REFINING NZ

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

Contents

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTE	GROUP 2020 $000	GROUP 2019 $000
INCOME			
Revenue	4	**233,937**	344,861
Other income	4	**11,810**	3,514
TOTAL INCOME	3, 4	**245,747**	348,375
EXPENSES			
Purchase of process materials and utilities		**82,119**	98,082
Materials and contractor payments		**19,992**	31,340
Wages, salaries and benefits	20	**61,532**	61,247
Administration and other costs		**31,681**	39,471
TOTAL EXPENSES		**195,324**	230,140
EARNINGS BEFORE DEPRECIATION, IMPAIRMENT, FINANCE COSTS AND INCOME TAX		**50,423**	118,235
Depreciation and disposal costs	11	**87,218**	99,931
Impairment of assets	10,11	**223,697**	-
TOTAL DEPRECIATION, DISPOSALS AND IMPAIRMENT		**310,915**	99,931
NET (LOSS)/PROFIT BEFORE FINANCE COSTS AND INCOME TAX		**(260,492)**	18,304
FINANCE COSTS			
Finance income		**(176)**	(44)
Finance cost		**11,096**	13,489
NET FINANCE COSTS		**10,920**	13,445
NET (LOSS)/PROFIT BEFORE INCOME TAX		**(271,412)**	4,859
Income tax	6	**(73,133)**	694
NET (LOSS)/PROFIT AFTER INCOME TAX		**(198,279)**	4,165
ATTRIBUTABLE TO:			
Owners of the Parent		**(198,279)**	4,165
EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE NEW ZEALAND REFINING COMPANY LIMITED			
Basic earnings per share	7	**(63.5)**	1.3
Diluted earnings per share	7	**(63.3)**	1.3

THE ABOVE CONSOLIDATED INCOME STATEMENT IS TO BE READ IN CONJUNCTION WITH THE NOTES ON PAGES 8 TO 55.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTE	GROUP 2020 $000	GROUP 2019 $000
NET (LOSS)/PROFIT AFTER INCOME TAX		**(198,279)**	4,165
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to the Income Statement			
Defined benefit plan actuarial (loss)/gain	20	**(4,130)**	7,681
Deferred tax on defined benefit actuarial loss/(gain)	6(b)	**1,156**	(2,151)
Total items that will not be reclassified to the Income Statement		**(2,974)**	5,530
Items that may be subsequently reclassified to the Income Statement			
Movement in cash flow hedge reserve	22	**11,092**	(3,094)
Deferred tax on movement in cash flow hedge reserve	6(b)	**(3,106)**	866
Total items that may be subsequently reclassified to the Income Statement	22	**7,986**	(2,228)
TOTAL OTHER COMPREHENSIVE INCOME, AFTER INCOME TAX		**5,012**	3,302
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, AFTER INCOME TAX		**(193,267)**	7,467
ATTRIBUTABLE TO:			
Owners of the Parent		**(193,267)**	7,467

THE ABOVE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME IS TO BE READ IN CONJUNCTION WITH THE NOTES ON PAGES 8 TO 55.

Consolidated Balance Sheet

AS AT 31 DECEMBER 2020

	NOTE	GROUP 2020 $000	GROUP 2019 $000
ASSETS			
Cash and cash equivalents	17	**43,289**	5,255
Trade and other receivables	16	**160,894**	145,063
Income tax receivable		**677**	5,895
Derivative financial instruments	22	**8,766**	4,421
Inventories	18	**4,431**	3,340
TOTAL CURRENT ASSETS		**218,057**	163,974
NON-CURRENT ASSETS			
Inventories	18	**14,176**	19,410
Derivative financial instruments	22	**371**	205
Property, plant and equipment	11, 12	**887,134**	1,171,301
Right-of-use assets	10, 12	**3,335**	4,028
Intangibles	11	**9,968**	22,137
Deferred tax assets	6	**35,613**	24,611
TOTAL NON-CURRENT ASSETS		**950,597**	1,241,692
TOTAL ASSETS		**1,168,654**	1,405,666
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	19	**162,752**	171,018
Derivative financial instruments	22	**725**	3,997
Lease liabilities	10, 17	**202**	248
Employee benefits	20	**11,269**	7,861
TOTAL CURRENT LIABILITIES		**174,948**	183,124
NON-CURRENT LIABILITIES			
Derivative financial instruments	22	**974**	5,017
Borrowings	9, 17	**274,611**	246,616
Lease liabilities	10, 17	**3,940**	3,206
Employee benefits	20	**44,819**	40,894
Provisions	15	**7,802**	12,643
Deferred tax liabilities	6	**97,630**	157,422
TOTAL NON-CURRENT LIABILITIES		**429,776**	465,798
TOTAL LIABILITIES		**604,724**	648,922
NET ASSETS		**563,930**	756,744

Consolidated Balance Sheet

AS AT 31 DECEMBER 2020

	NOTE	GROUP 2020 $000	GROUP 2019 $000
EQUITY			
Contributed equity	8	**266,057**	265,771
Treasury Stock	8, 23	**(896)**	(960)
Employee share entitlement reserve	8, 23	**779**	681
Cash flow hedge reserve	8, 22	**5,298**	(2,688)
Retained earnings		**292,692**	493,940
Total Equity		**563,930**	756,744

THE ABOVE CONSOLIDATED BALANCE SHEET IS TO BE READ CONJUNCTION WITH THE NOTES ON PAGES 8 TO 55.

THE BOARD OF DIRECTORS OF THE NEW ZEALAND REFINING COMPANY LIMITED AUTHORISED THESE CONSOLIDATED FINANCIAL STATEMENTS FOR ISSUE ON 16 FEBRUARY 2021.

For and on behalf of the Board:

S C Allen
Director

J B Miller
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2020

GROUP	NOTE	CONTRIBUTED EQUITY $000	TREASURY STOCK $000	EMPLOYEE SHARE SCHEME ENTITLEMENT RESERVE $000	CASH FLOW HEDGE RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
AT 1 JANUARY 2019		265,771	(969)	732	(460)	504,562	769,636
COMPREHENSIVE INCOME							
Net profit after income tax		-	-	-	-	4,165	4,165
Other comprehensive income							
Movement in cash flow hedge reserve	22	-	-	-	(3,094)	-	(3,094)
Defined benefit actuarial gain	20	-	-	-	-	7,681	7,681
Deferred tax on other comprehensive income	22	-	-	-	866	(2,151)	(1,285)
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS), AFTER INCOME TAX		-	-	-	(2,228)	5,530	3,302
TRANSACTIONS WITH OWNERS OF THE PARENT							
Equity-settled share-based payments	23	-	-	241	-	-	241
Shares vested to employees	23	-	292	(292)	-		-
Treasury shares purchased		-	(283)	-	-	-	(283)
Dividends paid		-	-	-	-	(20,317)	(20,317)
TOTAL TRANSACTIONS WITH OWNERS OF THE PARENT		-	9	(51)	-	(20,317)	(20,359)
AT 31 DECEMBER 2019		265,771	(960)	681	(2,688)	493,940	756,744

THE ABOVE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IS TO BE READ IN CONJUNCTION WITH THE NOTES ON PAGES 8 TO 55.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2020

GROUP	NOTE	CONTRIBUTED EQUITY $000	TREASURY STOCK $000	EMPLOYEE SHARE SCHEME ENTITLEMENT RESERVE $000	CASH FLOW HEDGE RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
AT 1 JANUARY 2020		265,771	(960)	681	(2,688)	493,940	756,744
COMPREHENSIVE INCOME							
Net loss after income tax		-	-	-	-	(198,279)	(198,279)
Other comprehensive income							
Movement in cash flow hedge reserve	22	-	-	-	11,092	-	11,092
Defined benefit actuarial loss	20	-	-	-	-	(4,130)	(4,130)
Deferred tax on other comprehensive income	22	-	-	-	(3,106)	1,156	(1,950)
TOTAL OTHER COMPREHENSIVE LOSS, AFTER INCOME TAX		-	-	-	7,986	(2,974)	5,012
TRANSACTIONS WITH OWNERS OF THE PARENT							
Equity-settled share-based payments	23	-	-	448	-	-	448
Shares vested to employees	23		350	(350)			-
Treasury shares issued	23	286	(286)	-	-		-
Unclaimed dividends written back		-	-	-	-	5	5
TOTAL TRANSACTIONS WITH OWNERS OF THE PARENT		286	64	98	-	5	453
AT 31 DECEMBER 2020		266,057	(896)	779	5,298	292,692	563,930

THE ABOVE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IS TO BE READ IN CONJUNCTION WITH THE NOTES ON PAGES 8 TO 55.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTE	GROUP 2020 $000	GROUP 2019 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**224,044**	351,625
Payment for supplies and other expenses		**(128,379)**	(151,172)
Payments to employees		**(57,518)**	(62,780)
Interest received		**176**	44
Interest paid		**(11,267)**	(14,418)
Net GST paid		**(1,041)**	(1,936)
Income tax paid		**5,609**	(4,238)
NET CASH INFLOW FROM OPERATING ACTIVITIES	17	**31,624**	117,125
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		**(33,939)**	(77,695)
Proceeds from sale of intangibles		**13,320**	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(20,619)**	(77,695)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from/(repayments of) bank borrowings		**27,900**	(13,200)
Dividends paid to shareholders	8	**-**	(20,317)
Lease payments	10	**(871)**	(1,154)
Purchase of treasury stock	23	**-**	(283)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES		**27,029**	(34,954)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**38,034**	4,476
Cash and cash equivalents at the beginning of the year		**5,255**	779
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**43,289**	5,255

THE ABOVE CONSOLIDATED STATEMENT OF CASH FLOWS IS TO BE READ IN CONJUNCTION WITH THE NOTES PAGES 8 TO 55.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

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 its subordinated notes quoted on the NZX Debt Market.

The consolidated financial statements (hereinafter ‘financial statements’) for the year ended 31 December 2020 presented are those of Refining NZ together with its subsidiaries (‘the Group”). Subsidiaries are all entities over which the Group has control and includes Independent Petroleum Laboratory Limited, Maranga Ra Holdings Limited and Maranga Ra Limited.

BASIS OF PREPARATION

These consolidated financial statements for the year ended 31 December 2020 comply with:

- The Financial Markets Conduct Act 2013;
- Generally Accepted Accounting Practice in New Zealand (‘NZ 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 and 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.

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

- **Impairment assessment of assets –** refer to note 12 for further details**.**
- **Useful lives of the property, plant and equipment –** refer to note 11 for further details.
- **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 expects that Refining NZ will be able to continue in operation and meet covenants under its facility agreements over the next twelve months.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

Refining NZ's forecast for the next twelve months indicates 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 implementation of a simplified refinery which enables the Company to run cash neutral from 2021 under a Fee Floor scenario. (Refer to note 1, for detail of potential impacts of Strategic Review outcomes and note 24, Contingencies, in relation to customer notices of dispute).

- **Recoverability of tax losses** – in the twelve months ended 31 December 2020, Refining NZ generated a tax loss of $37.6 million, increasing the Group's cumulative tax losses to $54.9 million. A deferred tax asset in respect of these unutilised tax losses has been recognised.

  On the basis 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. 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 E symbol in the notes to these consolidated interim financial statements.

SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to all periods presented, except for the change in presentation of deferred taxes in the statement of financial position to present deferred tax assets and deferred tax liabilities on a gross basis, to increase the transparency of the deferred tax asset in relation to tax losses accumulated by the Company, being a significant estimate under Basis of Preparation. Comparatives in the statement of financial position have been updated to ensure consistency between financial reporting periods.

There were no new and amended accounting standards mandatory for the year ended 31 December 2020 that were considered to have a material impact to 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

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; a Simplified Refinery (to improve the near-term viability of its current business model), while 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).

