

# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

# Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2020 (UNAUDITED)

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## Consolidated Income Statement

FOR THE SIX MONTHS ENDED 30 JUNE 2020 (UNAUDITED)

		GROUP 30 JUNE 2020 \$000	GROUP 30 JUNE 2019 \$000
<b>INCOME</b>			
Revenue	4	<b>116,154</b>	169,413
Other income	4	<b>2,964</b>	2,179
<b>TOTAL INCOME</b>	4,5	<b>119,118</b>	171,592
<b>EXPENSES</b>			
Purchase of process materials and utilities		<b>43,737</b>	51,220
Materials and contractor payments		<b>11,478</b>	15,776
Wages, salaries and benefits		<b>30,903</b>	29,653
Administration and other costs		<b>17,618</b>	20,893
<b>TOTAL EXPENSES</b>		<b>103,736</b>	117,542
<b>EARNINGS BEFORE DEPRECIATION, IMPAIRMENT, FINANCE COSTS AND INCOME TAX</b>			
		<b>15,382</b>	54,050
Depreciation and disposal costs		<b>47,300</b>	52,137
Impairment of assets	3	<b>218,903</b>	-
<b>TOTAL DEPRECIATION, DISPOSALS AND IMPAIRMENT</b>		<b>266,203</b>	52,137
<b>NET (LOSS)/PROFIT BEFORE FINANCE COSTS</b>		<b>(250,821)</b>	1,913
<b>FINANCE COSTS</b>			
Finance income		<b>(146)</b>	(24)
Finance costs		<b>6,552</b>	6,767
<b>NET FINANCE COSTS</b>		<b>6,406</b>	6,743
<b>NET LOSS BEFORE INCOME TAX</b>		<b>(257,227)</b>	(4,830)
Income tax		<b>(70,879)</b>	(1,327)
<b>NET LOSS AFTER INCOME TAX</b>		<b>(186,348)</b>	(3,503)
<b>ATTRIBUTABLE TO:</b>			
<b>Owners of the Parent</b>		<b>(186,348)</b>	(3,503)
<b>EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE NEW ZEALAND REFINING COMPANY LIMITED</b>			
		<b>CENTS</b>	<b>CENTS</b>
Basic earnings per share		<b>(59.60)</b>	(1.12)
Diluted earnings per share		<b>(59.50)</b>	(1.12)

THE ABOVE CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT IS TO BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES.

# Consolidated Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 30 JUNE 2020 (UNAUDITED)

		GROUP 30 JUNE 2020 \$000	GROUP 30 JUNE 2019 \$000
<b>NET LOSS AFTER INCOME TAX</b>		<b>(186,348)</b>	<b>(3,503)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that will not be reclassified to the Income Statement</b>			
Defined benefit plan and medical scheme actuarial loss	14	<b>(19,927)</b>	(10,558)
Deferred tax on defined benefit plan and medical scheme		<b>5,580</b>	2,956
<b>Total items that will not be reclassified to the Income Statement</b>		<b>(14,347)</b>	<b>(7,602)</b>
<b>Items that may be subsequently reclassified to the Income Statement</b>			
Movement in cash flow hedge reserve		<b>(1,327)</b>	(1,539)
Deferred tax on movement in cash flow hedge reserve		<b>372</b>	431
<b>Total items that may be subsequently reclassified to the Income Statement</b>		<b>(955)</b>	<b>(1,108)</b>
<b>TOTAL OTHER COMPREHENSIVE LOSS, AFTER INCOME TAX</b>		<b>(15,302)</b>	<b>(8,710)</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD, AFTER INCOME TAX</b>		<b>(201,650)</b>	<b>(12,213)</b>
<b>ATTRIBUTABLE TO:</b>			
Owners of the Parent		<b>(201,650)</b>	<b>(12,213)</b>

THE ABOVE CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME IS TO BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES.

# Consolidated Balance Sheet

AT 30 JUNE 2020 (UNAUDITED)

		GROUP 30 JUNE 2020 \$000	GROUP 31 DECEMBER 2019 \$000
<b>ASSETS</b>			
Cash and cash equivalents		29,809	5,255
Trade and other receivables		124,557	145,063
Income tax receivable		1,780	5,895
Derivative financial instruments		2,586	4,421
Inventories		4,063	3,340
<b>TOTAL CURRENT ASSETS</b>		<b>162,795</b>	<b>163,974</b>
<b>NON-CURRENT ASSETS</b>			
Inventories		15,553	19,410
Derivative financial instruments		-	205
Property, plant and equipment	10	925,096	1,171,301
Right-of-use assets	10	3,245	4,028
Intangibles	10	17,353	22,137
<b>TOTAL NON-CURRENT ASSETS</b>		<b>961,247</b>	<b>1,217,081</b>
<b>TOTAL ASSETS</b>		<b>1,124,042</b>	<b>1,381,055</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	139,614	171,018
Derivative financial instruments		3,351	3,997
Lease liabilities		282	248
Employee benefits	14	8,825	7,861
<b>TOTAL CURRENT LIABILITIES</b>		<b>152,072</b>	<b>183,124</b>
<b>NON-CURRENT LIABILITIES</b>			
Derivative financial instruments		4,226	5,017
Borrowings	9	279,552	246,616
Lease liabilities		3,705	3,206
Employee benefits	14	61,695	40,894
Provisions	12	11,119	12,643
Deferred tax liabilities	15	56,388	132,811
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>416,685</b>	<b>441,187</b>
<b>TOTAL LIABILITIES</b>		<b>568,757</b>	<b>624,311</b>
<b>NET ASSETS</b>		<b>555,285</b>	<b>756,744</b>

# Consolidated Balance Sheet

AS AT 30 JUNE 2020 (UNAUDITED)

	GROUP 30 JUNE 2020 \$000	GROUP 31 DECEMBER 2019 \$000
<b>EQUITY</b>		
Contributed equity	266,057	265,771
Treasury stock	(895)	(960)
Employee share entitlement reserve	521	681
Cash flow hedge reserve	(3,643)	(2,688)
Retained earnings	293,245	493,940
<b>Total Equity</b>	<b>555,285</b>	<b>756,744</b>

For and on behalf of the Board, 16 August 2020.



