RESOLVE RESILIENCE PRIDE

ANNUAL REPORT 2017

REFINING NZ
Your Energy Hive

2017 WAS A DEFINING YEAR FOR OUR COMPANY AND ONE FROM WHICH WE CAN TAKE GREAT CONFIDENCE. OUR SYSTEMS, PROCESSES AND OUR PEOPLE PROVED THEIR RESILIENCE WHEN TESTED, AND NOT ONLY DID WE MEET OUR SOCIAL AND ENVIRONMENTAL OBLIGATIONS, WE ALSO ACHIEVED A STRONG RESULT.

2018 BRINGS NEW CHALLENGES AND OPPORTUNITIES; WITH A CLEAR STRATEGY, FOCUSED LEADERSHIP AND COMMITMENT TO OPERATIONAL EXCELLENCE WE ARE WELL-PLACED TO IMPROVE PERFORMANCE AND SHARPEN OUR COMPETITIVENESS FURTHER STILL. WE ARE INDEED AN EXCITING BUSINESS WITH A SUSTAINABLE FUTURE.

DIRECTORS' STATEMENT

The Directors are responsible for the preparation of the consolidated financial statements and other information included in this Annual Report. The consolidated financial statements authorised for issue by the Board of Directors and dated on 27 February 2018 have been prepared in conformity with generally accepted accounting practice to give a true and fair view of the financial position of the Group and the results of its operations and cash flows.

The Company appoints an independent auditor to audit the consolidated financial statements prepared by the Directors and to express an opinion on these consolidated financial statements. The independent auditor's report, which sets out their opinion and the basis of that opinion, is set out on page 119 of the Annual Report.

The Annual Report of The New Zealand Refining Company Limited is signed on behalf of the Board by:

S C Allen
Director

M Tume
Director

15 March 2018

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CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT

2017 was a challenging year for the Refinery, defined by the September rupture on the Refinery to Auckland Pipeline (RAP). The Company has been encouraged by the recent finding of the Northland Regional Council that the Refinery had no causative role in the rupture. It is pleasing that after reviewing the external expert reports and having witnessed first-hand our containment and recovery processes, the Council decided not to prosecute and at the same time commended Refining NZ for its response. More detail about that response is covered on pages 8 to 13 of this report.

From a financial viewpoint our performance was marked by outstanding plant reliability, healthy refining margins, strong cash generation from operations, and a culture of teamwork, all of which allowed the business to post a Net Profit after Tax (NPAT) of $78.5m for the year ended 31 December 2017 (2016: $47.5m).

In the given circumstances this was a remarkable achievement that speaks volumes for our talented team of 700 staff and contractors. This was a highly visible event that caused disruption for air travellers. We are grateful to the specialist suppliers, pipeline experts and in particular our customers who worked with our team on supply alternatives including a temporary truck loading facility at the Refinery for bridging of jet fuel to Auckland.

Before going further into the 2017 financial results, we should acknowledge two changes to our annual reporting. Firstly, in-depth coverage of our environmental, social and governance responsibilities which are detailed on pages 15 to 63. Secondly, our Corporate Governance section which has been rewritten to align with the NZX Corporate Governance Code which came into effect in October 2017.

HEALTH, SAFETY AND ENVIRONMENT

While our Health and Safety performance in 2017 was impacted by injuries early in the year we finished strongly having gone the last three months without a TRC*. We finished the year with a total of seven recordable injuries to staff and contractors (including two lost time incidents) which gave us a TRCF* of 0.89 and an LTIF* of 0.26. There were four Tier 2* process safety incidents across the year, including a small fire on a processing unit in April, which was quickly managed without injury by our Emergency Services and operations crew.

As one of the few high hazard industrials in the country we are highly conscious of our health and safety and are always looking to improve our performance. Process safety is an ongoing focus for our Health and Safety action plan. In 2017 we continued with implementing the recommendations of the 2015 DuPont review: clearly identifying process safety critical roles across the organisation; implementing a new permit to work system; and rolling out an additional system of isolation (Log Out Tag Out) to safeguard process plant for maintenance (see page 21 for further detail).

Looking ahead, we are expecting to submit a Safety Case to the regulator in Q2 2018. This will outline our major hazards and the robust safety management systems we have in place to continue to run our Refinery safely.

In 2017 we reported four environmental incidents with the most notable being the RAP leak in September which counted as a product release (outside of consent). While this was the case, as noted earlier, our response to this external event was commended by the regional council. Remediation work around the pipe repair site was completed before Christmas while the last piece of remediation work on an adjacent farm drain is expected to be completed in Q2 2018.

We continue to invest in improving our environmental performance through strengthening our waste water treatment systems, particularly against major weather events. In the past four years around $23m has been invested in a series of improvements on site. In 2017 we took a further step forward with the installation of a new bio-treater plant (see page 23 for more detail).

* See Glossary page 125

BUSINESS ENVIRONMENT

An outstanding operational performance underpinned by a world-class unplanned downtime of 0.60% (2016: 0.85%) allowed the Company to capitalise on healthy refining margins and to generate a significant lift in operating revenue to $411.6m, up 16% on the previous year (2016: $353.6m).

Refining margins remained in a range of USD 7 to USD 11 per barrel for much of the year, with only January and December dropping to below USD 6 per barrel. The Company's GRM averaged USD 8.02 per barrel (2016: USD 6.47 per barrel) at the top of its historical USD 4 – USD 6 per barrel range, supported by global demand growth.

Our financial performance in 2017 highlights the continued strength of our growth strategy. The Company maintained its uplift over the Singapore Complex Margin averaging USD 4.27 per barrel (2016: USD 3.22), helped by, amongst other factors, freight costs and the increased use of natural gas at the Refinery. Strong cash generation from operations resulted in a FCF* of $103m (2016: $47m) and has allowed us to further reduce total net borrowings* to $152.4m despite the New Zealand dollar averaging USD 0.71 for the year (2016: USD 0.70).

Our ability to maintain borrowings within the target average gearing ratio of 20% prepares us well for the major planned maintenance shutdown in Q2 2018.

The 10-day outage on the RAP was operationally challenging. However, the subsequent commissioning of a second pump at the Kumeu Intermediate Pumping Station in November and the lift in the RAP's operating pressure to 75 bar in early December means that more fuel product is being delivered to Wiri than before the rupture. We expect the RAP to return to full pressure in Q2/Q3 2018, pending approval of the pipeline certifier, Lloyds Register.

Despite the pipeline rupture, our annual crude intake remained strong at 41.7m barrels (2016: 42.7m barrels).

STRATEGY

The Company maintains its aspiration to be the manufacturing and supply partner of choice for New Zealand. To achieve that aspiration we are continuing to pursue a series of smaller growth initiatives that will grow revenue and contribute to the ongoing competitiveness of our Refinery.

In 2017 we nearly doubled our access to natural gas following the installation of the First Gas compressor at Henderson. Increased access to natural gas is doubly beneficial in that it allows us to make more product for our customers, while cleaner burning natural gas has lessened our local environmental impact.

We continued our consultation on the crude shipping project in the lead up to lodging a resource consent application in August 2017. A total of 50 submissions were received. We have continued to consult with tangata whenua and other key submitters, and at the time of writing are awaiting the outcome of the resource consent hearing.

As noted above, in November phase two of the three phase RAP capacity upgrade project was completed with the commissioning of a second pump at the Kumeu Intermediate Pumping Station. Each phase of the upgrade adds an additional 5% capacity, with all three phases amounting to a 15% uplift in overall capacity. Phase three of the capacity upgrade is due to be undertaken in 2019.

The post implementation review carried out on the $365m Te Mahi Hou project confirmed that the Continuous Catalytic Regeneration (CCR) Platformer unit commissioned in late November 2015 is meeting all of the key performance indicators set out in the project business case.

* See Glossary page 125

"OUR FINANCIAL PERFORMANCE IN 2017 HIGHLIGHTS THE CONTINUED **STRENGTH** OF OUR GROWTH STRATEGY."

2018 SHUTDOWN

The planned maintenance shutdown starting in Q2 is a major undertaking for our business. Our dedicated shutdown team has spent the past two years planning and marshalling resources and expertise from across the Refinery, specialist crews from across New Zealand and overseas to ensure the shutdown is completed safely, on time and to budget. The scale of this shutdown is such that for the first time in 14 years it will include a short period of complete shutdown of the Refinery's processing units.

DIVIDEND POLICY

At the Board meeting last month the Directors approved a new dividend policy for the Company. Refining NZ's dividend policy is to pay 80% of FCF* as ordinary dividends subject to the Board's due consideration of the Company's medium-term asset investment programme, 20% targeted average gearing level and future circumstances including the profitability, growth opportunities, and the financial and taxation position of Refining NZ.

Dividend payments are expected to be split into an interim dividend paid in September and a final dividend paid in March. It is the intention of the Board to attach imputation credits to dividends to the extent that they are available.

SHAREHOLDER RETURNS

The Company's Directors have resolved to pay a fully imputed final dividend of 12 cents per share to be paid on 22 March 2018 with a record date on 15 March 2018. With an interim dividend of 6 cents paid in September 2017, the total dividend payment for the year is 18 cents.

BP SHAREHOLDING

In March 2017, as part of a global portfolio review, BP sold shares in the Company amounting to 11.09% of Refining NZ's issued share capital. BP remains a significant shareholder with an equity stake of 10.1%, and the processing arrangements with BP remain unaffected.

BOARD AND MANAGEMENT CHANGES

In March 2017, Director Andrew Warrell resigned and was replaced by Riccardo Cavallo. In June 2017 Matthew Elliott resigned as a Director and was replaced by Deborah Boffa. Thank you to Andrew and Matthew for their respective contributions and we welcome Riccardo and Deborah to the Refining NZ Board.

At the Board meeting last month, Sjoerd advised the Directors of his decision to resign from his role as CEO and his intention to remain in the role until the end of July 2018. The Board appreciates the leadership provided by Sjoerd and the outstanding contribution over the length of his tenure, building a culture that is now strongly evident in the performance and resilience of the business. His leadership during the rupture on the RAP has been widely recognised as a crucial factor in the rapid resolution of that crisis.

The Board is pleased that Sjoerd will remain in the business for the next few months to see through the succession process and critical work programmes, including the 2018 planned maintenance shutdown and the government inquiry into the pipeline incident.

FUTURE OUTLOOK

Despite trying circumstances we have achieved a strong result for the year through our continued operational reliability, ability to capitalise on healthy margins, quality fuel production and a well-developed culture of team work amongst our staff and contractors.

Continuing to play to these core strengths sets us up for the successful completion of the planned maintenance shutdown in Q2 2018. At the same time continuing to pursue a series of attractive growth initiatives will ensure we keep pace with the demand for quality fuel products driven by Auckland growth, and will underpin the competitiveness of our refinery, and the ongoing sustainability of our refining business.

Simon Allen – Chairman

Sjoerd Post – CEO

* See Glossary page 125

PERFORMANCE HIGHLIGHTS 2017

GROSS REFINING MARGIN (GRM)

USD 8.02 ↑ PER BARREL

2016 USD6.47 PER BARREL

CRUDE INTAKE

41.7 ↓ M BARRELS

42.7M BARRELS IN FY16

UNPLANNED DOWNTIME

0.60% ↑

2016 0.85%

FREE CASH FLOW

$103M ↑

$47M IN FY16

TOTAL DIVIDEND

18C ↑ PER SHARE

9 CENTS IN FY16

OPERATING REVENUE

16% ↑

NET PROFIT AFTER TAX

65% ↑

Note: Arrow direction denotes the year-on-year change in performance.

10 DAYS OF PRIDE

On the afternoon of Thursday 14 September 2017, a leak was discovered on the RAP. Over the next 10 days as our team worked through the repair and recovery process, their collective pride in our Refinery was clear for all to see.

> "IT'S NOT SO MUCH ABOUT WHAT WE DID THAT MAKES ME PROUD, BUT ABOUT WHAT IT TOOK TO DO IT."

SJOERD POST
CEO, REFINING NZ

> "I WOULD LIKE TO RECORD THAT THE ORGANISATION AND WORKS UNDERTAKEN ON SITE ARE THE BEST I HAVE SEEN IN OVER 20 YEARS OF DEALING WITH ENVIRONMENTAL POLLUTION EVENTS. THE PLUME CONTAINMENT METHODOLOGY IS TEXT BOOK AND THE MANAGEMENT OF THE PLUME DOWN THE SURFACE DRAIN WHICH HAS ARRESTED THE PLUME WITHIN 600M OR SO, IS EXEMPLARY."

JEFF STAGG
DIRECTOR, CPS

DAY 0

THURSDAY, 14 SEP

- Jet fuel leak spotted and isolated, work begins to contain it.
- Recovery operation begins, with cordon in place.
- Work begins to enable access for heavy machinery.
- Family living nearby moved to motel as a precaution.
- Working with oil companies to minimise impact on fuel supplies.

DAY 1

FRIDAY, 15 SEP

- Leak is largely contained.
- Excavation begins to assess the damage.
- Provided alternative accommodation to remaining residents.

DAY 2

SATURDAY, 16 SEP

- Repair crew works to remove water from the excavation site.
- Work continues to recover hydrocarbons.

"FLYING OVER I SAW THIS BROWN PATCH OF LIQUID SITTING OVER THE TOP OF THE GROUND WHERE OUR PIPE RUNS."

GREG BRACEY
PIPELINE CONTROLLER, REFINING NZ

"IT'S A CREDIT TO ALL THE TRAINING, DRILLS AND EXERCISES WE'VE DONE FOR EVENTS LIKE THIS. THE EXTERNAL AGENCIES WERE HAPPY FOR US TO KEEP GOING INSTEAD OF STEPPING IN THEMSELVES."

PETER GUBB
REFINING MANAGER, REFINING NZ

"SUPERVISORS, ENGINEERS, MANAGERS AND FOREMEN ALL WORKED TOGETHER AS ONE."

WENDY NUKU
TBS SUPERVISOR, REFINING NZ

"RIAAN, OUR ENVIRONMENTAL GUY TOLD US THE PLAN – WE NEED SANDBAGS AND 150MM PVC PIPE TO MAKE A DAM THAT ALLOWS THE WATER TO FLOW THROUGH BUT HOLD THE KERO BACK. BRILLIANT."

DAVE BONTHRON
SENIOR OPERATOR, REFINING NZ

"THERE WERE A COUPLE OF BEEFIES AND HORSES IN THE PADDOCK AND I THOUGHT WE NEEDED TO FENCE THEM OFF TO PROTECT THEM. I COULDN'T FIND ANYTHING SO I WENT OFF TO THE LOCAL HARDWARE STORE AND BOUGHT POSTS AND WIRE AND FENCED THEM OFF."

KARL MORGAN
OPERATOR, REFINING NZ

"THE CONDITIONS WERE COLD WINDY AND WET FOR A LOT OF THOSE DAYS AND NIGHTS. EVERYONE HERE MUCKED IN. FROM THE CLEANER TO THE CONTRACTOR TO THE SAFETY WATCH – THEY WORE THEIR HEARTS ON THEIR SLEEVE."

DAMIAN SOUTHORN
EMERGENCY SERVICES & INCIDENT RESPONSE MANAGER, REFINING NZ

DAY 3

SUNDAY, 17 SEP

- Most of leaked fuel has been contained or recovered through a series of culverts and dams.
- Excavation around pipeline confirms extent of damage and repair methodology confirmed.
- Preparations for replacing 2.3m length of damaged pipeline begins.

DAY 4

MONDAY, 18 SEP

- Site preparation almost complete including creation of 260m access road.
- Stopple areas are excavated, made free of water and decontaminated.
- Air quality monitoring indicates no health hazard to community.

DAY 5

TUESDAY, 19 SEP

- Engineers complete first of four major welds for replacing the ruptured section of pipe.
- The first of two inline stopple plugs completed.
- New section of pipe is hydrotested before delivery to the site.
- Conducted coating insulation testing on both pipelines (Refining NZ and the gas pipeline).
- Construction of temporary jet fuel tanker-loading station for 'bridging' completed at Marsden Point.

DAY 6

WEDNESDAY, 20 SEP

- Stopple works including welding are completed.
- Trial of tanker-loading facility successful and made available for operation.

DAY 7

THURSDAY, 21 SEP

- Damaged section of pipeline removed.
- Completed welding new section of pipeline.
- Replacement section passes initial weld inspections.
- Pipeline insulation testing confirms integrity of pipeline.
- Images of ruptured pipeline show severity of damage caused by digger.

The leak was initially picked up through real-time monitoring in the Refinery control room, the pipeline was immediately shut down and our Incident Management Team swung into action. An aerial flyby of a rural property in Ruakaka, eight kilometers south of the Refinery, confirmed the leak.

Over the course of the 10-day outage, good organisation, execution of incident pre-plans and clear lines of reporting translated to everyone at the leak site working safely, knowing exactly what they were meant to be doing at any one moment and working to an agreed timeframe.

The site was separated into two work areas: Sector 1 was the location of the pipeline leak and Sector 2 was a nearby farm drain where an estimated 124,000 litres of jet fuel had spilled.

Additionally, gas monitors were fixed in place across the site and our health and safety team were on hand to check gas levels. With the team working two shifts over 24 hours, keeping everyone well rested with sufficient breaks away from the work site was critical.

Working in a kauri swamp was an extreme challenge requiring the water logged ground to be stabilised so that diggers and trucks could gain access and operate safely on solid ground. The construction of the access road to the site alone required around 300 truckloads of metal.

At the farm drain our environment team set to work on containing the jet fuel spill and protecting the environment from any further damage. Trained to respond to marine oil spills, the team quickly put their skills and resources into holding jet fuel in the drain. About 800 truckloads of contaminated swamp water was then processed back at the Refinery to remove hydrocarbons. Tangata whenua observers from local hapu, Patuharakeke, and Regional Council staff were at the site to check the methods we were using and confirmed that we had successfully prevented jet fuel from spreading to the Ruakaka estuary. The council investigation later commended the Refinery for an outstanding response.

From the moment we discovered a leak on the RAP the actions we took were deliberately focused on making the site safe for our team to work in while minimising the impact on the environment, on residents, and our customers who depend on the RAP for a regular supply of fuel products.

DAY 8

FRIDAY, 22 SEP

- Jet fuel bridging commences.
- Preparations for restarting pipeline begin.

DAY 9

SATURDAY, 23 SEP

- Completion of physical repairs to the pipeline and integrity checks to restart pipeline.
- A fuel ship carrying 3.5m litres of jet fuel, and diesel, petrol and fuel oil departs for Auckland.
- 'Bridging' of jet fuel from the Refinery is continuing with further road tankers loading.

DAY 10

SUNDAY, 24 SEP

- Pipeline restarted
- First batch of jet fuel begins to arrive at Wiri at 10.09am through repaired pipeline.
- Settling, re-certification and transport to the airport for use will take a further 30 hours.
- Refining NZ continues the process of stabilising pipeline production over the next few days.

We were especially conscious of the impact on neighbours and the Ruakaka community. From the get-go our Special Assistance Team was out knocking on doors, posting updates in letterboxes, speaking with families and where needed, providing alternative accommodation.

A briefing session was held for neighbours and regular updates were provided to tangata whenua, Ruakaka residents and to the wider world via our Facebook page.

While pipe repairs were underway we worked closely with our customers to install a temporary jet fuel truck loading facility at the Refinery. At the same time we kept a host of industry and political stakeholders, including the Minister of Energy and Resources, informed with twice daily updates on our progress.

The pipeline is expected to return to full pressure in mid-2018, following validation of the intelligent pipeline integrity gauge data, and signoff from the pipeline certifier.

Remediation to Council agreed standard, was completed around the pipeline leak before Christmas 2017, while remediation of the farm drain is to be completed in Q2 2018. A significant proportion of the remediation costs is funded from insurance.

The mark of success is not only what was achieved in a short space of time, but also how we delivered on our broader responsibilities to our environment, our people and community, shareholders and customers. Judging by the number of supportive comments on our Facebook pages, the way we conducted ourselves left a positive mark.

The pipeline leak was a disruption for travellers and quickly dubbed a 'fuel crisis' by the media. This highly visible event was a defining moment for everyone in the Company. Our processes and procedures were tested and found to be robust, while our response to the event engendered an enormous sense of pride in our people.

THE WAY WE DO BUSINESS

THE WAY WE DO BUSINESS

Our continued aspiration is to be the fuels manufacturing and supply partner of choice for New Zealand. We operate in a highly competitive market which is facing disruption from emerging alternative technologies including electric vehicles.

The future use of fossil fuels for road transport is a topic that is attracting a lot of interest around the world; and the development and growth of electric vehicle technologies is something we are keeping a close eye on. Currently, there is a wide range of views about the pace at which a transition to electric transport will occur and we fully acknowledge the need to remain vigilant. Our Management team maintains an ongoing review of market signals of possible disruptions to the business and provides regular updates to the Board.

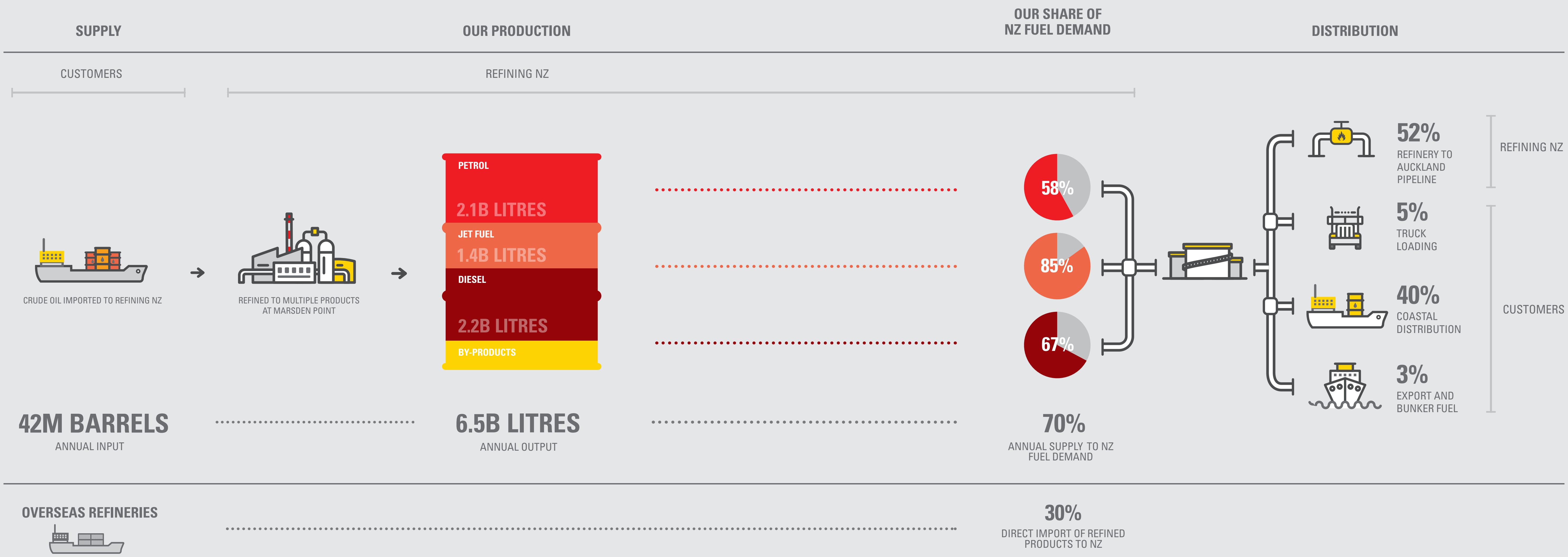
With change comes opportunity. In a world of rising carbon prices and with the shift to de-carbonise energy use, we continue to study new business opportunities as they arise. In this respect, we see potential in leveraging our capabilities, equipment and knowledge to produce lower carbon fuels. We are looking closely at options to produce bio-jet fuel and bio-diesel for the New Zealand market, and we believe that, as a key player in the fuels market, we have a real contribution to make in the development of these alternative fuels.

We also acknowledge the role we can play in helping New Zealand achieve its ambitions for a low carbon future and have already signalled to the Government our desire to be at the table with the other key players who will be instrumental in driving the next phase of evolution in the fuels market.

Refining NZ operates New Zealand's only oil refinery at Marsden Point near Whangarei. Our core business is processing a wide range of crude oil types, primarily imported from key offshore markets, producing high quality transport fuels for the New Zealand market in addition to bitumen for roading, sulphur for farm fertiliser and CO_2 for, amongst others, carbonated drinks. We are the country's leading supplier of refined petroleum products, supplying approximately 70% of the total domestic market. Refining NZ competes against overseas refiners many times larger that offer direct imports of refined products. Refining NZ makes a significant contribution to the fuel supply chain in New Zealand as well as playing a significant role in the Northland economy.

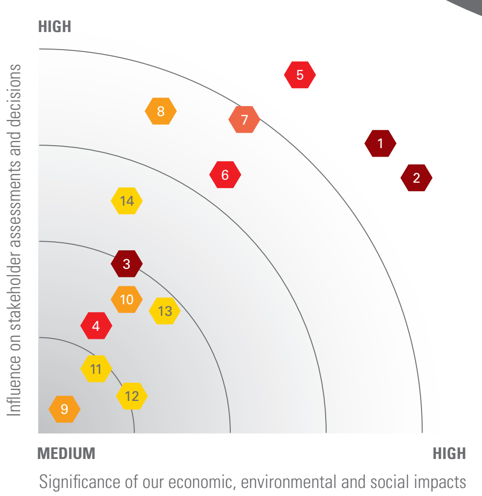
Our primary function as a toll refiner is refining crude oil for our customers, but we also play a critical role in the distribution of fuel products by means of the RAP. Auckland represents just over 40% of total country demand and the pipeline is by far the most efficient means of moving fuel to this fast growing region, irrespective of where the product is sourced. Our customers are responsible for distribution to 10 port terminals across the country and for distribution into the Northland region from a truck loading terminal opposite the Refinery.

OUR ROLE IN FUELLING NZ



OUR STRATEGY

When setting and executing our strategy we are mindful of our broader responsibilities as a major employer in the region and as a NZX listed company. This is reflected in our business strategy which is built around five strategic pillars, each of which is aligned with a set of 14 priority areas. These areas reflect what we see as the most important issues for the business across the full range of environmental, social and governance performance topics.



MATERIAL ISSUES

1 Process safety
2 Personal safety and wellbeing
3 Business continuity and emergency response
4 Energy efficiency
5 Emissions to air, water and ground
6 Greenhouse gas/climate change
7 Quality and reliability of products
8 Financial performance
9 Governance and Board independence
10 Risk management
11 Culture and diversity
12 Training and development
13 Community and iwi engagement
14 Contribution to regional economy

DELIVER A WORLD-CLASS HEALTH AND SAFETY PERFORMANCE

We are one of a few high-hazard units in the country and have robust management processes in place to keep our refinery running safely.

