



The New Zealand
REFINING COMPANY LTD

our people
our environment

Half Year Report 2007

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Financial Summary for the Group

For the Six Months Ended 30 June 2007 (unaudited)

	30 June 2007 \$000	30 June 2006 \$000	Change %
Operating Results			
Operating Revenue	\$161,159	\$212,815	(24)
Surplus before income tax	\$71,834	\$124,067	(42)
Surplus after income tax	\$59,864	\$83,157	(28)
Share Indicators			
Net asset backing	\$2.45	\$2.45	–
Earnings per share (annualised)	\$0.50	\$0.70	(28)
Numbers			
Shareholders	3,038	2,912	4
Employees	348	337	3

Chairman's Review



I am pleased to be able to announce another good result for the Company. Our profit, prepared under the New Zealand equivalents of International Financial Reporting Standards, for the six months ending 30 June 2007 was \$59.9 million compared to 2006's interim result of \$83.2 million.

Obviously, we would like our profits to be as good as, if not better than, last year's, but we must remember that to a large extent we are price takers and as we have often said the refining business is a volatile business, especially when exchange rate risk is added to the equation.

Operations

The first six months of this year have been eventful ones for NZRC. In March a significant portion of the refinery was shut down for the planned change out of catalysts in the hydro cracker, the replacement of some furnace tube banks and numerous other inspections and maintenance tasks. The shutdown took twenty four days. The refinery has been performing very well since the units were brought back on-stream.

The start-up actually occurred during the time of the Northland floods – we were fortunate that we did not suffer any power disruption and that dedicated staff worked across the site for extended hours, managing the impacts of extreme weather conditions and the start-up.

Refinery intake for the period was 18.02 million barrels (2006: 19.35m). The reduction is largely due to the shutdown, but the late delivery of crude in June accounted for around 200 thousand barrels.

Financial

Revenue from refining of NZD 142.4 million was 27% down on 2006. Analysis of the result reveals that the drop can be attributed to lower volumes 26%, lower margin 43% and adverse currency movement 31%.

A gross refinery margin of USD 7.89 was generated by the Company compared to USD 8.86 in 2006. The average NZD/USD exchange rate for the two periods was 0.7188 in 2007 and 0.6446 in 2006.

Operating costs were below plan, with lower than estimated electricity costs being the main contributing factor. The depreciation charge for the period increased to \$30.1 million from \$27.8 million (2006) due to the write-off of residual catalyst assets replaced in the period and the amortisation of shutdown costs capitalised from March 2007.

Shutdown expenditure was higher than originally estimated – largely a result of higher emergent work as equipment was thoroughly inspected and repaired before being returned to service.

Income tax expense was \$11.9 million (2006: \$40.9m) due to the lower profit and the restating of deferred tax liabilities at the new tax rate of 30 cents in the dollar (previously 33 cents in the dollar) which reduced the tax charge by \$11.6m in the six months ended 30 June 2007.

Safety and Environment

Safety performance during the period was mixed. The shutdown and other work on site is being carried out very safely with no Lost Time Injuries being recorded. However, two Lost Time Injuries were recorded in supporting activities – a person fell from a bicycle, fracturing an arm and a trainee suffered moderate burns/scalds while participating in fire training. Although by New Zealand standards our safety record is still very good, our goal is to have nobody hurt at work and we will put systems and processes in place so that we achieve this goal.

Environmental performance has been very good when one takes into account the shutdown and extreme weather experienced. During the floods we breached our resource consent relating to the discharge of water – like many other organisations in Northland. A post-incident review has identified two areas where, with some engineering, we can further reduce both the consequences of these 150 year floods that seem to be occurring more regularly than they should.

Point Forward Project

The Point Forward Project was approved by the Board in April. The project to increase crude oil intake by modifying an existing crude distillation unit will cost \$180 million and be completed in 2009. At present the project team numbers 75 people, with engineering design work being carried out in USA, China and New Zealand. Orders have been placed for equipment that has long delivery times, for example the furnace, heat exchangers and some pumps. At the refinery the first significant physical work will commence in January 2008 with the civil works for the new furnace.

The Company continues to invest actively in growth and environment projects that benefit both shareholders and the nation.

