



The New Zealand
REFINING COMPANY LTD

FUELLING NEW ZEALAND'S FUTURE



Interim Report

2011

FUELLING CONNECTIONS



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group performance

SUMMARY

FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

	30 JUNE 2011	30 JUNE 2010	CHANGE %
OPERATING RESULTS			
Operating revenue (\$'000)	156,663	133,639	17.2
Net profit before income tax (\$'000)	43,268	32,997	31.1
Net profit after income tax (\$'000)	31,201	29,005	7.6
SHARE INDICATORS			
Net asset backing (per share)	\$2.16	\$2.04	5.9
Earnings per share (annualised)	22 cents	21 cents	4.8
NUMBERS			
Shareholders	3,863	3,770	2.5
Employees	350	362	(3.3)

Processing Fee Revenue

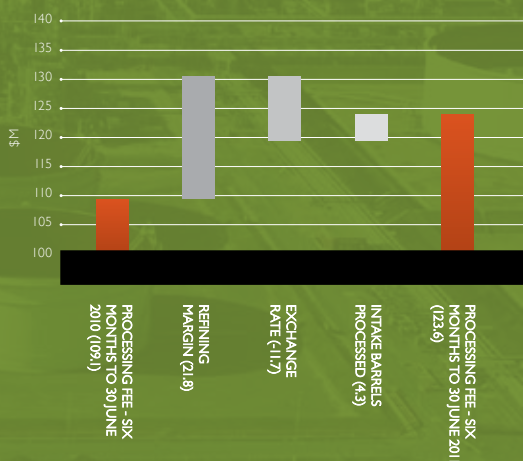
- Revenue earned from processing fees is the main component of Operating Revenue as disclosed in note 2.
- Processing fees earned for the six months ended 30 June 2011, were 13% higher than the previous corresponding financial period.
- The Company's processing fee revenue is impacted by the refiners' margin (difference between product and feedstock prices in the international markets), volume of feedstock processed and the exchange rate. The key variables for the six months ended 30 June can be summarised as follows:

FOR THE SIX MONTHS ENDED 30 JUNE

	2011	2010
KEY VARIABLES:		
Intake ('000 Barrels)	20,960	20,161
Gross Refining Margin (USD/Barrel)	6.56	5.50
Average USD exchange rate	0.78	0.71

- The graph below shows the impact of the movement in the key variables, when comparing processing fee revenues for the six months ended 30 June 2011 to the previous corresponding financial period (30 June 2010).

Processing Fee 2010-2011 (\$Million)





CHAIRMAN'S

report

I am pleased to announce a sound half year result achieved in difficult market conditions.

The strength of the refiner's margin in the first six months of the year has seen the Company report an interim net profit after tax of \$31 million for the six months ended 30 June 2011, 7.5% up on the same period last year. This has allowed the Company to further reduce debt levels, however, the weak US dollar continues to weigh heavily on the Company's performance.

BUSINESS ENVIRONMENT

Globally, refiners' margins have continued to strengthen, buoyed by growing demand in the US, Europe, China and India, further rationalisation of refining capacity, as well as prudent management of global crude stocks. In the first six months of the year, margins averaged USD 6.56 per barrel. As a consequence, the Company has been able to strengthen its liquidity position substantially, reducing debt from \$86 million at the beginning of the year to around \$54 million at the end of June 2011.

Margin gains have been countered by the weakening US dollar which has had a marked impact on the Company's processing fee revenue. Since January, the US dollar has ranged from 74 to 89 cents, averaging 78 cents during the six month period to June 2011. We expect this volatility in the USD/NZD exchange rate to be further exacerbated by the recent downgrade of US sovereign debt by ratings agency, Standard & Poors. Given the potential impact on our performance, we have reissued our profit matrix to the market, based on year to date earnings and a range of foreign exchange predictions (see page 04). The matrix also accounts for unplanned downtime, including two outages earlier in the year and better than expected electricity prices.