**S C Allen**  
Director



**J B Miller**  
Director

THE ABOVE CONDENSED CONSOLIDATED INTERIM BALANCE SHEET IS TO BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES.

## Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2020 (UNAUDITED)

	GROUP 30 JUNE 2020 \$000	GROUP 30 JUNE 2019 \$000
NOTE		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	108,799	167,765
Payment for supplies and expenses	(63,999)	(73,801)
Payments to employees	(28,874)	(30,326)
<b>CASH GENERATED FROM OPERATIONS</b>	<b>15,926</b>	<b>63,638</b>
Interest received	146	24
Interest paid	(6,808)	(5,995)
Net GST paid	(120)	(905)
Income tax received/(paid)	4,523	(8,830)
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>13,667</b>	<b>47,932</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for property, plant and equipment	(21,954)	(29,782)
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>	<b>(21,954)</b>	<b>(29,782)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from bank borrowings	32,900	250
Dividends paid to shareholders	8	-
Lease payments	(59)	(381)
Purchase of treasury stock	-	(283)
<b>NET CASH (OUTFLOW)/ INFLOW FROM FINANCING ACTIVITIES</b>	<b>32,841</b>	<b>(14,481)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>24,554</b>	<b>3,669</b>
Cash and cash equivalents at the beginning of the period	5,255	779
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>29,809</b>	<b>4,448</b>

THE ABOVE CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS IS TO BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES

## Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2020 (UNAUDITED)

		CONTRIBUTED EQUITY	TREASURY STOCK	SHARE SCHEME ENTITLEMENT RESERVE	CASH FLOW HEDGE RESERVE	RETAINED EARNINGS	TOTAL EQUITY
	NOTE	\$000	\$000	\$000	\$000	\$000	\$000
AT 1 JANUARY 2019		265,771	(969)	732	(460)	504,562	769,636
<b>COMPREHENSIVE INCOME</b>							
<b>Net loss after income tax</b>		-	-	-	-	(3,503)	(3,503)
<b>Other comprehensive income</b>							
Movement in cash flow hedge reserve		-	-	-	(1,539)	-	(1,539)
Defined benefit actuarial loss	14	-	-	-	-	(10,558)	(10,558)
Deferred tax on other comprehensive income		-	-	-	431	2,956	3,387
<b>TOTAL OTHER COMPREHENSIVE LOSS, AFTER INCOME TAX</b>		-	-	-	(1,108)	(7,602)	(8,710)
<b>TRANSACTIONS WITH OWNERS OF THE PARENT</b>							
Equity-settled share-based payments		-	-	121	-	-	121
Shares vested to employees		-	292	(292)	-	-	-
Treasury shares purchased		-	(283)	-	-	-	(283)
Unclaimed dividends written back		-	-	-	-	-	-
Dividends paid	8	-	-	-	-	(14,067)	(14,067)
<b>TOTAL TRANSACTIONS WITH OWNERS OF THE PARENT</b>		-	9	(171)	-	(14,067)	(14,229)
<b>AT 30 JUNE 2019</b>		<b>265,771</b>	<b>(960)</b>	<b>561</b>	<b>(1,568)</b>	<b>479,390</b>	<b>743,194</b>



## Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2020 (UNAUDITED)

		CONTRIBUTED EQUITY	TREASURY STOCK	SHARE SCHEME ENTITLEMENT RESERVE	CASH FLOW HEDGE RESERVE	RETAINED EARNINGS	TOTAL EQUITY
	NOTE	\$000	\$000	\$000	\$000	\$000	\$000
AT 1 JANUARY 2020		265,771	(960)	681	(2,688)	493,940	756,744
<b>COMPREHENSIVE INCOME</b>							
Net loss after income tax		-	-	-	-	(186,348)	(186,348)
<b>Other comprehensive income</b>							
Movement in cash flow hedge reserve		-	-	-	(1,327)	-	(1,327)
Defined benefit actuarial loss	14	-	-	-	-	(19,927)	(19,927)
Deferred tax on other comprehensive income		-	-	-	372	5,580	5,952
<b>TOTAL OTHER COMPREHENSIVE LOSS, AFTER INCOME TAX</b>		-	-	-	(955)	(14,347)	(15,302)
<b>TRANSACTIONS WITH OWNERS OF THE PARENT</b>							
Equity-settled share-based payments		-	-	191	-	-	191
Shares vested to employees		-	351	(351)	-	-	-
Shares issued		286	(286)	-	-	-	-
Unclaimed dividends written back		-	-	-	-	-	-
Dividends paid	8	-	-	-	-	-	-
<b>TOTAL TRANSACTIONS WITH OWNERS OF THE PARENT</b>		286	65	(160)	-	-	191
<b>AT 30 JUNE 2020</b>		266,057	(895)	521	(3,643)	293,245	555,285

THE ABOVE CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY IS TO BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES.

