REFINING NZ
ANNUAL REPORT 2020

DIRECTORS' STATEMENT

The Directors are pleased to present The New Zealand Refining Company Limited's Annual Report and Financial Statements for the year ended 31 December 2020. The Annual Report of The Zealand Refining Company Limited is signed on behalf of the Board by:

SCAllen

S C Allen
Chair

JB Miller

J B Miller
Chair, ARFC

19 March 2021

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HIGHLIGHTS AND KEY METRICS

An outstanding operational and financial response to one of the most challenging business environments in the Company's 60 years of operation.

SAFE OPERATIONS

0 =

TIER 1* OR TIER 2* INCIDENTS
(**2019** ZERO TIER 1 AND TIER 2 INCIDENTS)

0 ▼

RECORDABLE SAFETY INCIDENTS
(**2019** TRCFR* 0.27)

5 ▲

RELEASES OUTSIDE OF CONSENT
(**2019** 1)

BEST SAFETY PERFORMANCE ON RECORD

DELIVER TO CUSTOMER PLAN

29.9 MBBL ▼

REFINERY THROUGHPUT
(**2019** 42.7)

14.7 MBBL ▼

RAP THROUGHPUT
(**2019** 20.8)

1.63 USD/BBL ▼

GRM
(**2019** 5.34)

UNPRECEDENTED COVID-19 DEMAND IMPACTS

EFFECTIVE OPERATIONAL RESPONSE TO REDUCE VOLUMES

SECOND LOWEST MARGIN IN 25 YEARS

CIRCA $90M FEE FLOOR PAYMENTS

RESET COST BASE TO CASH BREAKEVEN AT FEE FLOOR

$161M ▼

OPERATING COST
(**2019** $184M)

$34M ▼

CAPITAL EXPENDITURE
(**2019** $78M)

$231M ▼

NET DEBT
(**2019** $241M)

CIRCA $80M REDUCTION IN CASH COSTS

STRENGTHENED BALANCE SHEET AND LOWERED NET DEBT

*REFER TO GLOSSARY ON PAGE 103

CHAIRMAN'S STATEMENT

Simon Allen
Chairman

The 2020 year was unique in the Company's history, with the COVID-19 pandemic requiring an immediate response to maintain the Company's near-term resilience at the same time that structural refining market changes called for a rethink in long-term strategy.

Your Board has worked closely with Management and received valuable and essential support from employees at all levels, to navigate the challenges presented by these circumstances. Our combined efforts have brought the Company to a position in which short-term viability has been maintained despite a major shock to both volumes and margins, and therefore revenues, and in which the options for strategic change have been clearly identified and advanced.

In the immediate onset of the COVID-19 pandemic we acted quickly and decisively, working with our customers to manage stocks and supply across the country. We agreed to change the way in which the refinery operated, with the processing facilities shifting to a rotating basis to enable the refinery to produce at substantially lower rates to help balance fuel supply across the country.

The complex changes made necessary during this period were completed while maintaining an exemplary safety performance on site – there were no Tier 1 or 2 process safety events or recordable personal injury incidents during the year. In an environment that requires constant vigilance in regard to hazards even during normal times, this is a very significant achievement by both our employees and our contractors working on site.

We still have much work to do to ensure that robust operational and safety performance are maintained, financial performance is restored, and the long-term shape and strategy of the Company is agreed and implemented.

Strategic Review

The Board decided in April 2020 to carry out a Strategic Review to determine the optimal business model and capital structure for the Company. At the time of announcement, we were responding to the situation created by the pandemic, but we were still fundamentally challenged by structural conditions resulting in low refining margins globally and oversupply in the Asia-Pacific region. We were also necessarily conscious of the global movement towards, and New Zealand's focus on, reducing carbon emissions, with the emergence of new challenges and opportunities expected in the transition to low-carbon transport fuels over time.

With our very substantial investment in critical infrastructure and in New Zealand's only oil refinery, and with the need to realise full value and deliver more sustainable returns for shareholders, we considered the Strategic Review necessary to determine the best future use of those assets.

The review has enabled the Company to move to a Simplified Refinery model from January 2021 and to assess the potential to move to an import terminal model in the future. The Company's fuels infrastructure has significant latent value which could be realised on transition to an import terminal, with the added benefit of significantly lowering its carbon emissions profile.

The Stategic Review process was highly consultative, given the range of stakeholders involved and the long-term horizon for decision-making and implementation that future changes would involve. Our customers have all expressed a desire for the Company to convert to an import terminal model. This involves the renegotiation of complex commercial and contractual matters between the Company and customers. The potential for disagreement arising from the Strategic Review is reflected in dispute notices issued by customers. The Company continues to work with customers to negotiate long-term arrangements. Importantly, we have reached in principle agreement with bp on key commercial terms, including price. Negotiations with Z Energy and Mobil are on-going. An overview of the potential import terminal option is included in the FY20 Investor Presentation, available through the Company website at www.refiningnz.com.

The Board recognises that financial returns to shareholders have not been satisfactory for some years. We are committed to delivering on the outcomes of the review, to realise full value for the Company's assets and deliver more sustainable returns 'through the cycle' while continuing to support secure, competitive fuel supply for the country and a fair and well managed transition for employees and other Stakeholders. The Board will keep shareholders informed as the process continues. Ultimately, any decision to proceed with conversion to an import terminal will be subject to a vote by the non-customer shareholders following the circulation to Shareholders of an Independent Appraisal Report.

Should a proposal to move to an import terminal model be approved by shareholders we will continue to work with Government and other stakeholders on a planned transition to manage the impact of changes on the refinery's workforce and the Northland economy.

Financial performance

The Company's financial results reflected the historically low level of refining margins in the early months of the year, compounded by the impact of the COVID-19 pandemic. Margins remained low throughout the year.

The net loss after tax was $198.3 million, compared with a $4.2 million profit for the 2019 year. Total revenue was $245.7 million, compared with $348.4 million in 2019. This included Fee Floor payments from customers totalling circa $90 million.

Throughputs at the Refinery and the Refinery to Auckland Pipeline (RAP) were about 30 per cent lower than for the prior year - a direct consequence of the COVID-19 pandemic. Land fuel volumes recovered to near normal levels by the end of the year, while jet fuel volumes remained weak.

Aside from the impact of lower volumes and refinery margins, net loss after tax reflected a non-cash impairment charge of circa $158 million after tax against the value of the Company's refining assets, reflecting a decline in the outlook for refining margins.

We acted quickly to reset the cost base, with a reduction of circa $80 million in 2020 planned expenditure, to keep costs within the Fee Floor and thus enable the Company to operate on a cash neutral basis. We took a range of measures to strengthen the balance sheet, including the renegotiation of bank lines and increasing and extending our bank facilities.

Given the challenging, low-margin environment in which the Company is operating, the Directors have resolved that it is prudent to not pay a dividend to shareholders for the 2020 year.

Governance

The COVID-19 pandemic and the Strategic Review intensified the Company's governance requirements to a level well beyond the already busy programme associated with any 'normal' year. This required 57 Board and Sub-committee meetings through the year. I would like to acknowledge the efforts of all Board members in this context. I note, in particular, the commitment of my fellow Independent Directors in their oversight of the Strategic Review and the renegotiation of commercial relationships with our customers during this period.

The Board's primary focus remains on completing the work arising from the Strategic Review to enable the Company's assets to be valued appropriately and to provide sustainable returns to shareholders.

The Strategic Review process has been led by the Chief Executive Officer (CEO), Naomi James, who joined the Company in April 2020. Naomi was previously Executive Vice President at Santos Ltd, where she was responsible for midstream infrastructure assets including oil, gas and LNG processing facilities.

Paul Zealand served as Managing Director from February to April 2020, providing a transition between the previous CEO, Mike Fuge, and Naomi starting in the CEO role. Mr Zealand's designation as an Independent Director was suspended during this period and restored when he resumed his role on the Board.

As announced in December 2020, Debi Boffa resigned as a Director pending her transfer to a new role offshore with her employer, bp. The Board records its thanks for her outstanding contribution to the Company during her three years as a Director. Consistent with previous practice, the Board invited bp to nominate a replacement director and, following a review of her candidacy, we welcomed Lucy Nation to the Board. Lucy brings extensive industry and strategic experience that will be of great value as we work through the Strategic Review outcomes and future growth opportunities for the Company. Lucy will be subject to re-election at the next Annual Meeting of Refining NZ shareholders.

Carbon budgets

On 31 January 2021, the Climate Change Commission released the draft carbon budgets for the next 15 years. These budgets include significant reductions from the transport sector and industrial heat processes. The option of conversion to an import terminal would result in a significant reduction in the Company's direct emissions and, as a result, in New Zealand's emissions. An import terminal would be the lowest carbon option for delivering fuel to the Auckland market.

The Marsden Point site, with Refining NZ's infrastructure, presents a range of opportunities for growth as the New Zealand fuel supply changes in the future. The existing infrastructure is capable of supporting transition to biofuels and sustainable aviation fuels (SAF) and has the potential to expand existing operations to support green fuel imports, exports, storage, blending and other energy sources.

The Company will continue to engage with Government and other stakeholders to assess and explore these opportunities as carbon budgets are finalised and Government policy required to support achievement of these budgets is developed.

On behalf of the Board, I would like to thank our people, our contractors, suppliers, tangata whenua, the local community, customers, Government, shareholders and our other stakeholders for their continued support during these unprecedented times. Your support remains vital to our success, as we move through this period of change and build towards a better future.

CHIEF EXECUTIVE OFFICER'S STATEMENT

Naomi James
Chief Executive Officer

The Refining NZ team delivered an outstanding response to one of the most challenging business environments in the Company's 60 years of operation.

While responding to the immediate impacts of the COVID-19 pandemic and a structural shift downward in refining margins, far-reaching actions were taken to improve the Company's financial performance and resilience over both short and long-term horizons.

Refining margins structurally weak pre-COVID-19

Refining margins were weak at the start of the year due to a combination of market factors – a substantial increase in the supply of refined product from larger, low-cost refineries in the Asia Pacific region and lower than expected demand growth for transport fuels. High energy, shipping and labour costs in New Zealand also affected the Company's competitiveness relative to other refineries in the region.

The global drop in demand triggered by COVID-19 and the expectation of a slow recovery in oil and refined product demand, particularly for jet fuel, weighed heavily on the already oversupplied market and placed yet more pressure on margins.

The average Singapore Complex Margin (SCM) across the year was negative USD1.65 per barrel (2019: +USD1.02 per barrel). The uplift earned over the SCM was USD3.28 per barrel (2019: USD4.32 per barrel). The reduced uplift reflects higher crude versus product freight costs and the impact of the COVID-19 induced rotating operations on the refinery's efficiency.

The Gross Refining Margin earned was USD1.63 per barrel – the second lowest since the 1995 Processing Agreements came into effect.

Operations adapted for the changed environment

Refinery and pipeline throughputs for the whole year were circa 30% lower than in 2019. Throughput at the refinery was 29.8 million barrels (2019: 42.7 million barrels) and on the RAP 14.7 million barrels (2019: 20.8 million barrels). Land fuel volumes recovered to just above pre-COVID-19 levels by the end of the year, while jet volumes remained weak at circa 30-40% of pre-COVID-19 volumes.

