REFINING NZ

INTERIM REPORT 2016

REFINING NZ
Your Energy Hive

Contents

About this report

This Interim Report of The New Zealand Refining Company Limited and its subsidiary, Independent Petroleum Laboratory Limited is for the first six months ended 30 June 2016 and was approved for issue by the Board of Directors on 22 August 2016.

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

For and on behalf of the Board:

S C ALLEN DIRECTOR

P M SPRINGFORD DIRECTOR

Group Performance Summary

FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

	30 JUNE 2016	30 JUNE 2015
OPERATING RESULTS		
Operating revenue ($000)	**155,261**	203,197
Net profit before income tax ($000)	**14,372**	90,769
Net profit after income tax ($000)	**11,610**	65,358
SHARE INDICATORS		
Net tangible assets per security*	**$2.33**	$2.31
Earnings per share (annualised)	**7 cents**	42 cents
NUMBERS		
Shareholders	**4,944**	4,222
Employees	**381**	396

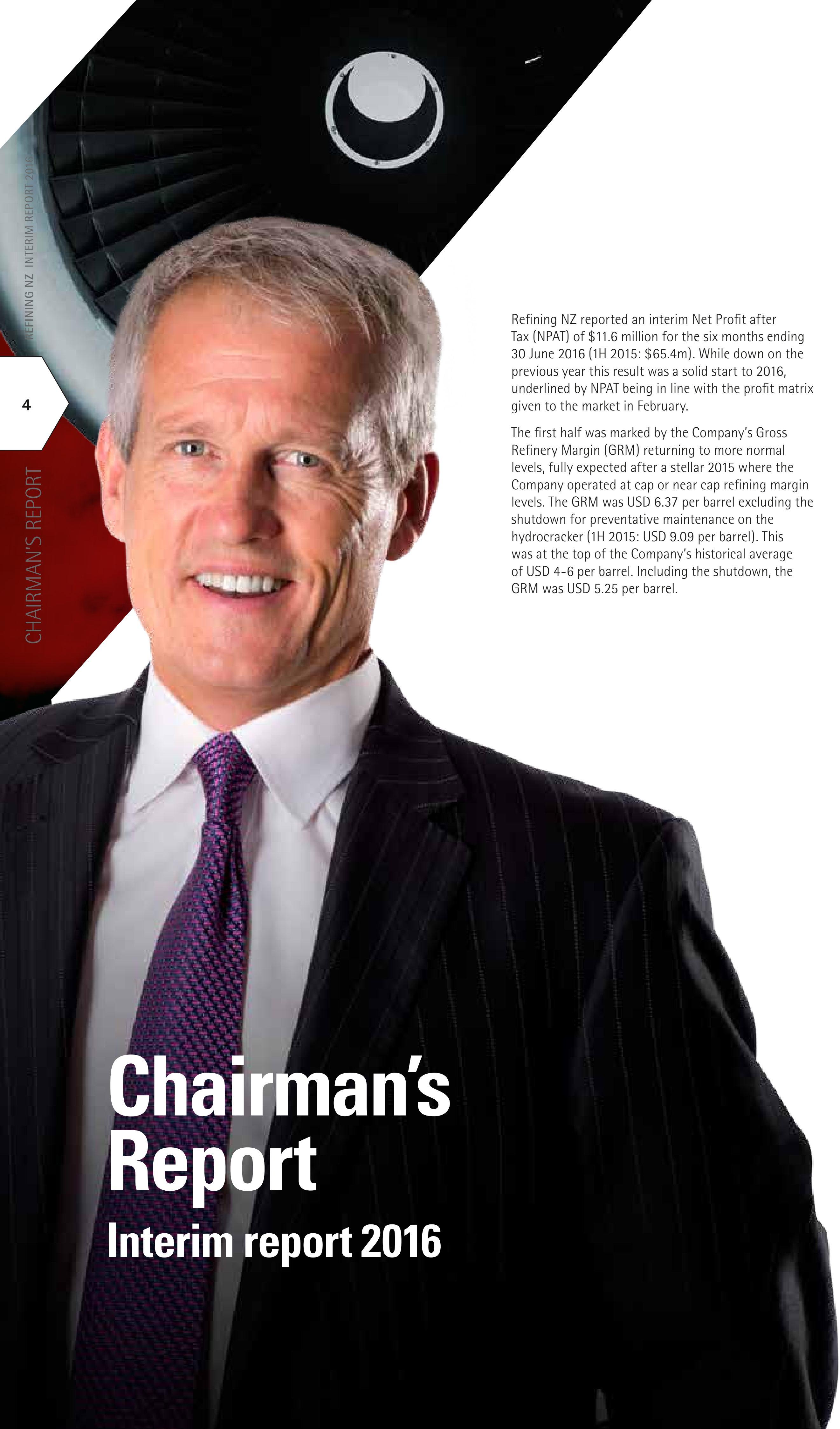
*Net tangible assets per security is a non-GAAP performance measure. It is calculated as 'net assets' disclosed in the balance sheet plus or minus the value of derivative instruments, divided by the number of shares on issue at the end of the reporting period.

