Acquisition of Shell NZ Downstream Oil assets





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SNZ – high quality asset in an attractive industry

- **Transaction terms and purchase price**
  - 50/50 JV between Infratil and NZ Super
  - Acquisition scheduled to close on April 1, 2010
  - $696.5 million base purchase price
    - plus net working capital (NWC) adjustment for NWC at close in excess of $208m
    - includes 17.1% stake in NZ Refining (value approximately $190m)

- **Key investment highlights**
  - Structurally attractive industry
  - Leading market share position
  - Strong cash-flows with long-term business improvement initiatives and reinvestment potential
  - Experienced local management team focused on optimising New Zealand outcomes

How does downstream oil fit with IFT?

- Strong cash flow asset with material reinvestment potential in an industry about to undergo significant change
- Market leader in most segments with competitive cost base and access to critical infrastructure
- Quality portfolio of commercial customers and retail sites
- Should respond well to selective investment after many years of limited available capital
- IFT familiarity with energy and transport supplemented by industry hires and third-party advisors where necessary
- Opportunity to invest in a substantial NZ business

What is being acquired

Supply & Inventory	Refining & National Distribution	Storage, terminal & Regional Distribution	Retail & Commercial Sales
			
• Annual purchase of 2,500m litres of crude and refined product and its delivery to New Zealand • Finance and management of up to 650m litres of fuel inventory	• 17.1% of the New Zealand Refining Company • Process agreements to source finished product • 25% share in coastal shipping network • 47.9m shares in NZRC approx $190m market value	• 12 storage and terminal facilities around New Zealand • Delivery from regional depots directly to commercial users or to service stations and truck stops	• 229 service stations and 95 truck stops nationwide • Other specialist fuel facilities for aviation, marine and commercial users • 25% of Fly Buys

Transaction overview

- 50/50 Joint Venture between Infratil Limited and the NZ Superannuation Fund
- $696.5 million base purchase price:
  - Includes 47.9m shares in NZ Refining (17.1% stake)
  - Plus/minus a working capital adjustment for actual values on 1 April 2010 above/below $208m
  - Normalised NWC over 12 months is expected to be closer to $250m
  - NWC can fluctuate significantly at period-end as a result of crude shipments, oil prices and FX rates
  - $13.5 million advance license royalty payment for brand
- $420m equity capital
- $600m total debt facilities to fund acquisition, working capital fluctuations and future activity:
  - $350m core bank debt
  - $250m working capital facility

PURCHASE PRICE ANALYSIS:

$696m base consideration

Adjustments:

- $190m NZRC stake

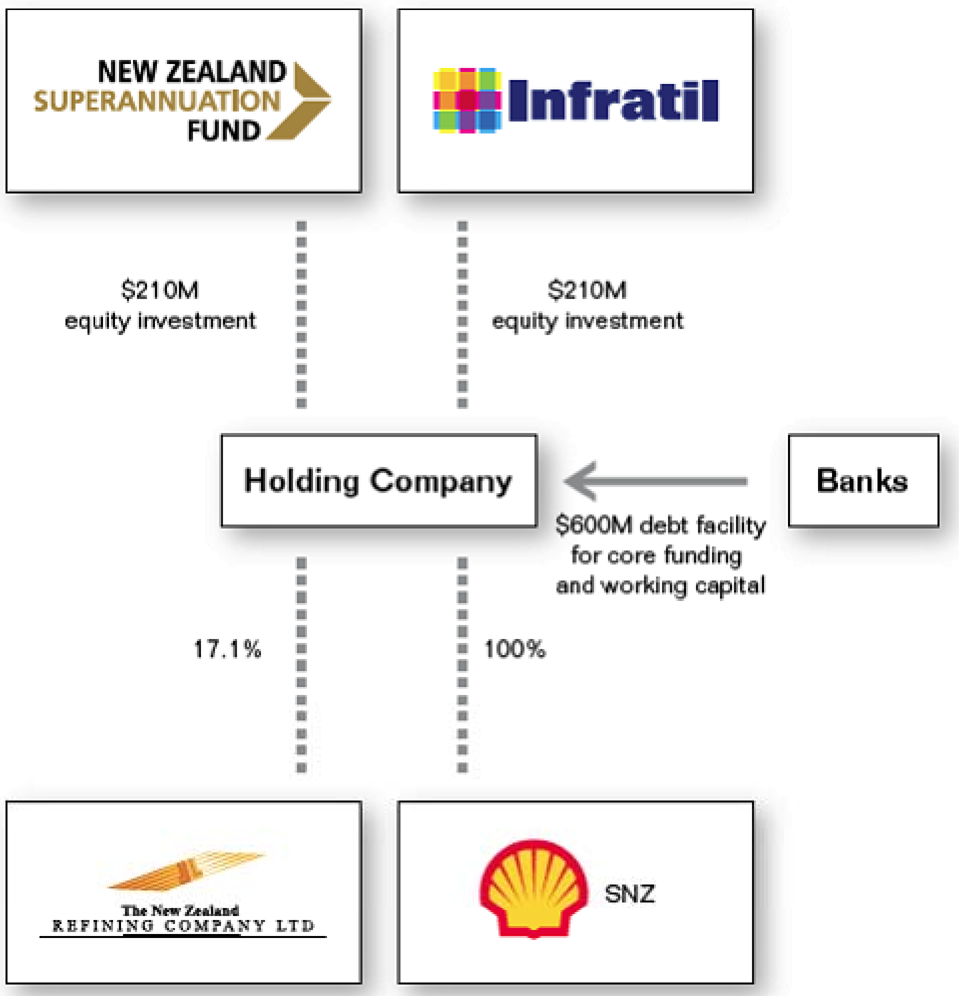
+ $42m[1] to normalise NWC

= normalised EV of $548m

- **2009 current cost EBITDA of $138m**
- **2009 historic cost EBITDA of $176m**

[1] ($250m normalised NWC less $208m included in base purchase price)

Transaction structure



- Infratil and the New Zealand Superannuation Fund will each subscribe for $210 million of equity in a new Holdco (total $420m equity)
- Holdco will use bank facilities to fund the remainder of the purchase consideration
  - $696.5m base acquisition price +/- any net working capital adjustment on 1/4/10 (to be determined)
- Agreement provides for specific indemnities related to litigation, tax and environmental risks

Impact on IFT consolidated accounts

- Statutory reporting based on FIFO result for valuing inventory
- Internal performance reporting based on a "current cost" valuation for inventory
  - Industry norm for monitoring retail margins given the need to reflect the current wholesale cost of product

Year ended 31 Dec 2009 $ million	**SNZ Pro-forma**
Reported EBITDAF	$179
Depreciation	($22)
Additional debt interest	*($30)*
NPBT	**$127**
Tax	($38)
Net Surplus	**$89**

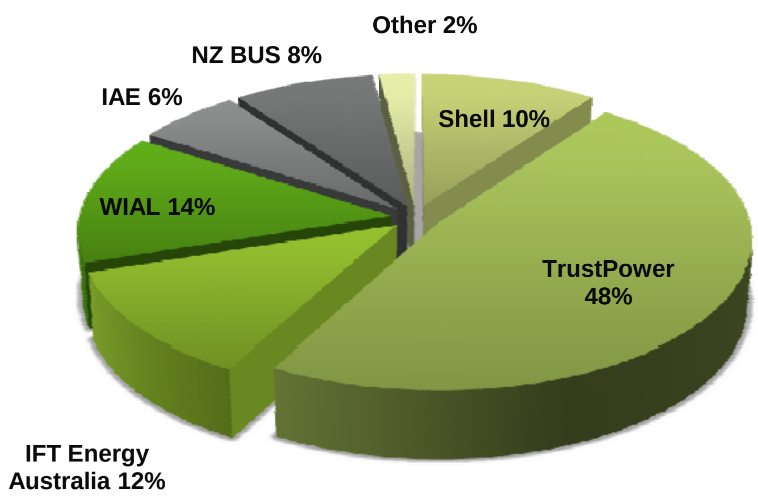
2009 PRO-FORMA

- Pro-forma SNZ result for December 2009 would have shown accretion at the IFT consolidated level after all financing costs ($10m pa = actual current marginal cost on the $210m investment)
  - EPS +6cps
  - SNZ would also have been accretive from a cash basis after financing, capex, and dividends