Simplified Refinery model

Under the Simplified Refinery model, implemented from January 2021, refining capacity was reduced by circa 18% (being an equivalent of circa 34 million barrels per annum) with total refined fuels production levels similar to levels at the time of commencement of the Processing Agreement in 1995 and bitumen production ceased. An organisational restructure was finalised prior to 31 December 2020, at a cost of circa $5.6 million to reduce the workforce by around 25%, with circa 90 employees leaving the Company either through redundancies, retirements or resignations during November 2020 through to April 2021. (Refer to note 20.) Under the Simplified Refinery model, lower labour costs and a reduction in other costs are intended to enable the Company to extend cash neutral operations in 2021 under a scenario where processing fee income is at the Fee Floor (of circa $141 million) and refinery operations are uninterrupted.

Refining NZ's customers, bp Oil New Zealand Limited, Mobil Oil New Zealand Limited, and Z Energy Limited have all issued notices of dispute under the Processing Agreement, in relation to the simplification of Marsden Point oil refinery operations as detailed in note 24.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

Import Terminal model

Discussions with Refining NZ's customers in relation to the potential future staged transition to an import terminal continue. The Independent Directors, who have been overseeing discussions with customers, continue to see significant unrealised value in the Company's fuels distribution infrastructure with the added benefit of significantly lowering the Company's carbon emissions profile on transition to an import terminal. Any decision to proceed with a conversion to an import terminal will need to meet a number of requirements, including new agreements with the Company's customers that will be voted on by non-customer shareholders.

Impact on Financial Reporting

These financial statements have been prepared based on Group operations under the current Processing Agreements, with a simplified refinery operating through to 2035 followed by a conversion to an import terminal as outlined under note 12. There is a wide range of potential outcomes from the Strategic Review, commercial negotiations with customers and customer disputes, which are not solely within the Company's control. The potential outcomes may therefore impact, positively or negatively, including in a material way, the financial performance and financial position of the Group 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 (as well as Auckland's Level 3 lockdown in August).

During 2020, 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 implemented the following measures:

- **Reduced refinery production**
  Refining NZ agreed with its customers to change the way it operated the refinery whereby its processing facilities were operated in different modes to enable the refinery to produce substantially lower volumes to help balance fuel supply across New Zealand.

- **Reduced non-essential activity on-site**
  All safety critical work 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.

- **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 at the time 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) as at 31 December 2020.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

The key direct and indirect impacts on the Group can be summarised as follows:

- Total refinery throughput for the year ended 31 December 2020 was 29.8 million barrels, 30% lower than in 2019 and circa 35% lower from the time the pandemic was declared.

- Our customers were invoiced at the Fee Floor amounting to $140 million during the year ended 31 December 2020. The actual processing fee earned from operations was below the Fee Floor, resulting in circa $90 million being paid by customers as fee floor payments as outlined in note 4.

- Pipeline revenues were 19% lower than 2019 at $29 million, reflecting the impact of reduced demand for transport fuels, particularly jet fuel into Auckland International Airport, offset by higher pipeline fees. Pipeline volumes were circa 35% lower from the time that the pandemic was declared compared to the prior year.

- The Group accessed the Government wage subsidy totalling $5.1 million as outlined in note 4.

- The capital budget for 2020 was reduced from $70 million to a spend of circa $32 million.

- Operating costs excluding natural gas were circa $25 million or 13% lower than 2019 due to lower electricity and other costs largely as a result of reducing non-essential activity on site and lower production.

- The Company operated on a cash neutral basis following lockdown (Alert Level 4), through to October 2020, when it’s net cash position improved by circa $17 million, due to savings realised from the six-week temporary shutdown of the refinery in July/August and the proceeds of asset sales. The net debt position as at 31 December 2020 was $231 million. Refer to notes 9 and 17 for further detail.

- The Company declared Force Majeure under the Negotiated Greenhouse Agreement to relieve the Company of its obligation to meet world’s best practice energy intensity pathway in 2020 while the refinery was impacted by COVID-19 travel restrictions. This continued through to the end of the year with land fuels demand recovering and jet remaining at 30-40% of pre-COVID-19 levels (refer to note 11).

- The Company declared Force Majeure under its natural gas supply contract, to relieve the Company of its “take or pay” obligations, given the lower refinery throughputs. The supplier subsequently exercised their right of termination in response to a constrained gas supply market in New Zealand. The Company has since secured a supply of natural gas through 2021 to meet the refinery’s minimum requirements.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

In addition to the above, other direct and indirect impacts of COVID-19 on the Refining NZ's balance sheet include:

Item	COVID-19 impacts assessment
Cash and cash equivalents	The Group maintained cash and cash equivalent balances of between $15-45 million throughout the year.
Trade and other receivables	Trade receivables reflect an increased receivable in respect of the processing fee floor payments due in 2020. Refiners margins were weak in the last two months of 2019 resulting in very low processing fee income, but no Fee Floor payments were receivable as at 31 December 2019 given that the year-to-date revenue had exceeded the Fee Floor amount. Refer to note 16 for further details.
Income tax	The Company generated tax losses of $37.6 million in the twelve months ended 31 December 2020. Refer to note 6. Total tax losses available to the Group to offset against future taxable income amount to $54.9 million (refer to key judgements and estimates under Basis of Preparation).
Derivative financial instruments	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.
Inventories	Obsolescence assessment has been conducted with regards to inventories. Refer to note 18 for further details.
Property, plant and equipment	Impairment assessment has been conducted with regards to property, plant and equipment. Refer to notes 1, 11 and 12 for further details.
Right-of-use assets	Impairment assessment has been conducted with regards to right-of-use assets. Refer to notes 10 and 12 for further details.
Intangibles	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 was recognised on intangible assets.
Trade and other payables	Trade and other payables are lower due to non-essential activity being reduced, with a corresponding reduction in capital and operating costs. Refer to note 19.
Borrowings	In response to the global uncertainty, Refining NZ extended and expanded its existing bank facilities. Refer to note 9 for further details.

Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2020

Lease liabilities	No impact – refer to right-of-use assets.
Employee benefits	A significant proportion of the Company's staff agreed to take annual leave during the six weeks that the refinery was in "hot standby" in July-August 2020, reducing the annual leave liability by $1.2 million during the period. In addition, 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 in the year ended 31 December 2020. An organisational restructure was undertaken in 2020 to reduce the workforce by circa 25% in preparation for a refinery simplification (refer to note 1). A redundancy provision of $4.4 million was recorded as at 31 December 2020. Refer to note 20 for further details.
Provisions	Present value of provisions updated for the impact of financial and commodity markets on interest rates.
Deferred tax asset	The Group incurred tax losses in the period which increased the deferred tax asset. Refer to note 6 for further details.
Deferred tax liability	The Group has recognised an impairment of assets which decreased the deferred tax liability. Refer to notes 6 and 12 for further details.

3 Segment reporting

(a) Identification and description of reportable segments and reporting measures

Management (the Corporate Lead Team) reviews the Group's internal reporting in order to assess performance and allocate resources including the definition of 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 (RAP) 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.

The Corporate Lead Team 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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

information refer to note 26.

Assets and liabilities information, depreciation, finance income and costs and taxes are managed on a Group basis and are therefore not presented as part of the segment information.

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

Revenue derived from major customers, and the relevant operating segments, is disclosed in note 5.

(b) Segment results

31 DECEMBER 2020	NOTE	OIL REFINING $000	INFRASTRUCTURE $000	TOTAL $000
External customer	4	**200,423**	**45,324**	**245,747**
Inter-segment		**-**	**4,219**	**4,219**
TOTAL INCOME (*)		**200,423**	**49,543**	**249,966**
Adjusted EBITDA	26	**26,028**	**32,666**	**58,694**

31 DECEMBER 2019		OIL REFINING $000	INFRASTRUCTURE $000	TOTAL $000
External customer	4	297,836	50,539	348,375
Inter-segment		-	5,733	5,733
TOTAL INCOME (*)		297,836	56,272	354,108
Adjusted EBITDA	26	80,370	41,511	121,881

(*) prior to consolidation eliminations

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

4 Revenue

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.

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

FOR THE YEAR ENDED 31 DECEMBER 2020	GROUP 2020 $000	GROUP 2019 $000
Comprises:		
Processing fees	**141,601**	241,970
Natural Gas recovery	**30,156**	39,579
Other refining related income	**18,139**	16,287
REFINING REVENUE	**189,896**	297,836
Pipeline fees	**29,283**	36,400
Other distribution income	**11,750**	6,598
DISTRIBUTION REVENUE	**41,033**	42,998
Other operating revenue	**3,008**	4,027
TOTAL REVENUE	**233,937**	344,861
Other income	**11,810**	3,514
TOTAL INCOME	**245,747**	348,375

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. Processing fee revenue prior to any fee floor was circa $50 million in 2020, with an additional circa $90 million in income earned from Refining NZ customers under the Fee Floor and an additional $1.6 million of processing fee revenue recognised in 2020 relates to prior periods. In 2019 no fee floor payments were made as processing fee revenue exceeded the fee floor.

Included in other income is $5.1 million of COVID-19 wages subsidy paid by the New Zealand Government (2019: nil), refer to note 2, and a gain on sale of assets of $5.9 million (2019: nil).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

5 Related parties

(a) Shareholders and other related parties

The Group enters into transactions 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:

	2020 %	2019 %
bp New Zealand Holdings Limited (BP)	**10.09**	10.10
Mobil Oil New Zealand Limited (Mobil)	**17.18**	17.20
Z Energy Limited (Z Energy)	**15.34**	15.36

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

- **Processing fees** – separate processing agreements with each of the three oil companies have been in place since 1995. Subject to any rights of termination that may arise at law, the processing agreements are intended to operate as long-term "evergreen" contracts which continue unless renegotiated or terminated by mutual consent or by a customer on one year's notice. 91% (2019: 93%) of the Group's total revenue is earned under the processing agreements. No customer has given notice of termination as at the date of these financial statements. For credit terms refer to note 21.
- **Distribution revenue** – includes Refinery to Auckland Pipeline fees, terminalling and handling fees associated with products imported by the oil companies, as well as other income associated with the Wiri Oil infrastructure that is owned by the Parent Company and located on the land owned by Wiri Oil. The land and plant are leased back to Wiri Oil. The leases are non-cancellable operating leases, which expire in February 2025 with no right of renewal. At the end of the lease term, ownership of the Wiri Oil terminal reverts to Wiri Oil Services Limited.
- **Excise Duty** – collected from the Oil Companies and paid to the New Zealand Customs Service on the same day each month (refer notes 16 and 19) and is included in the below balances outstanding as at 31 December**.**
- **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. In addition, a portion of insurance premium in relation to material damage and business interruption is paid to companies related to shareholders.

	Revenue*				Purchases				Other charges			
	TRANSACTION VALUES FOR THE YEAR ENDED 31 DECEMBER		BALANCES OUTSTANDING AS AT 31 DECEMBER		TRANSACTION VALUES FOR THE YEAR ENDED 31 DECEMBER		BALANCES OUTSTANDING AS AT 31 DECEMBER		TRANSACTION VALUES FOR THE YEAR ENDED 31 DECEMBER		BALANCES OUTSTANDING AS AT 31 DECEMBER	
	2020 $000	2019 $000	2020 $000	2019 $000	2020 $000	2019 $000	2020 $000	2019 $000	2020 $000	2019 $000	2020 $000	2019 $000
BP	**59,160**	89,066	**40,402**	38,060	**96**	735	**58**	-	**372**	335	-	-
Mobil	**57,781**	80,894	**4,825**	32,955	**148**	311	**139**	-	**571**	331	-	-
Z Energy	**96,581**	151,836	**92,795**	68,080	**141**	1,133	**95**	185	-	-	-	-
Wiri Oil	**7,004**	7,073	**42**	29	-	-	-	-	-	-	-	-
TOTAL	**220,526**	328,869	**138,064**	139,124	**385**	2,179	**292**	185	**943**	666	-	-

* Revenue excludes excise duty.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

(b) Directors' fees and key management personnel compensation

Directors' fees and key management (Corporate Lead Team) personnel remuneration (paid during the financial year) were as follows:

	GROUP 2020 $000	GROUP 2019 $000
Salaries and other short-term employee benefits	**3,915**	3,929
Post-employment benefits	**115**	139
TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION	**4,030**	4,068
Directors' fees	**779**	795
TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION & DIRECTORS' FEES	**4,809**	**4,863**

Salaries and other short-term employee benefits include fees paid to Mr P Zealand totalling $187,000 (2019: nil), who acted as Managing Director during the period February to April 2020 to assist in the CEO transition. For key management personnel share scheme, refer to note 23.

