



REFINING NZ  
Your Energy Hive

# OFFER OF SUBORDINATED NOTES

INVESTOR PRESENTATION  
NOVEMBER 2018

Arranger and Joint Lead Manager:

**FNZC**

Joint Lead Managers:

**ANZ**  **bnz** 

 **FORSYTH BARR**

# DISCLAIMER

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This presentation has been prepared by The New Zealand Refining Company Limited ("Refining NZ") in relation to the offer ("Offer") of unsecured, subordinated debt securities issued by Refining NZ ("Subordinated Notes"). The Offer will be made under the simplified disclosure Product Disclosure Statement dated 20 November 2018 ("PDS") in accordance with the Financial Markets Conduct Act 2013 ("FMCA").

## Information

The information in this presentation is provided for general information purposes only. This presentation is not investment advice and has been prepared without taking into account your investment objectives, financial situation or particular needs (including financial and taxation issues). Investors should carefully read and consider the PDS in full and seek advice from their financial adviser or other professional adviser before deciding to invest in the Subordinated Notes. Any decision by a person to apply for the Subordinated Notes should be made on the basis of information contained in the PDS, the register entry for the Offer, continuous disclosure announcements by Refining NZ and an independent assessment as to whether to invest, and not in reliance on any information contained in this presentation. Anyone wishing to acquire Subordinated Notes will need to complete the relevant application form in the PDS during the Offer period. There is no public pool in the Offer for the Subordinated Notes. All Subordinated Notes in the Offer will be reserved for subscription by clients of the Joint Lead Managers, NZX Primary Market Participants and other persons invited to participate in the bookbuild.

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# PRESENTING TODAY

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**SIMON ALLEN**  
**CHAIRMAN**

Over 30 years commercial experience in the New Zealand and Australian Capital Markets.

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



**MIKE FUGE**  
**CHIEF EXECUTIVE**

CEO (appointment effective 27 August 2018).

Previously held leadership roles with Royal Dutch Shell, Genesis Energy and Pacific Hydro.



**DENISE JENSEN**  
**CFO, COMPANY SECRETARY**

Joined Refining NZ in 2005.

Chartered Accountant and a Member of the Northland DHB.



REFINING NZ

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# OVERVIEW OF THE OFFER

# OVERVIEW OF THE OFFER

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<b>Issuer</b>	The New Zealand Refining Company Limited ("Refining NZ")
<b>Subordinated Notes</b>	Unsecured, subordinated notes ("Subordinated Notes")
<b>Issue Size</b>	Up to \$75,000,000
<b>Purpose of the Offer</b>	Net proceeds of the Offer will be used to repay a portion of Refining NZ's existing bank debt. This will provide Refining NZ with diversification of funding sources and greater financial flexibility
<b>Term</b>	Approximately 15 years (1 March 2034), with Election Dates five years (1 March 2024) and 10 years (1 March 2029), after the First Interest Payment Date. Able to be called annually starting from 1 March 2024.
<b>Interest</b>	Fixed at the Initial Interest Rate until the first Election Date Subsequent Interest Rates to be set via Election Process First short interest payment to the initial subscriber
<b>Interest deferral</b>	Refining NZ has the ability to defer interest at its discretion, and is likely to defer in certain circumstances as set out in the key terms of this offer (discussed later in this presentation)
<b>Dividend stopper</b>	Refining NZ will not be able to pay any dividend or make any other payments on or with respect to Shares, other securities or indebtedness ranking equally with or subordinate to the Subordinated Notes until all unpaid Deferred Interest is paid, without obtaining an Extraordinary Resolution of the Subordinated Noteholders
<b>Quotation</b>	NZX Debt Market under the ticker NZR010
<b>Joint Lead Managers</b>	FNZC, ANZ Bank New Zealand Limited, Bank of New Zealand, Forsyth Barr Limited



# BUSINESS SUMMARY

# OVERVIEW OF REFINING NZ

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 Only  
oil  
refinery  
in New Zealand

Established 1961

396

employees

200

contractors

Listed on the  
**NZX** with a market capitalisation  
of ~NZ\$735 million<sup>[1]</sup>

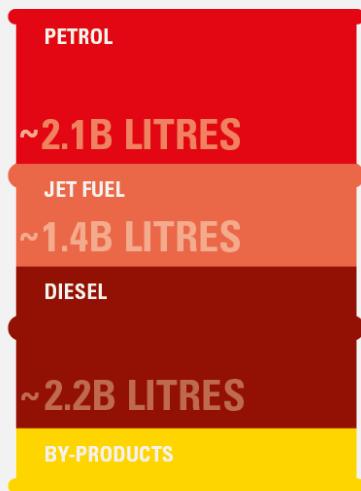
Operates the **multi-product pipeline** supplying Auckland

Processes crude oil on behalf of  
**BP, Mobil and Z Energy**  
(who are shareholders) to produce  
petrol, diesel, jet fuel, bitumen and other  
by-products (a “tolling” operation); and  
to import some finished product



# KEY INFRASTRUCTURE ASSET

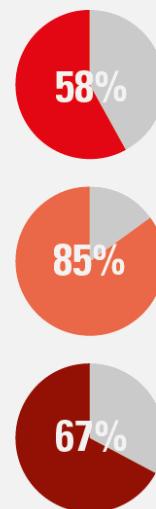
ANNUAL  
PRODUCTION



**6.5B LITRES**

ANNUAL OUTPUT

% NZ FUEL  
DEMAND



70%  
ANNUAL SUPPLY TO NZ  
FUEL DEMAND

Supplies  
**70%** of the country's  
refined fuel products

Supplies **All** of Auckland Airport's  
jet fuel demand via the Refinery to  
Auckland pipeline

