

Strategic Review



REFINING NZ
Your Energy Hive



15 April 2020

DISCLAIMER

- This presentation does not constitute an offer or invitation by The New Zealand Refining Company Limited (hereafter referred to as “Refining NZ”) or any of its subsidiaries (together “the Group”) or any other person to acquire any securities in Refining NZ or any part of the Group’s business or assets.
- This presentation contains forward looking statements concerning the strategy, plans, projections, assumptions, expectations, forecasts, prospects, potential exposure to the market and business risks, financial condition, results and operations of the Group.
- Forward looking statements are subject to the risks and uncertainties associated with the refining environment, including price/refining margin and foreign currency fluctuations, regulatory changes, environmental factors, production results, site and infrastructure operations, demand for Refining NZ’s products or services and other conditions. Forward looking statements are based on management’s current expectations and assumptions, which may or may not prove to be correct, reasonable or reliable, and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements.
- Forward-looking statements are all statements other than statements of historical fact, including (without limitation) any statement regarding strategy, financial condition, plans, projections, assumptions, expectations, prospects, estimates, forecasts, management targets, potential exposure to market and business risks, and any other statement or estimate regarding the future prospects or performance of the Group, its business or its assets.
- Readers should not place undue reliance on forward looking statements. Forward looking statements should be read in conjunction with Refining NZ’s financial statements available on its website: <https://www.refiningnz.com/>. This presentation is for information purposes only and does not constitute legal, financial, tax, financial product advice or investment advice or a recommendation to acquire Refining NZ’s securities, and has been prepared without taking into account the objectives, financial situation or needs of individuals. Before making an investment decision, you should consider the appropriateness of the information having regard to your own objectives, financial situation and needs and consult an NZX Firm or solicitor, accountant or other professional adviser if necessary. Any reliance by any person on any information in this presentation is a matter for that person’s own judgement and no liability is accepted by any member of the Group or any of their officers, directors, agents, employees or advisors for any such reliance.
- In light of these risks, results could differ materially from those stated, implied or inferred from the forward looking statements contained in this presentation. Refining NZ does not guarantee future performance and past performance information is for illustrative purposes only. To the maximum extent permitted by law, the directors of Refining NZ, Refining NZ and any of its related bodies corporate and affiliates, and their offices, partners, employees, agents, associates and advisers do not make any representation or warranty, express or implied, as to accuracy, reliability, reasonableness, or completeness of the information in this presentation, or likelihood of fulfilment of any forward looking statement or any event or results expressed or implied in any forward looking statement, and disclaim all responsibility and liability for these forward looking statements and the information (or omission therefrom) in this presentation (including, without limitation, liability for negligence).
- Except as required by law or regulation (including the NZX Main Board Listing Rules), Refining NZ undertakes no obligation to provide any additional or updated information whether as a result of new information, future events or results or otherwise.
- Forward looking figures in this presentation are unaudited and may include non-GAAP financial measures and information. Not all of the financial information (including any non-GAAP information) will have been prepared in accordance with, nor is it intended to comply with: (i) the financial or other reporting requirements of any regulatory body or any applicable legislation; or (ii) the accounting principles generally accepted in New Zealand or any other jurisdiction with IFRS. Some figures may be rounded and so actual calculation of the figures may differ from the figures in this presentation. Non-GAAP financial information does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. Non-GAAP financial information in this presentation is not audited or reviewed.
- Each forward looking statement speaks only as of the date of this presentation, 15 April 2020.

-
- Refining NZ is announcing a Strategic Review aimed at determining the optimal business model and capital structure for its assets that aims to maximise “through the cycle” returns to shareholders and deliver secure, competitive fuel supply for New Zealand
 - Refining NZ has quickly responded to the challenges of COVID-19, reaching a short-term agreement with customers, on the basis of which, the refinery plans to operate on a cash neutral basis in 2020, in part by deferring significant shutdown and capital expenditure until 2021
 - Regardless of COVID-19, Refining NZ has been challenged by low refining margins globally and the outlook for oversupply in the Asian region, leading to further import competition into New Zealand
 - Refining NZ has a unique mix of critical skills, capabilities and infrastructure that form a core part of New Zealand’s transport fuel supply chain. The aim of the Strategic Review is to determine the optimal use of these assets and the unique skills and capabilities of our people to support secure, competitive fuel supply to New Zealand, now and into a lower carbon future
 - The Strategic Review will consider opportunities to improve the competitiveness of refining operations, the separation of the refining and infrastructure assets and options to convert to a fuel import business model, plus the capital structure required to maximise value for shareholders
 - Refining NZ’s new CEO Naomi James will lead the Strategic Review, working closely with staff, external advisers and stakeholders. An update on the Strategic Review process is expected in June 2020
-