DELIVER A WORLD-CLASS ENVIRONMENTAL PERFORMANCE

We are conscious of our responsibility for minimising the impact of our operations on the surrounding environment, and are continually looking to lift our environmental performance. To achieve this, we have facilities and management processes to minimise the impact of our activities.

BUILD ON THE QUALITY AND RELIABILITY OF OUR CUSTOMER PROMISE

As a toll refiner we can influence our customers' decision whether to make a product at Marsden Point or to import from refineries overseas. We provide a compelling customer proposition based on three elements: Quality, Reliability and Price.

IMPROVE OUR COMPETITIVENESS

If we are to deliver value for our customers we need to maintain the relentless focus on our cost base and understand how we can produce more of the high-value products from the same barrel of crude oil. Harnessing innovative ideas from both inside and outside the business continues to provide new opportunities to improve our business delivery.

EMBED A HIGH PERFORMANCE CULTURE

Culture, shared values, staff feeling recognised and rewarded and given the opportunities to develop to their potential, are core to the people and capability strategy. The workforce is becoming demonstrably more diverse across a number of fronts, hence inclusivity is another main theme in the people agenda.

FOCUSSING ON WHAT MATTERS

We understand the importance of strong relationships which underpin the ability of our business to create value in the short, medium and long-term. We are committed to supporting and strengthening the communities to which we are connected. Our wide network of stakeholders includes investors, suppliers, customers, employees and neighbours as well as iwi and hapu. Engaging proactively with these stakeholders is an integral part of the way we work, and essential for understanding their expectations, needs and concerns.

As part this year's annual reporting process, we ran an independent process to assess what our stakeholders considered to be the most important and material issues for the Company to focus on as part of ensuring our long-term success. The 14 topics identified through that process have been validated through the discussions with both internal and external stakeholders and have been integrated into our business strategy as shown in the diagram to the left.

The 14 topics also have relative degrees of priority, in terms of the significance of their impact and the extent to which they influence stakeholder decisions relating to the Company. This is shown in the material issues matrix graphic to the left. However, it is important to recognise that the Company's performance on these issues should not be viewed in an isolated way. The issues are interconnected and often progress in one area can lead to performance changes in another. Ultimately, we need to improve our performance in all these areas to ensure our long-term success.

Consistent with our values of honesty, integrity and respect, Refining NZ has a long tradition of communicating in a transparent way with all those people and organisations with whom we have important relationships. In that same spirit and recognising the growing importance to shareholders of our social and environmental performance, we have structured this report to provide in-depth commentary on those issues which were identified as the most important and material topics. To ensure we are following accepted international best practice, this report has been prepared in accordance with Global Reporting Initiative (GRI) Standards: Core option.

OUR PERFORMANCE 2017

DELIVER A WORLD-CLASS HEALTH AND SAFETY PERFORMANCE

We are operating a high-hazard site and therefore safety is paramount to the way we do business and our everyday activities. This applies to personal safety as well as occupational health and process safety.

The critical importance we place on safety is reflected in the way we manage safety issues. At the core is our Central Safety Committee (CSC). This Committee is chaired by our CEO and includes the Leadership Team alongside subject matter experts, employee and key on-site contractor representatives. The Committee sets overarching safety principles and reviews ongoing performance. Below the CSC we have established six sub-committees tasked with the implementation and continuous development of our safety management systems.

We constantly strive to improve our safety performance using a risk based approach. In 2017 we did not record a Tier 1 process safety incident. Tier 1 incidents represent the most significant process safety event as defined by the American Petroleum Institute, an international standard setting body (refer to the glossary on page 125 for a definition of a Tier 1 incident). We have an ongoing programme of risk reduction on the site. As an example, installing the latest seal technology on pumps used to transfer flammable or toxic substances reduces their safety risk and increases their operational reliability.

OUR PERFORMANCE BY THE NUMBERS

		2017	2016	2015	2014	2013
Total recordable case frequency (TRCF)	#/200,000 hrs	**0.89**	0.51	1.32	0.86	1.48
Lost time injury frequency (LTIF)	#/200,000 hrs	**0.26**	0.25	0.10	0.19	0.25
Tier 1 process safety incidents		**0**	1	1	1	1
Tier 2 process safety incidents		**4**	0	4	2	2
Number of major emergency exercises (internal and external)		**17**	13	14	7	7

- Seven recordable cases which resulted in two lost time injuries.
- Improved personal safety performance in the second half of the year.
- Tier 2 process safety events included a small fire on a processing unit in April, which was quickly managed without injury by our Emergency Services and Operations crew.

DUPONT SAFETY REVIEW

CASE STUDY

Since the 2015 review of our health and safety management systems by internationally recognised safety experts, DuPont, we have continued to chart our progress against the DuPont 'Bradley curve', which sets out a four step cultural strength pathway (reactive, dependent, independent and interdependent). DuPont's review in 2017 recognised that we had made further progress on this pathway with an independent culture of process safety evidenced throughout our safety management systems, in our processes and daily practices as well as the personal knowledge and the value our people place on process safety.

In 2017 we continued with the implementation of two initiatives recommended by the 2015 DuPont review: the roll out of an additional system of isolation Log Out Tag Out (LOTO) to safeguard process plant for maintenance, and a new permit to work system.

Our operations and maintenance teams rely on the isolation of processing and related units to carry out planned maintenance, safely and securely, which is critical to the continued management of process safety. Where previously information about isolation points was held across the Refinery, the LOTO system has allowed us to build a detailed central library or database of these isolations.

As part of that rollout, isolation information from across the Refinery has been collated and our operations team trained in how to add information, including electronic drawings for each isolation point, to this central library. With the LOTO library at their fingertips, our operations and maintenance teams can now successfully track, identify and collate data on more than 2,500 isolation points across the Refinery.

The ability to quickly and effectively issue and track permits to work is essential in a major shutdown where there are hundreds of permitted pieces of work underway at any one time, and where the effectiveness of our maintenance crews is helped by maximising the amount of time they have on the tools.

In 2017 we continued the streamlining of permit issuing with a new permit to work system. Critical to that streamlining has been the collation of all permits in a central database (Maximo) where permit issuers can track and approve them. At the same time, we have added an industry accepted Job Risk Analysis form that clearly identifies for the permit issuer, all the risks associated with the proposed piece of work.

There are currently around 9,000 permits in the database and that number increases every day as we continue our preparation for our planned maintenance shutdown in Q2 2018.

DELIVER A WORLD-CLASS ENVIRONMENTAL PERFORMANCE

Given the nature and size of our business, Refining NZ has a significant environmental footprint. We operate a mature industrial complex with most of our environmental performance improvements being incremental as we continually improve our processes.

Energy efficiency is a critical component of our environmental management system. Any gains we make in this area also improve our economic competitiveness through reduced expenditure, with energy being the most significant cost to our business.

Beyond our fenceline our emissions to air, water and ground have the potential to impact our local environment. We regularly report on our environmental performance to the Regional Council as well as to local hapu, Patuharakeke who contribute their experience to our environmental monitoring. As part of our environmental commitments, we continue to invest in improving our environmental performance through projects to prevent hydrocarbons leaving the site.

We have achieved significant reductions in sulphur dioxide emissions per unit of fuel production as a result of the increased use of natural gas as a cleaner source of energy to run our processes.

We are committed to helping New Zealand meet its climate change obligations. As a material environmental issue, our carbon emissions impact more at a national than regional or local level. We have a Negotiated Greenhouse Agreement with the Government which runs until 2022 and obliges us to continue reduction of our carbon emissions. Going forward, we are committed to working with the new Government on climate change to understand how we can continue to play our part.

OUR PERFORMANCE BY THE NUMBERS

		2017	2016	2015	2014	2013
Releases outside consent	#	**4**	5	2	3	4
Direct CO_2 emissions	kg CO_2/t of product	**200**	201	227	228	225
Hydrocarbon fuel usage	Petajoules	**14.2**	14.1	15.3	14.5	14.8
– Ex-crude (refinery produced fuel)	Petajoules	**11.4**	11.5	13.5	12.6	13
– Natural gas	Petajoules	**2.8**	2.6	1.8	1.9	1.8
Electricity usage	Petajoules	**1.22**	1.21	1.03	0.96	0.97
Water usage	Million tonnes	**1.70**	1.68	1.65	1.60	1.59
Sulphur dioxide (SO_2) emissions	Tonnes	**3,695**	4,332	4,055	3,885	3,854
Flare	Amount of flare as mass % of feedstock	**0.02**	0.09	0.02	0.08	0.03

– Higher consumption of natural gas in 2017 has reduced SO_2 and CO_2 emissions.

A BREATH OF FRESH AIR FOR OUR WATER TREATMENT

CASE STUDY

Since 2014, Refining NZ has invested around $23m on improving our environmental performance across the site.

As part of that significant investment in 2017 we continued with the upgrade of the bio treater aeration system, a critical piece of plant that treats contaminated waste water from the refining process. Hundreds of aerator jets force oxygen through the waste water breaking down hydrocarbons efficiently.

The treated water can then be safely discharged to the harbour. In September this was utilised for the treatment of jet fuel contaminated water from the RAP leak site in Ruakaka.

This two-year project was completed in May 2017 at a cost of $2.8m. The new bio treater has significantly lifted our capacity to treat waste water and importantly has strengthened our ability to manage major weather events that place added pressure on our treatment capacity.

BUILD ON THE QUALITY AND RELIABILITY OF OUR CUSTOMER PROMISE

Competing successfully with the best in Asia Pacific starts with playing to our many strengths and continuing to do what we are good at. We have a history of investing in plant reliability and the production of cleaner quality fuels which meet the specific requirements of the New Zealand market. We maintain a quality management system to the requirements of ISO 9001 which is externally audited on a regular basis.

Our ultimate goal is to deliver to our customers in full, on time and to specification. To deliver on this promise we invest in various parts of the Refinery, including product storage. Then we have a strong focus on maintaining our equipment to keep unplanned downtime to a minimum. As a result, our operational availability compares well with refineries of a similar size and complexity in the region.

OUR PERFORMANCE BY THE NUMBERS

		2017	2016	2015	2014	2013
Throughput refinery	Million barrels	**41.7**	42.7	42.6	39.7	40.6
Throughput RAP	Million barrels	**19.8**	20.1	18.4	17.9	17.6
Operational availability	%	**98.0**	96.9	97.7	93.5	95.6
Unplanned refinery downtime	%	**0.6**	0.9	0.3	0.2	1.1
Unplanned RAP downtime	%	**4.6**	0.9	0.6	0.9	0.5

– 2017 Refinery throughput was reduced by 0.7 million barrels due to ullage constraints during the RAP incident.
– Pipeline rupture also impacted unplanned downtime on the RAP.

RAP CAPACITY UPGRADE

CASE STUDY

The RAP is the most efficient option to bring large quantities of fuel products to the Auckland region, whether these products are refined at Marsden Point or imported directly as refined products. Increasing the capacity on the RAP is therefore crucial to meeting Auckland's fuel needs which have grown significantly, boosted by a 32% lift in jet fuel demand growth in the last two years as international visitor numbers continue to grow.

Our capacity upgrade aims to lift capacity on the pipeline in three stages, with an expected increase in overall throughput of around 15% by 2019. This upgrade has been underpinned by a major engineering study carried out by pipeline experts from Worley Parsons, Canada.

Phase one, completed in August 2017 increased the pipeline's operating pressure within the Maximum Allowable Operating Pressure (MAOP) envelope for the pipeline. In November 2017, phase two saw the successful installation of a second pump at our intermediate pumping station at Kumeu. The resulting 5% capacity increase generated by this pump means that the Refinery is now providing more product via the RAP than before the pipeline leak in September.

Looking ahead, phase three due in 2019 will increase motor capacity on pumps at the Refinery and at the Wellsford intermediate pumping station. And there is more in store, with initial discussions with pipeline experts indicating that RAP throughput could be lifted a further 40% with three additional pumping stations. This should allow us to keep pace with the growth of fuel needs in the Auckland region for the long term.

IMPROVE OUR COMPETITIVENESS

Our key competitors are mega refineries in the Asia Pacific region with economies of scale as their advantage. Refining NZ's location is our competitive edge, enabling us to respond to the specific product and quality requirements of our New Zealand based customers. The structural advantage of being close to the markets demanding our fuels allows us to supply New Zealand with fuel more efficiently.

We regularly tap the knowledge of our team to generate business improvement ideas capable of lifting our performance across many aspects of our refining business, the fuels supply chain and our offering to customers. A longer running project was the installation of automated process control, which optimised the operation of our petrol making unit leading to efficiency gains. As an example of our work with suppliers, we negotiated an agreement with First Gas (formerly Vector) to boost compression on the northern pipeline. Thanks to the investment of our partner, our access to natural gas supplied from Taranaki nearly doubled in 2017. As an often price competitive source of energy in the refining process, this presents a significant margin opportunity for us.

OUR PERFORMANCE BY THE NUMBERS

		2017	2016	2015	2014	2013
Gross refinery margin	USD/barrel	**8.02**	6.47	9.20	4.96	4.58
Free Cash Flow*	NZD $m	**103**	47	139	(141)	(147)
Capital expenditure	NZD $m	**95**	81	129	220	201
– sustain	NZD $m	**85**	74	51	73	81
– growth	NZD $m	**10**	7	78	147	120
Net profit/(loss) after tax	NZD $m	**79**	47	151	10	(5)
Crude price	USD/barrel	**54**	44	52	99	109
Exchange rate	USD/NZD	**0.71**	0.70	0.70	0.82	0.82

* See Glossary page 125

MAKING WAY FOR BIGGER CARGOES

CASE STUDY

Refining NZ is proposing changes to Whangarei's harbour entrance which would allow larger crude cargoes to be brought into Marsden Point. Larger ships come to the Refinery under loaded because the shipping channel is not deep enough. Loading them to full capacity (around one million barrels) would require deepening and realigning the shipping channel through dredging.

Over the last four years we have proactively engaged the community about the crude shipping project through a series of public consultations in and around Whangarei. In 2017 the heart of our public consultation centred on 'The Deeper Story' website www.deeperstory.co.nz and our pop-up information container.

In April 2017 the container was situated in key locations as part of a concerted campaign to increase the public's knowledge and understanding of the crude shipping project.

Our application for a resource consent was lodged with the Northland Regional Council in late August 2017, with around 50 submissions received from the public. Since then the Refinery has continued to consult with local hapu and iwi as well as other key submitters around their submissions.

If we are successful with our resource consent application, the project would likely take place in 2019 subject to Board approval, and may include additional storage capacity for crude oil at the Refinery.

EMBED A HIGH PERFORMANCE CULTURE

We provide a dynamic, progressive and technically advanced environment for 396 highly skilled employees. As at 31 December 2017, 293 contractors work alongside our team. In our recruiting as well as in the development of our staff, we put a strong emphasis on alignment with our values:

We foster this culture and in a more formal sense it is anchored in our Code of Conduct and our Diversity and Inclusion policy.

We believe the breadth and depth of diversity provides the fertile ground for innovation, better decision making, reduced risk and improved results. A number of positive interventions have been put in place to support a diverse workforce. These have been deliberate and targeted initiatives to lift awareness and affect sustainable change. This has included unconscious bias training for senior leaders who are critical in attracting and retaining talent in the organisation. This has challenged our recruitment practices and how we project ourselves as an organisation to our community.

We have facilitated targeted training for our aspiring women leaders, participating in the Global Women Activate Programme and the Darden intensive MBA programme. Some physical changes to the site have also contributed to how we support diversity, with the newly built Parents' Room being utilised immediately and therefore satisfying a need.

The collation and on-going evolvement of demographic data has allowed us to illuminate the diversity of our workforce and helps us better plan our support and development programmes.

Our commitment to people goes well beyond our own staff and the various contractors working alongside us on site. We engage closely and regularly with the community in our neighbourhood and across the Whangarei district. Having established channels for reporting on our performance provides an opportunity to walk our neighbours through critical parts of our operations and safety management processes such as flaring, which allows hydrocarbons to be vented safely when process units are shutting down and starting up. We believe that transparent communication with our community fosters open dialogue and has helped to build positive relationships.

While we are a large private employer in our region, our contribution to the regional economy is not limited to direct employment. We contribute to a strong manufacturing and engineering knowledge hub in Northland which supports a highly skilled workforce in the region. The number of contractors we engage with varies each year and depends on the number of capital and maintenance projects.

OUR PERFORMANCE BY THE NUMBERS

		2017	2016	2015	2014	2013
Number of staff	Headcount (end of year)	**396**	386	394	397	400
Number of contractors	Headcount (end of year)	**293**	178	96	117	165
Contribution to regional economy	% of Northland GDP	**No data**	8.4	8.0	7.8	6.9

GENDER

The following table provides the gender composition of Refining NZ's permanent workforce. By way of comparison, figures for the past year are also included.

	31 DECEMBER 2017 HEADCOUNT	%	31 DECEMBER 2016 HEADCOUNT	%
Directors				
Females	**2**	**29**	1	14
Males	**5**	**71**	6	86
Leadership Team				
Females	**1**	**12**	1	10
Males	**7**	**88**	9	90
Workforce				
Females	**68**	**18**	65	17
Males	**320**	**82**	311	83

AGE PROFILE

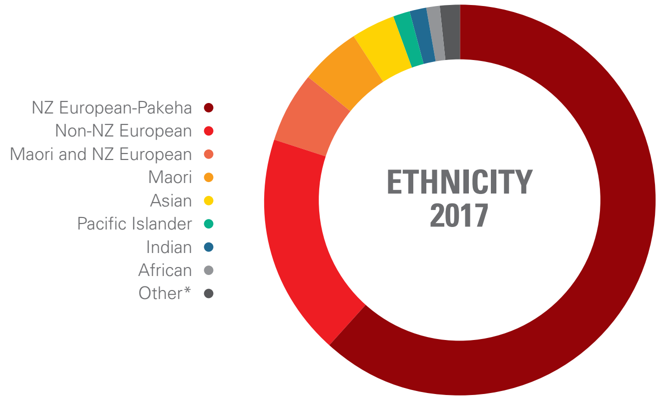
The age profile of Refining NZ's permanent employees and Board is as follows:

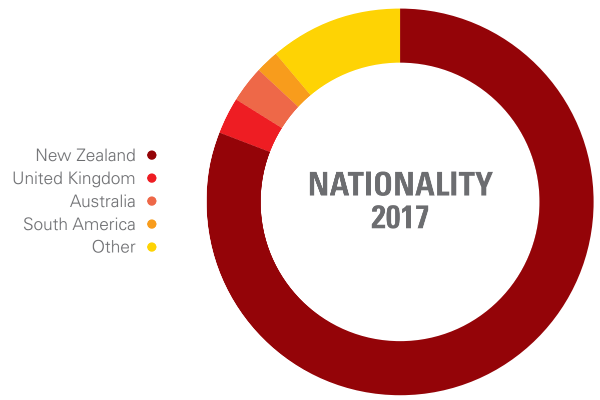
	UNDER 30 %	30 - 50 %	OVER 50 %
31 December 2017			
Directors	**-**	**29**	**71**
Leadership Team	**-**	**11**	**89**
Workforce	**11**	**54**	**35**
Total	**11**	**52**	**37**
31 December 2016			
Directors	-	-	100
Leadership Team	-	10	90
Workforce	12	50	38
Total	11	48	41

ETHNICITY

Refining NZ collects information from all employees on which ethnicity they chose to identify with. We allow employees to select other or chose not to respond. The ethnicity of Refining NZ's employees and Board as at 31 December 2017 is as follows:

	DIRECTORS #	DIRECTORS %	LEADERSHIP TEAM #	LEADERSHIP TEAM %	WORKFORCE #	WORKFORCE %	TOTAL #	TOTAL %
NZ European-Pakeha	4	57.1	3	37.5	242	62.4	**249**	**61.8**
Non-NZ European	2	28.6	4	50.0	68	17.5	**74**	**18.4**
Maori and NZ European	-	-	-	-	24	6.2	**24**	**6.0**
Maori	1	14.3	-	-	19	4.9	**20**	**4.9**
Asian	-	-	-	-	14	3.6	**14**	**3.5**
Pacific Islander	-	-	1	12.5	5	1.3	**6**	**1.5**
Indian	-	-	-	-	5	1.3	**5**	**1.2**
African	-	-	-	-	5	1.3	**5**	**1.2**
Other*	-	-	-	-	6	1.5	**6**	**1.5**
Total	**7**	**100**	**8**	**100**	**388**	**100**	**403**	**100**





* Other includes Maori and Pacific Islander, Maori and non-NZ European.

HIGH PERFORMANCE CULTURE

CASE STUDY

At Refining NZ we are conscious that ownership of workplace culture is an essential part of making our business tick. After a strategy planning session with well-respected corporate anthropologist Michael Henderson, we invested in a cultural transformation programme under Michael's guidance.

Labelled the 1st XV, a cross section of employees were chosen to undertake the Cultural One Team Programme which encompasses training on awareness, appreciation, action and achievement over a 12-month period.

Already our 1st XV has started to share the models and frameworks around understanding culture with managers and work teams to build our competence and confidence to deliver the course material.

The team is excited and optimistic about what the culture plan will deliver to create a culture worth embodying in our organisation.

The return of Hive Day was another avenue for celebrating culture and diversity through sharing our business strategy with staff, contractors and their families. To reinforce understanding a Hive Day passport was produced with a series of questions to capture key activities across the business. Due to its success Hive Day was repeated and was an essential part of the shareholder day held in January 2018.

THE TEAM IS EXCITED AND OPTIMISTIC ABOUT WHAT THE CULTURE PLAN WILL DELIVER TO CREATE A CULTURE WORTH EMBODYING IN OUR ORGANISATION.

OUR ACTION PLAN

Our most notable activities planned for 2018 relate to the major plant shutdown in the first half of the year and our work towards making way for bigger crude cargoes into Whangarei harbour. The two major projects fall in line with our strategy and are supplemented by focus areas in our health, safety and environmental (HSE) performance, scoping and implementing revenue growth opportunities and improving our organisational performance.

LIFT OUR HSE PERFORMANCE

- We are continuing our work to embed safety as a core value, with the addition of individual wellbeing to that value. The ongoing support of our various safety oriented steering committees is critical to this piece of work. At the same time, we are progressing on multiple fronts to complete the recommendations from the independent DuPont safety review of 2017.
- A substantial piece of work is planned to finalise our Safety Case under the new health and safety regulations. In parallel, we will be engaging our community around our key hazards and the systems and processes we have in place to manage those hazards.
- Our major project investment in cleaning and preventing hydrocarbons leaving the site continues in 2018 which includes bolstering the resilience of our water treatment systems. We are also working with the regional authority to ensure the continuation of our environmental consents beyond 2022.

GROW OUR REVENUE BASE

In 2018 we will continue to progress a number of key growth ideas from our development funnel.

- **Increasing capacity on the RAP**
  The third phase of the RAP capacity project to upgrade RAP pumps at Marsden Point and Wellsford will get underway in 2018 and be completed in 2019. This phase will add an extra 5% capacity to the RAP.
- **Reconfiguring our jet tank farm**
  To meet the country's rapidly growing jet fuel demand we have been working with our customers to facilitate ongoing imports of jet fuel to the Refinery for distribution down the RAP. Reconfiguration of our jet tank farm is required to provide sufficient dedicated unloading facilities and storage for those jet fuel imports.
- **Sulphur solidification**
  Currently we sell sulphur in liquid form to our client in the fertiliser industry. In close alignment with client needs, we will construct and commission a sulphur forming plant in 2018. This will bring an additional step in this value chain to the Refinery and will allow us to sell sulphur in solid form. This short pay-back project will bring added safety benefits as it reduces transport, handling and processing of liquid sulphur.

IMPROVE OUR ORGANISATIONAL PERFORMANCE

In 2018 our journey to high performance continues across five key areas:

- **Rollout of Company values**
  Our culture is underpinned by our Company values. In 2018 we will roll out our new value of "safety and wellbeing" and take this as an opportunity to further anchor and celebrate our values.
- **Supporting our talented people**
  Under the umbrella of our overall leadership development model, we continue to support our managers to develop as leaders through mentoring, succession planning and targeted development.
- **Promoting diversity**
  We continue to work with an external provider to raise awareness of unconscious bias and will build on this through an inclusivity training programme for senior managers.

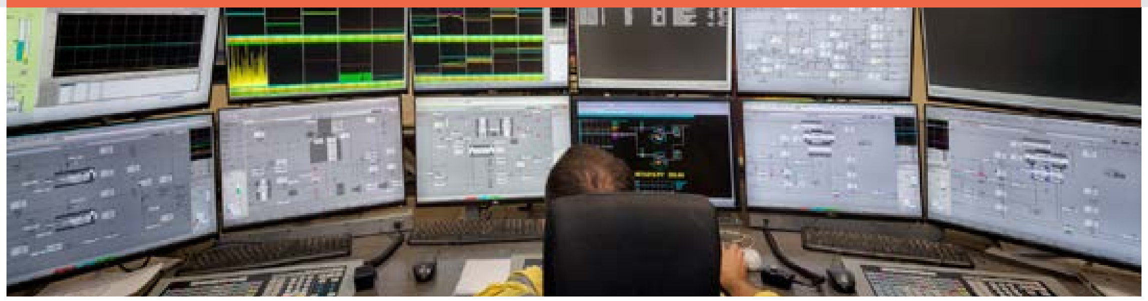
  Recruiting new talent provides an entry-level opportunity to raise our level of diversity, recognising that our business is stronger and our decision-making more robust, when our teams comprise different backgrounds with a variety of work experiences.
- **Structuring better ways of working**
  Reorganisation across operations and engineering is underway to promote an even greater level of co-operation across these two key business units. The aim is to lift performance and allow talented individuals to realise their potential.

  We remain focused on removing complexity in the technology space, through standardisation and by working with our strategic alliance partners to exploit opportunities from innovation and access to new technology.

  We continue to employ Lean principles to lift individual and team performance through eliminating waste, identifying better ways of working and visual management of key team objectives.
- **Engagement feedback**
  We engage with our employees in annual Pulse Surveys, facilitated by Aon Hewitt, providing valuable feedback on the management and staff engagement aspects, including leadership and communication.

  Results of the surveys are shared with each business unit which then focus on the engagement drivers to develop improvement action plans.