The safe and reliable operation of our refinery, and the personal safety of everyone who works at Marsden Point are constantly top-of-mind for the Company, our employees and contracting companies. In April we achieved a notable safety milestone, marking one million hours without a lost time injury (LTI), a great achievement that underlines the effectiveness of the Company's Safety Action Plan. Further confirmation of our leading safety performance has come from the benchmarking of members of the New Zealand Business Leaders Health and Safety Forum. Encouragingly, the Company's lost time frequency rate is some ten times better than the average for the New Zealand manufacturing sector.

On 26 March the electricity spot price spiked to unprecedented levels. This unforeseen event was subsequently classified an Undesirable Trading Situation (UTS) by the Electricity Authority and prices on the day were capped at \$3,000 per Megawatt hour. The Authority's decision is being challenged in the High Court and the full impact for the Company is not expected to be known until after High Court proceedings have been resolved in November. The Company has accrued for the expected cost of this event in the half year accounts, on the basis of the capped cost determined by the Authority.

As a major user of electricity, we have been most concerned by this turn of events and have raised a complaint about the trading circumstances on the day. We are also one of a number of users supporting the Authority's position in the High Court.

In August we successfully completed the planned shutdown on selected processing units for maintenance and to replace catalyst on the hydrocracker (top-bed-skim). The seven day shutdown will ensure our reliability remains world class as well as supporting the lengthening of the cycle on the hydrocracker from three to four years.

FIFTY YEARS AND BEYOND

This is a notable year for the New Zealand Refining Company, as we celebrate 50 years since the Company was formed. We have taken the opportunity to mark the occasion with a number of our stakeholders, and will acknowledge this further with a community open day on 9 October at our Marsden Point site.

The fiftieth anniversary has also proved an opportunity to re-examine our vision for the business. In the first half of the year the management team tested the Company business plan against a set of future based scenarios. The results presented to the Board in June, confirm that the vision of Fuelling New Zealand's Future - and the key strategies that underpin it - are appropriate for the Company and remain robust for a range of potential circumstances. Bearing this in mind, the Directors are confident that the Company is well positioned to meet future challenges.

INDEPENDENT DIRECTORS REVIEW OF PROCESSING ARRANGEMENTS

Last year the Board agreed that the Independent Directors would play a more significant and defined role in the review of the processing arrangements conducted by management. Management will continue to keep the arrangements under review, conducting external assessments at regular intervals (at least every five years) or if there is a significant change of circumstances. The Independent Directors are to review the status of the processing arrangement with management annually, taking into consideration the need to trigger an external assessment.

The Independent Directors have now completed their annual review of the processing arrangements. In the opinion of the Independent Directors, the arrangements remain robust and therefore, not in need of an external review at this time.

FUTURE GROWTH

In February the Board considered the feasibility of a \$400-\$500 million growth project which would materially increase the Company's share of the domestic motor gasoline (mogas) market. The Directors agreed that further study was appropriate and provided funding of \$23 million for the development of a Front End Engineering Design (FEED) report. The FEED project is progressing to plan, with the project team in the process of developing a detailed cost breakdown and schedule as part of the FEED report. We expect the report to be completed and presented to the Board early in 2012.

SHAREHOLDER RETURNS

Stronger margins, an improved debt position, particularly against a background of a weakened US dollar have been taken into account by the Directors in determining that a fully imputed Interim Dividend of three cents per share be paid. The record date will be 15 September and the dividend payment date 22 September 2011.

FUTURE OUTLOOK

We fully expect the US dollar to remain weak and this will continue to weigh on the Company's processing fee revenue for the second half of the year. However, the impact will be considerably lessened by the continued firming of refiners' margins. The Directors are confident of the Company's prospects for the remainder of the year, based on a sound and tested business plan, a strong balance sheet and a well structured organisation with talented and committed people.