# BOARD AND SENIOR MANAGEMENT



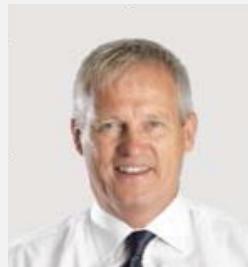
DEBI BOFFA



RICCARDO CAVALLO



LINDIS JONES



CHAIRMAN  
SIMON ALLEN



VANESSA  
STODDART



PAUL ZEALAND



MARK TUME



JAMES MILLER



CHIEF EXECUTIVE  
MIKE FUGE



CHIEF PEOPLE  
AND CAPABILITY  
OFFICER  
JOE AKARI



ENGINEERING  
MANAGER  
ROB BAXTER



REFINING  
MANAGER  
PETER GUBB



CHIEF  
FINANCIAL  
OFFICER  
DENISE JENSEN



COMMUNICATIONS  
AND EXTERNAL  
AFFAIRS  
GREG MCNEILL



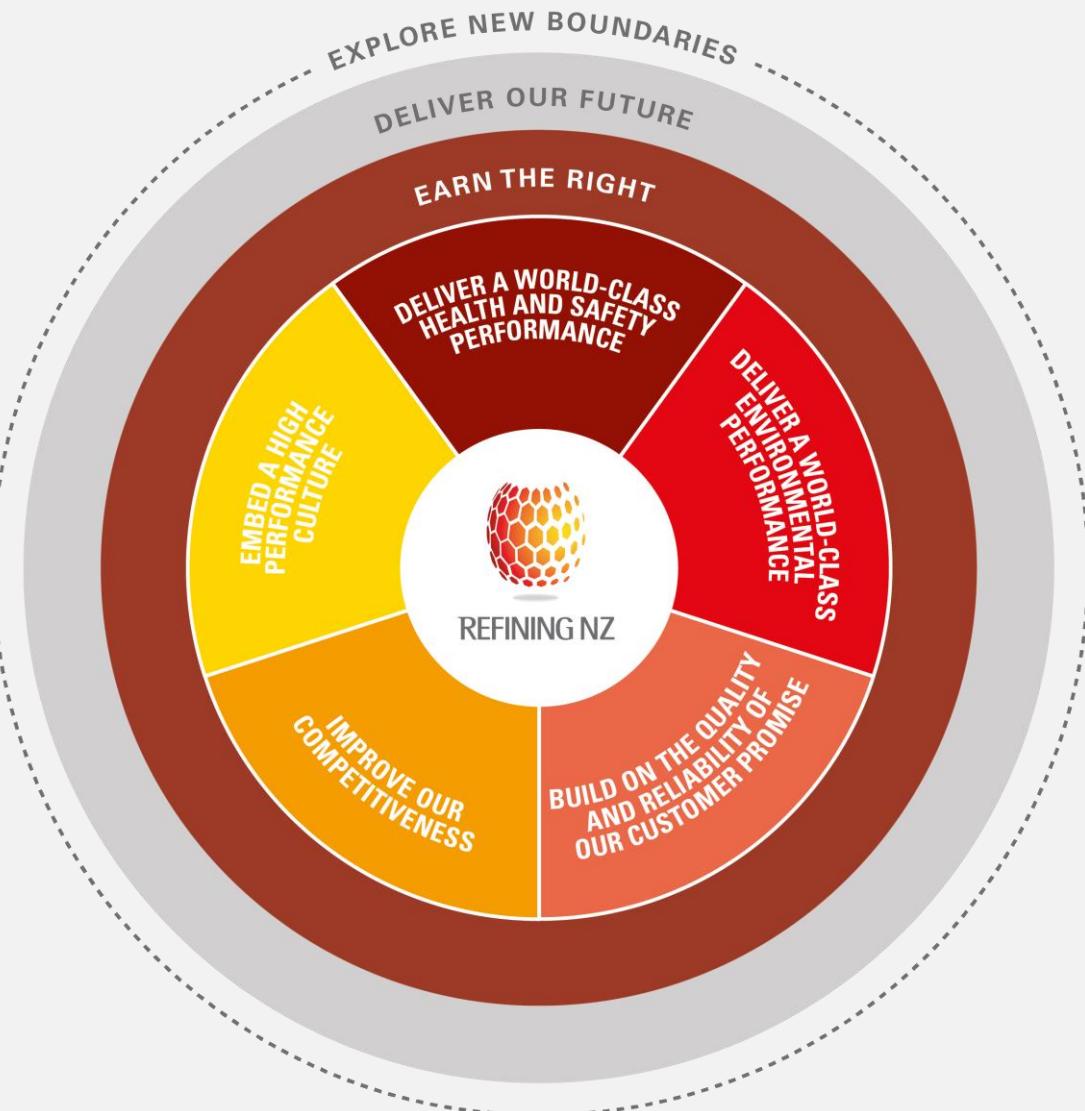
SUPPLY CHAIN  
AND BUSINESS  
OPTIMISATION  
MANAGER  
KEVIN STILL



