



1 November 2018

New Zealand Stock Exchange
Level 1, NZX Centre
11 Cable Street
Wellington 6011
New Zealand

Z Energy Limited (ZEL) half year results announcement (for the six months ended 30 September 2018)

Please find attached the financial information required by NZX Main Board / Debt Market Listing Rule 10.4.2 together with a copy of Z Energy's half year results presentation and Half Year Report for the six months ended 30 September 2018.

The information in this announcement should be read in conjunction with Z Energy's most recent Annual Report.

Attached:

1. NZX Appendix 1;
2. Market announcement in relation to the half year results;
3. Half year results presentation;
4. Z Energy's Half Year Report including group financial statements for the six months ended 30 September 2018 and the Auditor's review report; and
5. NZX Appendix 7, detailing the interim dividend of 12.5 cents (New Zealand currency) per ordinary shares to be paid on 11 December 2018 to those shareholders on the company's share register as at 5pm on Thursday 22nd November 2018.

Yours sincerely

Debra Blackett
General Counsel and Chief Governance Officer, Z Energy

Appendix 1

Full year reporting periods

Reporting period	Six months to 30 September 2018
Previous reporting period	Six months to 30 September 2017

Results for announcement to the market

	Six months to 30 September 2018 (NZ \$m)	Percentage change
Operational results		
Revenues from ordinary activities	2,674	28%
Profit (loss) from ordinary activities after tax attributable to security holders	139	74%
Net profit (loss) attributable to security holders	139	74%

	Amount per security (NZ cents)	Imputed amounts per security (NZ cents)
Dividends – Ordinary shares		
Interim dividend	12.5	4.8611
Record date	23 November 2018	
Payment date	11 December 2018	

There are currently no dividend or distribution reinvestment plans in operation.

Financial information and commentary

For commentary on the results please refer to the media announcement. Appendix 1 should be read in conjunction with the Group financial statements for the six months ended 30 September 2018 contained in the Annual Report.

Net tangible assets per security

	30 September 2018 (NZ cents)	30 September 2017 (NZ cents)
Net tangible assets per security	16	3



Subsidiaries, associates and joint operations

	Percentage holding
Subsidiaries	
Z Energy 2015 Limited (formerly Chevron New Zealand)	100%
Flick Energy Limited ¹	70%
Harbour City Property Investments Limited ²	0%
Z Energy ESPP Trustee Limited	100%
Z Energy LTI Trustee Limited	100%
Challenge Petroleum (dormant) ²	0%
Associates	
Loyalty New Zealand Limited	25%
New Zealand Oil Services Limited	50%
Wiri Oil Services Limited	44%
Coastal Oil Logistics Limited	50%
Joint operations	
<i>The Group has participating interests in five unincorporated jointly controlled operations relating to the storage and distribution of petroleum products</i>	
Joint User Hydrant Installation (JUHI)	33%
Joint Interplane Fuelling Services (JIFS) (Z & BP)	50%
Joint Ramp Service Operations Agreement (Z Energy 2015 & Mobil)	50%
Jointly Owned Storage Facility (JOSF) (Z & BP)	50%
Wiri to Auckland Airport Pipeline (WAP)	40%

¹ On 1 September 2018, Z acquired 70% of the share capital and control of Flick Energy Limited.

² On 29 March 2018 Harbour City Property Investments Limited and Challenge Petroleum were amalgamated into Z Energy Limited.

Accounting standards

These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) and part 7 of the Financial Markets Conduct Act 2013. The financial statements comply with NZ International Accounting Standards (NZ IAS) 34: Interim Financial Reporting and International Accounting Standards (IAS) 34: Interim Financial Reporting. They do not include all the information required in annual financial statements and should be read in conjunction with the Group financial statements for the year ended 31 March 2018. Z has reported as a Tier 1 entity under the External Reporting Board (XRB) Accounting Standards Framework. Z meets the definition of a Tier 1 entity because it is 'publicly accountable' and 'large' as defined by the XRB.

Audit

This report is based on the unaudited interim financial statements. KPMG have provided a review report on the financial statements which is attached.



1 November 2018

High oil price, intense price competition and lower margins

Half year financial result and dividend

Z Energy (NZX: ZEL) today announced its earnings and net profit for the six months to 30 September 2018.

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

Replacement cost accounting is the financial measure that Z is valued at by the share market, that Z's debt covenants are calculated on, that management is incentivised by, and that the Government track in their weekly margin monitoring.

Historical cost net profit after tax (HC NPAT) was \$139m, up 74% from \$80m in the prior corresponding period (PCP). This result was driven by the sharp increase in the underlying oil price over the period and the decline of the New Zealand dollar against the US dollar.

Z reported replacement cost earnings before interest, depreciation and amortisation (RC EBITDAF) of \$175m, down 21% from \$221m in the first half of last financial year.

Z's replacement cost net profit after tax (RC NPAT) was \$72m, down 31% from \$105m in the PCP. Total marketing volume for the half year was 1,969 million litres, flat compared to the PCP. The above RC NPAT is equivalent to 3.7 cents per litre, down from 5.3 cents per litre in the first half of last financial year. Z's RC fuel unit margin² of 15.5 cents per litre was down on the PCP of 17.0 cents per litre.

The Board of Z has declared a fully imputed interim dividend of 12.5 cents per share, up 20% from 10.4 cents per share compared to the PCP. The interim dividend will be paid on 11 December 2018.

Drivers of the result and of full year RC EBITDAF guidance

Commenting on the results, Z Chief Executive Mike Bennetts said that the operating environment for the first half of FY19 was the most challenging experienced in the eight and a half years of Z.

"During this period, US dollar crude prices increased by 25%, the NZD/USD exchange rate depreciated by 9%, and fuel taxes nationally and regionally increased. Combined, these factors

¹ Z prepares its statutory financial statements on an historic cost basis in accordance with NZIFRS. 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.

² This is the margin on fuel sold before operating costs and corporate tax are accounted for.



have led to record high prices at the pump. These sustained high prices have resulted in a decrease in retail demand," said Mike.

Competition has intensified in both the North and South Island, particularly on price, as customers seek out bargains in the high price environment.

"Margins typically come under pressure when crude prices rise steeply, as prices at the pump lag behind the increases in the price of crude oil, and customers are sensitive to new, higher price points," said Mike.

In addition, results were negatively impacted by the extended refinery shutdown resulting in lost gross refining margin (GRM). The purchase of unplanned product imports to cover for the extended shutdown also had a negative impact on fuel margin.

"Given the volatility in crude prices and exchange rates, we are taking a cautious view on the second half of the financial year and reducing our full year RC EBITDAF guidance to \$400 million to \$435 million," continued Mike.

Commerce Commission market study

Record high fuel prices, driven by high crude oil prices, the weaker exchange rate and additional tax, have once again thrust our industry and Z, into the political and media spotlight.

Mike acknowledged the impact that fuel prices have on customers, from households to businesses.

"Because fuel has such a big impact on household budgets and many businesses, customers want to know that they are at least paying a fair price because the market is competitive. We welcome a Commerce Commission market study as we believe that it is the most sensible and transparent way to give customers the assurance they need. It's important to have an objective agency who can compel all industry participants to provide relevant data and have people with the skills and knowledge to interpret the data and investigate the market," said Mike.

"Z cooperated fully with the MBIE led market study in 2017, and we will cooperate fully with any Commerce Commission market study. We will continue to point to the facts; our books are open and financial returns are not excessive given the complexity of the business and the capital employed, competition is intense and our returns are consistent with similar companies around the world," said Mike.

Z's strategy of optimising the asset base and boosting operating efficiency continues to pay off

Z has made considerable progress in continuing to deliver operating efficiencies throughout the business.

"Despite the difficult operating environment, we have continued to make progress on our strategy for a more productive core business," said Mike.



"In the first half we delivered on our refinery optimisation strategy, we brought back in-house operational control of the remaining five fuel storage terminals (three were completed at the end of FY18) and simplified our bulk fuel distribution into a new long-term contract with a haulage partner. These projects, plus others announced in our Strategy 3.0 program, are forecasted to contribute \$16-18m of EBITDAF within the year.

On 1 September Z commenced fuel supply to the Foodstuffs Group, the co-operative for the New World and PAK'N SAVE stores.

Mike said that he was proud of the Z team for flawlessly executing a seamless transition.

"There are very few deals out there in the New Zealand market that represent such a structural shift in volumes. Z is now supplying approximately 150 million litres annually to the Foodstuffs Group supermarket service stations and is the redemption outlet for their fuel dockets. This will grow Z's supply chain volumes and further improve our economies of scale," he said.

Investment in Flick Electric

On 1 September, Z invested \$46m to acquire a 70% stake in Flick Electric. Flick is an electricity retailer and disruptor that allows its customers the choice between access to the spot price of the New Zealand wholesale electricity market or low fixed prices.