The Company worked in partnership with customers to make significant operational changes, reducing refinery production and non-essential activity on site. This included operating the refinery's processing facilities on a rotating basis and a full six-week shutdown of the plant in the middle of the year to help balance fuel supply across New Zealand.

Health and safety maintained despite operational changes

The safety of our workplace and the health and wellbeing of our people are core company values, at the heart of the on-site culture. To operate the refinery on a rotating basis and to do so safely, was an outstanding achievement and a testament to the capability and commitment of our people.

As we operate one of the country's highest hazard facilities, we work within a system of stringent safety policies and controls. Our Safety Case was approved in 2020 by the regulator, WorkSafe. Our process safety performance in the 2020 year was again outstanding, with no Tier 1 or Tier 2 events recorded for the second successive year. In addition, there were no recordable personal safety incidents, with recordable and lost time injury frequency rates being zero per 200,000 hours worked (2019: 0.13 LTIFR*, 0.27 TRCFR*).

The E Tu Tangata safety culture programme, an employee-led initiative, was a significant contributor to improved performance during the year and won the New Zealand Workplace Health and Safety Engagement Award in November 2020. E Tu Tangata continues to have a significant impact on our safety culture. A good example of this was the establishment of the Manaaki group in 2020, whereby people organised themselves to provide wellbeing support to colleagues – a critical role during the disruption caused by COVID-19 and the changes required for simplification of the refinery.

The Fee Floor provided protection against the impacts of both low margins and reduced refinery throughputs

The Fee Floor established under Processing Agreements with the Company's customers provided protection against the impact of both low margins and the lower refinery throughputs. The Fee Floor is a guaranteed minimum level of income in New Zealand dollars, irrespective of the number of barrels processed and refining margins, designed to ensure the Company can continue to operate through periods of low margins.

2020 was only the second time the Fee Floor has come into effect for a full year in the 25 years since the Processing Agreements commenced. Processing fee revenue prior to Fee Floor payments was $52 million (2019: $242 million). Refining NZ customers made Fee Floor payments totalling $90 million, increasing the Gross Refining Margin from USD1.63 to USD4.40 per barrel.

Refinery to Auckland Pipeline revenue was down 20% because of the lower volumes, partially offset by higher pipeline fees. Total income for the year was $245.7 million, down $102.6 million (circa 29%) on the previous financial year.

Cost base reset to breakeven at the Fee Floor

The Company acted quickly to reset its 2020 cost base to operate within the Fee Floor, reducing total expenditure by around $80 million. This required a 'whole of business' response and strong financial discipline. Operating costs were down by circa $35 million, with savings achieved in electricity, process material, labour and other costs through changes in operations and by stopping all non-essential activity on site. Capital expenditure was reduced by circa $45 million following changes to asset management strategies and the deferral of the platformer and crude distillation turnaround into 2021.

The Company took early action to strengthen the balance sheet by increasing and extending bank lines, providing significant debt headroom and eliminating material near-term maturities.

Free cashflow was $11 million for the year (2019: $39 million), which allowed the Company to reduce net debt to $231 million as at 31 December 2020 (2019: $242 million). This reflected cash neutral operations and optimisation of the balance sheet through $13 million of asset sales to fund $5.6 million of restructuring costs from November 2020 through to early 2021, in preparation for refinery simplification.

The Company has significant liquidity headroom with cash and undrawn debt facilities in excess of $100 million, excluding facilities maturing in the next 12 months. It remained in compliance with its debt covenants, with headroom on interest cover ratios expected to increase in 2021 due to the maturing of historical interest rate swaps in December 2020 and the benefit of lower floating rates.

A Simplified Refinery model provides time to negotiate with customers

Plans to simplify the refinery operations, making the business robust to an extended period of low margins, were finalised in October 2020 as an early outcome of the Strategic Review. In parallel, the Company engaged with customers to evaluate a possible future transition to an import terminal.

The Simplified Refinery model, implemented from January 2021, reduces primary crude intake 18% to circa 34 million barrels per annum in a non-turnaround year, with refined fuels production similar to the levels at the time the Processing Agreement came into effect in 1995. The Company has also ceased bitumen production under the simplified model. An organisational restructure was completed at a cost of $5.6 million 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.

Refining NZ initiated the formation of the Northland Refinery Transition Working Group, made up of regional and local Government bodies and local groups, and national agencies and departments. With this support we undertook a comprehensive transition support programme including the provision of workshops on resilience, CV writing and interview skills training, as well as a Careers Expo at which our people were introduced to about 20 employers with job vacancies to fill. Our aim is to have all those who want to be, in training or new jobs within six months of leaving Refining NZ and we were about half-way to that point by the end of the year.

The Simplified Refinery enables us to extend cash neutral operations into 2021 under a Fee Floor scenario and to fund the circa $20 million maintenance turnaround of the main crude distiller and the platformer, deferred from 2020.

This provides time and optionality to progress work on the potential future conversion to an import terminal with customers, who have all expressed a desire to move to that business model.

Significant progress made assessing the import terminal option

Refining NZ is now well progressed in its assessment of the import terminal option, with an understanding of the costs and time involved in a conversion to an import terminal and Front End Engineering and Design (FEED) and detailed planning work now underway. The proposed import terminal system would have annual capacity of circa three billion litres, supplying the Auckland and Northland markets which make up circa 40% of the total New Zealand market.

Refining NZ has been negotiating with each of its customers, seeking to agree commercial terms which include a lengthy initial term (10+ years), a combination of fixed annual access fees and variable throughput fees linked to actual volumes – targeting total estimated fees (across all customers) of circa $100 million per annum during the initial term – and provision for third party access to unutilised RAP capacity.

Refining NZ has reached in principle agreement with bp on key commercial terms including price[1]. Reaching in-principle agreement on key terms with bp is a significant milestone which now allows Refining NZ to progress preparations for the required approvals while continuing to negotiate to reach agreement with our other customers.

Negotiations with Z Energy and Mobil are ongoing, with Refining NZ focused on agreeing terms which are acceptable to customers and fair to non-customer shareholders.

There is a strong commitment from Management and the Board to realise fair value for shareholders from the Company's strategic infrastructure assets while continuing to support secure, competitive fuel supply to New Zealand. Ultimately, any decision to proceed with a conversion to an import terminal will be a decision voted upon by the non-customer shareholders following an Independent Appraisal Report.

As with recent simplification changes, Refining NZ is committed to continuing to work closely with local, regional and national authorities and agencies to ensure any future transition is smooth and well managed and the impact to our employees and the region is minimised.

Outlook

The outlook for refining margins remains challenging in the near term, with COVID-19 travel restrictions likely to affect jet fuel demand for some time, and with significant refining capacity closures required to return refinery utilisation to more normal levels.

The Simplified Refinery model will ensure that the Company is robust to an extended period of low margins and our plan for 2021 focuses on continuing to operate the refinery safely, completing the maintenance turnaround (deferred from 2020) and meeting our commitments to customers under the Processing Agreements, while operating within the Fee Floor.

The four-week turnaround, starting in late February 2021, includes the first statutory inspection for the CCR Platformer (Te Mahi Hou Project commissioned in 2015) and routine inspection and maintenance for the crude distillation unit and associated plant. During the turnaround, all other processing units not undergoing maintenance will be temporarily shut down, with customers importing refined products. The estimated cost of the turnaround is circa $20 million, within a total capital budget of circa $50 million for 2021.

I take this opportunity to express my appreciation for the outstanding commitment and support of the Board, the management team, customers, contractors and in particular our employees during a year of unprecedented challenges for the Company. Our achievements in the 2020 year give me confidence in the Company's ability to continue to adapt and grow towards a sustainable future.

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*REFER TO GLOSSARY ON PAGE 103

[1] The in principle agreement is non-binding and subject to a number of conditions including Refining NZ reaching agreement with its other customers (Z Energy and Mobil), Refining NZ shareholder and lender approvals, completion of detailed planning and commercial due diligence, negotiation of a binding Terminal Services Agreement and final approval by the independent directors of Refining NZ and by bp.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE REPORT

Stakeholder engagement

Despite a challenging year, our approach and commitment to the environment, to society and to governance remains unchanged. In our business processes and decision making, we consider the impact we have on the community and the environment in which we operate.

We understand and value the importance of strong relationships which underpin the ability of our business to create value – even more so in uncertain and challenging times. Our wide network of stakeholders includes investors, customers, employees, suppliers, neighbours, tangata whenua as well as local and national Government.

The 2020 year was a uniquely challenging year, with COVID-19 having a major impact on our business. The significant fuel demand reduction resulting from travel and transport restrictions and the consequential reduction in revenue through weak global refining margins and lower refinery throughputs, required us to collaborate with many stakeholders who responded with considerable support for our business.

We had to act quickly and decisively in response to COVID-19. A key factor which enabled us to successfully reset the business at pace, was to provide absolute clarity to our people (and other stakeholders) about what mattered most as we navigated these unprecedented times. We simplified our company scorecard to three important deliverables for the year (refer to page 4 of this Annual Report), cascaded these objectives to stakeholders and provided regular progress updates throughout the year.

We also agreed with our customers to change the way we operated the refinery whereby the processing facilities were operated in different modes to enable the refinery to produce substantially lower volumes to help balance fuel supply across New Zealand.

A Strategic Review was initiated in April 2020 with the views of our customers and the New Zealand Government important inputs' in defining what role our Company could play in delivering secure, competitive fuel supply to New Zealand over the longer-term.

Material issues

We developed our Environmental, Social and Corporate Governance (ESG) strategy over the last few years, with an assessment undertaken in early 2018, in collaboration with our stakeholders, to identify material issues. The materiality assessment is represented by the matrix set out on page 15; noting that this does not fully reflect more recent changes to our regulatory and market environment, particularly in relation to climate change and carbon emissions.

