6 May 2021

Z delivers on earnings commitment during year affected by Covid-19

- **Full year result:** HC NPAT $57m, up 165% versus PCP
- **RC EBITDAF** $238m, down 35% versus PCP
- **Structural cost savings of $49m achieved,** exceeds original target
- **Equity capital raise of $347m,** paid down bank debt, decreased leverage
- **Final dividend of 14 cents per share for FY21 declared,** dividends reinstated for FY22
- **FY22 RC EBITDAF guidance $270m to $310m, FY22 dividend 19 to 23 cents per share**

Summary of FY21 results

Z Energy (NZX: ZEL ASX: ZEL) today announced its earnings for the financial year to 31 March 2021.

Z Energy (Z) reports its earnings on an historic cost (HC) as well as replacement cost (RC) basis. Statutory financial statements are reported on an historic cost basis in accordance with NZ IRFS, however replacement cost accounting is the globally used non-GAAP industry standard to measure financial performance.[1]

Historical cost net profit (loss) after tax (HC NPAT) was $57m for the full financial year, up 165% from a loss of ($88m) in the prior corresponding period (PCP).

Z reported replacement cost earnings before interest, depreciation, and amortisation (RC EBITDAF) of $238m, down 35% from $366m in the PCP. Z's replacement cost net profit after tax (RC NPAT) was $3m, down 93% from $44m in the PCP.

Total marketing volume for the full year was 3,086 million litres, down 22% compared to the PCP, largely in Jet, Bitumen and Marine.

Z continues to deliver on its four-point improvement plan to reduce costs, hold market share, monetise scale and manage capital. The structural costs savings target of $48m was delivered. Market share has stabilised in FY21 with the Caltex network regularly posting YoY weekly volume increases. Z executed on its terminal network strategy, removing assets from the National Inventory Agreement that enhanced flexibility to commercial customers. Z successfully raised $347m of equity which provided balance sheet strength during the worst of the Covid-19 related impacts.

As a result of the increased earnings stability in 2HFY21, Z successfully renegotiated with its banks, bond trustee and USPP note holders the debt covenant relief it was required to seek during the $347m equity raise. A condition of being granted these waivers was that Z would pause shareholder distributions until 1 October 2021. By successfully renegotiating the covenant relief, Z's Board has declared a final dividend of 14 cents per share, six months ahead of schedule, with the record date of 21 May 2021 and payment on 2 June 2021.

[1] Z prepares its statutory financial statements on an historic cost basis in accordance with NZ IFRS. Earnings prepared on this basis are subject to volatility due to changes in oil prices and exchange rates and is therefore not a dependable measure of business performance or profitability. Replacement cost earnings do not reflect this volatility to such an extent as the cost of the stock sold is accounted for as its replacement cost at the time of its sale. Z's management focuses on the industry standard replacement cost operating metrics, which it considers a better reflection of the underlying performance of the company.

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Trading conditions

The external operational environment remains challenging. Refining continues to face excess supply, along with Covid-19 related reduced demand, resulting in refining margins remaining at historic lows. The processing agreement in place with Refining NZ means that Z is fully exposed to the downside of this market given our commitment to floor payments in these circumstances. This resulted in a RC EBITDAF net impact to Z of -$58m compared to FY20 and -$75m compared to FY19.

Retail margins for FY21 were -2.8cpl compared to PCP. During 1H retail margins were flat but recorded a decline of -4.9cpl in 2H. The decline in 2H all occurred in the final quarter driven by the increase in crude oil prices. Z does not consider this margin reduction to be structural, as it is consistent with other periods of margin compression from material input cost increases. Z notes that retail margins in April have increased over the 4Q average as input costs plateaued.

Safe and reliable operating performance in face of Covid-19 challenges

FY21 presented unprecedented challenges for Z. The business has been focused on execution and delivery that has created a stronger operating platform heading into FY22 and beyond.

"Covid-19 defined the year. Our operational focus centred on keeping our staff and customers safe and exploring ways we could more effectively operate under Covid-19 restrictions while supporting the mental wellbeing of our people," said Mike Bennetts, CEO of Z Energy.

Z's C-store network provided consumers a trusted, safe and convenient location for grocery top-ups during lockdown periods. In conjunction with new digital platforms and in store offers, store sales were +4% to PCP with gross margins +8% to PCP. This remains a core growth area for Z and one that we will invest in over the next three years.

Digital solutions for an evolving world

Z has invested into new digital platform solutions over recent years as we look to provide a range of payment and contactless means for customers to engage with our network.

The importance of this investment and focus has been highlighted in FY21 as customers looked at ways in which they could limit interaction with staff and other customers on site during Covid-19. The availability of *pay@pump, Pay in App,* and *Pay by Plate* (formerly Fastlane) offers, along with the pre-order coffee platform has meant that customers could refuel and shop in a safe and reliable way with limited contact.