SHUTDOWN 2018



In April and May 2018 we are undertaking a major refinery shutdown lasting approximately eight weeks. The planned maintenance shutdown is a major event which has required two years of planning by our dedicated shutdown team.

The key difference to other shutdowns at the Refinery is the sheer scale: this will be the first time in 14 years that we have had a full shutdown of processing units across the Refinery to allow us to carry out a statutory inspection and repairs that we otherwise would not be able to do. This work is critical to the ongoing safe and reliable running of our Refinery for years to come. In parallel to preparing for the shutdown, we have been working closely with our customers to ensure that the country's fuel stocks are well managed in and around the duration of the shutdown.

The scale of this shutdown requires that we do things quite differently to what we have done in previous planned maintenance shutdowns.

A broad range of skills and trades will be required to execute the shutdown successfully. This includes skilled workers not normally associated with work at a refinery such as drone pilots to perform inspections and abseilers to do work at height. A good portion of this additional workforce can be sourced locally. However, for specialised skills we have gone further afield and engaged contractors from Taranaki, Tauranga, Australia and further abroad to ensure a high quality of resource across all the skills we require.

The profitability of a refining business is largely dependent on refiners' margins and the USD exchange rate. These variables are largely outside our control and can have significant volatility. As a result it is difficult for the Company to provide absolute forecasts of profitability; instead we provide a profit matrix. This indicates our expected 2018 net profit after income tax and year end borrowings for given margin and foreign exchange rates.

PROFIT MATRIX

GRM (USD/barrel) \ USD EXCHANGE RATE	0.60	0.65	0.70	0.75	0.80
5.00	21 / 208	7 / 228	(5) / 244	(16) / 256	(25) / 272
6.00	58 / 165	41 / 182	26 / 201	14 / 218	3 / 233
7.00	94 / 128	75 / 148	58 / 165	43 / 180	30 / 195
8.00	131 / 92	109 / 114	89 / 133	72 / 150	58 / 165
9.00	168 / 55	142 / 80	121 / 102	102 / 121	85 / 137

42 Production, million barrels
90 Non processing fee revenue, $m
93 Depreciation, $m

Net profit after tax
Borrowings

GOVERNANCE

REGULATORY FRAMEWORK

The New Zealand Refining Company Limited ("the Company', "Refining NZ") operates in New Zealand and is listed on the NZX's Main Board. It is subject to regulatory control and monitoring by both the NZX and the Financial Markets Authority ("FMA").

GOVERNANCE AT REFINING NZ

Our Corporate Governance framework sets out our Board's practices and processes to provide accountability to shareholders for Refining NZ's actions and performance. Through this framework the Board creates the strategic direction and objectives for the business, identifies and manages our risks, strengthens our business culture and strives to continuously improve our performance.

The Board is committed to maintaining the highest standards of corporate governance, business behaviour and accountability. It regularly reviews and assesses the Company's governance structures and processes to ensure that they are consistent with best practice. It also supports best practice reporting and has structured this statement to report against the NZX Corporate Governance Code ("NZX Code").

The Board considers that it has followed the recommendations in the NZX Code during the financial year ending 31 December 2017, except as stated in this section. In this regard, non-compliance during the year prior to implementation of governance practices reflecting the new NZX Code was the result of Refining NZ following the old NZX Corporate Governance Best Practice Code as detailed in last year's annual report.

In this section we provide an overview of our governance framework. For further guidance on our governance framework, including Board Charters, the Company Constitution and our corporate governance policies, please refer to the "Investor Centre" section of our website at www.refiningnz.com. References in this section to the website are to the Investor Centre page.

This governance statement was approved by the Board on 27 February 2018 and is current as at that date.

PRINCIPLE 1

ETHICAL STANDARDS

"

DIRECTORS SHOULD SET HIGH STANDARDS OF ETHICAL BEHAVIOUR, MODEL THIS BEHAVIOUR AND HOLD MANAGEMENT ACCOUNTABLE FOR THESE STANDARDS BEING FOLLOWED THROUGHOUT THE ORGANISATION.

"

Refining NZ's Board sets clear and consistent expectations of all Directors, and Refining NZ people (employees, contractors and other agents) through the Code of Conduct.

Refining NZ's framework for ethical behaviour includes a day-to-day business focus and recognises our responsibilities to shareholders, customers, and employees, those with whom we do business, our neighbours and society at large.

CODE OF CONDUCT

Refining NZ's Code of Conduct sets out clear and consistent expectations for Directors, employees and representatives of the Company and is available on our website and the intranet.

The Code of Conduct reflects recommendation 1.1 of the NZX Code (although a different conflict of interest policy applies), requiring all Refining NZ Directors, employees and representatives to:

- act with high standards of honesty, integrity and fairness in all aspects of their involvement with the Company;
- undertake their duties with care and diligence;
- uphold the integrity and good name of the Company; and
- not knowingly participate in illegal or unethical activity.

The Code of Conduct goes further than recommendation 1.1 of the NZX Code and requires conflict of interest to be avoided. A more detailed conflicts policy applies to Directors and it is set out in the Board Charter and the Independent Directors Committee Charter.

The Code details the escalation process including the right to contact the Disclosure Officer. Employees who expose serious wrongdoing are protected against retaliatory action in accordance with the Protected Disclosures Act 2000 and the Company's Whistle-Blowing Policy.

Compliance is monitored through a semi-annual confirmation by the Leadership Team and the Chief Executive to the Board confirming adequacy of disclosure and transparency with the Board, integrity of reporting, legislative compliance and financial reporting controls ("general assertion statement"). In the case of serious breaches, disciplinary action, including dismissal, is considered by Management.

In 2017 we identified an opportunity to conduct an annual training programme, including an "on-line" Code of Conduct training module which is planned for roll out in 2018.

The Code of Conduct is reviewed bi-annually.

SECURITIES TRADING

To ensure compliance with the law around insider trading, the Company has issued a Securities Trading Policy applicable to Directors, officers and all employees. A Director or member of the Leadership Team can only enter into securities transactions if prior approval has been given.

A listing of Directors' and Leadership Team members' shareholdings is included with their profiles on pages 56 to 63 of this Annual Report.

A copy of the policy is available on our website.

PRINCIPLE 2

BOARD COMPOSITION AND PERFORMANCE

> "TO ENSURE AN EFFECTIVE BOARD THERE SHOULD BE A BALANCE OF INDEPENDENCE, SKILLS, KNOWLEDGE, EXPERIENCE AND PERSPECTIVES."

BOARD ROLE AND RESPONSIBILITIES

The Board is responsible for setting the Company's strategic direction and for providing oversight of the management of the Company, with the aim of increasing shareholder value and ensuring the obligations of the Company are properly met. The Board is accountable to shareholders for the performance of the Company, with day-to-day management of the Company delegated to the Chief Executive (see Board role and responsibilities chart below).

The respective roles of the Board and Management (the Leadership Team) are set out in the Board's Charter available on our website.

THE MAIN FUNCTIONS OF THE BOARD INCLUDE:

- reviewing and approving the strategic, business and financial plans prepared by Management;
- monitoring performance against the strategic; business and financial plans;
- appointing, providing counsel to and reviewing the performance of the Chief Executive;
- approving major investments and divestments;
- ensuring ethical behaviour by the Company; Board, Management and employees; and
- assessing its own effectiveness in carrying out its functions.

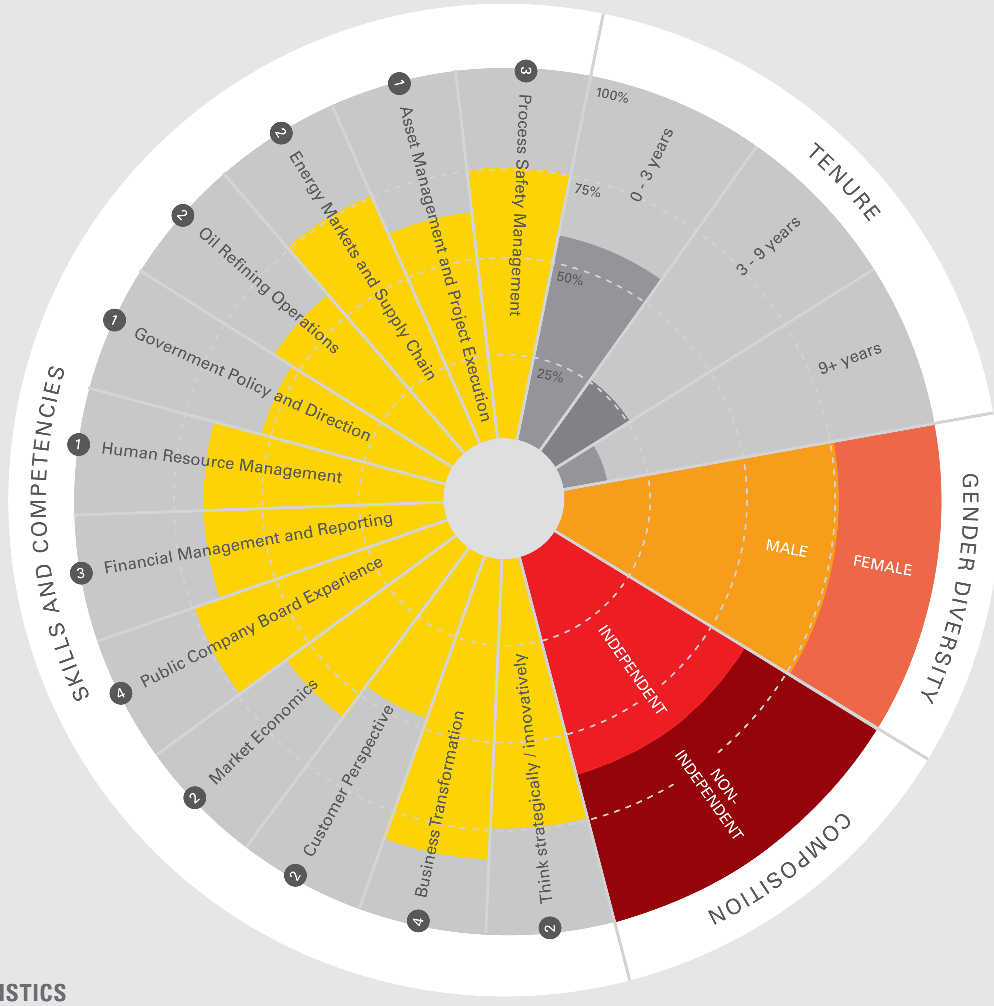
The Board monitors these matters by receiving reports and plans from Management, maintaining an active programme of site visits and through its annual work programme.

The Board uses committees to address certain issues that require detailed consideration by members of the Board who have specialist knowledge and experience. The Board retains ultimate responsibility for the functions of its committees and determines their responsibilities.

The Board has a statutory obligation to reserve responsibility for certain matters. It also deals directly with issues relating to the appointments to the Board, strategy, business and financial plans.

All Board authority conferred on the Leadership Team is delegated through the Chief Executive.

BOARD ROLE AND RESPONSIBILITIES



BOARD CHARACTERISTICS

KEY

Number of experts in the field

BOARD COMPOSITION AND APPOINTMENT

The Board currently consists of seven Directors: Simon Allen (the Chair), Vanessa Stoddart, Mark Tume and Paul Zealand are Independent Directors as at the balance date. Michael Bennetts, Deborah Boffa and Riccardo Cavallo are not Independent. Independence is assessed according to the NZX Main Board Listing Rules criteria.

The number of Directors is determined by the Board, in accordance with the Company's Constitution, to ensure that it is able to provide a range of knowledge, views and experience relevant to the Company's business. Under the Company's Constitution, the Company is obliged to have at least three Independent Directors.

Major shareholders (BP, ExxonMobil and Z Energy) do not have a constitutional right to appoint Directors, although it is accepted that they are entitled to representation. The Nominations and Remuneration Committee, using the same criteria as for all other Directors, considers nominations for these representatives ("Representative Directors") as if they were non-representative Directors.

Each year the Board will appoint a Chairman from among the Independent Directors who is responsible for representing the Board to shareholders. The roles of Chairman of the Board, Chair of the Audit, Risk and Finance Committee and Chief Executive must all be held by different people.

The Board is responsible for appointing Directors subject to shareholders approval at the Annual Shareholders' Meeting. The Nominations and Remuneration Committee manages the appointment process for new Directors and the re-election of existing Directors in order to make a recommendation to the Board. When considering an appointment, the Committee will undertake a thorough check of the candidate and his or her background. Where the Board determines a person is an appropriate candidate, shareholders are notified and provided with all material information that is relevant to the decision on whether to elect or re-elect a Director.

Directors will generally hold office for an initial three-year term following their appointment, subject to any obligation to retire by rotation in accordance with the Company's Constitution and the NZX Listing Rules. If a Director is appointed by the Board to fill a casual vacancy, that Director will hold office until the next Annual Meeting, but will be eligible for election at that meeting.

On their appointment, Directors:

- attend an induction programme aimed at deepening their understanding of the business and the environment and markets in which the Company operates; and
- enter into a written agreement with Refining NZ, establishing the terms of their appointment.

DIRECTORS' SKILLS AND TRAINING

The Board maintains a skills matrix setting out the mix of skills and diversity of the Board. The skills matrix is used to evaluate whether the collective skills and experience of the Directors meet Refining NZ's requirements both currently and into the future. The skills matrix defines the following skills and competencies against which each of the appointed Directors is periodically evaluated:

- think strategically and innovatively;
- business transformation;
- customer perspective;
- market economics;
- public company Board experience;
- financial management and reporting;
- human resources management;
- government policy and direction;
- oil refining operations;
- energy markets and supply chain;
- asset management and project execution; and
- process safety management.

The Board has determined that it has a minimum of one Director who would be considered "experts" in respect of each skill/competency.

The Directors undertake appropriate training to remain current on how to best perform their duties as Directors.

BOARD TENURE

The Refining NZ Board does not have a tenure policy although it supports the philosophy that regular refreshment introduces new thinking, perspectives, skills and experience to the Board table.

DIRECTOR, BOARD AND COMMITTEES' PERFORMANCE

The Directors, the Board and all Committees annually evaluate their own performance, processes and procedures to ensure that they are appropriate to assist the Board in effectively fulfilling its role and meeting its duties.

Board meetings open with scheduled 'board only' time. Reflecting on the meeting and consideration of any matters requiring disclosure are formal agenda items at the end of each board meeting.

In 2016, a formal evaluation was conducted with the assistance from an outside facilitator, the Boardroom Practice, leading experts at Board evaluation and comparison. Individual Directors undertake a peer and self-assessment based on a methodology agreed by the Board. The last Board and Committee self-assessments were undertaken in 2017.

The current mix of skills and experience is considered appropriate for the responsibilities and requirements of governing Refining NZ.

DIVERSITY

Refining NZ recognises the value in diversity of thinking and skills, and seeks to ensure that the Board and workforce both comprise members reflecting diversity. The Company's Diversity and Inclusion Policy is available on the website.

For further information on diversity, please see page 29 in this report.

PRINCIPLE 3

BOARD COMMITTEES

"THE BOARD SHOULD USE COMMITTEES WHERE THIS WILL ENHANCE ITS EFFECTIVENESS IN KEY AREAS, WHILE STILL RETAINING BOARD RESPONSIBILITY."

COMMITTEES OF THE BOARD

Board Committees at Refining NZ are established to perform particular work on an on-going basis. There are four Board Committees: the Audit, Risk and Finance Committee; the Nominations and Remuneration Committee; the Independent Directors Committee; and the Health, Safety, Environment and Operations Committee.

Each Committee operates in accordance with a written Charter approved by the Board and reviewed periodically by the respective Committee. The Committee Charters are available in the corporate governance section of the Company website: www.refiningnz.com.

AUDIT, RISK AND FINANCE COMMITTEE

Mark Tume (Chair),
Simon Allen and Paul Zealand

The Audit, Risk and Finance Committee ("ARFC") members are all Independent Directors. All members of the Committee have the appropriate financial expertise and understanding of the Company's industry and are considered to be 'audit committee financial experts'.

The role of the ARFC is defined by the ARFC Charter and is to oversee financial reporting, the treasury function, and the Company's risk management and assurance programmes.

The Committee keeps under review the scope and results of audit work, the cost effectiveness, performance, independence and objectivity of the auditors. Members of the Committee review the financial statements and the NZX announcement of the financial results. For more information about auditing and reporting Refining NZ's financial performance, see Principles 4 and 7.

The ARFC meets with the internal and external auditors (either together or separately) as the ARFC Chair considers appropriate.

NOMINATIONS AND REMUNERATION COMMITTEE

Vanessa Stoddart (Chair),
Simon Allen and Paul Zealand

The Nominations and Remuneration Committee comprises three Independent Directors.

The role of the Nominations and Remuneration Committee is defined by the Nominations and Remunerations Charter.

In respect of nominations, the responsibilities of the Committee are to identify and nominate, for the approval of the Board, candidates to fill Board vacancies (including development of succession planning) and the position of Chief Executive as and when they arise; to regularly review the structure, size and composition (including the skill, knowledge and experience) of the Board and to make recommendations to the Board regarding any changes.

In respect of remuneration, the Committee reviews and makes recommendations to the Board regarding the Company's remuneration policy, including changes in Directors' fees. The Committee provides oversight of the Company's Business Performance Factor which sets the base for any individual incentive payments under the Individual Performance Incentive Scheme and the award of shares to participating employees under the "DC12" Employee Share Scheme.

The Nominations and Remuneration Committee also makes recommendations to the Board regarding the remuneration package of the Chief Executive, including the payment of any Short-Term Incentive Payment and the remuneration packages of the Leadership Team who are profiled on pages 60 to 63.

The Committee reviews the People Strategy on an annual basis including changes to organisation structure, the capability development strategy and succession planning processes including succession planning for executive roles, diversity and inclusiveness initiatives and other strategic people priorities that arise from time to time.

INDEPENDENT DIRECTORS COMMITTEE

Simon Allen (Chair), Vanessa Stoddart, Mark Tume and Paul Zealand

The four Independent Directors form the Committee. The role of which is defined in the Independent Directors Committee Charter.

The three largest shareholders of the Company are also major customers, either directly or through wholly owned subsidiaries, and have representation on the Board which could lead to a conflict of interest. Clause 8.16.1 of the Constitution allows for the Independent Directors to act as the Board in respect of matters that pose a conflict of interest if raised at the full Board.

The role of the Independent Directors is:

- to act as the Board in relation to those matters to be decided by the Board in which all of the other Directors have an interest, including related party transactions, which disqualifies them from forming part of the quorum and voting; and
- to act as a Committee of the Board to deal with matters delegated or referred to it by the Board or the Management, including ensuring that issues concerning the major customers, and in particular any conflicts of interest, including related party transactions, are dealt with in a transparent manner for the benefit of the Company as a whole.

HEALTH, SAFETY, ENVIRONMENT AND OPERATIONS COMMITTEE

Paul Zealand (Chair), Simon Allen, Michael Bennetts, Deborah Boffa, Riccardo Cavallo, Vanessa Stoddart and Mark Tume

The Board maintains appropriate oversight over matters relating to health and safety, including both personal safety (occupational health) and process safety (major accident hazard risk exposure) and environment.

On 27 February 2018 the Board established the Health, Safety, Environment and Operations (HSEO) Committee to provide the oversignt previously conducted by the Board.

All Directors were appointed as members of the Committee and the role of the Committee is defined in the HSEO Committee Charter.

The Committee is responsible for, among others:

- reviewing, monitoring and making recommendations to the Board on Refining NZ's health, safety, environment and operational risk management framework, policies and HSEO targets;
- seeking assurance that the Company is effectively structured and resourced to manage HSEO risks;
- reviewing selected HSEO related incidents and considering the appropriateness of actions to minimise the risk of recurrence; and
- reviewing Management's emergency response and crisis management preparedness.

MEETING ATTENDANCE

Director attendances at board and sub-committee meetings during 2017 were as follows:

	BOARD MEETING	BOARD MEETING RAP INCIDENT	AUDIT, RISK AND FINANCE COMMITTEE	NOMINATIONS AND REMUNERATION COMMITTEE	INDEPENDENT DIRECTORS MEETING	SITE SAFETY ENGAGEMENTS
S Allen	7/7	7/7	4/5	3/3	3/3	5
M Bennetts	7/7	5/7	-	-	-	2
D Boffa	3/3	6/7	-	-	-	2
R Cavallo	5/5	5/7	-	-	-	1
V Stoddart	7/7	6/7	-	3/3	3/3	2
M Tume	6/7	4/7	5/5	-	3/3	1
P Zealand	6/7	7/7	5/5	3/3	3/3	5
M Elliott – resigned June 2017	4/4	-	-	1/1	-	2
A Warrell – resigned March 2017	1/1	-	-	-	-	-

Note: a number of informal meetings are held in between scheduled formal meetings.

TAKEOVER PROTOCOLS

The Board has adopted a Takeover Protocols Policy which sets out the rules and procedures followed in case of a takeover offer for the Company:

- on receipt of a communication that a takeover offer is likely, the Directors will consider the continuous disclosure obligation of the Company under the NZX Listing Rules 10.1;
- upon receipt of a notice of intention to make a takeover offer ("Takeover notice") Refining NZ will notify the NZX and appoint an independent advisor. The independent advisor's role will be to prepare a report on the merits of the offer, providing an expert opinion, to Refining NZ shareholders;
- an independent takeover panel will be established to oversee the process; and
- shareholder communication would include the formal takeover offer, target company statement and the independent advisor's report.

PRINCIPLE 4

REPORTING AND DISCLOSURE

"THE BOARD SHOULD DEMAND INTEGRITY IN FINANCIAL AND NON-FINANCIAL REPORTING, AND IN THE TIMELINESS AND BALANCE OF CORPORATE DISCLOSURE."

CONTINUOUS DISCLOSURE

Refining NZ is committed to keeping its shareholders informed and places a high degree of importance on open communication and transparent reporting and to providing comprehensive continuous disclosure to shareholders and other stakeholders, in compliance with the NZX Listing Rules. Refining NZ has adopted a Continuous Disclosure Policy which sets out principles to be followed to provide timely advice to the market of material events and developments affecting the Company as they occur and to ensure a robust investor and media relations programme operates to ensure all market participants have equal opportunities to receive information issued by the Company.

The policy applies to:

- all Refining NZ Directors;
- all employees of the Company and its subsidiaries; and
- contractors, consultants, advisers and other service providers to the Company, where they are under a relevant contractual obligation.

This Policy aims to ensure Refining NZ meets all statutory and NZX Listing Rule obligations, as well as adopting "best practice" for identification of, and timely disclosure of, material information.

MAJOR DECISIONS

Directors' commitment to timely and balanced disclosure is set out in its Continuous Disclosure Policy and includes advising shareholders on any major decisions. Where voting on a matter is required the Board encourages investors to attend the meeting or to send in a proxy vote. Shareholders may raise matters for discussion at the Annual Shareholders' Meeting (ASM) either in person or by emailing the Company with a question to be asked.

FINANCIAL REPORTING

The ARFC plays a central role in Refining NZ's commitment to transparent reporting of its financial performance as outlined in the ARFC Charter.

The Leadership Team is responsible for implementing and maintaining appropriate accounting and financial reporting principles, policies, and internal controls designed to ensure compliance with accounting standards and applicable laws and regulations.

Refining NZ's external auditor, PricewaterhouseCoopers, is responsible for planning and carrying out each external audit in line with applicable auditing standards. They are accountable to shareholders through the ARFC and the Board respectively. The Board retains overall responsibility for financial reporting.

The ARFC makes sure that it and the full Board are sufficiently informed about good-practice financial reporting and Refining NZ's operations to know whether financial reporting is fit for purpose. This means it represents a balanced viewpoint, is factual and complete and is effectively implemented.

The CEO provides an annual assertion statement to the Board, confirming that Refining NZ's financial records have been properly maintained, and that the financial statements comply with Generally Accepted Accounting Practice and give a true and fair view of Refining NZ's financial position and performance.

The Half Year (Interim) Reports and the Annual Reports are posted on the Company's website www.refiningnz.com.

NON-FINANCIAL REPORTING

The Company's non-financial reporting is provided annually and reports on material environmental, economic and social sustainability risks against the Global Reporting Initiative, a standard recognised by the Sustainable Stock Exchange Initiative. For the non-financial reporting refer to pages 15 to 63.

PRINCIPLE 5

REMUNERATION

"THE REMUNERATION OF DIRECTORS AND EXECUTIVES SHOULD BE TRANSPARENT, FAIR AND REASONABLE."

The Company has adopted a Director and Executive Remuneration Policy for remuneration of the Board and Leadership Team. Refining NZ's remuneration framework and policies are overseen by the Nominations and Remuneration Committee in line with the Nominations and Remuneration Committee Charter. The policy is available on the website.

REMUNERATION

Refining NZ aims to attract and retain appropriately qualified and experienced individuals. Refining NZ applies a fair and equitable approach to remuneration and reward practices, taking into account internal and external relativities balanced against the commercial environment.

The Board will take independent advice and establish market rates and medians against New Zealand businesses of comparable size and complexity, having regard to industry specific and generic roles. Individual performance, company performance and market relativity are key considerations in setting remuneration levels.

DIRECTORS' REMUNERATION

The Board determines the level of remuneration paid to Directors within the amounts approved by shareholders (that is, from the approved collective pool). The current approved fee pool limit is $850,000 and was approved by shareholders at the Annual Meeting in April 2012.

Directors' remuneration is set at a level to remain comparable with other companies in New Zealand, taking into account the expertise, skills and responsibilities of Directors. The Directors of the subsidiary company, Independent Petroleum Laboratory Limited (IPL), do not receive remuneration.

The remuneration and other benefits, excluding reimbursements, received by the individual Directors of the Company during the year were as follows:

	2017 ANNUAL FEES $	2016 ANNUAL FEES $
BOARD OF DIRECTORS		
Chairman	**170,000**	170,000
Independent Director	**88,000**	88,000
Non-independent Director	**72,000**	72,000
AUDIT, RISK AND FINANCE COMMITTEE		
Chairman	**25,000**	25,000
Member	**12,500**	12,500
NOMINATIONS AND REMUNERATION COMMITTEE		
Chairman	**10,000**	10,000
Member	**5,000**	5,000

	POSITION	APPOINTED	BOARD FEES $	AUDIT, RISK AND FINANCE COMMITTEE FEES $	NOMINATIONS AND REMUNERATION COMMITTEE FEES $	TOTAL FEES $
S Allen	Chairman	4 Dec 2014	170,000	-	-	170,000
M Bennetts	Z Energy	10 May 2010	72,000	-	-	72,000
D Boffa	BP	23 Aug 2017	25,630	-	-	25,630
R Cavallo	Mobil	12 Apr 2017	52,077	-	-	52,077
M Elliott*	BP	3 May 2012	36,000	-	2,500	38,500
V Stoddart	Independent	20 May 2013	88,000	-	10,000	98,000
M Tume	Independent	1 Aug 2007	88,000	25,000	-	113,000
A Warrell*	Mobil	14 Mar 2012	14,203	-	-	14,203
P Zealand	Independent	29 Aug 2016	88,000	12,500	5,000	105,500

* A Warrell resigned as Director on 13 March 2017. M Elliott resigned as Director on 29 June 2017.