The material topics have been grouped together for reporting purposes as:

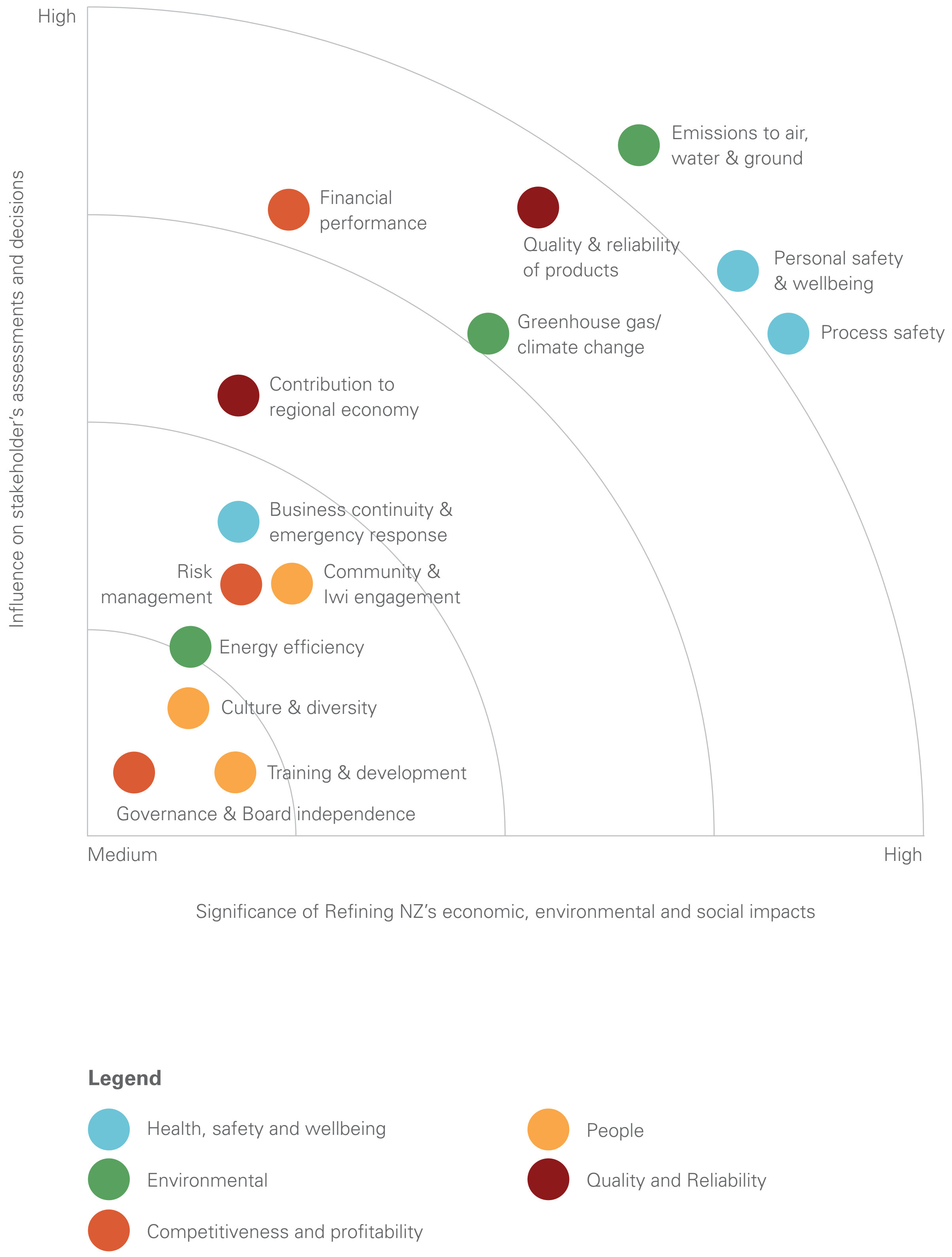
- Health, safety and wellbeing,
- Quality and reliability,
- Environmental, and
- People.

Our ESG report has been prepared in accordance with Global Reporting Initiative (GRI) standards: Core option. The GRI reporting index is available on our Company website at: www.refiningnz.com.

Looking forward – TCFD reporting

In September 2020, the New Zealand Government confirmed that climate-related financial disclosures will be mandatory for all publicly listed companies. The disclosure reporting requirements will be based against standards to be issued by the External Reporting Board in line with the Task Force on Climate Change-related Financial Disclosures (TCFD) recommendations. Refining NZ is committed to meeting these new reporting requirements, effective from 2023 at the earliest, which will require the Company to assess the risks and opportunities of climate change across four thematic areas: governance, strategy, risk management, metrics and targets.

Environmental, Social and Governance Issues Materiality Matrix



HEALTH, SAFETY, AND WELL-BEING

TOTAL RECORDABLE CASE FREQUENCY RATE (TRCFR) **(/200,000 HRS)**

0 ▼

0.27	**2019**
0.76	**2018**
0.89	**2017**
0.51	**2016**

LONG TERM INJURY FREQUENCY RATE (LTIFR) **(/200,000 HRS)**

0 ▼

0.13	**2019**
0.48	**2018**
0.13	**2017**
0.48	**2016**

TIER 1 PROCESS SAFETY INCIDENTS

0 =

0	**2019**
2	**2018**
0	**2017**
1	**2016**

TIER 2 PROCESS SAFETY INCIDENTS

0 =

0	**2019**
3	**2018**
4	**2017**
0	**2016**

NUMBER OF EMERGENCY EXERCISES (INTERNAL AND EXTERNAL)

87 ▲

86	**2019**
26	**2018**
17	**2017**
13	**2016**

Safety is a core value for Refining NZ. Our commitment is: "Everyone Safely Home Every Day".

Despite the extensive operational changes we needed to make in response to the COVID-19 pandemic our safety performance has continued to improve. In 2020, the Refining NZ team delivered the best safety performance on record, with no Tier 1 or Tier 2 process safety incidents and no recordable injuries.

The impact of the pandemic on demand for transport fuels required the Company to make significant operational changes, working in partnership with customers to reduce refinery production. The refinery continued to operate through the national and regional lockdowns, with essential staff remaining on site with additional protections in place and other staff working from home. Processing units were operated in rotating mode, starting and stopping in turn, with the entire plant temporarily shut down for six weeks in order to help balance fuel supply across New Zealand. This mode of operating the refinery was unique, and to do so safely – with no process safety incidents or recordable cases, was an outstanding achievement.

The approval by WorkSafe of our Safety Case in early 2020 marked a significant milestone for our business and our safety journey. The Safety Case details the hazards that, left unchecked, could result in major incidents; along with the measures used to prevent such incidents occurring and the emergency response systems to reduce consequences should an incident occur. We are proud of our team and the work that has gone into developing the safety case, which further strengthens the effectiveness of personal and process safety management at Refining NZ.

WorkSafe's first inspection of the operating Safety Case was completed during the year and we are updating the Safety Case as we transition to the Simplified Refinery operating model whilst continuing to progress identified risk reduction projects.

Underpinning the safety initiatives and structures are our Hauora Hikoi (Safety Walks) and Hauora Korero (Safety Talks), which are undertaken by people across the business. We intend to further develop this programme in 2021 to encourage deeper site-wide engagement. Safety champions under the auspices of our E Tu Tangata programme (see case study) participated in workshops to help ensure the safe completion of the four-week maintenance turnaround that commenced in February 2021.

CASE STUDY

THE NEW ZEALAND WORKPLACE
2021
WINNER
ENGAGEMENT
HEALTH & SAFETY AWARDS

E TU TANGATA

E Tu Tangata, which calls on our people to 'stand up' for safety and wellbeing, won the Engagement category of the NZ Workplace Health & Safety Awards for 2020.

E Tu Tangata is a grass-roots initiative in response to the story of a young family who lost a loved one because of a workplace accident.

"That tragedy really hit home for everyone here," said Health and Safety Advisor, Cory Abraham. "Any parent knows that you don't ever want to be burying your child, and that case made real for us just how important it was to get our safety culture right."

The Company engaged Leading Culture to conduct a comprehensive safety culture survey. The results showed that there were areas where we could improve including: diversity, tools, and leadership. We sought improvement in each of these areas to enhance engagement.

The Company has a diverse workforce, with employees from more than 12 countries and a variety of ethnicities working at the Marsden Point site. We recognised that our practices didn't reflect that diversity, and this reduced the effectiveness of our safety messages. In recognition of this diversity we have incorporated te ao Māori (the Māori world view) into our safety culture strategy. The ethos of kotahitanga (unity) has been incorporated into our communications to bridge cultural barriers and bring everyone together. We see evidence that this is providing a much stronger connection for staff than traditional safety engagement programmes.

In 2019 we developed a new safety inspection system and introduced Hauora Korero (safety talks) and Hauora Hikoi (safety walks). The goal was to encourage everyone on site to be confident and comfortable to have a safety related conversation, and to record it. We also encouraged consistent reporting of near misses, hazards, and interventions, and we strengthened our processes to learn from near miss events to support continued good performance.

The responsibility for safety observations shifted. From this point on it was not the responsibility of a few, but of all workers. We set ourselves a lofty goal of recording 6,500 Hauora Korero and Hikoi for the 2020 year. At the end of 2020 we had recorded more than 6,800.

The Kaihautu Award recognises those safety leaders who demonstrate the E Tu Tangata values while at work. People are nominated and a Kaihautu (leader) is chosen by their colleagues. The Kaihautu is presented with a carved hoe (a paddle) to hand down to the next Kaihautu. This award is a great way to celebrate the achievement of individuals, and to recognise and build leadership capability.

> The ethos of kotahitanga (unity) has been incorporated into our communications to bridge cultural barriers and bring everyone together.

ENVIRONMENTAL

RELEASES OUTSIDE CONSENT

5 ▲

1	**2019**
5	**2018**
4	**2017**
5	**2016**

DIRECT CO_2 EMISSION INTENSITY **(KG CO_2/T OF PRODUCT)**

218.4 ▲

206.1	**2019**
195.9	**2018**
199.4	**2017**
205.1	**2016**

DIRECT CO_2 EMISSION (SCOPE 1) **(T CO_2)**

848,621 ▼

1,080,041	**2019**
972,018	**2018**
1,045,595	**2017**
1,054,351	**2016**

INDIRECT CO_2 EMISSION (SCOPE 2) **(T CO_2)**

56,100 ▼

177,132	**2019**
162,753	**2018**
175,788	**2017**
174,252	**2016**

FLARE **(AMOUNT OF FLARE AS MASS % OF FEEDSTOCK)**

0.17 ▲

0.02	**2019**
0.05	**2018**
0.02	**2017**
0.09	**2016**

2020 was a milestone year for Refining NZ's environmental management.

In April the Government approved a process to bring the Company into the New Zealand Emissions Trading Scheme (NZ ETS), as an Emissions Intensive Trade Exposed (EITE) business with an industrial allocation of carbon units, after its Negotiated Greenhouse Agreement (NGA) expires in January 2023.

We were the first company to enter into an NGA with the Crown in 2003 and investments made by the Company in major capital projects and careful management, has enabled Refining NZ to reduce energy consumption and emissions over the past 20 years.

In 2020, as a result of COVID-19, Refining NZ had to reduce production through operating the refinery in rotating mode, to help balance fuel supply across the country. As a result, our total carbon emissions (scope 1 and 2) were down circa 28% on 2019. However, this mode of operating the plant was less efficient, increasing both the intensity of our emissions (per tonne of refined product produced) and our fuel losses through flaring. Refining NZ had good environmental performance during cyclic operations and hot-standby, with action taken to address minor environmental non-conformances.

The Company transitioned to a simplified refinery from January 2021. It is expected that, due to higher production levels, total CO_2 emissions will be higher than 2020, but remain below the 2019 level.

In 2020 we made significant progress with our renewal application for the Marsden Point site resource consent, working towards approval from the Northland Regional Council in 2021, ahead of the existing consents expiring in mid-2022.

Expert assessments obtained as part of the consenting process noted that, based on the last five years of data, the effects of Refining NZ activities on the environment have in general been less than minor.

The effects of Refining NZ's discharges to the harbour were less than minor to negligible. This is due to continual improvement of our environmental protection systems on site as part of our ISO 14001 Environmental Management Systems Certification. The marine life growing on the Refinery jetty, which is exposed directly to our wastewater discharge, was found to be of high ecological value and is similar to that found in the Reotahi marine reserve located directly opposite the refinery.

The nearby Mair Bank sand-based marine population is healthy, although some shellfish numbers have diminished in recent years. Experts do not consider that this is related to refinery operations, however, the Company is committed to working with the Regional Council, Tangata Whenua and other agencies to investigate and improve shellfish populations on the sand banks near the entrance to the Whangarei harbour.