Commenting on the investment, Mike said that Flick fits into Z's long-term view of the New Zealand energy market, providing access to the retail electricity market, access to a new form of energy and strong digital capability.

"Although Z's ownership of Flick Electric is a majority, we intend for it to operate as a subsidiary company outside of Z's operations, so that it can keep doing what it does best. We will continue to support the Flick management team to grow the business towards EBITDAF profitability in FY21."

Capital structure, debt reduction and returns to shareholders

Z remains committed to debt reduction and increasing returns to shareholders over the next decade. Z believes it is prudent to reduce its overall debt position and maintain a strong, investment-like grade balance sheet because of the uncertainty around the price of crude oil.

"At the end of last financial year, we had reduced our debt leverage, defined as debt to RC EBITDAF, to 2.1x. In the first half of FY19 debt to RC EBITDAF has increased to 2.4x through a combination of reduced earnings and the investment in Flick. Z remains committed to deleveraging to around 1.6x debt to RC EBITDAF by the end of FY21.

"This year sees the first implementation of our new dividend policy of 'better with you than us'. While we acknowledge the current challenging trading conditions have reduced the size of the dividend from original guidance, the change in dividend policy reinforces our commitment to efficiently return cash to shareholders.



Second half outlook and priorities

Given the volatility of the global commodity markets and the recent movements of the New Zealand dollar, Z is not depending on a drop in crude prices or improving FX rates to support our second half performance.

Commenting on the priorities for the rest of the year, Mike said:

"Our focus for the next six months is simple, we must increase momentum by prioritising business as usual activities and projects that directly improve customer experience and we will focus our productivity work on fewer, higher value actions that create more meaningful bang for buck."

A conference call for media and investors will be held at 10am on Thursday 1 November 2018. Dial in details can be found at <https://investor-centre.z.co.nz/investor-centre/assets/Uploads/20181009-NZX-results-date-announcement.pdf>

Investors: Matt Hardwick 027 787 4688
Media: Sheena Thomas 027 551 2589

Reconciliation from statutory net profit after tax to RC EBITDAF

	6 months ended 30 September 2018 \$m
Statutory net profit after tax	139
COSA	(136)
Foreign exchange and commodity (gains) on fuel purchases	31
Tax benefit / (expense) on COSA	38
Replacement cost net profit after tax	72
Depreciation and amortisation	57
Net financing expense	26
Fair-value movements on interest rate derivatives	5
Taxation (including tax on COSA and foreign exchange and commodity gains and losses on fuel purchases)	17
Gains on sale of PPE	(2)
Increase in decommissioning and restoration provision	-
Replacement cost EBITDAF	175

2019 Interim Results Presentation

For the six months ended 30 September 2018



1 November 2018

Mike Bennetts, Chief Executive
Chris Day, Chief Financial Officer

Disclaimer

Please read this page before the rest of the presentation



Please do not read this presentation in isolation

This presentation supplements our half year results announcement dated 1 November 2018. It should be read subject to and in conjunction with the additional information in that announcement and other material which we have released to NZX and ASX. This material is available on our website, www.z.co.nz. All references in \$ are to New Zealand dollars unless otherwise stated

Forward looking statements are inherently fallible

This presentation contains forward-looking statements and projections. These reflect our current expectations, based on what we think are reasonable assumptions. But for any number of reasons the future could be different – potentially materially different. For example, assumptions may be wrong, risks may crystallise, unexpected things may happen. We give no warranty or representation as to our future financial performance or any future matter. Except as required by law or NZX or ASX listing rules, we are not obliged to update this presentation after its release – even if things change materially

Understand our non-GAAP information

Some of the financial information in this presentation has not been prepared in accordance with generally accepted accounting practice (“GAAP”). In particular, we show results calculated on the basis of “replacement cost accounting”. It is very important that you understand how this non-GAAP information relates to our GAAP results. So please read the explanation in the appendices

There is no offer or investment advice in this presentation

This presentation is for information purposes only. It is not an offer of securities, or a proposal or invitation to make any such offer. It is not investment advice or a securities recommendation, and does not take into account any person’s individual circumstances or objectives. Every investor should make an independent assessment of Z Energy on the basis of expert financial advice

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Headline financials

Adverse impacts from extended refinery outage and record high prices



Key financials ¹	1H FY19	1H FY18	Change
Historical cost net profit after tax (HC NPAT)	\$139m	\$80m	74%
Replacement cost EBITDAF (RC EBITDAF)	\$175m	\$221m	(21%)
Replacement cost Net Profit After Tax (RC NPAT)	\$72m	\$105m	(31%)
Operating cash flow	\$111m	\$185m	(40%)
Interim dividend declared	12.5 cents	10.4 cents	20%

- HC NPAT up \$59m primarily driven by commodity price increases and a weaker NZD/USD exchange rate (47% PCP increase in Brent oil price, 4% PCP decrease in NZD/USD)
- RC EBITDAF down \$46m reflecting the extended Refining NZ shutdown and softer industry margins and volumes from fuel prices hitting record highs
- Full year RC EBITDAF guidance revised to \$400 - \$435m from \$420 - \$455m
- Fully imputed dividend record date 23 November 2018 with a payment date of 11 December 2018

Note 1: HC NPAT has been calculated in accordance with NZ GAAP. RC NPAT and RC EBITDAF have been calculated on the basis of “replacement cost accounting”. In this presentation we show results calculated in accordance with NZ GAAP and results calculated on the basis of “replacement cost accounting”. It is very important that you understand how the “replacement cost” results relates to our NZ GAAP results. Please read the explanation and consider the reconciliation information in the appendices.

Health, Safety, Security and Environment

Operational changes in Supply completed with no significant incidents



Operational Metrics	1H FY19	1H FY18
Total recordable case frequency (TRCF)	1.87	0.8
Motor vehicle incident frequency rate (MVIFR)	-	-
Lost time injuries (LTIs)	15	8
Lost work days (LWDs)	161	34
Number of spills (loss of containment)	-	-
Security incidents (Z robberies only)	11	21
Product quality incidents (high risk)	-	-
Process safety incidents (Tier 1 & 2)	-	-
Food safety incidents	1	-

- Investigations into higher injury rates in 1H FY19 have not identified any systemic issues requiring changes in operational practices, the majority of lost working days came from slips, falls and trips
- Road transport risk reduced in Mini Tankers with investment in new fatigue management technology. Implementation has seen significant reduction in over speed events
- Security measures in response to robberies have created separation between offenders and front line staff. The seasonal increase experienced in the past two years has not been repeated
- Merging terminal networks, commissioning the Bio Diesel plant and moving to a new logistics contract has been completed in 1H without significant incident
- New food safety supplier programme in place to reduce third party risk of product contamination

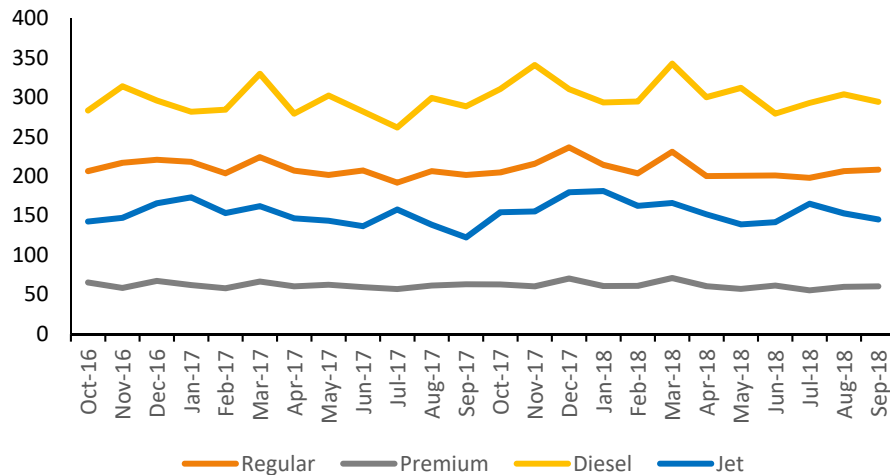
Note: Caltex robberies are not reported as Caltex's retail network is run by a group of independent dealers who, in almost all cases, own the assets and control the operational activities on the site

