4 September 2015

Following Gull's submission last month on the proposed Z acquisition of the Chevron New Zealand Assets; Gull has applied further resource to what this proposed merger may mean for the New Zealand fuels marketplace. This second document is now submitted following that additional review.

As with our earlier submission Gull is not in full possession of all information and this document looks at agendas / opportunities that may be available to the larger Z Energy entity should this merger proceed. These are not necessarily the outcome that Z Management may choose but given they are potentially threatening to a fair and open market Gull submits they must be fully reviewed by the clearance process.

Yours sincerely

Dave Bodger
General Manager

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Gull New Zealand
Review of Market Inequities in NZ Fuels Supply Chain

Based on publically available information

4 September 2015

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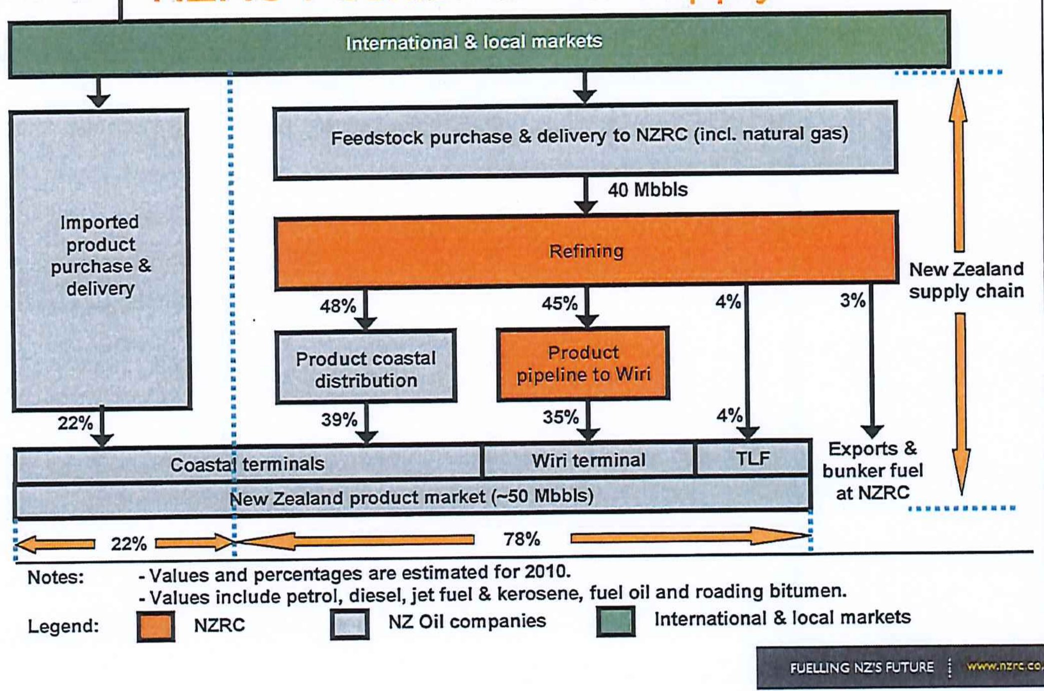
Z’s Acquisition Rationale

Z’s proposed acquisition of Caltex appears to have the following objectives:

- Additional volume will further leverage Z’s access to Refinery NZ (RNZ) processing agreement and shared distribution assets – these are “privileged assets”:
  - Processing agreement enables access to refined product at below Import Parity Prices for Midstream players, who have the scale to support ownership of crude and other financial risks
  - Access to shared distribution assets (pipeline to Auckland, Wiri terminal, coastal ships, etc)
  - Additionally, BP/Z crude procurement deal enables lower crude costs, which will be further enhanced with CX volume (Mobil will be the exception)
- Z’s increased terminal capacity will provide significant leverage over other Midstream players; Z will become the key “lender” and also have the footprint to ‘go it alone’. Additionally, the Z/BP NZOSL terminal operational deal will be enhanced with CX volume (Mobil will be the exception)
- Z’s acquisition of Shell has led to a significant increase in importer margins, and likely to continue…
  - Post CX acquisition, Z will have 3 of 4 loyalty programs (Countdown, Flybuys & AA Rewards)
- Z will benefit from significant cost synergies, as well as those stated above, they will be able to fully scale their support organisation across the CX volume
- It’s worth noting that although the acquisition takes the market from 4 to 3 players, given Z and BP’s close relationships (JVs, agreements, etc) the effective “control” of the key industry assets and operating variables will be consolidated to 2 players: Z/CX/BP and Mobil