The business continues to actively protect and maintain the resident population of threatened New Zealand Dotterel. These endangered birds' nest at the refinery site and it is thanks to the high level of predator control and other environmental measures that these birds choose to breed at the Marsden Point site.

INDICATOR	UNIT	2016	2017	2018	2019	2020
Total Fuel Usage	Petajoule	14.1	14.2	13.2	14.3	**11.2**
Ex-Crude (refinery produced fuel)	Petajoule	11.5	11.4	9.8	10.7	**8.8**
Natural gas	Petajoule	2.6	2.8	3.4	3.5	**2.4**
Electricity Usage	Petajoule	1.21	1.22	1.14	1.23	**0.92**
Water Usage	Million Tonnes	1.68	1.7	1.65	1.68	**1.49**
Sulphur Dioxide Emissions	Tonnes	4,332	3,695	3,404	4,329	**3,345**

QUALITY AND RELIABILITY

JET FUEL PRODUCED **(BILLION LITRES)**

0.8B LITRES ▼

(**2019** 1.7B LITRES)

DIESEL PRODUCED **(BILLION LITRES)**

1.9B LITRES ▼

(**2019** 2.3B LITRES)

PETROL PRODUCED **(BILLION LITRES)**

1.4B LITRES ▼

(**2019** 1.9B LITRES)

The reliability of our refinery and the high quality of our fuel products are essential to the resilient supply of fuel products.

Crude oil bought by our customers is shipped to our deep-water port at Marsden Point, near Whangarei, for refining into high-quality transport fuels. As a toll refiner, we process a range of crude oils imported from offshore markets to produce premium and regular petrol, diesel, jet fuel and fuel oils for our three customers, bp Oil New Zealand Limited, Mobil Oil New Zealand Limited and Z Energy Limited. Around 58 per cent of the Company's fuel production travels via a purpose-built 170-kilometre pipeline (the Refinery to Auckland Pipeline, or RAP) to Wiri in South Auckland for storage and distribution by road. The balance is distributed by our customers via truck around Northland and by coastal tanker to destinations throughout New Zealand.

The reliability of our refinery and the high quality of our fuel products are essential to the resilient supply of fuel products. The significant fuel demand reduction resulting from travel and transport restrictions in response to COVID-19, required the Company to collaborate with customers to reduce refinery production and help balance fuel stocks across the country. This change is reflected in much higher downtime for the refinery and pipeline in 2020, and lower throughputs.

Through the first nation-wide lockdown in March/April 2020 we had to find ways to reduce our production to half of normal rates almost overnight and to minimise jet fuel production. Jet fuel would, in normal times, be around 30 per cent of what we make. We were able to reduce that to much lower levels by increasing the percentage of diesel make which, importantly, avoided the need for our customers to export jet fuel at much lower prices.

INDICATOR	UNIT	2016	2017	2018	2019	2020
Throughput Refinery	million barrels	42.7	41.7	40.4	42.7	**29.8**
Throughput RAP	million barrels	20.0	19.8	21.0	20.8	**14.7**
Operational availability	%	96.9	98.0	90.7	99.7	**98.2**
Unplanned Refinery downtime	%	0.8	0.6	0.8	1.6	**23.2**
Unplanned RAP downtime	%	0.9	4.6	1.3	0.9	**4.8**

PEOPLE

NUMBER OF STAFF

344 ▼ (2019 412)

NUMBER OF CONTRACTORS

105 ▼ (2019 251)

Our people rose to the challenges of 2020 against the background of the COVID-19 crisis.

They set the plant up to safely run in the unprecedented alternating operating mode, shouldered their responsibilities as essential workers during lockdown and helped the refinery remain viable through a significant cost reduction program and by taking leave during the six-week plant shutdown in July-August 2020. The team showed dedication and resilience throughout these challenging times.

The wage subsidy received from the New Zealand Government ensured the Company was able to maintain the employment of all of our people through this period before transitioning to a simplified refinery at the end of 2020. Contractor numbers reduced year-on-year reflecting the stopping of all non-essential work during 2020.

We celebrated the achievements of our workforce at the close of 2020 with awards based on our Company values: Safety and Wellbeing, Leadership, Integrity, Respect, Honesty and Winning Together. Our Most Valuable Player award celebrated the person who most embodied all our values. This year Cory Abraham, who has been instrumental in leading E Tu Tangata and supporting the improvement of the site's safety record was the deserving recipient.

To obtain direct feedback during the transition to a simplified refinery, we launched a pulse survey in late 2020 called "Our Voice". The survey focusses on safety and wellbeing, simplification, communication, leadership, accountability, development, energy and values and will continue regularly through 2021 so that we can continue to support our staff as our business goes through change.

CASE STUDY

TRANSITION SUPPORT

One of the most challenging aspects of 2020 was the decision to disestablish circa 90[1] roles and farewell colleagues from the Company in order to simplify refinery operations enabling the Company to run cash breakeven at the Fee Floor in 2021 and fund the $20 million planned maintenance turnaround in quarter one.

Our Corporate Lead Team made commitments about the way the restructure would be undertaken:

- Treating everyone with respect and with dignity,
- Support would be made available to prepare those directly affected by the change for life away from the refinery, and
- To help everyone leaving the Company who wanted, to find new jobs or be in training within six months of leaving the Company.

The Corporate Lead Team chose to do this because it aligned with our company values and was the right thing to do, in recognition of the years of service and energy that each person had given to the Company.

The Company partnered with local support providers including the Ministry of Social Development, which helped employees write CV's and master interviewing skills; Whangarei Budgeting Services, which ran workshops on how best to manage redundancy payouts and other financial considerations and Vitae, boosted its presence onsite as part of our continued Employee Assistance Programme.

The Manaaki group was also established as part of E Tu Tangata to support mental health and wellbeing. Manaaki was provided with training in psychological first aid, learning some of the key elements in this process – Look, Listen and Link - supporting our people and leaders through the change.

Alongside their face-to-face awhi (support) being available for a korero (chat) or deeper support as needed, Refining NZ provided online resources and information on Wellbeing Boards placed around the site.

The Company later reached out to local and national business partners and invited them to join us in a Careers Expo, so that they could look to recruit from the pool of talented Refining NZ employees who were soon to leave. We had 20 businesses and other organisations join us for the Expo. By the year's end, around half of those looking for employment had found new opportunities beyond Refining NZ.

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[1] Actual headcount released through redundancy, retirement or resignation.

People and Diversity

	2020						2019					
	BOARD		CORPORATE LEAD TEAM		WORKFORCE		BOARD		CORPORATE LEAD TEAM		WORKFORCE	
	NO.	%	NO.	%	NO.	%	NO.	%	NO.	%	NO.	%
GENDER												
Male	**5**	**71%**	**4**	**57%**	**280**	**83%**	5	71%	7	87%	326	81%
Female	**2**	**29%**	**3**	**43%**	**57**	**17%**	2	29%	1	13%	78	19%
ETHNICITY												
NZ European/Pakeha	**5**	**71%**	**5**	**71%**	**193**	**57%**	5	71%	4	50%	231	57%
Other European	**2**	**29%**	**2**	**29%**	**58**	**17%**	2	29%	3	37%	62	15%
Maori & NZ European	-	-	-	-	**22**	**7%**	-	-	-	-	27	7%
Maori	-	-	-	-	**22**	**7%**	-	-	-	-	25	6%
Asian	-	-	-	-	**10**	**3%**	-	-	-	-	12	3%
Other*	-	-	-	-	**32**	**9%**	-	-	1	13%	47	12%
NATIONALITY												
New Zealand	-	-	-	-	**271**	**77%**	-	-	-	-	318	76%
United Kingdom	-	-	-	-	**14**	**4%**	-	-	-	-	15	4%
Australia	-	-	-	-	**13**	**4%**	-	-	-	-	15	4%
South Africa	-	-	-	-	**12**	**3%**	-	-	-	-	13	3%
Other	-	-	-	-	**25**	**7%**	-	-	-	-	36	8%
Information not provided	-	-	-	-	**16**	**5%**	-	-	-	-	22	5%
AGE												
Under 30	-	-	-	-	**23**	**7%**	-	-	-	-	30	7%
30 to 50	**3**	**43%**	**4**	**57%**	**193**	**57%**	3	43%	1	13%	232	58%
over 50	**4**	**57%**	**3**	**43%**	**121**	**36%**	4	57%	7	87%	142	35%

* Other includes Maori & Other Ethnicity, Pacific Islander, Pacific Islander & Other Ethnicity, African, Indian, Middle Easterner, Pakistani, Sri Lankan, South American, North American, Information not provided.

Diversity and Inclusion

Diversity and inclusion are important aspects of our culture. We value diverse backgrounds and experience as a source of strength, particularly in robust decision making. Equally, we recognise that we must be adaptable and continue to develop ways to successfully connect with, and capture the benefits of, our diverse workforce in an impactful way. Our award winning E Tu Tangata programme (refer to page 17) is an example of a new initiative founded on the strength of this diversity.

In 2020 we saw a significant shift in the the gender balance of the Corporate Leadership team. We continue to focus on the development of our women leaders, with on-the-job experience a key element in supporting them into larger more complex roles. Several of our women leaders participated in the 2020 Strategic Review, which provided them with an opportunity to develop their commercial and strategic skills. As a result of that experience, they have now been appointed into more senior leadership positions within our organisation

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GOVERNANCE AT REFINING NZ

Our Corporate Governance framework sets out our Board's practices and processes to provide accountability to shareholders for Refining NZ's actions and performance.

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

While this section of the Annual Report provides information on our corporate governance, Refining NZ's full governance statement, including detailed reporting against the NZX Corporate Governance Code, together with our governance policies can be viewed on the "Investor Centre" section of our website: **www.refiningnz.com**. The website makes available the following governance documents:

Constitution

Board and Committee Governance

- Board Charter
- Audit, Risk and Finance Committee Charter
- Health, Safety, Environment and Operations Committee Charter
- Independent Directors Committee Charter
- People, Nominations and Remuneration Committee Charter

Policies

- Auditor Independence Policy Statement
- Code of Conduct
- Continuous Disclosure Policy
- Director and Executive Remuneration Policy
- Diversity and Inclusion Policy
- Health & Safety, Environment and Quality Policy
- Securities Trading Policy
- Takeovers Policy
- Whistleblowing Policy

The Board considers that it has followed the recommendations in the NZX Code during the financial year ending 31 December 2020. The Company's Governance Statement was last approved by the Board on 16 February 2021 and is current as at that date.

Responsibilities of the Board and its Committees

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

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

- the Audit, Risk and Finance Committee comprising four members, of which three are Independent Directors;
- the People, Nominations and Remuneration Committee comprising five members, of which four are Independent Directors;
- the Independent Directors Committee comprising all four Independent Directors; and
- the Health, Safety, Environment and Operations Committee comprising all Directors.

The respective roles of the Board, its Committees and Management (the Corporate Lead Team) are set out in the Board's and relevant Committees' Charters.

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

Independence of Directors

The Board currently consists of seven Directors:

- Simon Allen (the Chair), James Miller, Vanessa Stoddart and Paul Zealand are Independent Directors.
- Riccardo Cavallo, Lindis Jones and Lucy Nation are not Independent.

The Chairman is an Independent Director, responsible for representing the Board to shareholders.

