REFINING NZ
Your Energy Hive

CONSOLIDATED FINANCIAL STATEMENTS 2019

Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTE	GROUP 2019 $000	GROUP 2018 $000
INCOME			
Revenue	1, 2	**344,861**	359,316
Other income	1, 2	**3,514**	3,150
TOTAL INCOME		**348,375**	362,466
EXPENSES			
Purchase of process materials and utilities	2	**98,082**	81,140
Materials and contractor payments	2	**31,340**	29,003
Wages, salaries and benefits	2	**61,247**	61,268
Administration and other costs	2	**39,471**	38,408
TOTAL EXPENSES		**230,140**	209,819
EARNINGS BEFORE DEPRECIATION, FINANCE COSTS AND INCOME TAX		**118,235**	152,647
Depreciation and disposal costs	2, 10	**99,931**	97,075
NET PROFIT BEFORE FINANCE COSTS AND INCOME TAX		**18,304**	55,572
FINANCE COSTS			
Finance income	2	**(44)**	(104)
Finance cost	2	**13,489**	13,904
NET FINANCE COSTS		**13,445**	13,800
Net profit before income tax		**4,859**	41,772
Income tax	4	**694**	12,156
NET PROFIT AFTER INCOME TAX		**4,165**	29,616
ATTRIBUTABLE TO:			
Owners of the Parent		**4,165**	29,616

EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE NEW ZEALAND REFINING COMPANY LIMITED		CENTS	CENTS
Basic and diluted earnings per share	5	**1.3**	9.5

The above Consolidated Income Statement is to be read in conjunction with the notes on pages 09 to 57.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTE	GROUP 2019 $000	GROUP 2018 $000
NET PROFIT AFTER INCOME TAX		**4,165**	29,616
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to the Income Statement			
Defined benefit plan actuarial gain/(loss)	18(k)	**7,681**	(16,024)
Deferred tax on defined benefit plan actuarial (gain)/loss	4	**(2,151)**	4,487
Total items that will not be reclassified to the Income Statement		**5,530**	(11,537)
Items that may be subsequently reclassified to the Income Statement			
Movement in cash flow hedge reserve	20	**(3,094)**	7,856
Deferred tax on movement in cash flow hedge reserve	4	**866**	(2,200)
Total items that may be subsequently reclassified to the Income Statement		**(2,228)**	5,656
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS), AFTER INCOME TAX		**3,302**	(5,881)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER INCOME TAX		**7,467**	23,735
ATTRIBUTABLE TO:			
Owners of the Parent		**7,467**	23,735

The above Consolidated Statement of Comprehensive Income is to be read in conjunction with the notes on pages 09 to 57.

Consolidated Balance Sheet

AS AT 31 DECEMBER 2019

	NOTE	GROUP 2019 $000	GROUP 2018 $000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	15	**5,255**	779
Trade and other receivables	14	**145,063**	152,712
Income tax receivable		**5,895**	1,394
Derivative financial instruments	20	**4,421**	6,249
Inventories	16	**3,340**	2,974
TOTAL CURRENT ASSETS		**163,974**	164,108
NON-CURRENT ASSETS			
Inventories	16	**19,410**	19,955
Derivative financial instruments	20	**205**	6
Property, plant and equipment	10	**1,171,301**	1,191,948
Right-of-use assets	9	**4,028**	-
Intangibles	10	**22,137**	14,309
TOTAL NON-CURRENT ASSETS		**1,217,081**	1,226,218
TOTAL ASSETS		**1,381,055**	1,390,326
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	**171,018**	152,561
Derivative financial instruments	20	**3,997**	1,300
Borrowings	8	**-**	50,000
Lease liabilities	9	**248**	171
Employee benefits	18	**7,861**	9,948
TOTAL CURRENT LIABILITIES		**183,124**	213,980
NON-CURRENT LIABILITIES			
Derivative financial instruments	20	**5,017**	5,564
Borrowings	8	**246,616**	208,601
Lease liabilities	9	**3,206**	2,303
Employee benefits	18	**40,894**	48,087
Provisions	13	**12,643**	10,866
Deferred tax liabilities	4	**132,811**	131,289
TOTAL NON-CURRENT LIABILITIES		**441,187**	406,710
TOTAL LIABILITIES		**624,311**	620,690
NET ASSETS		**756,744**	769,636

Consolidated Balance Sheet

AS AT 31 DECEMBER 2019

	NOTE	GROUP 2019 $000	GROUP 2018 $000
EQUITY			
Contributed equity	6	**265,771**	265,771
Treasury stock	6, 21	**(960)**	(969)
Employee share entitlement reserve	6, 21	**681**	732
Cash flow hedge reserve	6, 20	**(2,688)**	(460)
Retained earnings		**493,940**	504,562
TOTAL EQUITY		**756,744**	769,636

The Board of Directors of The New Zealand Refining Company Limited authorised these Consolidated Financial Statements for issue on 26 February 2020.

For and on behalf of the Board:

S C Allen
Director

J B Miller
Director

The above Consolidated Balance Sheet is to be read in conjunction with the notes on pages 09 to 57.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2018		265,771	(678)	429	(6,116)	533,369	792,775
COMPREHENSIVE INCOME							
Net profit after income tax		-	-	-	-	29,616	29,616
Other comprehensive income							
Movement in cash flow hedge reserve	20	-	-	-	7,856	-	7,856
Defined benefit actuarial loss	18(k)	-	-	-	-	(16,024)	(16,024)
Deferred tax on other comprehensive income	20	-	-	-	(2,200)	4,487	2,287
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS), AFTER INCOME TAX		-	-	-	5,656	(11,537)	(5,881)
TRANSACTIONS WITH OWNERS OF THE PARENT							
Equity-settled share-based payments	21	-	-	303	-	-	303
Treasury shares purchased	21	-	(291)	-	-	-	(291)
Unclaimed dividends written back		-	-	-	-	(1)	(1)
Dividends paid	7	-	-	-	-	(46,885)	(46,885)
TOTAL TRANSACTIONS WITH OWNERS OF THE PARENT		-	(291)	303	-	(46,886)	(46,874)
AT 31 DECEMBER 2018		265,771	(969)	732	(460)	504,562	769,636
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	20	**-**	**-**	**-**	**(3,094)**	**-**	**(3,094)**
Defined benefit actuarial gain	18(k)	**-**	**-**	**-**	**-**	**7,681**	**7,681**
Deferred tax on other comprehensive income	20	**-**	**-**	**-**	**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	21	**-**	**-**	**241**	**-**	**-**	**241**
Shares vested to employees	21	**-**	**292**	**(292)**	**-**	**-**	**-**
Treasury shares purchased	21	**-**	**(283)**	**-**	**-**	**-**	**(283)**
Dividends paid	7	**-**	**-**	**-**	**-**	**(20,317)**	**(20,317)**
TOTAL TRANSACTIONS WITH OWNERS OF THE PARENT		**-**	**9**	**(51)**	**-**	**(20,317)**	**(20,359)**
AT 31 DECEMBER 2019		**265,771**	**(960)**	**681**	**(2,688)**	**493,940**	**756,744**

The above Consolidated Statement of Changes in Equity is to be read in conjunction with the notes on pages 09 to 57.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTE	GROUP 2019 $000	GROUP 2018 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**351,625**	352,384
Payment for supplies and other expenses		**(151,172)**	(161,369)
Payments to employees		**(62,780)**	(58,858)
Interest received		**44**	104
Interest paid		**(14,418)**	(13,727)
Net GST paid		**(1,936)**	(2,347)
Income tax paid		**(4,238)**	(11,551)
NET CASH INFLOW FROM OPERATING ACTIVITIES	15	**117,125**	104,636
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		**(77,695)**	(162,316)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(77,695)**	(162,316)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayments of)/proceeds from bank borrowings		**(13,200)**	15,300
Proceeds from subordinated notes	8	**-**	73,301
Unclaimed dividends		**-**	(1)
Dividends paid to shareholders	7	**(20,317)**	(46,885)
Lease payments	9	**(1,154)**	(522)
Purchase of treasury stock	21	**(283)**	(291)
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES		**(34,954)**	40,902
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**4,476**	(16,778)
Cash and cash equivalents at the beginning of the year		**779**	17,557
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**5,255**	779

The above Consolidated Statement of Cash Flows is to be read in conjunction with the notes on pages 09 to 57.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

(a) REPORTING ENTITY

The reporting entity is the consolidated group comprising The New Zealand Refining Company Limited ('Parent' or 'Company') and its subsidiaries, Independent Petroleum Laboratory Limited, Maranga Ra Holdings Limited and Maranga Ra Limited (the Group). The New Zealand Refining Company is a limited liability company incorporated and domiciled in New Zealand with its registered office at Marsden Point, Whangarei, New Zealand. All subsidiaries have a balance date aligned with the reporting date of the Parent company.

The Parent operates New Zealand's only oil refinery at Marsden Point near Whangarei as a toll refiner, and owns and operates a pipeline, running from the refinery at Marsden Point to Wiri, located in South Auckland, transporting refined fuels for consumption within the Auckland and Waikato markets. Independent Petroleum Laboratory provides specialised fuels, biofuels, and industrial and environmental laboratory testing services. Maranga Ra Holdings Limited and Maranga Ra Limited were incorporated in December 2019, ahead of the Company's investment in the proposed solar farm development adjacent to the Refinery. These entities had no assets or liabilities as at balance date.

The New Zealand Refining Company Limited is registered under the Companies Act 1993, is listed on the New Zealand Stock Exchange (NZX) and is an FMC Reporting Entity under the Financial Markets Conduct Act 2013 ('FMC Act 2013').

These consolidated financial statements were approved by the Directors on 26 February 2020.

(b) BASIS OF PREPARATION

These consolidated financial statements comply with:

- The Financial Markets Conduct Act 2013;
- Generally Accepted Accounting Practice (GAAP);
- New Zealand equivalents to 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.

Functional and presentation currency

These consolidated financial statements are presented in New Zealand dollars ($) which is the Group's functional currency, and the financial information has been rounded to the nearest thousand dollars ($000), unless otherwise stated.

Consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

Use of judgements and estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the Directors to exercise their judgement in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

- **Useful lives of the property, plant and equipment**

  The Group reassessed the remaining useful lives of the assets associated with the distribution segment (including the Refinery to Auckland Pipeline). As a result of the remaining life assessment carried out by independent pipeline experts, Rosen Group, and valuation specialist BECA Limited, the weighted average remaining useful life has been extended from 19 to 31 years (resulting in a decrease in annual depreciation by approximately $2 million). The remaining useful lives of the assets associated with the refining assets are considered appropriate.

- **Impairment assessment of assets**

  The carrying value of the Group's assets were tested for impairment as at 31 December 2019. Key judgements underpinning this assessment include:
  - The Parent Company's site consents and jetty lease will be renewed prior to expiry in May 2022 and September 2024, respectively, and
  - The Parent Company will enter the New Zealand Emissions Trading Scheme as an Energy Intensive Trade Exposed entity when the Negotiated Greenhouse Agreement with the Crown expires in January 2023.

  It is the opinion of Management that the risks of the not gaining environmental consents on a commercially acceptable basis or not entering into the New Zealand Emissions Trading Scheme as an Energy Intensive Trade Exposed entity are relatively low.

  On this basis, the Group has estimated the recoverable amount of its assets on a value in use basis and determined that there is no impairment under a range of reasonably possible scenarios. Not renewing the site consents or jetty lease, or renewing for a significantly shorter period of time than expected, would result in an impairment.

  Management and the Board have used their refining industry experience and external sources of information, where appropriate, to determine their expectations of the future. The key assumptions used in the impairment testing are outlined below. While the sensitivities outlined in the following table highlight the absolute movement in each key assumption that would result in the elimination of the excess of recoverable amount over carrying amount, a lesser movement in a combination of each of those key assumptions could also lead to a similar result.

KEY ASSUMPTION	UNIT	VALUE ATTRIBUTED	SENSITIVITY (ABSOLUTE MOVEMENT)
Gross refiners margin	US$/bbl	4.9 – 8.1 (median 7.4)	Decrease by 0.9 (median)
Exchange rate	US$	0.63	Increase by 0.07
Refinery throughput	mbbl	42	Decrease by 5
Discount rate	%	7.7	Increase by 2.5

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

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

(c) SIGNIFICANT ACCOUNTING POLICIES

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

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

New and amended standards adopted by the Group

The Group has adopted NZ IFRS 16 'Leases' for the first time in the annual reporting period commencing 1 January 2019. The Group applied the simplified retrospective transition approach. Further details on the adoption of NZ IFRS 16 'Leases' and the impact on the Group's financial performance and position are disclosed in Note 9, Lease liabilities.

There were no other new and amended standards issued by the International Accounting Standards Board (IASB) or the New Zealand Accounting Standards Board (NZASB) mandatory for the year ended 31 December 2019, that were considered to have a material impact to the Group.

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

The IASB has issued a number of standards, amendments and interpretations which are not yet effective and which may have an impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

PERFORMANCE

This section focuses on Refining NZ's financial performance and the returns provided to equity holders. The following notes are included:

Note 1:	Segment reporting
Note 2:	Income and expenses
Note 3:	Related parties
Note 4:	Taxation
Note 5:	Earnings per share

1. SEGMENT REPORTING

(a) Identification and description of reportable segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Leadership Team, identified as the chief operating decision-maker. The Leadership Team reviews the Group's internal reporting of oil refining and distribution separately in order to assess their performance and allocate resources. The operating segments, based on these reports are as follows:

Oil Refining

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

Distribution

The Parent owns infrastructure to support the distribution of manufactured products to its customers. The Refinery to Auckland Pipeline (RAP) transfers product to the Wiri Oil terminal located in South Auckland (refer note 3).

Other

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

Sales between segments are carried out at arm's length and represent charges by the subsidiary companies (included in "Other") to Oil Refining. The revenue from external parties reported to the Leadership Team is measured in a manner consistent with that in the Income Statement. All revenue is generated in New Zealand.

Revenue derived from major customers, and the relevant operating segments, is disclosed in note 3.

(b) Reporting measures

The performance of the operating segments is based on earnings before depreciation, finance costs and income tax and net profit after income tax. This information is measured in a manner consistent with that in the consolidated financial statements.

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

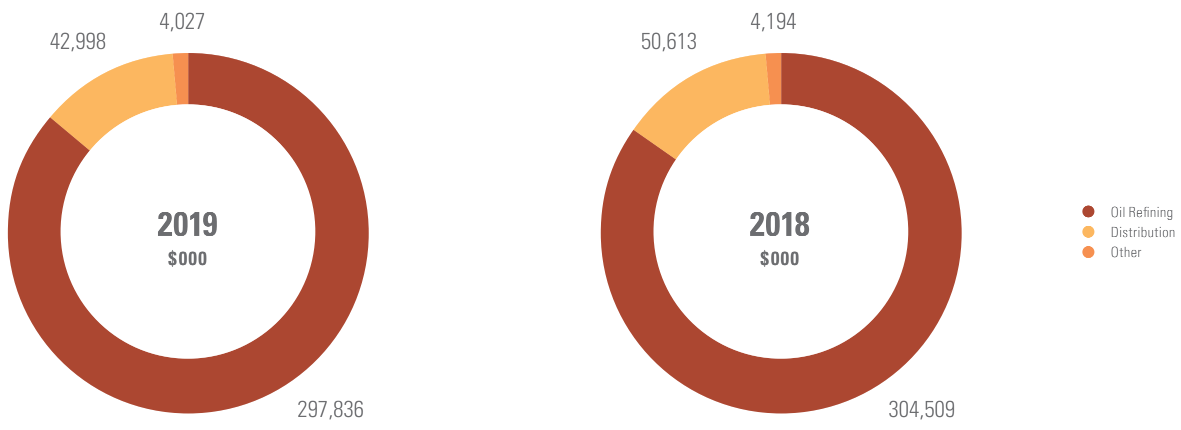
Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

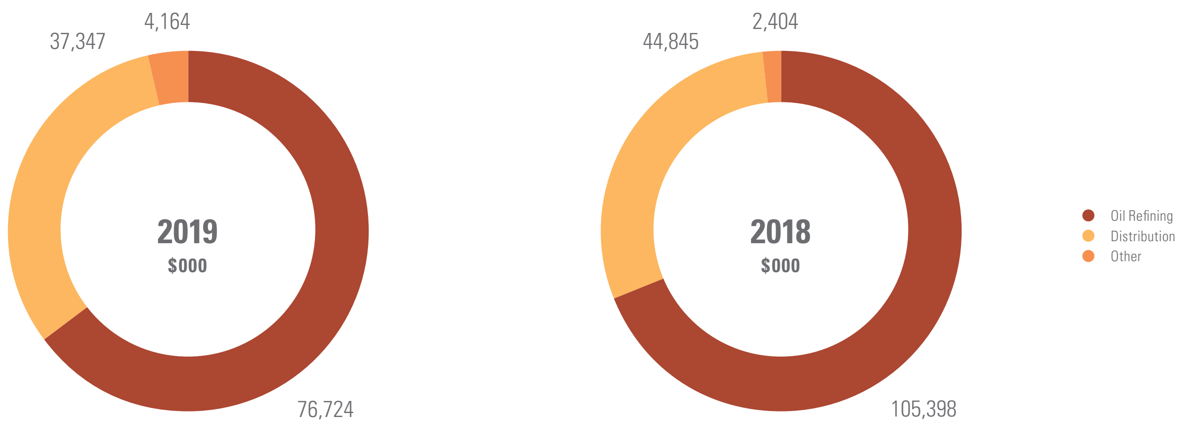
1. SEGMENT REPORTING (continued)

(c) Segment results

REVENUE FROM EXTERNAL CUSTOMERS ($000)



EARNINGS BEFORE DEPRECIATION, FINANCE COSTS AND INCOME TAX ($000)



Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

1. SEGMENT REPORTING (continued)

	NOTE	OIL REFINING $000	DISTRIBUTION $000	OTHER $000	TOTAL $000
31 DECEMBER 2019					
Total revenue		297,836	42,998	9,760	350,594
Inter-segment revenue		-	-	(5,733)	(5,733)
REVENUE FROM EXTERNAL CUSTOMERS		297,836	42,998	4,027	344,861
Other income	2	-	2,035	1,479	3,514
Earnings before depreciation, finance costs and income tax		76,724	37,347	4,164	118,235
Finance income		38	-	6	44
Finance cost		(13,488)	-	(1)	(13,489)
Depreciation and disposal costs		(95,527)	(3,779)	(625)	(99,931)
Income tax		9,575	(9,399)	(870)	(694)
Net (loss)/profit after income tax		(22,678)	24,169	2,674	4,165

	NOTE	OIL REFINING $000	DISTRIBUTION $000	OTHER $000	TOTAL $000
31 DECEMBER 2018					
Total revenue		304,509	50,613	9,336	364,458
Inter-segment revenue		-	-	(5,142)	(5,142)
REVENUE FROM EXTERNAL CUSTOMERS		304,509	50,613	4,194	359,316
Other income		-	2,890	260	3,150
Earnings before depreciation, finance costs and income tax	2	105,398	44,845	2,404	152,647
Finance income		102	-	2	104
Finance cost		(13,892)	-	(12)	(13,904)
Depreciation and disposal costs		(89,648)	(6,868)	(559)	(97,075)
Income tax		(1,078)	(10,634)	(444)	(12,156)
Net profit after income tax		882	27,343	1,391	29,616

The earnings before depreciation, finance costs and income tax and depreciation and net profit after income tax of the distribution and other segments are before exclusion of inter-segment revenue and costs.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

2. INCOME AND EXPENSES

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

Refining revenue

Processing fees and other processing related fees, such as blending and reprocessing (presented as "Other refining related income") are recognised over time as processing services are delivered. The revenue from processing and other processing related fees is recognised in the amounts invoiced, applying paragraph B16 of NZ IFRS 15 'Revenue from Contracts with Customers', reflecting actual volumes processed (including intermediate products), adjusted for fee floor and cap, when applicable.

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

Distribution revenue

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

Rental income from operating leases (including Wiri Oil terminal rental) is recognised on a straight-line basis in accordance with the substance of the relevant agreements.