Refining NZ - Overview



Product access agreement

- No direct link between a shareholding in RNZ and access to refined product
- Allocation on rolling 3 yr avg market share
- Refinery typically operating at full capacity, Z states new entrants not likely participate

Customer obligations

- Customers bear the risks and associated costs of crude purchasing, the finance and currency costs and risks associated with maintaining crude, feedstock and product inventories, shipping/demurrage risks and guaranteeing a minimum processing fee

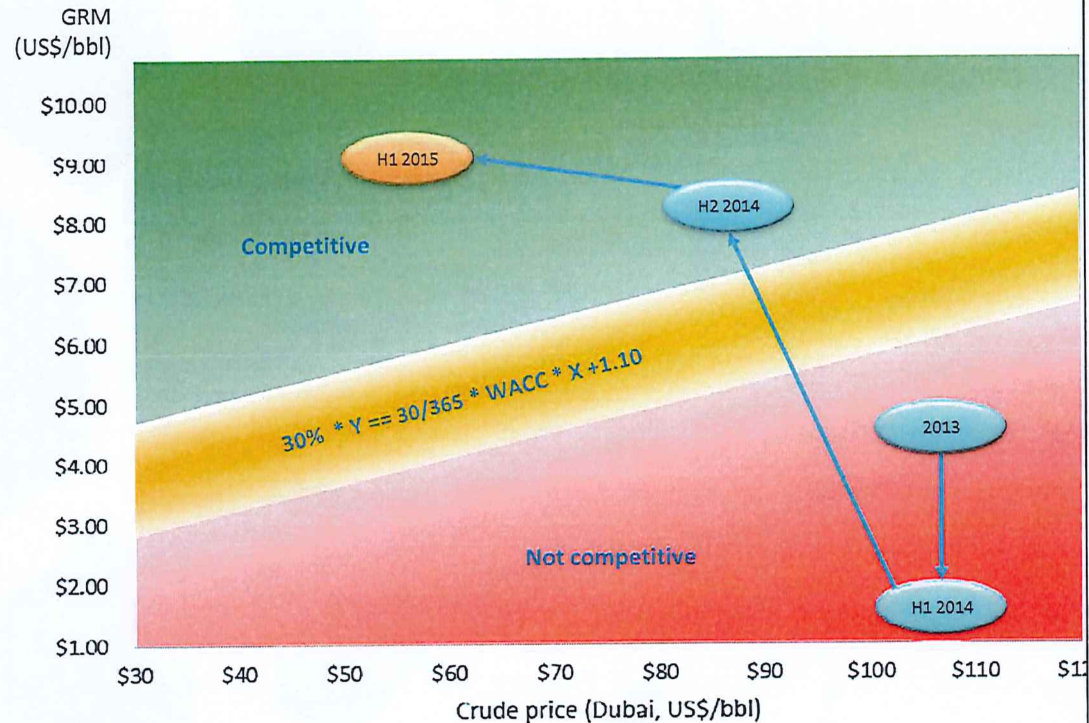
Ownership

- Refinery 53.75% owned by mid-stream (BP 21.19%, Mobil 17.2%, Z 15.36%)
- RAP (RNZ to Auck Pipe) owned by RNZ; supplies 90% Auck market and 100% Jet
- WOSL (Wiri) 44.5% own Z/CX, bal M/BP
- WAP (Wiri Airport Pipe) 60% owned Z/CX
- COLL (Coastal Shipping) owned by Midstream; Z/CX share goes to 50%

Source: NZ RC Analyst Presentation Aug 2010; Z Clearance Application 30 June 2015

