REFINING NZ

NOTICE OF ANNUAL MEETING 2017

REFINING NZ

Your Energy Hive

Notice is hereby given that the fifty-sixth Annual Meeting of The New Zealand Refining Company Limited (**"Company"** and **"Refining NZ"**) will be held at the Pullman Hotel, Corner Waterloo Quadrant & Princes Street, Auckland, on Wednesday, 3 May 2017 commencing at 2:00pm.

Shareholders are invited to join the Directors for afternoon tea following the meeting.

BUSINESS

PRESENTATIONS

(a). Chairman's Address

(b). Chief Executive Officer's Review

(c). Statutory Accounts and Reports for the Financial Year Ended 31 December 2016

To receive and consider the Annual Report, including the Financial Statements and the Auditor's Report, for the year ended 31 December 2016.

RESOLUTIONS

Item 1: Auditor's fees and expenses

To consider and, if thought fit, to pass the following ordinary resolution:

"That Directors be authorised to fix the fees and expenses of PricewaterhouseCoopers as auditors to the Company for the financial year ending 31 December 2017."

Item 2: Re-Election of Directors

In accordance with Clause 8.9 of the Constitution, Messrs S.C. Allen and M.H. Elliott retire by rotation and being eligible, offer themselves for re-election. Under Clause 8.8 of the Constitution, Mr P.A. Zealand and Mr R. Cavallo were appointed by the Directors to fill the vacancies created by the resignations of Mr P.M. Springford and Mr A.T. Warrell and being eligible, offer themselves for election. Accordingly, it is proposed that the shareholders consider and, if thought fit, pass the following ordinary resolutions for the purposes of NZX Main Board Listing Rules 3.3.6 and 3.3.11.

2(a) Re-election of Mr S.C. Allen as a director of the Company

"That Mr S.C. Allen, who retires by rotation in accordance with clause 8.9 of the Constitution, be re-elected as a director of the Company."

2(b) Re-election of Mr M.H. Elliott as a director of the Company

"That Mr M.H. Elliott, who retires by rotation in accordance with clause 8.9 of the Constitution, be re-elected as a director of the Company."

2(c) Election of Mr P.A. Zealand as a director of the Company

"That Mr P.A. Zealand be elected as a director of the Company."

2(d) Election of Mr R. Cavallo as a director of the Company

"That Mr R. Cavallo be elected as a director of the Company."

Item 3: Shareholder Resolutions

Article 7.1.4 of the Constitution allows any shareholder to give written notice of any proposed resolution that he or she wishes to raise at the Annual Meeting. The Board has received the following proposed resolutions from Mr Bryan Halliwell and Mr Harold Waite. These resolutions are put to shareholders to consider and if thought fit, pass as ordinary resolutions. Statements by Mr Halliwell and Mr Waite in support of their proposed resolutions (which they are entitled to make pursuant to Article 7.1.4 of the Constitution) and statements by the Company's Independent Directors in response, appear in the accompanying explanatory notes.

3(a) Motion from Mr Bryan Halliwell

"I move that shareholders vote in favour of asking the Directors, and the User Companies, to agree that the Refinery should be planned to produce refined oil products, for export by User Companies, only when the Users have agreed to pay sufficient refinery processing fees, to provide NZRC with a commercially-acceptable profit, for such exports production. This profit to be by using the NZRC/Users Gross Refining Margin formula, and based on the "Mid of Platts Spot Prices in Singapore", plus freight based on the "Import Parity Pricing" formula, and after NZRC's costs of production, and after any subsequent actual, and notional, freight costs considerations, and the effects of those on the value of such exports production."

3(b) Motion from Mr Harold Waite

"I move that, in view of the NZRC refinery's unacceptable financial results, for example the Refinery's 2013 $33 million operating loss, and which was significantly caused by the present NZRC/Users 70%/30%, pre-costs, 1995 Refinery Processing Fees "Gain Sharing" arrangement, the Directors, and the User Companies, arrange for a new review of the present fairness of that "Gain Sharing" arrangement, by a different, (i.e. not Deloitte), substantial, independent, Accounting firm.

That would be with a view to it providing its opinion as to whether that "70/30 Gain Sharing" ratio should be changed, to provide that the User Companies' "Gain sharing" benefit should be not more than 10%, of NZRC's after-costs refinery processing fees profits.

Further, as to whether the present "Minimum", and "Maximum cap," processing Fees rates, should be deleted."

BY ORDER OF THE BOARD

D.M. Jensen
Company Secretary
13 April 2017

EXPLANATORY NOTES

AGENDA ITEM 1: AUDITOR'S FEES AND EXPENSES

PricewaterhouseCoopers (PwC) is the current auditor of the Company. Under the Companies Act 1993, a company's auditor is automatically reappointed unless the shareholders resolve to appoint a replacement auditor or certain other specified reasons exist for the auditor not to be reappointed.