The processing agreements were entered into in 1995, however since this date there have been significant changes in the nature of the market

Refining NZ has invested to expand processing capacity, improve product quality, reduce emissions and maintain facilities, but these investments have not delivered an acceptable return over the last 10 years

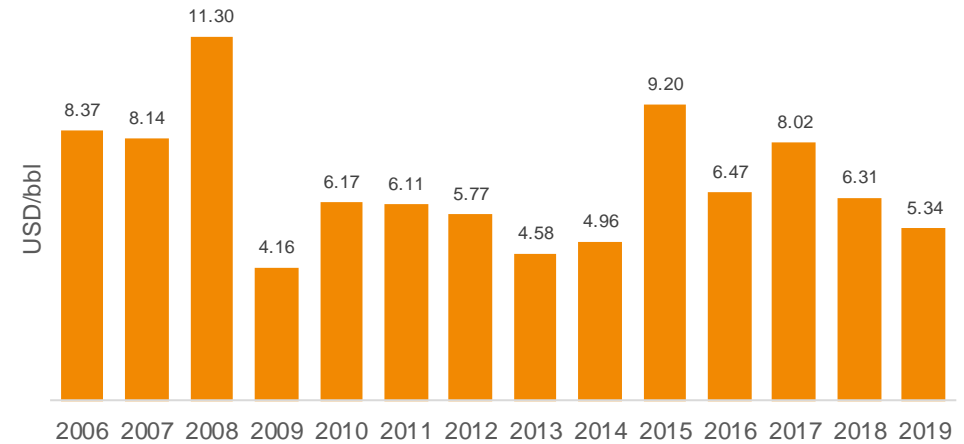
Significant new supply has come online in China, Korea, Singapore and India, and these larger integrated refining facilities in low cost economies are producing large volumes of low cost product putting significant downward pressure on regional margins

Low margins have been compounded by significant increases in the market price of electricity in New Zealand, meaning that at the fee floor in the processing agreements Refining NZ does not cover its cash costs

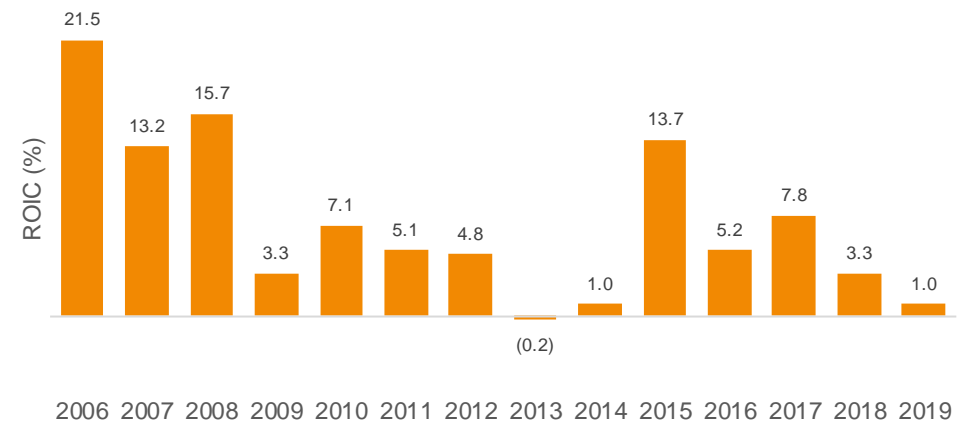
While COVID-19 is impacting operations in the short term, Refining NZ believes that the market conditions that have necessitated the review are structural

Refining NZ will work with its major customers and stakeholders to consider all options to provide a secure, competitive fuel supply to New Zealand now and into a lower carbon future