CHANGE OF DIRECTORS

In May, Grant Worner who represented the interests of BP Oil New Zealand Limited resigned as a Director of the Company. He has subsequently been replaced by Mr Tim Wall who is Operations Manager at BP's Bulwer Island refinery, Queensland. In addition, Jonathan Wake who was an Alternate Director for Tim Wall and Mike McGuinness resigned and has been replaced by Mr Adrian McClellan. On behalf of the Board I would like to thank Grant and Jonathan for their respective contributions to the Company.

SHAREHOLDER COMMUNICATIONS

We are always looking to 'raise the bar' with our communication to shareholders, so I am very pleased to report that our 2010 Annual Report won gold in the benchmark Australasian Reporting Awards in June. NZRC was one of seven gold medal recipients in the minerals and petroleum category which included global miners Rio Tinto and BHP Billiton.



DAVID JACKSON CHAIRMAN

Profit matrix

A revised profit matrix has been issued by the Company to show our 2011 expected net profit after tax for a range of margin and exchange rate variables. The revised matrix is based on the actual net profit after tax 'banked' at 30 June, plus our latest estimate of costs and throughput for the year.

USD EXCH. RATE YTD (JAN-JUN)	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78
USD EXCH. RATE FORECAST (JUL-DEC)	0.60	0.65	0.70	0.75	0.80	0.85	0.90	0.95	1.00			
USD EXCH. RATE COMBINED (JAN-DEC)	0.69	0.71	0.74	0.76	0.79	0.81	0.84	0.86	0.89			

MARGIN YTD USD	MARGIN FORECAST	MARGIN COMBINED	NPAT NZD \$M	NPAT NZD \$M	NPAT NZD \$M	NPAT NZD \$M	NPAT NZD \$M	NPAT NZD \$M	NPAT NZD \$M	NPAT NZD \$M	NPAT NZD \$M	NPAT NZD \$M
6.57	2.00	4.29	11	11	11	11	11	11	11	11	11	11
6.57	4.00	5.29	38	33	28	24	20	17	14	12	11	11
6.57	5.00	5.78	57	50	44	39	34	30	27	23	21	21
6.57	6.00	6.28	75	67	60	53	48	43	39	35	32	32
6.57	7.00	6.78	94	84	76	68	62	56	51	47	43	43
6.57	8.00	7.28	131	118	107	98	90	82	76	70	65	65

INTAKE:
(BARRELS MILLIONS)

42

NON PROCESS FEE
REVENUE (\$MILLIONS)

65

NON CASH COST
(\$MILLIONS)

80

Consolidated Interim Income Statement

FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

	NOTE	2011 \$000	2010 \$000
INCOME			
Operating revenue		156,663	133,639
Other income		1,214	1,367
TOTAL INCOME	2	157,877	135,006
EXPENSES			
Purchase of process materials and utilities		29,089	22,132
Materials and contractor payments		11,570	8,773
Wages and salaries		20,891	21,788
Depreciation, amortisation and disposal costs		39,581	35,595
Administration and other expenses		10,827	9,997
TOTAL EXPENSES		111,958	98,285
PROFIT BEFORE FINANCE COSTS		45,919	36,721
FINANCE COSTS			
Interest received		(196)	(172)
Interest paid		2,847	3,896
NET FINANCE COSTS		2,651	3,724
Net profit before income tax		43,268	32,997
Less income tax	4	12,067	3,992
NET PROFIT AFTER INCOME TAX		31,201	29,005
ATTRIBUTABLE TO:			
Owners of the Parent		31,181	28,997
Non-controlling interest		20	8
		31,201	29,005

EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE NEW ZEALAND REFINING COMPANY LIMITED:

	CENTS	CENTS
Basic earnings per share	11.14	10.35
Diluted earnings per share	11.14	10.35

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

Consolidated Interim Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

	NOTE	2011 \$000	2010 \$000
NET PROFIT AFTER INCOME TAX		31,201	29,005
OTHER COMPREHENSIVE INCOME			
Movement in cash flow hedge reserve		(1,451)	2,693
Deferred tax on other comprehensive income		406	(808)
Change in deferred tax due to reduction in corporate income tax rate	4	-	(891)
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX		(1,045)	994
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		30,156	29,999
ATTRIBUTABLE TO:			
Owners of the Parent		30,136	29,991
Non-controlling interest		20	8
		30,156	29,999