## Basis of Preparation

FOR THE SIX MONTHS ENDED 30 JUNE 2020 (UNAUDITED)

### Reporting entity

The New Zealand Refining Company Limited ('Parent', 'Company' or 'Refining NZ'), is a profit-oriented company registered under the Companies Act 1993 and an FMC Reporting Entity for the purposes of the Financial Markets Conduct Act 2013. Refining NZ is listed, and its ordinary shares are quoted on the NZX Main Board Equity Market ("NZX Main Board") and it has subordinated notes quoted on the NZX Debt Market.

The condensed consolidated interim financial statements (hereinafter "financial statements") for the six months ended 30 June 2020 presented are those of Refining NZ together with its subsidiaries ('the Group').

### Basis of preparation

These financial statements as at and for the six months ended 30 June 2020 comply with the generally accepted accounting practice in New Zealand ('NZ GAAP') and have been prepared in accordance with New Zealand Equivalents to International Accounting Standard ('NZ IAS') 34: *Interim Financial Reporting* and International Accounting Standard ('IAS') 34: *Interim Financial Reporting* and, consequently, do not include all the information required to be disclosed in annual consolidated financial statements. These financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2019.

### Accounting policies

The accounting policies used in the preparation of these financial statements are consistent with those used in the previously published consolidated financial statements as at and for the six months ended 30 June 2019 and the audited consolidated financial statements as at and for the year ended 31 December 2019. There were no new standards, interpretations and amendments effective from 1 January 2020 that would have a material impact on the Group.

### Use of judgements and estimates

The preparation of financial statements requires directors to make certain judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.

The following areas involve estimates and assumptions that can significantly affect the amounts recognised in the condensed consolidated financial statements:


- **Impairment assessment of assets** – refer to Note 3 for further details.
- **Useful lives of the property, plant and equipment** – the Group reassessed the remaining useful lives of assets associated with the distribution segment (including the Refinery to Auckland Pipeline) as at 31 December 2019. No changes to the useful lives of assets at 30 June 2020 were identified pending the outcome of the Strategic Review as outlined in Note 1.

## Basis of Preparation

FOR THE SIX MONTHS ENDED 30 JUNE 2020 (UNAUDITED)

- **Going concern** - these financial statements have been prepared on a going concern basis. Management and the Board consider that this is appropriate based on the Group's current cash position and available credit facilities, and that the Board has no reason to believe that Refining NZ will not meet covenants and other obligations under its facility agreements, for the next twelve months. Refining NZ's forecasts indicate the Group has the ability to continue to operate as a going concern despite the challenges arising from the current low margin environment and COVID-19, based on the steps taken to have cash neutral operations to date, and customers continuing to meet their Fee Floor obligations for the next twelve months (refer to Note 2).
- **Recoverability of tax losses** – in the six months ended 30 June 2020, Refining NZ generated a tax loss of \$27.5 million, increasing the Group's cumulative tax losses to \$44.8 million. A deferred tax asset in respect of these unutilised tax losses has been recognised.

On the assumption that at least a 49% continuity of shareholding is maintained, Management and the Board believe that future taxable profits will be available against which the tax losses can be recovered and therefore the deferred tax asset can be realised (refer to Notes 1 and 2). Any adverse change in future profits, or significant change in the shareholding of Refining NZ, could limit the Company's ability to realise the deferred tax asset.

Estimates are designated by a  symbol in the notes to these consolidated interim financial statements.

# Notes to the Interim Financial Statements

## 1 Strategic review

On 15 April 2020, the Refining NZ Board announced a Strategic Review to determine the optimal business model and capital structure for its assets to maximise “through the cycle” returns to shareholders and deliver secure, competitive fuel supply to New Zealand.

The first phase of the Strategic Review was to assess all the options, including: opportunities to improve the competitiveness of refining operations and options to separate the refining and infrastructure assets or convert to a fuel import business model.

On 25 June 2020, the Company announced that it would take two business model options forward into the next phase of detailed planning and analysis. To improve the near-term viability of its current business model, Refining NZ is developing plans to simplify refinery operations and structurally reduce operating costs. In parallel the company is continuing to evaluate a possible future staged transition to an import terminal, including exploration of a commercial framework with customers, overseen by the Independent Directors.

The Company expects to provide a further update on the Strategic Review process around the end of Quarter 3 2020.

These financial statements have been prepared based on existing Group operations under the current Processing Agreements. However, the potential outcomes from the Strategic Review, which are not solely within the Company’s control, may be substantially different from such existing operations and may therefore impact the financial performance and financial position of the Company in the future.

## 2 COVID-19 Pandemic

On 11 March 2020 the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19. The New Zealand Government subsequently raised its Alert Level to 4 (full lockdown of non-essential services) for an initial four-week period. As an essential service, the Group continued to operate during the lockdown, and subsequently throughout COVID-19 Alert Levels 3, 2 and 1. In response to the significant fuel demand reduction resulting from travel and transport restrictions, and the consequential reduction in revenue through weak global refining margin and lower refinery throughputs, Refining NZ has implemented the following measures:

- **Reduced refinery production**  
Refining NZ agreed with its customers to change the way it operates the refinery whereby the refinery’s processing facilities were operated on a rotating basis, to enable the refinery to produce at substantially lower rates to help balance fuel supply across New Zealand. This has continued post 30 June 2020 as outlined in Note 17.
- **Reduced non-essential activity on-site**  
All safety critical work has continued during COVID-19, however all non-essential activity on-site was suspended including the deferral of the planned maintenance turnaround of the main crude distiller and the gasoline manufacturing unit from May 2020 to March 2021.