The Directors do not participate in any profit-based incentive system. No Director of the Company has received, or become entitled to receive, a benefit (other than a benefit included in the total emoluments received or due and receivable by Directors shown in this report), including shares, remuneration paid by subsidiary company or other payments from services provided (including Directos and Officers insurance cover). The Chairman does not receive additional fees for being on a Committee. No loans have been made to Directors.

CHIEF EXECUTIVE REMUNERATION

The Chief Executive's employment commenced on 14 January 2013. At the Board meeting held on 27 February 2018, the Chief Executive advised the Directors of his decision to resign from his role as CEO and his intention to remain in the role until the end of July 2018.

The Chief Executive's remuneration is approved by the Board and is reviewed annually. Total remuneration is made up of two components:

- fixed remuneration – base salary of $987,650 per annum; and
- short-term performance incentive (STI) – an incentive up to 60% of base salary per plan year subject to the achievement of agreed Key Performance Indicators (KPIs). Short-term performance incentives are deemed "at risk" payments designed to motivate and reward performance in the financial year. The KPIs relate to areas of health and safety, plant reliability, leadership, financial and in-full on-time in-spec product delivery.

The weightings applied are as follows:

KPI CATEGORY	WEIGHTING %
Health and safety (personal and process)	40
Financial	25
Leadership	25
Plant reliability	5
In-full, on-time, in-spec product delivery	5

Each category of KPI is "scored" against the agreed targets for those KPIs. There are various performance levels within each KPI category; below target, on-target, and above target. The individual category scores are weighted and combined to determine the Chief Executive Performance Factor (CEPF). Maximum CEPF equals 60% of Base Salary, on-target performance is an STI equivalent to 40% of Base Salary.

In addition to the STI the Board can award a discretionary bonus in the case of over performance of KPIs.

The Chief Executive participates in the Employee Share Purchase Scheme as outlined on page 47.

FINANCIAL YEAR	BASE SALARY $000	OTHER $000	SUBTOTAL $000	PAY FOR PERFORMANCE (STI) $000		% STI AGAINST MAXIMUM	TOTAL REMUNERATION $000
				KPI BASED	DISCRETIONARY		
2017	982	45	1,027	405	150	94	1,582
2016	958	41	999	540	-	93	1,539
2015	940	41	981	438	-	78	1,419
2014	942	40	982	400	-	71	1,381
2013	911	80	991	400	-	74	1,391

SCENARIO CHARTS – CHIEF EXECUTIVE PERFORMANCE PAY FOR 2018

Subsequent to year end, the Chief Executive has announced his resignation from the role. As a result the Chief Executive will be entitled to base salary up to his termination date, a pro rata short term performance incentive payment based on performance against KPIs up to his termination date, as well as all other contractual entitlements pursuant to his contract of employment which also provides for a discretionary payment for over performance up to his termination date.

LEADERSHIP TEAM AND OTHER EMPLOYEES' REMUNERATION PROFILE

The Leadership Team and employees with Individual Employment Agreements (IEAs) are remunerated with a mix of base salary and benefits, and short-term performance incentives. The remuneration of the Chief Executive and selected Leadership Team members was externally benchmarked in 2017. The determination of fixed remuneration is based on responsibilities, individual performance and experience, and market data. At-risk/variable remuneration comprises individual performance rewards, based on:

- achievement of Company business performance targets (BPTs) which include: the frequency of personal safety incidents (total recordable case frequency), the number of process safety incidents (Tier 1 and Tier 2), level of operating costs, unplanned downtime and delivery in-full, on-time, in-spec to our customers;
- individual performance factors (IPFs) based on achievement of individual performance objectives; and
- values and behaviours demonstrated by the individual.

EMPLOYEE SHARE PURCHASE SCHEME

The Company established the Employee Share Purchase Scheme (ESPS) in the 2015 financial year which has been approved by the Commissioner of Inland Revenue as a section DC 12 share scheme under the Income Tax Act 2007. The purpose of the scheme was to recognise the important contribution of the employees to the Company's future and to assist the Company in retaining and motivating employees.

A trust has been created under the scheme for the purpose of purchasing the Company's shares on the New Zealand Stock Exchange ("the NZX") and holding those shares until they vest with each participating employee over a three-year period. For further details on the ESPS refer to note 21 of the consolidated financial statements.

The Company estimates the annual operating costs of the scheme of approximately $30k and the cost of the contribution of approximately $300-400k per year.

EMPLOYEE REMUNERATION

The following table shows the number of employees and former employees (including members of the Leadership Team), not being Directors, who, in their capacity as employees, received remuneration and other benefits during 2017 of at least $100,000. The remuneration figures include all monetary payments actually made during the year and contributions made by the Company as a part of the share scheme; the remuneration excludes amounts paid post 31 December 2017 that relate to performance during the 2017 financial year. No employees appointed as a Director of IPL, a subsidiary company of Refining NZ, receive or retain any remuneration or other benefits for holding this office.

This analysis (see chart) is compiled on a cash basis; variable performance rewards (linked to individual and business performance for a financial reporting period) are paid subsequent to balance date and reported as part of the remuneration banding for the following year.

The ratio between employee remuneration (median) and Chief Executive's total remuneration for the 2017 financial year (on a cash basis) was 2017:1:10 (2016:1:11).

AMOUNT OF REMUNERATION	NUMBER OF EMPLOYEES	
$000	2017	2016
100-109	**17**	22
110-119	**18**	19
120-129	**22**	19
130-139	**22**	38
140-149	**36**	33
150-159	**33**	19
160-169	**34**	32
170-179	**23**	29
180-189	**23**	21
190-199	**22**	12
200-209	**9**	9
210-219	**6**	8
220-229	**2**	6
230-239	**2**	5
240-249	**4**	3
250-259	**3**	1
260-269	**1**	1
270-279	**1**	-
280-289	**-**	2
290-299	**1**	1
300-309	**1**	-
310-319	**-**	1
320-329	**1**	-
330-339	**-**	-
340-349	**-**	1
350-359	**-**	1
380-389	**1**	-
400-409	**1**	-
420-429	**1**	-
1,430-1,439	**-**	1
1,540-1,549	**1**	-

PRINCIPLE 6

RISK MANAGEMENT

"

DIRECTORS SHOULD HAVE A SOUND UNDERSTANDING OF THE MATERIAL RISKS FACED BY THE ISSUER AND HOW TO MANAGE THEM. THE BOARD SHOULD REGULARLY VERIFY THAT THE ISSUER HAS APPROPRIATE PROCESSES THAT IDENTIFY AND MANAGE POTENTIAL AND MATERIALS RISKS.

"

RISK MANAGEMENT AND ASSURANCE

The Board is responsible for reviewing and managing risk. The Board delegates day-to-day management of the risk to the Chief Executive Officer. Business risk assessments are conducted by the Leadership Team and reported to the Board of Directors.

Business risks are assessed using the "Bow Tie" risk management methodology. The methodology identifies the "threats" which, if not curtailed or controlled, could manifest as an actual risk event. Against each threat, a number of preventative and mitigating barriers are identified. Preventative barriers are those systems, processes and procedures which are designed to arrest the initiating event so that the risk event does not occur. Should the actual event arise, mitigating barriers are designed to limit the consequences of a risk event occurring.

The Leadership Team and the Board obtain assurance over the adequacy of the Company's management system (covering preventative and recovery or mitigating barriers or controls) from a variety of sources. The Company has:

- an enterprise-wide audit programme conducted by Refining NZ and external auditors, which verifies that operational controls (barriers) are operating as documented and assesses the efficiency and effectiveness of internal controls. During 2017 the Company was subject to 22 audits by external parties, including five audits conducted by the Company's internal auditor, BDO Northland, and 13 audits by in-house operational auditors. The summary results from audits were reported to the Leadership Team and the ARFC of the Board;
- detailed operational reports and effective monitoring controls covering both leading and lagging indicators; and
- independent risk assessments carried out by third parties.

HEALTH AND SAFETY

Refining NZ is designated a high hazard facility in accordance with regulation 19(2) of the Health and Safety at Work Regulations 2016. Health, Safety, Security and Environment (HSSE) risks are an area of significant and continued focus covering both personal and process safety and environmental effects. Refining NZ's Health and Safety and Environmental policies are published on the Company's website (www.refiningnz.com) and the intranet.

Refining NZ's Board approves the annual HSSE plan, receives assurance and performance reports, and oversees the management of the major hazard facility.

The Company's approach and progress on health and safety initiatives can be found on pages 20 to 21.

PRINCIPLE 7

AUDITORS

"THE BOARD SHOULD ENSURE THE QUALITY AND INDEPENDENCE OF THE EXTERNAL AUDIT PROCESS."

EXTERNAL AUDITORS

Oversight of the Company's external audit arrangements is with the ARFC. The Committee Charter outlines Refining NZ's framework for managing the relationship with the external auditor and our procedures for ensuring independence.

Each service provided by the auditor requires prior approval of the Committee, so that such service does not compromise auditor objectivity and independence.

The Committee reports to the Board on the quality and expertise of the auditor. The Committee also ensures that the auditor rotation provisions of the NZX Listing Rules are complied with. PricewaterhouseCoopers is the external auditor of Refining NZ and its audit partners rotate on a five-year basis. Pip Cameron, a partner of Pricewaterhouse Coopers, has been the audit engagement partner since 31 December 2014.

The PricewaterhouseCoopers' audit report is based on the consolidated financial statements. Total fees paid to PricewaterhouseCoopers in its capacity as auditor for FY17 were $180,875 (2016: 147,067). Total fees paid to PricewaterhouseCoopers for other professional services totalled $76,309 (2016: $43,307). Other services comprise:

– processing fee engagement;
– annual meeting procedures;
– debt advisory services; and
– remuneration benchmarking.

The external auditor has provided the ARFC with written confirmation that, in their view, they were able to operate independently during the year.

Refining NZ has invited the auditor to attend the 2018 ASM to answer shareholder questions relevant to the audit.

INTERNAL AUDIT

The Company has an internal audit function, split across operational aspects of the business and financial systems and processes. The operational auditor role is an in-house function reporting through to the Leadership Team, while BDO Northland are engaged to perform financial internal audits. Both of these functions are independent of the Company's external auditors and report through to the ARFC.

Each year the internal/operational audit plans are approved by the ARFC. The programme of work considers the most significant areas of business risk in the Company and is developed following discussions with senior Management and taking into account business risk assessments. The internal auditor also covers risks in relation to major projects that are planned or underway. From 2018 the operational auditor will be reporting through to the newly established Health, Safety, Environment and Operations Committee.

The role of the internal audit function is to:

– assess the design and operating effectiveness of the controls governing key operations, processes and business risks;
– provide the Board with an assessment, independent of Management, as to the adequacy of the Company's internal operating and financial controls, business processes, systems and practices; and
– assist the Board in meeting its corporate governance and regulatory responsibilities.

PRINCIPLE 8

SHAREHOLDERS' RIGHTS AND RELATIONS

"THE BOARD SHOULD RESPECT THE RIGHTS OF SHAREHOLDERS AND FOSTER CONSTRUCTIVE RELATIONSHIPS WITH SHAREHOLDERS THAT ENCOURAGE THEM TO ENGAGE WITH THE ISSUER."

Refining NZ is committed to an open and transparent relationship with shareholders. We communicate with shareholders through multiple channels throughout the year:

WEBSITE

The Investors section of our website contains investor-related information and data together with Company contact details. Shareholders can directly access the Board at any time through our dedicated email address corporate@refiningnz.com.

ANNUAL SHAREHOLDERS' MEETING (ASM)

All shareholders are invited to attend our ASM which is also webcast to allow participation by those who are unable to attend the meeting in person. Shareholders may raise matters for discussion at Annual Meetings. The 2018 ASM will be held at 2:00pm on Monday, 23 April 2018 at Eden Park, Kingsland, Auckland. The Notice of Meeting will be available on the Refining NZ website. Notice of the meeting will be given 28 days prior and voting will be by poll.

ANNUAL AND INTERIM RESULTS ANNOUNCEMENTS

The CEO and CFO briefing on the interim and full-year results is webcast to allow all shareholders to participate. Our periodic reporting provides an excellent opportunity to communicate with our investors regarding the Company's overall performance and market conditions. These presentations are also posted on the Company's website and to the NZX. An interim report is published in September and an annual report in March each year.

ANALYST AND INVESTOR BRIEFINGS

The CEO and CFO periodically meet with analysts and investors.

REGULAR INFORMATION DISCLOSURES

The Company releases its bi-monthly data on throughput, margins and processing fees via the NZX.

ELECTRONIC COMMUNICATIONS

We encourage shareholders to provide email addresses to enable them to receive shareholders materials electronically.

Computershare Investor Services Limited
Telephone: + 64 9 488 8777
enquiry@computershare.co.nz

STATUTORY DISCLOSURES

DIRECTORS' AND OFFICERS' INSURANCE AND INDEMNITY

The Company has granted indemnities to its Directors and persons whom it has appointed as Directors of its operating subsidiaries in relation to potential liabilities and costs they may incur in those roles. The indemnities are subject to certain limitations that are prescribed by law and they do not cover settlements or admissions prejudicing a successful defence of a claim without the Company's consent as well as unnecessary advisor costs after the defence of a claim has been assumed by the Company.

The Company has also arranged Directors' and Officers' Liability Insurance for its Directors, employees and persons whom it has appointed as Directors of its operating subsidiaries, which provide them with insurance in respect of certain liabilities and costs they may incur in those roles. This insurance cover is limited to cover that is not prohibited by law.

INDEPENDENT PROFESSIONAL ADVICE

With the approval of the Chairman, Directors are entitled to seek independent professional advice on any aspect of their Director's duties, at the Company's expense.

USE OF COMPANY INFORMATION

The Board did not receive any notices from any Director of the Company or its subsidiaries during the year, requesting to use Company information received in their capacity as a Director, which would not otherwise have been available to them.

DONATIONS

The Company made donations of $53,856 during the year ended 31 December 2017 (2016: $40,769). No political donations were made.

NEW ZEALAND EXCHANGE WAIVERS

No NZX waivers were sought or granted in 2017. In 2017 the Company utilised an NZX waiver that was granted and disclosed in 1999 which allows the Company to price certain products in tiers for different quantities to incentivise customers to increase their use of the Refinery.

CREDIT RATING

The Company does not have a credit rating.

SHAREHOLDER INFORMATION

TWENTY LARGEST SHAREHOLDERS

As at 31 January 2018

	SHAREHOLDERS	TOTAL SHARES HELD	% OF TOTAL
1	Mobil Oil New Zealand Limited	53,760,000	17.20
2	Z Energy Limited	47,999,980	15.36
3	BP New Zealand Holdings Limited	31,572,640	10.10
4	HSBC Nominees (New Zealand) Limited – NZCSD	25,545,515	8.17
5	Citibank Nominees (New Zealand) Limited – NZCSD	16,385,701	5.24
6	Accident Compensation Corporation – NZCSD	10,950,712	3.50
7	HSBC Nominees (New Zealand) Limited A/C State Street– NZCSD	10,480,615	3.35
8	BNP Paribas Nominees (NZ) Limited – NZCSD	8,821,669	2.82
9	JP Morgan Chase Bank NA NZ Branch-Segregated Clients Acct– NZCSD	7,578,084	2.42
10	Forsyth Barr Custodians Limited	6,892,864	2.21
11	National Nominees New Zealand Limited – NZCSD	5,186,258	1.66
12	BNP Paribas Nominees (NZ) Limited – NZCSD	4,892,991	1.57
13	FNZ Custodians Limited	2,772,518	0.89
14	Generate Kiwisaver Public Trust Nominees Limited - NZCSD	2,681,688	0.86
15	Custodial Services Limited <A/C 3>	2,562,129	0.82
16	Masfen Securities Limited	2,274,539	0.73
17	Chester Perry Nominees Limited	1,625,724	0.52
18	Tea Custodians Limited Client Property Trust Account – NZCSD	1,475,796	0.47
19	New Zealand Depository Nominee Limited <A/C 1 Cash Account>	1,318,266	0.42
20	Custodial Services Limited <A/C 4>	1,204,232	0.39
	TOTAL	**245,981,921**	**78.70**

In the above table, the shareholding of New Zealand Central Securities Depositary Limited (NZCSD) has been re-allocated to the applicable members of the NZCSD. The shareholder spread table on page 55 groups shares held by NZCSD as single legal holding.

Forsyth Barr Custodians Limited holdings are shown in the Geographical Spread table as being located in the South Island, however the beneficial owners may be more widely spread.

SHAREHOLDER SPREAD

As at 31 January 2018

NO. OF SHARES	SHAREHOLDERS	% HOLDER	SHARES	% OF SHARES
1-499	227	4.62	62,214	0.02
500-999	260	5.30	180,080	0.06
1,000-1,999	627	12.77	845,286	0.27
2,000-4,999	1,375	28.02	4,384,979	1.40
5,000-9,999	936	19.07	6,275,122	2.01
10,000-49,999	1,277	26.02	23,919,242	7.65
50,000-99,999	126	2.57	8,296,132	2.65
100,000-499,999	56	1.14	10,748,456	3.44
500,000-999,999	9	0.18	6,159,401	1.97
1,000,000 upwards	15	0.31	251,705,541	80.53
	4,908	**100.00**	**312,576,453**	**100.00**

GEOGRAPHICAL SPREAD

As at 31 January 2018

LOCATION	SHAREHOLDERS	% HOLDER	SHARES	% OF SHARES
Auckland (Greater)	1,454	65.85	205,825,096	29.63
Wellington (Greater)	618	19.00	59,397,868	12.59
Whangarei/Northland	540	2.93	9,160,309	11.00
Other North Island	1,048	5.37	16,768,292	21.35
South Island	1,128	6.55	20,487,683	22.98
Australia	64	0.16	513,578	1.31
Other Overseas	56	0.14	423,627	1.14
	4,908	**100.00**	**312,576,453**	**100.00**

SUBSTANTIAL PRODUCT HOLDERS

As at 31 January 2018

The following shareholders hold 5% or more of the issued capital of the Company and have filed notices with the Company under the Financial Markets Conduct Act 2013 that they are substantial product holders in the Company.

	NO. OF ORDINARY SHARES
Mobil Oil NZ Limited	53,760,000
Z Energy Limited	47,999,980
BP New Zealand Holdings Limited	31,572,640
Wellington Management Group LLP	15,950,723

The total number of quoted voting products of the Company on issue at 31 December 2017 and 31 January 2018 was 312,576,453 fully paid ordinary shares.

BOARD OF DIRECTORS

SIMON ALLEN

CHAIRMAN. BSc, BCom – Independent Director
Tenure: 3 years.
Equity Interest - 35,000 shares (2016: 35,000).

Simon has over 30 years commercial experience in the New Zealand and Australian Capital Markets. He was Chief Executive of investment bank BZW and ABN AMRO in New Zealand for 21 years and has been actively involved in advising companies, Government and investors on matters relating to their strategies and capital markets participation.

Simon is Chair of Crown Fibre Holdings Limited, and he is a Director of IAG New Zealand and a Trustee of the Antarctic Heritage Trust.

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.

DATE OF ENTRY	ENTITY	INTEREST
14/02/94	Xylem Investments Limited	Director
29/10/09	Crown Infrastructure Partners Limited	Chairman
14/12/09	Simon Allen Consulting Limited	Director
01/09/15	IAG (NZ) Holdings Limited	Director
01/09/15	IAG New Zealand Limited	Director
09/09/15	Antarctic Heritage Trust	Trustee
10/08/16	Gibbston Highway Limited	Director
29/09/17	Mt Rosa Farm Limited	Director

MICHAEL BENNETTS

DIRECTOR. BBS, Dip Corporate Management.
Tenure: 7.5 years.
Equity Interest - nil (2016: nil).

Michael is Chief Executive for Z Energy Limited. Previously held senior roles with a global oil major in New Zealand, China, Singapore, South Africa, and the UK. Director experience in both private and public energy related companies in South Africa and Asia Pacific since 1998.

DATE OF ENTRY	ENTITY	INTEREST
10/05/10	Harbour City Property Investments Limited	Director
14/08/15	Punakaiki Fund Limited	Director and Shareholder
01/01/18	Loyalty New Zealand Limited	Director

DEBORAH BOFFA

DIRECTOR. BEng (Hons)
Tenure: 4 months.
Equity Interest - nil.

Vice President Fuels NZ and Managing Director BP New Zealand Limited. Deborah joined BP in 1997 and has held positions in Engineering, Terminals, Retail, Sales and Marketing, Strategy and General Management with BP in NZ, Australia and the USA. Deborah is a Director of BP Oil New Zealand Limited, BP Pacific Investments Limited, Rural Fuel Limited, McFall Fuel Limited and RD Petroleum Limited, having held governance positions in the industry since 2012.

DATE OF ENTRY	ENTITY	INTEREST
23/08/17	BP New Zealand Holdings Limited	Director
23/08/17	BP New Zealand Share Scheme Limited	Director
23/08/17	BP Oil New Zealand Limited	Director
23/08/17	BP Pacific Investments Limited	Director
23/08/17	Coro Trading NZ Limited	Director
23/08/17	Europa Oil NZ Limited	Director
23/08/17	RD Petroleum Limited	Director
23/08/17	RMF Holdings Limited	Director
23/08/17	McFall Fuel Limited	Director
23/08/17	Rural Fuel Limited	Director

RICCARDO CAVALLO

DIRECTOR. ME Chemical Engineering
Tenure: 9 Months.
Equity Interest - nil.

Riccardo is Manager of Refining for ExxonMobil's Australia and New Zealand operations. He joined ExxonMobil in 2001 and has held several positions at different sites with growing level of responsibility in Manufacturing and Operations in Italy, UK and Australia. A Director of ExxonMobil Australia Pty Limited, Mobil Oil Australia Pty Limited, Vacuum Oil Australia Proprietary Limited and of the Australian Institute of Petroleum. He is the Chairman and Director of Mobil Refining Australia Pty Limited.

DATE OF ENTRY	ENTITY	INTEREST
11/04/17	Mobil Refining Australia Pty Ltd	Director
11/04/17	Mobil Oil Australia Pty Ltd	Director
11/04/17	Vacuum Oil Company Pty Ltd	Director
11/04/17	ExxonMobil Australia Pty Ltd	Director
31/01/18	Australian Institute of Petroleum (AIP)	Director

VANESSA STODDART

DIRECTOR. BCom/LLB (Hons), PGDip Professional Ethics – Independent Director.
Tenure: 4.5 years.
Equity Interest - nil (2016: nil).

Vanessa is a director of Heartland Bank Ltd, Financial Markets Authority and Alliance Group Ltd, Commissioner for The Tertiary Education Commission and member of MBIE and DOC Audit and Risk Committees amongst other positions. Previously Group General Manager Engineering and People Air New Zealand Ltd and Chief Executive of the Australian Packaging Division of Carter Holt Harvey Ltd.

DATE OF ENTRY	ENTITY	INTEREST
12/12/13	Board of Tertiary Education Commission	Commissioner
07/04/14	Alliance Group Limited	Director
22/06/15	Department of Conservation	(Member) Audit, Risk and Finance Committee
09/02/16	Ministry of Business, Innovation and Employment	(Chair) Audit, Risk and Finance Committee
23/06/16	Board of the Financial Markets Authority	Director
20/10/16	Heartland Bank Limited	Director

MARK TUME

DIRECTOR. BBS – Independent Director
Tenure: 10.5 years.
Equity Interest - nil (2016:nil).

Mark is a professional director with experience in the infrastructure, energy and financial sector.

DATE OF ENTRY	ENTITY	INTEREST
01/08/07	Long Board Limited	Director
21/02/08	Infratil Limited and Subsidiaries	Chairman / Director
01/08/11	Koau Capital Partners Limited	Director
09/11/11	Maori Trustee Advisory Board	Member
14/12/11	Yeo Family Trustee Limited	Director
25/11/13	Welltest Limited	Director
11/12/13	Rearden Capital Pty Limited	Director
04/02/15	RA 2014 Pty Limited	Chairman
04/02/15	RA (Holdings) 2014 Pty Limited	Director
20/07/16	Te Atiawa Iwi Holdings Management Limited	Chairman
01/01/17	Netlogix Australia Pty Ltd	Director
26/02/18	Ngai Tahu Holdings Corporation Ltd	Chairman

PAUL ZEALAND

DIRECTOR. BSc (Hons), MBA – Independent Director
Tenure: 1.5 Years.
Equity Interest - nil (2016:nil).

Paul is also a director of Genesis Energy in New Zealand, and Lochard Energy in Australia. Previously CEO of Upstream for Origin Energy, Country Chairman for Shell New Zealand, and has held executive positions in Shell companies in UK, the Netherlands, New Zealand and Australia.

DATE OF ENTRY	ENTITY	INTEREST
31/01/17	Genesis Energy (NZ)	Director
31/01/17	Lochard Energy (AU)	Director
31/01/17	Zoenergy Ltd (NZ)	Director
31/01/17	Zoenergy Pty Ltd (AU)	Director
31/01/17	Zealand Family Trust (NZ)	Director
31/01/17	Zoenergy Family Trust (AU)	Director

LEADERSHIP TEAM

SJOERD POST

CHIEF EXECUTIVE OFFICER MSc Mathematics
Equity Interest - 29,778 shares (2016: 29,255).

Sjoerd joined the Company in January 2013. He has over 30 years' international commercial business experience. Prior to joining Refining NZ, Sjoerd was a member of the Executive Team of Royal Dutch Shell's Downstream (Refining, Trading, Distribution and Sales and Marketing) business responsible for the overall global Downstream Strategy and Portfolio activities. Sjoerd was also on the Boards of the European Refinery Association Europia and Technical Association CONCAWE. Prior to that he was the Head of Shell's Global Aviation and Marine businesses and has held a variety of roles in Trading, Commercial Sales, Customer Service Management, Marketing and Sales, including assignments in New Zealand, Denmark and London. Born and raised in Holland, Sjoerd has considered New Zealand home since the mid 80s. During the weekends Sjoerd enjoys spending time with his wife and two daughters. He also enjoys music, the visual arts and sailing.