Independence is assessed according to the NZX Main Board Listing Rules criteria. Major shareholders (bp, ExxonMobil and Z Energy) do not have a constitutional right to appoint Directors, however there has been a practice of inviting those three major shareholders to each nominate a director for consideration for appointment by the Board.

The three largest shareholders of the Company are also major customers, either directly or through wholly owned subsidiaries, and have representation on the Board which could lead to a conflict of interest. Clause 8.16.1 of the Constitution allows for the Independent Directors to act as the Board in respect of matters that pose a conflict of interest if raised at the full Board. The role of the Independent Directors is:

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

Meeting attendance

The challenges of a weak global oil market exacerbated by COVID-19, as well as the undertaking of a significant Strategic Review, required additional Board and sub-committee meetings to be held in 2020. In addition to the normal meeting schedule, 35 additional Board and sub-committee meetings were convened, to average at least one meeting every week. Director attendances at Board and sub-committee meetings during 2020 were as follows:

		BOARD MEETING*	AUDIT, RISK AND FINANCE COMMITTEE	PEOPLE, NOMINATIONS AND REMUNERATION COMMITTEE	INDEPENDENT DIRECTORS COMMITTEE	HEALTH, SAFETY, ENVIRONMENT AND OPERATIONS COMMITTEE	SITE WALKS
S C Allen	Independent Chair	24/24	6/6	7/7	15/15	5/5	4
D C Boffa[1]	Non-independent	24/24	1/1	6/7	-	5/5	3
R Cavallo	Non-independent	24/24	1/1	-	-	5/5	2
N L Jones	Non-independent	24/24	6/6	-	-	5/5	3
J B Miller	Independent	24/24	6/6	7/7	15/15	5/5	3
V C M Stoddart	Independent	23/24	1/1	7/7	15/15	5/5	3
P A Zealand	Independent	24/24 (**6)	5/5 (**2)	7/7 (**1)	15/15 (**3)	5/5 (**1)	4

* includes April 2020 Annual Shareholders' Meeting

** denotes number of meetings attended as Managing Director

[1] Ms. Boffa resigned as a Director of Refining NZ effective from 1 February 2021. The Board appointed Ms. Lucy Nation, bp's Vice President of Regions, Cities and Solutions for Asia Pacific, to fill the casual vacancy and she will be considered for election at the next Annual Meeting of Refining NZ shareholders.

REMUNERATION REPORT

Director and Corporate Lead Team Remuneration

The Company has adopted a Director and Executive Remuneration Policy for remuneration of the Board and Corporate Lead Team. Refining NZ's remuneration framework and policies are overseen by the People, Nominations and Remuneration Committee in accordance with the People, Nominations and Remuneration Committee Charter.

Remuneration

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

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

Refining NZ aims to attract and retain appropriately qualified and experienced individuals

Directors' Remuneration

The Board determines the level of remuneration paid to Directors within the amounts approved by shareholders (that is, from the approved collective pool). The current approved fee pool limit is $900,000 and was approved by shareholders at the Annual Shareholders' Meeting in April 2018. Directors' remuneration is set at a level to remain comparable with other companies in New Zealand, taking into account the expertise, skills and responsibilities of Directors. The Directors of subsidiary companies (refer to page 40) are not remunerated in that position.

In February 2020 the Board reviewed Directors' Fees, based on a market benchmarking report prepared by Ernst and Young Limited (EY). Based on the market positioning, EY recommended that Board Members receive an increase in their fees for director and committee roles to bring remuneration into line with companies of a similar size, scope and complexity. The Board considered EY's analysis and determined that even with the significant workload of the Board, an increase in directors' fees was not appropriate for the 2020 financial year given the Company's financial performance. Directors fees were last increased in 2018.

The remuneration and other benefits, excluding reimbursements, received by the individual Directors of the Company during the 2020 financial year were as follows:

		APPOINTED	BOARD FEES	AUDIT, RISK AND FINANCE COMMITTEE FEES	PEOPLE, NOMINATIONS AND REMUNERATION COMMITTEE	INDEPENDENT DIRECTORS COMMITTEE FEES	HEALTH, SAFETY, ENVIRONMENT AND OPERATIONS COMMITTEE FEE	TOTAL FEES
S C Allen	Independent Chair	4 Dec 2014	180,000	-	-	-	-	**180,000**
D C Boffa	Non-independent	23 Aug 2017	75,000	-	5,000	-	-	**80,000**
R Cavallo	Non-independent	12 Apr 2017	75,000	-	-	-	-	**75,000**
N L Jones	Non-independent	19 Mar 2018	75,000	12,500	-	-	-	**87,500**
J B Miller	Independent	1 Nov 2018	75,000	30,000	5,000	20,000	-	**130,000**
V C M Stoddart	Independent	20 May 2013	75,000	-	20,000	20,000	-	**115,000**
P A Zealand	Independent	29 Aug 2016	75,000	9,375	5,000	15,000	7,500	**111,875**

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

Chief Executive Remuneration

Mike Fuge's resignation as Chief Executive Officer was effective from 21 February 2020. To cover the transition until Naomi James' commencement as Chief Executive Officer, Independent Director Paul Zealand was appointed Managing Director effective 1 February 2020 (for the time of the appointment Paul ceased to be an Independent Director for the purposes of the NZX Listing Rules). Remuneration payments made to Mike Fuge and Paul Zealand in their capacity as Chief Executive Officer and Managing Director (respectively) are set out in the five-year summary – Chief Executive Remuneration table on page 31.

Naomi James commenced her employment as Chief Executive Officer on 6 April 2020. Naomi James's total remuneration package includes:

- a base salary of $995,000 per annum; and
- a short-term performance incentive (STI) payment based on achievement of agreed key performance indicators (KPI's). The STI is an incentive with an "on target" incentive of 45% of base salary per plan year, with the potential for this to increase to 65% depending on performance. Short term incentive payments are deemed "at risk" payments designed to motivate and reward performance in the financial year. The STI is paid in the year following the performance period; and
- a long-term incentive plan (LTI) in the form of:
    - a grant of initial performance rights (in the form of shares in the Company) equivalent to one year's base salary ($995,000) that will vest on 6 April 2024 (being the fourth anniversary of Naomi James' commencement as CEO) subject to the achievement of a minimum "on target" performance against annual controllable KPI's during the vesting period; and
    - performance rights equivalent to 25% of base salary on the first anniversary of the commencement date, 25% on the 2nd anniversary and 50% on each successive anniversary, with each tranche having a three year vesting period with a further year to vest. The Chief Executive Officer's entitlement is capped at $6 million; and
- other benefits including Kiwisaver and a relocation allowance.

The total remuneration paid to Naomi James from 6 April 2020 to 31 December 2020 was $1,026,000 and comprised the following components:

- fixed remuneration – base salary of $772,633 (annualised $995,000 per annum);
- initial retention performance rights on commencement equivalent to 100% of base salary (noted above); (2020 cost recognised, $206,000) and
- other benefits of $46,500.

Given the Company's financial performance, Naomi James' short-term incentive in respect of the 2020 performance year was not paid in cash. However the Board has approved the issue of performance rights in 2021 with a two year retention in recognition of the Chief Executive Officer's outstanding contribution in the 2020 year as the Company navigates its strategic future and to further incentivise the CEO through the implementation of the Strategic Review outcomes in coming years. These performance rights (equivalent to $540,000) are due to be granted in March 2021 and accounted for the in the 2021 financial year.

The Chief Executive Officer's KPIs, with respect to the short-term incentive, agreed for the 2020 financial year relate to:

KPI CATEGORY	
Delivery against the Company scorecard (HSE, deliver to customer plan and cash neutral at the Fee Floor)	50
Completion of the Strategic Review and creation of a pathway to future shareholder value	50

For the purposes of historical comparison, set out below is a five-year summary of remuneration (including the components of the total remuneration) paid to the Chief Executive Officer during each of the past five years.

Five-year summary – Chief Executive Remuneration

FINANCIAL YEAR	CEO	BASE SALARY $000	OTHER $000	SUBTOTAL $000	PAY FOR PERFORMANCE $000 (KPI BASED)	INITIAL PERFORMANCE RIGHTS	(STI) $000 (DISCRETIONARY)	STI AGAINST MAXIMUM %	TOTAL REMUNERATION $000
FY2020	Naomi James	773	47	820	-	206	-	-	**1,026**
FY2020	Paul Zealand	187	-	187	-	-	-	-	**187**
FY2020	Mike Fuge	130	4	134	-	-	-	-	**134**
FY2019	Mike Fuge	900	32	932	-	-	-	-	**932**
FY2018	Mike Fuge	316	61	377	165	-	-	81	**542**
FY2018	Sjoerd Post	705	37	742	300	-	300	98	**1,342**
FY2017	Sjoerd Post	982	45	1,027	405	-	150	94	**1,582**
FY2016	Sjoerd Post	958	41	999	540	-	-	93	**1,539**

Impact of COVID-19

COVID-19 provided a unique set of circumstances that required the Company to quickly respond to. The significant fuel demand reduction resulting from travel and transport restrictions and the consequential reduction in revenue through weak global refining margins required the Company to make significant operational changes by reducing refinery production and non-essential activity on site. This included operating the refinery's processing facilities on a rotating basis to enable the refinery to produce at substantially lower rates, as well as a full six-week shutdown of the plant in the middle of the year to help balance fuel supply across New Zealand.

A significant number of our staff supported the business by taking annual leave during the six-week shutdown - a testament to the commitment of our people as the Company navigated the challenges of COVID-19. The $5.1 million received from the Government as a COVID-19 wage subsidy ensured that the Group could maintain the employment of all of our people through to the end of the third quarter, when we started to see a recovery in land transport fuel demand reflecting the lifting of COVID-19 travel restrictions following the imposition of Auckland's COVID-19 Level 3 lockdown.

No market increases awarded

The Corporate Lead Team and employees with Individual Employment Agreements (IEAs) are remunerated with a mix of base salary and benefits, and short-term performance incentives. The determination of fixed remuneration is based on responsibilities, individual performance and experience, and market data. As a result of the financial performance of the business, no market increases were awarded to staff during 2020.

Short term incentives cancelled

Given the Company's financial performance, the short-term incentive plan for employees and Corporate Lead Team members on IEAs was cancelled in 2020 and replaced with a nominal, target payment of $500 per employee, based on achievement of scorecard outcomes (rather than the "normal" percentage of salary award). While making this change in recognition of the Company's financial performance, the Board considered that it was important to maintain a focus on the achievement of the 2020 business imperatives, which included:

- Maintaining safe operations;
- Delivering on our customer commitments; and
- Operating cash neutral at the Fee Floor.

The 2020 business imperatives were fully met, and the $500 award was paid in February 2021, with employees able to choose whether to receive the reward personally or to donate the money to an identified charity.

Staff retention through Strategic Review

Following the Strategic Review undertaken in 2020, the Company announced that it would implement a Simplified Refinery, effective from January 2021, while continuing to evaluate a possible future staged transition to an import terminal. As a result of the implementation of the Simplified Refinery, a number of employees left the business in late 2020, with employee numbers reducing from 412 at 1 January 2020 to 344 at 31 December 2020. An additional 45 people will leave the business in early 2021.