Dividend

The Directors have declared an Interim Dividend of 10 cents per share, with full imputation credits. The record date is 20 September 2007 with the Dividend being paid on 27 September 2007.



Ian Farrant
Chairman

Consolidated Income Statement

For the Six Months Ended 30 June 2007 (unaudited)

	Note	Six Months Ended 30 June	
		2007 \$000	2006 \$000
Income			
Operating revenue	2	161,159	212,815
Total income		161,159	212,815
Expenses			
Purchase of process materials and utilities		18,469	24,309
Materials and contractor payments		13,030	10,339
Wages and salaries		16,616	15,689
Depreciation and amortisation		30,140	27,794
Administration and other expenses		11,168	9,430
		89,423	87,561
Profit before finance costs		71,736	125,254
Add/(Less) net finance costs		98	(1,187)
Profit before income tax		71,834	124,067
Less Income tax	4	11,947	40,965
Profit after tax		59,887	83,102
(Profit)/Loss attributable to minority interest		(23)	55
Profit attributable to shareholders of The New Zealand Refining Company Limited		59,864	83,157
Earnings per share for profit attributable to the shareholders of the Company:		Cents	Cents
Basic earnings per share		25	35
Diluted earnings per share		25	35

Consolidated Balance Sheet

As at 30 June 2007 (unaudited)

	Note	30 June 2007 \$000	30 June 2006 \$000	31 December 2006 \$000
ASSETS				
Current assets				
Cash and cash equivalents		2,007	338	12,020
Derivative financial instruments		–	3,888	–
Trade and other receivables		101,814	127,020	105,867
Consumable stores and spares		13,660	16,524	35,711
Total current assets		117,481	147,770	153,598
Non-current assets				
Property, plant and equipment		694,773	689,048	670,298
Investment property		4,250	2,450	4,250
Intangible assets		1,396	2,641	1,846
Pension assets		9,292	8,033	9,081
Total non-current assets		709,711	702,172	685,475
TOTAL ASSETS		827,192	849,942	839,073
LIABILITIES				
Current liabilities				
Bank overdraft		–	44	22
Trade and other payables		85,866	104,883	86,170
Income taxation		8,405	19,989	93
Employee entitlements		2,571	3,342	3,759
Derivative financial instruments		819	–	513
Total current liabilities		97,661	128,258	90,557
Non-current liabilities				
Bank borrowings	10	15,003	2,500	–
Deferred tax		114,984	122,653	124,640
Employee entitlements		5,475	4,266	5,137
Provision for restoration costs		3,279	3,213	3,129
Derivative financial instruments		1,765	1,351	3,102
Total non-current liabilities		140,506	133,983	136,008
TOTAL LIABILITIES		238,167	262,241	226,565
NET ASSETS		589,025	587,701	612,508

Consolidated Balance Sheet

As at 30 June 2007 (unaudited)

	Note	30 June 2007 \$000	30 June 2006 \$000	31 December 2006 \$000
EQUITY				
Contributed equity	5	24,000	24,000	24,000
Hedge reserve	5	(1,791)	1,700	(2,421)
Retained profits	5	566,348	561,542	590,484
Minority interests	5	468	459	445
TOTAL EQUITY		589,025	587,701	612,508

Consolidated Statement of Recognised Income and Expenses

For the Six Months Ended 30 June 2007 (unaudited)

	Six Months Ended 30 June	
	2007 \$000	2006 \$000
Profit after tax	59,887	83,102
Movement in cash flow hedge reserve net of tax	630	(904)
Actuarial gain recognised in the pension scheme net of tax	—	3,891
Net gains not recognised in Income Statement	630	2,987
Total recognised income for the year	60,517	86,089
Attributable to:		
Minority interest	23	(55)
Equity shareholders of the parent	60,494	86,144

Consolidated Statement of Cash Flows

For the Six Months Ended 30 June 2007 (unaudited)