JOE AKARI

CHIEF PEOPLE AND CAPABILITY OFFICER
BEd, PGDip Business Administration
Equity Interest - 523 shares (2016: nil).

Joe joined the Company in January 2016, having accumulated over 20 years' experience in human resources. Joe has held senior management roles in a range of industries including FMCG, Forestry, Pulp and Paper, Health and Education. Joe had previous careers as a forest ranger and also trained as a primary school teacher.

Joe is happily married with two adult children. Outside of work he has an undying passion for watching sports and can be regularly seen, tragically some would say, at Warriors and Blues home games.

RESPONSIBILITIES

– Employee relations
– Staff development
– Recruitment and reward

ROBIN BAXTER

ENGINEERING MANAGER BEng
Equity Interest - 849 shares (2016: 326).

Prior to joining Refining NZ, Rob had worked as a project engineer and maintenance manager in both the Paper and Steel Production industries in Australia and the UK.

Rob joined Refining NZ in 1995 and has fulfilled several engineering, maintenance and project management positions.

In early 2006 Rob and his family travelled to Far Eastern Russia, where Rob was seconded on a four year assignment to work for Shell on the Sakhalin Island LNG project where he lead the development, training and implementation of the new LNG maintenance organisation.

Rob was appointed to the position of Engineering Manager in 2013 and enjoys applying his knowledge, skills and experience to improving the delivery of engineering and maintenance services to the benefit of Refining NZ.

RESPONSIBILITIES

– Asset integrity, reliability and performance
– Inspection, integrity assurance, compliance
– Maintenance engineering, planning and scheduling, workshops and mobile equipment
– Discipline engineers and specialists - mechanical, electrical, instrumentation, control systems, civil and facilities

PETER GUBB

REFINING MANAGER
Equity Interest - 849 shares (2016: 326).

Peter has held the position of Refining Manager since 2011. Prior to this, Peter progressed through Refining NZ holding various management roles within Operations, IT and Process Services. Peter also held the Leadership Team position of Quality, Health, Safety and Environment Manager. Prior to joining Refining NZ, Peter had previous process experience in the dairy industry. Peter and his partner have two adult children and has recently become a grandfather. Outside of work he enjoys golf, watching rugby and getting out on the water for a spot of fishing.

RESPONSIBILITIES

– Refinery and marine/jetty operations
– RAP operation and management
– Process engineering
– Process control
– Operational excellence
– Emergency services

NAPO HENARE

REFINING NZ KAUMATUA
Ngati Hine
Equity Interest - nil (2016: nil).

Napo's association with the Refinery spans over 40 years, principally as the owner of on-site civil contracting company, Henare Contracting, and following his retirement in 2012, as Refining NZ's official kaumatua (Maori elder).

As kaumatua his principle responsibilities are to advise the CEO and the Leadership Team; provide pastoral support for Maori employees and contractors – including where required, lifting tapu from work sites; working with local kaumatua to co-ordinate site blessings, advising on protocol (tikanga) and te reo pronunciation.

In the past four years Napo has had a pivotal role in the Company's consultation with tangata whenua, helping introduce hapu and iwi to the Company's crude shipping proposal at a series of hui across the Whangarei region.

Napo is respected for his deep understanding of Te Ao Maori (Maori world-view) by our people and contractors as well as in the Marsden Point community where he retains close ties with local hapu, Patuharakeke.

DENISE JENSEN

CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY CA
Equity Interest - 14,778 shares (2016: 14,255).

Denise joined Refining NZ in 2005 and was appointed to the position of Chief Financial Officer in 2009 and Company Secretary in 2010. A Chartered Accountant with over 25 years' experience, Denise brings to Refining NZ her passion for leading and managing change and using disciplined financial processes to drive performance and growth. Denise is a member of the Chartered Accountants Australia New Zealand and the Institute of Directors. Denise is also a Director of the Northland District Health Board.

Outside of work Denise enjoys spending time with her husband and three adult children, whilst enjoying Northland's outdoor lifestyle.

RESPONSIBILITIES

– Finance
– Business information systems
– Corporate administration
– Procurement
– Company secretarial
– Investor relations
– Risk and assurance

GREG MCNEILL

COMMUNICATIONS AND EXTERNAL AFFAIRS BA History, PGDip Media, Advanced Certificate of Marketing.
Equity Interest - 849 shares (2016: 326).

Greg has over 20 years' experience in corporate communications, gained predominantly in the UK where he worked in the FMCG and B2B sectors for national and global businesses - including Royal Mail, Dairy Crest, Unilever, BOC Industrial Gases. Greg returned to New Zealand with his family in 2008, to work as a media relations advisor for Bank of New Zealand. He joined Refining NZ in 2009 where his role encompasses all areas of external communications. Greg joined the Leadership Team in 2013. Outside of work Greg enjoys writing and time with his teenage sons.

RESPONSIBILITIES

– External communications; corporate publications, Company announcements
– Public affairs; Government, media, iwi and community relations

KEVIN STILL

SUPPLY CHAIN AND BUSINESS OPTIMISATION MANAGER
BSc Chem Eng.
Equity Interest - 523 shares (2016: nil).

Kevin joined Refining NZ in July 2016 with over 30 years' international experience in the refining and oil and gas sectors.

He has held senior process engineering and production management roles in oil refining and gas processing facilities at SASOL and PetroSA in South Africa and has managed the national and international marketing and outbound logistics functions for PetroSA and for Woodside Energy in Australia. At Woodside Energy he was also responsible for the strategy and commercial functions and business management of several of the company's oil and gas joint ventures, including the North West Shelf project.

Kevin is married with three adult children and in his spare time he enjoys the Northland outdoors, scuba diving and sailing.

RESPONSIBILITIES

– Crude oil and refined products supply chain
– Customer relationships and agreements
– Refinery optimisation and scheduling
– Oil accounting
– Business development
– Strategy and analysis

JULIAN YOUNG

HSSE MANAGER PhD, BSc
Equity Interest - 849 shares (2016: 326).

Julian joined Refining NZ in 2002 as a process engineer for the Semi Regeneration Platformer. Prior to that he worked, in South Africa, both as a process and a control engineer in Caltex and SASOL. From 2009-2012 he concentrated on operations being the Asset Manager for the Hydrocracking complex at Refining NZ. In 2013, he was appointed the HSSE Manager and so became a member of the Refining NZ Leadership Team.

Julian is married with two sons. Outside of work he is a keen gardener and a collector of antique clocks.

RESPONSIBILITIES

– Health and safety
– Process safety
– Environment
– Security

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTE	GROUP 2017 $000	GROUP 2016 $000
INCOME			
Operating revenue	2	**411,611**	353,629
Other income	2	**3,009**	527
TOTAL INCOME		**414,620**	354,156
EXPENSES			
Purchase of process materials and utilities	2	**70,391**	69,294
Materials and contractor payments	2	**30,997**	26,780
Wages, salaries and benefits	2	**59,049**	57,523
Depreciation and disposal costs	2, 10	**96,146**	87,233
Administration and other costs	2	**33,834**	33,306
TOTAL EXPENSES		**290,417**	274,136
NET PROFIT BEFORE FINANCE COSTS		**124,203**	80,020
FINANCE COSTS			
Finance income	2	**(244)**	(151)
Finance cost	2	**13,991**	15,677
NET FINANCE COSTS	2	**13,747**	15,526
Net profit before income tax		**110,456**	64,494
Less income tax	4	**31,926**	17,020
NET PROFIT AFTER INCOME TAX		**78,530**	47,474
ATTRIBUTABLE TO:			
Owners of the Parent		**78,530**	47,177
Non-controlling interest		**-**	297
		78,530	47,474

EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE NEW ZEALAND REFINING COMPANY LIMITED		CENTS	CENTS
Basic and diluted earnings per share	5	**25.1**	15.1

The above Consolidated Income Statement is to be read in conjunction with the notes on pages 77 to 118.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTE	GROUP 2017 $000	GROUP 2016 $000
NET PROFIT AFTER INCOME TAX		**78,530**	47,474
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to the Income Statement			
Defined benefit plan actuarial loss	18(k)	**(2,802)**	(4,566)
Deferred tax on defined benefit actuarial loss	4	**785**	1,278
Total items that will not be reclassified to the Income Statement		**(2,017)**	(3,288)
Items that may be subsequently reclassified to the Income Statement			
Movement in cash flow hedge reserve		**2,403**	(476)
Deferred tax on movement in cash flow hedge reserve	4	**(673)**	133
Total items that may be subsequently reclassified to the Income Statement		**1,730**	(343)
TOTAL OTHER COMPREHENSIVE LOSS, AFTER INCOME TAX		**(287)**	(3,631)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, AFTER INCOME TAX		**78,243**	43,843
ATTRIBUTABLE TO:			
Owners of the Parent		**78,243**	43,546
Non-controlling interest		**-**	297
		78,243	43,843

The above Consolidated Statement of Comprehensive Income is to be read in conjunction with the notes on pages 77 to 118.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2017

	NOTE	GROUP 2017 $000	GROUP 2016 $000
ASSETS			
Cash and cash equivalents	15	**17,557**	1,675
Trade and other receivables	14	**156,694**	142,558
Derivative financial instruments	20	**1,193**	-
Inventories	16	**2,228**	2,329
TOTAL CURRENT ASSETS		**177,672**	146,562
NON-CURRENT ASSETS			
Inventories	16	**17,972**	17,515
Property, plant and equipment	10	**1,128,933**	1,121,097
Intangibles	10	**8,148**	4,425
TOTAL NON-CURRENT ASSETS		**1,155,053**	1,143,037
TOTAL ASSETS		**1,332,725**	1,289,599
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	**176,199**	140,932
Income tax payable		**8,453**	3,268
Bank borrowings	8	**-**	69,500
Finance lease liabilities	9	**222**	-
Employee benefits	18	**10,281**	10,337
Derivative financial instruments	20	**137**	334
TOTAL CURRENT LIABILITIES		**195,292**	224,371
NON-CURRENT LIABILITIES			
Deferred tax liabilities	4	**123,124**	119,570
Employee benefits	18	**29,623**	24,268
Restoration provision	12	**9,888**	8,624
Finance lease liabilities	9	**2,473**	-
Bank borrowings	8	**170,000**	150,000
Derivative financial instruments	20	**9,550**	10,563
TOTAL NON-CURRENT LIABILITIES		**344,658**	313,025
TOTAL LIABILITIES		**539,950**	537,396
NET ASSETS		**792,775**	752,203

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2017

	NOTE	GROUP 2017 $000	GROUP 2016 $000
EQUITY			
Contributed equity	6	**265,771**	265,771
Treasury stock	6, 21	**(678)**	(308)
Employee share entitlement reserve	6, 21	**429**	228
Cash flow hedge reserve	6	**(6,116)**	(7,846)
Retained earnings		**533,369**	494,358
TOTAL EQUITY		**792,775**	752,203

The Board of Directors of The New Zealand Refining Company Limited authorised these Consolidated Financial Statements for issue on 27 February 2018.

For and on behalf of the Board:

S C Allen
Director

M Tume
Director

The above Consolidated Balance Sheet is to be read in conjunction with the notes on pages 77 to 118.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

GROUP	NOTE	CONTRIBUTED EQUITY $000	TREASURY STOCK $000	EMPLOYEE SHARE ENTITLEMENT RESERVE $000	CASH FLOW HEDGE RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT $000	NON-CONTROLLING INTEREST $000	TOTAL EQUITY $000
AT 1 JANUARY 2016		265,771	-	75	(7,503)	523,125	781,468	727	782,195
COMPREHENSIVE INCOME									
Net profit after income tax		-	-	-	-	47,177	47,177	297	47,474
Other comprehensive income									
Movement in cash flow hedge reserve	20	-	-	-	(476)	-	(476)	-	(476)
Defined benefit actuarial loss	18(k)	-	-	-	-	(4,566)	(4,566)	-	(4,566)
Deferred tax on other comprehensive income		-	-	-	133	1,278	1,411	-	1,411
TOTAL OTHER COMPREHENSIVE LOSS, AFTER INCOME TAX		-	-	-	(343)	(3,288)	(3,631)	-	(3,631)
TRANSACTIONS WITH OWNERS OF THE PARENT									
Equity-settled share-based payments	21	-	-	153	-	-	153	-	153
Treasury shares purchased	21	-	(308)	-	-	-	(308)	-	(308)
Unclaimed dividends written back		-	-	-	-	12	12	-	12
Acquisition of non-controlling interest		-	-	-	-	(775)	(775)	(869)	(1,644)
Dividends paid	7	-	-	-	-	(71,893)	(71,893)	(155)	(72,048)
TOTAL TRANSACTIONS WITH OWNERS OF THE PARENT		-	(308)	153	-	(72,656)	(72,811)	(1,024)	(73,835)
AT 31 DECEMBER 2016		265,771	(308)	228	(7,846)	494,358	752,203	-	752,203
COMPREHENSIVE INCOME									
Net profit after income tax		**-**	**-**	**-**	**-**	**78,530**	**78,530**	**-**	**78,530**
Other comprehensive income									
Movement in cash flow hedge reserve	20	**-**	**-**	**-**	**2,403**	**-**	**2,403**	**-**	**2,403**
Defined benefit actuarial loss	18(k)	**-**	**-**	**-**	**-**	**(2,802)**	**(2,802)**	**-**	**(2,802)**
Deferred tax on other comprehensive income		**-**	**-**	**-**	**(673)**	**785**	**112**	**-**	**112**
TOTAL OTHER COMPREHENSIVE LOSS, AFTER INCOME TAX		**-**	**-**	**-**	**1,730**	**(2,017)**	**(287)**	**-**	**(287)**
TRANSACTIONS WITH OWNERS OF THE PARENT									
Equity-settled share-based payments	21	**-**	**-**	**201**	**-**	**-**	**201**	**-**	**201**
Treasury shares purchased	21	**-**	**(370)**	**-**	**-**	**-**	**(370)**	**-**	**(370)**
Unclaimed dividends written back		**-**	**-**	**-**	**-**	**7**	**7**	**-**	**7**
Dividends paid	7	**-**	**-**	**-**	**-**	**(37,509)**	**(37,509)**	**-**	**(37,509)**
TOTAL TRANSACTIONS WITH OWNERS OF THE PARENT		**-**	**(370)**	**201**	**-**	**(37,502)**	**(37,671)**	**-**	**(37,671)**
AT 31 DECEMBER 2017		**265,771**	**(678)**	**429**	**(6,116)**	**533,369**	**792,775**	**-**	**792,775**

The above Consolidated Statement of Changes in Equity is to be read in conjunction with the notes on pages 77 to 118.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTE	GROUP 2017 $000	GROUP 2016 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**422,036**	356,773
Payment for supplies and other expenses		**(128,785)**	(133,629)
Payments to employees		**(56,350)**	(54,950)
CASH GENERATED FROM OPERATIONS		**236,901**	168,194
Interest received		**244**	151
Interest paid		**(14,068)**	(14,871)
GST paid		**(2,004)**	(618)
Income tax paid		**(23,075)**	(25,076)
		(38,903)	(40,414)
NET CASH INFLOW FROM OPERATING ACTIVITIES	15	**197,998**	127,780
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		**(94,570)**	(81,162)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(94,570)**	(81,162)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayments of)/proceeds from bank borrowings		**(49,500)**	19,500
Unclaimed dividends		**7**	-
Dividends paid to shareholders	7	**(37,509)**	(71,893)
Dividends paid to non-controlling interest		**-**	(155)
Finance lease		**(174)**	-
Purchase of treasury shares		**(370)**	(308)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		**(87,546)**	(52,856)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**15,882**	(6,238)
Cash and cash equivalents at the beginning of the year		**1,675**	7,913
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**17,557**	1,675
CLASSIFIED AS:			
Cash and cash equivalents		**17,557**	1,675
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**17,557**	1,675

The above Consolidated Statement of Cash Flows is to be read in conjunction with the notes on pages 77 to 118.

BASIS OF PREPARATION

FOR THE YEAR ENDED 31 DECEMBER 2017

(a) REPORTING ENTITY

The reporting entity is the consolidated group comprising The New Zealand Refining Company Limited ('Parent' or 'Company') and its subsidiary, Independent Petroleum Laboratory Limited. The New Zealand Refining Company is a limited liability company incorporated and domiciled in New Zealand with its registered office at Marsden Point, Whangarei, New Zealand.

The Parent operates New Zealand's only oil refinery at Marsden Point near Whangarei as a toll refiner, and owns and operates a pipeline, running from the refinery at Marsden Point to Wiri, located in South Auckland, transporting refined fuels for consumption within the Auckland market. The subsidiary provides specialised fuels, biofuels, and industrial and environmental laboratory testing services.

The New Zealand Refining Company Limited is registered under the Companies Act 1993, is listed on the New Zealand Stock Exchange (NZX) and is an FMC Reporting Entity under the Financial Markets Conduct Act 2013 ('FMC Act 2013').

These consolidated financial statements were approved by the Directors on 27 February 2018.

(b) BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with:

- The Financial Markets Conduct Act 2013;
- The NZX Main Board Listing Rules;
- Generally Accepted Accounting Practice (NZ GAAP);
- New Zealand equivalents to the International Financial Reporting Standards ('NZ IFRS'), International Financial Reporting Standards (IFRS) and other authoritative pronouncements of the External Reporting Board, as appropriate for for-profit entities.

The consolidated financial statements are prepared on the basis of historical cost, except for derivative financial instruments and plan assets (included in the net defined benefit pension plan liability) which are measured at fair value.

The consolidated financial statements are prepared on a GST exclusive basis, except for receivables and payables which are GST inclusive.

Functional and presentation currency

These consolidated financial statements are presented in New Zealand dollars ($) which is the Group's functional currency, and the financial information has been rounded to the nearest thousand dollars ($000), unless otherwise stated.

Consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

BASIS OF PREPARATION

FOR THE YEAR ENDED 31 DECEMBER 2017

Use of judgements and estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the directors to exercise their judgement in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the process of applying the Group's accounting policies, the following areas involve judgement and assumptions that can significantly affect the amounts recognised in the financial statements:

- Inventory obsolescence provision – refer to note 16;
- Recoverability of the capital work in progress, and useful lives of property, plant and equipment – refer to note 10;
- Defined benefit pension plan obligation – refer to note 18;
- Restoration provision – refer to note 12.

Significant estimates are designated by an E symbol in the notes to the consolidated financial statements.

(c) SIGNIFICANT ACCOUNTING POLICIES

Accounting policies are disclosed within each of the applicable notes to the consolidated financial statements and are designated by a P symbol.

The principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to all periods presented.

New and amended standards adopted by the Group

The Group has applied the following applicable standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- Disclosure initiative – amendments to NZ IAS 7 (mandatory for the year ending 31 December 2017), and
- NZ IFRS 9 *Financial Instruments* (2014) (mandatory for the year ending 31 December 2018).

Other new and amended standards mandatory for the year ending 31 December 2017 were not applicable to the Group.

The adoption of the amendments to NZ IAS 7 and early adoption of NZ IFRS 9 did not have any impact on the amounts recognised in prior periods.

The amendments to NZ IAS 7 require disclosure of changes in liabilities arising from financing activities, see note 15 for relevant disclosures.

NZ IFRS 9 replaced the provisions of NZ IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. NZ IFRS 9 also amends other standards dealing with financial instruments such as NZ IFRS 7 *Financial Instruments: Disclosures*.

BASIS OF PREPARATION

FOR THE YEAR ENDED 31 DECEMBER 2017

The early adoption of NZ IFRS 9 has not materially impacted the classification and measurement of financial instruments in the prior periods and the Group's retained earnings. From 1 January 2017 the Group classifies its financial assets and liabilities in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification of financial instruments has not resulted in any reclassifications between measurement categories for the Group's financial assets and liabilities. The derivative financial instruments remained as measured at fair value through other comprehensive income, and other financial instruments (including cash and cash equivalents, trade and other receivables, trade and other payables, bank borrowings) are measured at amortised cost.

The foreign exchange forward contract hedges and interest rate swaps in place as at 31 December 2017 qualify as cash flow hedges under NZ IFRS 9. The Group's risk management strategies and hedge documentation are aligned with the requirements of NZ IFRS 9 and are thus treated as continuing hedges.

For the accounting policies relating to the classification and measurement of the financial instruments, refer to notes 8, 9, 14, 15, 17 and 20.

New and amended standards not yet effective and not early adopted by the Group

The International Accounting Standards Board has issued a number of standards, amendments and interpretations which are not yet effective and which may have an impact on the Group's financial statements, including:

- NZ IFRS 15 *'Revenue from Contracts with Customers'*, mandatory for the year ending 31 December 2018;

  The IASB has issued a new standard for the recognition of revenue. This will replace NZ IAS 18 which covers contracts for goods and services and NZ IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

  Management has assessed the effects of applying the new standard on the Group's financial statements with relation to the Processing Fee Agreements with the oil companies. The analysis covered main revenue streams such as processing fees, distribution revenue and natural gas recovery, identified as separate performance obligations, which account for 95% of the Group's operating revenue. In 2018 the Group will undertake a review of the other sales contracts that remain in force as at 31 December 2018.

  The assessment involved revenue subject matter experts and external consultants providing assistance in the review of the contracts and assessment of the impact of the new standards on the Group's revenue recognition policy.

  Based on the detailed assessment performed, there will be no significant impact on revenue recognition by the Group as a result of this standard being adopted.

- NZ IFRS 16 *'Leases'*, mandatory for the year ending 31 December 2019;

  NZ IFRS 16 was issued in February 2016. It will result in more leases being recognised on the balance sheet for lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions applicable for the Group are short-term and low-value leases. The accounting treatment for lessors will not significantly change.

BASIS OF PREPARATION

FOR THE YEAR ENDED 31 DECEMBER 2017

The standard will primarily affect the accounting for the Group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of $3.6 million (2016: $4.5 million) as disclosed in note 13. Management has reviewed 86% of the Group lease contracts that will be in force at 31 December 2019, being the six material lease arrangements, to assess the impact of the new accounting standards on the Group's financial results. The assessment involved lease subject matter experts and external consultants. Based on the detailed analysis the Group estimated that the majority of the leases will be recognised in the balance sheet from 2019 onwards, with the approximate value as at 31 December 2019:

	$million
• Right of use assets	3.5
• Lease liabilities	(3.2)
• Provisions	(0.5)

The impact on the statement of financial performance for the year ended 31 December 2019 amounts to $0.2 million, and involves a reclassification from operating expenses to depreciation and interest expense.

The analysis above does not cover finance leases which will only be reclassified in the consolidated statement of financial position.

The Group expects to apply the simplified retrospective transition approach under which comparative periods in the consolidated financial statements will not be restated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

PERFORMANCE

This section focuses on Refining NZ's financial performance and the returns provided to equity holders. The following notes are included:

1. SEGMENT REPORTING

(a) Identification and description of reportable segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Leadership Team, identified as the chief operating decision-maker. The Leadership Team reviews the Group's internal reporting of oil refining and distribution separately in order to assess their performance and allocate resources. The operating segments, based on these reports are as follows:

OIL REFINING

The Parent owns and operates an oil refinery located at Marsden Point, 160 kilometres north of Auckland. The oil refinery is able to process a wide range of crude oil types imported from around the world.

DISTRIBUTION

The Parent owns infrastructure to support the distribution of manufactured products to its customers. The Refinery to Auckland Pipeline (RAP) transfers product to the Wiri Oil terminal located in South Auckland (refer note 3).

OTHER

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

Sales between segments are carried out at arm's length and represent charges by the subsidiary company (included in "Other") to Oil Refining. The revenue from external parties reported to the Leadership Team is measured in a manner consistent with that in the Income Statement. All revenue is generated in New Zealand.

Revenue derived from major customers, and the relevant operating segments is disclosed in note 3.