Other revenue

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

2. INCOME AND EXPENSES (continued)

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

	NOTE	GROUP 2019 $000	GROUP 2018 $000
REVENUE			
Processing fees		**241,970**	258,873
Natural gas recovery		**39,579**	31,987
Other refining related income		**16,287**	13,649
Refining revenue		**297,836**	304,509
Pipeline and terminalling fee revenue		**36,473**	44,088
Wiri land and terminal lease income	11	**6,525**	6,525
Distribution revenue		**42,998**	50,613
Other operating income		**4,027**	4,194
TOTAL REVENUE		**344,861**	359,316
OTHER INCOME			
Other income		**3,514**	3,150
TOTAL OTHER INCOME		**3,514**	3,150
TOTAL INCOME		**348,375**	362,466
And charging:			
Process materials and utilities		**58,502**	49,153
Natural gas		**39,580**	31,987
PURCHASE OF PROCESS MATERIALS AND UTILITIES		**98,082**	81,140
Contractor payments		**23,433**	20,856
Materials		**7,752**	8,124
Obsolescence provision recognised		**155**	23
TOTAL MATERIALS AND CONTRACTOR PAYMENTS		**31,340**	29,003
Wages and salaries		**55,324**	55,854
Defined contribution pension plan contributions		**1,771**	1,597
Defined benefit pension plan expense	18(j)	**3,685**	3,272
Medical plan contributions	18(j)	**226**	242
Equity-settled share-based payments	21	**241**	303
TOTAL WAGES, SALARIES AND BENEFITS		**61,247**	61,268
Administration and other expenses	23	**4,099**	5,962
Contract services		**17,158**	16,202
Consultants		**6,721**	4,873
Insurance		**4,830**	3,964

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

2. INCOME AND EXPENSES (continued)

	NOTE	GROUP 2019 $000	GROUP 2018 $000
Rates		**1,187**	1,282
Employee related costs		**4,005**	4,151
Directors' fees		**795**	780
Operating lease expenses:			
Wiri Oil land rental		**500**	500
Other		**-**	523
Donations		**176**	171
TOTAL ADMINISTRATION AND OTHER COSTS		**39,471**	38,408
Depreciation of property, plant and equipment	10	**99,058**	96,424
Depreciation of right-of-use assets	9	**440**	-
Loss on disposal of property, plant and equipment	10	**433**	651
TOTAL DEPRECIATION AND DISPOSAL COSTS		**99,931**	97,075
Interest expense:			
Bank borrowings		**11,107**	13,975
Subordinated notes		**3,894**	243
Restoration provision finance charge		**254**	345
Finance leases	9	**342**	-
Interest capitalised to qualifying asset		**(2,108)**	(659)
TOTAL FINANCE COSTS		**13,489**	13,904
Finance income:			
Interest income on short-term bank deposits		**(44)**	(104)
TOTAL FINANCE INCOME		**(44)**	(104)
NET FINANCE COSTS		**13,445**	13,800
TOTAL COSTS		**343,516**	320,694
NET PROFIT BEFORE INCOME TAX		**4,859**	41,772

Insurance recoveries

Following the Refinery to Auckland pipeline rupture on 14 September 2017, the Parent Company incurred costs associated with repairs to the pipeline and the recovery and remediation of the leak site which was completed in May 2018.

The Company had insurance policies to cover both environmental remediation and loss of revenue following the incident. In this financial year the Company recognised $2.1 million of insurance recoveries as "Other income" (2018: $1.8 million) under the material damage and business interruption policy for loss of revenue.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

3. 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:

	2019 %	2018 %
BP New Zealand Holdings Limited (BP)	**10.10**	10.10
Mobil Oil NZ Limited (Mobil)	**17.20**	17.20
Z Energy Limited (Z Energy)	**15.36**	15.36

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

(i) REVENUE FROM RELATED PARTIES

Revenue from the oil refining and distribution segments is derived from the oil companies as follows:

	TRANSACTION VALUES FOR THE YEAR ENDED 31 DECEMBER		BALANCES OUTSTANDING AS AT 31 DECEMBER	
	2019 $000	2018 $000	2019 $000	2018 $000
BP	**89,066**	90,661	**38,060**	32,766
Mobil	**80,894**	83,567	**32,955**	26,420
Z Energy	**151,836**	164,164	**68,080**	74,365
Wiri Oil	**7,073**	7,047	**29**	24
TOTAL	**328,869**	345,439	**139,124**	133,575

Processing fees

The Group has separate processing agreements with each of the three oil companies which have been in place since 1995. They are long-term "evergreen" contracts which continue unless renegotiated or terminated by mutual consent or by a customer on one year's notice. 93% (2018: 94%) of the Group's total operating revenue is earned under the processing agreements. Refer to note 19(a) for further details.

Leases

The Parent leases land from Wiri Oil Services Limited (Wiri Oil) and owns the Wiri Oil terminal (plant) located on this land. The land and plant is leased back to Wiri Oil. The leases are non-cancellable operating leases, which expire in 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

Excise duty is collected from the Oil Companies and paid to the New Zealand Customs Service on the same day each month (refer notes 14 and 17) and is included in the above balances outstanding as at 31 December.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

3. RELATED PARTIES (continued)

(ii) PURCHASES OF GOODS AND SERVICES

The Group purchases sulphur, a by-product of the refining process, which is on sold to third parties, and other fuels, from related parties as follows:

	TRANSACTION VALUES FOR THE YEAR ENDED 31 DECEMBER		BALANCES OUTSTANDING AS AT 31 DECEMBER	
	2019 $000	2018 $000	2019 $000	2018 $000
BP	**735**	1,087	**-**	170
Mobil	**311**	996	**-**	145
Z Energy	**1,133**	2,689	**185**	328
TOTAL	**2,179**	4,772	**185**	643

(iii) OTHER CHARGES

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

	TRANSACTION VALUES FOR THE YEAR ENDED 31 DECEMBER		BALANCES OUTSTANDING AS AT 31 DECEMBER	
	2019 $000	2018 $000	2019 $000	2018 $000
BP – Jupiter Insurance Ltd	**702**	619	**-**	-
ExxonMobil (Ancon)	**331**	-	**-**	-
TOTAL	**1,033**	619	**-**	-

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

3. RELATED PARTIES (continued)

(b) Directors' fees and key management personnel compensation

Directors' fees are disclosed in note 2.

Key management personnel include all members of the Leadership Team.

	GROUP 2019 $000	GROUP 2018 $000
Salaries and other short-term employee benefits	**3,929**	4,489
Post-employment benefits	**139**	160
TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION	**4,068**	4,649
Number of personnel at 31 December	**8**	8

The above analysis is compiled on a cash basis; variable performance rewards (linked to individual and business performance for a financial reporting period) are paid subsequent to balance date and reported as part of payments to key management personnel for the following year.

Key management personnel compensation in 2018 includes the short term incentives paid to the former CEO (Sjoerd Post) and members of the leadership team in respect of the 2017 performance year. The 2018 total key management personnel compensation include:

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

4. TAXATION

(a) Income tax expense

P The income tax expense for the year is the tax payable on the current year's taxable income based on the New Zealand income tax rate on the basis of the tax laws enacted or substantively enacted at the end of the reporting period, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements and to unused tax losses.

	NOTE	GROUP 2019 $000	GROUP 2018 $000
NET PROFIT BEFORE INCOME TAX EXPENSE		**4,859**	41,772
Tax at the New Zealand corporate income tax rate of 28% (2018: 28%)		**1,361**	11,696
Tax effect of amounts which are either non-deductible or taxable in calculating taxable income:			
Income not assessable for tax		**(203)**	-
Expenses not deductible for tax		**61**	285
Adjustments in respect of current income tax in respect of previous years		**(525)**	175
INCOME TAX EXPENSE, REPRESENTED BY:		**694**	12,156
Current tax expense		**457**	1,704
Deferred tax recognised in the income statement	4(b)	**237**	10,452

(b) Deferred tax

P Deferred tax assets and liabilities arise from temporary differences between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements, and are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised in other comprehensive income or directly in equity are also recognised in other comprehensive income or directly in equity, respectively.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

4. TAXATION (continued)

		DEFERRED TAX LIABILITY/(ASSET)					
	NOTE	PROPERTY, PLANT AND EQUIPMENT $000	PROVISIONS $000	EMPLOYEE BENEFITS $000	FINANCIAL INSTRUMENTS $000	TAX LOSSES $000	TOTAL $000
1 JANUARY 2018		139,218	(4,129)	(9,587)	(2,378)	-	123,124
Deferred tax in respect of previous years		(899)	(197)	12	-	-	(1,084)
Deferred tax in respect of current year		17,018	(82)	(790)	-	(4,610)	11,536
Deferred tax recognised in the income statement	4(a)	16,119	(279)	(778)	-	(4,610)	10,452
Included in other comprehensive income		-	-	(4,487)	2,200	-	(2,287)
31 DECEMBER 2018		155,337	(4,408)	(14,852)	(178)	(4,610)	131,289
Deferred tax in respect of previous years		**(159)**	**(118)**	**36**	**-**	**(284)**	**(525)**
Deferred tax in respect of current year		**1,238**	**(175)**	**(347)**	**-**	**46**	**762**
Deferred tax recognised in the income statement	4(a)	**1,079**	**(293)**	**(311)**	**-**	**(238)**	**237**
Included in other comprehensive income		**-**	**-**	**2,151**	**(866)**	**-**	**1,285**
31 DECEMBER 2019		**156,416**	**(4,701)**	**(13,012)**	**(1,044)**	**(4,848)**	**132,811**

The Group has unused tax losses of $17.3 million (2018: $16.5 million) available to carry forward.

5. EARNINGS PER SHARE

P Earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares on issue during the year. The Company's share-based payments described in note 21 have no material dilutive effect on the earnings per share.

	NOTE	TOTAL 2019	TOTAL 2018
Profit after tax attributable to shareholders of the Company ($000)		**4,165**	29,616
Weighted average number of shares on issue (000's)	6	**312,177**	312,243
BASIC AND DILUTED EARNINGS PER SHARE		**1.3**	9.5

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

DEBT AND EQUITY

The Group's objective when managing capital (net assets of the Group) is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefit for other stakeholders and to maintain an appropriate capital structure. The Group borrows under a negative pledge arrangement (refer note 8). The Group monitors rolling forecasts which take into consideration the Group's debt financing plans and covenant compliance, to ensure that it is able to continue meeting funding requirements.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, or issue new shares.