Refining NZ – Processing Fee

Highly competitive…



Incentives

- Processing fee is set at 70% of the Gross Refining Margin; GRM is the typical market value of products produced less the market value of all the crude and feedstock processed
- Balance of the GRM (30%) is the Oil Companies benefit of using RNZ
- However, this is offset by the cost of holding crude ~30 days and freight costs between refinery and distribution terminals
- The chart to the left effectively shows the break-even band

Margin cap and floor

- Margin cap set at $9/bbl and floor provides protection when GRM / forex are unfavourable -- floor has only been enacted twice since 1995 (see Appendix 3)

Footnote:
30 is the customers' approximate crude and product working capital days using Refining NZ
WACC is the weighted average capital cost of the individual customer
1.10 is the approximate per barrel coastal freight cost between Whangarei and the import centres of Tauranga, Seaview and Lyttleton
GRM excludes floor, ceiling or shutdown effect

Source: NZ RC Analyst Briefing – 20 Aug 2015

Z's Agenda - Refinery Scale?

- Access to RNZ processing agreement and assets offers a "privileged position"
  - Midstream players (Z, BP, CX, M) bear the risks and costs associated with crude purchasing, feedstock and product inventories, shipping/demurrage risks, and guaranteeing a minimum processing fee; however, this is well compensated by 30% of the available margin not absorbed by the RNZ processing fee. Z's share of the processing agreement will increase to 52% (Z 31% + CX 21%) further leveraging their position
  - Z's ownership of downstream infrastructure will increase to 44.5% of Wiri Oil Services Limited (WOSL), 50% of Coastal Oil Logistics Limited (COLL) and 60% of Wiri to Airport (WAP); while there are equal voting rights for key decisions, combined with Z's RNZ customer scale, they will have significant influence scheduling product shipping and coordination
  - Z currently "sources crude under contract to supply from Shell International Eastern Trading Company…" this agreement expires March 2016. "Z and BP currently have an agreement under which they collaborate with RNZ in the selection of crude oil procurements. Z and BP (generally) take turns to arrange the procurement of crude oil requirements through their respective existing crude oil suppliers. This agreement enables benefits from lower procurement costs, better quality, greater quantity procured and more refined product produced. The arrangements assist the Refinery to reduce its processing costs which flow through as a benefit to Z and BP through their respective processing agreements with NRC." This leverage will likely continue and become even stronger with the addition of CX crude requirements. It appears that Mobil will not be part of this sourcing arrangements

Source: Z Clearance Application 30 June 2015; Analyst Briefing 22 August 2014

Distribution Terminal Landscape

- Terminal landscape
  - 36.9% of refinery sales go through the RAP; Midstream players are all partners in WOSL (supplies 90% Auckland market and 100% Jet market via WAP) and the NZR Truck Loading Facility (TLF); Auckland Airport JUHI (Z & BP), JRSOA JV (M & CX)
  - Midstream terminal assets: Mobil has 4 other terminals, BP 6 operating, Z 8 and CX 7
  - Z & BP are JV partners in NZ Oil Services Limited (NZOSL), operators of their terminals; it's likely NZOSL will also run the Caltex terminals, providing significant scale benefits. It appears Mobil is not be part of NZOSL
  - It's not clear how many tanks are industry storage vs independent although it seems there's little incentive for Midstream participants to keep storage separate
- Setting up terminals to import product to compete with Midstream players is unrealistic
  - Gull estimates a cost of $50 to $100 million to build a new import terminal and own stock.
  - Bitumen is an example where FH/Downers/Higgins have their own terminals but instead of importing directing seek supply from Midstream players. Note Z/CX will have 100% of NZR bitumen allocation which is 75% of NZ demand
  - Z appears to accept "significant capital would be required in order to enter at the Midstream level on a national basis, and even to construct infrastructure to support imported supply to a single port. Accordingly, Z believes that new entry at retail could occur by securing wholesale supply from one of the existing Midstream participants…"

Source: Z Clearance Application 30 June 2015

Z's Agenda – Terminal Leverage?