(b) Reporting measures

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

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

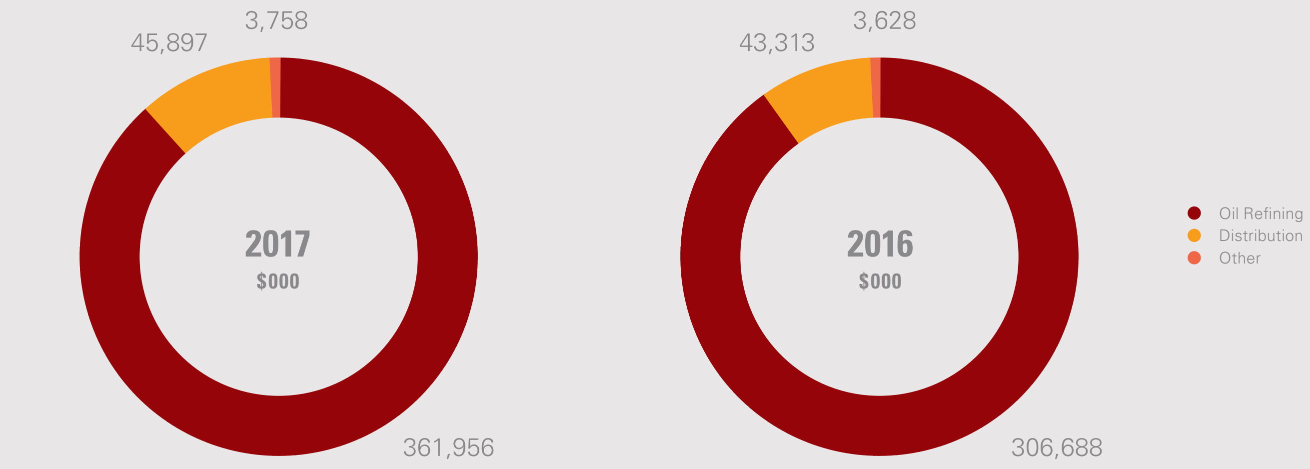
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

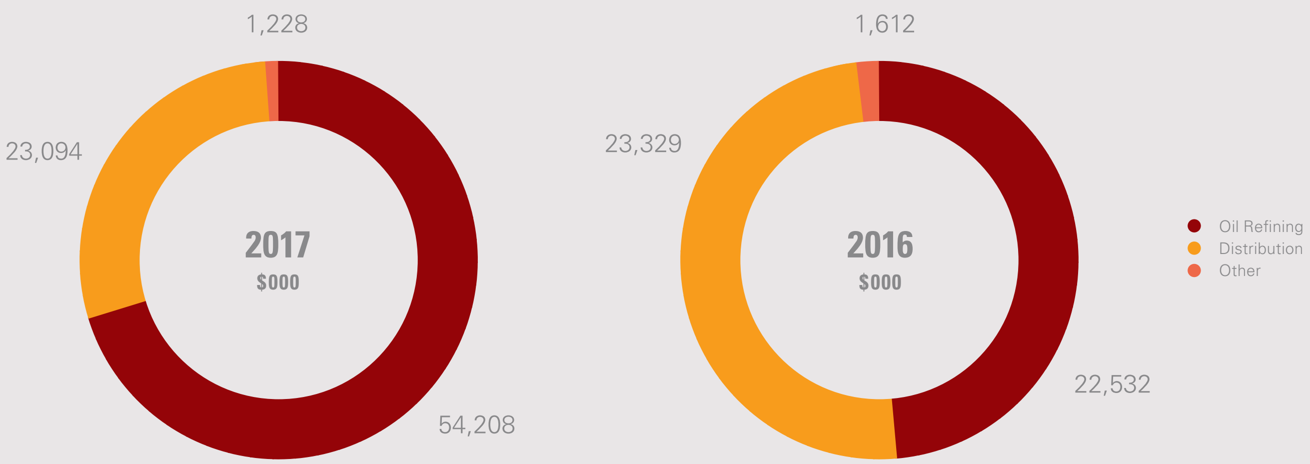
1. SEGMENT REPORTING (continued)

(c) Segment results

REVENUE FROM EXTERNAL CUSTOMERS ($000)



NET PROFIT AFTER INCOME TAX ($000)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. SEGMENT REPORTING (continued)

	OIL REFINING $000	DISTRIBUTION $000	OTHER $000	TOTAL $000
31 DECEMBER 2017				
Total operating revenue	**361,956**	**45,897**	**8,915**	**416,768**
Inter-segment revenue	**-**	**-**	**(5,157)**	**(5,157)**
REVENUE FROM EXTERNAL CUSTOMERS	**361,956**	**45,897**	**3,758**	**411,611**
Other income	**-**	**2,914**	**95**	**3,009**
Finance income	**240**	**-**	**4**	**244**
Finance cost	**(13,966)**	**-**	**(25)**	**(13,991)**
Depreciation and disposal costs	**(88,823)**	**(6,868)**	**(455)**	**(96,146)**
Income tax	**(22,410)**	**(8,981)**	**(535)**	**(31,926)**
Net profit after income tax	**54,208**	**23,094**	**1,228**	**78,530**

	OIL REFINING $000	DISTRIBUTION $000	OTHER $000	TOTAL $000
31 DECEMBER 2016				
Total operating revenue	306,688	43,313	8,720	358,721
Inter-segment revenue	-	-	(5,092)	(5,092)
REVENUE FROM EXTERNAL CUSTOMERS	306,688	43,313	3,628	353,629
Other income	-	-	527	527
Finance income	147	-	4	151
Finance cost	(15,652)	-	(25)	(15,677)
Depreciation and disposal costs	(79,922)	(6,868)	(443)	(87,233)
Income tax	(7,511)	(9,073)	(436)	(17,020)
Net profit after income tax	22,532	23,329	1,612	47,474

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. INCOME AND EXPENSES

P Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. Specific accounting policies are as follows:

PROCESSING FEE (OIL REFINING) REVENUE

Processing fees are recognised when the Group has processed crude oil into refined products for the customer.

PIPELINE FEE (DISTRIBUTION) REVENUE

Pipeline fees are recognised when the products have been transferred to the Wiri Oil terminal in South Auckland.

OPERATING LEASE INCOME

Rental income from operating leases (including Wiri Oil terminal rental) is recognised on a straight-line basis in accordance with the substance of the relevant agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. INCOME AND EXPENSES (continued)

Net profit before income tax includes the following income and expenses:

	NOTE	GROUP 2017 $000	GROUP 2016 $000
OPERATING REVENUE			
Processing fees		**327,446**	276,590
Natural gas recovery		**24,442**	21,403
Other refining related income		**11,676**	8,695
Refining revenue		**363,564**	306,688
Distribution revenue		**37,764**	36,788
Operating lease income:			
Wiri Oil land and plant	3	**6,525**	6,525
Other		**84**	84
Other operating income		**3,674**	3,544
TOTAL OPERATING REVENUE		**411,611**	353,629
OTHER INCOME			
Other income		**3,009**	527
TOTAL OTHER INCOME		**3,009**	527
TOTAL INCOME		**414,620**	354,156
And charging:			
Process materials and utilities		**45,949**	47,891
Natural gas		**24,442**	21,403
PURCHASE OF PROCESS MATERIALS AND UTILITIES		**70,391**	69,294
Contractor payments		**22,338**	19,819
Materials		**8,683**	6,684
Obsolescence provision (released)/recognised		**(24)**	277
TOTAL MATERIALS AND CONTRACTOR PAYMENTS		**30,997**	26,780
Wages and salaries		**54,102**	52,692
Defined contribution pension plan contributions		**1,411**	1,276
Defined benefit pension plan expense	18(j)	**3,110**	3,172
Medical plan contributions	18(j)	**225**	230
Employee share scheme cost	21	**201**	153
TOTAL WAGES, SALARIES AND BENEFITS		**59,049**	57,523

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. INCOME AND EXPENSES (continued)

	NOTE	GROUP 2017 $000	GROUP 2016 $000
Depreciation expense	10	**94,736**	87,177
Loss on disposal of property, plant and equipment	10	**1,410**	56
TOTAL DEPRECIATION AND DISPOSAL COSTS		**96,146**	87,233
Administration and other expenses		**4,053**	3,715
Contract services		**16,116**	14,242
Consultants		**3,708**	5,264
Insurance		**3,119**	3,334
Rates		**1,255**	1,185
Employee related costs		**3,476**	3,456
Auditor's fees:			
Audit of financial statements		**180**	147
AGM scrutineering		**6**	6
Compliance report on processing fees		**27**	32
Advisory fees for remuneration benchmarking		**9**	5
Treasury advice – the renewal of banking facilities		**35**	-
Directors' fees		**689**	742
Operating lease expenses:			
Wiri Oil land rental		**500**	500
Other		**607**	637
Donations		**54**	41
TOTAL ADMINISTRATION AND OTHER COSTS		**33,834**	33,306
Interest expense:			
Bank borrowings		**13,634**	15,255
Restoration provision finance charge		**357**	422
TOTAL FINANCE COSTS		**13,991**	15,677
Interest income:			
Interest income on short-term bank deposits		**(244)**	(151)
TOTAL FINANCE INCOME		**(244)**	(151)
NET FINANCE COSTS		**13,747**	15,526
TOTAL COSTS		**304,164**	289,662
NET PROFIT BEFORE INCOME TAX		**110,456**	64,494

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. INCOME AND EXPENSES (continued)

Pipeline incident

As a result of the RAP rupture on 14 September 2017, the Parent Company incurred the cost associated with the repairs, recovery and remediation totalling to $6.0 million, included within the following cost categories:

- Materials and contractor payments ($4.3 million);
- Administration and other costs ($1.7 million).

The financial results were also impacted with reduced processing fees of $6.3 million and distribution revenue of $2.0 million directly attributable to the pipeline incident.

The Company had insurance cover for environmental damage and accounted for insurance recoveries of $2.9 million (included in Other income).

Subsequent to balance date the Company was advised that its claim under the material damage and business interruption policy had been accepted by the insurers, and will be quantified by the Company in 2018.

Auditor's fees

'Audit of financial statements' include the fees for the annual audit of the consolidated financial statements of $142 thousand (2016: $132 thousand), other one-off audit related fees of $23 thousand (2016: nil) and reimbursement of travel and accommodation of $15 thousand (2016: $15 thousand).

3. RELATED PARTIES

(a) Shareholders and other related parties

The Group enters into transactions on an arm's length basis with the oil companies, who are also shareholders of the Parent, and Wiri Oil Services Limited (Wiri Oil), a company that is owned by shareholders of the Parent.

On 17 March 2017 as part of a global portfolio review, BP sold shares in the Company amounting to 11.09% of Refining NZ's issued share capital.

Details of shareholdings at 31 December are:

	2017 %	2016 %
BP New Zealand Holdings Limited (BP)	**10.10**	21.19
Mobil Oil New Zealand Limited (Mobil)	**17.20**	17.20
Z Energy Limited (Z Energy)	**15.36**	15.36

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. RELATED PARTIES (continued)

The nature, transactions and balances with the shareholders and other related parties are as follows:

(i) REVENUE FROM RELATED PARTIES

Revenue from the oil refining and distribution segments is derived from the oil companies as follows:

	TRANSACTION VALUES FOR THE YEAR ENDED 31 DECEMBER		BALANCES OUTSTANDING AS AT 31 DECEMBER	
	2017 $000	2016 $000	2017 $000	2016 $000
BP	**107,813**	88,596	**44,159**	45,913
Mobil	**98,449**	78,688	**26,679**	24,744
Z Energy	**187,622**	143,065	**79,918**	69,442
Wiri Oil	**7,000**	6,963	**204**	39
	400,884	317,312	**150,960**	140,138

Processing fees

The Group has separate processing agreements with each of the three oil companies which have been in place since 1995. They are long-term "evergreen" contracts which continue unless renegotiated or terminated by mutual consent or by a customer on one year's notice. 79% (2016: 78%) of the Group's total operating revenue is earned from processing fees charged under those agreements. Refer to note 19(a) for further details.

Leases

The Parent leases land from Wiri Oil Services Limited (Wiri Oil) and owns the Wiri Oil terminal (plant) located on this land. The land and plant is leased back to Wiri Oil. The leases are non-cancellable operating leases, which expire in 2024 with no right of renewal. At the end of the lease term, ownership of the Wiri Oil terminal reverts to Wiri Oil Services Limited. Operating lease income and expenses are disclosed in note 2.

Excise duty

Excise duty is collected from the Oil Companies and paid to the New Zealand Customs Service on the same day each month (refer note 17) and is included in the above balances outstanding.

(ii) PURCHASES OF GOODS AND SERVICES

The Group purchases sulphur, a by-product of the refining process which is on sold to third parties, and other fuels, from related parties as follows:

	TRANSACTION VALUES FOR THE YEAR ENDED 31 DECEMBER		BALANCES OUTSTANDING AS AT 31 DECEMBER	
	2017 $000	2016 $000	2017 $000	2016 $000
BP	**522**	483	**100**	19
Mobil	**631**	487	**86**	27
Z Energy	**1,086**	1,105	**370**	114
	2,239	2,075	**556**	160

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. RELATED PARTIES (continued)

(iii) OTHER CHARGES

Insurance

A portion of the Group's material damage and business interruption and contract works and liability insurance is held by companies related to shareholders.

Administration fees

Effective 1 January 2017, the administration of The New Zealand Refining Company Pension Fund, previously carried out by the Parent Company, was outsourced to Melville Jessup Weaver (for a description of this plan see note 18).

	TRANSACTION VALUES FOR THE YEAR ENDED 31 DECEMBER		BALANCES OUTSTANDING AS AT 31 DECEMBER	
	2017 $000	2016 $000	2017 $000	2016 $000
INSURANCE PREMIUMS				
BP – Jupiter Insurance Ltd	**395**	437	**-**	-
ADMINISTRATION FEE				
The New Zealand Refining Company Pension Fund	**-**	25	**-**	6
	395	462	**-**	6

(b) Directors' fees and key management personnel compensation

Directors' fees are disclosed in note 2.

Key management personnel include all members of the Leadership Team.

	GROUP 2017 $000	GROUP 2016 $000
Salaries and other short-term employee benefits	**4,019**	3,720
Post-employment benefits	**149**	155
TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION	**4,168**	3,875
Number of personnel at 31 December	**8**	10

Key management personnel compensation in 2017 includes compensations paid to two retiring members of the Leadership Team.

The above analysis is compiled on a cash basis; variable performance rewards (linked to individual and business performance for a financial reporting period) are paid subsequent to balance date and reported as part of payments to key management personnel for the following year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

4. TAXATION

(a) Income tax expense

P The income tax expense for the year is the tax payable on the current year's taxable income based on the New Zealand income tax rate on the basis of the tax laws enacted or substantially enacted at the end of the reporting period, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements and to unused tax losses.

	NOTE	GROUP 2017 $000	GROUP 2016 $000
NET PROFIT BEFORE INCOME TAX EXPENSE		**110,456**	64,494
Tax at the New Zealand corporate income tax rate of 28% (2016: 28%)		**30,928**	18,058
Tax effect of amounts which are either non-deductible or taxable in calculating taxable income:			
Expense not deductible for tax		**401**	152
Adjustments in respect of current income tax in respect of previous years		**597**	(1,190)
INCOME TAX EXPENSE, REPRESENTED BY:		**31,926**	17,020
Current tax expense		**28,260**	7,566
Deferred tax recognised in the income statement	4(b)	**3,666**	9,454

(b) Deferred tax

P Deferred tax assets and liabilities arise from temporary differences between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements, and are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised in other comprehensive income or directly in equity are also recognised in other comprehensive income or directly in equity, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

4. TAXATION (continued)

		DEFERRED TAX LIABILITY/(ASSET)					
	NOTE	PROPERTY, PLANT AND EQUIPMENT $000	PROVISIONS $000	EMPLOYEE BENEFITS $000	FINANCIAL INSTRUMENTS $000	TAX LOSSES $000	TOTAL $000
1 JANUARY 2016		124,161	(3,516)	(6,198)	(2,920)	-	111,527
Deferred tax in respect of previous years		(136)	(96)	(203)	4	-	(431)
Deferred tax in respect of current year		10,486	(170)	(429)	(2)	-	9,885
Deferred tax recognised in the income statement	4(a)	10,350	(266)	(632)	2	-	9,454
Deferred tax on items included in other comprehensive income		-	-	(1,278)	(133)	-	(1,411)
31 DECEMBER 2016		134,511	(3,782)	(8,108)	(3,051)	-	119,570
Deferred tax in respect of previous years		**72**	**(113)**	**34**	**-**	**-**	**(7)**
Deferred tax in respect of current year		**4,635**	**(234)**	**(728)**	**-**	**-**	**3,673**
Deferred tax recognised in the income statement	4(a)	**4,707**	**(347)**	**(694)**	**-**	**-**	**3,666**
Deferred tax on items included in other comprehensive income		**-**	**-**	**(785)**	**673**	**-**	**(112)**
31 DECEMBER 2017		**139,218**	**(4,129)**	**(9,587)**	**(2,378)**	**-**	**123,124**

5. EARNINGS PER SHARE

P Earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares on issue during the year. The Company has no dilutive potential ordinary shares at 31 December 2017 (2016: nil) and therefore basic and dilutive earnings per share are the same.

	NOTE	TOTAL 2017	TOTAL 2016
Profit after tax attributable to shareholders of the Company ($000)		**78,530**	47,177
Weighted average number of shares on issue (000's)	6	**312,376**	312,508
BASIC AND DILUTED EARNINGS PER SHARE		**25.1**	15.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

DEBT AND EQUITY

The Group's objective when managing capital (net assets of the Group) is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefit for other stakeholders and to maintain an appropriate capital structure. The Group borrows under a negative pledge arrangement (refer note 8). The Group monitors rolling forecasts which take into consideration the Group's debt financing plans and covenant compliance, to ensure that it is able to continue meeting funding requirements.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, or issue new shares.

This section outlines Refining NZ's capital structure and includes the following Notes:

Note 6: Equity
Note 7: Dividends
Note 8: Bank borrowings
Note 9: Finance lease liabilities

6. EQUITY

Contributed equity

The issued capital of the Company is represented by 312,576,453 no par value ordinary shares (2016: 312,576,453) issued and fully paid, less 252,833 treasury shares held by CRS Nominees Limited (refer to note 21). All ordinary shares rank equally with one vote attached to each ordinary share.

Treasury stock

Treasury stock represents the value of shares acquired by the Parent on-market in respect of the Employee Share Purchase Scheme (refer to note 21).

Employee share entitlement reserve

The employee share entitlement reserve is used to recognise the fair value of shares granted but not vested. Amounts are transferred to share capital when the shares vest to the employee (refer to note 21).

Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in the income statement.

Non-controlling interest

Non-controlling interest represents equity in a subsidiary non attributable, directly or indirectly, to the Parent. Changes in the Parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions. Any profits or losses realised on transactions between shareholders is recognised directly in retained earnings.

On 31 December 2016, the Company acquired BP Oil New Zealand Limited's 25.8% minority shareholding in Independent Petroleum Laboratory Limited for $1.644 million to become a wholly owned subsidiary from that date. The excess of the purchase price over the historic value of the non-controlling interest acquired of $0.869 million was recognised in retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

7. DIVIDENDS

	CENTS PER SHARE	TOTAL 2017 $000	TOTAL 2016 $000
Final dividend for 2015	20.0	-	62,515
Interim dividend for 2016	3.0	-	9,378
Final dividend for 2016	6.0	**18,754**	-
Interim dividend for 2017	6.0	**18,755**	-
TOTAL		**37,509**	71,893

The dividends were fully imputed. Supplementary dividends of $0.964 million (2016: $1.307 million) were paid to shareholders who were not tax residents in New Zealand for which the Group received a foreign investor tax credit entitlement.

Imputation credits available to shareholders for subsequent reporting periods amount to $45.478 million as at 31 December 2017 (2016: $31.693 million).

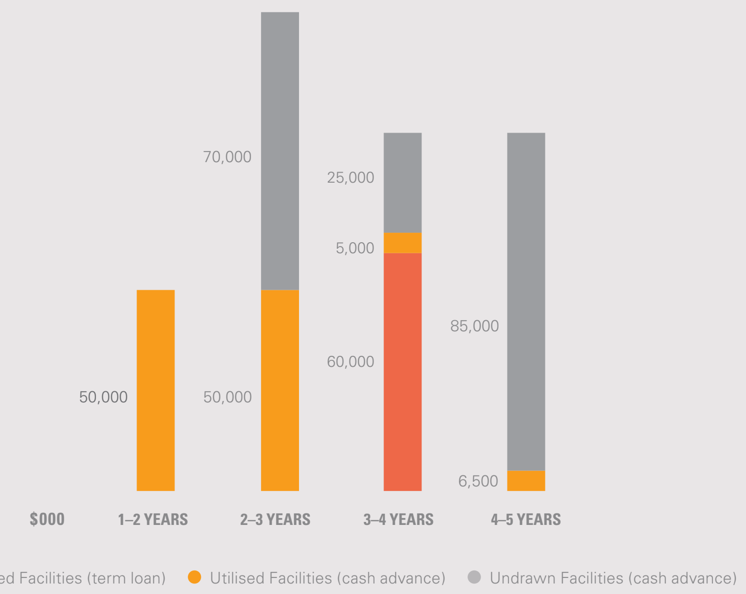
Dividend declared post balance date

The Group has declared a final dividend of 12 cents per share, fully imputed, payable on 22 March 2018 (2016: 6 cents per share).

8. BANK BORROWINGS

P Bank borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

The Parent renewed its $350 million banking facilities during the year. The chart below outlines the maturity profile of the facilities.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

8. BANK BORROWINGS (continued)

The below table presents the year end borrowings with their maturity dates, as well as undrawn facilities at 31 December:

	MATURITY DATE	GROUP 2017 $000	GROUP 2016 $000
BANK BORROWINGS			
Current bank borrowings:			
Revolving cash advances	Jun-17	-	69,500
Total current bank borrowings		-	69,500
Non-current bank borrowings:			
Revolving cash advances	Dec-19	-	50,000
Revolving cash advances	Mar-19	**50,000**	-
Revolving cash advances	Mar-20	**50,000**	-
Revolving cash advances	Mar-21	**5,000**	-
Revolving cash advances	Mar-22	**5,000**	-
Term loan	Dec-20	-	100,000
Term loan	Mar-21	**60,000**	-
Total non-current bank borrowings		**170,000**	150,000
TOTAL BANK BORROWINGS		**170,000**	219,500
EFFECTIVE INTEREST RATE			
Bank loans		**6.4%**	6.0%
UNDRAWN FACILITIES			
Revolving cash advances	Jun-17	-	130,500
Revolving cash advances	Mar-20	**70,000**	-
Revolving cash advances	Mar-21	**25,000**	-
Revolving cash advances	Mar-22	**85,000**	-
TOTAL UNDRAWN BORROWING FACILITIES		**180,000**	130,500

The carrying amounts of bank borrowings approximate their fair value. The borrowings are unsecured. The Parent borrows under a negative pledge arrangement which requires certain certificates and covenants, including debt to total debt and equity, security to tangible assets and EBITDA to interest ratios. All these requirements have been met and no breaches of these covenants are forecast.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

9. FINANCE LEASE LIABILITIES

P Leases of property, plant and equipment where the group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. The corresponding rental obligations, net of finance charges, are included in current finance lease liability and non-current finance lease liability. The property, plant and equipment acquired under finance lease is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

On 29 June 2017 the Parent acquired equipment with a carrying value of $2.5 million under a finance lease expiring in 2026.

	GROUP 2017 $000
Commitments in relation to finance lease are payable as follows:	
– No later than one year	**500**
– One to five years	**1,422**
– Beyond five years	**3,870**
MINIMUM LEASE PAYMENTS	**5,792**
Future finance charges	**(3,097)**
RECOGNISED AS FINANCIAL LIABILITY	**2,695**
The present value of finance lease liability is as follows:	
– No later than one year	**222**
– One to five years	**438**
– Beyond five years	**2,035**
MINIMUM LEASE PAYMENTS	**2,695**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

OPERATING ASSETS AND LIABILITIES

This section shows the assets used to generate the Group's trading performance and the liabilities incurred as a result. Liabilities relating to the Group's financing activities are detailed in the Debt and Equity section of the Notes. Taxation assets and liabilities are detailed in the Performance section of these Notes.

This section includes the following Notes:

10. PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLES

P Property, plant and equipment, and intangibles are initially recognised at cost which includes expenditures directly attributable to the acquisition. Cost also includes transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment, and borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced asset is derecognised.

Major inspections associated with planned plant shutdowns and tank maintenance are capitalised at cost and recognised in the carrying amount of the refining plant, provided the recognition criteria are met.

When an asset is disposed of, any gain or loss on disposal is calculated as the difference between the disposal proceeds and the carrying value of the asset, and is recognised as a gain or loss on disposal of property, plant and equipment and presented in 'Other income' or 'Total depreciation and disposal costs' in the Income Statement.

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Income Statement for the amount by which the asset's carrying amount exceeds its recoverable amount, being the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Depreciation is provided on a straight-line basis on all property, plant and equipment other than freehold land, capital work in progress and precious metals (rhenium, platinum) contained in certain catalysts.

Included within the intangible assets are carbon credits received in the form of New Zealand Units (NZUs). They are measured at historical cost and used to offset liabilities arising from carbon dioxide emissions. An assessment of impairment is performed annually with reference to external sources of information (market values of NZUs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

10. PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLES (continued)

E The Group applies judgements in relation to the appropriateness and recoverability of the capital work in progress, and useful lives applied to the property, plant and equipment.

Capital work in progress as at 31 December 2017 has been assessed by Management, Company's project engineers and project managers as recoverable.

During the financial year there have been no significant changes in estimates relating to useful lives of assets. The useful lives applied are as follows:

	USEFUL LIVES (YEARS)
Freehold improvements	5-50
Buildings and jetties	5-50
Refining plant	
– tankage	40-50
– rotating equipment	20-30
– piping	20-50
– vessels and columns	25-40
– instruments	10-15
– electrical and electrical cabling	15-25
– plant shutdown and tank maintenance	2-20
– other refining plant	10-65
Catalysts	3-10
Refinery to Auckland Pipeline	
– pipeline	50
– plant and equipment	10-34
Wiri Oil terminal (leased)	20
Equipment and vehicles	3-25

Property, plant and equipment are included in the negative pledge arrangement as detailed in note 8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

10. PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLES (continued)

	FREEHOLD LAND AND IMPROVEMENTS	BUILDINGS AND JETTIES	REFINING PLANT	CATALYSTS	REFINERY TO AUCKLAND PIPELINE	WIRI OIL TERMINAL (LEASED) (note 3)	EQUIPMENT AND VEHICLES	CAPITAL WORK IN PROGRESS	TOTAL	INTANGIBLES
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
AT 1 JANUARY 2016										
Cost	69,556	106,713	2,873,547	105,744	222,000	44,169	79,251	78,213	3,579,193	-
Accumulated depreciation	(49,560)	(87,466)	(2,022,508)	(66,590)	(104,032)	(40,158)	(71,044)	-	(2,441,358)	-
NET BOOK AMOUNT	19,996	19,247	851,039	39,154	117,968	4,011	8,207	78,213	1,137,835	-
YEAR ENDED 31 DECEMBER 2016										
Opening net book value	19,996	19,247	851,039	39,154	117,968	4,011	8,207	78,213	1,137,835	-
Additions/transfers	-	413	27,706	4,327	-	-	10,537	24,132	67,115	4,425
Reclassification of additions	3,619	82,636	(104,140)	-	-	-	17,885	-	-	-
Disposals	(40)	(119)	103	-	-	-	-	-	(56)	-
Depreciation/amortisation charge	(1,435)	(4,490)	(60,318)	(8,915)	(5,229)	(429)	(6,361)	-	(87,177)	-
Transferred from disposal group reclassified from held for sale	-	1,389	-	-	-	-	1,991	-	3,380	-
CLOSING NET BOOK AMOUNT	22,140	99,076	714,390	34,566	112,739	3,582	32,259	102,345	1,121,097	4,425
AT 31 DECEMBER 2016										
Cost	73,122	191,833	2,679,447	90,718	222,000	44,169	114,108	102,345	3,517,742	4,425
Accumulated depreciation	(50,982)	(92,757)	(1,965,057)	(56,152)	(109,261)	(40,587)	(81,849)	-	(2,396,645)	-
NET BOOK AMOUNT	22,140	99,076	714,390	34,566	112,739	3,582	32,259	102,345	1,121,097	4,425
YEAR ENDED 31 DECEMBER 2017										
Opening net book value	**22,140**	**99,076**	**714,390**	**34,566**	**112,739**	**3,582**	**32,259**	**102,345**	**1,121,097**	**4,425**
Additions/transfers	**1,308**	**6,511**	**54,242**	**10,837**	**246**	**-**	**11,009**	**19,829**	**103,982**	**3,723**
Reclassification of additions										
Disposals	**-**	**-**	**(4)**	**(757)**	**-**	**-**	**7**	**(656)**	**(1,410)**	**-**
Depreciation/amortisation charge	**(1,648)**	**(4,609)**	**(69,006)**	**(7,872)**	**(5,306)**	**(429)**	**(5,866)**	**-**	**(94,736)**	**-**
CLOSING NET BOOK AMOUNT	**21,800**	**100,978**	**699,622**	**36,774**	**107,679**	**3,153**	**37,409**	**121,518**	**1,128,933**	**8,148**
AT 31 DECEMBER 2017										
Cost	**74,430**	**198,344**	**2,733,237**	**83,349**	**222,247**	**44,167**	**124,869**	**121,518**	**3,602,161**	**8,148**
Accumulated depreciation	**(52,630)**	**(97,366)**	**(2,033,615)**	**(46,575)**	**(114,568)**	**(41,014)**	**(87,460)**	**-**	**(2,473,228)**	**-**
NET BOOK AMOUNT	**21,800**	**100,978**	**699,622**	**36,774**	**107,679**	**3,153**	**37,409**	**121,518**	**1,128,933**	**8,148**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

11. CAPITAL EXPENDITURE COMMITMENTS

P Commitments are presented for asset purchases contracted as at the reporting date but not provided for in the consolidated financial statements.