Trading conditions

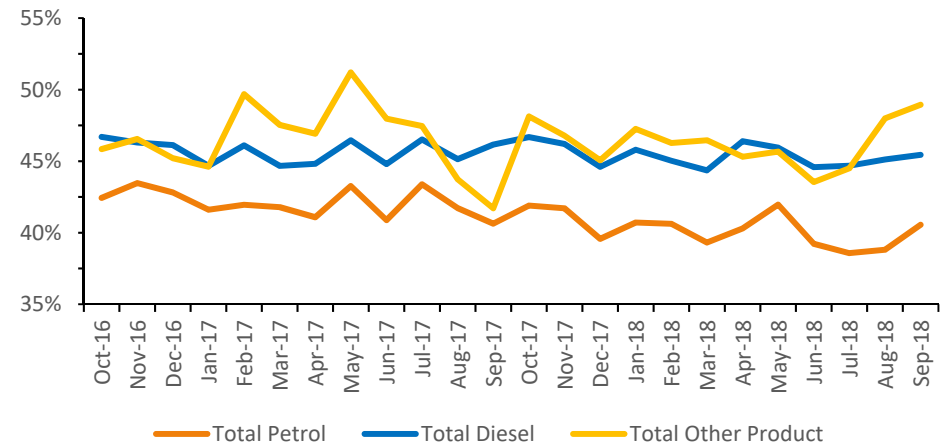
High prices has resulted in some demand destruction in the Retail channel



Monthly Industry Volumes - millions of litres¹



Group Monthly Market Share¹



- Industry Petrol volumes in 1H FY19¹ down 1% on PCP, with the four major brands down 4%
- Industry Diesel volumes in 1H FY19¹ up 4% on PCP, due to favourable weather conditions allowing roading and agriculture projects to commence earlier than previous years
- Industry Jet volumes in 1H FY19¹ up 6% on PCP, noting that September 2017 volumes were affected by the RAP outage

- Record high pump prices (18 price rises in 1H) has sensitised more Retail customers to price based offers, which advantages Gull and Distributor sites who have a majority of unmanned offers in their networks
- Customers purchasing on discount days has grown considerably and more brand switching taking place
- Foodstuffs contract successfully migrated on 1 September although first month's volumes softer than anticipated

RC EBITDAF variances to 1H FY19

Fuel volumes and margins impacted by record fuel prices and the unplanned extension of Refining NZ shutdown



Fuels

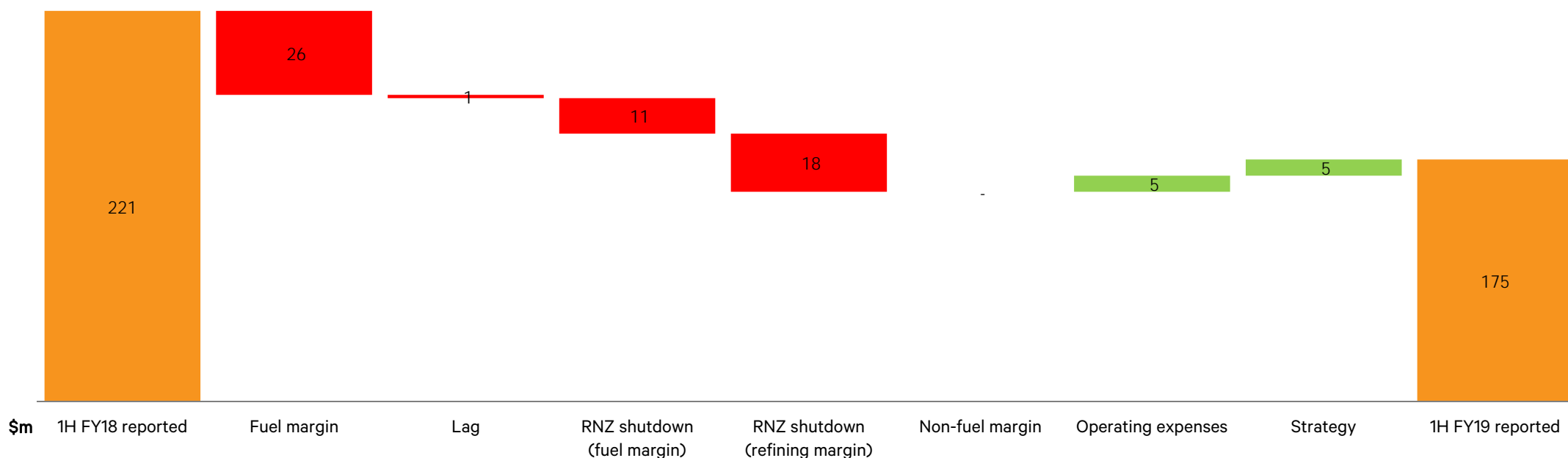
- Fuel volumes impacted as a result of record high prices
- Fuel margins impacted by an industry trend to more price based offers
- Fuel margin impacted by the purchase of unplanned product imports to cover for extended Refinery NZ shutdown

Refining

- Volume down 16% (2m bbl) on PCP and per bbl margins down 27.4% on PCP due to Refinery NZ shutdown resulting in lost GRM and excessive fuel oil
- Average NZD/USD exchange rate of 0.69 weaker (0.72 PCP)

Non fuel margin and expenses

- Non fuel margins are flat compared to PCP due to growth in core products offset by falling lotto sales
- Net of strategy related costs (\$3m) opex has decreased \$2m, consistent with Z's focus on reducing opex and increasing productivity



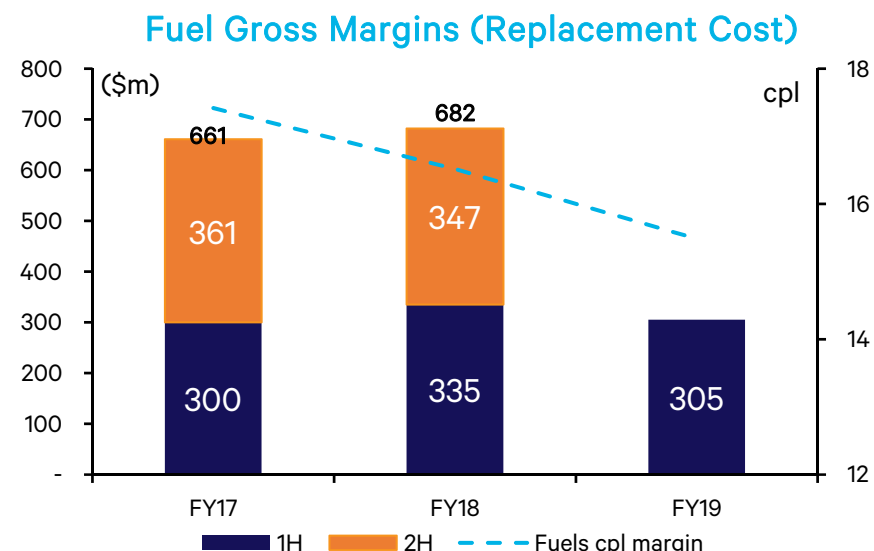
Fuel contribution -9% to PCP

Fuel contribution impacted by a perfect storm of market forces



Sales Volumes (ml)	1H FY19	1H FY18	Var
Petrol	626	663	(6%)
Diesel	806	784	3%
Other	537	518	4%
Total marketing volume	1,969	1,965	0%
Supply sales and exports	227	133	71%
Total Volume	2,196	2,098	5%

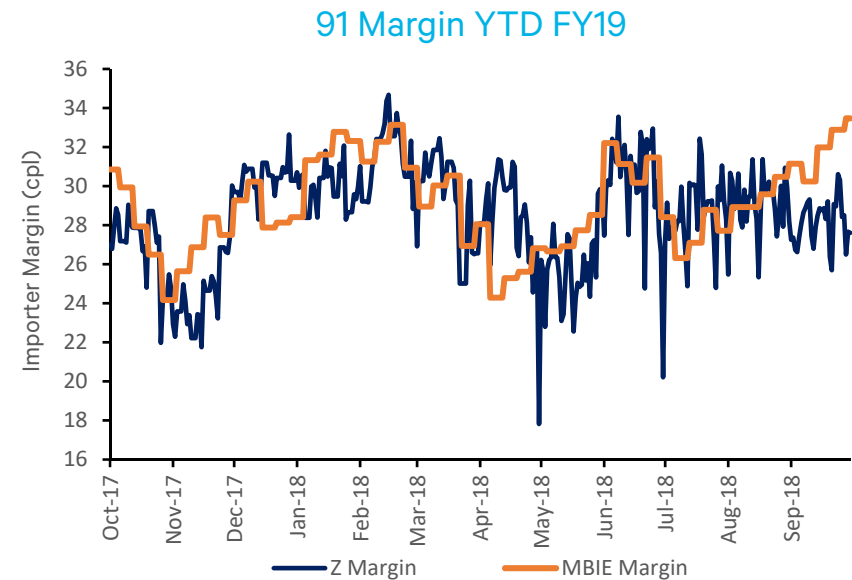
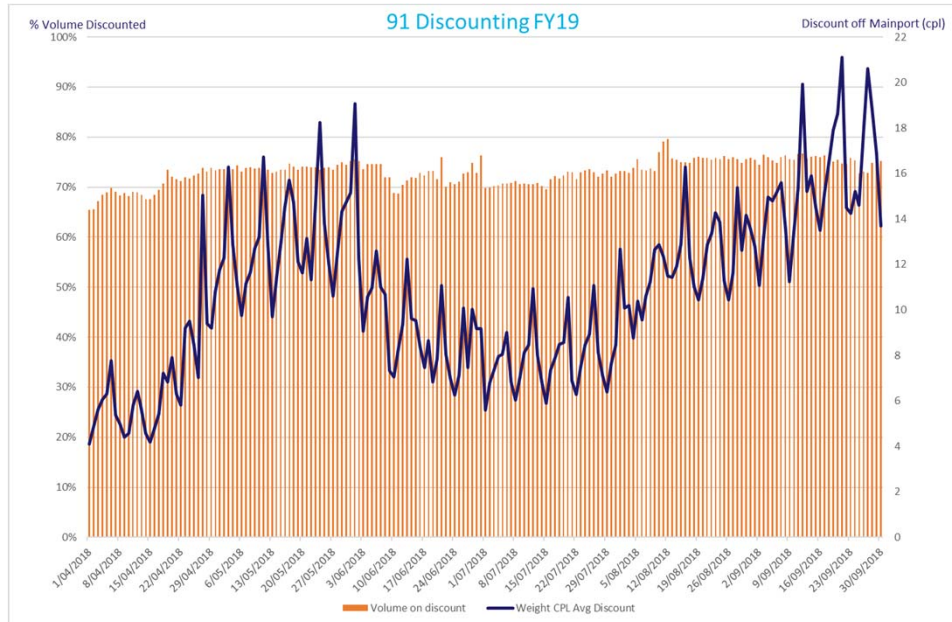
- Supply sales and exports up 94ml compared to PCP due to extended planned and unplanned shutdown of RNZ Refinery
- Successful launch of Foodstuffs partnership in September, volume and margin benefits to flow into H2 albeit likely to be less than originally anticipated given high price environment