## Notes to the Interim Financial Statements

- **Increased and extended debt facilities (Refer to Note 9)**

Refining NZ extended and expanded its existing bank facilities, increasing the weighted average term to over three years and adding \$50 million of additional capacity, which brought the total available debt funding facilities to \$400 million (including the company's \$75 million subordinated notes on issue). Subsequent to 30 June 2020 the Company further extended its facilities as outlined in Note 17.

**The impacts on the Group can be summarised as follows:**

- Total refinery throughput for the six months ended 30 June 2020 was 15.4 million barrels, 27% lower than the same period in 2019 and circa 40% lower from the time the pandemic was declared.
- Our customers were invoiced the pro rata Fee Floor amounting to \$70 million during the six months ended 30 June 2020. The actual processing fee earned from operations was below the pro-rated fee floor, resulting in \$38.9 million being paid by Customers as an interim fee floor payment as outlined in Note 4.
- Pipeline revenues were 11% lower than the same period in 2019 at \$16.3 million, reflecting the impact of reduced demand for transport fuels, particularly jet fuel into Auckland International Airport. Pipeline volumes were circa 41% lower from the time that the pandemic was declared compared to the same period in 2019.
- The Group accessed the Government wage subsidy totalling \$4.5 million as outlined in Note 4.
- The capital budget for 2020 has been reduced from \$70 million to \$35 million.
- Operating costs for the six months ended 30 June 2020 were circa \$8 million or 9% lower than budget due to reduced electricity and other costs as a result of reducing non-essential activity on site.
- The Company has operated on a cash neutral basis since lockdown (Alert Level 4), achieving a net debt position of \$250 million as at 30 June 2020.

## Notes to the Interim Financial Statements

In addition to the above, the impact of COVID-19 on the Refining NZ's balance sheet include:

<b>Item</b>	<b>COVID-19 impact assessment</b>
<b>Cash and cash equivalents</b>	The Group maintained cash and cash equivalent balances of between \$20-30 million.
<b>Trade and other receivables</b>	Trade receivables reflect a reduced excise duty receivable from customers due to reduced liftings of refined product in June 2020 following the COVID-19 demand destruction (refer to Note 13). Our customers continued to pay Processing Fees at the Fee Floor to the Company in the six months ended 30 June 2020 (Refer to Note 4).
<b>Income tax</b>	The Company generated tax losses of \$27.5 million in the six months ended 30 June 2020. Total tax losses available to the Group to offset against future taxable income amount to \$44.8 million. (Refer to key judgements and estimates under Basis of Preparation.)
<b>Derivative financial instruments</b>	COVID-19 has impacted commodity markets. Derivatives are recognised at fair value, hence the impact on the financial and commodity markets is included in the derivative instruments' valuation.
<b>Inventories</b>	Obsolescence assessment has been conducted with regards to inventories. Refer to Note 3 for further details.
<b>Property, plant and equipment</b>	Impairment assessment has been conducted with regards to property, plant and equipment. Refer to Note 3 for further details.
<b>Right-of-use assets</b>	Impairment assessment has been conducted with regards to right-of-use assets. Refer to Note 3 for further details.
<b>Intangibles</b>	Included are New Zealand Units (NZUs) held by the Parent company, recognised at historical cost and tested for impairment with reference to market value of carbon units. No impairment recognised on NZUs.
<b>Trade and other payables</b>	Trade and other payables reflect a lower excise duty payable to the NZ Customs as at 30 June 2020 due to reduced liftings of refined product in June 2020 following the COVID-19 transport fuels demand destruction. Trade and other payables are lower due to non-essential activity being reduced, with a corresponding reduction in capital and operating costs. Trade and other payables include \$1.6 million COVID-19 wages subsidy received prior to 30 June 2020 but deferred as income as it relates to wages paid post balance date.
<b>Borrowings</b>	Refining NZ extended and expanded its existing bank facilities. Refer to Note 9 for further details.

## Notes to the Interim Financial Statements

<b>Lease liabilities</b>	No impact – refer to right-of-use assets.
<b>Employee benefits</b>	Lower investment returns earned by the Pension Fund following COVID-19 and amended assumptions underpinning the valuation, particularly a lower yield curve impacting the discount rate, contributed to the actuarial loss reported to 30 June 2020 (refer to Note 14 for further details).
<b>Provisions</b>	Present value of provisions updated for the impact of financial and commodity markets on interest rates.
<b>Deferred tax liabilities</b>	The Group has incurred tax losses in the period and recognised an impairment of assets which reduced the deferred tax liability. Refer to Note 15 for further details.

# Notes to the Interim Financial Statements

## 3 Impairment assessment

**E** The carrying value of the Group's assets were tested for impairment as at 30 June 2020, resulting in an impairment of assets of \$219 million (or \$158 million net of deferred tax). In addition, the stock obsolescence provision has been increased by \$3.3 million as at 30 June 2020.

Key judgements underpinning this assessment include:

- **Strategic Review**

As set out in Note 1, the outcome of Strategic Review is not yet known and the business model options referred to are still being developed, so their parameters remain uncertain. As such, the Board and Management have conducted the impairment assessment as at 30 June 2020 based on the Group's existing business model and the existing Processing Agreements, with updates to reflect the Company's response to COVID-19 (see Note 2).

- The Company will reassess carrying values once the outcome of the Strategic Review is decided.

- **Resource consents**

The Company's resource consents for activities at its Marsden Point site are on track to be renewed prior to expiry in May 2022. It is the opinion of Management and the Board that the risks of not renewing resource consents on a commercially acceptable basis is relatively low.