This section outlines Refining NZ's capital structure and includes the following Notes:

Note 6:	Equity
Note 7:	Dividends
Note 8:	Borrowings
Note 9:	Lease liabilities

6. EQUITY

Contributed equity

The issued capital of the Company is represented by 312,576,453 no par value ordinary shares (2018: 312,576,453) issued and fully paid, less 417,644 (2018: 375,848) treasury shares held by CRS Nominees Limited (refer to note 21). All ordinary shares rank equally with one vote attached to each ordinary share.

Treasury stock

Treasury stock represents the value of shares acquired by the Parent on-market in respect of the Employee Share Purchase Scheme (refer to note 21).

Employee share entitlement reserve

The employee share entitlement reserve is used to recognise the fair value of shares granted but not vested. Amounts are transferred to share capital when the shares vest to the employee (refer to note 21).

Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in the income statement.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

7. DIVIDENDS

	CENTS PER SHARE	TOTAL 2019 $000	TOTAL 2018 $000
Final dividend for 2017	12.0	-	37,508
Interim dividend for 2018	3.0	-	9,377
Final dividend for 2018	4.5	**14,067**	-
Interim dividend for 2019	2.0	**6,250**	-
TOTAL		**20,317**	46,885

The dividends were fully imputed. Supplementary dividends of $0.750 million (2018: $1.532 million) were paid to shareholders who were not tax residents in New Zealand for which the Group received a foreign investor tax credit entitlement.

Imputation credits available to shareholders for subsequent reporting periods amount to $23.589 million as at 31 December 2019 (2018: $30.441 million).

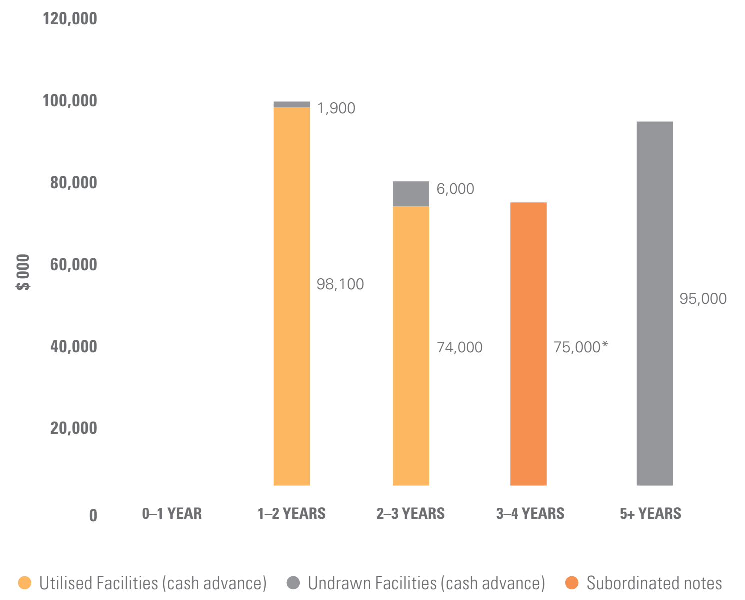
Dividend declared post balance date

The Group has declared no final dividend (2018: 4.5 cents per share).

8. BORROWINGS

P Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance date.

The chart below outlines the maturity profile of the borrowings:



*The carrying value of the subordinated notes as at 31 December 2019 amounts to $74.5 million. The difference between the carrying value and the $75 million face value is due to interest and issue costs. While the expiry date of the subordinated notes is on 1 March 2034, the maturity profile reflects the notes as maturing in 2024 on the basis that – as a result of an election process – the Company may elect to either redeem the notes or offer new conditions to the noteholders.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

8. BORROWINGS (continued)

The carrying amounts of borrowings approximate their fair value. The borrowings are unsecured. The Parent borrows under a negative pledge arrangement which requires certain certificates and covenants, including debt to total debt and equity, security to tangible assets and EBITDA to interest ratios. All of these requirements have been met.

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

In February 2019 the Company reduced its existing committed bank facility limits from $350 million to $275 million and extended the $50 million facility expiring in March 2019 to March 2021. In December 2019, the Company extended its $95 million facilities expiring in March 2020 to March 2025. In addition, as at 31 December 2019 the Company held $35 million of uncommitted facilities. The purpose of the uncommitted facilities is to support short dated debt drawings.

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

	MATURITY DATE	GROUP 2019 $000	GROUP 2018 $000
BORROWINGS			
Current borrowings:			
Revolving cash advances	Mar-19	**-**	50,000
Total current bank borrowings		**-**	50,000
Non-current borrowings:			
Revolving cash advances	Mar-20	**-**	2,000
Revolving cash advances	Mar-20	**-**	67,300
Revolving cash advances	Mar-21	**98,100**	4,000
Revolving cash advances	Mar-22	**74,000**	2,000
Term loan	Mar-21	**-**	60,000
Revolving cash advances	Mar-25	**-**	-
Subordinated notes	Mar-34	**74,516**	73,301
Total non-current borrowings		**246,616**	208,601
TOTAL BORROWINGS		**246,616**	258,601
EFFECTIVE INTEREST RATE			
Bank loans		**6.0%**	5.6%
Subordinated notes		**5.4%**	5.4%
UNDRAWN FACILITIES			
Revolving cash advances	Mar-20	**-**	50,700
Revolving cash advances	Mar-21	**1,900**	26,000
Revolving cash advances	Mar-22	**6,000**	88,000
Revolving cash advances	Mar-25	**95,000**	-
TOTAL UNDRAWN BORROWING FACILITIES		**102,900**	164,700

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

9. LEASE LIABILITIES

Adoption of NZ IFRS 16 'Leases'

NZ IFRS 16 'Leases' was issued in February 2016 and is mandatory for annual reporting periods beginning on or after 1 January 2019. It has resulted in more leases being recognised on the balance sheet for lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exemptions for the Group are short-term and low value leases. The accounting treatment for lessors has not significantly changed under the new standard.

The Group applied the simplified retrospective transition approach where outstanding lease payments are discounted using the incremental borrowing rate at 1 January 2019. This results in the right-of-use asset being recognised at an amount equal to the lease liability. The Group applied the transitional provisions of NZ IFRS 16 'Leases' which allowed it to not account for:

- leases, where the lease term ends within 12 months of 1 January 2019, and
- contracts which had not been previously recognised aa leases in accordance with either NZ IAS 17 'Leases' or NZ IFRIC 4 'Determining whether an Arrangement contains a Lease'.

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the balance sheet at the date of initial application was 4%. The variance between operating lease commitments disclosed at 31 December 2018 and Lease liabilities at 1 January 2019 is outlined in the table below:

	GROUP 2018 $000
Operating lease commitments as at 31 December 2018	2,845
Discounted using the Group's incremental borrowing rate	(189)
Add: finance lease liabilities recognised as at 31 December 2018	2,474
Less: short-term leases recognised on a straight-line basis as expense	(204)
Less: contracts reassesed as service agreements	(2,625)
Add: adjustments from a different treatment of extension and termination options	1,477
LEASE LIABILITY RECOGNISED AS AT 1 JANUARY 2019	3,778

Finance leases – Group as a lessee

P Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Assets and liabilities arising from a lease are initially measured on a present value basis. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

9. LEASE LIABILITIES (continued)

The right-of-use assets are presented in the Group's balance sheet separately and relate to the lease of:

- land, foreshore license and barge ramp where the oil tanker jetty is located. 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 13. 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 2019 $000
Right-of-use assets	
Opening net book value	-
Right-of-use assets (adoption of IFRS 16)	2,140
Transfer of right-of-use assets from Property, Plant and Equipment	2,328
Right-of-use assets as at 1 January 2019	4,468
Depreciation charge	(440)
CLOSING NET BOOK AMOUNT	4,028
Cost	4,664
Accumulated depreciation	(636)
NET BOOK AMOUNT, INCLUDING:	4,028
Freehold land and improvements	209
Refining Plant	2,197
Catalysts	1,622

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

9. LEASE LIABILITIES (continued)

	GROUP 2019 $000
Lease liabilities	
Opening lease liability	2,474
Lease liability recognised as a result of adoption of IFRS 16	1,304
Lease liability as at 1 January 2019	3,778
Lease payments (capital portion)	(324)
CLOSING LEASE LIABILITY, INCLUDING:	3,454
Current	248
Non-current	3,206

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

	GROUP 2019 $000
Depreciation charge	440
Interest expense (included in Finance costs)	342
Expense relating to short-term leases (included in Administration and other costs)	220
Expense relating to leases of low-value assets that are not short term leases (included in Administration and other costs)	609

The total cash outflow for leases in 2019 was $1,154 thousand.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

OPERATING ASSETS AND LIABILITIES

This section shows the assets used to generate the Group's trading performance and the liabilities incurred as a result. Liabilities relating to the Group's financing activities are detailed in the Debt and Equity section of the Notes. Taxation assets and liabilities are detailed in the Performance section of these Notes.

This section includes the following Notes:

10. PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLES

P Property, plant and equipment and intangibles are initially recognised at cost which includes expenditures directly attributable to the acquisition. Cost also includes any transfers from the cash flow hedge reserve (as a basis adjustment) and borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced asset is derecognised.

Major inspections associated with planned plant shutdowns and tank maintenance are capitalised at cost and recognised in the carrying amount of the refining plant, provided the recognition criteria are met.

When an asset is disposed of, any gain or loss on disposal is calculated as the difference between the disposal proceeds and the carrying value of the asset, and is recognised as a gain or loss on disposal of property, plant and equipment and presented in 'Other gains' or 'Total depreciation and disposal costs' in the Income Statement.

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Consolidated Income Statement for the amount by which the asset's carrying amount exceeds its recoverable amount, being the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Depreciation is provided on a straight-line basis on all property, plant and equipment other than freehold land, capital work in progress and precious metals (rhenium, platinum) contained in certain catalysts.

Intangibles relate to the New Zealand Units (NZUs) issued by the Crown to the Parent company, pursuant to the company's Negotiated Greenhouse Agreement (NGA), which is valid until 2022. The Company is currently exempted from the Emissions Trading Scheme (ETS) due to the NGA and the Company's demonstrated commitment to progress in reduction of energy intensity along a world's best practice pathway.