However, notwithstanding the automatic reappointment of an auditor under the Companies Act 1993, the auditor's fees and expenses must be fixed by the Company at the annual meeting, or in the manner that the Company determines at the annual meeting.

Therefore, shareholders are being asked to resolve that the Directors be authorised to fix the fees and expenses of PwC for the audit of the Company's financial statements for the year ending 31 December 2017.

AGENDA ITEM 2: RE-ELECTION OF DIRECTORS

Item 2(a) Re-election of Mr S.C. Allen
BSc, BCom
Appointed 04.12.2014

Simon Allen has over 30 years commercial experience in the New Zealand and Australian capital markets and was previously CEO of ABN Amro. Mr Allen is Chair of Crown Fibre Holdings Limited and St Cuthbert's College. He is a Director of IAG New Zealand Limited and a Trustee of the Antarctic Heritage Trust. Mr Allen's past governance roles include Auckland Healthcare Services Limited (Director), Financial Markets Authority (Chair), NZSE (Director) and NZX Limited (Chair), Auckland Council Investments Limited (Chair) along with a number of other unlisted companies. Mr Allen is an Independent Director as defined in the NZX Main Board Listing Rules.

The Board is supportive of the re-election of Mr Allen as a Director of the Company.

Item 2(b) Re-election of Mr M.H. Elliott
BCom, Diploma of Commerce (post grad)
Appointed 03.05.2012

Matt Elliott is Vice President Fuels NZ and Managing Director of BP New Zealand Limited. Mr Elliott joined BP in 1994 and has held positions in Retail, Marketing, and General Management with BP in Australia, Texas and London and has been a Director in Australia and Fiji as part of BP SWP Ltd. Mr Elliott is not an Independent Director as defined in the NZX Main Board Listing Rules.

The Board is supportive of the re-election of Mr Elliott as a Director of the Company.

Item 2(c) Election of Mr P.A. Zealand
BSc Mech.Eng.(1st Cl. Hon's.), M.B.A.
Appointed 22.08.2016

Paul Zealand is a professional Director with experience in the energy sector. Mr Zealand is a director of Genesis Energy in New Zealand and Lochard Energy in Australia. Mr Zealand was previously CEO of Upstream for Origin Energy, Country Chairman for Shell New Zealand and has held executive positions in Shell companies in UK, Netherlands, New Zealand and Australia including senior refinery and supply economics roles in Europe and Australia. Mr Zealand is an Independent Director as defined in the NZX Main Board Listing Rules.

The Board is supportive of the election of Mr Zealand as a Director of the Company.

Item 2(d) Election of Mr R. Cavallo
ME Chem. Eng.
Appointed 11.04.2017

Riccardo Cavallo is the Manager of Refining for ExxonMobil's Australia and New Zealand operations. Mr Cavallo joined ExxonMobil in 2001 and has held several positions at different sites with a growing level of responsibility in Manufacturing and Operations in Italy, United Kingdom and Australia. Mr Cavallo is a Director of ExxonMobil Australia Pty Limited, Mobil Oil Australia Pty Limited and Vacuum Oil Australia Proprietary Limited and of the Australian Institute of Petroleum. Mr Cavallo is the Chairman and Director of Mobil Refining Australia Pty Limited. Mr Cavallo is not an Independent Director as defined in the NZX Main Board Listing Rules.

The Board is supportive of the election of Mr Cavallo as a Director of the Company.

AGENDA ITEM 3: SHAREHOLDER RESOLUTIONS

Item 3(a) Motion from Mr Bryan Halliwell

Mr HALLIWELL'S STATEMENT IN SUPPORT OF HIS MOTION

- For at least 60 years, Government economic security policy has included support for a financially viable oil refinery. As in Australia, this has included a pricing policy, (Import Parity Pricing, "IPP"), under which the User Oil Companies import refinery feedstocks, in "Large crude carrier" tankers, at cheap freight rates, but charge the NZ public, for the NZRC-refined products, on the notional basis that these have been imported, already refined, in smaller, more expensive tankers. Basically, NZRC's Gross Refining Margin, ("GRM"), is the increased value, which NZRC's refining processes add, to those imported feedstocks. Accordingly, any reduction in the claimed value of NZRC's production, reduces NZRC's GRM, by that same amount.

- However, it is clear that NZRC's GRM has been as little as 32% of the GRM of our "Benchmark" Caltex Australia Refineries, using the same GRM/IPP formula. NZRC's successive Directors, and CEOs, and their Lawyer, invalidly claim that the large differences, between the Caltex Australia, and the much lower, NZRC, GRMs, are because the Caltex, and NZRC, refineries have *"different configurations, and product slates"*.