Refining NZ Gross Refining Margin, 2006-2019



Refining NZ Return on Invested Capital, 2006-2019¹



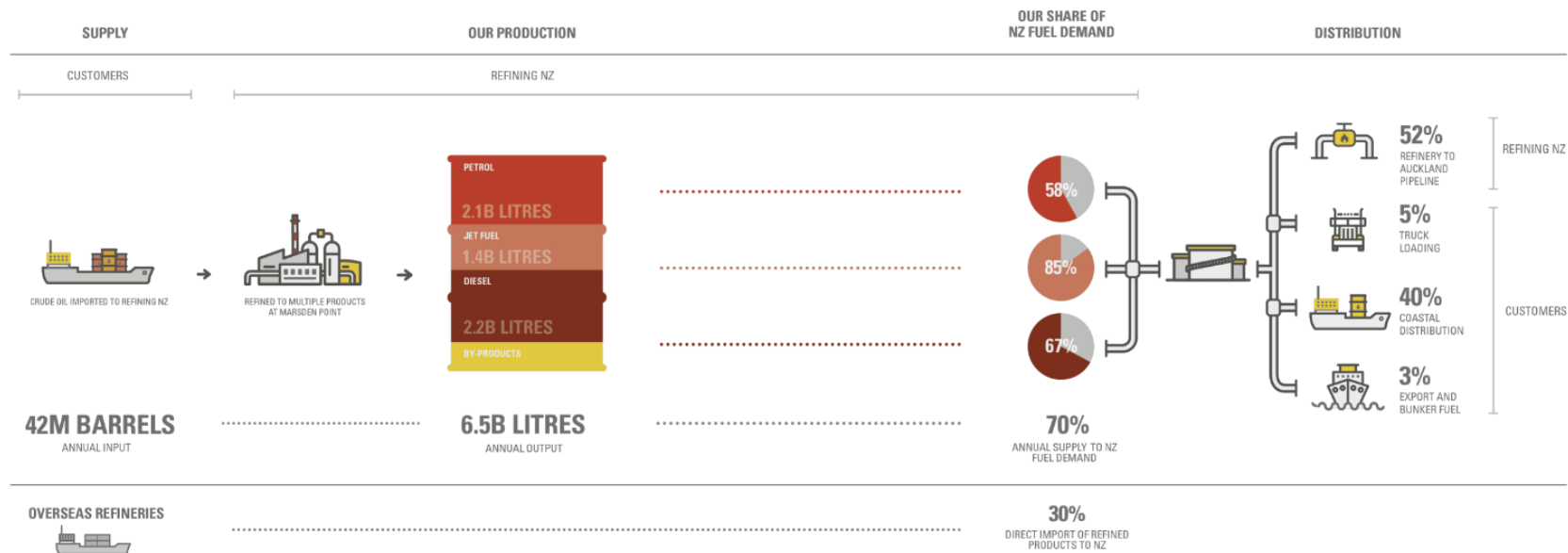
1) 2006 was the first year for full adoption of NZ IFRS, comparing returns on capital in earlier years would be misleading

Refining NZ’s assets play a critical role in the supply of transport fuel in New Zealand and the Company’s infrastructure position provides a strong competitive advantage, particularly in the supply of fuels to Auckland and surrounding areas

The assets owned by Refining NZ are highly integrated in New Zealand’s fuel supply chain, including the Wiri terminal (servicing the wider Auckland region, Waikato and Auckland Airport), the truck loading facility at Marsden Point (which serves the Northland region) and coastal ships (that serve more southern domestic markets)

Refining NZ’s land is adjacent to Northport, which is growing in strategic importance for broader importing activity into New Zealand’s North Island. Access is expected to be improved following the Government announcements of upgrades to the rail network

Some of Refining NZ’s assets and capabilities could facilitate New Zealand’s transition to a lower carbon economy, including hydrogen and biofuels



Currently, our view is that the refinery is not able to earn its cost of capital through the cycle due to the changes in the underlying cost of operations and regional competitive conditions combined with the structure of the processing agreements

A fundamental change in the competitiveness of refining operations and the economics of Refining NZ’s business model is required

Immediate opportunities

Crude slate and yield

Energy cost

Lower cash break-even

- Opportunities for improvement include
 - Optimisation of crude scheduling and diet
 - Sourcing lower cost energy
 - Advanced process controls to maximise higher value product yield and optimised energy consumption
 - Reduce maintenance costs through efficiencies and improved process alignment
 - Optimisation of turnaround cycles and duration
- This will be compared to alternative models e.g. an import terminal

Examples of opportunities to support New Zealand’s transition to a lower carbon economy