Processing Fee Revenue

- Revenue earned from processing fees is the main component of Operating Revenue as disclosed in note 2.
- Processing Fees earned for the six months ended 30 June 2016, were 33% lower than the previous corresponding financial period.
- The Company's processing fee revenue is impacted by the refiners' margin (difference between product and feedstock prices in the international markets), volume of feedstock processed and the exchange rate.

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

KEY VARIABLES:	30 JUNE 2016	30 JUNE 2015
Intake ('000 Barrels)	**21,134**	20,883
Gross Refining Margin (USD/Barrel)	**5.25**	9.09
Average USD Exchange rate	**0.67**	0.75



Chairman's Report

Interim report 2016

Refining NZ reported an interim Net Profit after Tax (NPAT) of $11.6 million for the six months ending 30 June 2016 (1H 2015: $65.4m). While down on the previous year this result was a solid start to 2016, underlined by NPAT being in line with the profit matrix given to the market in February.

The first half was marked by the Company's Gross Refinery Margin (GRM) returning to more normal levels, fully expected after a stellar 2015 where the Company operated at cap or near cap refining margin levels. The GRM was USD 6.37 per barrel excluding the shutdown for preventative maintenance on the hydrocracker (1H 2015: USD 9.09 per barrel). This was at the top of the Company's historical average of USD 4-6 per barrel. Including the shutdown, the GRM was USD 5.25 per barrel.

The Company achieved an average uplift over the Singapore Complex Margin of USD 1.82 per barrel (1H 2015: USD 4.27 per barrel). This was positively impacted by Te Mahi Hou (USD 0.85 per barrel), and negatively impacted by the shutdown and a decline in the Company's freight advantage due to lower bunker fuel costs.

Globally, refining margins have been supported by the continued strength of gasoline demand in the US, China and India and lower crude prices. However, we are seeing near-term pressure from a build-up of surplus stocks. This surplus is expected to be with us for the next few months. In light of this, the Company has lowered its capital spending programme to refocus on the continued safe operation of the refinery and the vital few growth projects with attractive pay back periods. We continue to rigorously manage the Company's cost base, with operational costs tracking at expected levels and in line with our communication to shareholders in February.

In the first six months the Company benefited from an improved average NZD/ USD exchange rate of USD 0.67 (1H 2015: USD 0.75).

OPERATIONAL PERFORMANCE AND SAFETY

The Company's health and safety performance in the first two months was impacted by two recordable cases. While a disappointing start to the year, our performance was subsequently much improved by four months without a recordable case, including an injury-free shutdown in May. In June a high potential tier 1 process safety event* occurred after a threaded plug on a hydro-desulphurising unit failed. The incident was well managed and there was no injury or structural damage to the plant.

The Company's throughput in the first half was 21.1m million barrels, up 251K barrels on the same period last year (1H 2015: 20.9m barrels).

Te Mahi Hou (TMH) has been running well since its commissioning in late November. We continue to embed TMH in the refinery and to optimise the running of the new unit.

STRATEGIC GROWTH

The Company continues with strategic initiatives that will grow revenue and contribute to the ongoing competitiveness of its business.

First Gas (formerly Vector) is due to start building a new compressor station at Henderson from next month. Due for completion in 2017 the extra compression will double our access to natural gas and allow more crude to be processed for our customers.

Our proposal to bring bigger crude shipments to Marsden Point is progressing with a range of expert studies due for completion in the next few months in readiness for further consultation with key stakeholders and a resource consent application late 2016, early 2017.