6 Taxation

(a) Income tax expense

	NOTE	GROUP 2020 $000	GROUP 2019 $000
Net (loss)/profit before income tax expense		**(271,412)**	4,859
Tax at the New Zealand corporate income tax rate of 28% (2019: 28%)		**(75,995)**	1,361
Tax effect of amounts which are either non-deductible or taxable in calculating taxable income:			
Income not assessable for tax		**(1,286)**	(203)
Expenses not deductible for tax		**3,783**	61
Adjustments in respect of current income tax in		**365**	(525)
INCOME TAX EXPENSE		**(73,133)**	694
Represented by:			
Current tax expense		**(389)**	457
Deferred tax recognised in the income statement	6(b)	**(72,744)**	237
INCOME TAX EXPENSE		**(73,133)**	694

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

(b) Deferred tax

The Group has unused tax losses of $54.9 million (2019: $17.3 million) available to carry forward. A deferred tax asset in respect of these unutilised tax losses has been recognised. (Refer to Basis of Preparation: Use of judgements and estimates).

The Group has changed its presentation of deferred taxes in the statement of financial position to present deferred tax assets and deferred tax liabilities on a gross basis to increase the transparency of the deferred tax asset in relation to tax losses accumulated by the Company, being a significant estimate under Basis of Preparation of these Financial Statements. Comparatives in the statement of financial position have been updated to ensure consistency between financial reporting periods.

	NET DEFERRED TAX ASSET / (LIABILITY) 1 JAN 2019	RECOGNISED IN PROFIT OR LOSS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	NET DEFERRED TAX ASSET / (LIABILITY) 31 DEC 2019	DEFERRED TAX ASSET	DEFERRED TAX LIABILITY
	$000	$000	$000	$000	$000	$000
Property, plant and equipment	(155,727)	(1,182)	-	(156,909)	-	(156,909)
Provisions	3,107	198	-	3,305	3,305	-
Employee benefits	14,852	311	(2,151)	13,012	13,012	-
Financial instruments	178	-	866	1,044	1,044	-
Intangibles	390	103	-	493	493	-
Right of use assets	-	(513)	-	(513)	-	(513)
Leases	-	565	-	565	565	-
Inventory	1,301	43	-	1,344	1,344	-
Tax losses	4,610	238	-	4,848	4,848	-
Total	**(131,289)**	**(237)**	**(1,285)**	**(132,811)**	**24,611**	**(157,422)**

	NET DEFERRED TAX ASSET / (LIABILITY) 1 JAN 2020	RECOGNISED IN PROFIT OR LOSS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	NET DEFERRED TAX ASSET / (LIABILITY) 31 DEC 2020	DEFERRED TAX ASSET	DEFERRED TAX LIABILITY
	$000	$000	$000	$000	$000	$000
Property, plant and equipment	(156,909)	62,275	-	(94,634)	-	(94,634)
Provisions	3,305	(1,297)	-	2,008	2,008	-
Employee benefits	13,012	781	1,156	14,949	14,949	-
Financial instruments	1,044	-	(3,106)	(2,062)	-	(2,062)
Intangibles	493	(719)	-	(226)	-	(226)
Right of use assets	(513)	(195)	-	(708)	-	(708)
Leases	565	227	-	792	792	-
Inventory	1,344	947	-	2,291	2,291	-
Tax losses	4,848	10,725	-	15,573	15,573	-
Total	**(132,811)**	**72,744**	**(1,950)**	**(62,017)**	**35,613**	**(97,630)**

7 Earnings per share

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 23 have no material dilutive effect on the earnings per share.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

		NOTE	TOTAL 2020	TOTAL 2019
Profit after tax attributable to shareholders of the Company	($000)		**(198,279)**	4,165
Weighted average number of shares on issue	000's	8	**312,293**	312,177
Weighted average number of shares on issue (incl. dilutive shares)	000's	8	**313,335**	312,420
BASIC EARNINGS PER SHARE			**(63.5)**	1.3
DILUTED EARNINGS PER SHARE			**(63.3)**	1.3

8 Equity and dividends

Contributed Equity. The issued capital of the Company is represented by 312,893,643 ordinary shares (2019: 312,576,453) issued and fully paid, less 519,859 (2019: 417,644) treasury shares held by CRS Nominees Limited (refer to note 23). All ordinary shares rank equally with one vote attached to each ordinary share.

Treasury stock. Treasury stock represents the value of shares acquired by CRS Nominees Limited on-market, or shares issued by the Company, in respect of the Employee Share Purchase Scheme (refer to note 23).

Employee share entitlement reserve. The employee share entitlement reserve is used to recognise the fair value of shares granted but not vested to employees (as part of the Employee Share Purchase Scheme) or to the Chief Executive within the Share Rights Scheme. Amounts are transferred to share capital when the shares vest to the employee (refer to note 23).

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 (refer to note 22).

Dividends. No dividends were paid or declared in 2020. Imputation credits available to shareholders for subsequent reporting periods amount to $20.944 million as at 31 December 2020 (2019: $23.589 million).

9 Borrowings

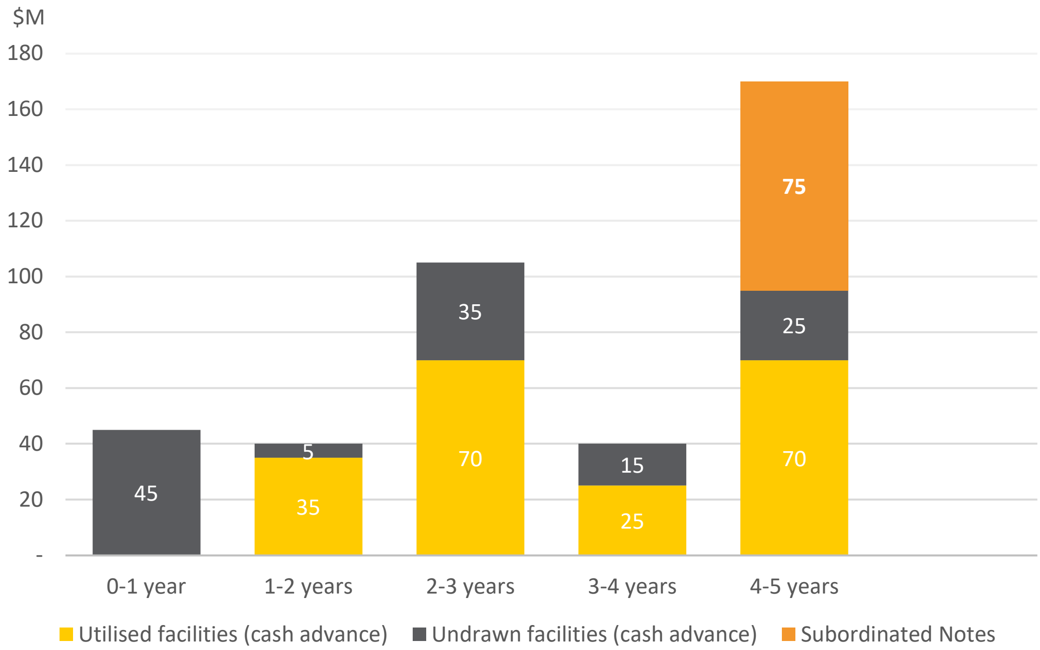
The carrying amounts of borrowings approximate their fair value. The borrowings are unsecured. The Parent can determine which revolving cash advance facility will be drawn upon to meet funding requirements. The Parent borrows under a negative pledge arrangement which requires certain certificates and covenants, including debt to total debt and equity, guarantor coverage ratio and EBITDA to interest ratios. All these requirements have been met.

In 2020, the Company increased and extended its existing committed bank facility limits from $275 million to $325 million and increased the weighted average senior debt tenor from 2.9 years at 31 December 2019 to 3.1 years at the time of the extension. The weighted average senior debt tenor as at 31 December 2020 was 2.6 years.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

The maturity profile of the Company's borrowing facilities as at 31 December 2020, including the utilisation of those facilities and undrawn amounts is as follows:



The carrying value of the subordinated notes as at 31 December 2020 amounts to $74.6 million. The difference between the carrying value and the $75 million face value is due to unamortised issue costs and accrued interest. While the expiry of the subordinated notes is on 1 March 2034, the maturity profile reflects the notes as maturing in 2024 to align with the first election date, when the Company may elect to either redeem the notes or to offer new conditions to the noteholders.

10 Lease liabilities

Lease liabilities are associated with the following right-of-use assets:

- land, foreshore license, barge ramp where the oil tanker jetty is located and offices. The right-of-use asset is depreciated over the period until the expiry of the lease;
- platinum held in catalysts used in the oil refining process. The leased platinum must be returned to the lessor at the end of the lease term. The estimated cost of reclamation, discounted to present value, is included as a provision in the Group's balance sheet, refer to note 15. The lease payments are variable and represent interest paid to the lessor based on an agreed fixed rate and with reference to the market value of the leased platinum.

There are no restrictions or covenants imposed by leases, or exposure arising from residual value guarantees. Extension and termination options included in some leases are used to maximise operational flexibility in terms of managing contracts and are exercisable by the Group.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

The balance sheet shows the following amounts relating to right-of-use assets and lease liabilities:

	GROUP 2020 $000	GROUP 2019 $000
Right-of-use assets		
Opening net book value	**4,028**	4,468
Additions	**273**	-
Lease extensions and modifications	**659**	-
Depreciation charge	**(455)**	(440)
Impairment	**(1,170)**	-
CLOSING NET BOOK AMOUNT	**3,335**	4,028
Cost	**5,581**	4,664
Accumulated depreciation and impairments	**(2,246)**	(636)
NET BOOK AMOUNT, INCLUDING:	**3,335**	4,028
Freehold land and improvements	**545**	209
Buildings and jetties	**178**	-
Refining Plant	**1,395**	2,197
Catalysts	**1,217**	1,622

	GROUP 2020 $000	GROUP 2019 $000
Lease liabilities		
Opening lease liability	**3,454**	3,778
Additions	**284**	-
Lease extensions and modifications	**659**	-
Revaluations	**(55)**	-
Lease payments (capital portion)	**(200)**	(324)
CLOSING LEASE LIABILITY, INCLUDING:	**4,142**	3,454
Current	**202**	248
Non-current	**3,940**	3,206

The income statement includes the following amounts in relation to leases:

	GROUP 2020 $000	GROUP 2019 $000
Depreciation charge	**455**	440
Impairment	**1,170**	-
Interest expense (included in Finance costs)	**352**	342
Expense relating to short-term leases (included in Administration and other costs)	**190**	220
Expense relating to leases of low-value assets that are not short term leases (included in Administration and other costs)	**427**	609

The total cash outflow for leases in 2020 was $871,000 (2019: $1,154,000).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

11 Property, plant and equipment, and intangibles

Property, plant and equipment and intangibles are initially recognised at cost which includes expenditures directly attributable to the acquisition. Major inspections associated with planned plant shutdowns (or turnarounds) and tank maintenance are capitalised at cost and recognised in the carrying amount of the refining plant, provided the recognition criteria are met.

During the year the Group has capitalised borrowings costs amounting to $0.7 million (2019: $2.1 million) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 5.4% (2019: 5.9%). Property, plant and equipment are included in the negative pledge arrangement as detailed in note 9.

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.

E

Following an impairment of assets recognised as at 30 June 2020, the Group reassessed the remaining useful lives of assets from 1 July 2020 to align with the base assumption that the refinery would operate until 2035 and then convert to an import terminal.