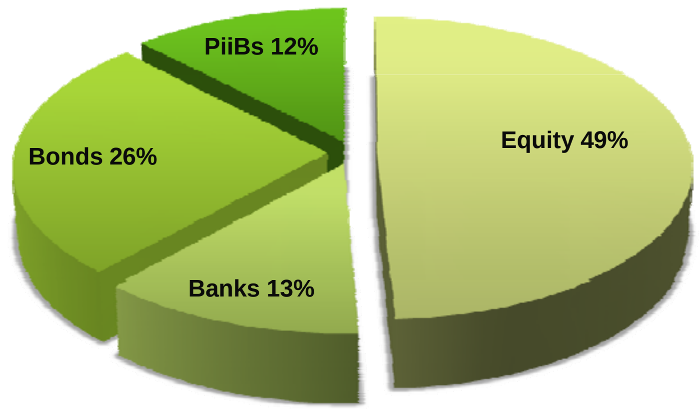
Year ended 31 Dec 2009 $ million	**Pro-forma impact on IFT**
Tax paid associate earnings	$44
Additional debt interest	($10)
NPBT	**$34**
Tax credit	$3
Net Surplus	**$37**
Per share/IFTWB 606.6m	6 cps

Infratil asset mix and capital structure – post Shell

IFT asset mix



IFT parent capital structure



Shell NZ customer experience

- In the short term change will not be obvious to retail customers
- Procurement is being undertaken by Shell on behalf of the new owners
- Shell's fuel technology and product development will continue to be available
- Shell has agreed to allow medium term use of the Shell brand for retail sales
- Marketing initiatives and competitive retail pricing of fuels will remain