- Fuel unit margin of 15.5cpl down on PCP 17.0¹cpl reflecting distressed imports of spot product cargoes, increased price competition and product mix
- 18 Retail price increases during the period (only 4 decreases) which saw main port prices rise 17% (excluding Auckland regional fuel tax), resulting in compressed margins and lower volumes
- \$8m of lag YTD, +1m compared to PCP

Retail fuel pricing

Increased discounting activity in a highly competitive pricing environment



- Typical of a rising input cost environment (due to increased USD barrel costs and a weaker NZD), the weighted cpl discount has increased in 1H FY19 as the spread in market has widened
- Percentage of volume on discount has increased from 72% to 73% with weighted average cpl discount of 13.7cpl, up 1.6cpl compared to PCP
- Increase in discounting activity, with all major brands competing with additional discount days to compete with unmanned offers from Distributor brands
- Lagging nature of MBIE margin analysis has not been able to keep up with changing market dynamics, including pricing hotspots moving around the country frequently

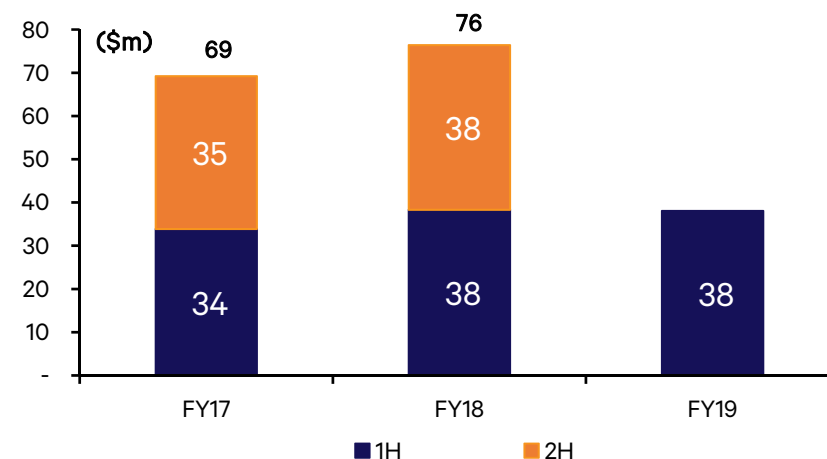
Z brand non fuel revenue is flat to PCP

Growth in core products offset by declining lotto sales



Operational Metrics	Tier 1	Tier 2	Tier 3
Number of stores ¹	94	73	34
<i>1H FY18</i>	<i>91</i>	<i>67</i>	<i>46</i>
Average weekly shop sales	\$45k	\$28k	\$17k
Sales growth	(1%)	0%	0%
Total transaction count YoY	(1%)	0%	0%
Store transaction count YoY	0%	1%	(4%)

Non Fuel Margin



- Notable decline in impulse or discretionary purchases as consumers watch their on-site spend
- Shop sales growth compared to PCP in core products e.g. food +10%, coffee +3%, beverages +14%, leisure +5% but negatively impacted by falling lotto sales, -15%
- Successful trial of pre-order coffee app available in 12 stores, plans to extend to other stores in 2H
- Rollout of new coffee machines and new supplier of coffee and milk has resulted in +3% growth in Z Express drinks
- New food range of salads, fresh fruit smoothies and healthy snacks helped offset tobacco decline during the period

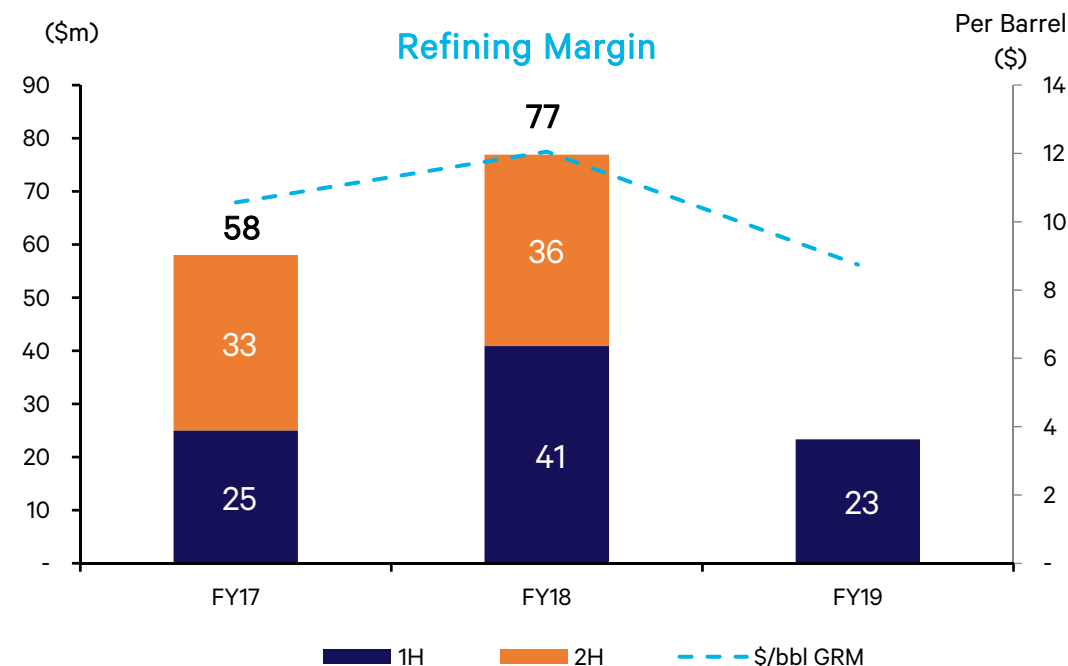
Refining margins -44% to PCP

Margin impacted by planned and unplanned extended refinery shutdown in 1Q



Regional markets and Refining NZ

- Lower GRM reflects de-optimisation of the refinery post the shutdown
- Unfavourable regional refining margins compared to PCP due to the addition of refining capacity
- The extended refinery shutdown resulted in lost GRM and increased product costs due to Z having to purchase spot cargoes at short notice, effectively being a distressed purchaser



Z Performance

- The new supply optimisation agreement with Mobil has gone live in 2Q generating increased efficiencies on the previous agreement
- Z performance impacted by the extended planned and then unplanned refinery shutdown:
 - Processing volumes decreased to 8.9m barrels from 10.6m barrels in PCP
 - Refining margin makes up 6% of total gross margin, down from 10% in PCP
 - Average gross refining margins 8.74 NZD per barrel down from 12.05 NZD per barrel compared to PCP