Management Performance Rights

To recognise and reward performance in 2020 and retain and incentivise key members of Management through the implementation of Strategic Review outcomes in coming years, the Board has approved a one-off management performance rights award (in the form of shares in the Company), under which selected individuals in key management roles will be offered performance rights. The level of award has had regard to Management not receiving any short-term incentive for 2020 and individual performance in 2020 against individual KPIs. Performance rights are subject to a two-year vesting condition and will vest on 1 January 2023 subject to continued employment (or redundancy).

In awarding the management performance rights, the Board considered it important to continue to incentivise and reward Senior Management for protecting shareholder value through the challenges of 2020 – safely resetting the cost base to operate cash neutral at the Fee Floor and strengthening the balance sheet, while establishing a pathway to long-term shareholder value through the delivery of Strategic Review outcomes. The two-year vesting condition is intended to retain and incentivise key members of management, while ensuring that there is alignment with the objective of long-term value creation for shareholders.

Employee Share Purchase Scheme

The Company previously established the Employee Share Purchase Scheme which is tax exempt in accordance with section CW26C of the Income Tax Act 2007 (as amended). The purpose of the Employee Share Purchase Scheme is to recognise the important contribution of all employees to the Company's future and to assist the Company in retaining and motivating employees.

A trust has been created under the Employee Share Purchase Scheme for the purpose of holding Company shares on behalf of each participating employee over a three-year period.

The Company estimates that the annual operating costs of the Employee Share Purchase Scheme is approximately $15,000. The value of the award under the Employee Share Purchase Scheme amounts to approximately $300,000 per annum depending on the business performance.

Employee Remuneration

The following table shows the number of employees and former employees (including members of the Corporate Lead Team), not being Directors, who, in their capacity as employees, received remuneration and other benefits during 2020 of at least $100,000.

The remuneration figures include all monetary payments actually made during the year and contributions made by the Company as part of the share scheme. No employees appointed as a director of a subsidiary company of Refining NZ, receive or retain any remuneration or other benefits for holding this office.

The analysis (see chart) is compiled on a cash basis; the variable performance rewards (linked to individual and business performance for a financial reporting period) in respect of the 2018 financial year, were paid subsequent to balance date and reported as part of the remuneration banding for the 2019 year.

The 2020 remuneration does not include amounts paid past 31 December 2019 that relate to performance during the 2019 financial year as there was no short-term incentive payment made to staff in relation to 2019 performance. Other than the nominal $500 payment to each employee, there was also no short-term incentive payment made to staff post 31 December 2020 in relation to 2020 performance.

The ratio between employee remuneration (median) and Chief Executive's total annualised, on-target remuneration for the 2020 financial year (on a cash basis) was 1:7 (2019: 1:7).

	NUMBER OF EMPLOYEES	
AMOUNT OF REMUNERATION $000	**2020**	**2019**
100-109	**27**	17
110-119	**11**	18
120-129	**27**	18
130-139	**20**	31
140-149	**35**	27
150-159	**39**	33
160-169	**37**	28
170-179	**34**	33
180-189	**36**	24
190-199	**14**	29
200-209	**8**	16
210-219	**3**	6
220-229	**4**	4
230-239	**3**	4
240-249	**1**	4
250-259	**1**	2
260-269	**-**	3
270-279	**1**	1
280-289	**-**	2
310-319	**1**	-
330-339	**1**	-
350-359	**1**	2
360-369	**1**	-
380-389	**1**	-
390-399	**1**	-
430-439	**1**	-
470-479	**-**	1
490-499	**-**	1
500-509	**1**	-
760-769	**-**	1
810-820	**1**	-
1,090-1,099	**-**	1

BOARD OF DIRECTORS

SIMON ALLEN
INDEPENDENT CHAIRMAN
Equity interest: 35,000 shares (2019: 35,000)

RICCARDO CAVALLO
DIRECTOR
Equity interest: Nil

LINDIS JONES
DIRECTOR
Equity interest: Nil

JAMES MILLER
INDEPENDENT DIRECTOR
Equity interest: 23,000 shares (2019: 23,000)

LUCY NATION
DIRECTOR
Equity interest: Nil

VANESSA STODDART
INDEPENDENT DIRECTOR
Equity interest: Nil

PAUL ZEALAND
INDEPENDENT DIRECTOR
Equity interest: Nil

CORPORATE LEAD TEAM

NAOMI JAMES
CHIEF EXECUTIVE OFFICER

CHRIS BOUGEN
GENERAL COUNSEL / COMPANY SECRETARY

CAZ JACKSON
CHIEF PEOPLE OFFICER

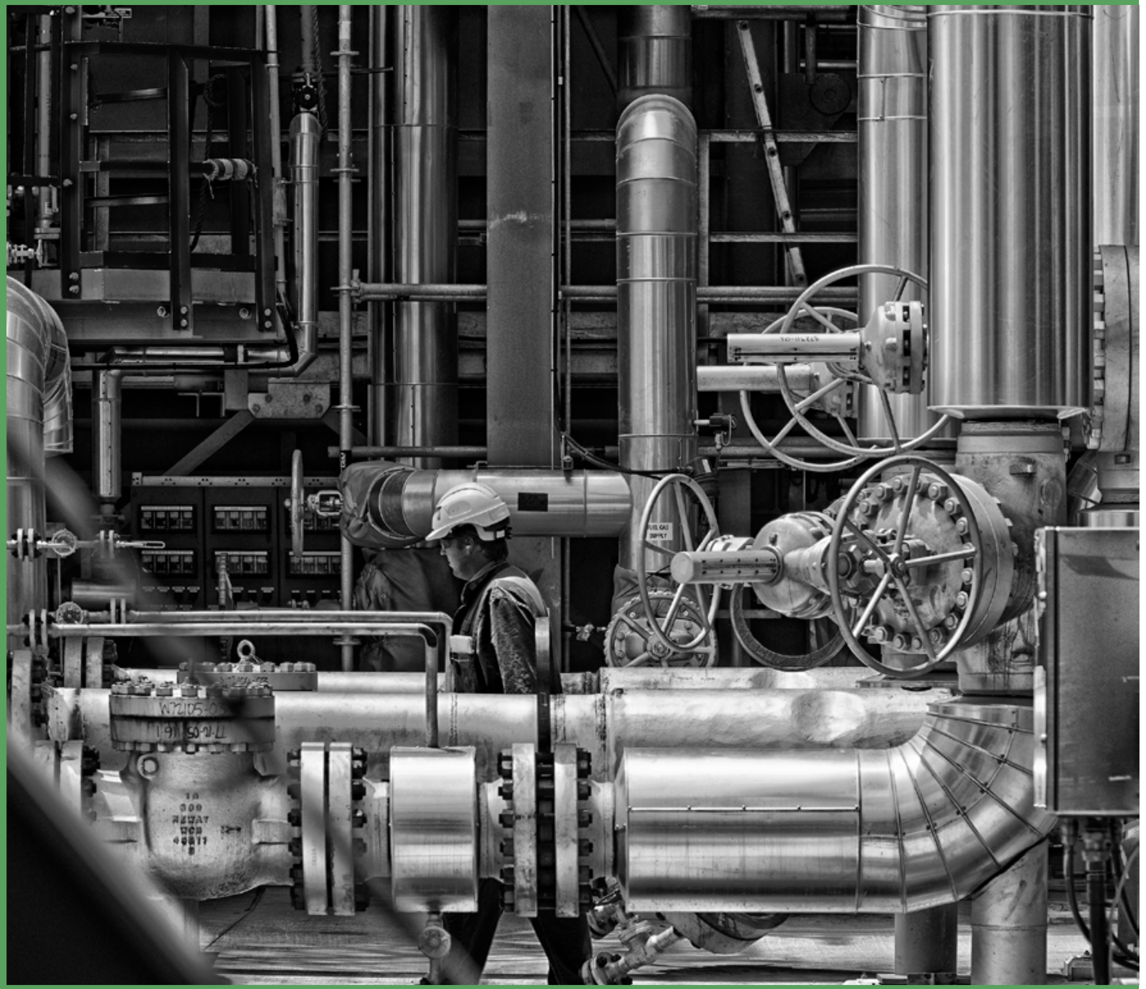
DENISE JENSEN
CHIEF FINANCIAL OFFICER

MARK PEARCE
PROJECT DIRECTOR STRATEGIC REVIEW

JACK STEWART
CHIEF OPERATING OFFICER

KEVIN STILL
GENERAL MANAGER CUSTOMER & COMMERCIAL

BONDHOLDER AND SHAREHOLDER INFORMATION



Twenty largest shareholders

As at 31 January 2021

SHAREHOLDERS		TOTAL SHARES HELD	% OF TOTAL
1	Mobil Oil New Zealand Limited	53,760,000	17.18%
2	Z Energy Limited	47,999,980	15.34%
3	BP New Zealand Holdings Limited	31,572,640	10.09%
4	Accident Compensation Corporation *	29,955,682	9.57%
5	Citibank Nominees (New Zealand) Limited *	13,274,879	4.24%
6	HSBC Nominees (New Zealand) Limited *	10,402,171	3.32%
7	Leveraged Equities Finance Limited	6,028,186	1.93%
8	New Zealand Depository Nominee Limited	5,223,922	1.67%
9	BNP Paribas Nominees (NZ) Limited (NZCSD<COGN40>) *	4,980,759	1.59%
10	UBS New Zealand Limited	4,601,641	1.47%
11	BNP Paribas Nominees (NZ) Limited (NZCSD<BPSS40>) *	3,993,683	1.28%
12	JP Morgan Chase Bank NZ NZ Branch - Segregated Clients Acct *	3,497,624	1.12%
13	FNZ Custodians Limited	3,349,799	1.07%
14	Public Trust Class 10 Nominees Limited *	3,118,624	1.00%
15	HSBC Nominees (New Zealand) Limited A/C State Street *	2,464,801	0.79%
16	Custodial Services Limited (<A/C 4>)	2,302,649	0.74%
17	ASB Nominees Limited	1,812,360	0.58%
18	Custodial Services Limited (<A/C 3>)	1,498,321	0.48%
19	Century Securities Limited	1,360,000	0.43%
20	Public Trust *	1,360,000	0.43%
		232,557,721	74.32%

*The Shareholder spread table on page 39 groups shares held by NZCSD (denoted by * in the table above) as a single legal holding.

Substantial product holders

As at 31 December 2020

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

PRODUCT HOLDERS	NO. OF ORDINARY SHARES
Mobil Oil NZ Limited	53,760,000
Z Energy Limited	47,999,980
BP New Zealand Holdings Limited	31,572,640
Accident Compensation Corporation	29,919,682

The total number of quoted voting products of the Company on issue at 31 December 2020 and 31 January 2021 was 312,893,643 fully paid shares.