CHIEF  
DEVELOPMENT  
OFFICER  
JULIAN YOUNG



# OUR STRATEGY

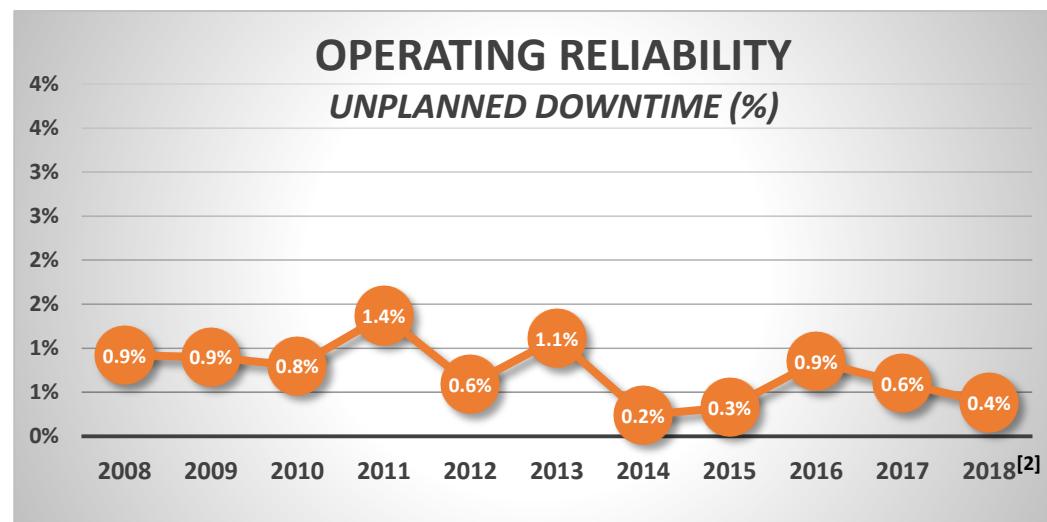
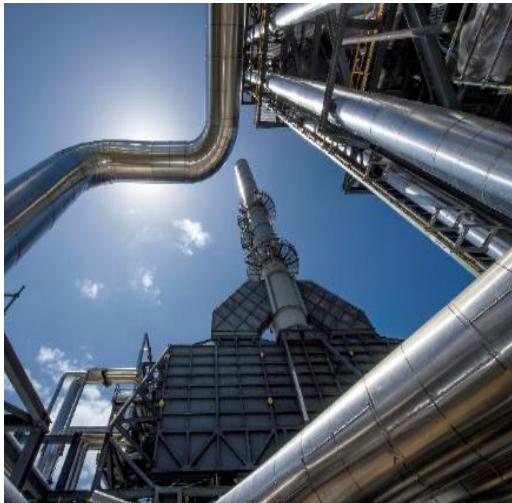


- Delivering the core business, “Earns the Right to Deliver our Future and Explore New Boundaries”
- Five key strategies to “Earn the Right”
  - Safety and wellbeing is a core value. We have robust management systems in place to help keep our people safe and the refinery running
  - We understand our responsibility to minimise the impact of our operations and have invested ~\$24 million in environmental projects since 2014
  - Our customer value proposition is based on price, quality and reliability
  - We maintain a relentless focus on ways to produce more high-value products from every barrel processed
  - Culture, shared values and the development of our people are core to our business



REFINING NZ

# CONTINUED INVESTMENT IN WORLD-CLASS RELIABILITY



- The refinery produces high quality products to earn a premium against Singapore benchmarks and has a location freight advantage
- History of investment:
  - Capital projects to deliver volume growth and increased profitability
  - Energy saving projects to improve competitiveness
- Well managed plant with plant reliability
- Potential opportunities identified to reduce costs and increase margins

[1]

Te Mahi Hou was the project name given to the Company's \$425 million investment in its petrol making plant, a Continuous Catalytic Reformer, successfully commissioned in Q4/2015

12

[2] Year to date 30 June 2018, excluding extended shutdown



# SIGNIFICANT MAINTENANCE SHUTDOWN COMPLETED

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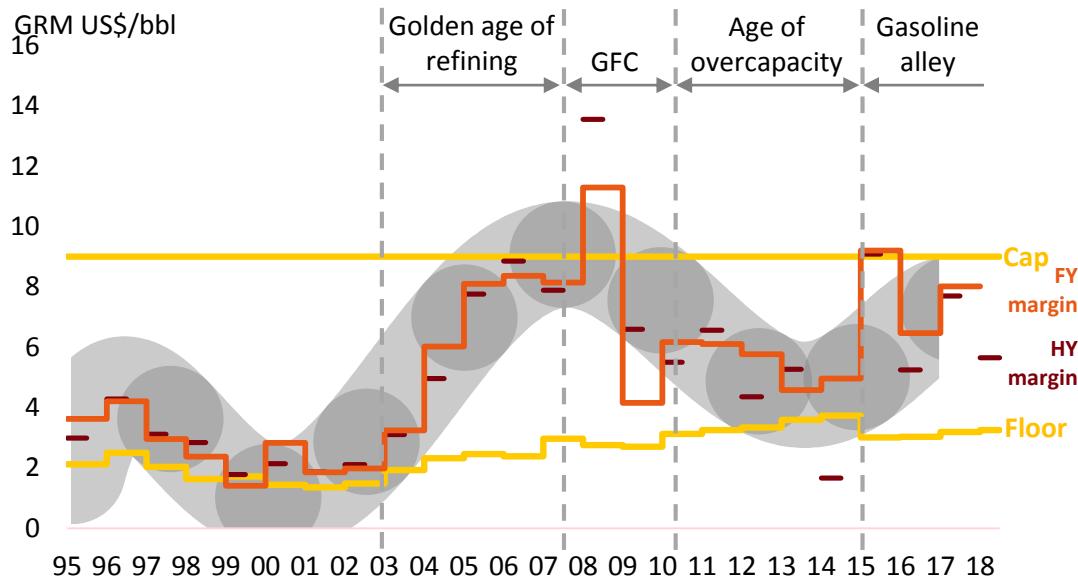