- **New Zealand Emissions Trading Scheme (NZ ETS)**

In April 2020 the Government approved the making of regulations to bring the Company in to the NZ ETS as an Emissions Intensive Trade Exposed (EITE) business with an industrial allocation of carbon units, with effect upon the expiry of the Negotiated Greenhouse Agreement with the Crown on 31 December 2022.

Under the regulations the Company's industrial allocation entitlement will be based on 90% of the Company's 2006-2009 emissions data submitted in accordance with the Climate Change Response Act 2002. The Climate Change Response (Emissions Trading Reform) Amendment Act 2020 provides for a 1% per year phase out of rates of assistance over 2021 to 2030, meaning that the applicable rate of assistance at the time the Company enters the NZ ETS in 2023 would be 87%. This is the basis on which we have completed the 30 June 2020 impairment testing.

However, the Government has signalled that further regulatory reforms (resulting from a review of industrial allocation policy and electricity factors), may result in different allocative baselines in the future, including a change in the number of carbon units that the Company is ultimately allocated when it enters the NZ ETS in 2023 and therefore the financial impact on the business may change.



## Notes to the Interim Financial Statements

- **COVID-19 global pandemic**

COVID-19 has had a significant impact on current demand for transport fuels and therefore demand for refined products, resulting in significant market uncertainty. How long a recovery will take is uncertain and some independent experts are forecasting that the recovery from COVID-19 will be slow, impacting the longer-term demand forecasts for transport fuels, particularly jet fuel.

- **Market outlook – refining margins**

An increased supply of refined product and lower than expected demand for transport fuels in the Asia Pacific region has resulted in a reduced outlook for refining margins generally and the initiation of a Strategic Review as outlined in Note 1.

The global drop in oil demand triggered by COVID-19 and the expectation of a slow recovery in oil and refined products demand, particularly jet fuel, has further exacerbated the oversupply in the global refining market. This has resulted in very weak refining margins in the six months ended 30 June 2020, and significant uncertainty regarding refining margins in the future.

- **Future NZ transport fuel demand**

The Climate Change Response (Zero Carbon) Amendment Act 2019 has set a target for New Zealand to reduce its net emissions of all greenhouse gases (except biogenic methane) to zero by 2050. The pace of transition to alternative fuels and the manner by which that transition may occur, remains highly uncertain.

Any significant change in demand for refined products in New Zealand could therefore impact, favourably or unfavourably, on future assessments of the carrying value of the Group's assets.

There is significant volatility and uncertainty in the market as a result of COVID-19, and the impacts on future demand for transport fuels and the outlook for refiner's margins cannot be reliably predicted. Management and the Board have used their refining industry experience and independent expert forecasts, where appropriate, to determine the base assumptions adopted in the impairment testing as at the current reporting date.

**The approach to the impairment testing, including the key assumptions and sensitivities, reflecting the market uncertainty, are outlined below:**

### **Cash Generating Unit**

The Group identifies two cash generating units being: Refining NZ's assets and the assets of its subsidiary, Independent Petroleum Laboratory Limited ("IPL").

### **Recoverable amount**

The recoverable amount of the assets was determined on a value in use basis using a discounted cash flow methodology. In determining the recoverable amount, the Company considered fair value less cost of disposal. Based on the impairment assessment carried out, the recoverable amount of the Company's assets was determined at \$842 million which resulted in an impairment loss of \$219 million being recognised as at 30 June 2020 (\$158 million net of deferred tax) and allocated to refining assets.

# Notes to the Interim Financial Statements

## Key assumptions

The key assumptions used in the impairment testing include:

- **Refining and pipeline volumes**

Refinery's and pipeline's throughputs were assumed at an average of circa 41 million barrels and circa 18.5 million barrels per annum, respectively, in the 10-year period to 2030. Near-term production volumes have been adjusted for the impacts of COVID-19 driven demand destruction; longer-term, Refining NZ used demand forecasts developed by independent industry experts.

The base assumption is that the refinery would operate at the production levels outlined above until 2030, followed by a period of reduced production to 2035, and then conversion to an import terminal, noting that the outlook for transport fuels demand remains highly uncertain.

- **Refining margins and pipeline fees**

Consistent with the impairment testing approach used as at 31 December 2019, the Company has used refining margin forecasts issued by independent expert market commentators in June 2020. These independent forecasts indicate margins ranging between US\$4.40 per barrel to US\$6.80 per barrel in the 10 years to 2030, with a long-term average of US\$5.30. per barrel, including the estimated impact of margin enhancing initiatives, identified through external benchmarking, expected to deliver an average uplift of US\$0.80/bbl.

This represents a significant decline in the outlook for margins - around US\$2 per barrel - when compared to margin forecasts issued in January 2020 and adopted by Management and the Board for impairment testing purposes as at 31 December 2019. Previously, a range of US\$4.90 per barrel to US\$8.10 per barrel with a median of US\$7.40 per barrel had been forecast by the same independent experts, which indicates the extreme volatility and uncertainty in the market.

Pipeline revenue in the 15-year period to 2035 is determined with reference to the current pipeline arrangements to 2035, and then subsequently as a combination of estimated pipeline, terminal and wharfage fees.

- **Exchange rate**

Forward rates as at the end of the reporting period have been applied, with a range of 0.65 to 0.61 over the forecast period.

- **Operating costs and capital spend**

Operating costs (excluding pass through costs such as natural gas and carbon) and capital spend are assumed at an average of approximately \$150 million and \$60 million per annum, respectively, in the 10 years to 2030, with a reduction of the costs beyond 2031 as the refinery reduces its production and subsequently converts to an import terminal.

- **Discount rate**

A nominal post-tax weighted average cost of capital of 7.7% has been used, as assessed by external advisors.