These digital offers have seen a greater than three-fold increase in usage from the month of March 2020 to the month of March 2021. Pre-order coffee now represents ~20% of total coffee transactions with other goods added to the pre-order platform during the year. Digital payments via App and pay@pump now represent ~40% of all retail fuel volumes.

Industry legislation provides clarity and opportunity

During the year, the Government passed the Fuel Industry Act (FIA). The FIA introduced regulation around the wholesale fuel market, including the introduction of Terminal Gate Pricing (TGP). Z

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believes that TGP, along with shorter tenure and non-exclusive distributor contracts will open the wholesale market to greater competition with Z in a strong position to benefit.

Reflecting on the changes, Mike said, “The uncertainty resulting from recent Government interest in the fuel industry has now concluded with the passing of the Fuel Industry Act. Z is well positioned to respond positively to industry changes from the regulations that support the new legislation.”

The removal of the Nelson Terminal in the first quarter of FY21 from the National Inventory Agreement (NIA) has produced the expected commercial results, with bilateral contracts signed with industry peers. Z notified other industry participants in 4QFY21 of our intention to remove our Port of Tauranga tanks from the NIA on 1 May 2021. Together these two terminals represent 31% of Z’s storage capacity now being outside of the NIA.

The Government announced its intention to reinstate a mandate for the supply of biofuels in New Zealand as a means of reducing transport GHG emissions. Z will wait for the outcome of the final Biofuels policy before deciding whether to restart local production of BioDiesel. In the interim Z will complete a FEED (Front End Engineering and Design) assessment on the requirements to increase capacity at its existing BioDiesel plant.

The Climate Change Commission (CCC) report has identified a clear pathway for New Zealand to transition to a low carbon economy. The long run industry demand curve outlined by the CCC for transport fuels is within the scenarios already published by the Business Energy Council (BEC) that Z bases its long-term scenario plans on. Final policy measures will be announced by the government before the end of the calendar year which Z expects to be consistent with the draft report.

Future of Refining in New Zealand

Z continues to reiterate its preference for Refinery NZ to transition to an Import Terminal System (ITS).

The cost of refining in New Zealand, in terms of input costs and operational expenses, has reduced the refinery’s cost competitiveness at a time when larger, more efficient refineries in the Asia Pacific region are about to come on-line. These cost pressures, along with a de-optimised refinery due to the sudden drop in demand for Jet, has reinforced Z’s belief that the country would be best served by the refinery moving to an ITS. The ability for the industry to import refined fuel cargoes direct to ports around the country increases security of supply, reduces the single point of failure risk in the supply chain, enables cost efficiencies for ITS users and reduces NZ’s carbon emissions.

Negotiations with Refining NZ remain ongoing with good progress being made. Z expects negotiations to conclude by the end of May.

Outlook for FY22 and dividend guidance

Z is forecasting RC EBITDAF earnings for FY22 to be between $270m and $310m with dividends to be in the range of 19 cents to 23 cents per share.

The forecast is based on the expectation that retail margins will, on average, remain flat versus PCP. Refinery production will be up versus FY21 with GRM at ~US$4/bbl which may require the industry to make fee floor payments. While crude prices have seen significant increases during 2HFY21, guidance is based on a stable Brent price of +/- 10% the current NZ$95/bbl. Guidance for

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FY22 does not include any provisions for nationwide Covid-19 related lockdowns and does not assume any material changes in Jet volume. Z expects operating costs to be flat YoY after allowing for FY21 provision release with the $49m structural cost savings achieved in FY21 to run rate to $70m in FY22. Z is forecasting Integrity capex of ~$50m with growth capex fully funded by divestments.

Mike Bennetts commented "This past year has demonstrated Z's capability to respond to challenges, build on the knowledge gained and seek out new opportunities that deliver valued customer experience and financial returns."

Looking ahead he added "Our four-point improvement plan has already delivered results and continues to do so. This will remain our focus in FY22 and beyond. We will continue to hold costs flat by mitigating inflationary pressures, maintain our competitive market position and hold market share by delivering customer offers that drive forecourt traffic and C-store sales.

Our investments in infrastructure provides a greater platform for monetising scale as we seek to obtain fair market returns on capital employed across the supply network. The changes in the wholesale market will provide the flexibility and cost competitiveness that our commercial customers want while also increasing wholesale market transparency ."

A conference call for media and investors will be held at 10.00 today, Thursday 6 May 2021. Dial in details can be found on the Z investor centre here: https://investors.z.co.nz/announcements/nzx-announcements

A replay of the call will be available the day after on Z's investor website here: https://investors.z.co.nz/announcements/webcasts-presentations

Reconciliation from statutory net profit after tax to RC net profit after tax

	2021 $m	2020 $m
Statutory net profit after tax	**57**	(88)
COSA	**10**	88
Net foreign exchange and commodity (gains)/losses on fuel purchases	**(61)**	68
Tax expense on COSA	**(3)**	(24)
RC net profit after tax	**3**	44

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