



The New Zealand
REFINING COMPANY LTD

HALF YEAR REPORT 2005

Corporate Directory

Registered Office:

Marsden Point
Ruakaka

Mailing Address:

Private Bag 9024
Whangarei
Telephone +64 9 432 8311
Facsimile +64 9 432 8035

Website:

www.nzrc.co.nz

Share Registrar:

Computershare Investor Services Limited
Private Bag 92119
Auckland 1020

Bankers:

The National Bank of New Zealand
Bank of New Zealand

Legal Advisors:

MinterEllisonRuddWatts

Auditor:

PricewaterhouseCoopers

Chairman:

I.F. Farrant

Directors:

W.R. Bussing
P.C.A. Colman
G.A. Cumming
P.W. Griffiths
G.W. Henson
D.A. Jackson
P. Logan

Sir Colin Maiden

M.R. Malpass

C.M. Midgley

Chief Executive Officer:

Dr T. Zengerly

Company Secretary:

D.B. Martin

Financial Summary for the Group

Six Months to 30 June 2005

	30 Jun 2005 \$000	30 Jun 2004 \$000	Change %
Operating Results			
Operating revenue	164,256	118,263	39%
Other income	263	740	-64%
Surplus before income tax	93,996	52,238	80%
Surplus after income tax	61,846	34,323	80%
Share Indicators			
Net asset backing	\$16.33	\$14.12	16%
Earnings per share (annualised)	\$5.15	\$2.86	80%
Numbers			
Shareholders	2,345	2,415	-3%
Employees	325	309	5%

Highlights

Six Months to 30 June 2005

- High safety focus maintained - no Lost Time Injuries.
- High refining margins despite unfavourable exchange rates.
- Surplus after income tax exceeds expectations.
- Future Fuels project on track for start up August 2005.
- Refinery to Auckland Pipeline pump station project successfully up and running.
- \$1.00 per share fully imputed dividend declared.

Chairman's Review



Following on from last year's excellent result the company has again exceeded the board's expectations with its 2005 first half year result. International market factors continue to support the refinery's income, while the pipeline and other income provide a solid base for the company's performance.

High international refining margins, which favoured companies with high refining exposure during much of 2004, have continued to lift results above the levels seen in previous years for the first six months of 2005. This environment has prompted many companies and governments to announce new refining projects. These projects consist of both new refineries and expansion of existing facilities.

This raises the risk that on completion of these projects the supply-demand balance will shift in four to five years from now. It is too early to say what the effect of this increased refining capacity will be on margins as this depends on many factors such as future demand trends, supply restrictions due to increased environmental or product quality requirements, availability of refineries and shipping constraints. However, in the short term we can expect high refining margins to continue.

We are often asked about the relationship between the company's results and the prices paid at the pump for petrol and diesel. The following factors should be considered:

- NZRC's income is tied to international market prices for crude and products.
- Pump prices are set by the marketers of fuels in New Zealand; NZRC has no influence over their pricing policies.
- NZRC's profit for the refining services provided to its customers translates into a tiny fraction of the final pump price. At present this corresponds to about 3 cents per litre.

The exchange rate has eased somewhat from its 2004 peak further improving revenue. The cost of electricity has been close to expected levels. Costs have been well managed and are in line with budget. The reliability and availability of the refinery compares favourably with industry benchmarks.

An additional challenge for management for the balance of the year will be the safe and successful start-up and fine-tuning of the Future Fuels project. Many people have worked hard to progress the project to its current state of near completion. However as so often can be the case, the final steps can also be the hardest ones and we are confident the team at NZRC will succeed with the integration of the new units into the refinery.

I am pleased to be able to report that the company has produced a net profit after tax for the six months to June of \$61.8 million (2004 \$34.3 million). Revenues of \$164.5 million were generated (2004 \$119.0 million). When comparing this result with last year's result for the same period, allowance must be made for the fact that a planned Hydrocracker shutdown occurred in 2004.

After careful consideration of capital work in progress, and other potential growth opportunities that the company is evaluating, the board has decided that shareholders' interests are best served by paying a fully imputed interim dividend of \$1.00 per share on 30 September 2005 (2004 Interim Dividend was \$1.00). The record date will be the 23rd of September 2005.

In order to realign the NZRC share price with other market participants the company will split its shares in the ratio of ten for one. The record date for the share split is the 7th of October 2005.

A handwritten signature in blue ink that reads "Ian Farrant". The signature is fluid and cursive, with a large initial 'I' and 'F'.