  That is almost totally incorrect. Firstly, the NZRC "User" Companies receive, (90%-invalid), 30% *"Gain sharing"* discounts, from their calculated GRMs. Secondly, since 2005, what NZRC's CEO Sjoerd Post calls, *"negative market related element prices"*, - (i.e. loss-making, -"NEP"), apply, for Users' exports of claimed "surplus" refined oil products, produced by NZRC.

- Since 2005, Users have been arranging their NZRC production, *"... as just one part of their overall regional supply chain management"*, (CEO Sjoerd Post's statement, 6 March 2014). Users, have been arranging their production requests, of NZRC, and tendering the requisite feedstock's, to produce large quantities of "surplus" refined oil products, and which are then exported, very cheaply, (at "NEP"), largely to their Australian Associate Companies.

- In those actions, the loyalties of NZRC's Users-nominated Directors, fundamentally, are to their employer Oil Companies, rather than to the NZRC Company, *"as a whole"*, including to its non-Users shareholders, and to which, as Directors, they are required to act, with *"good faith"*, *"best interests"*, (particularly NZRC's financial interests), *"utmost loyalty"*, and "absolute honesty".

  NZRC Directors, and CEO, must be in breach of those duties, when carrying out those "NEP" export activities, while knowing that they seriously reduce NZRC's profitability. And, while concealing their huge volumes, and adverse financial effects, from NZRC's non-User shareholders. The effective results have been that all direct, and indirect, costs to NZRC, of that "surplus" refined oil products, production and export, are at the sole cost to NZRC's non-participating shareholders.

- These low value exports increased, from $NZ55 million, in 2005, to $NZ255 million in 2011:

  Recent years' evident exports of refined oil products, from NZRC:

[1] 36 tankers, average "Gross tonnage" 30,600. Total tanker tonnage 1,900,000.
[2] 19 tankers, average "Gross tonnage" 31,200. Total tanker tonnage 960,000.
[3] 17 tankers, average "Gross tonnage" 31,100. Total tanker tonnage 900,000.

The average length of a 31,000 tonne tanker, is 185 metres. Total combined length, for 2014, would be 6.7 kilometres, and 32 metres wide. All loaded with "surplus" NZRC-refined oil products. Together with invalid *"Allocations from the GRM"* discounts, in 2014, (for example), these appear to have cost NZRC about $240 million, in reduced GRM.

Clearly, this has been a massive, well-planned, and well-used, operation. Yet all that the Directors have ever revealed, to the non-User shareholders, was their Response to my 2014 AGM Motion Statement, which included their comment, of

	SHIPMENTS	BBL	STATISTICS NZ'S FIGURES		
(Actual, from Northport records)			Total $NZ values		
Total for 2014	36[1]	14,346,000 bbl	$NZ250M	$NZ17.42/bbl	NZ10.96c/litre
Total for 2015	19[2]	7,309,000 bbl	$NZ122M	$NZ16.00/bbl	NZ10.06c/litre
Total for 2016	17[3]	6,828,000 bbl	$NZ44M	$NZ6.44/bbl	NZ4.05c/litre

"Fuel oil ....sold overseas, at export parity prices that may be discounted".

- From 2015, the Users reduced those exports. However, there have also been unexplained other reductions in the Users' valuations of those exported refined oil products. From 2009, and again, from 2012, there were major, continuing, changes, to the NZRC/Caltex GRM ratios. From each of those years, NZRC's $US GRM rates, declined by 36%, in comparison with the Caltex Australia $US GRM rates. In doing so, they further, seriously, reduced NZRC's GRM earning rates.

  Accordingly, it is not surprising that, in 2009, with only a 3% decrease in barrels processed, NZRC's operating income decreased by 37%, or that this would lead to an 81% decrease in its net profit. Or that, over 2013, those actions largely caused NZRC's Refinery's operating loss, of $33 million.

  These very low, Users' "surplus" refined oil products export values, (apparently as low as $NZ6.44 per barrel, for 2016), are even more reprehensible. This is because, for example, current Singapore "spot" prices for the <u>cheapest</u> fuel oil, (IFO 380), are about $US45.70 per barrel, ($NZ65.30 per barrel). Clearly, those low, Users' export values, seriously reduced NZRC's profits.

  Moreover, these, over $300 million per year, NEP reductions and GS discounts, are *"double-dipped"* invalid, because, while taking them from the New Zealand public, through their Government-approved *"100% of IPP"* market pricing formula, the Users have already taken them from NZRC, at the sole cost to its non-participating shareholders.