Solar energy

- Progress Maranga Ra solar farm project

Hydrogen production

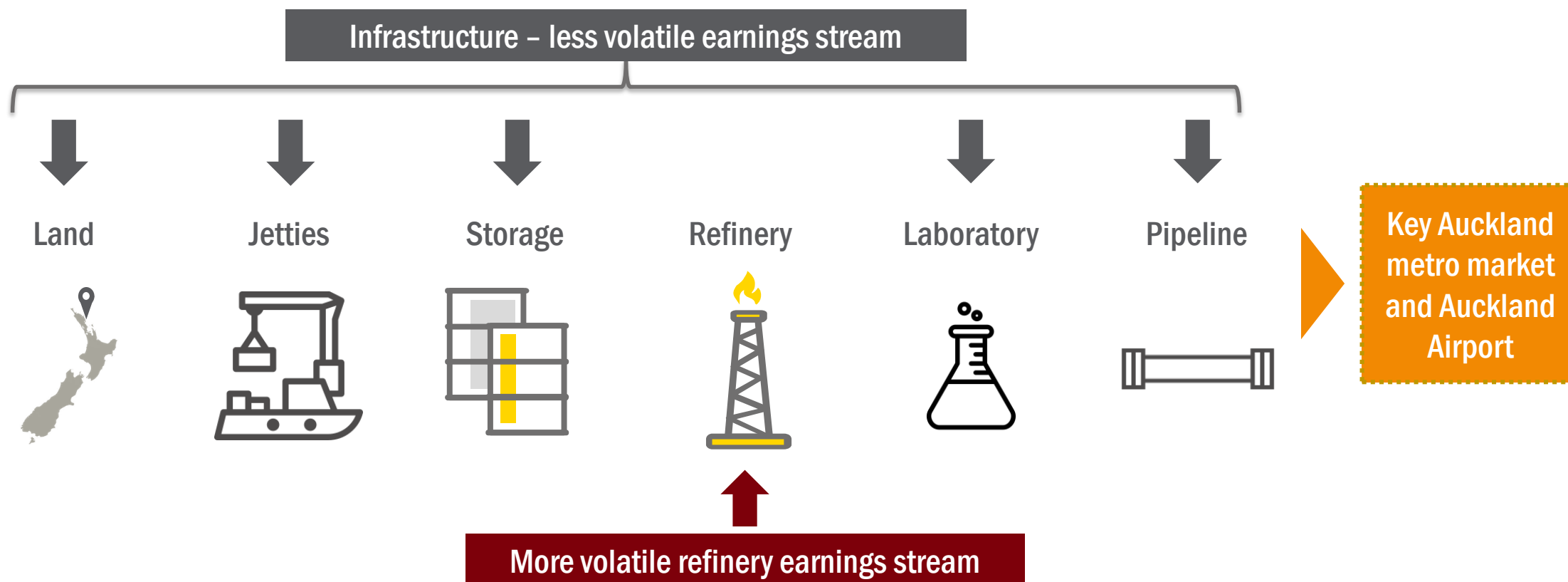
- New Zealand’s largest producer of hydrogen – potential for green hydrogen
- Expectation is that hydrogen will be a key component of the future energy mix
- Provides unique capabilities for future transition to lower carbon fuels

Bio fuels

- Critical alternative for aviation and heavy trucking
- Access to land, water and renewable energy

Refining NZ's refinery and infrastructure assets are all currently owned and operated by a single vehicle, and commercial terms with customers are primarily governed by the processing agreements

The company believes that the value of the infrastructure assets is not appropriately reflected in its share price and part of the Strategic Review will seek to address this



Refining NZ will consider different options to determine the optimal business model and capital structure for its assets that will maximise “through the cycle” returns to shareholders, and deliver secure, competitive fuel supply to New Zealand

Strategic Review options

Continue current refinery model

- Improvements within the current refining operating model (e.g. cost efficiencies, crude purchasing and selection)

Alter refinery operating model

- Adjustments to the processing agreements, distribution arrangements

Separate refining and infrastructure assets

- Changes to structure and funding profile e.g. entities with different risk profiles and returns

Convert to an import terminal

- Conversion from refining to terminal operations under new commercial arrangements

Future Growth options

- The Strategic review will evaluate growth potential under different operating models
- This will include an evaluation of New Zealand’s fuel distribution network
- New Zealand currently has geographically dispersed fuel terminals, ports, pipelines, truck loading and airport fuel facilities, and a coastal shipping network
- Opportunities may exist to improve existing networks or reorganize control and coordination of fuel supply
- Refining NZ also has options to progress its Maranga Ra solar farm project and other low carbon energy options





Refining NZ has appointed external advisers to assist with the Strategic Review

We are considering all available options to create value for shareholders and support secure, competitive fuel supply to New Zealand, now and into a lower carbon future

We are actively engaging with employees, customers, Government and other stakeholders

Refining NZ expects to update the market on the Strategic Review in June 2020