Ian Farrant
Chairman

Chief Executive Officer's Review



The first 6 months of 2005 have again provided those working for the company with many opportunities to demonstrate their professionalism.

- Safety performance remains excellent. Employees and contractors have achieved 2,000,000 man-hours without a lost time incident for the second time in 3 years. Everyone at the refinery remains focused on continuing to have a safe workplace.
- The company achieved recertification of its environmental management system according to ISO 14001.
- Plant availability and utilisation has been excellent.
- Steps have been taken to resolve with our customers the issue of late crude oil deliveries.
- The planned shutdown of A Block for inspection, maintenance and catalyst change-out was executed without any recordable safety incidents and within the planned timeframe.

- The project for expanding the capacity of the Refinery to Auckland Pipeline was completed on schedule and within budget.
- The Future Fuels project is progressing well and nearing completion.
- A team is working on the initial stages of a major project which will increase refining capacity. This will enable the company to take advantage of the market opportunities available in New Zealand. A decision from the board to progress this project into the front end engineering and design phase is expected in late 2005.

The Future Fuels project has progressed as planned: Mechanical construction started at the beginning of the year followed by instrument and electrical installations. All activities have been subject to strict quality controls. Operators have been trained in the operation of the three new units (Hydrogen Separation, Hydrogen Desulphurisation and Benzene Reduction units) and the

integration of these units into the existing refinery. The new plant has been subjected to extensive testing and has now been successfully commissioned and brought into operation. The official opening of the plant occurred on the 25th August followed by an open day for the public on the 28th August. NZRC is planning to supply its customers with clean fuels from September 2005 onwards. This will allow sufficient time to turn over the stock of diesel and petrol in the country before the new fuel specifications come into force on 1 January 2006.

I thank all those working for and with NZRC, not only for their contribution to the company's excellent first half year's result but also for the achievement of many other major milestones during the period.

Thomas Zengerly
Chief Executive Officer
and General Manager

Future Fuels site nearing completion, August 2005.



Statement of Financial Performance for the Group

Six Months to 30 June 2005

	Six Months 30 Jun 2005 \$000	Six Months 30 Jun 2004 \$000	12 Months 31 Dec 2004 \$000
Group Operating Revenue (Continued Activities)	164,256	118,263	280,434
Operating Surplus Before Taxation (Continued Activities)	93,996	52,238	151,176
Taxation	32,150	17,915	53,563
Operating Surplus After Taxation	61,846	34,323	97,613
Minority interest in surpluses of subsidiary	(50)	(45)	(66)
Operating Surplus After Taxation and Minority Interests	61,796	34,278	97,547

Statement of Movements in Equity for the Group

Six Months to 30 June 2005

	Six Months 30 Jun 2005 \$000	Six Months 30 Jun 2004 \$000	12 Months 31 Dec 2004 \$000
Equity at the Beginning of Year	378,114	318,879	318,879
Unclaimed dividends written back	–	–	5
Surplus after taxation	61,796	34,278	97,547
Total recognised Revenue and Expenses	61,796	34,278	97,552
Movements in minority interests	(50)	(48)	(85)
Dividends	48,028	14,400	38,400
Prior years dividends paid out	–	2	2
Equity at the End of the Period	391,932	338,803	378,114

Statement of Financial Position for the Group

As at 30 June 2005

	As at 30 Jun 2005 \$000	As at 30 Jun 2004 \$000	As at 31 Dec 2004 \$000
Equity			
Share capital	24,000	24,000	24,000
Retained Earnings	367,538	314,496	353,770
Minority Interests	394	307	344
Total Equity	<u>391,932</u>	<u>338,803</u>	<u>378,114</u>
Non-current Liabilities			
BNZ Loan	77,782	5,001	45,098
Payroll Provisions	3,510	3,445	3,375
Deferred Tax	9,088	7,713	10,050
Total Non-current Liabilities	<u>90,380</u>	<u>16,159</u>	<u>58,523</u>
Current Liabilities			
Bank Overdraft	54	35	40
Accounts Payable	96,881	75,630	102,491
Taxation	13,922	11,106	3,082
Total Current Liabilities	<u>110,857</u>	<u>86,771</u>	<u>105,613</u>
Total Equity and Liabilities	<u>593,169</u>	<u>441,733</u>	<u>542,250</u>
Non-current Assets			
Fixed Assets	457,337	337,281	411,451
Total Non-current Assets	<u>457,337</u>	<u>337,281</u>	<u>411,451</u>
Current Assets			
Cash and Short Term Deposits	2,327	3,683	6,594
Accounts Receivable	119,637	89,970	113,127
Consumable Stores and Spares	13,868	10,799	11,078
Total Current Assets	<u>135,832</u>	<u>104,452</u>	<u>130,799</u>
Total Assets	<u>593,169</u>	<u>441,733</u>	<u>542,250</u>