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

Consolidated Interim Balance Sheet

AS AT 30 JUNE 2011 (UNAUDITED)

	NOTE	30 JUNE 2011 \$000	30 JUNE 2010 \$000	31 DEC 2010 \$000
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		937	518	1,001
Trade and other receivables		122,222	108,107	126,212
Consumable stores and spares		10,513	11,387	10,913
Income tax		-	536	-
TOTAL CURRENT ASSETS		133,672	120,548	138,126
NON-CURRENT ASSETS				
Property, plant and equipment		783,687	839,821	815,498
Investment property		4,900	4,750	4,900
Intangible assets		4,229	454	4,398
TOTAL NON-CURRENT ASSETS		792,816	845,025	824,796
TOTAL ASSETS		926,488	965,573	962,922
LIABILITIES				
CURRENT LIABILITIES				
Bank overdraft		-	-	5
Trade and other payables		118,728	93,140	124,285
Income tax		7,493	-	4,756
Employee entitlements		4,151	4,312	6,133
Derivative financial instruments		1,488	294	36
Provisions		-	92	-
TOTAL CURRENT LIABILITIES		131,860	97,838	135,215
NON-CURRENT LIABILITIES				
Deferred tax		99,788	98,451	103,386
Employee entitlements		6,864	6,517	6,687
Provisions		5,842	5,278	5,561
Defined benefit pension plan obligation		24,781	35,180	24,676
Bank borrowings	8	53,500	151,800	85,700
TOTAL NON-CURRENT LIABILITIES		190,775	297,226	226,010
TOTAL LIABILITIES		322,635	395,064	361,225
NET ASSETS		603,853	570,509	601,697
EQUITY				
Contributed equity		212,400	212,400	212,400
Cash flow hedge reserve		(1,071)	(206)	(26)
Retained profits		391,970	357,809	388,789
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		603,299	570,003	601,163
Non-controlling interests		554	506	534
TOTAL EQUITY		603,853	570,509	601,697

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

Consolidated Interim Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

	CONTRIBUTED EQUITY \$000	CASH FLOW HEDGE RESERVE \$000	RETAINED PROFITS \$000	TOTAL \$000	NON- CONTROLLING INTEREST \$000	TOTAL EQUITY \$000
AT 1 JANUARY 2010	212,400	(2,091)	329,703	540,012	498	540,510
COMPREHENSIVE INCOME						
Net profit after income tax	-	-	28,997	28,997	8	29,005
Other comprehensive income						
Movement in cash flow hedge reserve	-	2,693	-	2,693	-	2,693
Deferred tax on other comprehensive income	-	(808)	-	(808)	-	(808)
Effect of tax rate change from 30% to 28%	-	-	(891)	(891)	-	(891)
TOTAL OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX	-	1,885	(891)	994	-	994
AT 30 JUNE 2010	212,400	(206)	357,809	570,003	506	570,509
AT 1 JANUARY 2011	212,400	(26)	388,789	601,163	534	601,697
COMPREHENSIVE INCOME						
Net profit after income tax	-	-	31,181	31,181	20	31,201
Other comprehensive income						
Movement in cash flow hedge reserve	-	(1,451)	-	(1,451)	-	(1,451)
Deferred tax on other comprehensive income	-	406	-	406	-	406
TOTAL OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX	-	(1,045)	-	(1,045)	-	(1,045)
TRANSACTIONS WITH OWNERS						
Dividends paid	-	-	(28,000)	(28,000)	-	(28,000)
TOTAL TRANSACTIONS WITH OWNERS	-	-	(28,000)	(28,000)	-	(28,000)
AT 30 JUNE 2011	212,400	(1,071)	391,970	603,299	554	603,853

