



The New Zealand
REFINING COMPANY LTD

Half Year Report 2008

"Fuelling
New Zealand's
Future"

Performance Summary for the Group

For the Six Months Ended 30 June 2008 (unaudited)

	30 June 2008 \$000	30 June 2007 \$000	Change %
Operating Results			
Operating revenue	182,755	161,159	13.4
Profit before income tax	77,167	71,834	7.4
Profit after income tax	54,000	59,864	(9.8)
Share Indicators			
Net asset backing (per share)	\$2.43	\$2.45	(0.8)
Earnings per share (annualised)	45 cents	50 cents	(10.0)
Numbers			
Shareholders	3,028	3,038	(0.3)
Employees	371	348	6.6

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Chairman's Report



I am pleased to announce a strong half year result based on an excellent all round performance by the Company.

The business environment has been very healthy with NZRC benefiting from record refinery margins. We have been able to translate that into a strong financial result through world class reliability and high plant utilisation. The plant has been available to run and our customers have had the incentive to keep the plant fully loaded.

Gross Refining Margins have dropped significantly since June. It is now apparent that with recent reduced demand and increased regional refining capacity, the high margins experienced in the first half of 2008 may not be sustained.

Revenues

During the six month period ended 30 June 2008 we have accumulated a "Margin Buffer" of approximately US\$88 million (which translates into capped processing fee revenue of NZ\$80 million) due to the operation of the Cap from which we can "top up" any gross refining margin falling below US\$9 per barrel. Essentially, gross refinery margins will have to average below US\$3 per barrel for the balance of the year before our profitability is impacted by margin price movements. Additionally, for current levels of profitability to be maintained for the remainder of 2008 we must continue to have high refinery availability and utilisation. Exchange rate movements may also be a factor.

The processing fee is based on agreements originally entered into in 1995 which have proved remarkably robust and served our shareholders and our customers well over a prolonged period. A review of the processing agreements with customers has been initiated by the company. We expect this to take some time to complete.

The Refinery to Auckland Pipeline is also a significant source of revenues and we saw record monthly throughputs earlier in the year, although in recent months there has been a decline as Auckland demand has fallen.

Operational performance

The key notes of the first half performance are safe and reliable operation. The company achieved one million hours without a lost time incident in May and is currently over 500,000 hours without a recordable injury. Our safety record was already good by New Zealand standards and the recent trends represent a further step towards achieving world class industry performance and our goal of zero injuries. There is a very active safety programme which underpins this improvement and I am delighted that we are already seeing early fruits of these efforts.

NZRC has a track record of good reliability and unplanned downtime for the site compares favourably to the best in the business. The first half year's performance was exceptionally good and underpins the overall standard of operation achieved. We are continuing to focus on systems and processes to ensure that they are robust enough to sustain this world class performance well into the future.

Whilst we enjoy the fruits of high margins, we are also aware that refining is a very volatile business especially if you add the exchange rate risk into the business. We are looking at what we have to do to deliver robust profitability in a low margin world.

Energy costs have increased, particularly electricity. Low water levels have impacted on hydro-electric generation and spot electricity prices. Despite 50 percent of estimated demand being hedged, electricity costs are \$8.6 million higher when compared to the equivalent 2007 period. We have continued concerns with regard to the resilience of the electrical supply on which NZRC depends and are engaged with suppliers on the robustness of the generation and transmission systems.

Energy efficiency is critical, not only from a cost perspective, but also to minimise our environmental impact. We have seen record performance in a number of months which places us ahead of plan and more than meeting our commitments under the Negotiated Greenhouse Agreement with the Crown. Environmental performance has also been generally good.

I am pleased to report that with the exception of electricity, overall costs are within budget.

Point Forward Project

The refinery expansion project - Point Forward Project - is moving from the engineering design and procurement phases into construction with the first big pieces of equipment arriving on site. The project is progressing comparatively well considering the intense worldwide construction activity which is leading to constraints in supplies of raw materials, skilled staff, equipment and fabrication capacity. Despite these pressures, costs are currently close to plan, but there are delays. The complexities of the project, coupled with the business environment within which we are executing the project, have resulted in delays in engineering and procurement, leading to knock on effects on construction and overall progress.

We have decided to defer the shutdown originally planned for November this year into 2009 in order to position the project for success. Resetting the shutdown timing enables the project team to execute the remaining facets of the project in a safe and orderly way. The project will still be completed in 2009.