New on the Company's radar is a three phase project to increase the capacity on the Refinery Auckland Pipeline (RAP) by around 15%. As the major fuel supply route to Auckland it is important that the pipeline retains sufficient capacity to match demand as Auckland grows and as the number of international arrivals to Auckland continues to climb.

Our $4m investment in small high payback growth projects, including phase one of the RAP capacity project, is progressing well and expected to produce a margin uplift of USD 0.08 – 0.09 per barrel.

DIVIDEND

The Company's Directors resolved to pay a fully imputed interim dividend of three cents per share to be paid on 22 September 2016 with a record date of 8 September 2016.

FUTURE OUTLOOK

We expect to build on this solid start to 2016 by sticking to core strategic strengths of plant reliability and quality fuel production, managing the Company's cost base, optimising TMH and progressing our strategic revenue growth initiatives.

SIMON ALLEN CHAIRMAN

Tier 1 Process Safety Event (API 754)

A tier 1 Process Safety Event (PSE) is 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 LTI (Lost Time Injury) and/or fatality; a fire or explosion resulting in greater than or equal to $25,000 of direct cost to the company; a release of material greater than the threshold quantities given in Table 1 of API 754 in any one-hour period; an officially declared community evacuation or community shelter-in-place.

2016 Revised Profit Matrix

The profitability of a refining business is largely dependent on refiners' margins and the USD exchange rate. These variables are outside of Refining NZ's control and can have significant volatility. As a result it is difficult for the Company to provide absolute forecasts of profitability; instead we provide a profit matrix. This indicates our expected net profit after income tax and borrowings at 31 December 2016 for given margin and foreign exchange rates. Throughput and costs (excluding interest and tax) are constant at all levels of the profit matrix.

The 2016 profit matrix was originally issued in February 2016. In August a revised profit matrix was issued by the Company to show 2016 expected net profit after tax for a range of margin and exchange rate variables based on the actual profit after tax 'banked' at 30 June, plus our latest estimate of costs and throughput for the year. The 31 December 2016 projected borrowings also takes into account the 3 cents per share interim dividend payable on 22 September 2016.

USD Exchange Rate Actual 1H 2016			0.67		0.67		0.67		0.67		0.67		0.67		0.67	
USD Exchange Rate Assumption 2H 2016			0.55		0.60		0.65		0.70		0.75		0.80		0.85	
Margin 1H 2016 Actual USD/bbl	Margin 2H 2016 Assumption USD/bbl	Average Margin 2016 USD/bbl														
5.25	2.00	3.61	(30)	322	(33)	327	(36)	331	(39)	334	(41)	337	(42)	339	(44)	342
5.25	3.00	4.12	(10)	295	(15)	302	(19)	307	(23)	312	(26)	317	(29)	320	(31)	324
5.25	4.00	4.62	10	267	3	276	(3)	284	(7)	291	(11)	296	(15)	302	(18)	306
5.25	5.00	5.12	30	241	21	251	14	261	8	269	3	276	(1)	283	(5)	288
5.25	6.00	5.63	49	221	39	231	31	239	24	247	18	256	12	264	7	270
5.25	7.00	6.13	69	201	58	213	48	223	39	231	32	238	26	245	20	252
5.25	8.00	6.64	89	181	76	195	65	206	55	215	47	224	39	231	33	237
5.25	9.00	7.14	109	162	94	176	81	189	71	200	61	209	53	217	46	225

43 PRODUCTION, MBBL
77 NON PROCESSING FEE REVENUE, $m
86 DEPRECIATION, $m

NPAT, $m

Borrowings, $m

Condensed Interim Income Statement

FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

	NOTE	GROUP 30 JUNE 2016 $000	GROUP 30 JUNE 2015 $000
INCOME			
Operating revenue	2	**155,261**	203,197
Other income		**383**	657
Other gains		**-**	112
TOTAL INCOME		**155,644**	203,966
EXPENSES			
Purchase of process materials and utilities		**36,786**	28,362
Materials and contractor payments		**11,766**	13,165
Wages, salaries and benefits		**26,779**	23,671
Depreciation and disposal costs		**41,252**	34,283
Other operating (gains)/losses		**(85)**	158
Administration and other costs		**17,107**	12,931
TOTAL EXPENSES		**133,605**	112,570
NET PROFIT BEFORE FINANCE COSTS		**22,039**	91,396
FINANCE COSTS			
Finance income		**(104)**	(46)
Finance cost	9	**7,771**	673
NET FINANCE COSTS		**7,667**	627
Net profit before income tax		**14,372**	90,769
Less income tax		**2,762**	25,411
NET PROFIT AFTER INCOME TAX		**11,610**	65,358
ATTRIBUTABLE TO:			
Owners of the Parent		**11,446**	65,245
Non-controlling interest		**164**	113
		11,610	65,358

EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF REFINING NZ	CENTS	CENTS
Basic earnings per share	**3.71**	20.91
Diluted earnings per share	**3.71**	20.91

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

Condensed Interim Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

	NOTE	GROUP 30 JUNE 2016 $000	GROUP 30 JUNE 2015 $000
NET PROFIT AFTER INCOME TAX		**11,610**	65,358
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to the Income Statement			
Defined benefit actuarial (loss)/gain	10	**(21,699)**	7,934
Deferred tax on defined benefit actuarial loss/(gain) that will not be reclassified to the Income Statement		**6,076**	(2,221)
Total items that will not be reclassified to the Income Statement		**(15,623)**	5,713
Items that may be subsequently reclassified to the Income Statement			
Movement in cash flow hedge reserve		**(5,166)**	(3,912)
Deferred tax on movement in cash flow hedge reserve that may be subsequently reclassified to the Income Statement		**1,446**	1,095
Total items that may be subsequently reclassified to the Income Statement		**(3,720)**	(2,817)
TOTAL OTHER COMPREHENSIVE (LOSS)/INCOME, AFTER INCOME TAX		**(19,343)**	2,896
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, AFTER INCOME TAX		**(7,733)**	68,254
ATTRIBUTABLE TO:			
Owners of the Parent		**(7,897)**	68,141
Non-controlling interest		**164**	113
		(7,733)	68,254

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

Condensed Interim Balance Sheet

AS AT 30 JUNE 2016 (UNAUDITED)

	NOTE	GROUP 30 JUNE 2016 $000	GROUP 31 DECEMBER 2015 $000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		941	7,565
Trade and other receivables		150,247	163,579
Inventory		2,190	2,166
Income tax receivable		6,806	-
Assets of disposal group classified as held for sale	8	5,524	5,229
TOTAL CURRENT ASSETS		165,708	178,539
NON-CURRENT ASSETS			
Inventory		16,634	15,307
Property, plant and equipment	9	1,135,910	1,137,835
TOTAL NON-CURRENT ASSETS		1,152,544	1,153,142
TOTAL ASSETS		1,318,252	1,331,681
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	7	142,004	169,643
Income tax payable		-	20,704
Bank borrowings	11	131,000	25,000
Employee entitlements		6,787	9,725
Derivative financial instruments	13	22	6
Liabilities of disposal group classified as held for sale	8	1,843	1,528
TOTAL CURRENT LIABILITIES		281,656	226,606
NON-CURRENT LIABILITIES			
Deferred tax		109,486	111,527
Employee entitlements		11,081	11,295
Restoration provision		9,554	8,046
Defined benefit pension plan obligation	10	29,361	6,597
Bank borrowings	11	150,000	175,000
Derivative financial instruments	13	15,565	10,415
TOTAL NON-CURRENT LIABILITIES		325,047	322,880
TOTAL LIABILITIES		606,703	549,486
NET ASSETS		711,549	782,195

Condensed Interim Balance Sheet

AS AT 30 JUNE 2016 (UNAUDITED)

	NOTE	GROUP 30 JUNE 2016 $000	GROUP 31 DECEMBER 2015 $000
EQUITY			
Contributed equity		**265,771**	265,771
Cash flow hedge reserve		**(11,223)**	(7,503)
Other reserves	15	**(168)**	75
Retained profits		**456,433**	523,125
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		**710,813**	781,468
Non-controlling interest		**736**	727
TOTAL EQUITY		**711,549**	782,195

The Board of Directors of The New Zealand Refining Company Limited authorised these financial statements for issue on 22 August 2016.