Cash, capital and dividends

Flick acquisition funded by free cash flow and balance sheet capacity

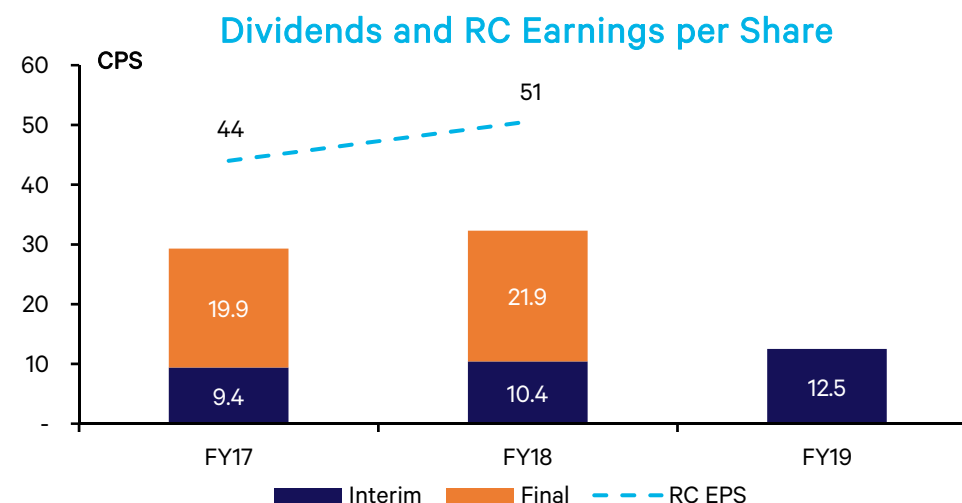


Metrics	1H FY19	1H FY18	Change
Gearing ³	25%	25%	0%
Gross debt ¹	\$946m	\$960m	\$14m
Debt coverage ²	2.4x	2.1x	(0.3x)
Cost of debt	5.4%	5.2%	(0.2%)

- On 1 September Z acquired 70% of Flick for \$46m. The acquisition was funded out of existing borrowing facilities
- \$150m bond matured and paid in August, refinanced with a new bond of \$125m (fully subscribed) in September
- FY19 Interim dividend of 12.5 cps (\$50m) up from FY18 interim dividend of 10.4 cps (\$42m)
- Integrity Capex spend on track to guidance range of \$60m
- FY19 growth Capex will be funded out of FY18 and FY19 divestments, \$40m of conditional contracts and sites currently scheduled for market in place for H2

Capex (\$m)	1H FY19	1H FY18	Change
Growth*	17	10	(7)
Integrity	15	33	18
Divestment proceeds	(7)	(15)	(8)
Net capex	25	28	3

* Excludes acquisition of Flick



Note 1: Gross debt is defined as the sum of gross domestic retail bonds, gross USPP issuance and bank debt but excludes working capital funding and cash on hand

Note 2: Debt coverage is calculated as gross debt divided by rolling 12 months RC EBITDAF

Note 3: Gearing is defined as gross debt divided by enterprise value

Strategy 3.0

FY19 forecast consistent with Investor Day guidance of \$15-\$19m EBITDAF



Value Creation	Key Workstreams	1H FY19	FY19 Forecast
Supply (leveraging scale)	<ul style="list-style-type: none"> • Z terminals managed internally • Consolidated logistics provision 	<\$1m	\$3m
Commercial (integrating offers and common platforms)	<ul style="list-style-type: none"> • Repricing of jet fuel at Auckland Airport reflecting structural change in supply costs • Leveraging Distributor partnerships • Common card platform development underway 	\$8m	\$17-19m
Retail (differentiating brand positions and segmenting customers for 'true' loyalty)	<ul style="list-style-type: none"> • Tier 3 stores upgraded to Tier 2 offer • Data and loyalty capability build • Convenience retail offer evolution through two trial sites 	<\$1m	~\$1m
Project delivery expenses		(\$3m)	(\$5m)
EBITDAF contribution		\$5m	\$16-18m

Strategy Plus

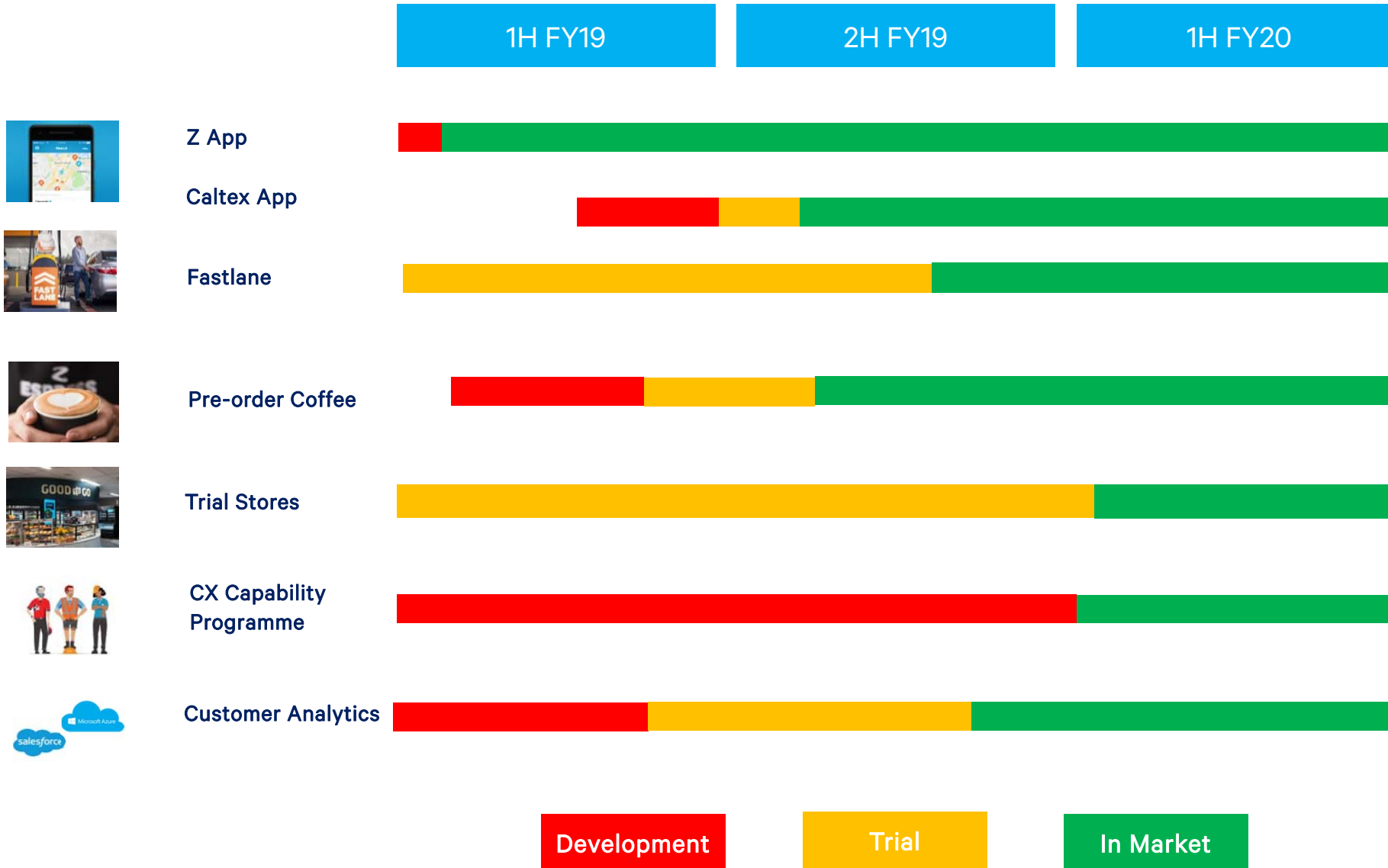
Further growth initiatives are progressing, with others still commercially sensitive



Initiative	Description	Benefit Timing	Status Update	Run Rate
Foodstuffs Partnership	Strategic choice to re-enter supermarket program and secure volume at scale	FY19	Commenced 1 September 2018 Targeted volume 150ml	\$10-\$12m
Value Wedge	Our CX aspirations require increased capability in customer insight and offer development. Current industry offers are “blunt” and Z alone has a notional cost in excess of \$180m per annum of price discounting and reward programs	FY20	Invested in data insight and ICT capability with customer life cycle disciplines and reporting is being progressively established in production	\$10-\$15m
Asphalt	MARPOL changes bring value to users of RNZ Distinctive to Z, opportunity to capture further value with RNZ through asphalt/bitumen production	TBD	Commenced discussions with RNZ on potential investment opportunity by RNZ to increase bitumen production from bottom of the barrel components	TBD

Customer Experience

CX is at the centre of achieving the next performance shift



Looking forward to 2H

Clearly room for improvement for executing in volatile market conditions



- On track to deliver within revised RC EBITDAF guidance of \$400m to \$435m
- Updated earnings guidance retains commitment to paying 90-100% of underlying free cash flows as a dividend with the quantum of the final dividend subject to business performance
- Assuming flat crude prices, FX rates and reliable production from RNZ
- Upsides to 1H include the usual seasonality in 2H, no price lag, reliable production from Refining NZ, Foodstuffs supply, and increased benefits of Strategy 3.0
- Upper end of guidance assumes GRM of \$8.30/bbl and no further margin compression in Retail given flat pump price assumption (as experienced in June and October)
- Progressive rollout of CX initiatives for both Caltex and Z networks to mitigate current loss of competitive position
- Flick Electric focussing on customer service during current wholesale price disruption, joint Z and Flick product roadmap development to begin in early 2019