- The NZRC Directors, and CEO, continue to claim that NZRC needs to: ...*"compete in one of the toughest regional markets (the Asian) in the World, against refineries many times larger than, and newer than, ours at Marsden Point."* In fact, because the New Zealand User Companies, and their Australian Affiliates, price their refined products on the same, 100% of Import Parity Pricing, ("IPP"), basis, that is simply not correct. NZRC's "regional market" is the IPP-based Australasian, not 10,000 km away, in Asia.

  And, by competing with such huge Korean refineries, the Directors and CEO would be in serious breach of the NZRC/Users Processing Agreements and, accordingly, of their fiduciary, and good faith duties, to NZRC, and its shareholders.

  And, if they did obtain those same Korean prices, there can be no doubt that the Government would remove the Users' *"Import Parity Pricing"* benefits.

INDEPENDENT DIRECTORS' RESPONSE TO THE MOTION

Refining NZ has tried to avoid having this motion being put before the shareholders at the Annual Meeting by pointing out to Mr Halliwell in writing that his underpinning analysis is incorrect.

The Refining NZ Independent Directors therefore recommend that its shareholders do NOT vote in favour of Mr Halliwell's motion to 'only produce export products if it can do so at a commercially acceptable profit after costs of production have been deducted', because Mr Halliwell's analysis of the available data is incorrect.

Mr Halliwell alleges that the refinery exported 28.5 million barrels of product with a Gross Refining Margin (GRM) impact of hundreds of millions of dollars. The fact is that only 4.8 million barrels of product were exported and this had a positive effect on the overall GRM.

Export Products

Mr Halliwell asserts that during 2014, 2015 and 2016 there were 72 vessels exporting 28.5 million barrels of product from the refinery. Instead, there were only 45 cargoes carrying exported product, totalling 4.8 million barrels. Mr. Halliwell inadvertently included;

- 4 ships delivering crude
- 5 ships delivering gasoline blendstock
- 7 ships picking up product for delivery to a New Zealand coastal port
- 8 ships visiting purely to load (import priced) bunkers for own use, and
- 25 ships delivering finished product (to supplement Auckland product supply during scheduled refinery shutdowns).

Furthermore, Mr Halliwell's list of 72 vessels missed 23 other vessels exporting product.

Fuel Oil Exports

The 4.8 million barrels of exported product included 2.4 million barrels of fuel oil. These were exported because NZ's domestic demand for fuel oil is less than Refining NZ's production. If it were physically possible then Refining NZ would only produce the high-value products of petrol, diesel and jet, and no low-value fuel oil. However, fuel oil is a by-product of the refining process and it is not possible to produce the desired petrol, diesel and jet products without also producing some fuel oil as a by-product.

The crude diet has a bearing on how much fuel oil the refinery produces: more expensive 'light crudes' will typically yield less fuel oil than cheaper 'heavy crudes'. The refinery and its customers always seek to optimise the GRM, and sometimes this results in buying cheaper 'heavy crudes', which produce a higher gross refining margin than more expensive 'light crudes', even when the production of low-value export fuel oil is factored in.

It is worth noting that the biggest contributor to Refining NZ's GRM is the hydrocracker, and this process unit will be starved of feedstock if the crude diet is shifted away from 'heavy crudes' towards 'light crudes'. Thus, in order to maximise the GRM, and therefore maximise shareholder returns, it is appropriate to run a heavier crude diet even if this results in the export of some fuel oil barrels.

Light Naphtha Exports

The remaining 2.4 million barrels of exported product over the 2014 – 2016 period consisted mainly of light naphtha. This product was exported because the refinery produced insufficient octane with the old Platforming process unit to blend away all of the low-octane light naphtha that the refinery produces. There is no domestic demand for light naphtha, so this surplus product was exported to Asia. An alternative option to address the light-naphtha surplus would have been to import high-octane gasoline blendstock. However this would lower the overall GRM compared with the export option, which is why the export option was selected.

The newly-commissioned Continuous Catalytic Reformer (the Te Mahi Hou project) addresses this imbalance, resulting in a much-reduced need to export light naphtha.

Other exports

There were a number of other export cargoes which, due to favourable export market conditions, were priced at import parity.

Conclusion

- Incorrect analysis of public information has led Mr Halliwell to grossly overstate Refining NZ's export volumes and its impact on the GRM, leading him to propose his motion.