As a result of the remaining life assessment carried out by in-house subject matter experts, the weighted average remaining useful life of the refining assets has been reduced, resulting in an increase in the depreciation in the second half of the year by approximately $3.6 million). The impact of the revised useful lives on the future years is estimated at circa $7 million.

The standard useful lives used by the Group are as follows:

	Useful lives (years)
Freehold improvements	5-50
Buildings and jetties	5-50
Refining plant	
- tankage	15-50
- rotating equipment	15-30
- piping	15-50
- vessels and columns	15-40
- 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	78
- plant and equipment	10-34
Wiri Oil terminal (leased)	20
Equipment and vehicles	3-25

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

Intangibles relate to the New Zealand Units (NZUs) and are recognised at historical cost with an indefinite useful life. Carbon units are issued by the Crown to the Parent company, pursuant to the Company's Negotiated Greenhouse Agreement (NGA), which expires in 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, noting that in 2020 the Company declared Force Majeure under the NGA in response to COVID-19 (refer to note 2).

In April 2020, the New Zealand Government approved the making of regulations to bring the Company in to the New Zealand Emissions Trading Scheme (NZ ETS) as an Emissions Intensive Trade Exposed (EITE) business with an industrial allocation of carbon units after the NGA expires at the end of 2022.

Under the regulations the industrial allocation will be based on 90% of the Company's 2006-2009 emissions data, in accordance with the Climate Change Response Act 2002. The Climate Change Response (Emissions Trading Reform) Amendment Bill 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 Refining NZ enters the NZ ETS in 2023 would be 87%.

The Government has signalled that further regulatory reforms, as a result of a review of industrial allocation policy and electricity allocation factors, may result in very different allocative baselines in the future, including the amount that the Company is ultimately allocated when it enters the NZ ETS in 2023. Refining NZ continues to engage with Government during this review process, but no outcome is guaranteed at this stage.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

11 Property, plant and equipment and intangibles *(continued)*

(a) Summary of fixed assets movements

	NOTE	FREEHOLD LAND AND IMPROVEMENTS $000	BUILDINGS AND JETTIES $000	REFINING PLANT $000	CATALYSTS $000	REFINERY TO AUCKLAND PIPELINE $000	WIRI OIL TERMINAL (LEASED) (note 5) $000	EQUIPMENT AND VEHICLES $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000	INTANGIBLES $000
AT 1 JANUARY 2019											
Cost		78,265	200,291	2,887,124	80,885	224,497	44,167	129,739	90,984	3,735,952	14,309
Accumulated depreciation		(53,979)	(101,858)	(2,102,586)	(39,600)	(116,081)	(41,442)	(88,458)	-	(2,544,004)	-
NET BOOK AMOUNT		24,286	98,433	784,538	41,285	108,416	2,725	41,281	90,984	1,191,948	14,309
YEAR ENDED 31 DECEMBER 2019											
Opening net book value		24,286	98,433	784,538	41,285	108,416	2,725	41,281	90,984	1,191,948	14,309
Additions/transfers		4,078	652	78,478	4,206	125	-	4,480	(13,175)	78,844	7,828
Disposals		-	-	-	(1)	-	-	(2)	(430)	(433)	-
Depreciation/amortisation charge	11(b)	(1,567)	(4,744)	(72,701)	(10,057)	(3,389)	(390)	(6,210)	-	(99,058)	-
CLOSING NET BOOK AMOUNT		26,797	94,341	790,315	35,433	105,152	2,335	39,549	77,379	1,171,301	22,137
AT 31 DECEMBER 2019											
		82,343	200,943	2,903,133	84,856	224,621	44,042	134,204	77,379	3,751,521	22,137
Accumulated depreciation		(55,546)	(106,602)	(2,112,818)	(49,423)	(119,469)	(41,707)	(94,655)	-	(2,580,220)	-
NET BOOK AMOUNT		26,797	94,341	790,315	35,433	105,152	2,335	39,549	77,379	1,171,301	22,137

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTE	FREEHOLD LAND AND IMPROVEMENTS $000	BUILDINGS AND JETTIES $000	REFINING PLANT $000	CATALYSTS $000	REFINERY TO AUCKLAND PIPELINE $000	WIRI OIL TERMINAL (LEASED) (note 5) $000	EQUIPMENT AND VEHICLES $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000	INTANGIBLES $000
YEAR ENDED 31 DECEMBER 2020											
Opening net book value		26,797	94,341	790,315	35,433	105,152	2,335	39,549	77,379	1,171,301	22,137
Additions/transfers		916	8,867	30,429	1,963	(18)	-	911	(17,957)	25,111	(4,785)
Disposals		-	-	5	(230)	-	-	-	-	(225)	(7,384)
Depreciation charge	11(b)	(1,743)	(5,279)	(64,714)	(6,164)	(3,927)	(380)	(4,343)	-	(86,550)	-
Impairment of assets	12	-	(75)	(201,825)	(9,275)				(11,328)	(222,503)	-
CLOSING NET BOOK AMOUNT		25,970	97,854	554,210	21,727	101,207	1,955	36,117	48,094	887,134	9,968
AT 31 DECEMBER 2020											
Cost		83,259	208,615	2,928,039	81,627	224,603	44,042	135,346	59,422	3,764,953	9,968
Accumulated depreciation and impairment losses		(57,289)	(110,761)	(2,373,829)	(59,900)	(123,396)	(42,087)	(99,229)	(11,328)	(2,877,819)	-
NET BOOK AMOUNT		25,970	97,854	554,210	21,727	101,207	1,955	36,117	48,094	887,134	9,968

(b) Depreciation

	NOTE	GROUP 2020 $000	GROUP 2019 $000
Depreciation on Property, Plant and Equipment	11(a)	**86,550**	99,058
Depreciation on Right-to-Use Assets	10	**455**	440
Loss on disposal of Property, Plant and Equipment		**213**	433
DEPRECIATION CHARGE		**87,218**	99,931

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

12 Impairment assessment

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying value of the Group's assets were tested for impairment as at 30 June 2020, resulting in an impairment of assets of circa $219 million (or circa $158 million net of deferred tax). In addition, the stock obsolescence provision was increased by $3.4 million for year-ended 31 December 2020. The Company updated the impairment analysis as at 31 December 2020 and as a result of this latest assessment, no change to the impairment loss recognised as at 30 June 2020 was identified.

Key judgements underpinning the 31 December 2020 assessment include:

- **Strategic Review**
  As a result of the Strategic Review undertaken in 2020, the company has transitioned to a simplified refinery from the start of the 2021 year, aiming to achieve cash breakeven of the Group at the Fee Floor, while the commercial discussions with customers on the possible future transition to an import terminal continue (refer to note 1).

  As set out in note 1, there is inherent uncertainty associated with the potential conversion to an import terminal and its timing and the potential outcomes from the commercial negotiations with the Company's customers, which are not solely within the Company's control, are currently unknown.

  The Processing Agreements are long-term "evergreen" contracts which, subject to any termination right arising at law, continue unless renegotiated or terminated by mutual consent or by a customer on one year's notice. As at the date of these financial statements, no customer has given notice of termination and any decision to proceed with a conversion to an import terminal will require new agreements with the Company's customers to be voted on by non-customer shareholders. As such, the Board and Management have conducted the value in use impairment assessment as at 31 December 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) and taking into account the effects of the refinery's simplification from 2021.

  Once commercial discussions with customers are finalised and if a decision to proceed with the conversion to an import terminal is approved by non-customer shareholders, there may or may not be, a material favourable or unfavourable impact on future value in use assessments of the carrying value of the Group's assets.

- **Resource consents**
  The Company's resource consents for activities at its Marsden Point site are considered to be 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 low.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

- **New Zealand Emissions Trading Scheme (NZ ETS) and Climate Change Response (Zero Carbon) Amendment Act 2019**

  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 31 December 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 very 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.

  On 31 January 2021, the Climate Change Commission (hereinafter as "Commission") released its draft advice for consultation on New Zealand's carbon budgets for the next 15 years. The draft budgets propose carbon budget targets of a 2% reduction on 2018 greenhouse gas emissions by 2025, a 17% reduction by 2030 and a 36% reduction by 2035 and a doubling of the containment reserve trigger in the ETS to \$70/tCO_2. The Commission's modelling indicates that meeting the 2050 target will involve marginal abatement costs at around \$140/tCO_2 in 2030.

  A significant increase in carbon unit prices, or a change in the allocation of units to the Company under the NZ ETS may have a material financial impact on the future financial performance of the Company.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

- **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 which currently remains at 30-40% of pre-COVID levels.

- **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. (Refer to 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 during the financial year, and significant uncertainty regarding refining margins in the future.

- **Future New Zealand 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.

  This target was reiterated in the draft advice issued by the Climate Change Commission on 31 January 2021, for consultation on New Zealand's carbon budgets. To meet targets set for the transport sector, the Commission assumes:

  - The phase out of the import of light internal combustion engine vehicles between 2030 and 2035, leading to a 40% electric vehicle penetration in the light vehicle market by 2035, with a consequential impact on domestic petrol demand.
  - That medium and heavy trucks will electrify more slowly, with around 15% of the medium trucks and 8% of heavy trucks imported into New Zealand being electric by 2030, increasing to 84% and 69%, respectively by 2035, with a consequential impact on domestic diesel demand.
  - A scale up of manufacturing low emissions fuels (i.e. biofuels or hydrogen-derived synthetic fuels), is assumed, with 140 million litres per year of low emissions fuels by 2035 (an equivalent of circa 3% of total domestic liquid fuel demand, or 1.5% of total fuel demand including international transport, in 2035).

  According to the Commission, there will continue to be a need for liquid fuels for some transport uses, such as off-road vehicles and equipment, aviation, and shipping. The Commission notes that given there is no commercially viable sustainable aviation fuel supply in New Zealand, the aviation sector will be challenging to decarbonise.

  The pace of transition to alternative fuels and the manner by which that transition may occur, remains 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

There is significant volatility and uncertainty in the market as a result of COVID-19, oversupply in the global refining market and proposed Government policy to address climate change risks 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 31 December 2020. These and other assumptions detailed in this note have the potential to impact the timing and other aspects of a potential conversion to an import terminal.

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, noting the inherent limitations in this approach as noted above under Strategic Review (refer to note 1 for further detail).

Based on the impairment assessment carried out, the recoverable amount of the Company's assets was determined at circa $770 million which resulted in an impairment loss of $219 million being recognised for the year ended 31 December 2020 ($158 million net of deferred tax) and allocated to the refining segment.

Key assumptions

The key assumptions used in the impairment testing include:

- ***NZ transport fuel demand***

  Refining NZ uses demand forecasts formulated by an independent expert, which reflects a faster transition away from fossil fuels, driven by New Zealand's commitment to zero net greenhouse gas emissions by 2050, than previously anticipated. According to the latest demand outlook, petrol and diesel demand will start declining from circa 2025 and 2030, respectively, reaching the Company's refinery production levels by circa 2035 and 2040, respectively. This outlook is considered to be largely in line with the Climate Change Commission "Draft Advice for Consultation" issued on 31 January 2021.

  Jet fuel demand forecasts have a wide range due to the uncertainty around COVID-19 recovery and viable alternative sources of energy for air travel, however independent expert forecasts used by the Company have demand forecast to recover to pre-COVID-19 levels by 2025 and grow until circa 2040. Given the long-term uncertainty with respect to alternative fuels, including biofuel demand which could replace some of the decline in crude oil derived fuel production, potential contribution of biofuel demand to revenue has not been considered for impairment assessment purposes at this time.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

- ***Refining and pipeline volumes***

  The base assumption is that the refinery will operate until 2035, followed by a conversion to an import terminal, noting that the outlook for transport fuels demand remains highly uncertain. The Processing Agreements are long-term "evergreen" contracts which, subject to any termination right arising at law, continue unless renegotiated or terminated by mutual consent or by a customer on one year's notice. As at the date of these financial statements, no customer has given notice of termination and therefore the assumed date for conversion to an import terminal in 2035, is aligned to the timeframe by which the refinery's production is forecast to exceed domestic petrol demand..