Twenty largest bondholders

As at 31 January 2021

		TOTAL BONDS HELD	% OF TOTAL
BONDHOLDERS			
1	Tea Custodians Limited Client Property Trust Account (NZCSD<TEAC40>)*	16,694,000	22.26%
2	FNZ Custodians Limited	14,147,000	18.86%
3	Forsyth Barr Custodians Limited (<1-CUSTODY>)	9,699,000	12.93%
4	JBWere (NZ) Nominees Limited	2,398,000	3.20%
5	JPMorgan Chase Bank NA NZ Branch - Segregated Clients Acct (NZCSD<CHAM24>)*	2,000,000	2.67%
6	Citibank Nominees (New Zealand) Limited (NZCSD<CNOM90>)*	1,750,000	2.33%
7	Hobson Wealth Custodians Limited	1,641,000	2.19%
8	Nicholas Peter Gordon & Richard Anthony Johnston	1,400,000	1.87%
9	Forsyth Barr Custodians Limited (<ACCOUNT 1E>)	1,065,000	1.42%
10	Jill Gordon	1,000,000	1.33%
11	Nicholas Peter Gordon & Andrea Lee Bull	1,000,000	1.33%
12	RGTKMT Investments Limited	1,000,000	1.33%
13	FNZ Custodians Limited (<DTA Non Resident A/C>)	883,000	1.18%
14	Forsyth Barr Custodians Limited (<A/C 1 NRLAIL>)	876,000	1.17%
15	Sierra Investments Limited	690,000	0.92%
16	Craig John Thompson	500,000	0.67%
17	Woolf Fisher Trust Incorporated	500,000	0.67%
18	Falstaff Investments Limited	400,000	0.53%
19	Investment Custodial Services Limited	367,000	0.49%
20	Custodial services Limited	275,000	0.37%
		58,285,000	77.72%

*The bondholder spread table on page 39 groups bonds held by NZCSD (denoted by * in the table above) as a single legal holding.

Shareholder and bondholder spread

As at 31 January 2021

	SHAREHOLDERS				BONDHOLDERS			
NO. OF SHARES/BONDS	NO. OF SHAREHOLDERS	% HOLDER	NO. OF SHARES	% OF SHARES	NO. OF BONDHOLDERS	% HOLDER	NO. OF BONDS	% OF BONDS
1 - 499	270	5.65	67,601	0.02	-	-	-	-
500 - 999	305	6.38	210,076	0.07	-	-	-	-
1,000 - 1,999	638	13.35	849,722	0.27	-	-	-	-
2,000 - 4,999	1,201	25.12	3,804,912	1.22	-	-	-	-
5,000 - 9,999	793	16.59	5,336,696	1.70	41	7.99	230,000	0.31
10,000 - 49,999	1,264	26.44	23,816,677	7.61	342	66.68	7,028,000	9.37
50,000 - 99,999	172	3.60	11,105,005	3.55	74	14.42	4,022,000	5.36
100,000 - 499,999	109	2.28	20,260,932	6.47	41	7.99	6,355,000	8.47
500,000 - 999,999	11	0.23	6,682,871	2.14	5	0.97	3,449,000	4.60
1,000,000 - upwards	17	0.36	240,759,151	76.95	10	1.95	53,916,000	71.89
Total	**4,780**	**100.00**	**312,893,643**	**100.00**	**513**	**100.00**	**75,000,000**	**100.00**

Geographical spread

As at 31 January 2021

	SHAREHOLDERS				BONDHOLDERS			
LOCATION	NO. OF SHAREHOLDERS	% HOLDER	NO. OF SHARES	% OF SHARES	NO. OF BONDHOLDERS	% HOLDER	NO. OF BONDS	% OF BONDS
Auckland (Greater)	1,680	35.15	203,550,051	65.05	158	30.80	33,889,000	45.18
Wellington (Greater)	560	11.72	71,434,292	22.83	109	21.25	21,182,000	28.24
Whangarei/ Northland	510	10.67	5,971,219	1.91	12	2.34	615,000	0.82
Other North Island	951	19.89	17,354,333	5.55	122	23.78	3,334,000	4.45
South Island	950	19.87	13,223,883	4.23	107	20.86	15,861,000	21.15
Australia	69	1.44	559,413	0.18	-	-	-	-
Other Overseas	60	1.26	800,452	0.25	5	0.97	119,000	0.16
Total	**4,780**	**100.00**	**312,893,643**	**100.00**	**513**	**100**	**75,000,000**	**100.00**

STATUTORY DISCLOSURES

Directors' and Officers' Insurance

The Company has granted indemnities to its Directors, Corporate Lead Team members, and persons who it has appointed as Directors of its subsidiaries in relation to potential liabilities and costs they may incur in those roles. The indemnities are subject to certain limitations that are prescribed by law and they do not cover settlements or admissions prejudicing a successful defence of a claim without the Company's consent as well as the indemnified person's advisor costs after the defence of a claim has been assumed by the Company, unless they are reasonably necessary.

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

Independent professional advice

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

Use of Company information

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

Donations

The Group made donations of $50,000 during the year ended 31 December 2020 (2019: $175,644). No political donations were made.

Credit rating

The Company does not have a credit rating.

Refining NZ Subsidiary Directors

REFINING NZ SUBSIDIARY	NAME OF DIRECTOR
Independent Petroleum Laboratory Limited	Denise Jensen, Kevin Still
Maranga Ra Limited	Naomi James, Denise Jensen
Maranga Ra Holdings Limited	Naomi James, Denise Jensen

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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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		**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		**CENTS**	
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 51 TO 95.

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 51 TO 95.

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	**34,857**	24,611
TOTAL NON-CURRENT ASSETS		**949,841**	1,241,692
TOTAL ASSETS		**1,167,898**	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	**96,874**	157,422
TOTAL NON-CURRENT LIABILITIES		**429,020**	465,798
TOTAL LIABILITIES		**603,968**	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 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:

SCallen

JB Miller

S C Allen
Director

J B Miller
Director

THE ABOVE CONSOLIDATED BALANCE SHEET IS TO BE READ IN CONJUNCTION WITH THE NOTES ON PAGES 51 TO 95.

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
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 INCOME/(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 51 TO 95.

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 51 TO 95.

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 estimate

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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.

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

2. COVID-19 Pandemic (continued)

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

ITEM	COVID-19 IMPACT 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.
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 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	**25,112**	**32,666**	**57,778**

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	80,175	41,511	121,686

(*) 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:

FOR THE YEAR ENDED 31 DECEMBER 2020	2020 %	2019 %
bp New Zealand Holdings Limited (BP)	**10.09**	10.10
Mobil Oil NZ 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.

(i) Revenue, purchases and other charges from related parties

	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

5. Related parties (continued)

(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 respect of previous years		**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)	RECOGNISED IN PROFIT OR LOSS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	NET DEFERRED TAX ASSET / (LIABILITY)	"DEFERRED TAX ASSET"	"DEFERRED TAX LIABILITY"
	1 JAN 2019			31 DEC 2019		
	$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)	RECOGNISED IN PROFIT OR LOSS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	NET DEFERRED TAX ASSET / (LIABILITY)	"DEFERRED TAX ASSET"	"DEFERRED TAX LIABILITY"
	1 JAN 2020			31 DEC 2020		
	$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)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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

		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	Cents		**(63.5)**	1.3
DILUTED EARNINGS PER SHARE	Cents		**(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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

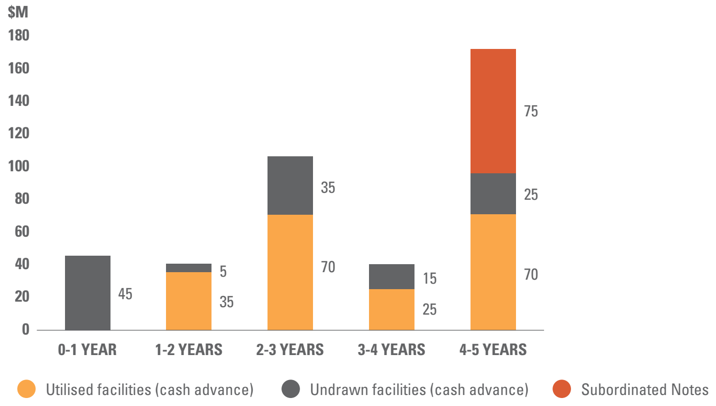
FOR THE YEAR ENDED 31 DECEMBER 2020

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

	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 borrowing costs amounting to $0.7 million (2019: $2.1 million) on qualifying assets. Borrowings 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 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

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

GROUP	NOTE	FREEHOLD LAND AND IMPROVEMENTS $000	BUILDINGS AND JETTIES $000	REFINING PLANT $000	CATALYSTS $000	REFINERY TO AUCKLAND PIPELINE $000	WIRI OIL TERMINAL (LEASED) $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											
Cost		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
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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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

(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

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 the 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.

- **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-19 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

12. Impairment assessment (continued)

- 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.

There is significant volatility and uncertainty in the market as a result of COVID-19 oversupply in the global refining market and proposead 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 circa $219 million being recognised for the year ended 31 December 2020 (circa $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 volume**

  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 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 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.

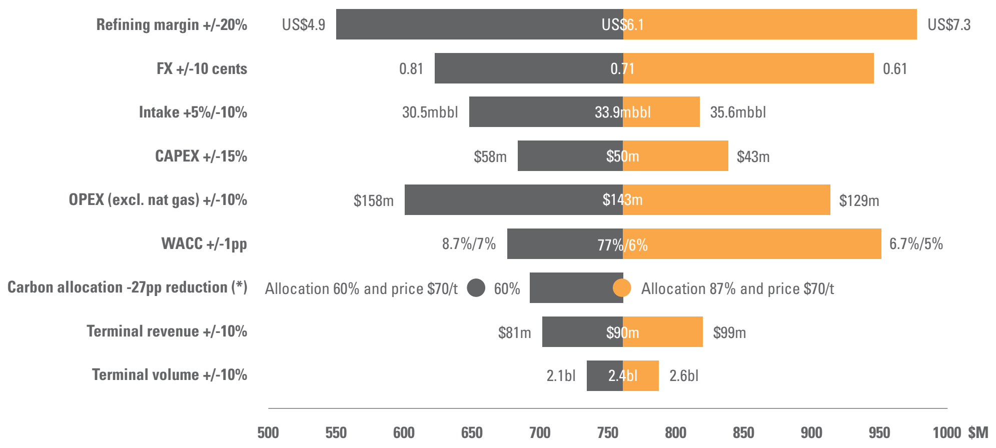
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

12. Impairment assessment (continued)

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).

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

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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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

20. Employee benefits (continued)

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 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

		MEDICAL PLAN			PENSION PLAN		
	NOTE	PRESENT VALUE OF OBLIGATION $000	FAIR VALUE OF PLAN ASSETS $000	TOTAL $000	PRESENT VALUE OF OBLIGATION $000	FAIR VALUE OF PLAN ASSETS $000	TOTAL $000
AT 1 JANUARY 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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

20. Employee benefits (continued)

		MEDICAL PLAN			PENSION PLAN		
	NOTE	PRESENT VALUE OF OBLIGATION $000	FAIR VALUE OF PLAN ASSETS $000	TOTAL $000	PRESENT VALUE OF OBLIGATION $000	FAIR VALUE OF PLAN ASSETS $000	TOTAL $000
AT 1 JANUARY 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 OBSERVABLE 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

20. Employee benefits (continued)

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.