For and on behalf of the Board:

S C ALLEN
DIRECTOR

P M SPRINGFORD
DIRECTOR

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

Condensed Interim Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

GROUP	NOTE	ATTRIBUTABLE TO OWNERS OF THE PARENT CONTRIBUTED EQUITY $000	CASH FLOW HEDGE RESERVE $000	OTHER RESERVES $000	RETAINED PROFITS $000	TOTAL $000	NON-CONTROLLING INTEREST $000	TOTAL EQUITY $000
AT 1 JANUARY 2015		265,771	(3,783)	-	382,068	644,056	623	644,679
COMPREHENSIVE INCOME								
Net profit after income tax		-	-	-	65,245	65,245	113	65,358
Other comprehensive income								
Foreign exchange hedges transferred to property, plant and equipment		-	79	-	-	79	-	79
Foreign exchange contracts entered into during the year		-	13	-	-	13	-	13
Movement in value of foreign exchange contracts held throughout the year		-	513	-	-	513	-	513
Movement in value of interest rate swaps held throughout the year		-	(4,517)	-	-	(4,517)	-	(4,517)
Defined benefit actuarial gain	10	-	-	-	7,934	7,934	-	7,934
Deferred tax on other comprehensive income		-	1,095	-	(2,221)	(1,126)	-	(1,126)
TOTAL OTHER COMPREHENSIVE INCOME, AFTER INCOME TAX		-	(2,817)	-	5,713	2,896	-	2,896
TRANSACTIONS WITH OWNERS OF THE PARENT								
Dividends paid		-	-	-	-	-	-	-
TOTAL TRANSACTIONS WITH OWNERS OF THE PARENT		-	-	-	-	-	-	-
AT 30 JUNE 2015		265,771	(6,600)	-	453,026	712,197	736	712,933
AT 1 JANUARY 2016	15	**265,771**	**(7,503)**	**75**	**523,125**	**781,468**	**727**	**782,195**
COMPREHENSIVE INCOME								
Net profit after income tax		**-**	**-**	**-**	**11,446**	**11,446**	**164**	**11,610**
Other comprehensive income								
Foreign exchange hedges transferred to property, plant and equipment		**-**	**2**	**-**	**-**	**2**	**-**	**2**
Foreign exchange contracts entered into during the year		**-**	**(2)**	**-**	**-**	**(2)**	**-**	**(2)**
Movement in value of foreign exchange contracts held throughout the year		**-**	**(16)**	**-**	**-**	**(16)**	**-**	**(16)**
Movement in value of interest rate swaps held throughout the year		**-**	**(5,150)**	**-**	**-**	**(5,150)**	**-**	**(5,150)**
Defined benefit actuarial loss	10	**-**	**-**	**-**	**(21,699)**	**(21,699)**	**-**	**(21,699)**
Deferred tax on other comprehensive income		**-**	**1,446**	**-**	**6,076**	**7,522**	**-**	**7,522**
TOTAL OTHER COMPREHENSIVE INCOME, AFTER INCOME TAX		**-**	**(3,720)**	**-**	**(15,623)**	**(19,343)**	**-**	**(19,343)**
TRANSACTIONS WITH OWNERS OF THE PARENT								
Purchase of treasury stock		**-**	**-**	**(308)**	**-**	**(308)**	**-**	**(308)**
Value of employee services		**-**	**-**	**65**	**-**	**65**	**-**	**65**
Dividends paid		**-**	**-**	**-**	**(62,515)**	**(62,515)**	**(155)**	**(62,670)**
TOTAL TRANSACTIONS WITH OWNERS OF THE PARENT		**-**	**-**	**(243)**	**(62,515)**	**(62,758)**	**(155)**	**(62,913)**
AT 30 JUNE 2016		**265,771**	**(11,223)**	**(168)**	**456,433**	**710,813**	**736**	**711,549**