- Z's increased Terminal footprint appears to offer significant leverage
  - Midstream participants can take supply from one another at shared terminal facilities within the purview of the "borrow" and "loan" inventory tracking system. Borrowing and lending are netted off against each other, on an equal basis regardless of location, in calculating a Midstream participants balance. Z state that "following the transaction no one company will have practical commercial ability to or incentive to extract monopoly rents for accessing product through terminal assets it owns, because it must deal with the other 3 in other areas."
  - However, the practical reality is Z will own well over half the terminal assets and be a significant "lender" in the shared storage arrangements i.e. no longer a balanced 1:4 relationship; post transaction Z will have the ability to charge the "borrower" of products for imbalances which opens up significant opportunity for monopoly leverage given limited alternates for "loaners" i.e. estimated individual terminals costs range $50-100m; Mobil have some leverage with the Lyttelton-Woolston pipeline but there are trucking alternatives
  - The CX acquisition also provides Z with terminal footprint coverage in each NZ Port enabling Z to effectively step out of shared storage arrangements and 'go it alone', also providing significant leverage over Midstream participants
  - Lower terminal costs provide Z with a competitive advantage to compete for wholesaler, commercial and independent retail business

Source: Z Clearance Application 30 June 2015

Privileged Assets = Regulation?

- In markets where there is little or no competition, the Commerce Commission can regulate price and quality of goods and services to benefit consumers
  - Dairy. The CC has both an enforcement and adjudication role under the Dairy Industry Restructuring Act 2001. The Act specifies a Commerce Commission milk price monitoring regime that promotes the setting of a base milk price
  - Telecommunications. The telecommunications market is guided by the Telecommunications Act 2001 which regulates the supply of certain telecommunications services. It's role is to implement, monitor and enforce this legislation
  - Electricity. Default / customised price-quality regulation is a type of regulation under Part 4 of the Commerce Act 1986 that applies to 17 Electricity Distribution Businesses (EDB's) who operate in a market where there is little or no competition, and little prospect of future competition
  - Gas Pipelines. The companies that supply gas pipelines services are subject to information disclosure and default / customised price-quality regulation, under Part 4 Commerce Act 1986
  - Airports. The companies operating Auckland, Christchurch and Wellington International Airports are subject to information disclosure for specified airport services: aircraft and freight activities, airfield activities and specified passenger terminal activities

- In Australia, the Oilcode Regulations (2006) were a key part of the reform of the downstream petroleum industry
  - In 2007 the ACCC in Australia instituted Terminal Gate Pricing (TGP) to ensure increased transparency in wholesale fuels pricing and allow customers (retailers or wholesalers) to access products at TGP (see chart 11)

Source: comcom.govt.nz

Terminal Gate Pricing – NZ Option?

Australian Competition & Consumer Commission

HORTICULTURE CODE

What does the Oilcode say about terminal gate pricing?

On 1 March 2007 the Australian Government implemented the Trade Practices (Industry Codes—Oilcode) Regulations 2006 (the Oilcode) as part of a reform of the downstream petroleum retail industry.

The Oilcode has the force of law and provides a nationally consistent approach to terminal gate price (TGP) arrangements. This approach improves transparency in the wholesale pricing of declared petroleum products and allows customers to access those products at TGP.

The ACCC plays an important role in promoting compliance with the Oilcode and the *Competition and Consumer Act 2010* (the Act) through education, access to information and where necessary, enforcement action.

Terminal gate prices under the Oilcode

The TGP provisions of the Oilcode apply to:

- all wholesale suppliers and
- sales of declared petroleum products by a wholesale supplier to a customer.

Wholesale suppliers

A wholesale supplier is a person who sells declared petroleum products by wholesale from a wholesale facility.

Wholesale facilities

A wholesale facility is:

- an oil refinery
- a shipping facility
- a facility connected by a product transfer pipeline to an oil refinery or shipping facility or
- a facility connected by a product transfer pipeline to a facility mentioned in the bullet point above.

Customers

A customer is a person engaged in the business of retailing or wholesaling declared petroleum products or their associate.

Declared petroleum product

Declared petroleum product means:

- unleaded petrol
- a blend of unleaded petrol and either ethanol or one or more bio-fuels other than ethanol
- premium unleaded petrol (other than a proprietary product)
- diesel fuel (other than a diesel proprietary product).

Rights and obligations before buying declared petroleum product at TGP

A wholesale supplier must give a customer the option of buying declared petroleum products at the posted TGP or a price derived from the TGP.