	Six Months Ended 30 June	
	2007 \$000	2006 \$000
Cash flows from operating activities		
Receipts from customers	165,213	205,066
Payments for supplies and expenses	(49,592)	(57,409)
Payments to employees	(17,679)	(14,543)
Cash generated from operations	97,942	133,114
Interest received	1,073	811
Interest paid	(825)	(1,774)
GST received	6,888	3,049
Income taxes paid	(13,691)	(26,983)
Net cash inflow from operating activities	91,387	108,217
	9	
Cash flows from investing activities		
Payments for property, plant and equipment	(18,250)	(14,920)
Proceeds from sale of property, plant and equipment	255	–
Payments for tank refurbishment	(1,762)	(3,012)
Payments for shutdowns	(9,924)	(1,857)
Payments for catalysts	(2,700)	(1,177)
Net cash used in investing activities	(32,381)	(20,966)
Cash flows from financing activities		
Proceeds from long term borrowings	15,003	–
Repayment of long term borrowings	–	(37,540)
Dividends paid to shareholders	(84,000)	(54,028)
Net cash used in financing activities	(68,997)	(91,568)
Net decrease in cash and cash equivalents	(9,991)	(4,317)
Cash and cash equivalents at the beginning of the period	11,998	4,611
Cash and cash equivalents at the end of the period	2,007	294
Consisting of:		
Cash and cash equivalents	2,007	338
Bank overdraft	–	(44)
Closing cash balance	2,007	294

Notes to the Financial Statements

For the Six Months Ended 30 June 2007 (unaudited)

Note 1 Basis of Preparation of Interim Financial Statements

These interim financial statements are compliant with New Zealand equivalents to International Financial Reporting Standards. They have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and NZ IAS 34 Interim Financial Reporting, and should be read in conjunction with the 2006 Annual Report.

The financial statements for the six months ended 30 June 2007 and 30 June 2006 are unaudited. The comparative information for the year ended 31 December 2006 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 2006, and the audited financial statements to 31 December 2006.

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 orientated 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	
2007 \$000	2006 \$000
137,323	187,885
4,406	5,634
657	1,497
142,386	195,016
18,205	17,146
568	653
161,159	212,815

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 margin cap of \$2.0 million for the six months ended 30 June 2007 (30 June 2006: \$7.2 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 2007.

Notes to the Financial Statements

For the Six Months Ended 30 June 2007 (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 Terminal is owned by the company and leased to its customers.

(b) Primary reporting format - business segments

30 June 2007

Total operating revenue

Net profit before finance costs

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

30 June 2006

Total operating revenue

Net profit before finance costs

Oil Refining \$000	Distribution \$000	Other \$000	Elimination \$000	Total \$000
195,016	17,146	2,003	(1,350)	212,815
115,981	9,377	(104)	–	125,254

Notes to the Financial Statements

For the Six Months Ended 30 June 2007 (unaudited)

Note 4 Income Taxation

The New Zealand Government has announced a reduction in 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 at 30 June 2007. Deferred tax on those temporary differences expected to reverse before 31 December 2007 continues to be recognised at 33%, while deferred tax on those temporary differences expected to reverse after 1 January 2008 has been recognised at 30%. The resulting change in the carrying value of deferred tax assets and liabilities has been recognised in the income statement, except to the extent that it relates to items previously charged or credited to equity.

	Six Months Ended 30 June	
	2007 \$000	2006 \$000
(a) Reconciliation of income tax expense to tax rate applicable to profits		
Profit from continuing operations before income tax expense	71,834	124,067
Tax at the New Zealand tax rate of 33% (2006 – 33%)	23,705	40,942
Tax effect of amounts which are either non-deductible or taxable in calculating taxable income:		
Expenses not deductible for tax	3	16
Imputation credits on dividends received	–	(40)
Losses utilised	–	–
Tax payable in respect of previous years	(40)	161
Deferred tax in respect of previous years	(116)	(114)
Deferred tax due to reduction in corporate income tax rate	(11,605)	–
Income tax expense	11,947	40,965
(b) Income tax expense		
Tax payable in respect of the current year	22,050	46,010
Tax payable in respect of previous years	(40)	161
Deferred tax in respect of current year	1,658	(5,092)
Deferred tax in respect of previous years	(116)	(114)
Deferred tax due to reduction in corporate income tax rate	(11,605)	–
Income tax expense	11,947	40,965
(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	(340)	445
Reduction in corporate income tax rate	(60)	–
	(400)	445

The Group and Parent have no tax losses (2006: Nil) and no unrecognised temporary differences (2006: Nil).