- Refining NZ's exports of surplus products are the appropriate action to take in order to maximise the overall GRM and therefore shareholder return.
- The refinery can easily reduce the volume of fuel oil that it exports, if that was a primary objective, by either reducing refinery intake (and therefore making less petrol, diesel and jet), or by running a more expensive 'light crude' diet which under-loads the hydrocracker. In both of these cases a lower GRM and therefore a lower shareholder return would result.
- The refinery can elect to keep its excess light naphtha on shore by blending it with expensive high octane import components. But again this would result in a lower GRM and therefore lower shareholder return.
- The export prices achieved by Refining NZ are the best commercially possible.

The Refining NZ Independent Directors therefore recommend that its shareholders do NOT vote in favour of Mr Halliwell's motion.

Item 3(b) Motion from Mr Harold Waite

MR WAITE'S STATEMENT IN SUPPORT OF HIS MOTION

- The User Companies' 30% "Gain sharing", ("GS"), discounts were provided for, in the 1995 NZRC/User Companies Refinery Processing Agreements, ("RPAs"). They were founded on the claim that:

  "The allocation of 70% of the Gross Refining Margin to NZRC and 30% to the User Companies is not unreasonable relative to the risks borne by the parties."

  However, because, eleven, of the twelve, NZRC Directors' claimed justifying reasons, for them, are flawed, that claim is about 90% invalid. In any event, 30% (pre-costs) "GS" discounts would always have been far too high. However, because one of the Directors' twelve, claimed justifications, ("loyalty"), is about 50% valid, a 7.5% "GS" discounts rate could be appropriate.

  The major "invalidity" of these 30% "GS" discounts, is that they are taken from NZRC's original Gross Refining Margin, ("GRM"), before any of NZRC's costs have been accounted for. Any business person should know, that any genuine "Gain Sharing" arrangement, should only be assessed on the net, after-costs, profits. For example, by the distribution of shareholders' dividends. And, the User Companies held 73% of NZRC's shares, and profits entitlement, at that time.

- But, in this NZRC arrangement, the Users' 30% "GS" discounts must always be vastly more than 30% of NZRC's after-costs net profits. In 2013, for example, the Users' 30%, ($70 million), "Gain sharing" discounts, provided them with 111% of what would have otherwise been NZRC's net profits. That resulted in NZRC's Refinery having an operating loss, of $33 million. The whole NZRC Company actually showed a pre-tax loss, reduced to $7 million, by non-refining income, from the Refinery to Auckland pipeline, and from facilities for Northland fuels distribution.

- Another major unfairness, imposed on NZRC's non-User shareholders, by the User Companies, is that, in terms of the 1995 NZRC/User Companies Refinery Processing Agreements, NZRC's "maximum" annual processing fees, have been limited to $US9.00 per barrel, since 1995, (reduced to $US6.30, after the 30% "GS" discounts). I am confident, that no New Zealand worker, or NZX-listed Company, has had their maximum gross, (pre-costs), income rate, limited to the same level as it was, in 1995.

  For example, in the year 2000, NZRC's Chairman, total Directors, and CEO, respectively, were paid $44,000, $220,000, and $460,000. By 2016, they were paid $170,000, $588,000, (after the fees for each User Company, were voluntarily reduced, to only the one-Director $60,000 rate), and $1,400,000, respectively. For comparison, the price of Brent light crude oil, in 2000, was $US18 per barrel, and in 2017, $US57 per barrel.

  Also, virtually all costs have risen, by at least 100%, since 2000. In the 2000 year, NZRC's total Refinery Operating Costs were $82 million. By 2016, these had increased, to $290 million. But, NZRC's net Gross Refining Margin, was still limited, to not more than $US6.30 per barrel.

- With the requested abandonment, of the 2005-introduced "negative market related element export prices" valuations, - (i.e. "below cost", - "NEP"), for the User Companies' exports of claimed "surplus" "refined oil products", produced for them by NZRC, since 2005, NZRC's processing ("pre-cap") fees, in the future, could be expected to often be in excess of $US9.00 per barrel. But, under the 1995 maximum fees "mechanism", those "excess" GRM amounts would continue to be removed, from the GRM, and passed directly to the User Companies. In any event, clearly, in 2016, the "maximum cap mechanism" should be abandoned. So, to be fair to the User Companies, the "minimum floor fee" mechanism, should also be abandoned.

Since the 1995 RPAs were introduced, 22 years ago, the $US9.00 "cap" processing fees figure has been triggered several times. And, accordingly, restricting NZRC's net fees to $US6.30 per barrel. But, the Directors', much vaunted, "abiding benefit floor fee mechanism", has never been needed, or used, on its annualised basis. For example, despite the Refinery operating at a loss of about $33 million, over the 2013 year, the "minimum floor fee" mechanism was not triggered. So, abandoning NZRC's "floor fee benefit" wouldn't be a problem, for the non-User shareholders.