  The refinery and pipeline throughputs were assumed at an average of circa 34 million barrels and circa 18.5 million barrels per annum, respectively, in the 15-year period to 2035. Near-term volumes have been adjusted for the impacts of COVID-19 driven demand reduction; longer-term, Refining NZ used demand forecasts developed by independent industry experts.

- ***Refining margins and pipeline fees***

  Consistent with previous impairment assessments, the Company has used refining margin forecasts developed based on the latest crude and product pricing issued by independent expert market commentators used by Refining NZ. Given the current uncertainty in outlook, a downside to these forecasts has been incorporated into the gross refining margins used for this impairment assessment. Whilst margins are not expected to recover to above the Fee Floor equivalent until 2023, independent forecasts assume margins averaging to circa USD6.00 per barrel through the refinery forecast period to 2035.

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

- ***Exchange rate***

  Forward US dollar rates as at the end of the reporting period have been applied, with a range of 0.70 to 0.73 over the forecast period.

- ***Operating costs and capital spend***

  Operating costs (excluding pass through costs such as natural gas) and capital spend associated with an operation of the simplified refinery are assumed at an average of approximately $135 million and $55 million per annum, respectively, in the 15 years to 2035.

- ***Discount rate***

  A nominal post-tax weighted average cost of capital has been used as assessed by external advisors at 7.7% in the 15 years to 2035 (period of the refinery operation) and 6% beyond 2035 (import terminal operation), noting that in the 31 December 2019 impairment assessment a weighted cost of capital of 7.7% was used.

- ***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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

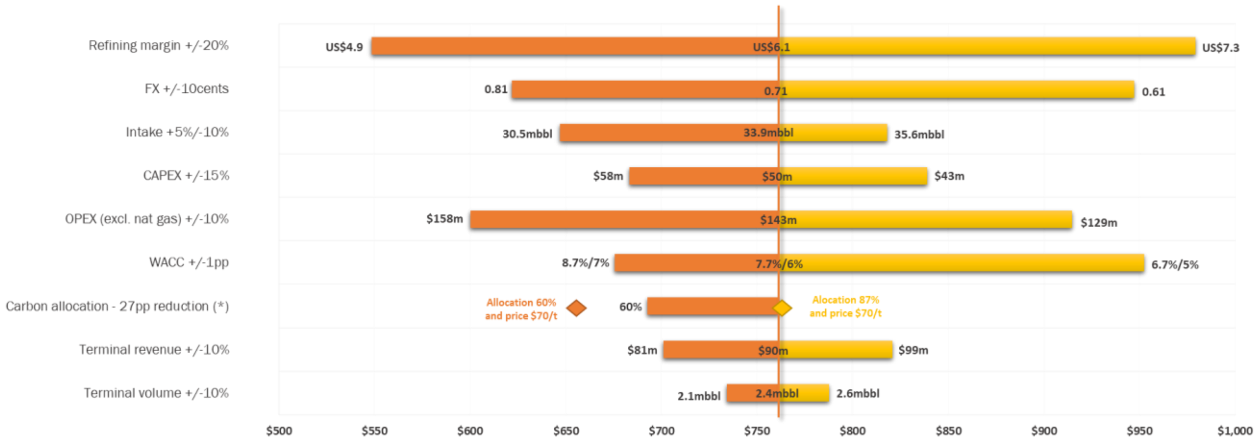
assumption is that the Company will receive an industrial allocation of 87% in 2023 with a 1% per year phase out until 2030 and 2% beyond 2030. Carbon unit prices used average $42/t from 2021-2035 based on independent expert forecasts.

- ***Import terminal conversion***
  An import terminal is assumed to commence its operation from 2036, with an estimated average revenue of circa $90 million per annum in real terms, reflecting detailed analysis of the value of the infrastructure and forecast fuel demand assumptions. Operating and capital costs are estimated at an average of circa $35 million per annum in real terms, reflecting managements best estimate of costs given forecast fuel demand assumptions.

- ***Forecast period and terminal value***
  Due to the long-term, cyclical nature of the business, a 30-year forecast period has been adopted with a terminal value.

Sensitivities

The following chart outlines a range of possible sensitivities associated with each of the key assumptions, across the full period modelled and based on a range of potential outcomes for each of these assumptions. It should be noted that changes in a combination of the key assumptions could also have a significant impact upon the recoverable amount assessed.



(*) The sensitivity shown for EITE industrial allocations under the ETS and carbon unit prices is intended to show both the impact of a change in the industrial allocation made to the Company (from 87% on entry to the NZ ETS 2023) as well as the impact of a change in carbon costs. For illustrative purposes, a sensitivity has been shown based on a 60% allocation in 2023 and a 1% per year phase out of rates of assistance over 2021 to 2030, and a carbon cost of $70/t (being a doubling of the containment reserve trigger in the ETS as proposed by the draft advice from the Climate Change Commission).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

13 Operating leases

Lease income from operating leases, where the Group is a lessor, are recognised as income on a straight-line basis over the period of the lease.

The Group leases land and refining plant to Wiri Oil Services Limited (refer to note 5) under a non-cancellable operating lease which expires in February 2025 with no right of renewal. The annual Wiri land and terminal lease income and cost are recognised on a straight-line basis over the period of lease and amounted to $0.5 million and $6.0 million, respectively, in 2020 (2019: $0.5 million and $6.0 million).

	GROUP 2020 $000	GROUP 2019 $000
Lease payments receivable from operating leases where the Group is a **lessor**		
- No later than one year	**6,589**	6,609
- One to five years	**14,692**	21,248
- Beyond five years	**-**	-
TOTAL	**21,281**	27,857

14 Capital commitments

Commitments are related to asset purchases contracted as at the reporting date but not provided for in the consolidated financial statements. As at 31 December 2020 the capital commitments amounted to $20.2 million (31 December 2019: $28.1 million).

15 Provisions

Provisions of $7.8 million include the jetty restoration provision of $6.9 million (31 December 2019: $11.8 million) and the platinum reclamation provision relating to leased platinum (refer to note 10 for further details).

The restoration of the seabed which the jetty is situated on at Marsden Point is dependent on, the term of the lease, inflation rate (2020: 1.5%, 2019: 2%) and discount rate assumptions (2020: 3.58%, 2019: 1.83%).

These changes resulted in a net decrease in the provision of $5.5 million. An increase in the provision as a result of the passage of time (unwinding of discount) of $0.2 million was recognised as a finance cost.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

16 Trade and other receivables

	NOTE	GROUP 2020 $000	GROUP 2019 $000
Processing fees		**11,967**	4,096
Product distribution		**3,027**	3,773
Other trade receivables		**3,696**	4,023
Excise duty	19	**135,793**	127,581
Derivatives pending settlement		**929**	1,645
Other receivables and prepayments		**5,482**	3,945
TOTAL TRADE AND OTHER RECEIVABLES		**160,894**	145,063

Trade receivables in respect of processing fees and distribution are due from customers, 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 19).

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. Therefore, 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 2020 (2019: Nil). Credit risk disclosures required pursuant to NZ IFRS 9 are outlined in note 21(b).

The carrying value of trade receivables approximates their fair values.

Trade and other receivables related party balances are disclosed in note 5.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

17 Cash and cash equivalents

Reconciliation of net cash flow from operating activities to reported (loss)/profit:

	NOTE	GROUP 2020 $000	GROUP 2019 $000
NET (LOSS)/PROFIT AFTER INCOME TAX		**(198,279)**	4,165
Adjusted for:			
Depreciation, disposal and amortisation costs	11(b)	**87,218**	99,931
Impairment		**223,697**	-
Movement in deferred tax	6(b)	**(70,794)**	1,522
Add movement in deferred tax on items included in other comprehensive income	6(b)	**(1,950)**	(1,285)
Movement in provisions	15	**(4,841)**	1,777
Less decrease/(increase) in jetty restoration provision relating to property, plant and equipment		**5,096**	(1,491)
Employee share scheme entitlement reserve	23	**448**	241
Decrease/(Increase) in intangibles	11	**12,169**	(7,828)
Less proceeds from sale of intangibles		**(13,320)**	-
Interest and other non-cash movements		**(679)**	620
Impact of changes in working capital items			
(Increase)/decrease in trade and other receivables	16	**(15,831)**	7,649
(Decrease)/increase in trade and other payables	19	**(8,266)**	18,457
Less increase/(decrease) in trade and other payables relating to property, plant and equipment and intangibles		**4,392**	(712)
Increase/(decrease) in employee benefits	20	**7,333**	(9,280)
Less employee entitlements included in other comprehensive income	20(c)	**(4,130)**	7,681
Decrease/(increase) in income tax receivable		**5,218**	(4,501)
Decrease in inventories	18	**4,143**	179
Net cash inflow from operating activities		**31,624**	117,125

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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

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:

	CASH AND CASH EQUIVALENTS $000	BORROWINGS DUE WITHIN ONE YEAR $000	BORROWINGS DUE AFTER ONE YEAR $000	NET CASH POSITION $000	FINANCE LEASE DUE WITHIN ONE YEAR $000	FINANCE LEASE DUE AFTER ONE YEAR $000	TOTAL $000
NET (CASH)/ DEBT AS AT 1 JANUARY 2019	(779)	50,000	208,601	257,822	171	2,302	260,295
Cash flows (Cash)	(4,476)	(50,000)	36,800	(17,676)	-	-	(17,676)
Finance lease payments	-	-	-	-	(171)	(152)	(323)
Adoption of IFRS 16 'Leases'	-	-	-	-	153	1,151	1,304
Other non-cash movements	-	-	1,215	1,215	95	(95)	1,215
NET DEBT AS AT 1 JANUARY 2020	**(5,255)**	**-**	**246,616**	**241,361**	**248**	**3,206**	**244,815**
Cash flows	**(38,034)**	**-**	**27,995**	**(10,039)**	**-**	**-**	**(10,039)**
Finance lease payments	**-**	**-**	**-**	**-**	**(200)**	**-**	**(200)**
Other non-cash movements	**-**	**-**	**-**	**-**	**154**	**734**	**888**
NET (CASH)/DEBT AS AT 31 DECEMBER 2020	**(43,289)**	**-**	**274,611**	**231,322**	**202**	**3,940**	**235,464**

Cash and cash equivalents include $4.6 million (2019: $4.8 million) held by Refining NZ's electricity futures broker as collateral.

18 Inventories

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 2020 the inventory obsolescence provision amounted to $8.2 million (2019: $4.8 million).

The consumption of inventories and any associated write downs are recognised as part of the purchase of process materials and utilities and materials and contractor payments expense lines in the Consolidated Income Statement.

Inventories are included in the negative pledge arrangement (refer note 9).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

19 Trade and other payables

	NOTE	GROUP 2020 $000	GROUP 2019 $000
Trade payables		**22,563**	31,967
Goods services tax payable		**909**	1,847
Deferred income	11	**3,487**	9,623
Excise duty	16	**135,793**	127,581
TOTAL TRADE AND OTHER PAYABLES		**162,752**	171,018

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 16) 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 11.

Trade and other payables related party balances are disclosed in note 5.

