



The New Zealand
REFINING COMPANY LTD



Half Year Report 2004



Financial Summary for the Group

Six Months to 30 June 2004

	30 Jun 2004 \$000	30 Jun 2003 \$000	Change %
Operating Results			
Operating revenue	118,263	93,168	27%
Other income	740	571	30%
Surplus before income tax	52,238	23,294	124%
Surplus after income tax	34,323	14,120	143%
Share Indicators			
Net asset backing	\$14.12	\$12.93	9%
Earnings per share (annualised)	\$2.86	\$1.18	142%
Numbers			
Shareholders	2415	2554	-5%
Employees	308	304	1%

Highlights

Six Months to 30 June 2004

- Two million manhours without a lost time injury celebrated - first time ever.
- High refining margins despite unfavourable exchange rates.
- Surplus after income tax exceeds expectations.
- Future Fuels project on track.
- Successful major refinery shutdown exercise completed.
- 100 cents per share fully imputed dividend declared.

Chairman's Review



THE RESULTS from operations for the first six months of 2004, have exceeded the Board's expectations due to substantially improved international market factors. In late 2003, after

consideration of the 2004 Business Plan and Budgets, the Directors considered it necessary to inform the market of the challenges facing the Company over the coming periods - high exchange rates, a major shutdown and the funding of the Future Fuels project being key aspects. These issues are to a large extent still valid today. However, refining margins have significantly improved this year and the volatile business environment is expected to persist.

I am pleased to report that the Company produced a net profit after tax for the six month period to June, of \$34.3 million (2003 \$14.1 million). Revenue of \$118.3 million (2003 \$93.2 million) was much higher than anticipated due to international prices for finished products being significantly higher than crude prices throughout the period. Reasons for the higher prices are a combination of demand being significantly higher and supply not being available for a couple of reasons - major refinery planned and unplanned shutdowns and the inability of refineries to meet new fuel specification requirements. NZRC did have a major shutdown during the period and has now changed its crude diet in order to produce lower sulphur (500 parts per million) diesel.

Excellent planning and very good work execution during the shutdown meant that downtime was minimised. The start-up was also a credit to the team, considering that this was the first time since the 1980's expansion that the entire processing and utilities units were shutdown together.

As at 30 June 2004, nearly all expenditure on the Future Fuels project had been funded internally. However, with significant tax payments on the horizon and an interim dividend in September, borrowings will rise to around \$80-90 million by year end.

The Directors have given careful consideration and have agreed that in view of the capital work in progress and other opportunities that may be available to the Company (like co-generation and de-bottlenecking) that all shareholders' interests are best served by paying a fully imputed interim dividend on 28 September of \$1.00 per share to shareholders of record on 24 September.

A handwritten signature in black ink, which appears to read "Ian Farrant". The signature is written in a cursive, flowing style.

Ian Farrant
CHAIRMAN

CEO's Review



NZRC has delivered very good results for the first six months of 2004. The strong business environment for refiners has helped the company to achieve a higher first half year profit than in recent years

despite the unfavourable exchange rate, the extra costs and loss of revenue from our planned major shutdown.

There have been many aspects of our performance that have given all employees and contractors on site a high level of satisfaction:

For the first time ever, 2,000,000 Lost Time Injury free hours were achieved by the site. This is a tremendous improvement over previous years and one which we are focused on both maintaining and improving.

Refinery staff, contractors and suppliers combined once again to complete a very successful shutdown. The scope of this shutdown was large, involving most process units and more than 500 additional people on site for a period of four weeks. During this period we not only set challenging work targets but also stretched our safety and environmental goals. These were monitored carefully and celebrated when they were achieved. Learnings were documented to help us improve even further from the high level of performance already achieved. However, the real test of a successful shutdown is the refinery's availability over the next run length. Our plans are to achieve more than 97% availability over the next cycle. This will be a challenge for us considering that during the period we will be bringing new plant and equipment on line and reducing the sulphur levels in diesel to 50 parts per million.

The Future Fuels Project is on target in the three priority areas:

Safety – There have been no recordable incidents so far.

Costs – These are currently still within budget, but increased costs for some materials and projected above budget construction phase costs are eroding earlier savings.

Schedule – The project is on track, although some delays in the civil works have taken any slack there may have been out of the construction plan.

Another project which will increase the capacity of the Refinery to Auckland pipeline is well underway with civil work in progress near Kumeu and all of the pumps and controls ordered. We expect to complete this work as planned in early 2005.

The co-generation study is still progressing, but many uncertainties still remain, especially with regard to fuel supply and electricity industry rules which have yet to be clarified.