- Total Refinery Shutdown completed in June 2018:
  - One-in-fifteen year event
  - Major re-life of the plant
  - Complex brownfield retrofits
    - Hydrogen Manufacturing Unit
    - Mid-section replacement – High Vacuum Unit
- Financial
  - \$107 million capital invested
  - ~\$60 million 1H18 processing fee impact



REFINING NZ

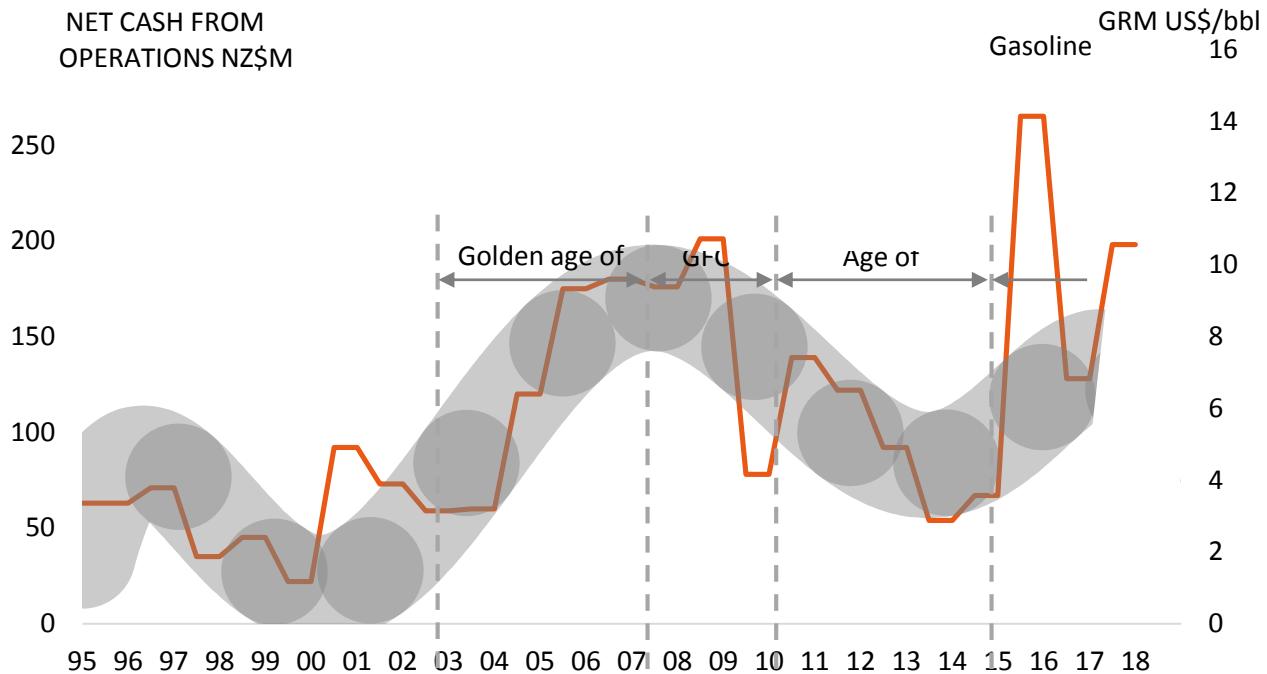
# PROCESSING AGREEMENTS



- **Processing Agreements**
  - “Evergreen” contracts in place since 1995, which continue unless:
    - renegotiated or terminated by mutual consent, or
    - by a customer on one year’s notice.
  - Determines processing fees based on feedstocks processed and products produced
  - Aligns interests of the company and its customers
- **Processing fee based on gross refining margin**
  - Linked to global refining margins to ensure international competitiveness
  - Contains a Fee Floor and a Margin Cap. Floor invoked twice since 1995
- **Regular, independent reviews to ensure “fair and reasonable” to all shareholders**



# STRONG CASH GENERATION



- Average annual cash from operations of ~\$135 million over last 10 years
- Cash flow has funded two significant capital projects:
  - 2015 Te Mahi Hou \$425 million<sup>[1]</sup>
  - 2009 Point Forward \$191 million<sup>[2]</sup>
- Dividends paid of \$409 million over last 10 years

[1] Te Mahi Hou was the project name given to the Company's \$425 million investment in its petrol making plant, a Continuous Catalytic Reformer. Total investments of \$425 million includes front end engineering and capitalised interest

[2] Point Forward Project debottlenecked the refinery's number 1 Crude Distilling Unit, increasing the units' throughput capacity. The refinery now has a processing capacity of around 135,000 barrels per day