The Strategy remains sound, however operational execution needs to improve, and the velocity of CX and Productivity initiatives needs to increase

Appendices

1. Financial results
2. Profit and loss
3. Operating expenses
4. Items below RC EBITDAF
5. Balance sheet
6. Working capital



Financial results

Basis of presentation



- Z has adopted NZ IFRS 15 from 1 April 2018. There are no changes to revenue recognition in the financial statements for the 6 months ending 30 September 2018

Non-GAAP Accounting Measure - Replacement Cost (RC) earnings:

- Is a non-GAAP measure used by the downstream fuel industry to measure and report business performance
- RC earnings adjusts purchases of crude and product as if the product sold in a month had been purchased in that month, rather than the Historical Cost (HC) which reflects the prices actually paid
- RC earnings exclude the impact of changes in crude oil and refined product prices on the value of inventory held by Z, thus it is a better measure of underlying performance
- The difference between HC earnings and RC earnings is the Cost of Sales Adjustment (COSA) and the foreign exchange and commodity gains and losses. Refer to the reconciliation between HC NPAT and RC NPAT in these appendices

Profit and loss



\$m	1H FY19	1H FY18	Change
Revenue	2,674	2,086	28%
- Fuel margin	304	332	(8%)
- Non Fuel margin	38	38	<>
- Refining margin	23	41	(44%)
- RNZ Dividend and other	1	3	(67%)
RC gross margin	366	414	(12%)
Operating expenses	(191)	(193)	1%
RC EBITDAF	175	221	(21%)
Depreciation and amortisation	(57)	(47)	(21%)
Net financing expense	(26)	(27)	4%
Other	(3)	(2)	(50%)
Taxation	(17)	(40)	58%
RC NPAT	72	105	(31%)
Reconciliation from RC NPAT to statutory NPAT			
Tax on COSA	(38)	9	<>
COSA (difference between RC and HC Gross Margin and EBITDAF)	136	(34)	<>
Foreign exchange and commodity gains	(31)	-	<>
Net profit per the statutory financial statements	139	80	74%
HC gross margin	502	380	32%
HC EBITDAF	280	187	50%

Operating Expenses



\$m	1H FY19	1H FY18	Change
Employee benefits	36	38	5%
Secondary distribution	33	33	0%
Administration and other	33	29	(14%)
Selling commissions	30	30	0%
On-site	28	29	3%
Professional fees	12	10	(20%)
Storage and handling	9	11	18%
Marketing	7	10	30%
Insurance	3	3	0%
Total operating expenses (excluding FX on fuel purchases)	191	193	1%

- \$2m reduction in operating expenses:

- Administration and other \$4m increase attributable to increase in supply rental and maintenance costs
- Professional fees. \$2m increase due to increase in IT support required during embedding period post ERP upgrade

Offset by:

- Employee benefits \$2m decrease due to reduction in staff bonus to align with below expectations business performance
- Storage and handling decrease due to bringing terminal operations into Z
- Marketing cost decreases compared to PCP due to timing of spend

Items below RC EBITDAF



\$m	1H FY19	1H FY18	Change
Taxation (incl. tax impact of COSA)	17	40	58%
Depreciation	32	30	(7%)
Net financing expenses	26	27	4%
Amortisation	25	17	(47%)
Fair value movements on interest rate derivatives	5	4	(25%)
Movements in decommissioning and restoration provision	-	1	<>
Gain on sale of fixed assets	(2)	(3)	(33%)
Total items below RC EBITDAF	103	116	11%

- Decrease in Taxation on a replacement cost basis compared to PCP due to increased crude prices and reduced RC Net Profit
- Increase in Amortisation compared to PCP due to 6 months amortisation of upgraded ERP in FY19

Balance sheet



\$m	1H FY19	1H FY18	Change
Shareholders' equity	941	708	33%
Total current assets	1,359	724	88%
Total non current assets	1,714	1,688	2%
Total assets	3,073	2,412	27%
Total current liabilities	1,018	657	(55%)
Total non current liabilities	1,114	1,047	(6%)
Total liabilities	2,132	1,704	(25%)
Net assets	941	708	33%

Net asset movement explained by:

- Current assets have increased \$635m on PCP due to closing inventory balance of \$435m, higher trade receivables \$126m and higher cash on hand \$29m. Inventory balance has increased in FY19 due to delays in crude processing as a result of the extended RNZ shutdown. Higher trade receivables are due to higher fuel prices being charged to customers compared to PCP
- Current Liabilities have increased \$361m on PCP due to higher payables of \$407m and increased bank debt of \$48m, offset by repayment of \$150m bond that matured in August 2018. Payables are higher due to increasing crude and product prices. Increased debt was to finance the acquisition of Flick

Working capital



	1H FY19	1H FY18	Change
Accounts receivable and prepayments	\$381m	\$262m	45%
Average receivable days	20 days	22 days	2 days
Closing Inventory balance	\$846m	\$411m	<>
Closing barrels on hand	6.4m	4.9m	1.5m
Average inventory days	53 days	48 days	5 days
Accounts payables, accruals and other liabilities	\$851m	\$420m	<>

- Accounts receivable and prepayments up \$119m compared to PCP due to increasing commodity prices, while average receivables days are down 2 days due to improved credit management practices
- Closing inventory balance has increased by \$435m due to rising commodity prices and weakening NZD. Additional barrels on hand compared to PCP due to delays in crude processing post the RNZ shutdown
- Inventory on hand at 30 September 2018 of 6.4m barrels, compared to 4.9m barrels at PCP. Crude inventory levels remain high as a result of the RNZ shutdown. Stocks are expected to return to normal levels in 3Q
- Payables and accruals have increased \$431m due to increases product payables and customs of \$263m, ETS obligation accrual of \$36m and Landed Costs accruals have increased by \$91m. GST has increased by \$10m as a result of revenue increases. ETS units accrual have increased by \$29m

Doing more of what matters



Z Energy Half-Year Report 2018



Financial highlights

2017

2018

\$80m

\$139m


Historical cost net profit after tax

\$105m

\$72m


Replacement cost net profit after tax

\$221m

\$175m


Replacement cost EBITDAF

10.4 cents

12.5 cents


Interim dividend per share declared

Operational highlights

2017

2018

1,965 million litres

1,969 million litres


Total fuel volume retail and commercial

27.6m

27.8m


Transactions at Z-branded retail stores

98%

97%


Health, safety, security, and environment actions close-out rate

0.8

1.87


Total recordable case frequency

0

0

Spills (loss of containment to ground or water)

70%

Investment in Flick Electric for \$46m

5

Brought 5 previously JV-operated terminals in-house

1

Switched to 1 certified distribution supplier Pacific Fuel Haul

Kia ora and welcome to our half-year report for 2018



Michael Bennetts
Chief Executive



Chris Day
Chief Financial Officer

Kia ora te whānau o Z Energy

The operating environment for the first half of the 2019 financial year has been the most challenging we have experienced in our 9 years as Z Energy. During this period, US dollar crude prices increased by 25 percent, the NZD / USD exchange rate depreciated by 9 percent, and fuel taxes have increased. Combined, these factors have led to record high prices being paid by Kiwis and this has reduced retail and significantly increased price-based competition.

In the first quarter Refining New Zealand undertook a complete, once-every-15-years shutdown. We initially forecasted a \$14 million impact our FY19 EBITDAF earnings. However, a delay to restarting the refinery hydrocracker caused an additional \$18 million negative EBITDAF impact due to a loss of refining margin, losses from unplanned fuel oil exports, and increased volumes of imported product not purchased at Z's long-term preferential contract price.

This resulted in a level of supply disruption at the higher end of what we have previously experienced and required some clever logistics to ensure that our customers were not adversely affected. We are pleased to report that none of our customers were impacted and we recorded some of our best ever delivery performances.

In this context Z's people have been very focused on doing the basics well – safe and reliable operations, competitive pricing, and delivering great customer experience.

Interim result and half-year dividend

Z reports its earnings on a historic cost as well as replacement costs basis. Statutory accounts are reported on an historic cost basis in accordance with NZ-GAAP. Historical cost earnings are subject to variation due to the movements in underlying commodity prices and foreign exchange rates. Replacement cost accounting is the globally-used non-GAAP industry standard to measure financial performance.

Z Energy's historical cost net profit after tax (HCNPAT) for the 6 months to 30 September 2018 was \$139 million, up 74 percent from \$80 million for the same period last year. This result was driven by the sharp increase in the underlying oil price over the period and the decline of the New Zealand dollar against the US dollar.

Using replacement cost accounting, Z reported a replacement cost net profit after tax of \$72 million, down 31 percent from \$105 million in the first half of the 2018 financial year. This is the equivalent of 3.7 cents per litre, down from 5.3 cents per litre in the first half of last year.