Tenders for the configuration study have been prepared and the study will commence in the second half of 2004. It aims at identifying profitable opportunities to expand the refinery capacity.

In August 2004, staff and pensioners celebrated 40 years of refining operations at Marsden Point. Late September the NZRC will hold an "Open Day" with educational tours of the Refinery site and amusement/fun activities for both adults and children. Fund raising during the day will be donated to the North Haven Hospice. While we can be proud on our history our focus remains on securing our future, on operational excellence, growth and social responsibility.

I would like to thank all staff, contractors and suppliers for their contribution to the Company's achievements in the first half of 2004.

Thomas Zengerly
CHIEF EXECUTIVE OFFICER

Statement of Financial Performance for the Group

Six Months to 30 June 2004

	Six Months 30 Jun 2004 \$000	Six Months 30 Jun 2003 \$000	12 Months 31 Dec 2003 \$000
Group Operating Revenue (Cont'd Activities)	118,263	93,168	188,400
Operating Surplus Before Taxation (Cont'd Activities)	52,238	23,294	59,581
Taxation	17,915	9,174	22,579
Operating Surplus After Taxation	34,323	14,120	37,002
Minority interest surpluses of subsidiary	(45)	(33)	(55)
Operating Surplus After Taxation and Minority Interests	34,278	14,087	36,947

Statement of Movements in Equity for the Group

Six Months to 30 June 2004

	Six Months 30 Jun 2004 \$000	Six Months 30 Jun 2003 \$000	12 Months 31 Dec 2003 \$000
Equity at the Beginning of Year	318,879	308,257	308,257
Unclaimed dividends written back	–	–	3
Surplus after taxation	34,278	14,087	36,947
Total recognised Revenue and Expenses	34,278	14,087	36,950
Movements in minority interests	(48)	(69)	(72)
Dividends	14,400	12,000	26,400
Prior years dividends paid out	2	–	–
Equity at the End of the Period	338,803	310,413	318,879

Statement of Financial Position for the Group

As at 30 June 2004

	30 Jun 2004 \$000	30 Jun 2003 \$000	31 Dec 2003 \$000
Equity			
Share capital	24,000	24,000	24,000
Retained Earnings	314,496	286,157	294,620
Minority Interests	307	256	259
Total Equity	338,803	310,413	318,879
Non-current Liabilities			
BNZ Loan	5,001	–	–
Payroll Provisions	3,445	3,832	3,608
Deferred Tax	7,713	7,612	8,102
Total Non-current Liabilities	16,159	11,444	11,710
Current Liabilities			
Bank Overdraft	35	62	64
Accounts Payable	75,630	73,393	92,207
Taxation	11,106	–	–
Total Current Liabilities	86,771	73,455	92,271
Total Equity and Liabilities	441,733	395,312	422,860
Non-current Assets			
Fixed Assets	337,281	287,589	295,329
Total Non-current Assets	337,281	287,589	295,329
Current Assets			
Cash and Short Term Deposits	3,683	16,694	19,484
Accounts Receivable	89,970	79,449	96,838
Consumable Stores and Spares	10,799	10,033	11,195
Taxation	–	1,547	14
Total Current Assets	104,452	107,723	127,531
Total Assets	441,733	395,312	422,860

Statement of Cash Flows for the Group

Six Months to 30 June 2004

	Six Months 30 Jun 2004 \$000	Six Months 30 Jun 2003 \$000	12 Months 31 Dec 2003 \$000
Cash Flows from Operating Activities			
<i>Cash was provided from:</i>			
Receipts from Customers	112,543	87,195	178,707
Interest Received	740	571	1,218
	<u>113,283</u>	<u>87,766</u>	<u>179,925</u>
<i>Cash was applied to:</i>			
Payments to Employees	(17,367)	(12,152)	(26,416)
Payments for Supplies and Expenses	(39,572)	(41,487)	(72,217)
Income Tax Paid	(7,184)	(8,320)	(19,703)
Interest Paid	(114)	(6)	(191)
Net GST Paid	(2,550)	(2,984)	(997)
	<u>(66,787)</u>	<u>(64,949)</u>	<u>(119,524)</u>
Net Cash Inflows from Operating Activities	<u>46,496</u>	<u>22,817</u>	<u>60,401</u>
Cash Flows from Investing Activities			
<i>Cash was provided from:</i>			
Proceeds from Sale of Property, Plant & Equipment	58	18	20
Proceeds from Sale of Catalyst	-	-	69
Contribution from Minority Interest in Subsidiary	3	36	17
	<u>61</u>	<u>54</u>	<u>106</u>
<i>Cash was applied to:</i>			
Purchase of Plant	(44,008)	(8,745)	(29,127)
Purchase Catalyst	(8,922)	(142)	(211)
	<u>(52,930)</u>	<u>(8,887)</u>	<u>(29,338)</u>
Net Cash (Outflow) from Investing Activities	<u>(52,869)</u>	<u>(8,833)</u>	<u>(29,232)</u>
Cash Flows from Financing Activities			
<i>Cash was provided from:</i>			
Proceeds from Borrowings	5,001	-	-
Unclaimed Dividends	-	-	3
	<u>5,001</u>	<u>-</u>	<u>3</u>
<i>Cash was applied to:</i>			
Dividends Paid to Shareholders	(14,400)	(12,000)	(26,400)
	<u>(14,400)</u>	<u>(12,000)</u>	<u>(26,400)</u>
Net Cash Inflow (Outflow) from Financing Activities	<u>(9,399)</u>	<u>(12,000)</u>	<u>(26,397)</u>