REFINING NZ

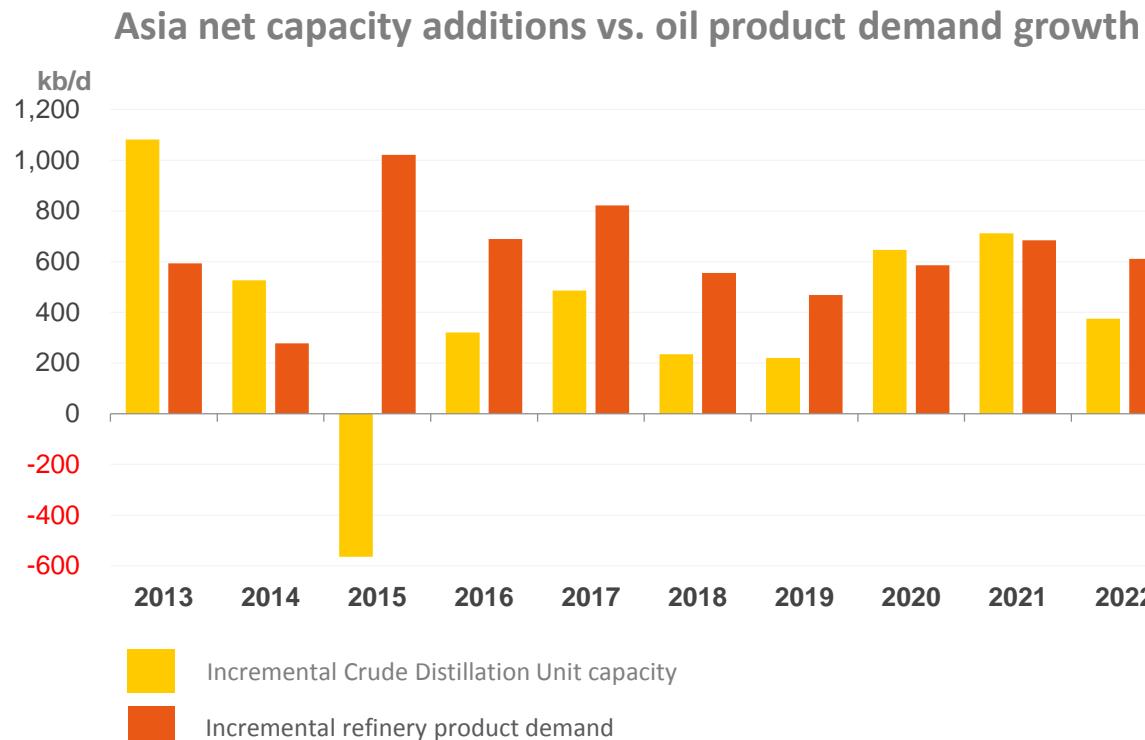
# OWNER OF CRITICAL FUEL DISTRIBUTION INFRASTRUCTURE

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- **170km Refinery to Auckland pipeline:**
  - Critical distribution asset supplying growing Auckland market
  - Transports 52% of New Zealand's fuel demand
  - Supplies all of Auckland Airport's jet fuel
  - RNZ charges a fee per barrel transported
- **Increasing pipeline capacity:**
  - Three stage project delivering additional 15% capacity (two stages complete; stage 3 in engineering development)
  - Longer-term, additional 40% capacity increase considered possible

# GROWTH IN ASIA PACIFIC FUEL DEMAND SUPPORTS RNZ MARGINS



Source: FACTS Global Energy (July 2018)

- Refining margins are driven by fuel demand and refining capacity
- Fuel demand expected to outpace refinery capacity additions for the foreseeable future
- Refining capacity additions and retirements “locked in” to early 2020s
- Caveat - IMO<sup>[1]</sup> switch from high sulphur fuel oil to low sulphur fuel oil for ships’ bunkers in 2020

# GROWTH FOCUS

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## Near Term



PIPELINE  
CAPACITY



SULPHUR  
FORMING



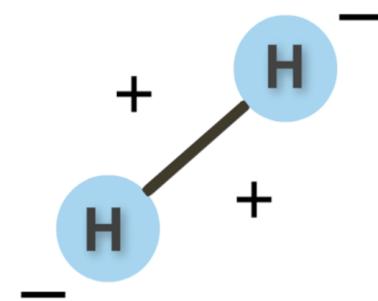
DREDGING

- RNZ constantly identifies projects to improve margins and efficiency
- History of successful short payback projects (hydrogen optimisation, additional nitrogen storage, variable speed drive on a key compressor in 1H18)
- Three projects under development to support margin growth in the near term