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

Condensed Interim Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

	NOTE	GROUP 30 JUNE 2016 $000	GROUP 30 JUNE 2015 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**161,869**	204,136
Payments for supplies and expenses		**(68,791)**	(53,364)
Payments to employees		**(28,801)**	(25,148)
CASH GENERATED FROM OPERATIONS		**64,277**	125,624
Interest received		**104**	46
Interest paid		**(7,117)**	(729)
GST paid		**(8,356)**	(1,415)
Income tax paid		**(24,726)**	(6,511)
		(40,095)	(8,609)
NET CASH INFLOW FROM OPERATING ACTIVITIES	6	**24,182**	117,015
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment and computer software		**(48,644)**	(69,543)
Proceeds from the sale of property, plant and equipment		**-**	427
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(48,644)**	(69,116)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from/(repayment of) bank borrowings		**81,000**	(47,000)
Purchase of treasury stock		**(308)**	-
Dividends paid to shareholders		**(62,515)**	-
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES		**18,177**	(47,000)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(6,285)**	899
Cash and cash equivalents at the beginning of the period		**7,913**	1,015
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**1,628**	1,914
CLASSIFIED AS:			
Cash and cash equivalents		**941**	1,914
Cash and cash equivalents classified as held for sale	8	**687**	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**1,628**	1,914

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

Notes to the Condensed Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

1 Basis of preparation of condensed interim financial statements

These condensed interim financial statements as at and for the six months ended 30 June 2016 comply with New Zealand Generally Accepted Accounting Practice ('NZ GAAP') and have been prepared in accordance with New Zealand Equivalents to International Accounting Standard ('NZ IAS') 34: Interim Financial Reporting and International Accounting Standard ('IAS') 34: Interim Financial Reporting and consequently, do not include all the information required for full financial statements. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2015.

Entities reporting

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

As at 30 June 2016 Independent Petroleum Laboratory Limited is available for sale as a continuing operation.

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

Statutory base

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

Accounting policies

The accounting policies used in the preparation of these condensed interim financial statements are consistent with those used in the previously published condensed interim financial statements as at and for the six months ended 30 June 2015 and the audited financial statements as at and for the year ended 31 December 2015.

Notes to the Condensed Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

2 Operating revenue

FOR THE SIX MONTHS ENDED 30 JUNE

	GROUP 30 JUNE 2016 $000	GROUP 30 JUNE 2015 $000
Comprises:		
Processing fees	**115,153**	170,864
Natural Gas recovery	**12,334**	6,689
Other refining related income	**5,048**	5,954
REFINING REVENUE	**132,535**	183,507
Distribution revenue	**17,632**	14,802
Operating lease income:		
Wiri land and terminal	**3,262**	3,262
Other	**42**	42
Other operating income	**1,790**	1,584
TOTAL OPERATING REVENUE	**155,261**	203,197

3 Segment information

(a) Description of segments

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

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

Oil refining

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

Distribution

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

Other

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

(b) Reporting measures

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

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

Notes to the Condensed Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

(c) Segment results

30 JUNE 2016	OIL REFINING $000	DISTRIBUTION $000	OTHER $000	TOTAL $000
Total operating revenue	132,535	20,894	4,361	157,790
Inter-segment revenue	-	-	(2,529)	(2,529)
REVENUE FROM EXTERNAL CUSTOMERS	132,535	20,894	1,832	155,261
Other income	-	-	383	383
Finance income	101	-	3	104
Finance cost	(7,757)	-	(14)	(7,771)
Depreciation and disposal costs	(37,618)	(3,434)	(200)	(41,252)
Income tax	1,845	(4,335)	(272)	(2,762)
Net (loss)/ profit after income tax	(719)	11,148	1,181	11,610

30 JUNE 2015	OIL REFINING $000	DISTRIBUTION $000	OTHER $000	TOTAL $000
Total operating revenue	183,507	18,064	3,727	205,298
Inter-segment revenue	-	-	(2,101)	(2,101)
REVENUE FROM EXTERNAL CUSTOMERS	183,507	18,064	1,626	203,197
Other income	-	-	657	657
Other gains	112	-	-	112
Finance income	42	-	4	46
Finance cost	(656)	-	(17)	(673)
Depreciation and disposal costs	(30,674)	(3,434)	(175)	(34,283)
Income tax	(21,650)	(3,592)	(169)	(25,411)
Net profit after income tax	54,795	9,236	1,327	65,358

Notes to the Condensed Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

4 Capital expenditure commitments

	GROUP 30 JUNE 2016 $000	GROUP 31 DECEMBER 2015 $000
Capital expenditure contracted for in relation to property, plant and equipment at the end of the period but not yet incurred	**11,111**	15,912

5 Contingent liabilities

The Group has no contingent liabilities at 30 June 2016 (30 June 2015: nil).