## Notes to the Interim Financial Statements

- **Carbon cost**

The Company will enter the NZ ETS as an Energy Intense Trade Exposed (EITE) business at the expiry of the Negotiated Greenhouse Agreement on 31 December 2022. The base assumption is that Refining NZ will receive an industrial allocation of 87% in 2023 with a 1% per year phase out until 2030 and 2% beyond 2030.

- **Forecast period and terminal value**

Due to the long-term, cyclical nature of the business, a 30-year forecast period with no terminal value has been adopted, rather than a shorter modelling period with a terminal value allowed for.

### Sensitivities

The following chart outlines a range of possible sensitivities associated with each of the key assumptions, across the full period modelled, noting that changes in a combination of the key assumptions could also have a significant impact upon the recoverable amount assessed.



# Notes to the Interim Financial Statements

## 4 Income

FOR THE SIX MONTHS ENDED 30 JUNE	GROUP 30 JUNE 2020 \$000	GROUP 30 JUNE 2019 \$000
<b>Comprises:</b>		
Processing fees	69,991	117,282
Natural Gas recovery	16,099	19,714
Other refining related income	7,852	8,915
<b>REFINING REVENUE</b>	<b>93,942</b>	145,911
Pipeline and terminalling fee revenue	17,150	18,288
Wiri land and terminal lease income	3,263	3,263
<b>DISTRIBUTION REVENUE</b>	<b>20,413</b>	21,551
Other operating revenue	1,799	1,951
<b>TOTAL REVENUE</b>	<b>116,154</b>	169,413
Other income	2,964	2,179
<b>TOTAL INCOME</b>	<b>119,118</b>	171,592

The processing fee revenue is subject to a fee floor, which comes into effect if the total processing fee for a calendar year is below a minimum value. This is set at approximately \$140 million for 2020. At 30 June 2020 the actual processing fee earned from operations was below the pro-rated fee floor, resulting in \$38.9 million being paid by Customers as an interim fee floor payment.

The pro rata fee floor payment by Customers to 30 June 2020 could be offset by processing fee revenue earned for the remainder of the year, if processing fees earned from operations were to exceed the annual fee floor. However, this is not considered likely given the current oversupply of refined product and the impact of COVID-19 on both refiner's margins and planned refinery operations for the balance of the year (refer to Note 2).

Included in other income is \$2.9 million of COVID-19 wages subsidy paid by the New Zealand Government (2019: nil) in respect of the period ended 30 June 2020. An additional \$1.6 million COVID-19 wages subsidy received prior to 30 June 2020, was deferred and is included as part of Trade and Other Payables.

# Notes to the Interim Financial Statements

## 5 Segment information

Management reviews the Group's internal reporting in order to assess performance and allocate resources including the definition of the operating segments - oil refining and infrastructure.

- **Oil refining** – the Company operates the Marsden Point oil refinery as a toll processor.
- **Infrastructure** – the Company owns infrastructure to support the distribution of manufactured products to its customers, including the Refinery to Auckland Pipeline which transfers product to the Wiri Oil terminal located in South Auckland. In addition, the segment includes laboratory testing services undertaken by Independent Petroleum Laboratory Limited.
- **Inter-segment** – represents transactions between segments carried out on normal commercial terms.

Management primarily uses revenue and adjusted earnings before finance costs, tax, depreciation and amortisation (or "Adjusted EBITDA") of the Parent Company as measures to assess the performance of the operating segments. For Non-GAAP information refer to Note 18.

Assets and liabilities information, depreciation, finance income and costs and taxes are managed by Management on an overall group basis and therefore not presented as part of the segment information.

The presentation of segments in this interim financial report has changed from the 2019 interim and full year consolidated financial statements to align with the way that Management now monitors the segmental financial performance as outlined above.

### Segment results

30 JUNE 2020	OIL REFINING \$000	INFRASTRUCTURE \$000	TOTAL \$000
External customer	96,504	22,614	119,118
Inter-segment	-	2,402	2,402
<b>TOTAL INCOME (*)</b>	<b>96,504</b>	<b>25,016</b>	<b>121,520</b>
<b>Adjusted EBITDA</b>	<b>841</b>	<b>18,870</b>	<b>19,711</b>

30 JUNE 2019	OIL REFINING \$000	INFRASTRUCTURE \$000	TOTAL \$000
External customer	146,055	25,537	171,592
Inter-segment	-	2,818	2,818
<b>TOTAL INCOME (*)</b>	<b>146,055</b>	<b>28,355</b>	<b>174,410</b>
<b>Adjusted EBITDA</b>	<b>34,273</b>	<b>21,432</b>	<b>55,705</b>

(\*) prior to consolidation eliminations

## Notes to the Interim Financial Statements

For a reconciliation between the Non-GAAP measure, Adjusted EBITDA, to the reported net loss after tax refer to Note 18.

### 6 Related parties

The Group enters into transactions with related parties. Details of related parties and the types of transactions entered into during the period ended 30 June 2020 are consistent with those disclosed in the audited financial statements for the year ended 31 December 2019.

### 7 Equity

The issued capital of the Company is represented by 312,893,643 ordinary shares (2019: 312,576,453) issued and fully paid less 587,871 (2019: 417,644) treasury shares held by CRS Nominees Limited (the Trustee).

On 17 April 2020, the Company granted 1,250,000 Performance Share Rights (PSRs) for nil consideration to the Chief Executive Officer (CEO), being the retention component under a Share Rights Plan. The PSRs have service conditions only and will vest four years after date of commencement of employment, subject to the continued employment of the CEO. The total recognised cost of the PSRs to 30 June 2020 was \$0.04 million, with a corresponding increase in Share Scheme Entitlement Reserve.