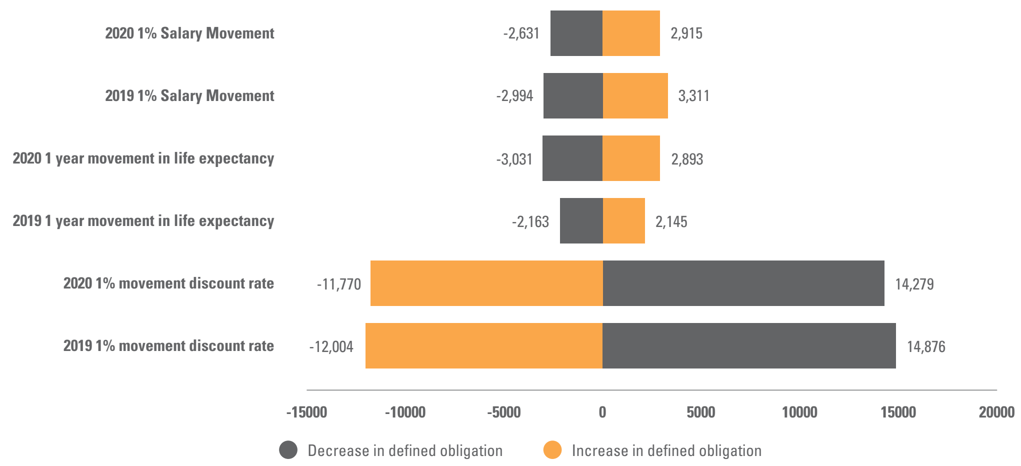
The last full actuarial valuation performed under the Financial Markets Conduct Act 2013 was as at 31 March 2019 at which time the Defined Benefit Plan was fully funded based on the assumptions used by the Actuary. These assumptions were consistent with the actuarial assumptions outlined above, except 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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.

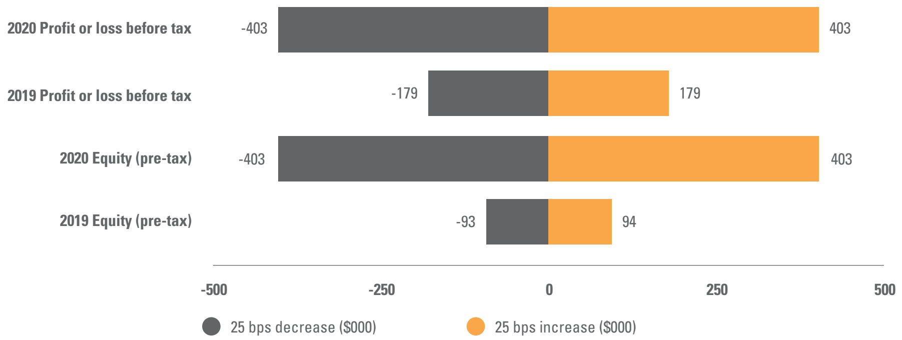
  In 2020 there is no sensitivity due to a decrease in refining margins as the fee floor under the Processing Agreements was in effect for the full year, with margins having to be at least USD2.78 per barrel higher in 2020, for Processing Fee revenue to be above the fee floor, (based on the 2020 throughputs).

- **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).



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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

21. Financial risk management (continued)

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 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.

		CONTRACTUAL CASH FLOWS						
		CARRYING AMOUNT	LESS THAN 6 MONTHS	BETWEEN 6 MONTHS - 1 YEAR	BETWEEN 1-2 YEARS	BETWEEN 2-5 YEARS	OVER 5 YEARS	TOTAL CASH FLOWS
GROUP 2020	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)**

		CONTRACTUAL CASH FLOWS						
		CARRYING AMOUNT	LESS THAN 6 MONTHS	BETWEEN 6 MONTHS - 1 YEAR	BETWEEN 1-2 YEARS	BETWEEN 2-5 YEARS	OVER 5 YEARS	TOTAL CASH FLOWS
GROUP 2019	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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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.

		CONTRACTUAL CASH FLOWS						
		CARRYING AMOUNT	LESS THAN 6 MONTHS	BETWEEN 6 MONTHS - 1 YEAR	BETWEEN 1-2 YEARS	BETWEEN 2-5 YEARS	OVER 5 YEARS	TOTAL CASH FLOWS
GROUP 2020	NOTE	$000	$000	$000	$000	$000	$000	$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**

		CONTRACTUAL CASH FLOWS						
		CARRYING AMOUNT	LESS THAN 6 MONTHS	BETWEEN 6 MONTHS - 1 YEAR	BETWEEN 1-2 YEARS	BETWEEN 2-5 YEARS	OVER 5 YEARS	TOTAL CASH FLOWS
GROUP 2019	NOTE	$000	$000	$000	$000	$000	$000	$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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

		2020		2019	
	NOTE	ASSETS $000	LIABILITIES $000	ASSETS $000	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

22. Derivative financial instruments (continued)

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

	FOREIGN EXCHANGE FORWARD CONTRACTS				INTEREST RATE SWAPS	ELECTRICITY FUTURES AND CONTRACTS FOR DIFFERENCES
	AUD	EUR	SGD	USD		
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

	FOREIGN EXCHANGE FORWARD CONTRACTS				INTEREST RATE SWAPS	ELECTRICITY FUTURES AND CONTRACTS FOR DIFFERENCES
	AUD	EUR	SGD	USD		
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$/NZ$ 0.9252	US$/NZ$ 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 $000	2017 $000	2018 $000	2019 $000	2020 $000	$000
Employee Share Scheme										
2016	29 March 2017	4 May 2020	297	1,250	91	62	80	100	17	**350**
2017	26 March 2018	8 May 2021	302	1,050	-	77	70	68	43	**258**
2018	26 March 2019	6 May 2022	314	900	-	-	68	65	53	**186**
2019	26 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

23. Employee share-based payments (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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		**568**	-
Interest income		**176**	44
Loss on disposal	11(b)	**(213)**	(433)
Stock write off		**800**	195
Adjusted EBITDA		**58,707**	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.

INDEPENDENT AUDITOR'S REPORT

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 44 to 95, 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 44 to 95 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

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.

How our audit addressed the key audit matter

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

TREND STATEMENT

Trend Statement

For the years ended 31 December

	2020 $000	2019 $000	2018 $000	2017 $000	2016 $000
FINANCIAL PERFORMANCE					
Total income	**245,747**	348,375	362,466	414,620	354,156
Expenses	**195,324**	230,140	209,819	194,271	186,903
Depreciation, disposal and impairment	**310,915**	99,931	97,075	96,146	87,233
Net profit before finance costs	**(260,492)**	18,304	55,572	124,203	80,020
Net finance costs	**10,920**	13,445	13,800	13,747	15,526
Net profit before income tax	**(271,412)**	4,859	41,772	110,456	64,494
Income tax	**(73,133)**	694	12,156	31,926	17,020
Net profit after income tax	**(198,279)**	4,165	29,616	78,530	47,474

	2020 $000	2019 $000	2018 $000	2017 $000	2016 $000
FINANCIAL POSITION					
Funds employed					
Contributed equity	**266,057**	265,771	265,771	265,771	265,771
Retained profits	**292,692**	493,940	504,562	533,369	494,358
Other	**5,181**	(2,967)	(697)	(6,365)	(7,926)
Total equity	**563,930**	756,744	769,636	792,775	752,203
Borrowings – non-current	**274,611**	246,616	208,601	170,000	150,000
Other non-current liabilities	**154,409**	219,182	198,109	174,658	163,025
Total funds employed	**992,950**	1,222,542	1,176,346	1,137,433	1,065,228
Funds utilised					
Non-current assets	**949,841**	1,241,692	1,226,218	1,155,053	1,143,037
Working capital	**43,109**	(19,150)	(49,872)	(17,620)	(77,809)
Total funds utilised	**992,950**	1,222,542	1,176,346	1,137,433	1,065,228

	2020 $000	2019 $000	2018 $000	2017 $000	2016 $000
ANALYTICAL INFORMATION					
Number of shareholders	**4,780**	4,349	4,705	4,908	5,156
Earnings per share ($)	**(0.635)**	0.013	0.095	0.251	0.151
Effective tax rate (%)	**27**	14	29	29	26
Net asset backing per share ($)	**1.75**	2.36	2.42	2.54	2.43
Working capital ratio	**1.2**	0.9	0.8	0.9	0.7

	2020 $000	2019 $000	2018 $000	2017 $000	2016 $000
DIVIDEND INFORMATION*					
Dividend per share (cents)	**-**	2.0	7.5	18	9
Dividend paid ($000)	**-**	6,250	23,443	56,264	28,134
Dividends declared per share					
- interim	**-**	2.0 cps	3.0 cps	6.0 cps	3.0 cps
- final	**-**	-	4.5 cps	12.0 cps	6.0 cps
Dividend cover	**-**	0.67	1.26	1.40	1.69

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

	2020 $000	2019 $000	2018 $000	2017 $000	2016 $000
MANUFACTURING					
Barrels processed – intake (000s barrels)	**29,876**	42,687	40,440	41,724	42,665
Gross refining margin (USD/barrel)	**1.63**	5.34	6.31	8.02	6.47
USD exchange rate (NZD)	**0.65**	0.66	0.69	0.71	0.7
Pipeline throughput (000s barrels)	**14,713**	20,828	21,015	19,828	20,147

GLOSSARY

TRC (Total Recordable Case)

The number of lost time incidents, restricted work cases, medical treatment cases and fatalities.

TRCFR (Total Recordable Case Frequency Rate)

The number of lost time incidents, restricted work cases, medical treatment cases and fatalities per two hundred thousand manhours worked.

LTIFR (Lost Time Injury Frequency Rate)

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

Tier 1 Process Safety Event

An unplanned or uncontrolled release of any material, including non-toxic and non-flammable, from a process which results in one or more of the following: a Lost Time Injury (LTI) and/or fatality; a fire or explosion resulting in greater than or equal to $100,000 of direct cost to the Company; a release of material greater than the threshold quantities given in Table 1 of API 754 in any one-hour period; an officially declared community evacuation or community shelter-in-place.

Tier 2 Process Safety Event

An unplanned or uncontrolled release of any material, including non-toxic and non-flammable, from a process which results in one or more of the following: a recordable injury; a fire or explosion resulting in greater than or equal to $2,500 of direct cost to the Company; a release of material greater than the threshold.

Turnaround

A scheduled outage of one or more process units, planned well in advance and typically occurring in cycles of two years or more, for the purpose of significant mechanical inspection and repair.

FCF (Free Cash Flow)

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

Net Borrowings

Calculated as bank borrowings minus cash and cash equivalents.

EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation)

Net profit before finance costs plus depreciation and disposal costs with each of those items determined in accordance with GAAP.

CORPORATE DIRECTORY

Registered Office

Marsden Point
Ruakaka

Mailing Address

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

Website

www.refiningnz.com

Share Register

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

Bankers

ANZ Bank New Zealand Limited
Bank of New Zealand
MUFG Bank, Limited

Legal Advisers

MinterEllisonRuddWatts
Chancery Green

Auditor

Ernst & Young

Chairman

S C Allen (Independent Director)

Independent Directors

J B Miller
V C M Stoddart
P A Zealand

Non-Independent Directors

R Cavallo
N L Jones
L Nation

Chief Executive Officer

N M James

General Counsel & Company Secretary

C D Bougen

Managing your shareholding online

To change your address, update your payment instructions and to view your registered details including transactions, please visit: **www.computershare.co.nz/investorcentre**

Please assist our registrar by quoting your CSN or shareholder number.

REFINING NZ
ANNUAL REPORT 2020

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