The Company is in dialogue with the Government to include Refining NZ in the ETS as Energy Intensive Trade Exposed at the expiry of the NGA. The NZUs are measured at historical cost and used to offset liabilities arising from carbon dioxide emissions. An assessment of impairment is performed annually with reference to external sources of information (market values of NZUs).

The capital work in progress as at 31 December 2019 has been assessed by management, company project engineers and project managers as being recoverable.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

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

During the financial year there have been no significant changes in estimates relating to useful lives of assets. The useful lives applied are as follows:

	USEFUL LIVES (YEARS)
Freehold improvements	5-50
Buildings and jetties	5-50
Refining plant	
– tankage	40-50
– rotating equipment	20-30
– piping	20-50
– vessels and columns	25-40
– instruments	10-15
– electrical and electrical cabling	15-25
– plant shutdown and tank maintenance	2-20
– other refining plant	10-65
Catalysts	3-10
Refinery to Auckland Pipeline	
– pipeline	78
– plant and equipment	10-34
Wiri Oil terminal (leased)	20
Equipment and vehicles	3-25

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

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

	FREEHOLD LAND AND IMPROVEMENTS	BUILDINGS AND JETTIES	REFINING PLANT	CATALYSTS	REFINERY TO AUCKLAND PIPELINE	WIRI OIL TERMINAL (LEASED) (note 3)	EQUIPMENT AND VEHICLES	CAPITAL WORK IN PROGRESS	TOTAL	INTANGIBLES
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
AT 1 JANUARY 2018										
Cost	74,430	198,344	2,733,237	83,349	222,247	44,167	124,869	121,518	3,602,161	8,148
Accumulated depreciation	(52,630)	(97,366)	(2,033,615)	(46,575)	(114,568)	(41,014)	(87,460)	-	(2,473,228)	-
NET BOOK AMOUNT	21,800	100,978	699,622	36,774	107,679	3,153	37,409	121,518	1,128,933	8,148
YEAR ENDED 31 DECEMBER 2018										
Opening net book value	21,800	100,978	699,622	36,774	107,679	3,153	37,409	121,518	1,128,933	8,148
Additions/transfers	3,835	1,947	153,895	14,190	6,103	-	10,654	(30,534)	160,090	8,183
Disposals	-	-	-	(633)	(1)	-	(17)	-	(651)	(2,022)
Depreciation/amortisation charge	(1,349)	(4,492)	(68,979)	(9,046)	(5,365)	(428)	(6,765)	-	(96,424)	-
CLOSING NET BOOK AMOUNT	24,286	98,433	784,538	41,285	108,416	2,725	41,281	90,984	1,191,948	14,309
AT 31 DECEMBER 2018										
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 charge	**(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**

During the year the Group has capitalised borrowings costs amounting to $2.1 million (2018: $0.7 million) on qualifying assets.
Borrowings costs were capitalised at the weighted average rate of its general borrowings of 5.9% (2018: 5.6%).

Notes to the Consolidated Financial Statements

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11. OPERATING LEASES

P 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 3) 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 associated with the Wiri Oil land rental are disclosed in note 2.

	GROUP 2019 $000	GROUP 2018 $000
Lease payments receivable from operating leases where the Group is a **lessor**		
– No later than one year	**6,609**	6,609
– One to five years	**21,248**	26,225
– Beyond five years	**-**	1,631
TOTAL	**27,857**	34,465

12. CAPITAL COMMITMENTS

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

	GROUP 2019 $000	GROUP 2018 $000
Capital commitments in relation to property, plant and equipment	**28,054**	19,103

Notes to the Consolidated Financial Statements

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13. PROVISIONS

P Provisions are recognised when the Group has a legal or constructive obligation as a result of past events, and it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

	GROUP 2019 $000	GROUP 2018 $000
Jetty restoration provision	**11,776**	10,866
Platinum reclamation provision	**867**	-
PROVISIONS	**12,643**	10,866

The restoration provision relates to restoration obligations in relation to a lease agreement for the seabed upon which the jetty is situated at Marsden Point.

The platinum reclamation provision relates to leased platinum recognised on transition to NZ IFRS 16 'Leases' (refer to note 9 for further details).

P The restoration provision is measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax interest rate that reflects the current market assessments of the time value of money and the risks specific to the obligation.

Changes in the estimates during the year are recorded as a change in the restoration provision and the respective asset. Increase in the provision due to passage of time (unwinding of discount) is recognised as finance costs.

E The present value of the restoration provision depends on a number of assumptions including estimated timing, restoration costs and the discount rate used. Management assesses the appropriateness of the assumptions at each balance date. Any changes in these assumptions will impact the carrying amount of the restoration provision.

This provision may be utilised at the lease expiry in 2025, however the expectation is that the agreement will be renegotiated for a further term. An interest rate of 1.83% (2018: 2.74%) has been applied and set with reference to New Zealand Government Bonds as a risk free rate.

	GROUP 2019 $000	GROUP 2018 $000
AT 1 JANUARY	**10,866**	9,888
Platinum reclamation provision (adoption of IFRS16)	**850**	-
Unwinding of discount	**271**	345
Change in discount rate	**656**	633
AT 31 DECEMBER	**12,643**	10,866

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

14. TRADE AND OTHER RECEIVABLES

P Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less impairment. Trade receivables are measured at amortised cost on the basis that they are held within a business model in order to collect, on specified dates, contractual payments of principal.

	NOTE	GROUP 2019 $000	GROUP 2018 $000
Processing fees		**4,096**	15,532
Product distribution		**3,773**	5,245
Other trade receivables		**4,023**	3,008
Excise duty	17	**127,581**	112,102
Derivatives pending settlement		**1,645**	11,599
Other receivables and prepayments		**3,945**	5,226
TOTAL TRADE AND OTHER RECEIVABLES		**145,063**	152,712

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

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

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

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

No allowance for impairment loss has been recognised as at 31 December 2019 (2018: Nil). Credit risk disclosures required pursuant to NZ IFRS 9 are outlined in note 19(b).

The carrying value of trade receivables approximates their fair values.

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

15. CASH AND CASH EQUIVALENTS

P Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

In the Consolidated Statement of Cash Flows, the deposits placements and withdrawals and bank borrowings receipts and repayments are presented on a net basis as their turnover is quick, amounts are large and the maturities are relatively short.

The below presents a reconciliation of net cash flow from operating activities to reported profit:

	NOTE	GROUP 2019 $000	GROUP 2018 $000
NET PROFIT AFTER INCOME TAX		**4,165**	29,616
Adjusted for:			
Depreciation and disposal costs	2	**99,931**	97,075
Movement in deferred tax	4(b)	**1,522**	8,165
Add movement in deferred tax on items included in other comprehensive income	4(b)	**(1,285)**	2,287
Movement in provisions	13	**1,777**	978
Less increase in restoration provision relating to property, plant and equipment and right-of-use assets	13	**(1,491)**	(633)
Employee share scheme entitlement reserve	21	**241**	303
Increase in intangibles	10	**(7,828)**	(6,161)
Interest and other non-cash movements		**620**	(386)
Impact of changes in working capital items			
Decrease in trade and other receivables	14	**7,649**	3,982
Increase/(decrease) in trade and other payables	17	**18,457**	(23,638)
Less (decrease)/increase in trade and other payables relating to property, plant and equipment and intangibles		**(712)**	3,517
(Decrease)/increase in employee benefits	18	**(9,280)**	18,131
Less employee entitlements included in other comprehensive income	18(k)	**7,681**	(16,024)
(Increase) in income tax receivable		**(4,501)**	(9,847)
(Decrease)/increase in inventories	16	**179**	(2,729)
NET CASH INFLOW FROM OPERATING ACTIVITIES		**117,125**	104,636

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

15. CASH AND CASH EQUIVALENTS (continued)

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

	CASH AND CASH EQUIVALENTS	FINANCE LEASE DUE WITHIN ONE YEAR	FINANCE LEASE DUE AFTER ONE YEAR	BORROWINGS DUE WITHIN ONE YEAR	BORROWINGS DUE AFTER ONE YEAR	TOTAL
	$000	$000	$000	$000	$000	$000
NET DEBT AS AT 1 JANUARY 2018	(17,557)	222	2,473	-	170,000	155,138
Cash flows	16,778	-	-	-	88,601	105,379
Finance lease	-	(222)	-	-	-	(222)
Other non-cash movements	-	171	(171)	50,000	(50,000)	-
NET DEBT AS AT 1 JANUARY 2019	(779)	171	2,302	50,000	208,601	260,295
Cash flows	**(4,476)**	**-**	**-**	**(50,000)**	**36,800**	**(17,676)**
Finance lease	**-**	**(171)**	**(152)**	**-**	**-**	**(323)**
Adoption of IFRS 16 'Leases'	**-**	**153**	**1,151**	**-**	**-**	**1,304**
Other non-cash movements	**-**	**95**	**(95)**	**-**	**1,215**	**1,215**
NET DEBT AS AT 31 DECEMBER 2019	**(5,255)**	**248**	**3,206**	**-**	**246,616**	**244,815**

Cash and cash equivalents include $4,777 thousand (2018: $2 thousand) held by Refining NZ's electricity futures broker as collateral.

16. INVENTORIES

P Inventories comprise spare parts and consumables, and are stated at the lower of cost, determined using the weighted average cost method, or net realisable value.

Inventories are classified as current assets where usage is expected to be within 12 months and as non-current assets where usage is expected after 12 months.

	GROUP 2019 $000	GROUP 2018 $000
INVENTORIES		
Current inventories:		
Inventories at weighted average cost	**3,774**	3,471
Obsolescence provision	**(434)**	(497)
Total current inventories	**3,340**	2,974
Non-current inventories:		
Inventories at weighted average cost	**23,776**	24,103
Obsolescence provision	**(4,366)**	(4,148)
Total non-current inventories	**19,410**	19,955
TOTAL INVENTORIES	**22,750**	22,929

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

16. INVENTORIES (continued)

E Inventories are reviewed annually for impairment. The inventory obsolescence depends on a number of assumptions, including age and condition of each of the individual inventory items. As at 31 December 2019 management has written down the carrying value of some inventories to estimated net realisable value, taking into account the above assumptions.