20 Employee benefits

Liabilities for employee benefits comprise the following:

		2020			2019		
	NOTE	CURRENT $000	NON-CURRENT $000	TOTAL $000	CURRENT $000	NON-CURRENT $000	TOTAL $000
Defined benefit pension plan	20(a)	**-**	**32,733**	**32,733**	-	24,907	24,907
Medical plan	20(a)	**17**	**7,185**	**7,202**	104	9,958	10,062
Wages, salaries, annual leave and sick leave		**6,466**	**-**	**6,466**	6,610	-	6,610
Redundancy provision		**4,372**	**-**	**4,372**	-	-	-
Long-service leave and retirement bonus		**414**	**4,901**	**5,315**	1,147	6,029	7,176
TOTAL		**11,269**	**44,819**	**56,088**	7,861	40,894	48,755

Defined benefit pension plan (scheme closed since 31 December 2002)

Nature of benefits

The Parent contributes to a defined benefit pension plan (the "Plan") for eligible employees. The defined benefit pension plan obligation is calculated annually by independent actuaries using the projected unit credit method, at present value of the estimated future cash outflows using interest rates of government bonds that have terms to maturity approximating the terms of the related pension liability. There were no Fund amendments, curtailments or settlements during 2020 (2019: Nil).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

Total membership of the scheme as at 31 December 2020 was 192 (2019: 196) and includes:

- current staff members contributing to the scheme, who have pension entitlements based on final salary and membership;
- retirees/pensioners receiving regular pension payments;
- members receiving disability pensions, which can be paid from the Plan until normal retirement age.

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).

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.

Medical plan (scheme closed since 1996)

The Parent pays health insurance premiums in respect of 15 former employees (2019: 21 former and 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. In 2020 the Company offered medical retirees a lump sum payment in

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

exchange for ceasing on-going Company contributions. Three medical retirees accepted this offer. (In February 2021, a further six medical retirees accepted a revised cash-out offer.)

Redundancy provision

An organisational restructure was undertaken in 2020 to reduce the workforce by around 25% with circa 90 employees leaving the Company either through redundancies, retirements or resignations from November 2020 through to April 2021 (refer to note 1). The total cost of the restructure was $5.6 million, recognised in wages, salaries and other benefits in the year ended 31 December 2020. Redundancy payments totalling $1.2 million were paid out prior to 31 December 2020, with the balance of $4.4 million to be paid in the first quarter of 2021.

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

FOR THE YEAR ENDED 31 DECEMBER 2020

(a) Reconciliation of medical and defined benefit pension plan

	NOTE	MEDICAL PLAN PRESENT VALUE OF OBLIGATION $000	MEDICAL PLAN FAIR VALUE OF PLAN ASSETS $000	MEDICAL PLAN TOTAL $000	PENSION PLAN PRESENT VALUE OF OBLIGATION $000	PENSION PLAN FAIR VALUE OF PLAN ASSETS $000	PENSION PLAN TOTAL $000
AT 1 JANUARY 2019 EXCLUDING TAXES		**(8,197)**	**-**	**(8,197)**	**(106,120)**	**83,054**	**(23,066)**
Amounts recognised in consolidated Income Statement:							
Current service cost		-	-	-	(1,901)	-	(1,901)
Interest (expense)/income		(226)	-	(226)	(2,552)	1,985	(567)
	20(b)	(226)	-	(226)	(4,453)	1,985	(2,468)
Amounts recognised in Other Comprehensive Income (excluding contributions tax):							
Actual return on plan assets less interest income		-	-	-	-	9,893	9,893
Actuarial losses arising from changes in assumptions		(550)	-	(550)	(2,710)	-	(2,710)
Actuarial (losses)/gains arising from liability experience		(1,375)	-	(1,375)	(748)	-	(748)
	20(c)	(1,925)	-	(1,925)	(3,458)	9,893	6,435
Contributions:							
-Employers		-	-	-	-	2,411	2,411
-Plan participants		-	-	-	(453)	453	-
Benefits paid		286	-	286	5,735	(5,735)	-
Premiums and expenses paid		-	-	-	427	(427)	-
Net Liability Excluding Taxes		(10,062)	-	(10,062)	(108,322)	91,634	(16,688)
Contributions Tax							(8,219)
NET LIABILITY IN BALANCE SHEET 31 DECEMBER 2019				(10,062)			(24,907)

	NOTE	MEDICAL PLAN PRESENT VALUE OF OBLIGATION $000	MEDICAL PLAN FAIR VALUE OF PLAN ASSETS $000	MEDICAL PLAN TOTAL $000	PENSION PLAN PRESENT VALUE OF OBLIGATION $000	PENSION PLAN FAIR VALUE OF PLAN ASSETS $000	PENSION PLAN TOTAL $000
AT 1 JANUARY 2020 EXCLUDING TAXES		**(10,062)**	**-**	**(10,062)**	**(108,322)**	**91,634**	**(16,688)**
Amounts recognised in consolidated Income Statement:							
Current service cost		**-**	**-**	**-**	**(2,117)**	**-**	**(2,117)**
Interest (expense)/income		**(103)**	**-**	**(103)**	**(1,126)**	**939**	**(187)**
Settlement gain		**933**	**-**	**933**	**-**	**-**	**-**
	20(b)	**830**	**-**	**830**	**(3,243)**	**939**	**(2,304)**
Amounts recognised in Other Comprehensive Income (excluding contributions tax):							
Actual return on plan assets less interest income		**-**	**-**	**-**	**-**	**676**	**676**
Actuarial losses arising from changes in assumptions		**(745)**	**-**	**(745)**	**(5,310)**	**-**	**(5,310)**
Actuarial (losses)/gains arising from liability experience		**2,397**	**-**	**2,397**	**759**	**-**	**759**
	20(c)	**1,652**	**-**	**1,652**	**(4,551)**	**676**	**(3,875)**
Contributions:							
-Employers		**-**	**-**	**-**	**-**	**936**	**936**
-Plan participants		**-**	**-**	**-**	**(394)**	**394**	**-**
Benefits paid		**379**	**-**	**379**	**5,458**	**(5,458)**	**-**
Premiums and expenses paid		-	-	-	**341**	**(341)**	-
Net Liability Excluding Taxes	20(d)	**(7,201)**	**-**	**(7,201)**	**(110,711)**	**88,780**	**(21,931)**
Contributions Tax							**(10,802)**
NET LIABILITY IN BALANCE SHEET 31 DECEMBER 2020				**(7,201)**			**(32,733)**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

(b) Amounts recognised in the Consolidated Income Statement

	MEDICAL PLAN		PENSION PLAN	
	2020 $000	2019 $000	2020 $000	2019 $000
Service cost	**-**	-	**2,117**	1,901
Net interest cost	**103**	226	**187**	567
Settlement gain	**(933)**	-	**-**	-
Plan expense	**(830)**	226	**2,304**	2,468
Contributions tax	**-**	-	**1,137**	1,217
PLAN EXPENSE PLUS TAXES	**(830)**	226	**3,441**	3,685

(c) Amounts recognised in the Consolidated Statement of Comprehensive Income

	2020 $000	2019 $000
Defined benefit actuarial loss	**(4,551)**	(3,457)
Actual return on plan assets less interest income	**676**	9,893
Actuarial gain/(loss) medical scheme	**2,585**	(1,925)
Gains arising from settlement	**(933)**	-
Total recognised in other comprehensive income	**(2,223)**	4,511
Contributions tax	**(1,907)**	3,170
Total recognised in other comprehensive income with contributions tax	**(4,130)**	7,681

(d) Fair value of defined benefit pension plan assets

	SIGNIFICANT INPUTS LEVEL 2 $000
Net current assets	**1,004**
Debt instruments	**8,540**
Investment Funds – Composite Funds	**79,236**
TOTAL ASSETS	**88,780**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

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

	PENSION PLAN	
	2020	**2019**
Australasian Equity	**11.1%**	10.3%
International Equity	**33.5%**	33.3%
Fixed Income	**33.1%**	33.3%
Cash	**10.8%**	11.3%
Property and Other	**11.5%**	11.8%

(e) Actuarial assumptions and funding arrangements

Assumptions are determined either by the Group in consultation with the independent actuary (such as expected rate of salary increases) or by the independent actuary (mortality in retirement, discount rate).

As at 31 December 2020 the following actuarial assumptions were applied:

	2020		2019	
	MEDICAL PLAN	PENSION PLAN	MEDICAL PLAN	PENSION PLAN
Discount rate	**1.8%**	**1.7%**	2.1%	2.0%
Expected rate of future salary increases	**-**	**1.5%**	-	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	**8.0%**	-	8.0%	-
Rate of Fringe Benefit Tax	**42.86%**	-	42.86%-49.25%	-

The average term at which the expected future discounted cash flows are due is 12 years (2019: 13 years). The average undiscounted expected term of all liabilities is 14 years (2019: 15 years).

Expected employer contributions to the defined benefit pension plan and medical scheme in 2021 is $995,000 (after the deduction of ESCT) and $251,000, respectively.

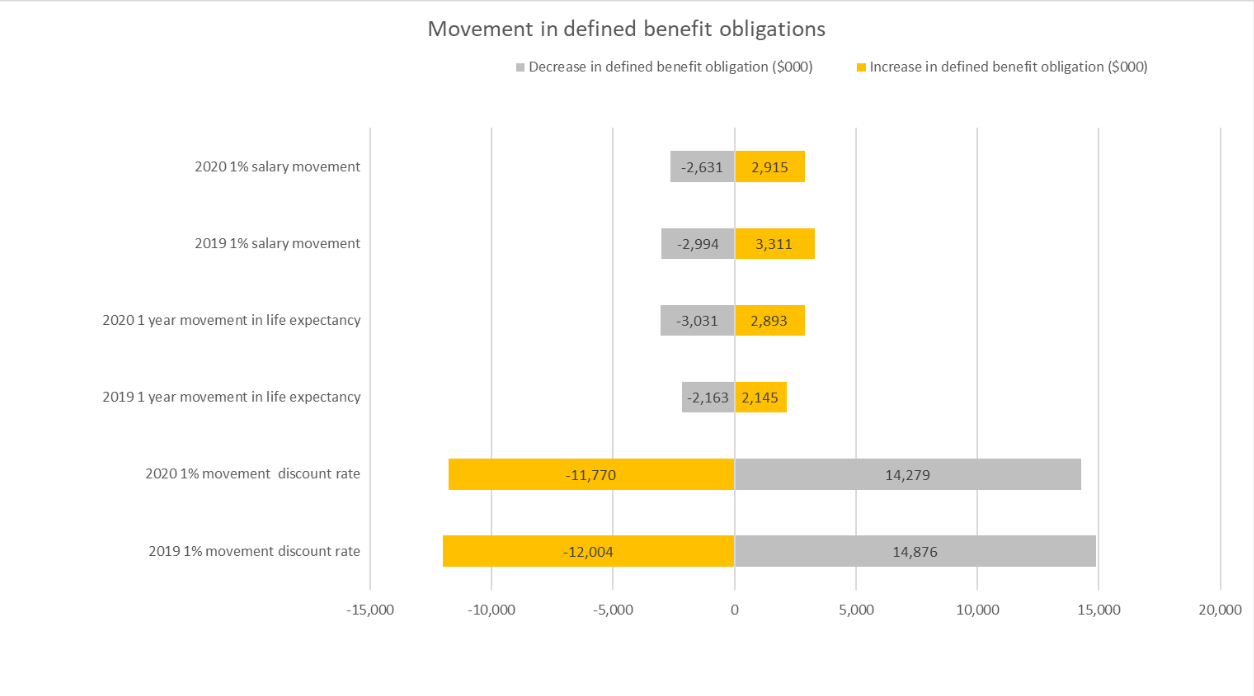
The last full actuarial valuation performed under the Financial Markets Conduct Act 2013 was as at 31 March 2019 at which time the Defined Benefit Plan was fully funded based on the assumptions used by the Actuary. These assumptions were consistent with the actuarial assumptions outlined above, except 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 2019 funding valuation is to ensure that the Fund's assets are not less than the value of accrued benefits. The Company contributes a fixed amount of $1.5 million (including contributions tax at 33%) and a lump sum contribution to fund new disability pensions. The next statutory actuarial valuation is due no later than 31 March 2022.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

(f) Sensitivity analysis – pension plan

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The methods and types of assumptions used in preparing the sensitivity analysis are consistent with those applied during the comparative reporting period.



Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

21 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 revenue which is set as 70% of the gross refining margin generated, subject to a fee floor of circa $140 million (2019: $136 million), and margin cap of USD9.00 per barrel for each customer. This 70/30 split of the refining margin reflects the fact 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 (refer to notes 1 and 12). 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.