Z reported replacement cost EBITDAF of \$175 million, down from \$221 million in the first half of last year.

This is the first year of the revised dividend policy announced in September 2017 of “better with you than us”.

The Z Board has determined that Z will pay an interim dividend of 12.5 cents per share, up 20 percent from 10.4 cents per share for the prior half year. The interim dividend will be paid on 11 December 2018 to holders of record on 23 November.

Updating full-year EBITDAF guidance

Given the volatility in crude prices and exchange rates, we are taking a measured view on the second half and reducing our full-year EBITDAF guidance to \$400 million to \$435 million. This is \$50 million lower than the original guidance due to the impacts of the extended refinery shutdown, reduced demand from what we expect to be continued record high prices in the short term, price lag in some of our commercial markets, and compressed retail margins given the current competitive environment.

Optimising our current asset base for cost and operating efficiencies

Notwithstanding the difficult operating environment, during the first half we continued to make good progress with our strategy for a more productive core business.

In the first half we transitioned our refinery optimisation from BP to Mobil, regained operational control of 5 fuel storage terminals previously managed by the New Zealand Oil Services (NZOSL) joint venture, and simplified our bulk fuel distribution into a long-term contract with Pacific Fuel Haul. All of these improve our cost base and deliver earnings growth.

We continue to make productivity improvements from our recent ERP system upgrade and the development of our new card platform is on track for implementation in April of next year. Through our partnership with Microsoft we are working through a complete refresh of the hardware and software we use in our daily operations outside of our ERP system. This will improve our digital resilience and open up opportunities for our people to be more personally productive and collaborate across different locations.

Our customer satisfaction scores are currently at record highs for both the Caltex and Z networks. We have a significant program of work led by our Customer Experience and Innovation teams with new offers coming to market during the first half. Our Fastlane offer is in pilot and we are making the necessary adjustments to the technology to enable this to be scaled up across the Z network. A new Caltex mobile App was launched giving customers greater visibility of their AA Smartfuel discounts. The existing Z mobile app was replaced with an improved version, including the option for pre-order coffee that we are presently piloting at selected sites.

In September we delivered the first phase of our new relationship with Foodstuffs, the co-operative for the New World and Pak'nSave stores. This means Z is now supplying approximately 150 million litres to their supermarket service stations and is the redeemer of their fuel dockets. This will grow Z's supply chain volumes and further improve our economies of scale.

Flick Electric

Towards the end of the first half, Z invested \$46 million to acquire a 70.1 percent stake in Flick Electric. Flick Electric is an electricity retailer that exposes its customers to the spot price of the New Zealand wholesale market. It is also developing a range of attractive digital offers that provide electricity consumers with real choice about their electricity pricing and consumption.

Z thoroughly reviews the many investment opportunities that are presented each year, which must satisfy several criteria. Investments must meaningfully fit into our long-term view of the New Zealand energy market; be a business to which Z can provide operating synergies or that Z can significantly improve through brand or scale; and finally, be a business that does not offer anything that our shareholders could easily replicate.

Although Z's ownership of Flick Electric is a majority, we intend for it to operate as a subsidiary company outside of Z's operations, thereby preserving what it does best. We will be working on joint product roadmaps so that Z's scale can benefit Flick's marketing and technology development. We will continue to support the Flick management team to grow the business towards EBITDA profitability in FY21.

Stakeholder management

There is no doubt that record high fuel prices means our industry and Z, as the market leader, are under more scrutiny and subject to more speculative commentary than usual. We continue to point to some simple facts. Our financial returns are not excessive and are consistent with similar companies around the world. There are 21 retail brands in the market, and nearly 20 percent of retail sales are not through one of the four major brands. There has been a 20 percent increase in the number of service stations over the past 5 years. We reckon this is evidence of a competitive market.

For over a year now we have publicly supported the Government's intention for a Commerce Commission market study of the downstream fuels sector. We believe this will allow for a thorough review by economic and competition law experts, who will be well informed by data from all market participants. It is important that relevant data from all market participants is somehow included into the scope of this study given nearly 80 percent of service stations are directly owned and operated by families and small companies.

We have a plan to put things right

As much as we can explain the financial performance in the first half, it is well short of what we committed to and what our owners deserve given the trust you have placed in us. It is equally unwise for us to rely upon crude prices reducing or foreign exchange rates improving. Our priorities for the next 6 months are simple:

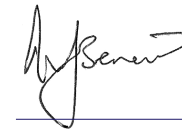
- Increase momentum by prioritising business as usual activities and projects that directly improve customer experience
- Focus our productivity work on fewer, higher-value actions that create more meaningful bang for buck

Last year we wrote to shareholders and spoke of Z being "a certain company in an uncertain world". Our view has not changed. The world is more complex, more uncertain, and disruption, wherever it comes from, remains. While we have not met the very high expectations we hold ourselves to on our financial performance this half year, Z remains a quality company, with valuable assets and highly capable employees.

We continue to optimise our already competitively advantaged core business, we continue to employ one of the most engaged workforces in New Zealand, and we continue to build our capability to win through our differentiated strategy and award-winning customer experience.

We appreciate the continued support from you, our shareholders; it is never assumed or taken lightly.

Nō reira, tēnā koutou katoa.



Michael Bennetts

Chief Executive



Chris Day

Chief Financial Officer

Statement of comprehensive income for the 6 months ended 30 September 2018

	Unaudited 6 months ended 30 September 2018 \$m	Unaudited 6 months ended 30 September 2017 \$m	Audited 12 months ended 31 March 2018 \$m
Revenue	2,674	2,086	4,570
Purchases of crude, product and electricity	(1,651)	(1,193)	(2,579)
Excise and carbon expenses	(502)	(492)	(1,011)
Primary distribution expenses	(19)	(21)	(56)
Operating expenses	(191)	(193)	(398)
Foreign exchange and commodity (losses) / gains on fuel	(31)	–	1
Share of earnings of associate companies (net of tax)	–	–	1
Earnings before interest, taxation, depreciation (including gains and losses on sale of fixed assets), amortisation, impairment, fair-value movements in interest rate derivatives and movements in decommissioning and restoration provisions (EBITDAF)	280	187	528
Depreciation and amortisation	(57)	(47)	(102)
Net financing expense	(26)	(27)	(52)
Fair-value movements in interest rate derivatives	(5)	(4)	(9)
Gain on sale of property, plant and equipment	2	3	4
(Decrease) in decommissioning and restoration provision	–	(1)	(3)
Net profit before taxation	194	111	366
Taxation expense	(55)	(31)	(103)
Net profit for the period	139	80	263
Net profit attributable to the owners of the company	139	80	263
Net loss attributable to non-controlling interest	–	–	–
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Valuation adjustment of land and buildings (net of tax)	–	–	20
Revaluation of investments	13	8	(4)
	13	8	16
Items that are or may be reclassified subsequently to profit or loss			
Cash flow hedge – effective portion of changes in fair value	2	–	(2)
Other comprehensive income net of tax	15	8	14
Total comprehensive income for the period	154	88	277
Total comprehensive income attributable to owners of the company	154	88	277
Total comprehensive income attributable to non-controlling interest	–	–	–
Basic and diluted earnings per share (cents)	35	20	66

The accompanying notes form part of these financial statements.

Statement of changes in equity for the 6 months ended 30 September 2018

	Capital \$m	Retained earnings \$m	Investment revaluation reserve \$m	Employee share reserve \$m	Hedging reserve \$m	Asset revaluation reserve \$m	Non- controlling Interest \$m	Total equity \$m
Balance at 1 April 2018	429	188	(4)	(4)	(2)	250	–	857
Net profit for the period	–	139	–	–	–	–	–	139
Other comprehensive income	–	–	13	–	2	–	–	15
Disposal of revalued assets	–	1	–	–	–	(1)	–	–
Total comprehensive income for the period	–	140	13	–	2	(1)	–	154
Transactions with owners recorded directly in equity:								
Own shares acquired	–	–	–	(1)	–	–	–	(1)
Flick non-controlling interest	–	–	–	–	–	–	19	19
Dividends to equity holders	–	(88)	–	–	–	–	–	(88)
Supplementary dividends to equity holders	–	(9)	–	–	–	–	–	(9)
Tax credit on supplementary dividends	–	9	–	–	–	–	–	9
Total transactions with owners recorded directly in equity	–	(88)	–	(1)	–	–	19	(70)
Unaudited closing balance at 30 September 2018	429	240	9	(5)	–	249	19	941
Balance at 1 April 2017	430	40	–	(3)	–	235	–	702
Net profit for the period	–	80	–	–	–	–	–	80
Other comprehensive income	–	–	8	–	–	–	–	8
Disposal of revalued assets	–	3	–	–	–	(3)	–	–
Total comprehensive income for the period	–	83	8	–	–	(3)	–	88
Transactions with owners recorded directly in equity:								
Own shares acquired	–	–	–	(2)	–	–	–	(2)
Dividends to equity holders	–	(80)	–	–	–	–	–	(80)
Supplementary dividends to equity holders	–	(8)	–	–	–	–	–	(8)
Tax credit on supplementary dividends	–	8	–	–	–	–	–	8
Total transactions with owners recorded directly in equity	–	(80)	–	(2)	–	–	–	(82)
Unaudited closing balance at 30 September 2017	430	43	8	(5)	–	232	–	708

The accompanying notes form part of these financial statements.

