with the adoption of NZ IFRS 15, *Revenue from Contracts with Customers*, and related disclosures in the consolidated financial statements.

From the procedures performed, we have no matters to report.

Independent Auditor's Report

To the shareholders of The New Zealand Refining Company Limited

INFORMATION OTHER THAN THE CONSOLIDATED 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 and will 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 not all other information was available to us at the date of our signing.

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 consolidated financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Independent Auditor's Report

To the shareholders of The New Zealand Refining Company Limited

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
21 February 2019

Auckland

Trend Statement

	2018 $000	2017 $000	2016 $000	2015 $000	2014 $000
FINANCIAL PERFORMANCE					
Total income	**362,466**	414,620	354,156	446,771	233,019
Total expenses	**306,894**	290,417	274,136	234,354	216,549
Net profit before finance costs	**55,572**	124,203	80,020	212,417	16,470
Net finance costs	**13,800**	13,747	15,526	2,755	2,480
Net profit before income tax	**41,772**	110,456	64,494	209,662	13,990
Income tax	**12,156**	31,926	17,020	58,731	3,967
Net profit after income tax	**29,616**	78,530	47,474	150,931	10,023
FINANCIAL POSITION					
Funds employed					
Contributed equity	**265,771**	265,771	265,771	265,771	265,771
Retained profits	**504,562**	533,369	494,358	523,125	382,068
Other	**(697)**	(6,365)	(7,926)	(6,701)	(3,160)
Total equity	**769,636**	792,775	752,203	782,195	644,679
Borrowings – non-current	**208,601**	170,000	150,000	175,000	316,000
Other non-current liabilities	**198,109**	174,658	163,025	147,880	137,289
Total funds employed	**1,176,346**	1,137,433	1,065,228	1,105,075	1,097,968
Funds utilised					
Non-current assets	**1,226,218**	1,155,053	1,143,037	1,153,142	1,088,462
Working capital	**(49,872)**	(17,620)	(77,809)	(48,067)	9,506
TOTAL FUNDS UTILISED	**1,176,346**	1,137,433	1,065,228	1,105,075	1,097,968

	2018	2017	2016	2015	2014
ANALYTICAL INFORMATION					
Number of shareholders	**4,705**	4,908	5,156	4,511	3,551
Earnings per share ($)*	**0.095**	0.251	0.151	0.482	0.032
Effective tax rate (%)	**29**	29	26	28	28
Net asset backing per share ($)*	**2.42**	2.54	2.43	2.53	2.08
Working capital ratio	**0.8**	0.9	0.7	0.8	1.1

*Earnings per share for 2014 is based on a weighted average calculation of shares.

Trend Statement

	2018	2017	2016	2015	2014
DIVIDEND INFORMATION*					
Dividend per share (cents)	**7.5**	18	9	25	-
Dividend paid ($000)	**23,443**	56,264	28,134	78,144	-
Dividends declared per share					
– interim (paid 12 September 2018)	**3.0 cps**	6.0 cps	3.0 cps	5.0 cps	-
– final (payable 21 March 2019)	**4.5 cps**	12.0 cps	6.0 cps	20.0 cps	-
Dividend cover	**1.26**	1.40	1.69	1.93	-
MANUFACTURING					
Barrels processed – intake (000s barrels)	**40,440**	41,724	42,665	42,639	39,676
Gross refining margin (USD/barrel)	**6.31**	8.02	6.47	9.20	4.96
USD exchange rate (NZD)	**0.69**	0.71	0.70	0.70	0.82
Pipeline throughput (000s barrels)	**21,015**	19,828	20,147	18,449	17,990

*Dividend information is stated in the year to which it relates, rather than when paid.

GLOSSARY

TRC (Total Recordable Case)
The number of lost time incidents, restricted work cases, medical treatment cases and fatalities.

TRCF (Total Recordable Case Frequency)
The number of lost time incidents, restricted work cases, medical treatment cases and fatalities per two hundred thousand manhours actually 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.

Tier 1 Process Safety Event
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 Lost Time Injury (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.

Tier 2 Process Safety Event
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.

FCF (Free Cash Flow)
Calculated as net cash flow operating activities minus payments for property, plant and equipment with each of these items determined in accordance with GAAP.

Net Borrowings
Calculated as bank borrowings minus cash and cash equivalents.

EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation)
Net profit before finance costs plus depreciation and disposal costs with each of those items determined in accordance with GAAP.

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GENERAL DISCLOSURES

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Supply chain	102 - 9	18, 19
Significant changes to the organisation and its supply chain	102 - 10	18
Precautionary principle approach	102 - 11	19
External initiatives	102 - 12	https://www.refiningnz.com/environment/environmental-footprint/
Membership of associations	102 - 13	Business and Parliament Trust Business NZ Hugo Group Institute of Directors HERA (Heavy Industry Research Association) MEUG (Major Electricity Users Group) Northland Chamber of Commerce Petroleum Skills Association Business Leaders Health and Safety Forum The New Zealand Initiative
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Date of most recent report	102 - 51	2017
Reporting cycle	102 - 52	22
Contact point for questions regarding the report	102 - 53	greg.mcneill@refiningnz.com
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ENERGY		
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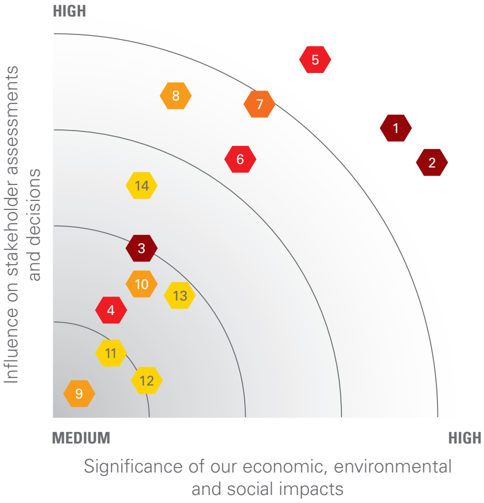

MATERIAL ISSUES

1. Process safety
2. Personal safety and wellbeing
3. Business continuity and emergency response
4. Energy efficiency
5. Emissions to air, water and ground
6. Greenhouse gas/climate change
7. Quality and reliability of products
8. Financial performance
9. Governance and Board independence
10. Risk management
11. Culture and diversity
12. Training and development
13. Community and iwi engagement
14. Contribution to regional economy

Corporate Directory

Registered Office
Marsden Point
Whangarei

Mailing Address
Private Bag 9024
Whangarei 0148
Telephone: +64 9 432 5100

Website
www.refiningnz.com

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
Bank of China (New Zealand) Limited

Legal Advisers
Minter Ellison Rudd Watts
Chancery Green

Auditor
PricewaterhouseCoopers

Chairman
S C Allen (Independent Director)

Independent Directors
J B Miller (appointed 1 November 2018)
V C M Stoddart
M Tume (resigned 21 February 2019)
P A Zealand

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

Chief Executive Officer
M J Fuge

Company Secretary
D M Jensen

Financial Calendar

Annual Shareholders' Meeting
Friday, 12 April 2019 at 2:00pm
South Stand Level 4 Lounge
Eden Park
Gate F
42 Reimers Ave, Kingsland
Auckland

Proxies lodged
By 2:00pm on 10 April 2019

2019 results announced
Half year – 22 August 2019
Annual – February 2020

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.