- It seems possible that, in the near future, the NZRC Directors, and CEO, may initiate the procedures, which would be necessary, to obtain non-User shareholders' approval, to changed NZRC/User Companies Refinery Processing Agreements. These could seek to legitimise these invalid, unfair, covert, "Allocations" and "NEP" discounts. Of course, whether or not that happens, it could not legitimise the actions of the successive Directors, and CEOs, relating to this matter, since 2009, or the about $1.5 billion which has been diverted to the User Companies, by these discounts.
- Shareholders who have acquired shares in recent years, including those "Institutional and habitual investor shareholders", to whom the Directors, and Broker First NZ Capital, (with no Broker documentation, I was informed), offered the opportunity to invest in the 32 million, March 2014 NZRC private shares Placement, have made successful investments, with NZRC's share prices rising, from about $1.60, at that time, to about $2.80.
- But, certainly, if NZRC really was in need of additional cash, for the Continuous Catalyst Regeneration Project, ("Te Mahi Hou", or "CCR"), in March 2014, as was then claimed by NZRC Directors, because of its poor profits performance, the clear route to follow would have been to recognise that the total causes of that NZRC cash shortage, were the invalid Users' processing fees "NEP", and "allocations", discounts, of about-$215 million per year, and doing something about those.
- Particularly because, in its April 2012 "Overview", of the "Te Mahi Hou", CCR Project, (since completed), NZRC emphasised that, "There will be no call on shareholders, for equity to fund the CCR Project".
- Lastly, at 31 December 2016, the Users owed NZRC $140 million, for unpaid processing fees. These seemed to represent 4.8 months' of processing fees. At the same time, NZRC owed its Banks $219 million, with consequent Bank interest of $15 million, for the year. This seems to be another example, of NZRC being over-generous, to the User Companies.

INDEPENDENT DIRECTORS' RESPONSE TO THE MOTION

The Independent Directors advise that the Company had written to Mr Bryan Halliwell – who collaborated with Mr Waite in putting this motion to the AGM – suggesting that Mr Waite withdraw the motion because a very similar regular independent review of the processing agreements had already been commissioned by the Independent Directors in late 2016.

The independent review was conducted by Hale and Twomey, whom Mr Halliwell recommended that the Company engage in prior years. Hale and Twomey tested, among other items, whether the customers' share of 30% of the Gross Refinery Margin was still appropriate.

Hale and Twomey's conclusions on the appropriateness of the 30% share and its possible replacement with a 10% share are set out in Appendix I.

On the basis of Hale and Twomey's conclusions outlined in Appendix I and quoting their conclusions in their paragraphs 13 and 15 as follows:

1. *"We therefore conclude that the revenue generated by the customers retaining 30% of GRM is appropriate for the costs they incur in using Refining NZ and is sufficiently competitive to ensure that there is an incentive to keep them using the Refining NZ supply route. At the same time, the average benefit over the cycle is not excessively in the customers' favour," and*

2. *"Charging customers 90% of GRM would result in insufficient income for them to cover their refining related costs, making it considerably more profitable (by USD1.00/bbl) to import all finished product and avoid processing at Refining NZ and the related costs".*

The Refining NZ Independent Directors therefore recommend that its shareholders do NOT vote in favour of Mr Waite's motion.

APPENDIX I – Hale & Twomey review

Analysis of the appropriateness of Refining NZ customers sharing 30% of the gross refining margin generated by Refining NZ

1. Hale & Twomey (H&T) has been asked to comment on the appropriateness of the 70/30 sharing of the gross refining margin (GRM) generated by Refining NZ. In particular, is the 30% retained by each customer appropriate for the costs they incur in using Refining NZ?

2. In summary, H&T found that, over a business cycle, the 30% GRM retained is enough to cover customers' costs in using Refining NZ that they would not incur if they imported finished product directly, and to provide an incentive for full utilisation of the refinery. At the same time, the customers' average benefit over the cycle is not excessively in their favour.

3. The GRM reflects the value generated by Refining NZ processing crude shown in the following formula.

$$\text{GRM (USD/bbl)} = \frac{\text{Value of Products (USD) - Value of Feedstocks (USD)}}{\text{Throughput (bbl)}}$$

4. The value for each product is calculated on a 'delivered to terminal' basis because if there was no refinery, customers would import product directly from international markets to terminals at ports around New Zealand[1]. Each User pays Refining NZ 70% of its GRM multiplied by its throughput, converted to New Zealand dollars at the applicable exchange rate. In effect, customers are retaining 30% of the margin generated from the refining process to contribute to their costs incurred in processing through Refining NZ.

5. The costs customers incur in using Refining NZ are shown in the following table (the estimated dollar amounts are shown collectively for customers)[2].