## Longer term



BIO-FUELS



HYDROGEN

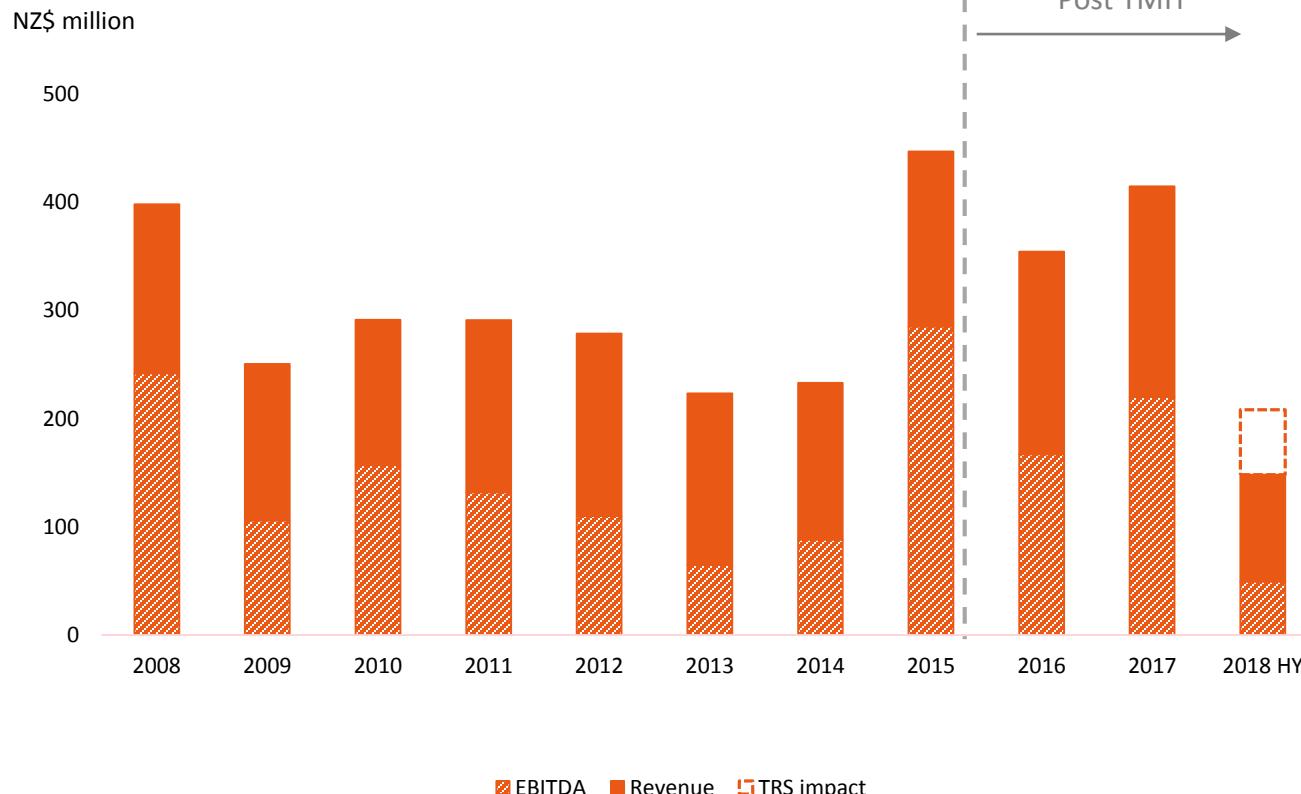
- RNZ sees opportunities to grow even in a carbon constrained world
  - Energy savings can be significant<sup>[1]</sup>
  - Bio and hydrogen fuels will have a future



# FINANCIAL OVERVIEW

# PROVEN RECORD OF STRONG RESULTS

## EBITDA AND REVENUE



- Strong macro continues
- Revenue and EBITDA uplifts in the recent 4 years
- TMH commissioned in November 2015
- 1H2018 impacted by Total Refinery Shutdown (TRS)

# PROVEN RECORD OF STRONG RESULTS

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(Group)	HY2018 \$M	FY2017 \$M	FY2016 \$M
Refining revenue	119	364	307
Distribution and other revenue	29	51	47
Cash costs	(99)	(194)	(187)
<b>EBITDA</b>	<b>49</b>	<b>221</b>	<b>167</b>
Depreciation and disposal costs	(46)	(96)	(87)
Net finance costs	(7)	(14)	(16)
Income tax	1	(32)	(17)
<b>Net profit after income tax</b>	<b>(3)</b>	<b>79</b>	<b>47</b>

- **FY17 Refining revenue +19%**
  - GRM: US\$8.02 (FY16: US\$6.47)
  - Unplanned downtime FY17: 0.6% (FY16: 0.85%)
- **One-off pipeline costs** (\$6m in FY17 and \$2m in HY18)
- **FY17 EBITDA +32%**
- **HY18 EBITDA TRS impact ~\$60m**
- **FY17 NPAT +65%**



# CASH GENERATIVE BUSINESS

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(Group)	HY2018 \$M	FY2017 \$M	FY2016 \$M
Operating activities	35	198	128
Investing activities	(110)	(95)	(81)
<b>Free Cash Flow<sup>[1]</sup></b>	<b>(75)</b>	<b>103</b>	<b>47</b>
Borrowings	102	(49)	19
Dividends	(38)	(38)	(72)
<b>Net decrease in cash and cash equivalents</b>	<b>(11)</b>	<b>(16)</b>	<b>(6)</b>

- Strong refining margins led to **55%** uplift in FY17 operating cash flow
- Although HY18 margins impacted by TRS<sup>[2]</sup>, margin fundamentals remained strong
- Investment in:
  - Growth projects – HY18: \$10m, FY17: \$16m
  - Maintenance shutdown (incl. catalysts) in HY18 – \$98m
- Financing:
  - Debt temporarily increased due to TRS<sup>[2]</sup>
  - Dividends of \$56m paid for FY17
- Recently revised dividend policy of **80%** of free cash flow<sup>[3]</sup>

[1] Net Cash from Operating Activities less capital spend

[2] Total Refinery Shutdown

[3] For our dividend policy refer to [www.refiningnz.com/investor-centre/dividends/](http://www.refiningnz.com/investor-centre/dividends/)



# ROBUST BALANCE SHEET

(Group)	HY2018 \$M	FY2017 \$M	FY2016 \$M
Cash and cash equivalents	7	18	2
Other current assets <sup>[1]</sup>	113	160	145
<b>Current assets</b>	<b>120</b>	<b>178</b>	<b>147</b>
Non-current assets <sup>[2]</sup>	1,230	1,155	1,143
<b>Assets</b>	<b>1,350</b>	<b>1,333</b>	<b>1,290</b>
Bank borrowings	50	-	69
Other current liabilities <sup>[3]</sup>	153	195	155
<b>Current liabilities</b>	<b>203</b>	<b>195</b>	<b>224</b>
Bank borrowings	222	170	150
Other non-current liabilities <sup>[4]</sup>	173	175	164
<b>Non-current liabilities</b>	<b>395</b>	<b>345</b>	<b>314</b>
<b>Liabilities</b>	<b>598</b>	<b>540</b>	<b>538</b>
<b>Net assets / Equity</b>	<b>752</b>	<b>793</b>	<b>752</b>