The Oilcode requires that the TGP:

- be expressed in cents per temperature corrected litre (at 15°C) for each declared petroleum product sold
- be posted on the wholesale supplier's website or, if this is not possible, through a phone or facsimile service
- be set and posted each day (a wholesale supplier may set more than one TGP per day as long as it is clear that the new TGP supersedes all previous price)
- not include any amount imposed for, or in relation to, an additional service.

Any discounts or additional costs should be disclosed separately.

Required documentation

At the time of delivery a wholesale supplier must provide to the customer a document that acknowledges the sale of the declared petroleum product. This document must include the following:

- the kind of product supplied
- the volume sold worked out on a temperature corrected basis (15°C)
- the price per temperature-corrected litre (15°C)
- the applicable posted TGP.

However, the document does not need to contain:

- the price per temperature-corrected litre (15°C)
- the applicable posted TGP

If, at the time of sale, the customer has access to that information from a telephone or fax facility, or website operated by or for the wholesale supplier.

Within 30 days of delivery a wholesale supplier must provide the customer with a document that acknowledges the sale and includes further specific information about the sale, including the:

- supplier's name
- customer's name
- transaction date
- declared petroleum product supplied
- volume supplied
- applicable posted TGP
- total price
- details of any discounts or extra for additional services.

Refusal to supply a customer

A wholesale supplier must not unreasonably refuse to supply a declared petroleum product by wholesale to a customer.

However, there are certain circumstances in which a wholesale supplier may refuse to supply a customer. These include when the wholesale supplier:

- does not have sufficient supplies
- reasonably believe that the customer is unable to pay for the supply
- reasonably believes that the customer is unable to receive or transport the product in compliance with the applicable occupational health and safety requirements
- advertises a minimum quantity that they will sell wholesale and the customer requests less than this minimum.

Dispute resolution

The Oilcode provides for an efficient and cost-effective way of resolving disputes arising:

- when a wholesale supplier fails to supply a declared petroleum product to a customer
- in relation to any of the provisions of the Oilcode about TGP arrangements and
- between the parties to a fuel re-selling agreement.

The Dispute Resolution Adviser (DRA) is able to assist industry participants to resolve such disputes.

Other TGP legislation

Participants in the downstream retail petroleum industry may also have additional rights and responsibilities under other legislation in this or related areas. In particular, Victoria and Western Australia currently have legislation dealing with the terminal gate pricing of petroleum products.

It is the view of the ACCC that the Oilcode can operate concurrently with the relevant state legislation. However, industry participants are advised to seek legal advice to ensure that they are in compliance with both the Oilcode and any other relevant legislation.

ACCC contacts

ACCC Infocentre
1300 302 502

Small business helpline
1300 302 021

Website
www.accc.gov.au/oilcode

Dispute Resolution Adviser

Further information about the DRA is available at www.oilcodedra.com.au.

The DRA may also be contacted on:

Tel
1800 239 487

Fax
(02) 9264 8268

Email
info@oilcodedra.com.au

ACCC publications

The ACCC has a range of publications available to assist businesses understand their rights and obligations under the Oilcode.

These include:

The guide to the Oilcode
The overview of the Oilcode
The Oilcode—how does it affect you? (DVD)
The Oilcode compliance manual
What does the Oilcode say about fuel re-selling agreements? (Fact sheet)

Publications can be ordered through the ACCC Infocentre or you can download electronic copies for free from the ACCC website.

Important notice

This fact sheet gives you basic information. It does not cover the whole of the Competition and Consumer Act, including the Oilcode, and is not a substitute for professional advice.

Moreover, because it avoids legal language wherever possible there may be some generalisations about the application of the Act. Some of the provisions referred to have exceptions or important qualifications. In most cases the particular circumstances of the conduct need to be taken into account when determining the application of the Act.