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

Consolidated Interim Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

	NOTE	2011 \$000	2010 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		158,157	115,831
Payments for supplies and expenses		(51,831)	(39,241)
Payments to employees		(22,622)	(25,917)
CASH GENERATED FROM OPERATIONS		83,704	50,673
Interest received		196	172
Interest paid		(2,566)	(3,659)
GST (paid)/received		(532)	4,511
Income tax paid		(12,521)	(87)
		(15,423)	937
NET CASH INFLOW FROM OPERATING ACTIVITIES	7	68,281	51,610
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment and computer software		(8,286)	(57,002)
Proceeds from sale of property, plant and equipment		146	-
NET CASH USED IN INVESTING ACTIVITIES		(8,140)	(57,002)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayment of)/proceeds from non-current bank borrowings		(32,200)	4,800
Dividends paid to shareholders		(28,000)	-
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		(60,200)	4,800
NET DECREASE IN CASH AND CASH EQUIVALENTS		(59)	(592)
Cash and cash equivalents at the beginning of the period		996	1,110
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		937	518

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

Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

1 Basis of preparation of consolidated interim financial statements

These consolidated interim financial statements as at and for the six months ended 30 June 2011 comply with New Zealand Generally Accepted Accounting Practice ('NZ GAAP') and have been prepared in accordance with New Zealand Equivalent to International Accounting Standard ('NZ IAS') 34: Interim Financial Reporting and International Accounting Standard ('IAS') 34: Interim Financial Reporting. These consolidated interim financial statements should be read in conjunction with the 2010 Financial Statements.

Entities reporting

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

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

Statutory base

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

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

Accounting policies

The accounting policies used in the preparation of these consolidated interim financial statements are consistent with those used in the previously published consolidated interim financial statements as at and for the six months ended 30 June 2010 and the audited financial statements as at and for the year ended 31 December 2010, except as outlined below:

New and amended standard adopted by the Group:

- **NZ IFRS 7: Financial Instruments – Disclosures.** The amendment requires changes to certain disclosures in the full year financial statements. As the change in accounting policy is only presentational, there is no impact on reported earnings as a result of the adoption of this standard.

The International Accounting Standards Board has issued a number of other standards, amendments and interpretations which are not yet effective. These are detailed below. The Group has not yet applied these in preparing these financial statements and will apply each in the period in which they become mandatory.

Standard	Description	Mandatory for NZRC Year Ending
NZ IFRS 9	Financial Instruments – Classification and Measurement	31 December 2013
NZ IFRS 10	Consolidated Financial Statements	31 December 2013
NZ IFRS 11	Joint Arrangements	31 December 2013
NZ IFRS 12	Disclosure of Interests in Other Entities	31 December 2013
NZ IAS 28	Investments in Associates and Joint Ventures	31 December 2013
NZ IFRS 13	Fair Value Measurement	31 December 2013
IAS 1 (revised)	Presentation of Financial Statements	31 December 2013

The above standards and interpretations are not considered likely to have a material impact on the Group's financial statements.

Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

2 Operating Revenue

FOR THE SIX MONTHS ENDED 30 JUNE

	2011 \$000	2010 \$000
COMPRISES:		
Processing fees	123,554	109,097
Natural Gas recovery	10,153	3,891
Other refining related income	5,302	3,025
Government grant income	1,306	-
REFINING REVENUE	140,315	116,013
Distribution revenue	13,044	14,322
Operating lease income:		
Wiri land and terminal	3,262	3,262
Other	42	42
Other income	1,214	1,367
TOTAL INCOME	157,877	135,006

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.

3 Segment Information

(a) Description of segments

The chief operating decision-maker has been identified as the Leadership Team. This Team reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Leadership Team considers the business from an operations perspective and assesses performance of 'Oil Refining' and 'Distribution'.

The Group 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 oil refinery is able to process a wide range of crude oil types imported from around the world.