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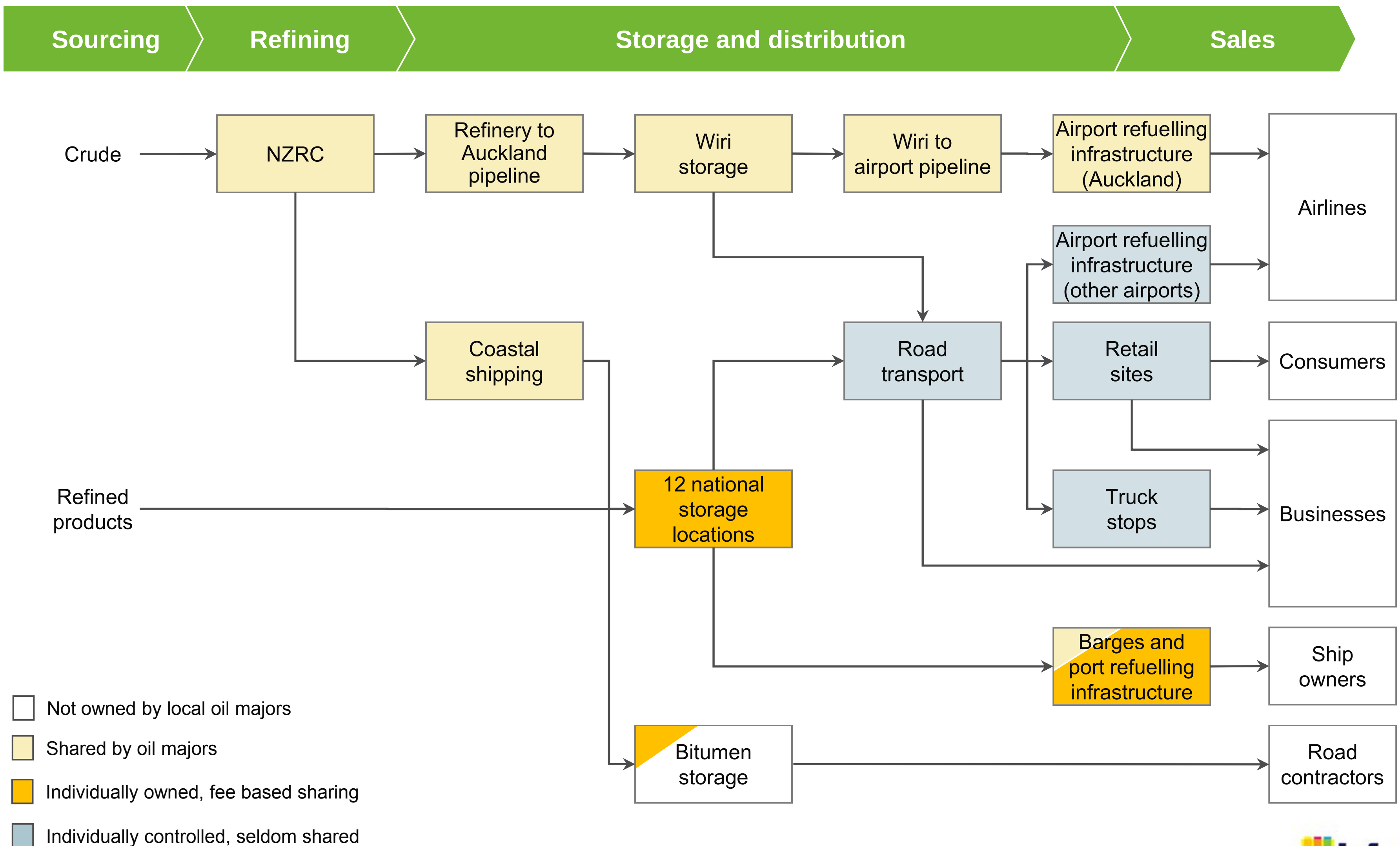
Industry Overview

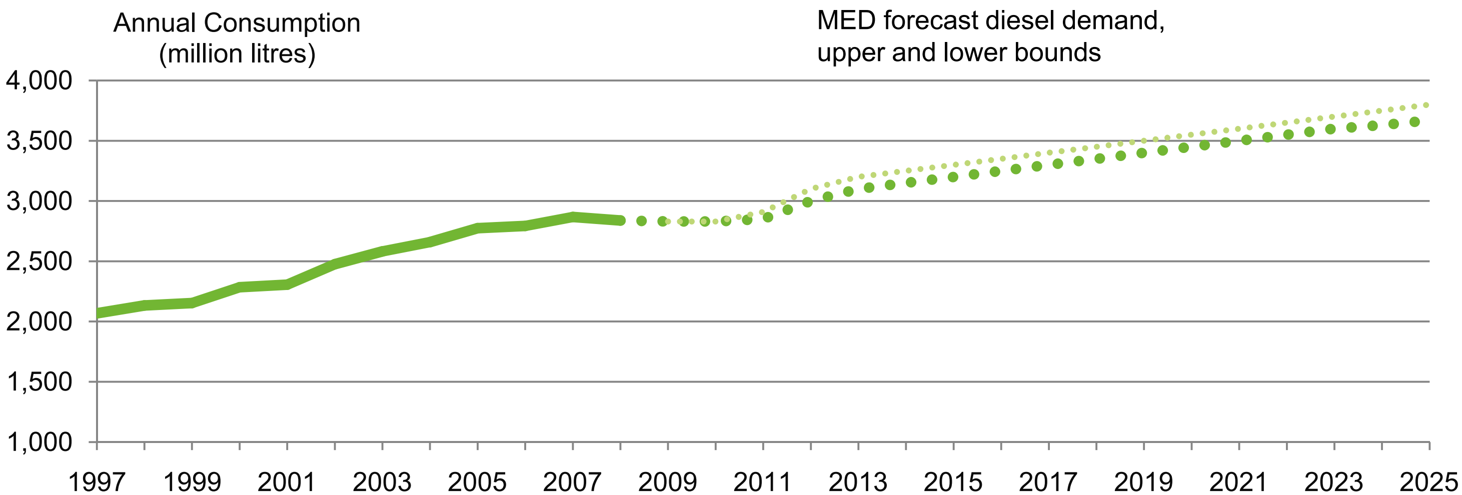
Overview of the NZ downstream oil industry