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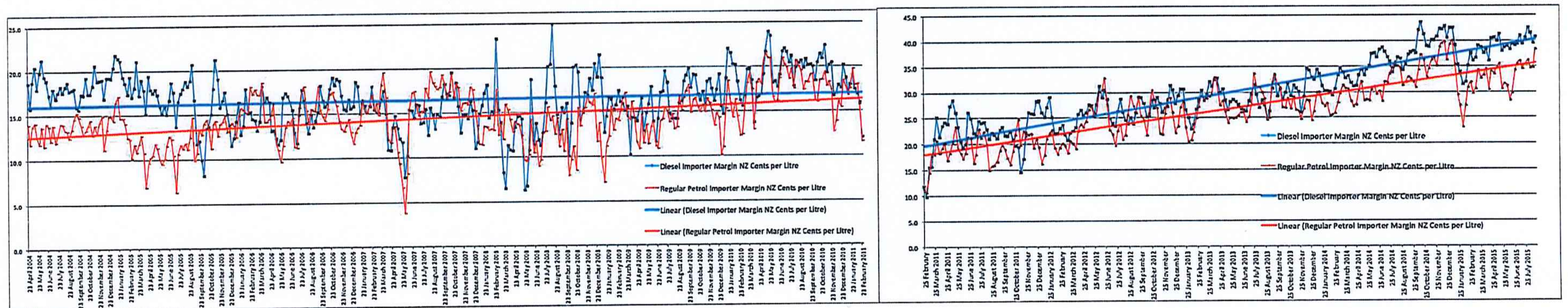
Z's Agenda – Market Pricing?

- Significant step up in importer margins observed over the last 4 years since Shell was re-branded to Z in May 2011 (Infratil/NZ Super acquisition April 2010)
- Z states it has "…a unique profile compared to the other Midstream participants, Z has a strong incentive to stimulate the development of the NZ fuels industry, rather than to "sweat" existing assets to boost returns. This incentive contributes to Z maintaining a commitment to capital investment, and stimulating continued investment in local infrastructure by Midstream participants. It is in this context that any increases in fuel margins over the last 5 years must be viewed. Notably, there has recently been a significant and growing difference between importer margins calculated by MBIE and Z's actual retail margins, primarily due to the cost of loyalty and discounting. Nevertheless, Z does agree that the retail fuel margins have improved over the last 5 years. The improvement has enabled Z to accommodate what is considered to be necessary increased capital expenditure ($70m pa) and invest in it's offer, particularly in relation to service."



Source: MBIE weekly importer margin data; Z Clearance Application 30 June 2015

Appendix

Appendix 1 - Refining NZ

Income Streams

- Toll refiner with two main operating income streams – processing fee income (87% income 2012) and pipeline fee income (9.5% income 2012)
  - Processing fees are paid by RNZ's customers for refining their crude oil and other feedstock into final products, and are set at a % of the Refining Margin. The crude oils and feedstocks are owned by the customers
  - Pipeline fees are paid by Refining NZ's customers for pumping refined products via RNZ's pipeline to Auckland, and are set at market-related price (fee based on alternative transportation cost) per volume pumped
  - Fees also charged for other services e.g. producing special grade products & blending imported components

Customers

- RNZ's customers are Z Energy (31%), BP (27%), Caltex (21%) and Mobil (21%); these customers all refine crude oil at RNZ under separate processing agreements
- RNZ also sells liquid sulphur to Ballance agri-Nutrients and carbon dioxide to air Liquide, both products being by-products from the processing of crude oil

Refining Margin

- Notional refining margin generated by RNZ and calculated as the typical market value of all products produced, minus the typical market value of all the feedstock processed. When divided by volume of feedstock processed, it's expressed in US$ / bbl because international prices are quoted in US$
- Market value of products is determined using quoted prices for products in Singapore, which is the trading hub for Asia Pacific. To this is added typical freight cost to NZ (import parity value) plus any product quality premia. The value of feedstock is determined using the market value for crude oil and other feedstock at the point of purchase, plus the typical cost of freight to the refinery (landed value)

Source: "Inside" Refining NZ 2012, and Analysts Briefing 22 August 2014

Appendix 1 - Refining NZ (Cont'd)

Processing Fee Calculation

- Processing fee is set at 70% of the refinery margin generated, subject to a fee floor and margin cap

  Processing fee (NZ$) is = 70% x margin (uS$/bbl) x feedstock processed (bbl) / exchange rate (US$/NZ$)