Statement of Cash Flows for the Group

Six Months to 30 June 2005

	Six Months 30 Jun 2005 \$000	Six Months 30 Jun 2004 \$000	12 Months 31 Dec 2004 \$000
Cash Flows from Operating Activities			
<i>Cash was provided from:</i>			
Receipts from Customers	157,309	112,543	264,006
Interest Received	263	740	940
Net GST Received	–	–	897
	<u>157,572</u>	<u>113,283</u>	<u>265,843</u>
<i>Cash was applied to:</i>			
Payments to Employees	(16,618)	(16,098)	(29,512)
Payments for Supplies and Expenses	(45,440)	(40,841)	(65,084)
Income Tax Paid	(22,273)	(7,184)	(48,519)
Interest Paid	(2,444)	(114)	(2,068)
Net GST Paid	(1,697)	(2,550)	–
	<u>(88,472)</u>	<u>(66,787)</u>	<u>(145,183)</u>
Net Cash Inflows from Operating Activities	<u>69,100</u>	<u>46,496</u>	<u>120,660</u>
Cash Flows from Investing Activities			
<i>Cash was provided from:</i>			
Proceeds from Sale of Property, Plant and Equipment	36	58	119
Proceeds from Sale of Catalyst	131	–	1,139
Contribution from Minority Interest in Subsidiary	–	3	19
	<u>167</u>	<u>61</u>	<u>1,277</u>
<i>Cash was applied to:</i>			
Purchase of Plant	(54,817)	(44,008)	(132,004)
Purchase Catalyst	(2,961)	(8,922)	(9,500)
Costs of Catalyst disposals/recovery	(426)	–	–
	<u>(58,204)</u>	<u>(52,930)</u>	<u>(141,504)</u>
Net Cash (Outflow) from Investing Activities	<u>(58,037)</u>	<u>(52,869)</u>	<u>(140,227)</u>
Cash Flows from Financing Activities			
<i>Cash was provided from:</i>			
Proceeds from Borrowings	19,000	5,001	55,000
Long Term Borrowings	30,684	–	45,098
Unclaimed Dividends	–	–	5
	<u>49,684</u>	<u>5,001</u>	<u>100,103</u>
<i>Cash was applied to:</i>			
Repayment of Principle on Borrowings	(17,000)	–	(55,000)
Dividends Paid to Shareholders	(48,028)	(14,400)	(38,402)
	<u>(65,028)</u>	<u>(14,400)</u>	<u>(93,402)</u>
Net Cash Inflow (Outflow) from Financing Activities	<u>(15,344)</u>	<u>(9,399)</u>	<u>6,701</u>

Statement of Cash Flows for the Group

Continued

	Six Months 30 Jun 2005 \$000	Six Months 30 Jun 2004 \$000	12 Months 31 Dec 2004 \$000
Net increase/(decrease) in cash held	(4,281)	(15,772)	(12,866)
Opening cash brought forward	6,554	19,420	19,420
Closing cash carried forward	2,273	3,648	6,554
<i>Comprising:</i>			
Bank Overdraft	(54)	495	(40)
Cash and Short Term Investments	2,327	3,153	6,594
	<u>2,273</u>	<u>3,648</u>	<u>6,554</u>
Reconciliation with Operating Surplus			
Operating surplus before minority interest	61,846	34,323	97,613
<i>Add (deduct) non-cash items:</i>			
Deferred Tax Movement	(962)	(389)	1,948
Depreciation and Disposal of Assets	9,437	8,472	17,994
Catalyst Depreciation and Disposal of Catalyst	2,716	2,448	6,131
Provision for Retirement Bonuses & Long Service Leave	135	(163)	(233)
<i>Add (deduct) working capital movements:</i>			
Stock	(2,790)	396	117
Accounts Receivable	(6,510)	6,868	(16,428)
Accounts Payable	(5,611)	(16,579)	10,422
Tax Payable (Refundable)	10,839	11,120	3,096
Net Cash Inflows from Operating Activities	69,100	46,496	120,660

Other Information for the Group

Six Months to 30 June 2005

	Six Months 30 Jun 2005 \$000	Six Months 30 Jun 2004 \$000	12 Months 31 Dec 2004 \$000
Interest Received	263	740	940
Interest Paid	2,444	114	2,068
Commitments for Capital Expenditure not provided for in the accounts	6,840	82,293	32,337
Bonds and Guarantees	75	75	75

Notes to the Interim Financial Statements

1. Statement of Accounting Policies

The accounting policies used in the preparation of these financial statements are consistent with those used in the previously published interim financial statements and the audited annual financial statements to 31st December 2004.