	GROUP 2017 $000	GROUP 2016 $000
Capital commitments in relation to property, plant and equipment	**24,601**	14,382

12. RESTORATION PROVISION

The restoration provision relates to restoration obligations in relation to a lease agreement for the seabed upon which the jetty is situated at Marsden Point.

P The restoration provision is measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax interest rate that reflects the current market assessments of the time value of money and the risks specific to the obligation.

Changes in the estimates during the year are recorded as a change in the restoration provision and the respective asset. Increase in the provision due to passage of time (unwinding of discount) is recognised as finance costs.

	GROUP 2017 $000	GROUP 2016 $000
AT 1 JANUARY	**8,624**	8,046
Unwinding of discount	**356**	422
Change in discount rate and cost of restoration	**908**	156
AT 31 DECEMBER	**9,888**	8,624

E The present value of the restoration provision depends on a number of assumptions including estimated timing, restoration costs and the discount rate used. Management assesses the appropriateness of the assumptions at each balance date. Any changes in these assumptions will impact the carrying amount of the restoration provision.

The lease agreement expires in 2025 and this provision will be utilised, at that time, if the lease is not renegotiated for a further term. An interest rate of 3.48% (2016: 4.24%) has been applied and set with reference to New Zealand Government Bonds as a risk free rate.

In 2017 the Group has assessed the value of the future expenditures and amended the discount rate assumptions. As a result of the changes in the estimates, the value of the restoration provision and the respective asset, has been increased by $0.908 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

13. OPERATING LEASE COMMITMENTS

P Leases in which a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight-line basis over the period of the lease.

	GROUP 2017 $000	GROUP 2016 $000
Commitments for operating leases where the Group is a **lessee**		
– No later than one year	**805**	937
– One to five years	**2,195**	2,482
– Beyond five years	**625**	1,125
TOTAL	**3,625**	4,544

The Group leases a small number of equipment and vehicles under non-cancellable operating leases. The Group leases process industrial platinum under non-cancellable operating leases to be returned to the owners at the end of the lease periods, subject to renegotiation options.

The Group also leases land from Wiri Oil Services Limited under a non-cancellable operating lease that expires in 2024 with no right of renewal.

The operating lease expenditure charged to the Income Statement during the year is disclosed in note 2.

	GROUP 2017 $000	GROUP 2016 $000
Commitments for operating leases where the Group is a **lessor**		
– No later than one year	**6,609**	6,609
– One to five years	**26,309**	26,392
– Beyond five years	**8,156**	14,681
TOTAL	**41,074**	47,682

The Group leases land and refining plant to Wiri Oil Services Limited (refer to note 3) under a non-cancellable operating lease, which expires in 2024 with no right of renewal. The Group also leases land under an agreement that has two rights of renewal for 21 years each.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

14. TRADE AND OTHER RECEIVABLES

P Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less impairment. Trade receivables are measured at amortised cost on the basis that they are held within a business model in order to collect, on specified dates, contractual payments of principal.

	NOTE	GROUP 2017 $000	GROUP 2016 $000
Processing fees		**14,239**	29,858
Product distribution		**3,220**	3,822
Excise duty	17	**129,944**	105,651
Other		**9,291**	3,227
TOTAL TRADE AND OTHER RECEIVABLES		**156,694**	142,558

Trade receivables are non-interest bearing and are normally settled on 7 to 21 day terms. No allowance for impairment loss has been recognised as at 31 December 2017 (2016: nil). The carrying value of trade receivables approximates their fair values. Trade and other receivables related party balances are disclosed in note 3. Credit risk disclosures required pursuant to NZ IFRS 9 are outlined in note 19(b).

15. CASH AND CASH EQUIVALENTS

P Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

In the statement of cash flows, the deposits' placements and withdrawals and bank borrowings receipt and repayment are presented on a net basis as their turnover is quick, amounts are large and the maturities are relatively short.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

15. CASH AND CASH EQUIVALENTS (continued)

The below presents a reconciliation of net cash flow from operating activities to reported profit:

	GROUP 2017 $000	GROUP 2016 $000
NET PROFIT AFTER INCOME TAX	**78,530**	47,474
Adjusted for:		
Depreciation and disposal costs	**96,146**	87,233
Movement in deferred tax	**3,554**	8,042
Add movement in deferred tax on items included in other comprehensive income	**112**	1,412
Movement in restoration provision	**1,264**	578
Less increase in restoration provision relating to property, plant and equipment	**(908)**	(156)
Movement in employee share scheme entitlement reserve	**201**	153
Increase in intangibles	**(3,723)**	(4,425)
Other non-cash movements	**625**	11
Impact of changes in working capital items		
(Increase)/decrease in trade and other receivables	**(14,136)**	22,233
Increase/(decrease) in trade and other payables	**35,267**	(30,164)
Less (increase)/decrease in trade and other payables relating to property, plant and equipment, and intangibles	**(6,261)**	14,203
Add accrual relating to acquisition of non-controlling interest	**-**	(1,644)
Increase in employee benefits	**5,300**	6,987
Less employee entitlements included in other comprehensive income	**(2,802)**	(4,566)
Increase/(decrease) in income tax payable	**5,185**	(17,509)
Increase in inventories	**(356)**	(2,082)
NET CASH INFLOW FROM OPERATING ACTIVITIES	**197,998**	127,780

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

15. CASH AND CASH EQUIVALENTS (continued)

The below sets out an analysis of the Group's liabilities for which cash flows have been, or will be, classified as financing activities in the statement of cash flows:

	LIABILITIES FROM FINANCING ACTIVITIES					
	CASH AND CASH EQUIVALENTS	FINANCE LEASE DUE WITHIN ONE YEAR	FINANCE LEASE DUE AFTER ONE YEAR	BORROWINGS DUE WITHIN ONE YEAR	BORROWINGS DUE AFTER ONE YEAR	TOTAL
	$000	$000	$000	$000	$000	$000
NET DEBT AS AT 1 JANUARY 2017*	(1,675)	126	218	69,500	150,000	218,169
Cash flows	(15,882)	-	-	(69,500)	20,000	(65,382)
Finance lease	-	(174)	-	-	-	(174)
Other non-cash movements	-	270	2,255	-	-	2,525
NET DEBT AS AT 31 DECEMBER 2017	(17,557)	222	2,473	-	170,000	155,138

*Finance lease previously classified as Trade and other payables.

Cash and cash equivalents include $962 thousand held by electricity futures broker, OM Financial Services Limited, as a collateral.

16. INVENTORIES

P Inventories comprise spare parts and consumables, and are stated at the lower of cost, determined using the weighted average cost method, or net realisable value.

Inventories are classified as current assets where usage is expected to be within 12 months and as non-current assets where usage is expected after 12 months.

	GROUP 2017 $000	GROUP 2016 $000
INVENTORIES		
Current inventories:		
Inventories at weighted average cost	**2,752**	2,884
Obsolescence provision	**(524)**	(555)
Total current inventories	**2,228**	2,329
Non-current inventories:		
Inventories at weighted average cost	**22,075**	21,607
Obsolescence provision	**(4,103)**	(4,092)
Total non-current inventories	**17,972**	17,515
TOTAL INVENTORIES	**20,200**	19,844

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

16. INVENTORIES (continued)

E Inventories are reviewed annually for impairment. The inventory obsolescence depends on a number of assumptions, including age and condition of each of the individual inventory items. As at 31 December 2017 management has written down the carrying value of some inventories to estimated net realisable value, taking into account the above assumptions.

The consumption of inventories and any associated write downs are recognised as part of materials expense disclosed in note 2.

Inventories are included in the negative pledge arrangement (refer note 8).

17. TRADE AND OTHER PAYABLES

	NOTE	GROUP 2017 $000	GROUP 2016 $000
Trade payables		**46,255**	35,281
Excise duty	14	**129,944**	105,651
TOTAL TRADE AND OTHER PAYABLES		**176,199**	140,932

P Trade payables, including collected excise duty, are initially recognised at amounts payable. Provisions are recognised when the Group has a legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Trade payables are unsecured, non-interest bearing and are usually paid within 30 days of recognition.

Changes to excise duties have no direct impact on the results of the Group as they are collected from the oil companies (note 14) and paid to the New Zealand Customs Service on the same day each month.

Trade and other payables related party balances are disclosed in note 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

18. EMPLOYEE BENEFITS

Liabilities for employee benefits comprise the following:

		2017			2016		
		CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
	NOTE	$000	$000	$000	$000	$000	$000
Defined benefit pension plan	18(b)	-	**16,648**	**16,648**	-	13,278	13,278
Medical plan	18(b)	**193**	**7,229**	**7,422**	170	5,534	5,704
Wages, salaries, annual leave and sick leave		**5,552**	-	**5,552**	5,455	-	5,455
Employee incentive scheme		**3,346**	-	**3,346**	3,664	-	3,664
Long-service leave and retirement bonus		**1,190**	**5,746**	**6,936**	1,048	5,456	6,504
TOTAL		**10,281**	**29,623**	**39,904**	10,337	24,268	34,605

P Defined benefit pension plan (scheme closed since 31 December 2002)

The Parent contributes to a defined benefit pension plan (the "Plan" or "Fund") for eligible employees. The liability recognised in the Balance Sheet in respect of the defined benefit pension plan is the present value of the defined benefit pension plan obligation at the balance sheet date less the fair value of plan assets.

The defined benefit pension plan obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit pension plan obligation is determined by discounting the estimated future cash outflows using interest rates of Government bonds that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in the income statement.

P Medical plan

The Parent pays health insurance premiums in respect of a limited number of former employees and a limited number of current employees when they retire, until their death. This arrangement is no longer offered to new employees. The medical plan is accounted for in a similar manner to the defined benefit plan outlined above, with an accounting valuation performed by an independent actuary at each balance date.

P Wages, salaries, annual leave and sick leave

These liabilities are measured at the amounts expected to be paid when settled.

P Employee incentive schemes

The Company offers a short term incentive scheme to eligible employees which recognises both individual and Company performance.

The Group recognises a provision where contractually obliged or where there is past practice that has created a constructive obligation.

P Long-service leave and retirement bonus

Long service leave and retirement bonuses are measured based on an actuarial assessment and represent the present value of the estimated future cash outflows, which are expected as a result of employee services provided up to the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

18. EMPLOYEE BENEFITS (continued)

(a) Defined benefit pension plan

Nature of benefits

At retirement, the 85 (2016: 92) active members have pension entitlements based on final salary and membership. Members may elect to exchange part, or all, of their pension for a cash lump sum. At 31 December 2017 the Plan had 112 (2016: 110) pensioners receiving regular pension payments. There were also 8 (2016: 6) members receiving disability pensions, which can be paid from the Plan until normal retirement age.

Description of regulatory framework

The Financial Markets Authority licenses and supervises regulated superannuation schemes. The Fund transitioned from the Superannuation Schemes Act 1989 to the Financial Markets Conduct Act 2013 (the Act) on 11 November 2016 as an employer related restricted workplace savings scheme.

The Act requires an actuarial valuation to be performed for each defined benefit superannuation scheme at least every three years to assess whether the Company's current level of contributions to the Plan is sufficient to meet future obligations (funding valuation). For detail regarding the latest funding valuation see note 18(h).

At each balance date an accounting update is performed by an independent actuary in accordance with NZ IAS 19 "Employee Benefits" for recording in the Balance Sheet. The last full actuarial valuation performed under the Superannuation Schemes Act 1989 was as at 31 March 2016.

Description of other entities' responsibilities for the governance of the fund

The Trustees of the Fund are responsible for the governance of the Fund. The Trustees are appointed by the Company and have a legal obligation to act solely in the best interests of the Fund beneficiaries. The Trustees have the following roles:

- Administration of the Fund and payment to the beneficiaries from Plan assets when required in accordance with the Plan rules;
- Management and investment of the Plan assets;
- Compliance with superannuation law and other applicable regulations.

Description of risks

Under the defined benefit pension plan the Group has a legal obligation to pay further contributions if the Fund does not hold sufficient assets to pay all employees the benefits they are entitled to. There are a number of risks that could expose the Company to such a shortfall; the more significant risks being:

- Investment returns – the funding valuation assumes a certain return on assets, which will be available to fund liabilities. Lower than assumed returns could require the Company to increase contributions to offset the shortfall.
- Life expectancy – the majority of the Plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the Plan's liabilities.

The Plan liabilities are calculated, for financial reporting purposes, using a discount rate set with reference to New Zealand Government Bonds. A decrease in the Government bond yield will increase Plan liabilities for financial reporting purposes, but not necessarily impact upon the funding requirements of the Company.

Description of significant events

There were no Fund amendments, curtailments or settlements during 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

18. EMPLOYEE BENEFITS (continued)

(b) Reconciliation of the medical plan and pension plan net liabilities

		MEDICAL PLAN		PENSION PLAN	
		2017	2016	2017	2016
	NOTE	$000	$000	$000	$000
Present value of the defined benefit obligation	18(c)	**(7,422)**	(5,704)	**(104,436)**	(95,741)
Fair value of plan assets	18(c), 18(d)	**-**	-	**93,282**	86,845
DEFICIT	18(c)	**(7,422)**	(5,704)	**(11,154)**	(8,896)
Contributions tax		**-**	-	**(5,494)**	(4,382)
LIABILITY IN THE BALANCE SHEET		**(7,422)**	(5,704)	**(16,648)**	(13,278)

(c) Movements in the net liabilities recognised in the Balance Sheet

		MEDICAL PLAN			PENSION PLAN		
		PRESENT VALUE OF OBLIGATION	FAIR VALUE OF PLAN ASSETS	TOTAL	PRESENT VALUE OF OBLIGATION	FAIR VALUE OF PLAN ASSETS	TOTAL
	NOTE	$000	$000	$000	$000	$000	$000
AT 1 JANUARY 2016 EXCLUDING TAXES		(5,560)	-	(5,560)	(89,565)	85,145	(4,420)
Current service cost	18(j)	-	-	-	(1,966)	-	(1,966)
Interest (expense)/income	18(j)	(230)	-	(230)	(3,288)	3,129	(159)
Actual return on plan assets less interest income	18(k)	-	-	-	-	1,540	1,540
Actuarial gains/(losses):							
Actuarial gains arising from changes in demographic assumptions		-	-	-	(2,265)	-	(2,265)
Actuarial losses arising from changes in financial assumptions		(188)	-	(188)	(686)	-	(686)
Actuarial gains/(losses) arising from liability experience		113	-	113	(1,598)	-	(1,598)
DEFINED BENEFIT ACTUARIAL LOSS	18(k)	(75)	-	(75)	(4,549)	-	(4,549)
Contributions:							
– Employers		-	161	161	-	658	658
– Plan participants		-	-	-	(630)	630	-
Benefits paid		161	(161)	-	3,986	(3,986)	-
Premiums and expenses paid		-	-	-	271	(271)	-
NET LIABILITY EXCLUDING TAXES 31 DECEMBER 2016		(5,704)	-	(5,704)	(95,741)	86,845	(8,896)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

18. EMPLOYEE BENEFITS (continued)

		MEDICAL PLAN			PENSION PLAN		
		PRESENT VALUE OF OBLIGATION	FAIR VALUE OF PLAN ASSETS	TOTAL	PRESENT VALUE OF OBLIGATION	FAIR VALUE OF PLAN ASSETS	TOTAL
	NOTE	$000	$000	$000	$000	$000	$000
AT 1 JANUARY 2017 EXCLUDING TAXES		**(5,704)**	**-**	**(5,704)**	**(95,741)**	**86,845**	**(8,896)**
Current service cost	18(j)	**-**	**-**	**-**	**(1,769)**	**-**	**(1,769)**
Interest (expense)/income	18(j)	**(225)**	**-**	**(225)**	**(3,309)**	**2,995**	**(314)**
Actual return on plan assets less interest income	18(k)	**-**	**-**	**-**	**-**	**7,257**	**7,257**
Actuarial gains/(losses):							
Actuarial losses arising from changes in financial assumptions		**(1,748)**	**-**	**(1,748)**	**(6,927)**	**-**	**(6,927)**
Actuarial gains/(losses) arising from liability experience		**74**	**-**	**74**	**(1,086)**	**-**	**(1,086)**
DEFINED BENEFIT ACTUARIAL LOSS	18(k)	**(1,674)**	**-**	**(1,674)**	**(8,013)**	**-**	**(8,013)**
Contributions:							
– Employers		**-**	**-**	**-**	**-**	**581**	**581**
– Plan participants		**-**	**-**	**-**	**(563)**	**563**	**-**
Benefits paid		**181**	**-**	**181**	**4,683**	**(4,683)**	**-**
Premiums and expenses paid		**-**	**-**	**-**	**276**	**(276)**	**-**
NET LIABILITY EXCLUDING TAXES 31 DECEMBER 2017		**(7,422)**	**-**	**(7,422)**	**(104,436)**	**93,282**	**(11,154)**

(d) Fair value of defined benefit pension plan assets

	SIGNIFICANT OBSERVABLE INPUTS LEVEL 2
	$000
Net current assets/(liabilities)	**1,489**
Debt instruments	**8,540**
Investment Funds – Composite Funds	**83,253**
TOTAL ASSETS	**93,282**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

18. EMPLOYEE BENEFITS (continued)

The percentage invested in each asset class at the balance sheet date are:

	PENSION PLAN	
	2017	**2016**
Australasian equity	**10.6%**	9.9%
International equity	**29.6%**	28.5%
Fixed income	**34.1%**	34.6%
Cash	**9.3%**	10.8%
Property and other	**16.4%**	16.2%

The fair value of plan assets includes no amounts relating to:

- Any of the Group's own financial instruments;
- Any property occupied by, or other assets used by, the Group.

(e) Principal actuarial assumptions at the balance sheet date

E The present value of the defined benefit pension plan obligation depends on a number of factors that are determined by an independent actuary using a number of assumptions, including the expected rate of salary increases, mortality in retirement and an appropriate discount rate. These assumptions are determined by the Group, in consultation with the independent actuary who performs an accounting valuation in accordance with NZ IAS 19 'Employee Benefits' at each balance sheet date. Any changes in these assumptions will impact the carrying amount of pension obligations.

As at 31 December 2017 the following actuarial assumptions were applied:

	2017		2016	
	MEDICAL PLAN	**PENSION PLAN**	**MEDICAL PLAN**	**PENSION PLAN**
Discount rate	**3.3%**	**3.0%**	4.0%	3.6%
Expected rate of future salary increases	**-**	**2.5%**	-	2.5%
Pension increases	**-**	**No provision**	-	No provision
Mortality in retirement	New Zealand Life Tables 2012-2014 mortality table, set back by 1 year, together with an age related future mortality improvement scale New Zealand Life Tables 2012-2014 mortality table, set back by 1 year, together with an age related future mortality improvement scale.			
Health insurance premium increase rate	**8.0%**	**-**	7.0%	-
Rate of Fringe Benefit Tax	**49.25%**	**-**	49.25%	-

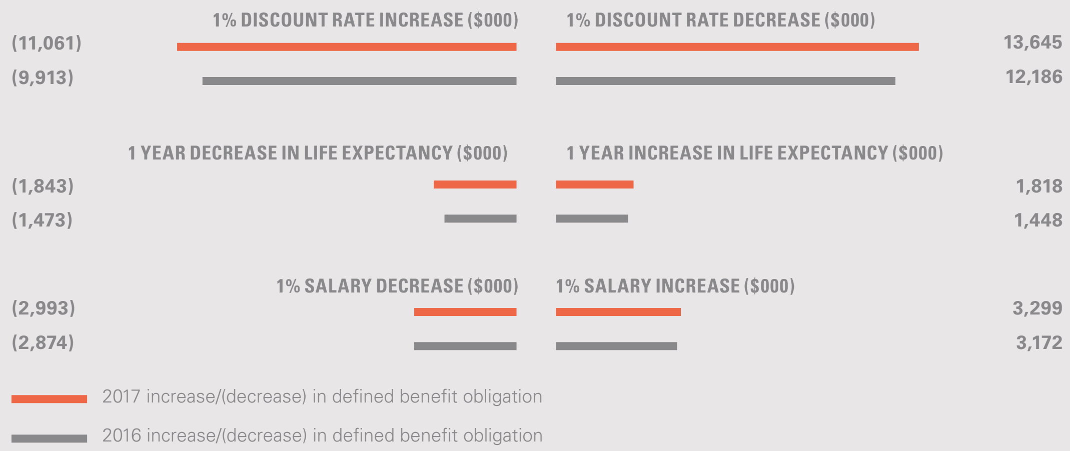
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

18. EMPLOYEE BENEFITS (continued)

(f) Sensitivity analysis – pension plan

The sensitivity of the defined benefit obligation to changes in the principal assumptions is shown in the graphs below.



The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

The methods and types of assumptions used in preparing the sensitivity analysis are consistent with those applied during the comparative reporting period.

(g) Maturity profile of defined benefit obligation

The average term at which the expected future discounted cash flows are due is 12.1 years (2016: 11.8 years). The average undiscounted expected term of all liabilities is 15.7 years (2016: 16.1 years).

(h) Funding arrangements

The Actuary determines the Pension Plan's financial position (funding valuation) every three years in accordance with the Financial Markets Conduct Act 2013 and formerly the Superannuation Schemes Act 1989. The last funding valuation was completed as at 31 March 2016, at which time the Plan was fully funded based on the assumptions used by the Actuary. These assumptions were consistent with the actuarial assumptions presented in note 18(e), except for the discount rate determined based on the expected long term future returns of the plan rather than the risk free rate of return.

The funding objective adopted at the 31 March 2016 funding valuation is to ensure that the Fund's assets are not less than the value of accrued benefits.

In that investigation, the recommended Company contributions to the Fund were at a rate of 8% of the salaries of the members including contributions tax at 33%. The Company accepted this recommendation and has continued to contribute at a rate of 8% of members' salaries.

The next statutory valuation is due no later than as at 31 March 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

18. EMPLOYEE BENEFITS (continued)

(i) Expected contributions

	MEDICAL PLAN 2018 $000	PENSION PLAN 2018 $000
Expected employer contributions (net)	193	480

(j) Amounts recognised in the Income Statement

	MEDICAL PLAN		PENSION PLAN	
	2017 $000	2016 $000	2017 $000	2016 $000
Service cost	-	-	1,769	1,966
Net interest cost	225	230	314	159
Plan expense	225	230	2,083	2,125
Contributions tax	-	-	1,026	1,047
PLAN EXPENSE PLUS TAXES	225	230	3,109	3,172

(k) Amounts recognised in the Statement of Comprehensive Income

	2017 $000	2016 $000
Defined benefit actuarial loss	(8,013)	(4,549)
Actual return on plan assets less interest income	7,257	1,540
Actuarial loss medical scheme	(1,674)	(75)
Total loss recognised in other comprehensive income	(2,430)	(3,084)
Contributions tax	(372)	(1,482)
TOTAL LOSS RECOGNISED IN OTHER COMPREHENSIVE INCOME WITH CONTRIBUTIONS TAX	(2,802)	(4,566)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL RISK MANAGEMENT

This section outlines the key risk management activities undertaken to manage the Group's exposure to financial risk.

This section includes the following Notes:

Note 19: Financial risk management
Note 20: Derivative financial instruments

19. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks (market, credit and liquidity) in the normal course of the Group's business.

Risk management is performed by Group's Management who evaluate and hedge certain financial risks including currency risk and interest rate risk under a Treasury Policy that is approved by the Board of Directors.

(a) Market risk

Market risk includes refining margin, electricity pricing, currency and interest rate risk.

Refining margin risk

The refining margin (margin) generated by the Group is a key input to the calculation of the processing fee, representing the Group's income, set at 70% of the margin generated, subject to a fee floor of $131 million (2016: $130 million), and margin cap of USD 9 per barrel for each customer. This reflects that Refining NZ'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.

The margin is calculated as the typical market value of all the products produced, minus the typical market value of all feedstock processed. The typical market value of products is determined by using quoted prices for the products in Singapore plus the typical freight cost to New Zealand plus product quality premia. The typical value of feedstock is determined by using the market value for crude oil and other feedstock at the point of purchase, plus the typical cost of freight to New Zealand.

Refining margin risk is the risk of volatility in the typical product and feedstock prices to which the Group is exposed. The Group's revenue is likely to be impacted, favourably or unfavourably, during periods of market price volatility. The Group does not hedge this risk. The downside in the volatility of margin and foreign exchange risk is limited by the processing fee floor, which comes into effect if the total processing fee for a calendar year does not exceed a minimum value. The fee floor is subject to annual Producers Price Index (PPI) based escalation.

Electricity

The Group is also exposed to commodity price risk in relation to the purchase of electricity. This exposure exists as a result of the Group purchasing electricity via the New Zealand Electricity Wholesale Market, which is subject to price volatility caused by both demand/supply and transmission constraints. In 2017 the Group entered into contracts with a fixed unit price to mitigate the volatility. Effective 1 January 2018 the Group uses electricity futures for the electricity price risk hedging purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

19. FINANCIAL RISK MANAGEMENT (continued)

Currency risk

The Group is exposed to foreign exchange risk as a result of transactions denominated in currencies other than the Group's functional currencies. The primary currencies giving rise to the currency risk are US dollar, Pounds Sterling, Euro and Australian dollar. Currency risk arises from the processing fee (being calculated in US dollars and billed in New Zealand dollars) and future commercial transactions (purchase of property, plant and equipment, goods or services).

The Group may enter into hedging agreements with Board approval and in accordance with the Group's Treasury Policy which requires all purchases of all capital items of value exceeding certain thresholds to be hedged with either forward exchange contracts or currency options.