The consumption of inventories and any associated write downs are recognised as part of Purchase of process materials and utilities and Materials and contractor payments as disclosed in note 2.

Inventories are included in the negative pledge arrangement (refer note 8).

17. TRADE AND OTHER PAYABLES

P Trade payables, including collected excise duty, are initially recognised at amounts payable.

	NOTE	GROUP 2019 $000	GROUP 2018 $000
Trade payables		**31,967**	29,677
Goods services tax payable		**1,847**	3,783
Deferred income	10	**9,623**	6,999
Excise duty	14	**127,581**	112,102
TOTAL TRADE AND OTHER PAYABLES		**171,018**	152,561

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

Changes to excise duties have no direct impact on the results of the Group as they are collected from the oil companies (note 14) and paid to the New Zealand Customs Service on the same day each month.

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

18. EMPLOYEE BENEFITS

Liabilities for employee benefits comprise the following:

		2019			2018		
		CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
	NOTE	$000	$000	$000	$000	$000	$000
Defined benefit pension plan	18(b)	-	24,907	24,907	-	34,428	34,428
Medical plan	18(b)	104	9,958	10,062	207	7,990	8,197
Wages, salaries, annual leave and sick leave		6,610	-	6,610	5,737	-	5,737
Employee incentive scheme		-	-	-	2,905	-	2,905
Long-service leave and retirement bonus		1,147	6,029	7,176	1,099	5,669	6,768
TOTAL		7,861	40,894	48,755	9,948	48,087	58,035

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

The Parent contributes to a defined benefit pension plan (the "Plan") for eligible employees. The liability recognised in the Consolidated Balance Sheet in respect of the defined benefit pension plan is the present value of the defined benefit pension plan obligation at the balance date less the fair value of plan assets.

The defined benefit pension plan obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit pension plan obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in the Consolidated Income Statement.

P **Medical plan (scheme closed since 1996)**

The Parent pays health insurance premiums in respect of 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.

P **Wages, salaries, annual leave and sick leave**

These liabilities are measured at the amounts expected to be paid when settled.

P **Employee incentive schemes**

The Company offers a short term incentive scheme to eligible employees which recognises both individual and Company performance.

The Group recognises a provision where contractually obliged or where there is past practice that has created a constructive obligation.

P **Long-service leave and retirement bonus**

Long service leave and retirement bonuses are measured based on an actuarial assessment and represent the present value of the estimated future cash outflows, which are expected as a result of employee services provided up to the balance date.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

18. EMPLOYEE BENEFITS (continued)

(a) Defined benefit pension plan

Nature of benefits

Total membership of the scheme as at 31 December 2019 was 196 (2018: 199). This total membership includes 66 (2018: 74) current staff members contributing to the scheme, who have pension entitlements based on final salary and membership. At retirement, members may elect to exchange part, or all, of their pension for a cash lump sum. The balance of the membership of the Plan is 123 (2018: 118) pensioners receiving regular pension payments; and 7 (2018: 7) members receiving disability pensions, which can be paid from the Plan until normal retirement age.

Description of regulatory framework

The Financial Markets Authority licenses and supervises regulated superannuation schemes. The Fund is an employer related restricted workplace savings scheme under the Financial Markets Conduct Act 2013 (the Act).

The Act requires an actuarial valuation to be performed for each defined benefit superannuation scheme at least every three years to assess whether the Company's current level of contributions to the Plan is sufficient to meet future obligations (funding valuation). For detail regarding the latest funding valuation see note 18(h).

At each balance date an accounting update is performed by an independent actuary in accordance with NZ IAS 19 "Employee Benefits" for recording in the Consolidated Balance Sheet. The last full actuarial valuation performed under the Superannuation Schemes Act 1989 was as at 31 March 2019.

Description of other entities' responsibilities for the governance of the fund

The Trustees of the Fund are responsible for the governance of the Fund. The Trustees are appointed by the Company and have a legal obligation to act solely in the best interests of the Fund beneficiaries. The Trustees have the following roles:

- Administration of the Fund and payment to the beneficiaries from Plan assets when required in accordance with the Plan rules.
- Management and investment of the Plan assets.
- Compliance with superannuation law and other applicable regulations.

Description of risks

Under the defined benefit pension plan the Group has a legal obligation to pay further contributions if the Fund does not hold sufficient assets to pay all employees the benefits they are entitled to. There are a number of risks that could expose the Company to such a shortfall; the more significant risks being:

- Investment returns – the funding valuation assumes a certain return on assets, which will be available to fund liabilities. Lower than assumed returns could require the Company to increase contributions to offset the shortfall.
- Life expectancy – the majority of the Plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the Plan's liabilities.

The Plan liabilities are calculated, for financial reporting purposes, using a discount rate set with reference to New Zealand Government Bonds. A decrease in the government bond yield will increase Plan liabilities for financial reporting purposes, but not necessarily impact upon the funding requirements of the Company.

Description of significant events

There were no Fund amendments, curtailments or settlements during 2019 (2018: Nil).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

18. EMPLOYEE BENEFITS (continued)

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

		MEDICAL PLAN		PENSION PLAN	
		2019	2018	2019	2018
	NOTE	$000	$000	$000	$000
Present value of the defined benefit obligation	18(c)	**(10,062)**	(8,197)	**(108,322)**	(106,120)
Fair value of plan assets	18(c),18(d)	**-**	-	**91,634**	83,054
DEFICIT		**(10,062)**	(8,197)	**(16,688)**	(23,066)
Contributions tax		**-**	-	**(8,219)**	(11,362)
LIABILITY IN THE BALANCE SHEET		**(10,062)**	(8,197)	**(24,907)**	(34,428)

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

18. EMPLOYEE BENEFITS (continued)

		MEDICAL PLAN			PENSION PLAN		
		PRESENT VALUE OF OBLIGATION	FAIR VALUE OF PLAN ASSETS	TOTAL	PRESENT VALUE OF OBLIGATION	FAIR VALUE OF PLAN ASSETS	TOTAL
	NOTE	$000	$000	$000	$000	$000	$000
AT 1 JANUARY 2019 EXCLUDING TAXES		**(8,197)**	**-**	**(8,197)**	**(106,120)**	**83,054**	**(23,066)**
Current service cost	18(j)	**-**	**-**	**-**	**(1,902)**	**-**	**(1,902)**
Interest (expense)/income	18(j)	**(226)**	**-**	**(226)**	**(2,552)**	**1,985**	**(567)**
Remeasurements							
– Actual return on plan assets less interest income	18(k)	**-**	**-**	**-**	**-**	**9,893**	**9,893**
– Actuarial losses arising from changes in financial assumptions		**(550)**	**-**	**(550)**	**(2,754)**	**-**	**(2,754)**
– Actuarial losses arising from changes in demographic assumptions		**-**	**-**	**-**	**44**	**-**	**44**
– Actuarial (losses)/gains arising from liability experience		**(1,375)**	**-**	**(1,375)**	**(748)**	**-**	**(748)**
DEFINED BENEFIT ACTUARIAL GAIN/(LOSS)	18(k)	**(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 31 DECEMBER 2019		**(10,062)**	**-**	**(10,062)**	**(108,322)**	**91,634**	**(16,688)**

(d) Fair value of defined benefit pension plan assets

	SIGNIFICANT INPUTS LEVEL 2
	$000
Net current assets/(liabilities)	**1,876**
Debt instruments	**8,540**
Investment Funds – Composite Funds	**81,218**
TOTAL ASSETS	**91,634**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

18. EMPLOYEE BENEFITS (continued)

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

	PENSION PLAN	
	2019	**2018**
Australasian Equity	**10.3%**	10.1%
International Equity	**33.3%**	31.2%
Fixed Income	**33.3%**	36.4%
Cash	**11.3%**	10.5%
Property and Other	**11.8%**	11.8%

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

- Any of the Group's own financial instruments;
- Any property occupied by, or other assets used by, the Group.

(e) Principal actuarial assumptions at the balance sheet date

E The present value of the defined benefit pension plan obligation depends on a number of factors that are determined by an independent actuary using a number of assumptions, including the expected rate of salary increases, mortality in retirement and an appropriate discount rate. These assumptions are determined by the Group, in consultation with the independent actuary who performs an accounting valuation in accordance with NZ IAS 19 'Employee Benefits' at each balance date. Any changes in these assumptions will impact the carrying amount of pension obligations.

As at 31 December 2019 the following actuarial assumptions were applied:

	2019		2018	
	MEDICAL PLAN	**PENSION PLAN**	**MEDICAL PLAN**	**PENSION PLAN**
Discount rate	**2.1%**	**2.0%**	2.8%	2.5%
Expected rate of future salary increases	**-**	**2.5%**	-	2.5%
Pension increases	**-**	**No provision**	-	No provision
Mortality in retirement	New Zealand Life Tables 2012-2014 mortality table, set back by 1 year, together with an age related future mortality improvement scale.			
Health insurance premium	**8.0%**	**-**	8.0%	-
Rate of Fringe Benefit Tax	**42.86%-49.25%**	**-**	49.25%	-

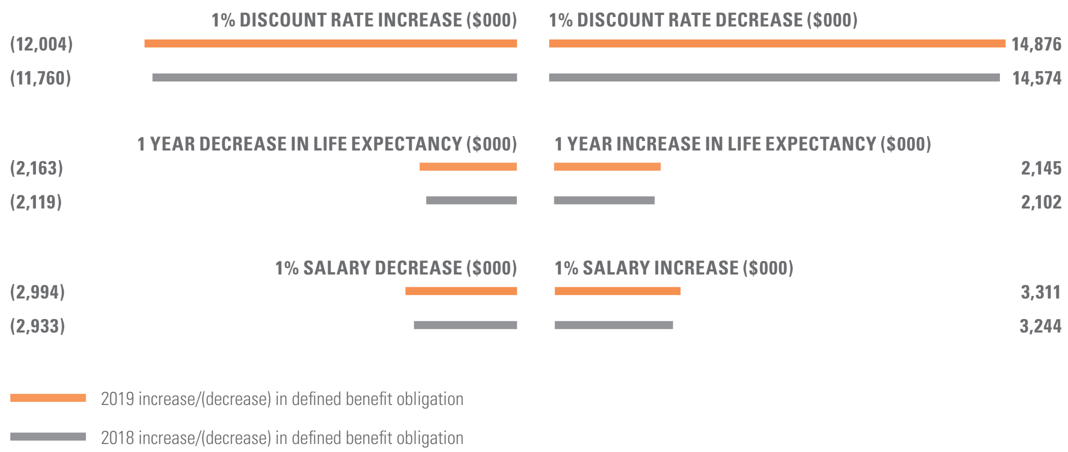
Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

18. EMPLOYEE BENEFITS (continued)

(f) Sensitivity analysis – pension plan

The sensitivity of the defined benefit obligation to changes in the principal assumptions is shown in the graphs below.