6 Reconciliation of net cash flow from operating activities to reported profit

FOR THE SIX MONTHS ENDED 30 JUNE	GROUP 30 JUNE 2016 $000	GROUP 30 JUNE 2015 $000
NET PROFIT AFTER INCOME TAX	**11,610**	65,358
Adjusted for:		
Depreciation and disposal costs	**41,252**	34,283
Gain on disposal of property, plant and equipment	**-**	(112)
Movement in deferred tax	**(2,041)**	11,278
Less deferred tax on items included in other comprehensive income	**7,522**	(1,126)
Movement in provisions	**1,508**	168
Non-cash items	**(1,388)**	464
Movement between defined benefit pension plan employer contributions and expense	**1,065**	961
Impact of changes in working capital items:		
Decrease in trade and other receivables	**13,486**	20,710
Add trade receivables included in property, plant and equipment	**-**	2,080
Decrease in trade and other payables	**(27,388)**	(13,469)
Add/(less) trade payables included in property, plant and equipment	**10,538**	(10,447)
Decrease in employee entitlements	**(3,152)**	(2,438)
(Decrease)/increase in income tax receivable	**(27,445)**	8,748
(Increase)/decrease in inventories	**(1,385)**	557
NET CASH FLOWS FROM OPERATING ACTIVITIES	**24,182**	117,015

Notes to the Condensed Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

7 Trade and other payables

	GROUP 30 JUNE 2016 $000	GROUP 31 DECEMBER 2015 $000
Trade payables	**23,485**	35,786
Deconstruction provision	**3,876**	10,000
Excise duty	**114,643**	123,857
TOTAL TRADE AND OTHER PAYABLES	**142,004**	169,643

The deconstruction provision relates to the decommissioned Semi-Regeneration Platformer which the Group is obligated to complete, following the commissioning of the Continuous Catalyst Regeneration Platformer in 2015. The deconstruction of the Semi-Regeneration Platformer will be completed in 2016.

Trade and other receivables, and trade and other payables both include excise duties of $114.6 million (31 December 2015: $123.9 million). Changes to excise duties have no direct impact on the results of the Group as they are collected from the oil companies and are paid to the New Zealand Customs Service on the same day of each month.

8 Disposal group held for sale

The Group's subsidiary, Independent Petroleum Laboratory Limited and certain property, plant and equipment leased to this subsidiary by the Parent, is presented as a disposal group following commitment from Management to sell these assets. Efforts to sell the disposal group have commenced, and a sale is expected by 31 December 2016.

As at 30 June 2016 the disposal group comprised the following assets and liabilities.

	GROUP 30 JUNE 2016 $000	GROUP 31 DECEMBER 2015 $000
Assets classified as held for sale		
Cash and cash equivalents	**687**	348
Trade and other receivables	**1,058**	1,212
Inventory	**323**	289
Property, plant and equipment	**3,456**	3,380
TOTAL	**5,524**	5,229

Liabilities classified as held for sale		
Income tax payable	**138**	73
Trade and other payables	**1,705**	1,455
TOTAL	**1,843**	1,528

Cumulative income or expenses recognised in other comprehensive income

There are no cumulative income or expenses recognised in other comprehensive income relating to the disposal group.

Notes to the Condensed Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

9 Property, plant and equipment

	GROUP 30 JUNE 2016 $000	GROUP 30 JUNE 2015 $000
OPENING NET BOOK AMOUNT	**1,137,835**	1,075,645
Additions/transfers	**39,327**	79,603
Disposals	**-**	(2,396)
Depreciation charge	**(41,252)**	(34,283)
CLOSING NET BOOK AMOUNT	**1,135,910**	1,118,569

Significant additions include $24.5 million in capital work in progress (30 June 2015: $66 million), and $14.5 million in refining plant (30 June 2015: $14 million).

Interest costs of nil were capitalised to capital work in progress during the period (30 June 2015: $8.3 million).

10 Defined benefit pension plan obligation

The defined benefit pension plan obligation at 30 June 2016 represents the accounting valuation performed, as at that date, by an independent actuary in accordance with NZ IAS 19 'Employee Benefits'. The actuarial assumptions used in the 30 June 2016 valuation are consistent with those adopted as at 31 December 2015, except for the discount rate used to calculate the Plan's liabilities. The discount rate adopted at 30 June 2016 was 2.6% (31 December 2015 3.8%) and is set with reference to New Zealand Government Bonds. A decrease in the government bond yield will increase the Plan liabilities for financial reporting purposes, but not necessarily impact on the funding requirements of the Company. The increase in liabilities associated with the change in discount rate is recognised as an actuarial loss in Other Comprehensive Income.