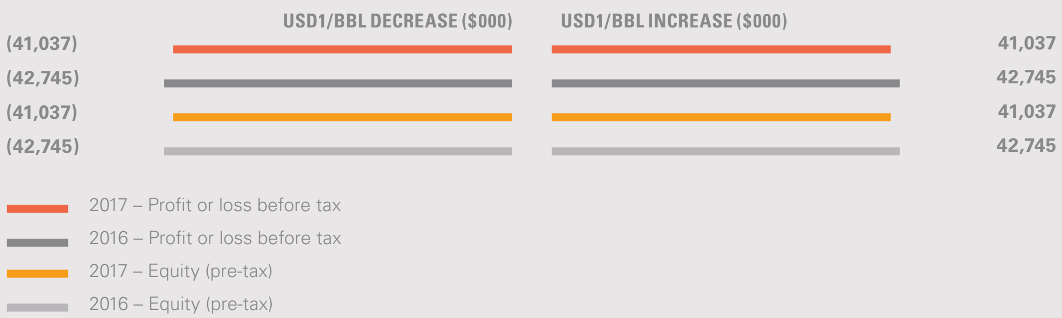
Interest rate risk

The Group's interest rate risk arises from fixed term borrowings at floating interest rates. The Group uses interest rate swaps to manage the interest rate risk. The swaps are floating-to-fixed interest rate swaps under which the Group agrees with other parties to exchange the difference between fixed contract rates and floating interest rates calculated, on a quarterly basis, with reference to the agreed notional amounts. Refer to note 20 for further information.

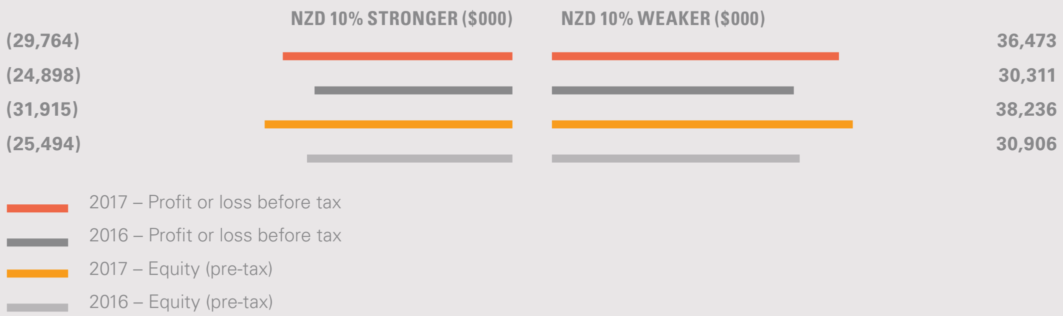
Sensitivity analysis

The graphs below summarise the potential impact of each type of market risk exposures on the Group's profit before tax and equity (assuming all other factors remain unchanged), except for electricity risk which was effectively acquired at fixed price in 2017:

- **Price risk** – an increase and decrease of refining margin by USD1.00 per barrel.



- **Currency risk** – the sensitivity analysis is presented based on the impact of the New Zealand dollar weakening or strengthening against other foreign currencies. A 10% movement in foreign currencies is considered as reasonably possible given the volatility in foreign exchange rates in the prior years.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

19. FINANCIAL RISK MANAGEMENT (continued)

- **Interest rate risk** – change in interest rates by 25 basis points (bps) is considered by the Group reasonably possible over the short-term.

(b) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers from outstanding receivables and committed transactions.

For banks only parties with a minimum long-term credit rating of A+ or A1 are accepted. Gross limits are set for financial institutions and the usage of these limits is determined by assigning product weightings to the principal amount of the transaction.

Transactions are spread across a number of counterparties to avoid concentrations of credit exposure. No credit limits were exceeded during the reporting period and Management does not expect any losses from non-performance by counterparties.

The Group is exposed to credit risk if counterparties fail to make payments as they fall due in respect of payment of trade receivables as invoices fall due 7-14 days for the Parent and 30 days for its subsidiary after being raised. The receivables from the oil companies (as disclosed in the related party note 3) present a concentration of credit risk, however, Management have assessed the credit quality of these customers as being high. Based on the analysis of the historical payments of the Group's customers and with reference to their credit rating and short payment terms, the Group assessed the expected credit losses to be immaterial. No collateral is held over trade receivables.

The maximum exposure to credit risk at balance sheet date is the carrying amount of the financial assets.

Overdue trade receivable balances at 31 December 2017 totalled $0.713 million (2016: $0.126 million). Management consider that these balances are not impaired.

(c) Liquidity risk

The Group monitors rolling forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on the Group's undrawn borrowing facilities (note 8).

Surplus cash held by the Group over and above the balance required for working capital management is invested in interest bearing current accounts, term deposits, and money market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

19. FINANCIAL RISK MANAGEMENT (continued)

Non-derivative financial liabilities

The following table sets out the maturity analysis for non-derivative financial liabilities based on the contractual terms as at balance date. The amounts presented are the contractual undiscounted cash flows and are based on the expiry of the facility.

The liquidity analysis set out below, discloses cash outflows resulting from the financial liabilities only, and does not consider expected net cash inflows from financial assets (including trade receivables) or undrawn debt facilities which provide liquidity support to the Group.

		CONTRACTUAL CASH FLOWS					
	CARRYING AMOUNT	LESS THAN 6 MONTHS	BETWEEN 6 MONTHS - 1 YEAR	BETWEEN 1-2 YEARS	BETWEEN 2-5 YEARS	OVER 5 YEARS	TOTAL CASH FLOWS
GROUP 2017	$000	$000	$000	$000	$000	$000	$000
NON-DERIVATIVE FINANCIAL LIABILITIES							
Trade and other payables	(46,255)	(46,255)	-	-	-	-	(46,255)
Bank borrowings	(170,000)	(1,287)	-	(50,000)	(120,000)	-	(171,287)
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	(216,255)	(47,542)	-	(50,000)	(120,000)	-	(217,542)

		CONTRACTUAL CASH FLOWS					
	CARRYING AMOUNT	LESS THAN 6 MONTHS	BETWEEN 6 MONTHS - 1 YEAR	BETWEEN 1-2 YEARS	BETWEEN 2-5 YEARS	OVER 5 YEARS	TOTAL CASH FLOWS
GROUP 2016	$000	$000	$000	$000	$000	$000	$000
NON-DERIVATIVE FINANCIAL LIABILITIES							
Trade and other payables	(35,282)	(35,282)	-	-	-	-	(35,282)
Bank borrowings	(219,500)	(71,401)	-	-	(150,000)	-	(221,401)
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	(254,782)	(106,683)	-	-	(150,000)	-	(256,683)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

19. FINANCIAL RISK MANAGEMENT (continued)

Derivative financial liabilities

The table below details the liquidity risk arising from derivative liabilities held by the Group at balance date. Derivative financial liabilities are split into the Gross settled derivatives which include foreign exchange forward contracts with the inflow being based on the foreign currency converted at the closing spot rate, and the net settled derivatives which include interest rate swaps with the floating rate being based on the most recent rate set.

		CONTRACTUAL CASH FLOWS					
	CARRYING AMOUNT	LESS THAN 6 MONTHS	BETWEEN 6 MONTHS - 1 YEAR	BETWEEN 1-2 YEARS	BETWEEN 2-5 YEARS	OVER 5 YEARS	TOTAL CASH FLOWS
GROUP 2017	$000	$000	$000	$000	$000	$000	$000
DERIVATIVE FINANCIAL LIABILITIES							
Net settled derivatives	(8,952)	3,154	2,056	4,267	2,944	-	12,421
Gross settled derivatives							
Outflows	-	(15,614)	(266)	-	-	-	(15,880)
Inflows	-	16,032	270	-	-	-	16,302
Total gross settled derivatives	458	418	4	-	-	-	422
TOTAL DERIVATIVE FINANCIAL LIABILITIES	(8,494)	3,572	2,060	4,267	2,944	-	12,843

		CONTRACTUAL CASH FLOWS					
	CARRYING AMOUNT	LESS THAN 6 MONTHS	BETWEEN 6 MONTHS - 1 YEAR	BETWEEN 1-2 YEARS	BETWEEN 2-5 YEARS	OVER 5 YEARS	TOTAL CASH FLOWS
GROUP 2016	$000	$000	$000	$000	$000	$000	$000
DERIVATIVE FINANCIAL LIABILITIES							
Net settled derivatives	(10,819)	(2,324)	(2,310)	(4,232)	(6,903)	-	(15,769)
Gross settled derivatives							
Outflows	-	(3,089)	(2,175)	(847)	-	-	(6,111)
Inflows	-	2,996	2,079	802	-	-	5,877
Total gross settled derivatives	(78)	(93)	(96)	(45)	-	-	(234)
TOTAL DERIVATIVE FINANCIAL LIABILITIES	(10,897)	(2,417)	(2,406)	(4,277)	(6,903)	-	(16,003)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

20. DERIVATIVE FINANCIAL INSTRUMENTS

P At initial recognition, the derivative financial instruments are measured at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The fair value of derivative financial instruments approximates their carrying value.

Derivatives are only used for economic hedging purposes and not as speculative investments. The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

At inception each transaction is documented, detailing the economic relationship and the hedge ratio between hedging instruments and hedged items, the risk management objective and strategy, and the assessment, initially and on an ongoing basis, of whether the derivatives used in the hedging transaction are highly effective.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the cash flow hedge reserve. Hedge effectiveness is determined at inception of the hedge relationship, and through periodic effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The gain or loss relating to the ineffective portion is recognised immediately in other operating gains/losses in the Income Statement.

The net movement in the cash flow hedge reserve comprises:

	2017 $000	2016 $000
Foreign exchange hedges transferred to property, plant and equipment	**(78)**	-
Foreign exchange contracts entered into during the year	**(396)**	(67)
Movement in value of foreign exchange contracts held throughout the year	**(61)**	(5)
Movement in value of interest rate swaps held throughout the year	**(1,199)**	(404)
Movement in value of electricity futures entered into during the year	**(669)**	-
Gross movement in cash flow hedge reserve	**(2,403)**	(476)
Deferred tax	**673**	133
NET MOVEMENT IN CASH FLOW HEDGE RESERVE	**(1,730)**	(343)

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months.

Financial instruments are measured at fair value using the following fair value measurement hierarchy:
- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1),
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2), and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Group's financial instruments have been measured at the fair value measurement hierarchy of:
- Level 1 for electricity futures;
- Level 2 for interest rate swaps and forward foreign exchange contracts.

Electricity futures are traded on an active market, the Australian Securities Exchange (ASX), and the Group uses ASX market-to-market quotes to determine the fair value of the futures contracts.

Interest rate swaps and forward foreign exchange contracts are not traded in an active market and their fair value is determined by using accepted valuation techniques. Specific valuation techniques used by the Group refer to observable market data and include:
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves, and
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

	2017		2016	
	ASSETS $000	LIABILITIES $000	ASSETS $000	LIABILITIES $000
Cash flow hedges:				
– forward foreign exchange contracts	**458**	**-**	-	(69)
– electricity futures	**735**	**-**	-	-
– interest rate swaps	**-**	**(137)**	-	(265)
TOTAL CURRENT PORTION	**1,193**	**(137)**	-	(334)
Cash flow hedges:				
– forward foreign exchange contracts	**-**	**-**	-	(9)
– electricity futures	**-**	**(67)**	-	-
– interest rate swaps	**-**	**(9,484)**	-	(10,554)
TOTAL NON-CURRENT PORTION	**-**	**(9,550)**	-	(10,563)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The effects of the derivative financial instruments on the Group's financial position and performance are as follows:

	FOREIGN EXCHANGE FORWARD CONTRACTS				INTEREST RATE SWAPS	ELECTRICITY FUTURES
	AUD	EUR	SGD	USD		
31 DECEMBER 2017						
Carrying amount – net asset/(liability) ($000)	**20**	**160**	**24**	**254**	**(9,621)**	**668**
Notional amount (equivalent of NZ$000)	**1,719**	**4,182**	**596**	**9,384**	**170,000**	**12,387**
Maturity date	**2018**	**2018**	**2018**	**2018**	**2018–2020**	**2018–2019**
Hedge ratio	**1:1**	**1:1**	**1:1**	**1:1**	**1:1**	**1:1**
Change in fair value of hedging instrument ($000)	**42**	**216**	**24**	**254**	**1,198**	**668**
Weighted average hedged rate	**AU$/NZ$ 0.9177**	**EUR/NZ$ 0.6093**	**SG$/NZ$ 0.9849**	**US$/NZ$ 0.7276**	**5.73%**	**$76.5/ MWh**

	FOREIGN EXCHANGE FORWARD CONTRACTS				INTEREST RATE SWAPS	ELECTRICITY FUTURES
	AUD	EUR	SGD	USD		
31 DECEMBER 2016						
Carrying amount – net asset/(liability) ($000)	(22)	(56)	-	-	(10,819)	-
Notional amount (equivalent of NZ$000)	868	5,242	-	-	200,000	-
Maturity date	2017	2017–2018	-	-	2018–2020	-
Hedge ratio	1:1	1:1	-	-	1:1	-
Change in fair value of hedging instrument ($000)	(16)	(42)	-	-	(404)	-
Weighted average hedged rate	AU$/NZ$ 0.9637	EUR/NZ$ 0.6402	-	-	5.92%	-

For all hedges the quantity of the hedging instrument matched the quantity of the hedged items therefore hedge ratios were 1:1.

The forward exchange contracts are hedging committed or highly probable forecast purchases of property, plant and equipment denominated in foreign currency expected to occur at various dates with maturities in 2018. At balance sheet date all forward exchange contracts had been designated as hedges and there was no ineffectiveness to be recorded from these cash flow hedges.

Interest rate swaps to hedge highly probable cash flows associated with interest costs on borrowings and are used to convert floating rate positions into fixed rate positions. As all critical terms matched during the year, the economic relationship was 100% effective, and there was no ineffectiveness recorded from these hedges.

Electricity futures to hedge highly probable cash flows associated with purchases of electricity at spot market and an ineffective portion of the hedge may occur due to a volume mismatch and location factor. At balance date there was no ineffectiveness to be recorded from these cash flow hedges.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

OTHER

This section contains additional notes and disclosures that aid in understanding Refining NZ's performance and financial position.

This section includes the following Notes:

21. EMPLOYEE SHARE-BASED PAYMENTS

P Share-based payments with employees, classified as equity-settled transactions, are recognised as an expense with a corresponding entry to employee share entitlement reserve, and measured at the fair value of the equity instruments granted at grant date. The amount recognised as an expense is adjusted to reflect the number of shares that will ultimately vest over the vesting period. The shares purchased by the Parent on market are accounted for as Treasury Stock.

The Company operates an Employee Share Purchase Scheme ("scheme") approved by the Inland Revenue Department as a Section DC 12 share scheme under the Income Tax Act 2007. Eligible employees are offered $1,000 worth of shares, multiplied by the Business Performance Factor (BPF) during the year of award and increased by an employee contribution of $1. The shares are purchased on-market and held by CRS Nominees Limited, during a three year vesting period. As at 31 December 2017 none of the shares have been vested to the Company's employees.

The details on the scheme, including expenses arising from the scheme (as presented in Employee Share Entitlement Reserve), are as follows:

PERFORMANCE YEAR	GRANT DATE	VESTING DATE	NUMBER OF ELIGIBLE EMPLOYEES	COMPANY CONTRIBUTION PER EMPLOYEE	EXPENSES ARISING FROM THE SCHEME			
			HEADCOUNT	$	2015 $000	2016 $000	2017 $000	TOTAL $000
2015	7 April 2016	21 April 2019	317	1,025	75	62	62	199
2016	29 March 2017	4 May 2020	298	1,250	-	91	62	153
2017 (*)	-	-	-	-	-	-	77	77
					75	**153**	**201**	**429**

(*) A share offer in relation to the performance year 2017 has not been made by the Company to its employees as at 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

21. EMPLOYEE SHARE-BASED PAYMENTS (continued)

Set out below are summaries of shares acquired by the Company during the financial year, included in Treasury Stock until vesting date:

	2017			2016		
	NUMBER OF SHARES	AVERAGE PURCHASE PRICE	VALUE OF SHARES ACQUIRED	NUMBER OF SHARES	AVERAGE PURCHASE PRICE	VALUE OF SHARES ACQUIRED
	000's	$ PER SHARE	$000	000's	$ PER SHARE	$000
AT 1 JANUARY	**98.0**	**3.14**	**308**	-	-	-
Shares acquired	**154.8**	**2.39**	**370**	98.0	3.14	308
AT 31 DECEMBER	**252.8**	**2.68**	**678**	98.0	3.14	308

22. CONTINGENT LIABILITIES

The Group has no contingent liabilities at 31 December 2017 (2016: nil).

INDEPENDENT AUDITOR'S REPORT

pwc

TO THE SHAREHOLDERS OF THE NEW ZEALAND REFINING COMPANY LIMITED

The consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements of The New Zealand Refining Company Limited (the Company), including its subsidiary (the Group), present fairly, in all material respects, the financial position of the Group as at 31 December 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

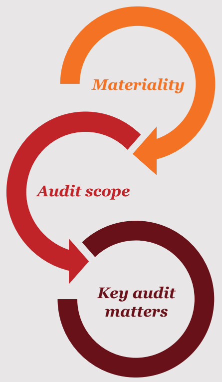
We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of AGM scrutineering, compliance reporting on processing fees, remuneration benchmarking advice and treasury advice. The provision of these other services has not impaired our independence as auditor of the Group.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF THE NEW ZEALAND REFINING COMPANY LIMITED

OUR AUDIT APPROACH



Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall group materiality: $4.2 million, which represents 5% of a five-year weighted average of profit before tax from 2013 to 2017.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We applied a weighted average approach due to the volatility of earnings over the past five years, caused mainly by significant changes in US dollar denominated refiners' margins and the NZ dollar/US dollar exchange rate.

We have determined that there is one key audit matter:

- Recognition of processing fees

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF THE NEW ZEALAND REFINING COMPANY LIMITED

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Recognition of processing fees

Processing fee revenue for 2017 was $327.4 million (2016: $276.6 million) of the total operating revenue of $411.6 million.

Processing fees are the Group's main source of revenue and represent material related party transactions with the Group's shareholding oil companies, who are also its customers.

The processing fee calculation is complex and includes many variables. The calculation is based on an agreed formula defined in the processing agreement with each of the oil companies. Note 19(a) discusses the method of calculation of the refining margin, which is a key input into the calculation of the processing fee.

Management reviews the processing fees calculation on a monthly basis including crude, product premia and freight costs.

Notes 2 and 3 of the consolidated financial statements detail the accounting policies and an analysis of processing fee revenue.

How our audit addressed the key audit matter

Our audit procedures described below included a combination of controls and substantive testing over the processing fees calculation and recognised revenue.

Controls testing included:

- Testing access controls over restriction to the processing fee calculation through inspection of the access log and comparing it against the approved user listing; and
- Testing a sample of management's monthly review controls over the processing fee calculation.

For substantive procedures:

- On a sample basis, we agreed calculation inputs for crude oil costs, product premia and freight to source documentation;
- We agreed the processing fee formula used to recognise revenue to the processing fee agreement and, on a sample basis, reperformed the calculation of the refining margin for each of the oil companies; and
- We tested the payments received from the oil companies during the year and agreed post year end cash receipts from each of the oil companies to the outstanding receivables at year end.

From the procedures performed, we have no matters to report.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF THE NEW ZEALAND REFINING COMPANY LIMITED

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard, except that the other information has not yet been approved by the Board.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF THE NEW ZEALAND REFINING COMPANY LIMITED

WHO WE REPORT TO

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Pip Cameron.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
27 February 2018

Auckland

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 (9) 355 8000, F: +64 (9) 355 8001, www.pwc.com/nz

TREND STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 $000	2016 $000	2015 $000	2014 $000	2013 $000
FINANCIAL PERFORMANCE					
Total income	**414,620**	354,156	446,771	233,019	223,199
Total expenses	**290,417**	274,136	234,354	216,549	228,775
Net profit/(loss) before finance cost and income tax	**124,203**	80,020	212,417	16,470	(5,576)
Net finance cost	**13,747**	15,526	2,755	2,480	1,237
Net profit/(loss) before income tax	**110,456**	64,494	209,662	13,990	(6,813)
Income tax	**31,926**	17,020	58,731	3,967	(1,862)
Net profit/(loss) after income tax	**78,530**	47,474	150,931	10,023	(4,951)
FINANCIAL POSITION					
Funds employed					
Contributed equity	**265,771**	265,771	265,771	265,771	212,400
Retained profits	**533,369**	494,358	523,125	382,068	378,960
Other	**(6,365)**	(7,926)	(6,701)	(3,160)	(259)
Total equity	**792,775**	752,203	782,195	644,679	591,101
Loan funds – non-current	**170,000**	150,000	175,000	316,000	228,000
Other non-current liabilities	**174,658**	163,025	147,880	137,289	123,293
Total funds employed	**1,137,433**	1,065,228	1,105,075	1,097,968	942,394
Funds utilised					
Non-current assets	**1,155,053**	1,143,037	1,153,142	1,088,462	942,444
Working capital	**(17,620)**	(77,809)	(48,067)	9,506	(50)
TOTAL FUNDS UTILISED	**1,137,433**	1,065,228	1,105,075	1,097,968	942,394
ANALYTICAL INFORMATION					
Number of shareholders	**4,908**	5,156	4,511	3,551	3,639
Earnings per share ($)*	**0.251**	0.151	0.482	0.032	(0.018)
Effective tax rate (%)	**29**	26	28	28	28
Net asset backing per share ($)*	**2.54**	2.43	2.53	2.08	2.11
Working capital ratio	**0.9**	0.7	0.8	1.1	1.0

TREND STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017	2016	2015	2014	2013
DIVIDEND INFORMATION**					
Dividend per share (cents)	**18**	9	25	-	2
Dividend paid ($000)	**56,264**	28,134	78,144	-	5,600
Dividends declared per share					
– interim (paid 28 September 2017)	**6.0 cps**	3.0 cps	5.0 cps	-	2.0 cps
– final (payable 22 March 2018)	**12.0 cps**	6.0 cps	20.0 cps	-	-
Dividend cover	**1.40**	1.69	1.93	-	(0.88)
MANUFACTURING					
Barrels processed – intake (000s barrels)	**41,724**	42,665	42,639	39,676	40,602
Gross refining margin (USD/barrel)	**8.02**	6.47	9.20	4.96	4.58
USD exchange rate (NZD)	**0.71**	0.70	0.70	0.82	0.82
Pipeline throughput (000s barrels)	**19,828**	20,147	18,449	17,990	17,520

*Earnings per share for 2014 is based on a weighted average number of shares.
**Dividend information is stated in the year to which it relates, rather than when paid.

GLOSSARY

TRC (Total Recordable Case)
The number of lost time incidents, restricted work cases, medical treatment cases and fatalities.

TRCF (Total Recordable Case Frequency)
The number of lost time incidents, restricted work cases, medical treatment cases and fatalities per two hundred thousand manhours actually worked.

LTIF (Lost Time Injury Frequency)
The sum of work related injury cases per two hundred thousand hours worked, where the injured person is deemed medically unfit for any work as a result of the injury.

Tier 1 Process Safety Event
An unplanned or uncontrolled release of any material, including non-toxic and non-flammable, from a process which results in one or more of the following: an Lost Time Injury (LTI) and/or fatality; a fire or explosion resulting in greater than or equal to $25,000 of direct cost to the company; a release of material greater than the threshold quantities given in Table 1 of API 754 in any one-hour period; an officially declared community evacuation or community shelter-in-place.

Tier 2 Process Safety Event
An unplanned or uncontrolled release of any material, including non-toxic and non-flammable, from a process which results in one or more of the following: a recordable injury; a fire or explosion resulting in greater than or equal to $2,500 of direct cost to the company; a release of material greater than the threshold.

FCF (Free Cash Flow)
Calculated as operating cash flow minus capital expenditures.

Net Borrowings
Calculated as bank borrowings minus cash and cash equivalents.

GRI INDEX

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Precautionary Principle or approach	102-11	27
External initiatives	102-12	http://www.refiningnz.com/environment--community/environmental-protection/systems--standards.aspx
Memberships of Associations	102-13	Business and Parliament Trust Business NZ Hugo Group Institute of Directors HERA (Heavy Industry Research Association) MEUG (Major Electricity Users Group) Northland Chamber of Commerce Petroleum Skills Association Business Leaders Health and Safety Forum The New Zealand Initiative
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Statement from senior decision maker	102-14	2–5
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Governance structure	102-18	36–42
Stakeholder engagement		
List of stakeholder groups	102-40	19
Collective bargaining agreements	102-41	Not reported
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Key topics and concerns raised	102-44	18
Reporting practice		
Entities included in the consolidated financial statements	102-45	73
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Reporting period	102-50	1 January – 31 December 2017
Date of most recent report	102-51	2016 (published February 2017)
Reporting cycle	102-52	19
Contact point for questions regarding the report	102-53	greg.mcneill@refiningnz.com
Claims of reporting in accordance with the GRI standards	102-54	19
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TOPIC SPECIFIC DISCLOSURES

DISCLOSURE TITLE	GRI	PAGE(S)
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Emissions		
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Diversity of governance bodies and employees	405-1	29

CORPORATE DIRECTORY

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Marsden Point
Whangarei

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Telephone: + 64 9 488 8777
enquiry@computershare.co.nz

Bankers
ANZ Bank New Zealand Limited
Bank of New Zealand
The Bank of Tokyo-Mitsubishi UFJ, Limited
Bank of China (New Zealand) Limited

Legal Advisers
Minter Ellison Rudd Watts
Chancery Green

Auditor
PricewaterhouseCoopers

Chairman
S C Allen (Independent Director)

Independent Directors
V C M Stoddart
M Tume
P A Zealand

Non-Independent directors
M J Bennetts
D C Boffa (appointed 23 August 2017)
R Cavallo (appointed 12 April 2017)
M H Elliott (resigned 29 June 2017)
A T Warrell (resigned 13 March 2017)

Chief Executive Officer
S Post

Company Secretary
D M Jensen

FINANCIAL CALENDAR

Annual Shareholders' Meeting
Monday, 23 April at 2:00pm
South Stand Level 4 Lounge
Eden Park
Gate G
42 Reimers Ave, Kingsland
Auckland

Proxies lodged
By 2:00pm on 21 April 2018

2018 results announced
Half year – 23 August 2018
Annual – February 2019

Managing your shareholding online
To change your address, update your payment instructions and to view your registered details including transactions, please visit: www.computershare.co.nz/investorcentre. Please assist our registrar by quoting your CSN or shareholder number.

www.refiningnz.com