Statement of Cash Flows for the Group

Continued

	Six Months 30 Jun 2004 \$000	Six Months 30 Jun 2003 \$000	12 Months 31 Dec 2003 \$000
Net increase/(decrease) in cash held	(15,772)	1,984	4,772
Opening cash brought forward	19,420	14,648	14,648
Closing cash carried forward	3,648	16,632	19,420
<i>Comprising:</i>			
Cash and Bank Balances	495	141	155
Short Term Investments	3,153	16,491	19,265
	3,648	16,632	19,420
Reconciliation with Operating Surplus			
Operating surplus before minority interest	34,323	14,120	37,002
<i>Add (deduct) non-cash items:</i>			
Deferred Tax Movement	(389)	58	548
Depreciation and Disposal of Assets	8,472	8,234	16,667
Catalyst Depreciation and Disposal of Catalyst	2,448	2,916	7,580
Provision for Retirement Bonuses and Long Service Leave	(163)	248	24
Reallocation of Future Fuels Costs	–	5,977	5,522
<i>Add (deduct) working capital movements:</i>			
Stock	396	88	(1,074)
Accounts Receivable	6,868	(15,337)	(9,693)
Accounts Payable	(16,579)	5,717	1,496
Tax Payable (Refundable)	11,120	796	2,329
Net Cash Inflows from Operating Activities	46,496	22,817	60,401

Other Information for the Group

Six Months to 30 June 2004

	Six Months 30 Jun 2004 \$000	Six Months 30 Jun 2003 \$000	12 Months 31 Dec 2003 \$000
Interest Received	740	571	1,218
Interest Paid	114	6	191
Commitments for Capital Expenditure not provided for in the accounts	82,293	4,516	53,444
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 2003.

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 2003.

4. Expensing of Costs Relating to Future Fuels Project

In 2002, in order to comply with Government driven stringent fuel specifications, the Parent Company set up a team to study the various options which the Refinery could pursue in order to continue refining operations in the future. The costs of this were captured in capital work-in-progress in 2002 and the first part of 2003.

At the April 2003 Board meeting of the Parent Company, approval was given to proceed with the building of a Benzine Reduction Unit and a new Hydrodesulphuriser.

Following evaluation, a total of \$5.522M preacquisition type costs were expensed during the year ended 31 December 2003 in accordance with the requirements of FRS-3. At the half year ended 30 June 2003 this adjustment was estimated to be \$5.977M.

5. Audited Information

The financial statements do not include any audited information.

6. Stock Exchange Listing Requirements

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

7. Audit Committee

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

Corporate Directory

Registered Office:

Marsden Point
Ruakaka

Mailing Address:

Private Bag 9024
Whangarei
Telephone (09) 432 8311
Facsimile (09) 432 8035

Website:

www.nzrc.co.nz

Share Registrar:

Computershare Registry Services
Private Bag 92119
Auckland 1020

Bankers:

The National Bank of New Zealand Limited
Bank of New Zealand

Legal Advisors:

MinterEllisonRuddWatts

Auditor:

PriceWaterhouseCoopers

Chairman:

I.F. Farrant

Directors:

W.R. Bussing
A.N. Clark
P.C.A Colman
G.A. Cumming
G.R. Garner III
P.W. Griffiths
G.W. Henson
P. Logan
Sir Colin Maiden
K.M.A. Pronk

Chief Executive Officer:

Dr T. Zengerly

Company Secretary:

D.B. Martin





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