The total recognised in Other Comprehensive Income is as follows:

	GROUP 30 JUNE 2016 $000	GROUP 30 JUNE 2015 $000
Actuarial (losses)/gains	**(16,134)**	1,086
Actual return on plan assets less interest income	**1,595**	4,230
Contributions tax	**(7,160)**	2,618
TOTAL RECOGNISED IN OTHER COMPREHENSIVE INCOME INCLUDING CONTRIBUTIONS TAX	**(21,699)**	7,934

Notes to the Condensed Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

11 Bank borrowings

	GROUP 30 JUNE 2016 $000	GROUP 31 DECEMBER 2015 $000
BANK BORROWINGS		
Current bank borrowings:		
Revolving cash advances (expiry June 2016)	**-**	25,000
Revolving cash advances (expiry June 2017)	**131,000**	-
Total current bank borrowings	**131,000**	25,000
Non-current bank borrowings:		
Revolving cash advances (expiry June 2017)	**-**	25,000
Revolving cash advances (expiry December 2019)	**50,000**	50,000
Term Loan (expiry December 2020)	**100,000**	100,000
Total non-current bank borrowings	**150,000**	175,000
TOTAL BANK BORROWINGS	**281,000**	200,000
EFFECTIVE INTEREST RATE		
Bank loans	**6.1%**	6.4%
UNDRAWN FACILITIES		
The Group has the following undrawn borrowing facilities:		
Revolving cash advances (expiry 2016)	**-**	75,000
Revolving cash advances (expiry 2017)	**69,000**	175,000
TOTAL UN-DRAWN BORROWING FACILITIES	**69,000**	**250,000**

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

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

12 Related parties

The Group enters into transactions with related parties. Details of related parties and the types of transactions entered into during the period ended 30 June 2016 are consistent with those disclosed in the audited financial statements for the year ended 31 December 2015.

Notes to the Condensed Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

13 Financial instruments

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

	GROUP 30 JUNE 2016 $000	GROUP 31 DECEMBER 2015 $000
Trade and other receivables	**150,247**	163,579
Cash and cash equivalents	**941**	7,565
TOTAL LOANS AND RECEIVABLES	**151,188**	171,144
Trade and other payables	**(27,517)**	(45,786)
Liabilities of disposal group	**(1,705)**	(1,455)
Bank borrowings	**(281,000)**	(200,000)
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	**(310,022)**	(247,241)
Derivative liabilities designated in hedging relationships		
Forward foreign exchange contracts	**(22)**	(6)
Interest rate swaps	**(15,565)**	(10,415)
TOTAL DERIVATIVE LIABILITIES DESIGNATED IN HEDGING RELATIONSHIPS	**(15,587)**	(10,421)

Financial instruments are measured at fair value using the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1),
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2), and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's financial instruments have been measured at the fair value measurement hierarchy of level 2 (2015: level 2).

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

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

14 Events after balance date

The Group has declared an interim dividend of 3 cents per share, fully imputed, payable 22 September 2016 (2015: 5 cents per share).

15 Reclassification of comparative balances

Comparative balances for the classification of employee share scheme costs between retained profits and other reserves, totalling $75K have been updated to ensure consistency between financial reporting periods.

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BANKERS

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Bank of New Zealand
The Bank of Tokyo-Mitsubishi UFJ, Limited

LEGAL ADVISERS

Minter Ellison Rudd Watts
Chancery Green

AUDITOR

PricewaterhouseCoopers

CHAIRMAN

S C Allen

INDEPENDENT DIRECTORS

P M Springford
V C M Stoddart
M Tume
P Zealand (appointed 29 August 2016)

NON-INDEPENDENT DIRECTORS

M J Bennetts
S J Brown (resigned 9 May 2016)
M H Elliott
A T Warrell
T J Wall (resigned 10 February 2016)

ALTERNATE DIRECTORS

J R Crawford

CHIEF EXECUTIVE OFFICER

S Post

COMPANY SECRETARY

D M Jensen

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.

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