Processing fee revenue in 2020 was charged at the fee floor which accounted for 61% of the Group's total revenue (2019: 70%, with no fee floor payments made by customers).

Electricity

The Group is also exposed to commodity price risk in relation to the purchase of electricity. This exposure exists as a result of the Group purchasing electricity via the New Zealand Electricity Wholesale Market, which is subject to price volatility caused by both demand/supply and transmission constraints. The Group uses electricity futures and Contracts for Differences to hedge the electricity price risk, with targeted coverage of forecast consumption up to three years.

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

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 may use interest rate hedging instruments to manage interest rate risk.

Sensitivity analysis

The graphs below summarise the potential impact of each type of market risk exposures on the Group's profit before tax and equity (assuming all other factors remain unchanged), except for electricity risk which was effectively hedged in 2019 and 2020.

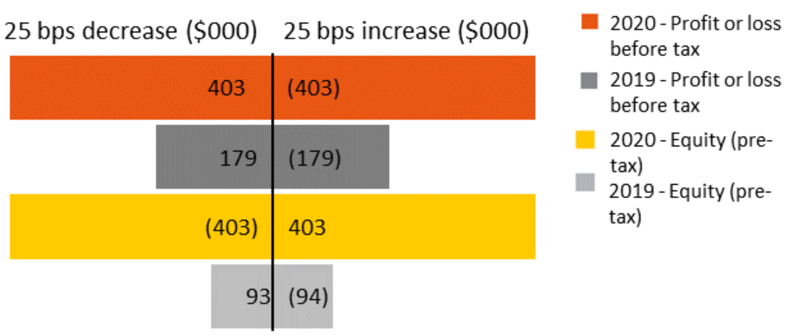
- **Price risk** - an increase and decrease of refining margin by USD1.00 per barrel.

In 2020 there is no sensitivity due to a decrease in refining margins as the fee floor under the Processing Agreements was in effect for the full year, with margins having to be at least USD2.78 per barrel higher in 2020, for Processing Fee revenue to be above the fee floor, (based on the 2020 throughputs).

- **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.

There is no currency risk when the Company is at the Fee Floor as it is a fixed New Zealand dollar amount.

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



In 2020 the remainder of the interest rate swaps matured leaving the Company exposed to $200 million floating debt (2019: $72.1 million).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

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 several 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 5) 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 in respect to 31 December 2020 receivables to be immaterial. No collateral is held over trade receivables. (Refer to note 24).

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

Overdue trade receivable balances at 31 December 2020, which were subsequently paid in January 2021, totalled $1.126 million (2019: $0.343 million).

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 9).

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

Non-derivative financial liabilities

The following table sets out the maturity analysis for non-derivative financial liabilities based on the contractual terms as at balance date. The amounts presented are the contractual undiscounted cash flows 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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

cash flows associated with bank borrowings include interest for the period until the debt rollover date (typically within six months from the balance date) and subordinated notes include interest in the period until 1 March 2034.

GROUP 2020			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
	NOTE	$000	$000	$000	$000	$000	$000	$000
NON-DERIVATIVE FINANCIAL LIABILITIES								
Trade payables	19	**(22,563)**	**(22,563)**	**-**	**-**	**-**	**-**	**(22,563)**
Lease liabilities	10	**(4,142)**	**(405)**	**(277)**	**(675)**	**(1,817)**	**(3,885)**	**(7,059)**
Bank borrowings	9	**(200,000)**	**(1,290)**	**345**	**(35,000)**	**(165,000)**	**-**	**(200,945)**
Subordinated notes	9	**(74,611)**	**(1,913)**	**(1,913)**	**(3,825)**	**(11,475)**	**(107,513)**	**(126,639)**
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES		**(301,316)**	**(26,171)**	**(1,845)**	**(39,500)**	**(178,292)**	**(111,398)**	**(357,206)**

GROUP 2019			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
	NOTE	$000	$000	$000	$000	$000	$000	$000
NON-DERIVATIVE FINANCIAL LIABILITIES								
Trade payables	19	(31,967)	(31,967)	-	-	-	-	(31,967)
Lease liabilities	10	(3,454)	(252)	(290)	(532)	(1,551)	(3,499)	(6,124)
Bank borrowings	9	(172,100)	(1,681)	-	(98,100)	(74,000)	-	(173,781)
Subordinated notes	9	(74,516)	(1,913)	(1,913)	(3,825)	(11,475)	(111,337)	(130,463)
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES		(282,037)	(35,813)	(2,203)	(102,457)	(87,026)	(114,836)	(342,335)

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), electricity futures and contracts for differences.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

GROUP 2020			CONTRACTUAL CASH FLOWS					
	NOTE	CARRYING AMOUNT $000	LESS THAN 6 MONTHS $000	BETWEEN 6 MONTHS -1 YEAR $000	BETWEEN 1-2 YEARS $000	BETWEEN 2-5 YEARS $000	OVER 5 YEARS $000	TOTAL CASH FLOWS $000
DERIVATIVE FINANCIAL INSTRUMENTS								
Net settled derivatives	22	**7,438**	**4,809**	**3,232**	**(603)**	-	-	**7,438**
Gross settled derivatives								
Outflows		-	-	-	-	-	-	-
Inflows		-	-	-	-	-	-	-
Total gross settled derivatives		-	-	-	-	-	-	-
TOTAL DERIVATIVE FINANCIAL LIABILITIES	22	**7,438**	**4,809**	**3,232**	**(603)**	-	-	**7,438**

GROUP 2019			CONTRACTUAL CASH FLOWS					
	NOTE	CARRYING AMOUNT $000	LESS THAN 6 MONTHS $000	BETWEEN 6 MONTHS -1 YEAR $000	BETWEEN 1-2 YEARS $000	BETWEEN 2-5 YEARS $000	OVER 5 YEARS $000	TOTAL CASH FLOWS $000
DERIVATIVE FINANCIAL INSTRUMENTS								
Net settled derivatives	22	(4,302)	524	(74)	(2,001)	(2,739)	-	(4,290)
Gross settled derivatives								
Outflows		-	(87)	(1,193)	(4,757)	-	-	(6,037)
Inflows		-	89	1,179	4,706	-	-	5,974
Total gross settled derivatives	22	(86)	2	(14)	(51)	-	-	(63)
TOTAL DERIVATIVE FINANCIAL LIABILITIES	22	(4,388)	526	(88)	(2,052)	(2,739)	-	(4,353)

22 Derivative financial instruments

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).

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 fair value of derivative financial instruments approximates their carrying value.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

The net movement in the cash flow hedge reserve comprises:

	2020 $000	2019 $000
Foreign exchange hedges transferred to property, plant and equipment	**86**	(13)
Foreign exchange contracts entered into during the year	**-**	(90)
Interest rate swaps maturing in the year	**3,566**	1,301
Movement in value of interest rate swaps held throughout the year	**-**	1,998
Electricity futures and contracts for differences entered into during the year	**(561)**	(780)
Electricity futures and contracts for differences settled in the year	**(4,732)**	(5,510)
Movement in value of electricity futures held throughout the year	**12,733**	-
Gross movement in cash flow hedge reserve	**11,092**	(3,094)
Deferred tax	**(3,106)**	866
Net movement in cash flow hedge reserve	**7,986**	(2,228)

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:

Level 1 - Quoted prices from the Australian Securities Exchange (ASX) for electricity futures,

Level 2 - Inputs other than quoted prices included within level 1 that are observable for:

- Interest rate swaps: fair value calculated as the present value of the estimated future cash flows based on observable yield curves, and
- Forward foreign exchange contracts: fair value determined using forward exchange rates at the balance date, with the resulting value discounted back to present value.
- Contracts for differences: fair value determined using the inputs from active market (ASX) for electricity futures, adjusted for respective location factors.

	NOTE	2020 ASSETS $000	2020 LIABILITIES $000	2019 ASSETS $000	2019 LIABILITIES $000
Cash flow hedges:					
- forward foreign exchange contracts		**-**	**-**	-	(15)
- electricity futures and contracts for differences		**8,766**	**(725)**	4,421	(416)
- interest rate swaps		**-**	**-**	-	(3,566)
TOTAL CURRENT PORTION		**8,766**	**(725)**	4,421	(3,997)
Cash flow hedges:					
- forward foreign exchange contracts		**-**	**-**	-	(71)
- electricity futures and contracts for differences		**371**	**(974)**	205	(4,946)
- interest rate swaps		**-**	**-**	-	-
TOTAL NON-CURRENT PORTION		**371**	**(974)**	205	(5,017)
NET POSITION	21	**7,438**			(4,388)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

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

	FOREIGN EXCHANGE FORWARD CONTRACTS					ELECTRICITY FUTURES AND CONTRACTS FOR DIFFERENCES
	AUD	EUR	SGD	USD	INTEREST RATE SWAPS	
31 DECEMBER 2020						
Carrying amount – net asset/(liability) ($000)	**-**	**-**	**-**	**-**	**-**	**7,438**
Notional amount (equivalent of NZ$000)	**-**	**-**	**-**	**-**	**-**	**45,097**
Maturity date	**-**	**-**	**-**	**-**	**-**	**2021-2022**
Hedge ratio	**-**	**-**	**1:1**	**1:1**	**1:1**	**1:1**
Change in fair value of hedging instrument ($000)	**-**	**-**	**(4)**	**90**	**3,566**	**8,174**
Weighted average hedged rate	**AU$/NZ$**	**EUR/NZ$**	**SG$/NZ$**	**US$/NZ$**		
	-	**-**	**-**	**-**	**-**	**$100.2/MWh**
31 DECEMBER 2019						
Carrying amount – net asset/(liability) ($000)	-	-	4	(90)	(3,565)	(736)
Notional amount (equivalent of NZ$000)	-	-	202	5,836	100,000	85,060
Maturity date	-	-	2020-2021	2020-2021	2020	2020-2022
Hedge ratio	-	-	1:1	1:1	1:1	1:1
Change in fair value of hedging instrument ($000)	3	(12)	(4)	(90)	3,299	(6,973)
Weighted average hedged rate	AU$/NZ$	EUR/NZ$	SG$/NZ$	US$/NZ$		
	-	-	0.9252	0.6655	5.65%	$113.4/MWh

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

Electricity futures and contracts for differences 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 $79,000 (2019: $73,000).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

23 Employee share-based payments

The Company operates the following share schemes:

- **A Share Rights Plan for the Chief Executive Officer** ("plan") in the form of:
  - a grant of initial performance rights equivalent to one year's base salary ($995,000) that will vest on the fourth anniversary of commencement subject to vesting conditions being that the CEO has to remain in the role during the four-year period after grant date being the commencement of the employment;
  - performance rights equivalent to 25% of base salary on the first anniversary of the commencement date, 25% on the second anniversary and 50% on each successive anniversary, with each tranche having a three-year vesting period with a further year to vest.

    The CEO's entitlements under the Share Rights Plan (or any other share rights plan) on vesting are capped at NZ$6 million.

    In the year ended 31 December 2020, the Company recognised an expense of $0.20 million in relation to the Chief Executive Officer's share rights plan.

- **An Employee Share Purchase Scheme ("scheme").** The Scheme qualifies as an "Exempt ESS" under section CW26C of the Income Tax Act 2007and is classified for accounting purposes as equity-settled transactions. 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 either purchased on market (as in 2019) or issued (as in 2020) and held by CRS Nominees Limited, during a three-year vesting period. As at 31 December 2020 there have been 214,975 shares vested to the Company employees (31 December 2019: 92,910).