- This reflects that RNZ's customers bear the risks and associated costs of crude purchasing, the finance and currency costs and risks associated with maintaining crude, feedstock and product inventories, shipping and demurrage risks and guaranteeing a minimum processing fee
- RNZ's processing fee income is the sum of customers' processing fees, which are different because each process different volumes and types of feedstock, and make different volumes of products

Processing Agreement Basis

- Principles of the processing fee formula were established in 1995, and it's based on sharing the refining margin according to the risks and costs that RNZ and the customers respectively bear
- The fee incentivises RNZ to maximise value from crude oil and other feedstock, provide sufficient funds for investments, a return to shareholders, and incentives for customers to optimise use of RNZ
- External reviews have concluded the processing fees are reasonable to all parties (Refer Appendix 3)

Margin Cap and Fee Floor

- Margin cap applies for each customer separately and set at max US$9 / bbl per calendar year
- Floor provides income protection when refinery margins and/or exchange rate are unfavourable, and comes into effect (twice since 1995) if total processing fee for a calendar year does not exceed a min value ($122m 2013) and subject to annual Producers Price Index and Labour Cost Index escalation

Source: "Inside" Refining NZ 2012, and Analysts Briefing 22 August 2014

Appendix 2

Margin at the cap

US$/barrel
10
8
6
4
2
0
-2
Refining NZ margin
Singapore complex margin
8.24
9.09
5.90
4.27
4.82
2.34
2009
2010
2011
2012
2013
2014
2014 H1
2014 H2
2015 H1
Freight
Product Quality
Plant Availability
Crude Cost & Yield
Margin Initiatives

US$/barrel

	2014 H2	2015 H1
Refining NZ Margin	**8.24**	**9.09**
Typical uplift vs Singapore Complex	**3 - 4**	
Period-specific elements:		
- RNZ crude vs. Dubai	1.30	1.30
- Margin initiatives	0.68	0.75
- Plant availability	-	(0.60)
- High throughput	-	(0.50)
- Residue de-stocking	0.40	-
	2.38	0.95
Total uplift achieved for period	**5.90**	**4.27**
Singapore Complex Range	**1 - 2**	
Period-specific:		
- Low crude price (fuel cost)	0.60	2.20
- Product lag	0.40	-
- Gasoline strength	-	1.00
Singapore Complex for period	**2.34**	**4.82**

Source: Refining NZ Analyst Briefing – 20 Aug 2015

REFINING NZ
Your Energy Hive

Appendix 3 – Recent Media

NZ Refining to confront rebel shareholder at AGM

A small investor in the Marsden Point oil refinery is set to clash again with the company's board at the annual meeting on Wednesday over **claims it offers sweetheart deals to its big oil company shareholders**. In what is becoming a regular confrontation, retired oil company manager Bryan Halliwell has put a resolution to the meeting demanding further details of how NZ Refining sets prices to its major customers BP, Z Energy, Mobil and Chevron. "I think it's one of the biggest commercial rorts New Zealand has ever seen," he said.

NZ Refining has rejected Halliwell's claims and urged shareholders to vote against the motion. The issue relates to the fee the refinery charges to process the oil companies' crude into refined products such as petrol and diesel. It is based on a "gross refining margin" which is the difference between the price of crude oil and refined products in Singapore, adjusted for transport costs to New Zealand. In recent years this margin has been low, restricting the profitability of NZ Refining, which has not paid a dividend since September 2013. In 2014 the average gross refining margin was US$4.96 a barrel, well below the refinery's required level for profitability of US$6.50.

However, **Halliwell argues that the published margin conceals discounts provided to the oil companies**, saying a similar refining margin calculation published by Caltex Australia generated much higher figures. In the year to December the Caltex refining margin, which is also the difference between crude and refined prices in Singapore, adjusted for import costs, was US$12.42 a barrel. In his AGM resolution, Halliwell alleged the difference meant NZ Refining was delivering "unauthorised" and "concealed" discounts to to oil majors.