On 11 June 2020, the Company issued 317,190 ordinary shares, at an issue price of 0.90 cents per share, pursuant to the Employee Share Purchase Scheme. The shares are held on trust by the Trustee until they are withdrawn by the participants following a restricted period of 3 years.

### 8 Dividends

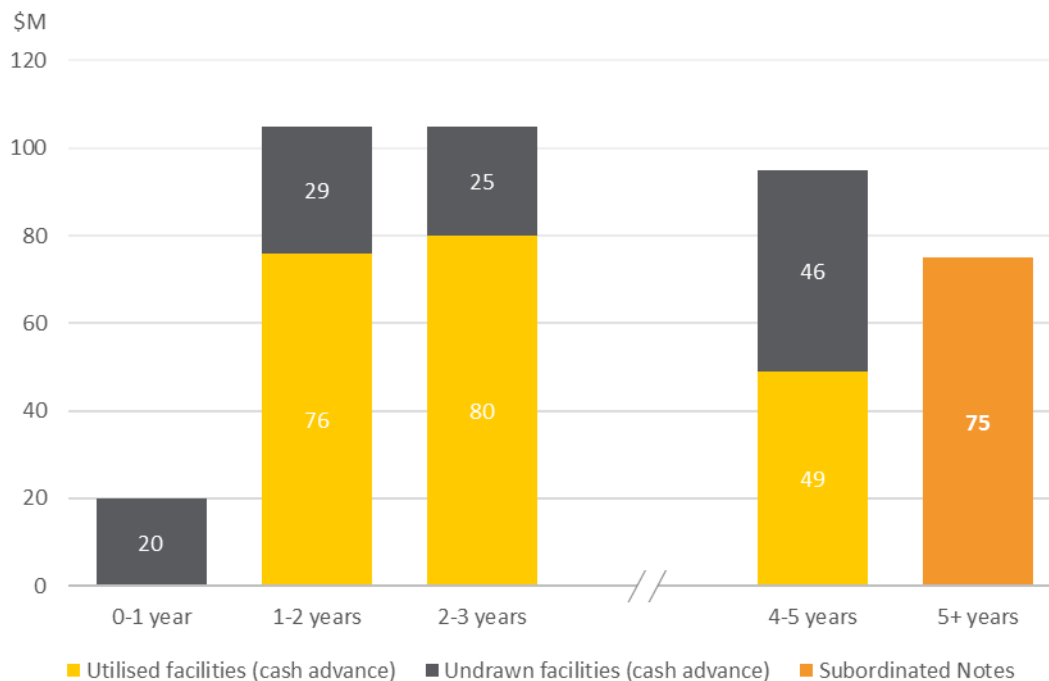
No final dividend from the 2019 financial results was paid in 2020. The Board has resolved to not declare an interim 2020 dividend based on the financial results to 30 June 2020 (in 2019, an interim, fully imputed dividend of 2 cents per share was paid).

### 9 Borrowings

In March 2020, Refining NZ extended and expanded its existing bank facilities, increasing the weighted average term to over three years and adding \$50 million of additional capacity, which increased the total available debt funding facilities to \$400 million. The total available funding includes \$75 million subordinated notes on issue that expire on 1 March 2034, with two rollover dates (on 1 March 2024 and 1 March 2029) when Refining NZ has the right to either fully redeem the subordinated notes or run an election process offering new conditions.

## Notes to the Interim Financial Statements

The chart below outlines the maturity profile of the facilities as at 30 June 2020.



*(\*) The carrying value of the subordinated notes as at 30 June 2020 amounts to \$74.6 million. The difference between the carrying value and the \$75 million face value is due to interest and issue costs.*

Subsequent to balance date, \$40 million of the facilities maturing in the “2-3 years” category was extended by a further two years. Refer to Note 17.

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

## Notes to the Interim Financial Statements

### 10 Property, plant and equipment, right-of-use assets and intangibles

During the six months ended 30 June 2020 the Group acquired property, plant and equipment and the right-of-use assets with a cost of \$20.8 million and \$0.6 million, respectively. The decrease in intangibles is associated with the New Zealand Units surrendered in relation to the 2019 year.

The amount of borrowing costs capitalised during the reporting period was \$0.7 million (30 June 2019: \$1.0 million). The weighted average rate used to determine the amount of borrowing costs eligible for capitalisation was 5.4% (30 June 2019: 5.9%).

At 30 June 2020, the Company impaired its assets by \$219 million, which accounts for the large reduction in the carrying value of refining assets.

### 11 Capital commitments

Capital expenditure contracted for in relation to property, plant and equipment at the end of the period but not yet incurred amounted to \$4.5 million (31 December 2019: \$28.1 million).

### 12 Provisions

This includes the jetty restoration provision of \$10.2 million (31 December 2019: \$11.8 million). At 30 June 2020 the Company has reassessed the value of the future expenditures associated with the restoration of the seabed which the jetty is situated at Marsden Point, the term of the lease and amended the inflation (from 2% as at 31 December 2019 to 1.5% as at 30 June 2020) and discount rate assumptions (from 1.83% as at 31 December 2019 to 2.47% as at 30 June 2020).

These changes resulted in a net decrease in the provision and the corresponding asset by \$1.7 million. An increase in the provision as a result of the passage of time (unwinding of discount) of \$0.1 million was recognised as a finance cost.

### 13 Trade and other receivables and payables

Trade and other receivables and trade and other payables both include excise duties of \$103.2 million (31 December 2019: \$127.6 million). Changes to excise duties have no direct impact on the results of the Group as they are collected from the customers and are paid to the New Zealand Customs Service on the same day of each month.