Notes to the Financial Statements

For the Six Months Ended 30 June 2007 (unaudited)

Note 5 Equity

Dividends

During the six months ended 30 June 2007, the Group paid dividends of \$84,000,000 (six months ended 30 June 2006: \$54,028,000).

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 2005	24,000	2,604	528,522	555,126	514	555,640
Profit after tax	–	–	83,157	83,157	–	83,157
Movement in cash flow hedge reserve net of tax	–	(904)	–	(904)	–	(904)
Actuarial gain/(loss) recognised in the pension scheme net of tax	–	–	3,891	3,891	–	3,891
Total recognised income and expenses for the period	–	(904)	87,048	86,144	–	86,144
Dividends provided for or paid	–	–	(54,028)	(54,028)	–	(54,028)
Movement in minority interest	–	–	–	–	(55)	(55)
Balance at 30 June 2006	24,000	1,700	561,542	587,242	459	587,701
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

Note 6 Capital expenditure commitments

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

	30 June 2007 \$000	30 June 2006 \$000	31 December 2006 \$000
Commitments at the end of the period not provided for in the financial statements	14,657	15,777	2,720
Note 7 Operating Lease Commitments			
Gross commitments under non-cancellable operating leases for the Group	263	239	140
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	75	75	75

Note 6 Capital expenditure commitments

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

Note 7 Operating Lease Commitments

Gross commitments under non-cancellable operating leases for the Group

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

Notes to the Financial Statements

For the Six Months Ended 30 June 2007 (unaudited)

Note 9 Reconciliation of net cash flow from operating activities to reported profit

Six Months Ended 30 June

	2007 \$000	2006 \$000
Profit after tax before minority interest	59,887	83,102
Adjusted for:		
Depreciation expense	30,140	27,794
Movement in deferred tax	(9,656)	(3,770)
Less deferred taxation movement in reserves	(400)	(1,471)
Provision for restoration costs	150	143
Settlement of interest rate swap	—	85
Contributions to defined benefit pension plan	(212)	(240)
Impact of changes in working capital items:		
(Decrease) in employee entitlement provisions	(850)	(1,027)
(Increase) / decrease in trade and other receivables	4,053	(7,752)
Increase/ (decrease) in trade and other payables	(304)	(1,017)
(Increase) / decrease in consumable stores and spares	22,051	(4,222)
Less attributable to fixed asset purchases/transfers	(21,784)	(2,632)
Increase in taxation payable	8,312	19,224
Net cash flows from operating activities	91,387	108,217

Note 10 Bank Borrowings

Group and Parent

Total non-current interest bearing borrowings

Secured bank loans

Effective Interest Rate	30 June	30 June	31 December
2007	2007	2006	2006
%	\$000	\$000	\$000
8.30%	15,003	2,500	—
7.51%			

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 2007 \$000	30 June 2006 \$000	31 December 2006 \$000
Working capital facility	30,000	25,000	25,000
Cash advance facility	25,000	85,000	25,000
Total un-drawn borrowing facility	55,000	110,000	50,000

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 2007 are consistent with those disclosed in the audited financial statements for the year ended 31 December 2006.

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 Advisers

MinterEllisonRuddWatts

Auditor

PricewaterhouseCoopers

Chairman

I.F. Farrant

Directors

C.K. Bower
G.A. Cumming
P.W. Griffiths
G.W. Henson
K.A. Hirschfeld
D.A. Jackson
C.M. Midgley
W.S. Wheat (appointed 5 July 2007)
P.C.A. Colman (resigned 30 June 2007)
A.P. Borgesen (resigned 30 June 2007)
Sir Colin Maiden (resigned 1 August 2007)
M. Tume (appointed 1 August 2007)
P.M. Springford (appointed 1 August 2007)

Alternate Directors

J.H. Wake
A.J. Clements
V. Raman (appointed 5 July 2007)
B.E. Waywell (resigned 18 March 2007)

Chief Executive Officer

J.A. Kerrigan (to 15 August 2007)
K.J. Rivers (from 16 August 2007)

Company Secretary

D.B. Martin



The New Zealand
REFINING COMPANY LTD