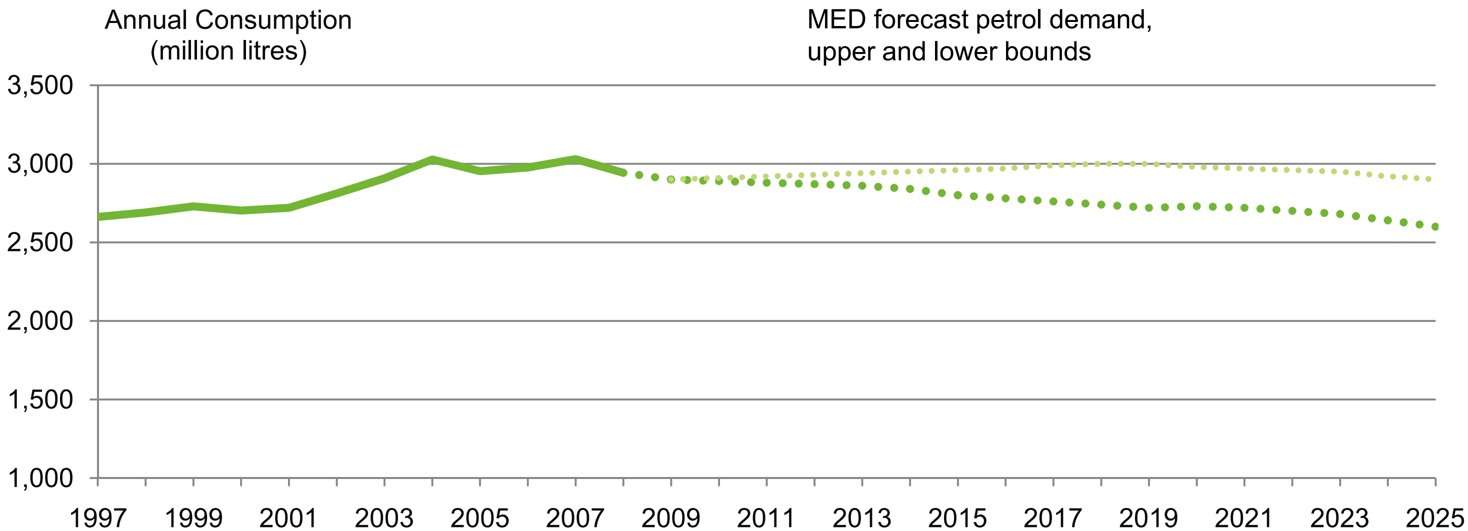


Overview of the NZ downstream oil industry (cont'd)

	Supply	Refining	Distribution	Channel
Key players	Shell BP Chevron Mobil Oil trading agents	NZRC	Shell BP Caltex Mobil Gull	Retail Business to business fuels Specialty (eg chemicals)
Description	• Crude and refined product sourced from overseas upstream producers • Majors typically use their own proprietary trading desks • Various markets & trading agents available	• NZRC is the sole refinery in NZ • Produces approx 70-80% of NZ's finished product (balance is imported) • Majors are shareholders • Direct pipeline from NZRC (Marsden point) to Auckland, largest market	• Product is distributed around country via shared coastal shipping arrangement (COLL) • Shared industry arrangement provides tankage throughout NZ • Fuel in a shared tank anywhere in the country means a Major can draw fuel from any other tank in the country (within limits) • Also some proprietary distribution assets (eg Woolston pipeline)	• Marketing channels to final customer • Retail: Branded service stations nationwide. Various owner/operator models available. Convenience retail a key supplementary income • B2B: Includes marine, aviation, and bulk fuels