DESCRIPTION	APPROXIMATE AMOUNT (USD)	COMMENT
Cost of the team operating crude purchasing and refining scheduling.	<$1 million	Customers would also have a cost importing product. The crude/refining operation is likely to be more expensive and higher risk.
Finance and currency costs and risks from holding crude and product inventories.	Cost of $180 - $450 million capital on balance sheet	Varies with crude oil cost so value changes significantly (can have large financial impacts on stock asset value).
Distribution to ports • Coastal shipping • Pipeline cost	~$50 - $55 million	If there was no refinery, there would be no need for coastal shipping, saving most of the distribution costs involved.

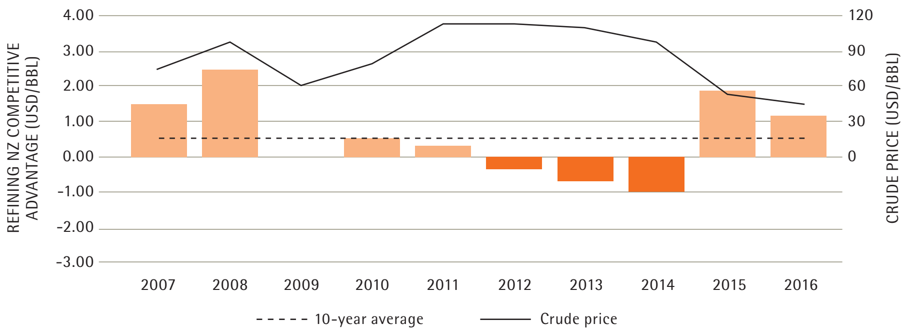
6. Another way of considering the appropriateness of customers retaining 30% GRM is to consider the additional costs that Refining NZ would incur if it operated as a merchant refinery, buying crude itself and selling its production to customers at their storage terminals in New Zealand. In this scenario, Refining NZ would incur the cost of establishing a supply and trading team, the capital cost of USD180-450 million of stock added to its balance sheet and it would incur the costs of distribution to customers' terminals (i.e. higher expenses). These costs are an essential part of the refining supply chain so it is reasonable that they should be recovered from refining margin income.

7. H&T's *2014 Independent Review of the Refining NZ Processing Agreement* analysed customers' costs of using Refining NZ against the cost of directly importing finished product. The analysis assessed whether, by retaining 30% of GRM, customers covered their costs and were sufficiently incentivised to make the refining processing route more attractive than the product import route.

8. H&T updated this analysis to the end of 2016. The stock holding cost has a significant impact, so competitiveness of refining supply improved as crude prices dropped (2015/16).

9. The following chart shows the competitiveness of the customers' 30% of GRM against imported products over a 10-year period; i.e. the extent to which the 30% of GRM compensates customers for the costs they incur in using Refining NZ[3]. The light orange bars indicate years in which the 30% of GRM exceeded customers' costs and the dark orange bars indicate years in which their costs exceeded 30% of GRM. The dotted line represents customers' net benefit from using Refining NZ, i.e. their 30% of GRM less the costs they incurred, over a 10-year period, in USD per barrel. The customers' net benefit over this period was USD0.60 per barrel.

Competitiveness of 30% of GRM against imports over a 10 year cycle



10. This chart shows that, in three of the last ten years, Refining NZ supply was uncompetitive against imports and in 2009 it was break-even. In those three years the 30% GRM retained by the customers was not enough to cover their costs (including a return on capital). The years in which customers' costs are not covered are those when refining margins are low and Refining NZ's profitability is poor. For example, in 2013, which was a poor year for Refining NZ profitability, customers would have been financially advantaged by importing rather than processing (by approximately USD0.75/bbl).

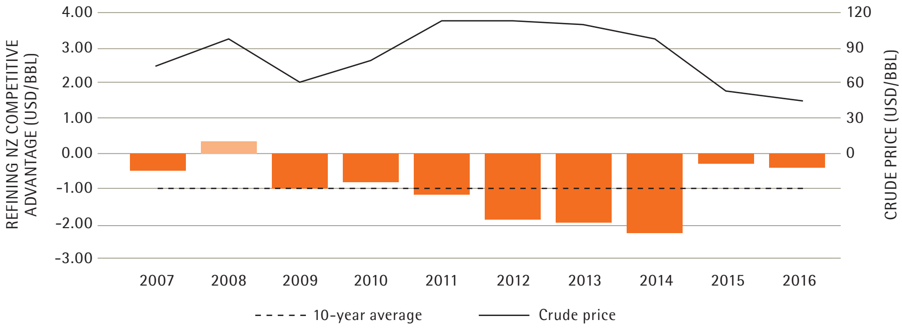
11. Over a 10-year cycle, our view is that Refining NZ is sufficiently competitive to encourage customers to maximise their use of Refining NZ supply instead of importing finished product, despite the revenue generated from retaining 30% of GRM not being enough to cover their costs in some years.