The shutdown deferral will mean that we now have two major shutdowns to be executed during 2009; the first for Platformer catalyst regeneration in February 2009 and the second an inspection and maintenance shutdown planned for September 2009. Point Forward Project will take advantage of these "windows" to progress and complete the project. The combined effect of these two shutdowns will result in Crude Distillation Unit Number One being unavailable for a total of 40 days processing, reducing refinery output for the year by approximately five percent.

Interim Dividend

The Directors have declared an Interim Dividend of 15 cents per share with full imputation credits. The record date is 18 September 2008 with the dividend being paid on 25 September 2008.

The increased dividend reflects the results for the last six months, continued good progress on the Point Forward Project, the level of borrowing as well as the need to balance the interim dividend to more directly reflect the six months results.

However, Directors advise that this should not be taken as an indication of future dividends as we are entering a period of uncertainty in relation of consumer demand, utilisation, margin expectations and foreign exchange movements and as such refining industry profitability is subject to significant volatility.



David Jackson
Chairman

Consolidated Income Statement

For the Six Months Ended 30 June 2008 (unaudited)

		Six Months Ended 30 June	
		2008	2007
		\$000	\$000
Income			
Operating revenue	2	182,755	161,159
Total income		182,755	161,159
Expenses			
Purchase of process materials and utilities		30,399	18,469
Materials and contractor payments		15,804	13,030
Wages and salaries		17,156	16,616
Depreciation and amortisation		30,328	30,140
Administration and other expenses		11,404	11,168
		105,091	89,423
Profit before finance costs		77,664	71,736
(Less)/Add net finance costs		(497)	98
Profit before income tax		77,167	71,834
Less income tax	4	23,147	11,947
Profit after tax		54,020	59,887
Profit attributable to minority interest		(20)	(23)
Profit attributable to shareholders of The New Zealand Refining Company Limited		54,000	59,864
Earnings per share for profit attributable to the shareholders of the Company:		Cents	Cents
Basic earnings per share		22.5	25
Diluted earnings per share		22.5	25

The above Consolidated Income Statement is to be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 30 June 2008 (unaudited)

	Note	30 June 2008 \$000	30 June 2007 \$000	31 December 2007 \$000
ASSETS				
Current assets				
Cash and cash equivalents		2,749	2,007	8,097
Trade and other receivables		113,732	101,814	114,285
Consumable stores and spares		13,772	13,660	13,548
Income taxation		–	–	1,755
Derivative financial instruments		396	–	–
Total current assets		130,649	117,481	137,685
Non-current assets				
Property, plant and equipment		723,967	694,773	704,623
Investment property		4,500	4,250	4,500
Intangible assets		725	1,396	1,218
Pension assets		–	9,292	8,752
Derivative financial instruments		4,206	–	–
Total non-current assets		733,398	709,711	719,093
TOTAL ASSETS		864,047	827,192	856,778
LIABILITIES				
Current liabilities				
Bank overdraft		34	–	59
Trade and other payables		104,741	85,866	110,233
Income taxation		3,928	8,405	–
Employee entitlements		3,480	2,571	3,045
Derivative financial instruments		–	819	600
Total current liabilities		112,183	97,661	113,937
Non-current liabilities				
Bank borrowings	10	45,000	15,003	–
Deferred taxation		112,072	114,984	116,047
Employee entitlements		5,872	5,475	5,272
Provision for restoration costs		3,019	3,279	3,430
Derivative financial instruments		–	1,765	815
Pension liabilities		2,975	–	–
Total non-current liabilities		168,938	140,506	125,564
TOTAL LIABILITIES		281,121	238,167	239,501
NET ASSETS		582,926	589,025	617,277
EQUITY				
Contributed equity	5	24,000	24,000	24,000
Hedge reserve	5	3,187	(1,791)	(989)
Retained profits	5	555,218	566,348	593,765
Minority interests	5	521	468	501
TOTAL EQUITY		582,926	589,025	617,277

The above Consolidated Balance Sheet is to be read in conjunction with the accompanying notes.