- Low working capital requirements as a ‘toll refiner’
- Current assets and liabilities include excise duty (2018: \$96m, 2017: \$130m, 2016: \$106m)
- Net tangible assets per security **\$2.41** (2017: \$2.54, 2016: \$2.43)
- Net gearing of 26% in HY18 due to TRS, and 16% in FY17 (long-term target gearing **~20%**)
- Current debt/2017 EBITDA: 1.2x (2017: 0.8x)

[1] Include Trade and other receivables, Derivative financial instruments, and Inventories

[2] Include Property, plant and equipment, Intangibles and Inventories

[3] Include Trade and other payables, Income tax payable, Finance lease liabilities, Employee benefits and Derivative financial instruments

[4] Includes Deferred tax liabilities, Employee benefits, Restoration provision, Derivative financial instruments and Finance lease liabilities



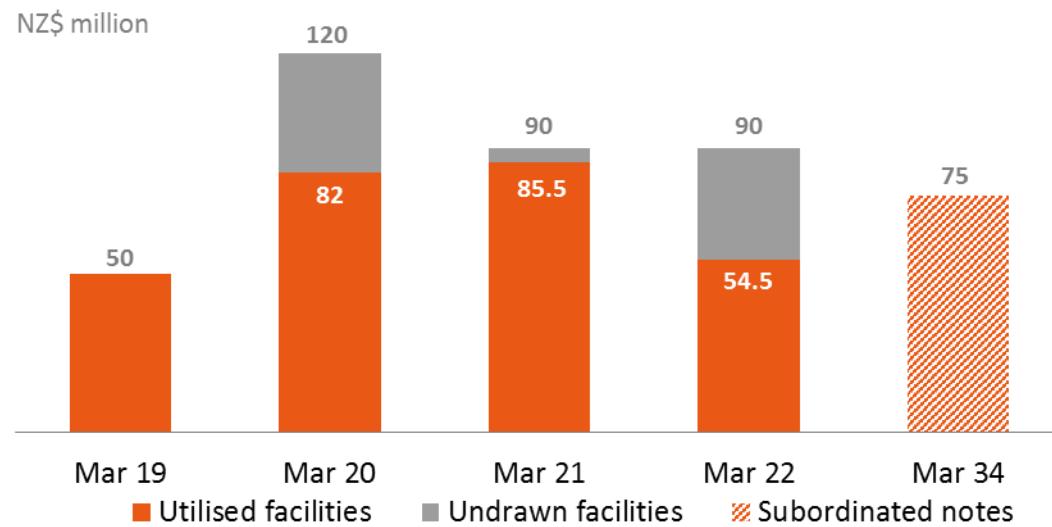


**SUBORDINATED  
NOTE OFFER**

# PURPOSE OF THE OFFER

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## Debt Profile Following Subordinated Note Issue



- Seeking to raise up to \$75 million of Subordinated Notes
- Net proceeds to be used to pay down a portion of existing bank debt
- Achieving:
  - Diversification of funding – 27.5% of drawn debt<sup>[1]</sup> from non-bank funding
  - Extended tenor – weighted average debt facilities maturity 4.3 years<sup>[2]</sup> (from 1.9 years)
- Increased flexibility following Subordinated Note issue



# KEY TERMS

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Summary	Detail
<b>Issuer</b>	The New Zealand Refining Company Limited
<b>Description</b>	Unsecured, subordinated notes
<b>Offer Amount</b>	Up to \$75,000,000
<b>Term</b>	Approximately 15 years, maturing on 1 March 2034 if not Redeemed prior to that date
<b>Election Dates</b>	5 years (1 March 2024) and 10 years (1 March 2029) after the First Interest Payment Date
<b>Interest Rate</b>	<p>The Subordinated Notes will pay a fixed rate of interest until the first Election Date.</p> <p>Paid semi-annually in arrear (to fit with bi-monthly Processing Fee cycle)</p> <p>First (short) interest payment to the initial subscriber</p>

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# KEY TERMS (CONTINUED)

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Summary	Detail
<b>Election Process</b>	No less than 30 Business Days prior to an Election Date, Refining NZ will provide notice of its election to either: <ul style="list-style-type: none"><li>• Redeem the Subordinated Notes on the Election Date; or</li><li>• Run an Election Process and offer New Conditions.</li></ul> If Refining NZ runs an Election Process, Subordinated Noteholders will be able to choose to hold some or all of their Subordinated Notes on the New Conditions or elect that Refining NZ Redeem some or all of their Subordinated Notes
<b>Early Redemption</b>	The Subordinated Notes will be Redeemed prior to the Maturity Date: <ul style="list-style-type: none"><li>• at Refining NZ's election on an Election Date or on an Anniversary Date;</li><li>• at Refining NZ's election if a Tax Event occurs;</li><li>• following an Event of Default at the option of the Supervisor, or if directed by an Extraordinary Resolution of Subordinated Noteholders; or</li><li>• at the option of an individual Subordinated Noteholder after a Change of Control Event or after an Election Process.</li></ul>
<b>Minimum Application Amount</b>	\$5,000 and multiples of \$1,000 thereafter
<b>Brokerage</b>	0.75% brokerage plus 0.50% commitment fee
<b>Early Bird Interest</b>	Payable at the Interest Rate
<b>Quotation</b>	NZX Debt Market under the ticker code NZR010
<b>Credit Rating</b>	Refining NZ and the Subordinated Notes are unrated