The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

The methods and types of assumptions used in preparing the sensitivity analysis are consistent with those applied during the comparative reporting period.

(g) Maturity profile of defined benefit obligation

The average term at which the expected future discounted cash flows are due is 13 years (2018: 12 years).
The average undiscounted expected term of all liabilities is 15 years (2018: 16 years).

(h) Funding arrangements

The Actuary determines the Pension Plan's financial position (funding valuation) every three years in accordance with the Financial Markets Conduct Act 2013. The last funding valuation was completed as at 31 March 2019, at which time the Plan was fully funded based on the assumptions used by the Actuary. These assumptions were consistent with the actuarial assumptions presented in note 18(e), except for the discount rate determined based on the expected long term future returns of the plan rather than the risk free rate of return.

The funding objective adopted at the 31 March 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 valuation is due no later than 31 March 2022.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

18. EMPLOYEE BENEFITS (continued)

(i) Expected contributions

	MEDICAL PLAN	PENSION PLAN
	2020	2020
FINANCIAL YEAR ENDING	$000	$000
Expected employer contributions (net)	286	995

(j) Amounts recognised in the Consolidated Income Statement

	MEDICAL PLAN		PENSION PLAN	
	2019	2018	2019	2018
	$000	$000	$000	$000
Service cost	-	-	1,902	1,863
Net interest cost	226	242	567	330
Plan expense	226	242	2,469	2,193
Contributions tax	-	-	1,216	1,079
PLAN EXPENSE PLUS TAXES	226	242	3,685	3,272

(k) Amounts recognised in the Statement of Comprehensive Income

	2019	2018
	$000	$000
Defined benefit actuarial (loss)	(3,457)	(5,642)
Actual return on plan assets less interest income	9,893	(4,607)
Actuarial loss medical scheme	(1,925)	(726)
Total recognised in other comprehensive income	4,511	(10,975)
Contributions tax	3,170	(5,049)
TOTAL RECOGNISED IN OTHER COMPREHENSIVE INCOME WITH CONTRIBUTIONS TAX	7,681	(16,024)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL RISK MANAGEMENT

This section outlines the key risk management activities undertaken to manage the Group's exposure to financial risk.

This section includes the following Notes:

19. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks (market, credit and liquidity) in the normal course of the Group's business.

Risk management is performed by Group Management who evaluate and hedge certain financial risks including currency risk and interest rate risk under a Treasury Policy that is approved by the Board of Directors.

(a) Market risk

Market risk includes refining margin, electricity pricing, currency and interest rate risk.

Refining margin risk

The refining margin (margin) generated by the Group is a key input to the calculation of the processing fee revenue which comprises 70% (2018: 71%) of the Group's total operating revenue. Processing fee revenue is set as 70% of the gross refining margin generated, subject to a fee floor of $136 million (2018: $134 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. The Group does not hedge this risk. The downside in the volatility of margin and foreign exchange risk is limited by the processing fee floor, which comes into effect if the total processing fee for a calendar year does not exceed a minimum value. The fee floor is subject to annual Producers Price Index (PPI) based escalation.

Electricity

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

19. FINANCIAL RISK MANAGEMENT (continued)

Currency risk

The Group is exposed to foreign exchange risk as a result of transactions denominated in currencies other than the Group's functional currency. The primary currencies giving rise to the currency risk are US dollar, Singaporean dollar, Euro and Australian dollar. Currency risk arises from the processing fee (being calculated in US dollars and billed in New Zealand dollars) and future commercial transactions (purchase of property, plant and equipment, goods or services).

The Group may enter into hedging agreements with Board approval and in accordance with the Group's Treasury Policy which requires all purchases of all capital items of value exceeding certain thresholds to be hedged with either forward exchange contracts or currency options.

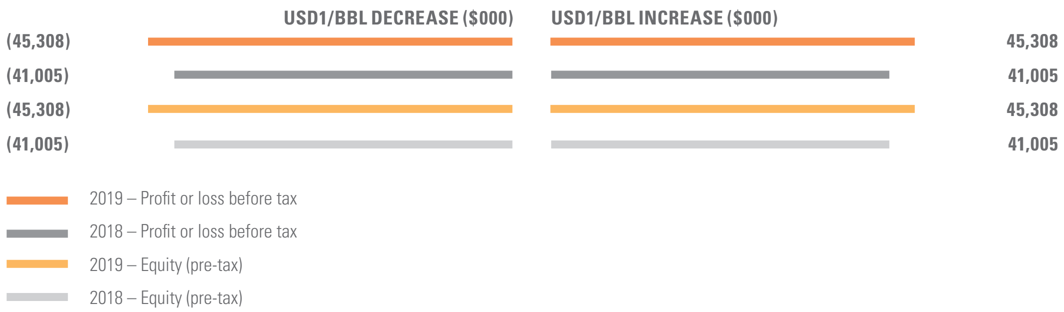
Interest rate risk

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

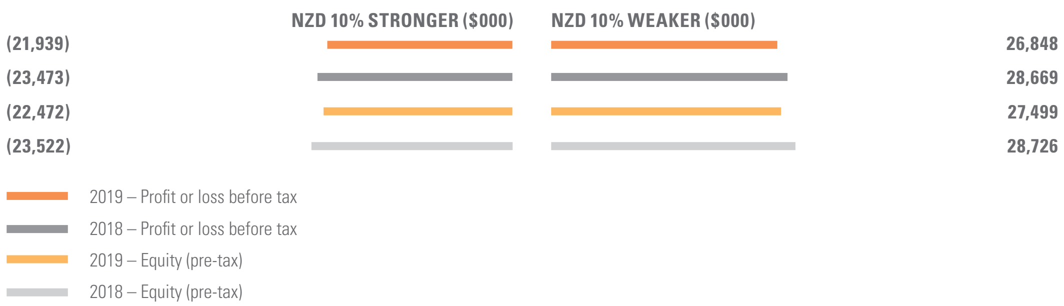
Sensitivity analysis

The graphs below summarise the potential impact of each type of market risk exposures on the Group's profit before tax and equity (assuming all other factors remain unchanged), except for electricity risk which was effectively hedged in 2018 and 2019.

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



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



Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

19. FINANCIAL RISK MANAGEMENT (continued)

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

(b) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers from outstanding receivables and committed transactions.

For banks only parties with a minimum long-term credit rating of A+ or A1 are accepted. Gross limits are set for financial institutions and the usage of these limits is determined by assigning product weightings to the principal amount of the transaction.

Transactions are spread across a number of counterparties to avoid concentrations of credit exposure. No credit limits were exceeded during the reporting period and Management does not expect any losses from non-performance by counterparties.

The Group is exposed to credit risk if counterparties fail to make payments as they fall due in respect of payment of trade receivables as invoices fall due 7-14 days for the Parent and 30 days for its subsidiary after being raised. The receivables from the oil companies (as disclosed in the related party note 3) present a concentration of credit risk, however, Management has assessed the credit quality of these customers as being high. Based on the analysis of the historical payments of the Group's customers and with reference to their credit rating and short payment terms, the Group assessed the expected credit losses to be immaterial. No collateral is held over trade receivables.

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

Overdue trade receivable balances at 31 December 2019, which were subsequently paid in January 2020, totalled $0.343 million (2018: $1.206 million). Management consider that these balances are not impaired.

(c) Liquidity risk

The Group monitors rolling forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on the Group's undrawn borrowing facilities (note 8).

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

19. FINANCIAL RISK MANAGEMENT (continued)

Non-derivative financial liabilities

The following table sets out the maturity analysis for non-derivative financial liabilities based on the contractual terms as at balance date. The amounts presented are the contractual undiscounted cash flows and are based on the expiry of the bank facility or maturity of the subordinated notes.

The liquidity analysis set out below discloses cash outflows resulting from the financial liabilities only, and does not consider expected net cash inflows from financial assets (including trade receivables) or undrawn debt facilities which provide liquidity support to the Group. Contractual cash flows associated with bank borrowings include interest for the period until the debt rollover date (typically within 6 months from the balance date) and subordinated notes include interest in the period until their expiry on 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 2019	$000	$000	$000	$000	$000	$000	$000
NON-DERIVATIVE FINANCIAL LIABILITIES							
Trade and other payables	**(31,967)**	**(31,967)**	**-**	**-**	**-**	**-**	**(31,967)**
Lease liabilities	**(3,454)**	**(252)**	**(290)**	**(532)**	**(1,551)**	**(3,499)**	**(6,124)**
Bank borrowings	**(172,100)**	**(1,681)**	**-**	**(98,100)**	**(74,000)**	**-**	**(173,781)**
Subordinated notes	**(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)**

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

19. FINANCIAL RISK MANAGEMENT (continued)

Derivative financial liabilities

The table below details the liquidity risk arising from derivative liabilities held by the Group at balance date. Derivative financial liabilities are split into the Gross settled derivatives which include foreign exchange forward contracts with the inflow being based on the foreign currency converted at the closing spot rate, and the net settled derivatives which include interest rate swaps with the floating rate being based on the most recent rate set.