NZ diesel and petrol demand projections





Source: NZ Ministry of Economic Development

Industry has structurally attractive elements

- Volatile crude and product prices are largely passed through to end users
- Demand is quite robust relative to normal fluctuations in price
  - NZ retail petrol demand has declined 1% since 2004 despite pump prices fluctuating within a much broader range
- Market currently has 4 key players
  - Shell and BP currently have ≈ 56% retail market share in NZ
- Difficult to replicate assets and infrastructure
  - Single tolling refinery producing 70-75% of NZ's finished product needs
  - Distribution pipelines, storage facilities and on-airport JV's
- Competitive environment is likely to be favourable to a new local owner
  - Evidence of a growing consumer preference for local companies, e.g. Kiwibank
  - Multinational oil majors focusing investment on upstream and exploration activities (Mobil has announced it's intention to exit NZ downstream)
  - Signals interpreted as the beginning of a potentially significant industry restructure

Shell NZ provides a strong entry point

Sourcing

Crude supply, procurement, inventory, funding and risk management

- Ongoing relationship with Shell global trading desk (trading and logistics expertise) and access to the right crudes and finished product for the NZ market

Refining

70% of SNZ's product requirements are sourced from NZ Refining Company

- Buying 17.1% share of NZRC during a period of bottom-of-cycle margins
- Contract terms provide a benefit relative to importing refined products
- Refinery to Auckland pipeline provides lowest cost distribution option

Storage and distribution

National network of storage and distribution facilities

- Significant competitive advantage arising from economies of scale
- Coastal shipping and terminal facilities at 12 locations around NZ
- SNZ owned assets supplemented by shared industry facilities

Sales

SNZ is the market leader in most market segments

- Well located nationwide network of retail sites and truck stops
- Retail site volumes average ≈ 5mL pa compared to industry ≈ 2.7mL pa
- Unique loyalty programs of FlyBuys and supermarket dockets

Future sources of value

Sourcing	• Improve the economics and flexibility of the crude and product supply arrangements • Increase economies of scale through shared sourcing, e.g. freight and crude shipments
Refining	• Explore increased optimisation within NZRC tolling arrangements • Make build or buy decisions on an integrated margin basis
Storage & distribution	• Increase import terminal storage to enable improved freight economics and reliability • Optimise cost structures as existing JV's flex with changes in industry structure – i.e. transport, distribution, and storage
Sales	• Invest in an improved overall retail offer • Make decisions based on local context and an integrated business model • Options around carbon pricing and risk management for third parties

Benefits to NZ Inc and local stakeholders

Profits retained in New Zealand

- SNZ and NZRC dividends will mainly flow to NZ shareholders, and the public via NZ Super Fund
  - Closer proximity of capital providers and operations will result in a more pragmatic approach to investing in the business

More local jobs and staff training

- On-shoring of many roles currently performed overseas
  - Front-line roles such as the customer service centre, presently based in Manilla
  - Highly skilled knowledge based roles such as Asset Management and Marketing
- Training and skill development required for front-line staff to deliver new customer offers

Increased capital spend with local businesses

- Upgrading core corporate IT systems and retail POS systems
- Potential re-imaging of all physical assets nationwide – design, engineering, construction
- New infrastructure (e.g. import terminals) and upgraded convenience offer

Local R&D activity

- On-shoring of R&D in products and services, which are tailored to the NZ market
- Concept trials and pilot programmes conducted locally, rather than offshore by Shell

Improved customer offers

- Innovative new offers for business customers, unconstrained by Shell global policy
- Upgraded retail offer through broadening and/or deepening options