Responding to the motion **NZ Refining said its fee formula was unchanged since 1998, when the NZX granted a waiver allowing it to offer "production incentives" to its oil company shareholders, varying a pricing structure approved by all shareholders in 1995. The incentives encouraged more use of the refinery and although the extra processing carried lower fees the income more than made up for the discount**, it said. Meanwhile the difference between its gross margin and Caltex's was largely because the Australian refinery's figure was based on a different product range, which generated higher average margins, the company said.

Fund manager Brian Gaynor of Milford Asset Management, who has followed the issue for some years, said **he had sympathy for Halliwell's point of view but had been unable to get to the bottom of the problem. "It's very complex and of course the refineries will never tell you the mix of products they put through. I gave it a bash once but it's too complex and too hard."**

Source: Stuff – Tim Hunter - Last updated 09:46, April 29 2015

Appendix 3 – Recent Media (Cont'd)

Refining NZ Annual General Meeting 2015 - 29 Apr 2015 - Chairman's Address

"...I wish to also draw shareholders attention to item three on the meeting agenda. Further to the resolution proposed by shareholder, Mr Bryan Halliwell, the Company received late last week, a letter Mr Halliwell sent on the 9th of April to 50 of the Company's shareholders, not including the four major shareholders. The letter is a repeat of past claims and offers little that is new. Turning to the resolution itself, the Company notes that the matters it raises, along with the supporting statement are equally not new and the Independent Directors remain of the view that the need to deal repeatedly with the arguments presented by Mr Halliwell is a waste of company resources and time. The Independent Directors note that none of the organisations approached by Mr Halliwell (which includes the Financial Markets Authority and others that have contacted the Company) intend to take action with respect to his claims about the Company's processing arrangements with its oil company customers. Shareholders will be aware that these arrangements are reviewed annually by management and by the Independent Directors, with the Independent Directors determining whether an external review is required, typically conducted every two to three years. In September 2014 an external review of the processing arrangements was carried out by independent industry consultants, Hale and Twomey, after the Independent Directors determined that a review was required. This was the third such review in the last five years, with reviews carried out by independent oil industry expert, Pervin & Gertz in 2009 and 2012. **Hale and Twomey concluded that the current processing fee structure and split of gross refining margin provides an appropriate balance between Refining NZ's return and customer competitiveness. They also found that alternative structures were unlikely to provide the same balance and alignment or be sustainable over the typical business cycle for refineries.** In addition to the Hale and Twomey review, the Company's external auditors, PwC and internal auditors, BDO have audited the underlying detail of the processing fee calculations, which include the Company's processing fee calculations. In considering the accuracy and integrity of the processing fee BDO found that the processing fee formula was applied to all users in accordance with the processing agreement. Their audit also concluded that the internal control environment over the processing fee calculation was robust. **Taking all of this into account the Independent Directors disagree with the resolution put forward by Mr Halliwell and have advised shareholders to vote against it.** In the interests of all shareholders, the Company has previously posted a full copy of the Hale and Twomey report to the Company's website, while the executive summary from each Pervin & Gertz independent review is available to shareholders upon request. A letter from the Company's independent auditor BDO summarising their review of the processing fee calculations is also available on the Company's website..."

"...The 2014 result highlighted the robustness of the Company's processing arrangements. **The weakening margin environment in the first half of the year saw the Company rely on a pro-rata floor payment of $36 million from oil company customers, but by capitalising on the healthier margins in the second half the Company was able to pay back the floor in its entirety by the year end. This was only the second time that the floor has been invoked since the processing arrangements were agreed in 1995.** The floor was put in place to counter the type of conditions the Company has experienced in the last 18 months and it remains a unique and enduring mechanism in the refining sector. The Company's return to profitability represents a remarkable turnaround in 12 months. However, we are conscious that year-end borrowings have pushed gearing to 33% when our targeted ratio, outlined in the Company's dividend policy, is 10-20%, and that further investment is required to successfully complete TMH. Bearing this in mind, the Directors resolved to not pay a final dividend to shareholders. As no interim dividend was paid, there is no dividend payment to shareholders this year. We appreciate that not paying a dividend is both disappointing and frustrating for shareholders - the Board shares this frustration and will look to reinstate dividends at the earliest opportunity."

Source: Refining NZ Annual General Meeting 2015 - 5:30pm, 29 Apr 2015 - Chairman's Address