Consolidated Statement of Recognised Income and Expenses

For the Six Months Ended 30 June 2008 (unaudited)

	Six Months Ended 30 June	
	2008 \$000	2007 \$000
Profit after tax	54,020	59,887
Movement in cash flow hedge reserve net of tax	4,176	630
Actuarial loss recognised in the pension scheme net of tax	(8,547)	–
Net (loss)/gains not recognised in Income Statement	(4,371)	630
Total recognised income for the year	49,649	60,517
Attributable to:		
Minority interest	20	23
Equity shareholders of the parent	49,629	60,494

The above Consolidated Statement of Recognised Income and Expenses is to be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the Six Months Ended 30 June 2008 (unaudited)

	Note	Six Months Ended 30 June	
		2008 \$000	2007 \$000
Cash flows from operating activities			
Receipts from customers		183,308	165,213
Payments for supplies and expenses		(63,055)	(49,592)
Payments to employees		(16,605)	(17,679)
Cash generated from operations		103,648	97,942
Interest received		649	1,073
Interest paid		(1,188)	(825)
GST(paid)/received		(317)	6,888
Income taxes paid		(19,565)	(13,691)
Net cash inflow from operating activities	9	83,227	91,387
Cash flows from investing activities			
Payments for property, plant and equipment		(44,798)	(18,250)
Proceeds from sale of property, plant and equipment		94	255
Payments for tank refurbishment		(3,045)	(1,762)
Payments for shutdowns		(1,333)	(9,924)
Payments for catalysts		(468)	(2,700)
Net cash used in investing activities		(49,550)	(32,381)
Cash flows from financing activities			
Proceeds from long term borrowings		45,000	15,003
Dividends paid to shareholders		(84,000)	(84,000)
Net cash used in financing activities		(39,000)	(68,997)
Net decrease in cash and cash equivalents		(5,323)	(9,991)
Cash and cash equivalents at the beginning of the period		8,038	11,998
Cash and cash equivalents at end of the period		2,715	2,007
Consisting of:			
Cash and cash equivalents		2,749	2,007
Bank overdraft		(34)	-
Closing cash balance		2,715	2,007

The above Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes. The cash flows are exclusive of G.S.T.

Notes to the Financial Statements

For the Six Months Ended 30 June 2008 (unaudited)

Note 1 Basis of Preparation of Interim Financial Statements

These interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), NZ IAS 34 and IAS 34 Interim Financial Reporting and should be read in conjunction with the 2007 Annual Report.

The financial statements for the six months ended 30 June 2008 and 30 June 2007 are unaudited. The comparative information for the year ended 31 December 2007 is audited.

The accounting policies used in the preparation of these financial statements are consistent with those used in the previously published interim financial statements to 30 June 2007, and the audited financial statements to 31 December 2007.

Entities reporting

The consolidated financial statements for the "Group" are for the economic entity comprising the New Zealand Refining Company Limited ("Parent") and its subsidiary, Independent Petroleum Laboratory Limited.

The Parent company and the consolidated entity are designated as profit oriented entities for financial reporting purposes. No separate Parent company results are disclosed in the interim financial statements.

Statutory base

The New Zealand Refining Company Limited is a company registered under the Companies Act 1993 and is an issuer pursuant to the Securities Act 1978.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

Note 2 Operating Revenue

Comprises:

Processing fees

Natural Gas recovery

Other refining related income

Refining revenue

Distribution revenue

Other income

Total income

	Six Months Ended 30 June	
	2008 \$000	2007 \$000
Processing fees	155,978	137,323
Natural Gas recovery	7,761	4,406
Other refining related income	1,020	657
Refining revenue	164,759	142,386
Distribution revenue	17,233	18,205
Other income	763	568
Total income	182,755	161,159

The fee payable by customers for processing crude at the Marsden Point Refinery is subject to a cap of USD6.30 per barrel (70% of USD9.00). The cap is calculated on a year to date basis. The revenue not invoiced in relation to the cap of \$80 million for the six months ended 30 June 2008 (30 June 2007: \$2 million) is a contingent asset, the recognition of which is dependent on whether and to the extent, the fee payable by customers falls below the level of the cap for the six months to 31 December 2008.

Notes to the Financial Statements

For the Six Months Ended 30 June 2008 (unaudited)

Note 3 Segment Information

(a) Description of segments

(i) Business segments

The company is organised into two main business segments.

Oil Refining

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

Distribution

The Company owns infrastructure to support the distribution of manufactured products to its customers. The Refinery to Auckland Pipeline transfers product to the Wiri Oil Terminal located in South Auckland. The Wiri Oil Terminal is owned by the Company and is leased to its customers.