## Notes to the Interim Financial Statements

### 14 Employee benefits

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

The defined benefit plan and the medical scheme are accounted for in accordance with NZ IAS 19 “Employee Benefits”. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in the Consolidated Income Statement.

The actuarial assumptions used in the 30 June 2020 valuation are consistent with those adopted as at 31 December 2019. The discount rate adopted at 30 June 2020 was 1% (31 December 2019: 2.0%) and is set with reference to redemption yields on bonds. A decrease in the bond yield will increase Defined benefit pension plan and medical plan liabilities for financial reporting purposes, but not necessarily impact upon the funding requirements of the Company.

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

	<b>GROUP</b>	<b>GROUP</b>
	<b>30 JUNE</b>	<b>30 JUNE</b>
	<b>2020</b>	<b>2019</b>
	<b>\$000</b>	<b>\$000</b>
Actuarial losses	<b>(9,062)</b>	(16,392)
Actual return on plan assets less interest income	<b>(3,604)</b>	7,854
Contributions tax	<b>(7,261)</b>	(2,020)
<b>TOTAL RECOGNISED IN OTHER COMPREHENSIVE INCOME INCLUDING CONTRIBUTIONS TAX</b>	<b>(19,927)</b>	(10,558)

### 15 Deferred tax liabilities

The Deferred tax liability has reduced during the six months ended 30 June 2020, primarily as a result of the recognition of the impairment of assets (tax effect of \$61 million as outlined in Note 3), recognition of the tax loss for the period (tax effect of \$8 million) and increased defined benefit plan liability (tax effect of \$6 million). The Group’s cumulative tax losses as at 30 June 2020 were \$44.8 million. Deferred tax liabilities are reported net of the deferred tax asset recognised in respect of these losses (Refer Basis of Preparation).

### 16 Contingent assets and liabilities

The Group has no contingent assets or liabilities at 30 June 2020. (2019: nil)

# Notes to the Interim Financial Statements

## 17 Events after balance date

The following events occurred after balance date:

- **Bank Facility Extended (Refer to Note 9)**  
On 13 July 2020, the Company entered into a binding agreement to extend \$40 million of an \$80 million bank facility set to mature in March 2022, out to March 2024. The weighted average term of the Company's debt funding facilities of \$400 million (including the company's \$75 million subordinated notes on issue) is now 5.3 years.
- **Refinery Mode of Operation (Refer to Note 2)**  
On 3 July 2020, the Company started temporarily shutting down the refinery, to place all the processing units on standby for a period of six weeks, in order to balance fuel supply across the country. During this period, Refining NZ's customers will continue to pay the fee floor under the Processing Agreements.
- **COVID-19 Pandemic**  
On 12 August 2020, the New Zealand Government raised its Alert Level to 3 for Auckland and Level 2 elsewhere. Refining NZ, as an essential service provider, expects to continue to operate, however the impact of the Alert Levels being increased on the transport fuels demand remains uncertain.

## 18 Non-GAAP disclosures

Refining NZ's standard profit measure prepared under New Zealand Generally Accepted Accounting Practice (NZ GAAP) is net profit/(loss) after tax. Refining NZ has used non-GAAP measures when discussing financial performance in this Half-Year Report. The Directors and Management believe that these measures provide useful information as they are used internally to evaluate segmental and total Group performance, to establish operating and capital budgets as well as being used for bank covenant purposes.

Non-GAAP profit measures are not prepared in accordance with NZ IFRS (New Zealand equivalents to International Financial Reporting Standards) and are not uniformly defined, therefore the non-GAAP profit measures included in this report are not comparable with those used by other companies. They should not be used in isolation or as a substitute for GAAP profit measures as reported by Refining NZ in accordance with NZ IFRS. Terms are defined as follows:

**Reported EBITDA:** Reported Net Profit/(Loss) before depreciation, disposal costs, impairment, finance costs and taxation

**Adjusted EBITDA** Reported EBITDA adjusted for other non-cash expenses and used for bank covenant purposes.

## Notes to the Interim Financial Statements

		GROUP 30 JUNE 2020 \$000	GROUP 30 JUNE 2019 \$000
<b>Reported net loss for the period (GAAP)</b>		<b>(186,348)</b>	<b>(3,503)</b>
Add back:			
Income tax		<b>(70,879)</b>	<b>(1,327)</b>
Net interest expense		<b>6,406</b>	<b>6,743</b>
Impairment of assets	3	<b>218,903</b>	<b>-</b>
Depreciation		<b>47,300</b>	<b>52,137</b>
<b>Reported EBITDA</b>		<b>15,382</b>	<b>54,050</b>
Add back non-cash expenses:			
Stock obsolescence provision		<b>3,269</b>	<b>278</b>
Defined benefit pension fund cost		<b>1,720</b>	<b>1,842</b>
Interest income		<b>146</b>	<b>24</b>
<b>Adjusted EBITDA</b>		<b>20,517</b>	<b>56,194</b>

# Directory

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[enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)

## Bankers

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

## Legal Advisers

MinterEllisonRuddWatts  
Chancery Green

## Auditor

Ernst & Young

## Chairman

S C Allen (Independent Director)

## Independent Directors

J B Miller  
V C M Stoddart  
P A Zealand

## Non-Independent Directors

D C Boffa  
R Cavallo  
N L Jones

## Chief Executive Officer

N M James

## General Counsel & Company Secretary

C D Bougen

## 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](http://www.computershare.co.nz/investorcentre)  
Please assist our registrar by quoting your CSN or shareholder number.

