

21 April 2015

The New Zealand Refining Co Ltd  
Private Bag 9024  
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For the Chairman

The audit & risk committee of Refining NZ has appointed BDO Northland to carry out an agreed programme of Internal Audit assignments. The schedule that was agreed for 2014 included a review of the Processing and Refinery Auckland Pipeline fees. The work was conducted in May with the final report issued in June 2014.

The objective of the internal audit was to review and verify the accuracy and integrity of the Processing and RAP fees. This is considered important on the basis that the processing fee is the company's main source of revenue. The calculations are complex with a large number of input variables. Our work encompassed a review over key procedures for which the scope included but was not limited to:

- Verification and confirmation that the calculation of the fees is complete, accurate and in accordance with the methodology agreed within schedule 8 of the Processing Agreement for each customer.
- Confirmation that the Feedstock and Product Outturn Data is complete and accurately included in calculations and processes.
- Processing Fees are prepared correctly, reviewed and issued on a timely basis.

The overarching formula for the calculation of the processing fee is based upon 70% of the Gross Refining Margin multiplied by volume (quantity of feedstocks) and adjusted for the rate of exchange for US\$ to NZ\$.

From the work that we undertook we did not note any deviation in the application of the agreed processing fee formula. From the sample we tested, the processing fee formula being applied to all users was in accordance with the processing agreement.

Audit work of any nature is limited to that of sample based detailed testing however as part of our internal audit we also reviewed the adequacy of systems and internal controls. We concluded that the internal control environment over the processing fee calculation was robust.

We are aware that the margin related fee is subject to regular scrutiny. Due to the fundamentally significant impact of the fee to the revenue earned by the company the topic is regularly incorporated within the independent internal audit programme. This is further supported by the numerous internal checks and balances in place.

Regards  
**BDO NORTHLAND**



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