Distribution

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

Other

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

Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

(b) Reporting measures

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

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

(c) Segment results

30 JUNE 2011	OIL REFINING \$000	DISTRIBUTION \$000	OTHER \$000	TOTAL \$000
Total operating revenue	140,315	16,306	2,018	158,639
Inter-segment revenue	-	-	(1,976)	(1,976)
REVENUE FROM EXTERNAL CUSTOMERS	140,315	16,306	42	156,663
Other income	-	-	1,214	1,214
Net profit after income tax	26,148	6,450	(1,397)	31,201
Interest received	(195)	-	(1)	(196)
Interest paid	2,847	-	-	2,847
Depreciation, amortisation and disposal costs	33,360	6,048	173	39,581
Income tax	9,517	2,508	42	12,067
30 JUNE 2010	OIL REFINING \$000	DISTRIBUTION \$000	OTHER \$000	TOTAL \$000
Total operating revenue	116,013	17,584	1,975	135,572
Inter-segment revenue	-	-	(1,933)	(1,933)
REVENUE FROM EXTERNAL CUSTOMERS	116,013	17,584	42	133,639
Other income	-	-	1,367	1,367
Net profit after income tax	20,084	10,130	(1,209)	29,005
Interest received	(172)	-	-	(172)
Interest paid	3,896	-	-	3,896
Depreciation, amortisation and disposal costs	29,364	6,031	200	35,595
Income tax	3,982	19	(9)	3,992

Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

4 Income Taxation

(a) Reconciliation of income tax expense to tax rate applicable for profits

SIX MONTHS ENDED 30 JUNE

	2011 \$000	2010 \$000
Net profit before income tax expense	43,268	32,997
Tax at the New Zealand tax rate of 28% (2010: 30%)	12,115	9,899
Expenses not deductible for tax	13	3
Tax (refundable)/ payable in respect of previous years	(333)	671
Deferred tax in respect of previous years	272	(614)
Effect of changes in tax legislation on deferred tax	-	(5,967)
INCOME TAX EXPENSE	12,067	3,992

(b) Income tax expense

SIX MONTHS ENDED 30 JUNE

	2011 \$000	2010 \$000
Tax payable in respect of the current year	15,592	2,456
Tax (receivable)/payable in respect of previous years	(333)	671
Deferred tax in respect of the current year	(3,464)	7,446
Deferred tax in respect of previous years	272	(614)
Deferred tax in respect of changes in tax legislation	-	(5,967)
INCOME TAX EXPENSE	12,067	3,992

(c) Deferred tax

SIX MONTHS ENDED 30 JUNE

	2011 \$000	2010 \$000
AT 1 JANUARY	103,386	95,887
Deferred tax in respect of previous years	272	(614)
Deferred tax charged to Income Statement	(3,464)	7,446
Deferred tax on items included in other comprehensive income	(406)	808
Deferred tax in respect of changes in tax legislation recognised in Income Statement	-	(5,967)
Deferred tax in respect of changes in tax legislation recognised in Statement of Comprehensive Income	-	891
AT 30 JUNE	99,788	98,451

The Group has no tax losses (2010: Nil) and no unrecognised temporary differences (2010: Nil).

Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

On 27 May 2010 the New Zealand Government enacted a number of changes to the tax legislation including a reduction in the corporate income tax rate from 30% to 28%, and that tax depreciation on buildings with an estimated useful life of 50 years or more was reduced to nil. Both of these changes in tax legislation were effective for the Group from 1 January 2011.

In accordance with NZ IAS 12, 'Income Taxes', the impacts of the above two changes in tax legislation were reflected in the deferred tax balance at 30 June 2010.

In respect of the reduction in corporate income tax rate, at 30 June 2010 deferred tax on those temporary differences expected to reverse before 31 December 2010 continued to be recognised at 30%, while deferred tax on those temporary differences expected to reverse after 1 January 2011 was re-measured using the effective rate applied for the period (28%). At 31 December 2010 deferred tax was recognised at 28% on all temporary differences. This resulted in a net decrease in the deferred tax liability, which was recognised in the Income Statement, except to the extent that it relates to items previously charged or credited to equity.

The reduction in the tax depreciation rate reduced the tax base of the Company's buildings, that have an estimated useful life of more than 50 years, as future tax deductions will no longer be available from 1 January 2011. This resulted in an increase in the deferred tax liability in relation to those buildings and which was recognised in the tax expense in 2010.