2. Changes in Accounting Policies

There have been no changes in accounting policies.

3. Presentation Basis

The interim financial statements are presented in accordance with Financial Reporting Standard No. 24 (FRS-24) Interim Financial Statements and should be read in conjunction with the audited financial statements to 31st December 2004.

4. Audited Information

The financial statements do not include any audited information.

5. Stock Exchange Listing Requirements

The relevant information required by Listing Requirement 10.4.2 is properly disclosed.

6. Impact of Adopting New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS")

Analysis of the potential impacts on the Group arising from the proposed conversion to New Zealand International Financial Reporting Standards ("NZ IFRS") commenced in December 2004.

To date the Group has identified the key differences arising from the conversion to NZ IFRS, both from a reporting and an operational perspective. As a result of this process it is the intention of the Group to adopt NZ IFRS effective from 1 January 2006 with the first NZ IFRS compliant financial statements being published for the half year ending 30 June 2006 and the full year ending 31 December 2006.

The following key differences in accounting policies have been identified to date:

(a) NZ IAS 39 Financial Instruments: Recognition and Measurement

Under NZ IAS 39, the fair value of derivatives entered into by the Group must be recognised on the Statement of Financial Position. Changes in the value of these derivatives must be recorded either through the Statement of Financial Performance or Equity depending on hedging documentation and effectiveness.

Under NZ GAAP the Group records the impact of derivatives on a cash settlement basis.

(b) NZ IAS 17 Leases

Under NZ IAS 17 certain leases, where the Company is the lessor, which are currently treated as operating leases will meet the definition of a finance lease. For these leases, the assets will be derecognised as Property, Plant and Equipment and a Finance Lease Receivable will be recorded in the Statement of Financial Position. Lease payments will be split between a repayment of principal and finance income.

Notes to the Interim Financial Statements

Continued

(c) NZ IAS 37 Provisions, Contingent Liabilities, and Contingent Assets

Under NZ IAS 37 the Group will be required to recognise a provision for rehabilitation costs for certain leasehold property.

(d) NZ IAS 16 Property, Plant and Equipment

Under NZ IAS 16, certain costs that are currently written off as maintenance will be capitalised and depreciated over the period to the next planned regular major inspection.

(e) NZ IAS 19 Employee Benefits

The Company has a “defined benefit” post employment benefit plan. Accounting for a defined benefit plan is complex because actuarial techniques are required to measure the Group’s liability and expense in respect of pension benefits provided in exchange for the services of employees. NZ IAS19 details the basis of valuation as well as principles governing the actuarial assumptions that should be used for valuing the defined benefit plans.

As a result, on adoption of NZ IFRS the Group will recognise an asset or liability in the Statement of Financial Position in respect of the scheme and a corresponding expense in relation to the cost of providing these benefits.

(f) NZ IAS 12 Income Taxes

This standard requires recognition of deferred tax using the comprehensive basis applied to temporary differences together with a different test associated with recognition of losses. This will result in the Group recognising deferred tax balances not currently recognised under the Group’s current accounting policies.

(g) NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards

NZ IFRS 1 provides a number of optional exemptions that may be applied when NZ IFRS is adopted for the first time. One of these exemptions allows a company, on adoption, to measure an item of property, plant and equipment at the date of transition to NZ IFRS at its fair value, and use that fair value as “deemed cost”. The Group may take advantage of this exemption, which will result in an increase in the value of property, plant and equipment recorded in the Statement of Financial Position.

The purpose of this disclosure is to highlight the issues that will impact the Group’s financial statements and disclosures as a result of transitioning to NZ IFRS from current NZ GAAP based on the standards and interpretations as they are today. Not all the changes are likely to be material and it is possible that future developments to NZ IFRS will change the nature of the adjustments required by the time the group reports its first financial statements prepared under NZ IFRS.

7. Audit Committee

The Group has a formally constituted audit committee of the Board of Directors.



The New Zealand
REFINING COMPANY LTD