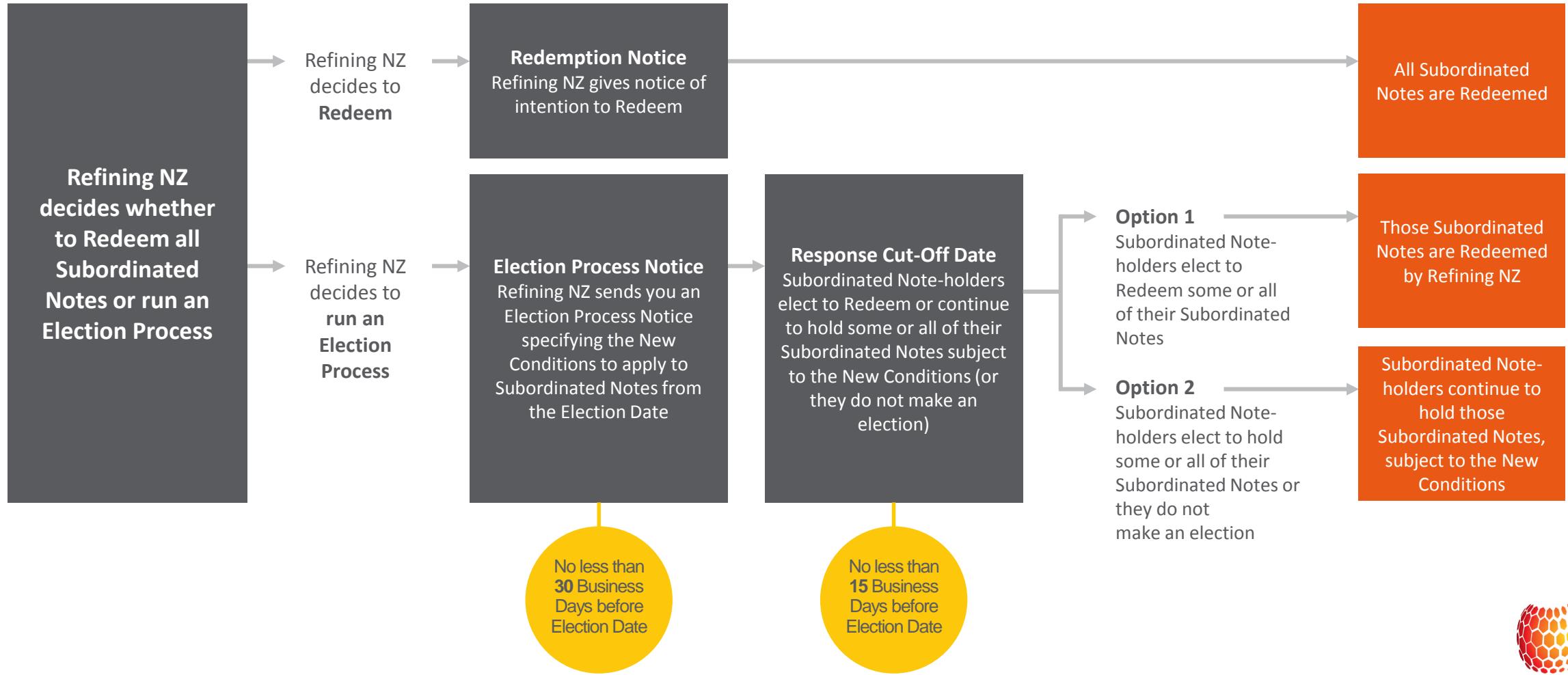
# INTEREST DEFERRAL

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<b>Summary</b>	<b>Detail</b>
<b>Interest Deferral</b>	<p>Refining NZ may defer the payment of interest at any time at its discretion.</p> <p>For the avoidance of doubt payment of interest is likely to be deferred if:</p> <ol style="list-style-type: none"><li>1. Refining NZ's operating revenue from processing fees for that interest period is at the pro rata floor level set in the Processing Agreements; or</li><li>2. Refining NZ customer has terminated or given notice of termination of its Processing Agreement with Refining NZ (and no replacement customer has been found).</li></ol> <p>Payment of interest will be deferred if:</p> <ol style="list-style-type: none"><li>1. An event of default (however defined in any agreement for borrowed money indebtedness) is continuing with respect to any borrowed money indebtedness of Refining NZ; or</li><li>2. Refining NZ is insolvent.</li></ol> <p>Any deferred interest will accrue interest on it at the Interest Rate until paid.</p>
<b>Dividend Stopper</b>	<p>Refining NZ will not be able to pay any dividend or make any other payments on or with respect to Shares, other securities or indebtedness ranking equally with or subordinate to the Subordinated Notes until all unpaid Deferred Interest is paid, without obtaining an Extraordinary Resolution of the Subordinated Noteholders.</p>



# ELECTION PROCESS



# KEY DATES

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Minimum interest rate and indicative issue margin announced	On or about 26 November 2018
Rate Set Date	29 November 2018
Opening Date	30 November 2018
Closing Date	12 December 2018
Issue Date and Allotment Date	14 December 2018
Expected date of initial quotation and trading of the Subordinated Notes on the NZX Debt Market	17 December 2018
Interest Payment Dates	1 March and 1 September each year [1]
First Interest Payment Date	1 March 2019
Election Dates	1 March 2024 and 1 March 2029
Maturity Date	1 March 2034 [2]

[1] If any date on which interest payment is due to be made is not a Business Day, payment shall instead be made on the next Business Day. Interest payments may be deferred at Refining NZ's discretion, as described in the PDS.

[2] The Subordinated Notes may Redeem before the Maturity Date in some circumstances, as described in the PDS





Q&A