5 Capital Expenditure Commitments

Commitments in relation to property, plant and equipment at the end of the period not provided for in the consolidated interim financial statements

30 JUNE 2011 \$000	30 JUNE 2010 \$000	31 DEC 2010 \$000
17,433	788	952

6 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:

	30 JUNE 2011 \$000	30 JUNE 2010 \$000	31 DEC 2010 \$000
Guarantee to the New Zealand Stock Exchange	75	75	75

Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

7 Reconciliation of Net Cash Flow from Operating Activities to Reported Profit

FOR THE SIX MONTHS ENDED 30 JUNE

	2011 \$000	2010 \$000
NET PROFIT AFTER INCOME TAX	31,201	29,005
Adjusted for:		
Depreciation, amortisation and disposal costs	39,581	35,595
Movement in deferred tax	(3,598)	2,564
Less deferred tax on items included in other comprehensive income	406	(1,699)
Provision for restoration costs	281	237
Non cash items	(777)	-
Movement between defined benefit pension plan employer contributions and expense	105	520
Impact of changes in working capital items:		
Decrease/(increase) in trade and other receivables	3,990	(1,113)
Decrease in trade and other payables	(5,557)	(15,654)
Decrease in employee entitlements	(1,805)	(2,634)
Increase in income tax payable	2,737	3,040
Decrease in consumable stores and spares	400	1,749
Other non cash movements	1,317	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	68,281	51,610

Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

8 Bank Borrowings

	30 JUNE 2011 \$000	30 JUNE 2010 \$000	31 DEC 2010 \$000
BANK LOANS	53,500	151,800	85,700
TOTAL BANK BORROWINGS	53,500	151,800	85,700
Effective Interest Rate	%	%	%
Bank loans	3.4265	3.6658	3.9001
At balance date the Group had the following un-drawn borrowing facilities:			
Working capital (expiry 2011)	89,500	61,600	38,200
Cash advance (expiry 2012)	157,000	86,600	176,100
TOTAL UN-DRAWN BORROWING FACILITY	246,500	148,200	214,300

Since 30 June 2011 the Group has extended the borrowing facility by a further 12 months and reduced the total facilities to \$130 million.

The carrying amounts of bank borrowings approximate their fair value. The borrowings are unsecured. The Parent borrows under a negative pledge arrangement which requires certain certificates and covenants. All these requirements have been met.

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

9 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 2011 are consistent with those disclosed in the audited financial statements for the year ended 31 December 2010. Refer to note 3 for details of income which is derived from the Oil Companies.

10 Events after Balance Date

The Group has declared an interim dividend of 3 cents per share, fully imputed, payable 22 September 2011 (2010: 2 cents per share).

Corporate Directory

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BANKERS

ANZ NATIONAL BANK LIMITED BANK OF NEW ZEALAND

LEGAL ADVISERS

MINTERELLISONRUDDWATTS CHANCERY GREEN SWARBRICK BECK SOLICITORS

AUDITOR

PRICEWATERHOUSECOOPERS

CHAIRMAN

D A Jackson

DIRECTORS

M J Bennetts
A J Clements
G W Henson
K E MacMillan
M J McGuinness
P J Morris
P M Springford
M Tume
T J Wall (appointed 21 June 2011)
G A Worner (resigned 11 May 2011)

ALTERNATE DIRECTORS

J R Crawford
A J McClellan (appointed 22 August 2011)
J H Wake (resigned 30 June 2011)
J G Venn

CHIEF EXECUTIVE OFFICER

K J Rivers

COMPANY SECRETARY

D M Jensen

MANAGING YOUR SHAREHOLDING ONLINE

To change your address, update your payment instructions and to view your registered details including transactions, please visit: www.computershare.co.nz/investorcentre

Please assist our registrar by quoting your CSN or shareholder number.



THE NEW ZEALAND REFINING COMPANY LIMITED

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