		CONTRACTUAL CASH FLOWS					
	CARRYING AMOUNT	LESS THAN 6 MONTHS	BETWEEN 6 MONTHS - 1 YEAR	BETWEEN 1-2 YEARS	BETWEEN 2-5 YEARS	OVER 5 YEARS	TOTAL CASH FLOWS
GROUP 2019	$000	$000	$000	$000	$000	$000	$000
DERIVATIVE FINANCIAL INSTRUMENTS							
Net settled derivatives	**(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	**(86)**	**2**	**(14)**	**(51)**	**-**	**-**	**(63)**
TOTAL DERIVATIVE FINANCIAL LIABILITIES	**(4,388)**	**526**	**(88)**	**(2,052)**	**(2,739)**	**-**	**(4,353)**

		CONTRACTUAL CASH FLOWS					
	CARRYING AMOUNT	LESS THAN 6 MONTHS	BETWEEN 6 MONTHS - 1 YEAR	BETWEEN 1-2 YEARS	BETWEEN 2-5 YEARS	OVER 5 YEARS	TOTAL CASH FLOWS
GROUP 2018	$000	$000	$000	$000	$000	$000	$000
DERIVATIVE FINANCIAL INSTRUMENTS							
Net settled derivatives	(627)	2,457	(373)	(2,824)	-	-	(740)
Gross settled derivatives							
Outflows	-	(697)	(576)	(191)	(71)	-	(1,535)
Inflows	-	700	581	193	71	-	1,545
Total gross settled derivatives	18	3	5	2	-	-	10
TOTAL DERIVATIVE FINANCIAL LIABILITIES	(609)	2,460	(368)	(2,822)	-	-	(730)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

20. DERIVATIVE FINANCIAL INSTRUMENTS

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

Derivatives are only used for economic hedging purposes and not as speculative investments. The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

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

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the cash flow hedge reserve. Hedge effectiveness is determined at inception of the hedge relationship, and through periodic effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The gain or loss relating to the ineffective portion is recognised immediately in other operating gains/losses in the Income Statement.

The net movement in the cash flow hedge reserve comprises:

	2019 $000	2018 $000
Foreign exchange hedges transferred to property, plant and equipment	**(13)**	(457)
Foreign exchange contracts entered into during the year	**(90)**	18
Movement in value of foreign exchange contracts held throughout the year	**-**	(1)
Interest rate swaps maturing in the year	**1,301**	137
Movement in value of interest rate swaps held throughout the year	**1,998**	2,619
Electricity futures and contracts for differences entered into during the year	**(780)**	3,740
Electricity futures and contracts for differences settled in the year	**(5,510)**	(735)
Movement in value of electricity futures held throughout the year	**-**	2,535
Gross movement in cash flow hedge reserve	**(3,094)**	7,856
Deferred tax	**866**	(2,200)
NET MOVEMENT IN CASH FLOW HEDGE RESERVE	**(2,228)**	5,656

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months.

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

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

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

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

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

	2019		2018	
	ASSETS $000	LIABILITIES $000	ASSETS $000	LIABILITIES $000
Cash flow hedges:				
– forward foreign exchange contracts	**-**	**(15)**	12	-
– electricity futures and contracts for differences	**4,421**	**(416)**	6,237	-
– interest rate swaps	**-**	**(3,566)**	-	(1,300)
TOTAL CURRENT PORTION	**4,421**	**(3,997)**	6,249	(1,300)
Cash flow hedges:				
– forward foreign exchange contracts	**-**	**(71)**	6	-
– electricity futures and contracts for differences	**205**	**(4,946)**	-	-
– interest rate swaps	**-**	**-**	-	(5,564)
TOTAL NON-CURRENT PORTION	**205**	**(5,017)**	6	(5,564)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	FOREIGN EXCHANGE FORWARD CONTRACTS				INTEREST RATE SWAPS	ELECTRICITY FUTURES 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**

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

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

The forward exchange contracts are hedging committed or highly probable forecast purchases of property, plant and equipment denominated in foreign currency expected to occur at various dates with maturities between 2020 and 2021. At balance date all forward exchange contracts had been designated as hedges and there was no ineffectiveness to be recorded from these cash flow hedges.

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

Electricity futures 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 $73 thousand (2018: $29 thousand).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

OTHER

This section contains additional notes and disclosures that aid in understanding Refining NZ's performance and financial position.

This section includes the following Notes:

21. EMPLOYEE SHARE-BASED PAYMENTS

P Share-based payments with employees, classified as equity-settled transactions, are recognised as an expense with a corresponding entry to employee share entitlement reserve, and measured at the fair value of the equity instruments granted at grant date. The amount recognised as an expense is adjusted to reflect the number of shares that will ultimately vest over the vesting period. The shares purchased by the Parent on market are accounted for as Treasury Stock.

The Company operates an Employee Share Purchase Scheme ("scheme") which qualifies as an "Exempt ESS" under section CW26C of the Income Tax Act 2007. Eligible employees are offered $1,000 worth of shares, multiplied by the Business Performance Factor (BPF) during the year of award and increased by an employee contribution of $1. The shares are purchased on-market and held by CRS Nominees Limited, during a three year vesting period. As at 31 December 2019 there have been 92,910 shares vested to the Company employees (31 December 2018: Nil).

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					
				$	2015 $000	2016 $000	2017 $000	2018 $000	2019 $000	TOTAL $000
2015	7 April 2016	21 April 2019	299	1,025	75	62	62	85	8	292
2016	29 March 2017	4 May 2020	297	1,250	-	91	62	80	100	333
2017	26 March 2018	8 May 2021	302	1,050	-	-	77	70	68	215
2018	26 March 2019	6 May 2022	314	900	-	-	-	68	65	133
2019 *	-	-	-	-	-	-	-	-	-	-
					75	**153**	**201**	**303**	**241**	**973**
Shares vested in 2019										(292)
SHARE SCHEME RESERVE AS AT 31 DECEMBER 2019										**681**

* A share offer in relation to the performance year 2019 has not been made by the Company to its employees as at 31 December 2019.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

21. EMPLOYEE SHARE-BASED PAYMENTS (continued)

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

	2019			2018		
	NUMBER OF SHARES	AVERAGE PURCHASE PRICE	VALUE OF SHARES ACQUIRED	NUMBER OF SHARES	AVERAGE PURCHASE PRICE	VALUE OF SHARES ACQUIRED
	000's	$ PER SHARE	$000	000's	$ PER SHARE	$000
AT 1 JANUARY	**375.8**	**2.58**	**969**	252.8	2.68	678
Shares acquired	**134.7**	**2.10**	**283**	123.0	2.37	291
Shares vested	**(92.9)**	**3.14**	**(292)**	-	-	-
AT 31 DECEMBER	**417.6**	**2.30**	**960**	375.8	2.58	969

22. CONTINGENT LIABILITIES

The Group has no contingent liabilities at 31 December 2019 (2018: nil).

23. AUDITOR'S FEES

	GROUP 2019 $000	GROUP 2018 $000
Auditor's fees comprises:		
Audit of financial statements – EY	**215**	-
Audit of financial statements – PwC	**-**	155
Reimbursement of travel and accommodation – EY	**15**	-
Reimbursement of travel and accommodation – PwC	**-**	14
Other services:		
Consulting fee – strategic review – Strategy& (PwC)	**-**	681
AGM scrutineering – PwC	**-**	6
Executive development course fees – EY	**49**	-
Remuneration market data report - EY	**8**	-
Advisory fees for remuneration benchmarking – PwC	**-**	16
AUDITOR'S FEES	**287**	872

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

23. AUDITOR'S FEES (continued)

Auditor change

In December 2019, the Company aligned its audit independence policy and its external audit services with the guidance given by the Financial Markets Authority (FMA) Handbook 'Audit quality – a director's guide' issued in November 2019, covering auditor selection, auditor independence and the audit process itself.

In accordance with the Company's revised Auditor Independence policy statement, the Board carried out a market assessment of external audit services – which included consideration of the level of non-assurance services provided and the length of tenure of the current auditor – and appointed Ernst & Young (EY) to provide external audit services to the Company. Consequently, the Board and PwC reached a mutual agreement that PwC resign from their audit role.

EY will stand for reappointment by all shareholders at Refining NZ's Annual Meeting to be held on 29 April 2020.

Other services

- **Consulting Fee – strategic review**
  In 2018 the Board engaged Strategy&, part of the PwC global network, to undertake a one-off advisory service, following a comprehensive tender evaluation process. The services were provided by a consulting team based out of Australia, independent of the New Zealand audit team, and the Board and management retained full responsibilities for all decisions made both during and following the review.

- **Executive Development Course Fees and Remuneration market data report**
  The fees were paid to EY prior to their appointment as auditors of the Company and relate to course fees for the EY Darden Executive Development Program and a remuneration market data report.

Independent Auditor's Report

TO THE SHAREHOLDERS OF THE NEW ZEALAND REFINING COMPANY LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of The New Zealand Refining Company ("the Company") Group and its subsidiaries (together "the Group") on pages 01 to 57 , which comprise the consolidated balance sheet of the Group as at 31 December 2019, 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 01 to 57 present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 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 (revised) Code of Ethics for Assurance Practitioners 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 provided remuneration benchmarking and executive development course 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.

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.

Independent Auditor's Report

TO THE SHAREHOLDERS OF NEW ZEALAND REFINING COMPANY LIMITED GROUP

PROCESSING FEE REVENUE

Why significant	How our audit addressed the key audit matter
The most significant revenue stream of the Group, and a key determinant of its profitability, is processing fee revenue. In 2019 this amounted to $242m of the total Group revenue of $348m. 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. The calculation is based on an agreed formula defined in the processing agreements with each of the oil companies. Note 19 (a) discloses a summary of the method of calculation and the key inputs into the calculation of the processing fees. Notes 2 and 3 of the consolidated financial statements explain the accounting policies used and an analysis of processing fee revenue.	In obtaining sufficient appropriate audit evidence: • We evaluated the Group's process for calculating and recording processing fee revenue. We understood and verified the design of key controls including management's review and authorisation of monthly processing fee calculations. • We agreed the processing fee calculation methodology used to recognise revenue to the method and pricing prescribed in the processing fee agreements and on a sample basis reperformed the calculation of the processing fee for each of the customers. • We agreed key inputs used in the calculation, on a sample basis, to source documents. • We confirmed the total annual processing fee with each customer. • We tested payments received from the oil companies during the year and agreed post year-end cash receipts from each of the customers to the outstanding receivables at year end. • We reviewed the Group's accounting policy and related disclosures with regard to the disclosure requirements of IFRS 15, 'Revenue from Contracts with Customers' and IAS 24 'Related Parties'.

Independent Auditor's Report

TO THE SHAREHOLDERS OF NEW ZEALAND REFINING COMPANY LIMITED GROUP

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-assurancepractitioners/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
26 February 2020