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

PERFORMANCE YEAR	GRANT DATE	VESTING DATE	NUMBER OF ELIGIBLE EMPLOYEES	COMPANY CONTRIBUTION PER EMPLOYEE	EXPENSES ARISING FROM THE SCHEME					TOTAL
					2016	2017	2018	2019	2020	
				$	$000	$000	$000	$000	$000	$000
Employee Share Scheme										
2016	5 March 2017	4 May 2020			91	62	80	100	17	**350**
2017	5 March 2018	8 May 2021	302	1,050		77	70	68	43	**258**
2018	5 March 2019	6 May 2022	314	900		-	68	65	53	**186**
2019	5 March 2020	6 May 2023	291	981					129	**129**
2020 (*)	-	-	-	-		-	-	-	-	-
Share Rights Plan -CEO										
2020	6 April 2020	6 April 2024	1	-					206	**206**
									448	**1,129**
SHARES VESTED IN 2020										(350)
SHARE SCHEME RESERVE AS AT 31 DECEMBER 2020										**779**

(*) A share offer in relation to the performance year 2020 has not been made by the Company to its employees as at 31 December 2020.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

Shares issued or acquired by the Company are held as Treasury Stock by CRS Nominees Limited until vesting. The movement in Treasury Stock during the year ended 31 December 2020 is as follows:

	2020			2019		
	NUMBER OF SHARES	AVERAGE PURCHASE/ ISSUE PRICE	VALUE OF SHARES	NUMBER OF SHARES	AVERAGE PURCHASE/ ISSUE PRICE	VALUE OF SHARES ACQUIRED
	000's	$ per share	$000	000's	$ per share	$000
AT 1 JANUARY	**417.6**	**2.30**	**960**	375.8	2.58	969
Shares issued	**317.2**	**0.90**	**286**	-	-	-
Shares acquired	-	-	-	134.7	2.10	283
Shares vested	**(215.0)**	**2.39**	**(513)**	(92.9)	3.14	(292)
AT 31 DECEMBER	**519.8**	**1.41**	**733**	417.6	2.30	960

24 Contingencies

Refining NZ has received contractual dispute notices from each of its three oil company customers in relation to the steps it is taking to simplify its refinery and reduce throughput in response to a reduction in demand for its products. Refining NZ has also issued its own dispute notice in which the Company makes a separate claim that the total fee "floor" payable by all of the customers should be higher. (Refer to note 1).

In 2020, Refining NZ undertook a Strategic Review, the outcome of which was a decision to simplify its refinery operations to reduce throughput and cost in the near term. Refining NZ did this with a view to operating on a cash neutral basis while margins remain at a level that require its customers to pay it a minimum annual fee under its Processing Agreement with each of them (the fee "floor"). In parallel, Refining NZ is exploring with its customers a potential future transition to an import terminal, which the customers have advised is their preference.

Refining NZ's simplification project involves reducing refining capacity by circa 18% to circa 34 million barrels per annum, with total refined fuels production levels similar to levels at the time of commencement of the Processing Agreement in 1995 and bitumen production ceased. The changes are intended to enable Refining NZ to operate at the lowest cost possible while continuing to meet its contractual obligations to its customers, thus providing time to consider options for the future. Refining NZ undertook the simplification changes following its customers' rejection of proposals Refining NZ made to them to increase their minimum fee floor payments in order to maintain refining capacity at 2020 levels.

Refining NZ's customers have each given notice that they object to the simplification changes. They have served formal contractual dispute notices expressing the view that Refining NZ is not entitled to make the changes. They have either indicated that they expect to suffer significant losses as a result of the changes, for which they say Refining NZ will be contractually liable, or they reserved their rights. In addition, Z Energy Limited has stated that it intends to withhold any top-up sum necessary to reach the fee floor in respect of the 2021 financial year. While they have indicated that they will pay the first invoice due in February 2021, pending resolution of the dispute, it has been expressly stated to be without prejudice to their position.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

Refining NZ believes that it is entitled under its Processing Agreements to simplify its refinery operations and it does not accept that it is liable for any losses that the customers may incur as a result. If necessary, it intends to rely upon certain contractual liability protections in its Processing Agreements with its customers. In addition, Refining NZ believes that Z Energy is obliged to pay any top-up sum necessary to reach the fee floor and would be in breach of its Processing Agreement if it does not make such payments as are required under it.

Refining NZ is negotiating term sheets for the proposed conversion to an import terminal with each of its customers, who at present are not actively pursuing the disputes raised in their dispute notices. Some or all customers may decide to progress the disputes.

Given the nature of the disputes, they are expected to take some time to resolve if referred to arbitration. In order to avoid the uncertainties and disruption caused by the disputes and preserve its commercial relationships with its customers, Refining NZ intends to continue to work with customers to seek to agree terms for an import terminal conversion which are acceptable to both Refining NZ and customers, and respond to customer disputes should they choose to progress them while these negotiations are ongoing. Disclosure of an estimate of the financial effect of the disputes has not been made as contemplated by NZ IAS 37, on the basis the possibility of an outflow of resources is remote, and disclosure would prejudice seriously the position of Refining NZ.

25 Auditor's fees

	NOTE	GROUP 2020 $000	GROUP 2019 $000
Auditor's fees comprises:			
Audit of financial statements		**225**	215
Reimbursement of travel and accommodation		**20**	15
Other assurance services:			
AGM scrutineering		**5**	-
Interim review		**20**	-
Other services:			
Executive development course fees		**-**	49
Remuneration market data report		**-**	8
AUDITOR'S FEES		**270**	287

The 2019 fees for the Darden Executive Development Program and the Remuneration market data report were paid to EY prior to their appointment as auditors of the Company.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

26 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 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 audited 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 and disposal costs, impairment of assets, finance costs and income tax.

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

	NOTE	GROUP 2020 $000	GROUP 2019 $000
Reported net (loss)/profit after tax for the year (GAAP)		**(198,279)**	4,165
Add back:			
Income tax	6(a)	**(73,133)**	694
Net finance costs		**10,920**	13,445
Impairment of assets	12	**223,697**	-
Depreciation and disposal costs	11(b)	**87,218**	99,931
Reported EBITDA		**50,423**	118,235
Add back non-cash expenses:			
Stock obsolescence provision	18	**3,383**	155
Defined benefit pension fund cost	20(b)	**3,441**	3,685
Non-cash share rights cost		**697**	-
Interest income		**176**	44
Loss on disposal	11(b)	**(213)**	(433)
Stock write offs and other		**787**	195
Adjusted EBITDA		**58,694**	121,881

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

27 Events subsequent to balance date

Climate Change Commission released its draft advice for consultation

On 31 January 2021, the Climate Change Commission released its draft advice for consultation on New Zealand's carbon budgets for the next 15 years. The budgets are underpinned by an assumed transition to alternative fuels, including electric vehicles, biofuels and hydrogen-derived synthetic fuels. A significant change in demand for refined products in New Zealand would impact refinery throughputs and the assumed date for a conversion to an import terminal as outlined in note 12.

COVID-19 Auckland Level 3

On 14 February 2021 the Government announced a change in Alert Levels to Level 3 in Auckland and Level 2 in the rest of the Country. The duration of these new measures is currently unknown and may have an impact on the New Zealand fuel demand and volumes of product supplied to Auckland via the Refinery to Auckland Pipeline. As of the date of these financial statements, the Refinery continues to operate as an essential service with appropriate safety measures in operation.

Building a better working world

Independent auditor's report to the Shareholders of New Zealand Refining Company Limited Group

Opinion

We have audited the consolidated financial statements of The New Zealand Refining Company Limited ("the company") and its subsidiaries (together "the group") on pages 1 to 55, which comprise the consolidated balance sheet of the group as at 31 December 2020, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the group, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 1 to 55 present fairly, in all material respects, the consolidated financial position of the group as at 31 December 2020 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the company's shareholders, as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Ernst & Young provides other assurance services to the group. Partners and employees of our firm may deal with the group on normal terms within the ordinary course of trading activities of the business of the group. We have no other relationship with, or interest in, the group.

Emphasis of Matter

We draw attention to Note 1 of the financial statements, which outlines the status and potential outcomes of the strategic review being undertaken by the group. Our opinion is not modified in respect of this matter.

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, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment

Why significant

NZ IAS 36 requires the group to assess whether any indicators of impairment exist for each cash generating unit ("CGU"). If an indicator of impairment exists for a CGU, the group must estimate the recoverable amount of the CGU. The group concluded impairment indicators existed for the NZ Refining CGU and impairment testing was undertaken for the CGU.

In performing impairment testing the group estimated both the value in use and fair value less cost to sell of the CGU and compared these to the recorded value of the CGU's net assets. The group has recognised an impairment of $223 million in the year.

The impairment testing process is complex and highly judgmental. It is based on assumptions which are impacted by the anticipated future operating model of the business, expected future performance and market conditions. The recoverable amount is highly sensitive to changes in key assumptions, judgements and estimates used.

Disclosures regarding the group's key assumptions and the sensitivity of the result to these assumptions is included in Note 12 of the financial statements.

How our audit addressed the key audit matter

In obtaining sufficient appropriate audit evidence we:

- evaluated the group's determination of CGUs based on our understanding of the nature of the group's business units.
- evaluated the group's assessment of whether indicators of impairment or reversal of impairment existed.
- gained an understanding of the group's impairment assessment process and the basis for determining key assumptions.
- evaluated the assumptions and methodologies used by the group. We considered the judgements and estimates underlying the forecast cash flows and the information which the group used to make those estimates, such as gross refining margin, fuel demand, foreign exchange rates, operating costs and inflation rates.
- involved our valuations specialists extensively to assist in key aspects of our impairment audit work which included evaluating the value in use and fair value less costs to sell discounted cash flow models prepared by the group and their inputs as well as performing sensitivity analysis on the models. In doing so, we:
  - considered the potential impacts of planned operational initiatives and the strategic review, and how these had been included in management's cash flow assumptions and sensitivities;
  - considered future fuel demand profiles and compared the volumes included in management's models to third party views obtained by the group;
  - considered refining margins with reference to third party forecasts and analyst views;
  - evaluated discount rates, inflation rates and foreign exchange rates with reference, where applicable, to market information and indices, broker reports and our assessments; and
  - considered a third party report relating to verification of the mathematical accuracy of the group's impairment models.
- considered the adequacy of the disclosures regarding the assumptions, key estimates and judgements applied by management and sensitivities in relation to the group's impairment assessment.

Processing Fee Revenue

Why significant	How our audit addressed the key audit matter
The most significant revenue stream of the group, and a key determinant of its operating result, is processing fee revenue. In 2020 this amounted to $142m of the total group revenue of $234m. Processing fees are 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 and, when applicable, fee floor payments. The calculation is based on an agreed formula defined in the processing agreements with each of the shareholding oil companies. Note 21 (a) discloses a summary of the method of calculation and the key inputs into the calculation of the processing fees, including fee floor payments. Notes 4 and 5 of the consolidated financial statements explain the accounting policies used and an analysis of processing fee revenue.	In obtaining sufficient appropriate audit evidence we: ► evaluated the group's process for calculating and recording processing fee revenue. We understood and verified the design of key controls including management's review and authorisation of monthly processing fee calculations. ► understood the processing fee calculation methodology used to recognise revenue and compared this to the method and pricing prescribed in the processing fee agreements, including the application of the fee floor. ► used data analytic techniques to assess the correlation of revenue, trade receivables and cash. ► confirmed the total annual processing fee with each customer. ► tested payments received from the shareholding oil companies during the year and agreed post year-end cash receipts from each of the shareholding oil companies to the outstanding receivables at year end. ► reviewed the group's disclosures with regard to IFRS 15, 'Revenue from Contracts with Customers' and IAS 24 'Related Parties'.

Information other than the financial statements and auditor's report

The directors of the company are responsible for the Annual Report, which includes information other than the consolidated financial statements and auditor's report, which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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 during the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and, if uncorrected, to take appropriate action to bring the matter to the attention of users for whom our auditor's report was prepared.

Directors' responsibilities for the financial statements

The directors are responsible, on behalf of the entity, for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of 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 on behalf of the entity 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 cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the 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 International Standards on Auditing (New Zealand) 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 the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Simon O'Connor.

Ernst + Young

Chartered Accountants
Auckland
16 February 2021