(b) Primary reporting format - business segments

30 June 2008

Total operating revenue

Net profit before finance costs and taxation

Oil Refining \$000	Distribution \$000	Other \$000	Elimination \$000	Total \$000
164,759	17,233	2,385	(1,622)	182,755
68,696	8,848	120	–	77,664

30 June 2007

Total operating revenue

Net profit before finance costs and taxation

Oil Refining \$000	Distribution \$000	Other \$000	Elimination \$000	Total \$000
142,386	18,205	2,071	(1,503)	161,159
61,517	10,086	133	–	71,736

Notes to the Financial Statements

For the Six Months Ended 30 June 2008 (unaudited)

Note 4 Income Taxation

The New Zealand Government has enacted legislation to reduce the corporate income tax rate from 33% to 30%, effective for the Group from 1 January 2008. In accordance with NZ IAS 12, "Income Taxes", the reduction in the Corporate Income Tax Rate has been reflected in the deferred tax balance as at 30 June 2007 and 31 December 2007. As at 30 June 2007, deferred tax on those temporary differences expected to reverse before 31 December 2007 was recognised at 33%, while deferred tax on those temporary differences expected to reverse after 1 January 2008 was recognised at 30%. At 31 December 2007 deferred tax was recognised at 30% on all temporary differences.

	Six Months Ended 30 June	
	2008 \$000	2007 \$000
(a) Reconciliation of income tax expense to tax rate applicable to profits		
Profit from continuing operations before income tax expense	77,167	71,834
Tax at the New Zealand tax rate of 30% (2007: 33%)	23,150	23,705
Tax effect of amounts which are either non-deductible or taxable in calculating taxable income:		
Expenses not deductible for tax	–	3
Imputation credits on dividends received	–	–
Losses utilised	–	–
Tax payable in respect of previous years	(3)	(40)
Deferred tax in respect of previous years	–	(116)
Deferred tax due to reduction in corporate income tax rate	–	(11,605)
Income tax expense	23,147	11,947
(b) Income tax expense		
Tax payable in respect of the current year	25,252	22,050
Tax payable in respect of previous years	(3)	(40)
Deferred tax in respect of the current year	(2,102)	1,658
Deferred tax in respect of previous years	–	(116)
Deferred tax due to reduction in corporate income tax rate	–	(11,605)
Income tax expense	23,147	11,947
(c) Amounts recognised directly in equity		
Aggregate deferred tax arising in the period and not recognised in the income statement but directly debited or credited to equity arising from:		
Current period movement	1,873	(340)
Reduction in corporate income tax rate	–	(60)
	1,873	(400)

The Group and Parent have no tax losses (2007: Nil) and no unrecognised temporary differences (2007: Nil).

Notes to the Financial Statements

For the Six Months Ended 30 June 2008 (unaudited)

Note 5 Equity

Dividends

During the six months ended 30 June 2008, the Group paid dividends of \$84,000,000 (six months ended 30 June 2007: \$84,000,000).

Equity attributable to Equity Holders of the Parent

	Contributed Equity \$000	Hedge Reserve \$000	Retained Profits \$000	Total \$000	Minority Interests \$000	Total Equity \$000
Balance at 31 December 2006	24,000	(2,421)	590,484	612,063	445	612,508
Profit after tax	–	–	59,864	59,864	–	59,864
Movement in cash flow hedge reserve net of tax	–	630	–	630	–	630
Actuarial gain/(loss) recognised in the pension scheme net of tax	–	–	–	–	–	–
Total recognised income and expenses for the period	–	630	59,864	60,494	–	60,494
Dividends provided for or paid	–	–	(84,000)	(84,000)	–	(84,000)
Movement in minority interest	–	–	–	–	23	23
Balance at 30 June 2007	24,000	(1,791)	566,348	588,557	468	589,025
Balance at 31 December 2007	24,000	(989)	593,765	616,776	501	617,277
Profit after tax	–	–	54,000	54,000	–	54,000
Movement in cash flow hedge reserve net of tax	–	4,176	–	4,176	–	4,176
Actuarial gain/(loss) recognised in the pension scheme net of tax	–	–	(8,547)	(8,547)	–	(8,547)
Total recognised income and expenses for the period	–	4,176	45,453	49,629	–	49,629
Dividends provided for or paid	–	–	(84,000)	(84,000)	–	(84,000)
Movement in minority interest	–	–	–	–	20	20
Balance at 30 June 2008	24,000	3,187	555,218	582,405	521	582,926

Note 6 Capital Expenditure Commitments

Commitments at the end of the period not provided for in the financial statements

30 June 2008 \$000	30 June 2007 \$000	31 December 2007 \$000
31,906	14,657	27,789

Note 7 Operating Lease Commitments

Gross commitments under non-cancellable operating leases for the Group

30 June 2008 \$000	30 June 2007 \$000	31 December 2007 \$000
302	263	277

Note 8 Contingent Liabilities

Contingent liabilities under contracts, guarantees and other agreements arising in the ordinary course of business on which no loss is anticipated are as follows:

Guarantee to the New Zealand Stock Exchange

30 June 2008 \$000	30 June 2007 \$000	31 December 2007 \$000
75	75	75

Notes to the Financial Statements

For the Six Months Ended 30 June 2008 (unaudited)

Note 9 Reconciliation of Net Cash Flow from Operating Activities to Reported Profit

	Six Months Ended 30 June	
	2008 \$000	2007 \$000
Profit after tax before minority interest	54,020	59,887
Adjusted for:		
Depreciation expense	30,328	30,140
Movement in deferred tax	(3,975)	(9,656)
Less deferred taxation movement in reserves	1,873	(400)
Provision for restoration costs	(40)	150
Settlement of foreign exchange swap	(50)	–
Contributions to defined benefit pension plan	(484)	(212)
Impact of changes in working capital items:		
Increase/(decrease) in employee entitlement provisions	1,035	(850)
Decrease in trade and other receivables	553	4,053
Decrease in trade and other payables	(5,492)	(304)
(Increase)/decrease in consumable stores and spares	(224)	22,051
Less attributable to fixed asset purchases/transfers	–	(21,784)
Increase in taxation payable	5,683	8,312
Net cash flows from operating activities	83,227	91,387

Note 10 Bank Borrowings

	Effective Interest Rate		As at 30 June	
	2008 %	2007 %	2008 \$000	2007 \$000
Group and Parent secured				
Bank loans	8.80%	8.30%	45,000	15,003
Total non-current interest bearing borrowings	8.80%	8.30%	45,000	15,003

The carrying amount of the current and non-current borrowings approximates their fair value.

The non-current borrowings are unsecured. The Parent company borrows under a negative pledge arrangement which requires certain certificates and covenants. All these requirements have been met.

The carrying amounts of the Group's borrowings are denominated in New Zealand Dollars.

The Group has the following un-drawn borrowing facilities:

	30 June 2008 \$000	30 June 2007 \$000	31 December 2007 \$000
Working capital facility	55,000	30,000	100,000
Cash advance facility	100,000	25,000	100,000
Total un-drawn borrowing facility	155,000	55,000	200,000

Notes to the Financial Statements

For the Six Months Ended 30 June 2008 (unaudited)

Note 11 Related Parties

The Group enters into transactions with Related Parties. Details of Related Parties and the types of transactions entered into during the period ended 30 June 2008 are consistent with those disclosed in the audited financial statements for the year ended 31 December 2007.

Note 12 Intangible Assets

Included within Intangible Assets are 24,730 Assigned Amount Units (AAU's) issued by the Crown to the Company in March 2008. The AAU's were issued as a result of the Company's performance under the Negotiated Greenhouse Gas Agreement (NGA) signed with the Crown in 2003.

The NGA requires the Company to achieve an agreed level of energy efficiency. If the Company's performance is outside of the agreed range, the shortfall or excess is converted into theoretical "CO₂ tonnes" at milestones during the contract period. The "tonnes" are aggregated, resulting in either the transfer of CO₂ equivalent units to the Company (achieving better than target) or a transfer of units (or payment of a carbon charge) to the Crown if the Company fails to meet its target.

The term of the NGA is until 31 December 2022, subject to a 2012 review which will establish the Milestone Dates for the period 1 January 2013 to 31 December 2022, the Target Energy Efficiency Index endpoint and the resulting target pathway.

The AAU's are assessed at a nil value in the absence of a functioning emission trading scheme and an active market and therefore we are unable to measure their value reliably.

Corporate Directory

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Ruakaka

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Share Registrar

Computershare Investor Services Limited
Private Bag 92119
Auckland 1020

Bankers

The National Bank of New Zealand
Bank of New Zealand

Legal Advisers

MinterEllisonRuddWatts
Chancery Green
Swarbrick Beck Solicitors

Auditor

PricewaterhouseCoopers

Chairman

D.A. Jackson

Directors

A.J. Clements (appointed 21 February 2008)

J.R. Crossman

P.W. Griffiths

G.W. Henson

K.A. Hirschfeld

D.W.W. Johnston

P.F. Rea

P.M. Springford

M. Tume

W.S. Wheat

I.F. Farrant (resigned 24 April 2008)

G.A. Cumming (resigned 21 February 2008)

Alternate Directors

V. Raman

J.H. Wake

Chief Executive Officer

K.J. Rivers

Company Secretary

D.B. Martin



The New Zealand
REFINING COMPANY LTD