12. Refining NZ's long term competitiveness needs to be positive for customers to keep using the Refining NZ route, as direct importing is a simpler operation and may provide customers with other advantages including:
    - Fewer people required, including less specialist technical expertise;
    - Product cargoes are smaller with less volatility in inventories and cash flow;
    - Customers may be able to generate additional income elsewhere in their organisation by processing through their other refineries;
    - Removing cost, complexity and marine risk from operating a coastal fleet;
    - Reducing capital on the balance sheet and improving the customers' reported returns; and
    - Removing some volatility in performance (caused by refining margin variation) they would not have as purely marketing companies.

13. We therefore conclude that the revenue generated by the customers retaining 30% of GRM is appropriate for the costs they incur in using Refining NZ and is sufficiently competitive to ensure that there is an incentive to keep them using the Refining NZ supply route. At the same time, the average benefit over the cycle is not excessively in the customers' favour.

14. We have been asked to comment on User competitiveness should they only receive 10% of GRM to cover their costs. If this was the case, customers would only have had competitive supply from the refinery in only one year of the last 10 (2008), which was a period of extremely high refining margins. The following graph shows that the customers' net benefit from using Refining NZ over the 10-year period in this scenario is negative and therefore not a competitive source of supply.

Competitiveness of 10% of GRM against imports over a 10 year cycle



15. Charging customers 90% of GRM would result in insufficient income for them to cover their refining related costs, making it considerably more profitable (by USD1.00/bbl) to import all finished product and avoid processing at Refining NZ and the related costs.

Hale & Twomey
March 2017

1. About 30% of New Zealand product demand is directly imported to these ports as finished product so the cost of this process is well established and understood.
2. Costs based on H&T analysis developed for the 2014 Independent Review of the Refining NZ Processing Agreement, updated to the end of 2016.
3. Any impact from Cap or Floor payments has been removed from the analysis as it is the 70/30 split that is being assessed on whether it is appropriate.

PROCEDURAL NOTES

PERSONS ENTITLED TO VOTE

The persons who will be entitled to vote at the Meeting are those persons (or their proxies or representatives) registered as holding Ordinary Shares on the Company's share register at 2:00pm on Wednesday, 3 May 2017.

PROXIES

A shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of the shareholder. A proxy need not be another shareholder of the Company. A shareholder may appoint "The Chairman of the Meeting" as Proxy. The Chairman intends to vote any undirected proxies held by him in favour of resolutions 1, 2(a), 2(b), 2(c) and 2(d), and against 3(a) and 3(b).

A Proxy/Voting Form is enclosed with this Notice of Meeting. If used to appoint a proxy, it must be deposited with the Company in accordance with the instructions on the form not later than 48 hours before the time for holding the meeting (i.e. on or before 2:00pm on 1st May 2017).

POSTAL VOTING

Shareholders who are entitled to attend and vote at the Meeting may cast a postal vote instead of attending in person or appointing a proxy.

A Proxy/Voting Form is enclosed with this Notice of Meeting. If used to cast a postal vote, it must be deposited with the Company in accordance with the instructions on the form not less than 48 hours before the time for holding the meeting (i.e. on or before 2:00pm on 1st May 2017).

ONLINE APPOINTMENT OF PROXIES AND VOTING

A shareholder of the Company entitled to attend and vote at the Meeting may appoint a proxy online or may vote online on the website of the Company's share registry, Computershare Investor Services Limited: **www.investorvote.co.nz**

To appoint a proxy or vote online shareholders will be required to enter their CSN/Securityholder Number, postcode/country of residence and the secure access Control Number that appears on the front of their Voting/Proxy Form. Proxies and votes submitted in this way must be received on or before 2:00pm on 1st May 2017.

The Company Secretary, Denise Jensen, has been authorised by the Board to receive and count postal votes, including online votes, at the Meeting.

RESOLUTIONS

Resolutions 1, 2(a), 2(b), 2(c), 2(d), 3(a) and 3(b) are to be considered as separate ordinary resolutions. To be passed, those resolutions require the approval of a simple majority of the votes cast by holders of securities of the Company entitled to vote and voting.

RIGHTS TO VOTE

All shareholders of the Company are entitled to vote on the resolutions.

NZX REGULATION

NZX Regulation has reviewed and approved this Notice of Meeting. NZX Regulation takes no responsibility for any statement in the Notice of Meeting or Explanatory Notes accompanying the Notice of Meeting.

REFINING NZ
Your Energy Hive

REFINING NZ

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