Shell NZ Financial and Operational Metrics

Shell NZ historic financial performance

Year ended 31 December $ million	2005	2006	2007	2008	2009
Revenue (excluding tax)	$1,788	$2,206	$2,175	$2,942	$2,152
Gross margin	$289	$315	$288	$399	$368
Operating costs	($171)	($204)	($208)	($245)	($230)
Current Cost EBITDA	**$118**	**$111**	**$80**	**$154**	**$138**
Stock value adjustment	$55	$47	$70	($160)	$38
Historic Cost EBITDA	**$173**	**$158**	**$150**	**($6)**	**$176**
Depreciation	($27)	($23)	($20)	($21)	($22)
NZRC contribution	$41	$41	$33	$32	$3
Group Reported Earnings before Interest & Tax	**$187**	**$176**	**$163**	**$5**	**$157**

Stable, growing core earnings

- Current cost earnings reflect historic cost earnings adjusting COGS by restating opening and closing balance of inventory at the average cost per litre for the period
- NZ GAAP earnings will reflect historic cost or FIFO-based methodology

Shell NZ historic operational metrics

Year ended 31 December $ million	2005	2006	2007	2008	2009
Crude price range NZ$/bbl	$49.18 – $84.30	$80.95 – $113.42	$71.44 – $116.96	$64.49 – $180.75	$65.13 – $111.51
Sales (million litres)	2,519	2,479	2,538	2,610	2,508
Sourced from Refinery (%)	67%	70%	64%	67%	70%
Distributed to retail (%)	49%	50%	49%	47%	50%
Inventory (million litres)	630	516	533	456	411
Current Cost EBITDA	**$118m**	**$111m**	**$80m**	**$154m**	**$138m**

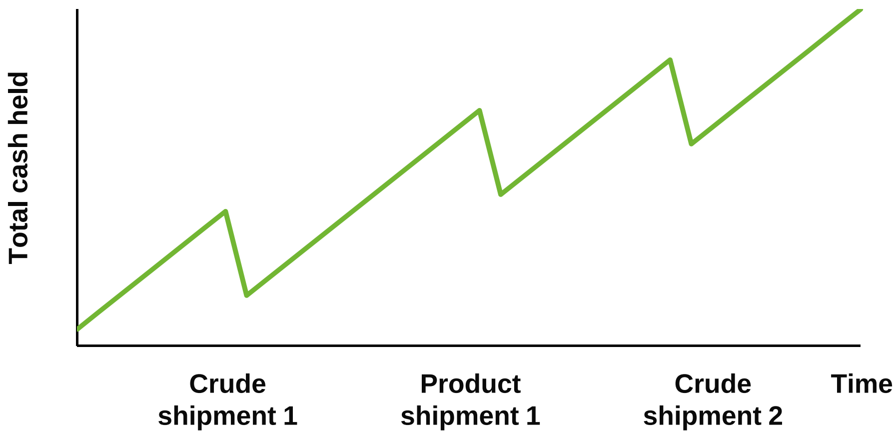
Stable sales volumes and increased margins

- Approximately 70-75%% of the fuel SNZ distributes is processed through NZ Refinery on favourable terms
- Sales are approximately 50/50 retail/commercial, which is the same split as the market as a whole
- Market leadership provides a benefit as many costs are relatively fixed. SNZ's service stations dispense an average 5.2 million litres of fuel per annum while the rest of the industry averages 2.7 million litres

Net working capital

- Shell NZ receives relatively steady receipts from retail and commercial sales
- But infrequent shipments of crude and finished product create large payables and movements in inventory
- 12-15 crude shipments p.a. averaging 0.7mbbl, and 20-30 cargoes of refined fuel averaging 0.2mbbl
- At any point in time, SNZ maintains targeted minimum levels of inventory
- SNZ exposure is largely limited to inventory above or below average inventory levels

Cashflow from operations — simplified example



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