Statement of changes in equity (continued) for the 6 months ended 30 September 2018

	Capital \$m	Retained earnings \$m	Investment revaluation reserve \$m	Employee share reserve \$m	Hedging reserve \$m	Asset revaluation reserve \$m	Non- controlling Interest \$m	Total equity \$m
Balance at 1 April 2017	430	40	–	(3)	–	235	–	702
Net profit for the year	–	263	–	–	–	–	–	263
Other comprehensive income	–	–	(4)	–	(2)	20	–	14
Disposal of revalued assets	–	5	–	–	–	(5)	–	–
Total comprehensive income for the year	–	268	(4)	–	(2)	15	–	277
Transactions with owners recorded directly in equity:								
Own shares acquired	–	2	–	(2)	–	–	–	–
Share-based payment	(1)	–	–	1	–	–	–	–
Dividends to equity holders	–	(122)	–	–	–	–	–	(122)
Supplementary dividends to equity holders	–	(12)	–	–	–	–	–	(12)
Tax credit on supplementary dividends	–	12	–	–	–	–	–	12
Total transactions with owners recorded directly in equity	(1)	(120)	–	(1)	–	–	–	(122)
Audited closing balance as at 31 March 2018	429	188	(4)	(4)	(2)	250	–	857

The accompanying notes form part of these financial statements.

Statement of financial position as at 30 September 2018

Notes	Unaudited 30 September 2018 \$m	Unaudited 30 September 2017 \$m	Audited 31 March 2018 \$m
Shareholders' equity			
Equity attributable to owners of the Company	922	708	857
Non-controlling interest	19	–	–
Total equity	941	708	857
Represented by:			
Current assets			
Cash and cash equivalents	61	31	72
Accounts receivable and prepayments	381	262	337
Inventories	3 846	411	642
Derivative financial instruments	38	12	4
Assets held for sale	5 33	8	9
Total current assets	1,359	724	1,064
Non-current assets			
Property, plant and equipment	4 847	893	870
Goodwill	206	158	158
Intangible assets	523	505	592
Investments	6 127	125	113
Derivative financial instruments	8	3	5
Other non-current assets	3	4	3
Total non-current assets	1,714	1,688	1,741
Total assets	3,073	2,412	2,805

The accompanying notes form part of these financial statements.

Notes	Unaudited 30 September 2018 \$m	Unaudited 30 September 2017 \$m	Audited 31 March 2018 \$m
Current liabilities			
Accounts payable, accruals and other liabilities	7 853	420	696
Income tax payable	28	11	61
Provisions	25	23	26
Short-term borrowings	8 88	190	150
Derivative financial information	24	13	17
Total current liabilities	1,018	657	950
Non-current liabilities			
Other liabilities	18	15	16
Provisions	46	47	47
Derivative financial instruments	48	15	33
Deferred tax	146	163	156
Long-term borrowing	8 856	807	746
Total non-current liabilities	1,114	1,047	998
Total liabilities	2,132	1,704	1,948
Net assets	941	708	857

Approved on behalf of the board
on 31 October 2018



Peter Ward Griffiths
Chair



Andrew Mark Cross
Chair, Audit and Risk Committee

Statement of cash flows for the 6 months ended 30 September 2018

Cash flows from operating activities

	Unaudited 30 September 2018 \$m	Unaudited 30 September 2017 \$m	Audited 31 March 2018 \$m
Receipts from customers	2,641	2,156	4,524
Dividends received	1	3	2
Interest received	27	2	12
Payments to suppliers and employees	(1,957)	(1,383)	(3,150)
Excise and carbon paid	(462)	(527)	(888)
Interest paid	(51)	(24)	(46)
Taxation paid	(88)	(42)	(59)

Net cash inflow from operating activities

111 185 395

Cash flows from investing activities

Proceeds from sale of property, plant and equipment	6	15	19
Purchase of intangibles assets	(17)	(1)	(18)
Purchase of investment	(28)	(1)	(1)
Purchase of property, plant and equipment	(12)	(40)	(68)

Net cash (outflow) from investing activities

(51) (27) (68)

Cash flows from financing activities

Net proceeds / (repayment) from bank facility	51	(46)	(504)
Issue of bonds and USPP notes	125	–	376
Purchase of shares	–	(2)	(2)
Dividends paid to owners of the company	(97)	(88)	(134)
Repayment of bonds	(150)	–	–

Net cash (outflow) from financing activities

(71) (136) (264)

Net (decrease) / increase in cash	(11)	22	63
Cash balances at beginning of period	72	9	9
Cash at end of period	61	31	72

The accompanying notes form part of these financial statements.

1. Basis of accounting

Reporting entity

Z Energy Limited is a profit-orientated company registered in New Zealand under the Companies Act 1993 and a FMC Reporting Entity for the purposes of the Financial Markets Conduct Act 2013. Z Energy Limited is listed and its ordinary shares quoted on the NZX main board equity security market (NZX Main Board) and on the Australian Stock Exchange (ASX) and has bonds quoted on the NZX debt market.

The interim Group financial statements for the 6 months ended 30 September 2018 presented are those of Z Energy Limited (the Company, Parent, or the Parent Company) together with its subsidiaries, interests in associates, and jointly controlled operations ("Z" or "the Group").

Basis of preparation

These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) and part 7 of the Financial Markets Conduct Act 2013.

The financial statements comply with New Zealand International Accounting Standards (NZ IAS) 34: Interim Financial Reporting and International Accounting Standards (IAS) 34: Interim Financial Reporting. They do not include all the information required in annual financial statements and should be read in conjunction with the Group financial statements for the year ended 31 March 2018. Z has reported as a Tier 1 entity under the External Reporting Board (XRB) Accounting Standards Framework. Z meets the definition of a Tier 1 entity because it is 'publicly accountable' and 'large' as defined by the XRB.

The functional and reporting currency used in the preparation of the financial statements is New Zealand dollars (NZD), rounded to the nearest million (\$m).

Certain comparatives have been reclassified between accounts payable and accruals and other liabilities within [note 7](#) Accounts payable, accruals and other liabilities to align with the current period's presentation.

Accounting policies and standards

The accounting policies set out in the 31 March 2018 financial statements have been applied consistently to all periods presented in these Group financial statements, with the exception of NZ IFRS 15 Revenue from Contracts with Customers (NZ IFRS 15). NZ IFRS 15 has been adopted from 1 April 2018. There are no changes to revenue recognition in the financial statements for the 6 months ended 30 September 2018.

Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The Group's significant areas of estimation and critical judgements in these Group financial statements are the same as those contained in the Group financial statements for the year ended 31 March 2018.

Business combinations

The recognition of business combination requires the Group to make judgements and estimates in relation to the fair-value allocation of the purchase price. Where the purchase price exceeds the fair value of the identifiable assets, goodwill is recognised. In line with NZ IFRS 3 Business Combinations (NZ IFRS 3) guidelines, the amounts provided in these statements are provisional and will be finalised by 31 March 2019. Refer to [note 2](#).

2. Business combinations

On 1 September 2018, Z acquired 70% of the share capital and control of Flick Energy Limited (Flick). Z acquired a 22% shareholding through Flick issuing new security for \$16m and acquired an additional 48% from existing shareholders for \$30m. Flick is a retail electricity supplier that allows customers access to the spot price of electricity. The acquisition will allow Z and Flick to maximise the innovation potential of the energy sector as it transitions to a lower carbon future. Z obtained control of Flick from 1 September 2018.

Details of the purchase consideration, the net assets acquired, and goodwill are set out below. The numbers are provisional and will be finalised by 31 March 2019, in accordance with NZ IFRS 3. The numbers are provisional as Z has not completed the fair-value exercise of Flick's balance sheet or the identification of any identifiable assets separately from goodwill (i.e. customer contracts, software, brands). The final values of the assets and liabilities acquired may differ from the provisional values below.

Goodwill is attributable to the future earnings of Flick. Goodwill is not deductible for tax purposes.

Z has elected to measure non-controlling interest (NCI) at fair value at acquisition, which means goodwill recognised includes a portion attributable to ordinary NCI. At acquisition date \$20m has been recognised in NCI.

	\$m
Cash paid for 70% investment	46
Gross up for 100% investment	20
Implied equity value	66

Acquisition related expenses of less than \$1m are included in operating expenses in the Statement of comprehensive income. Z paid \$46m for the investment in Flick and acquired \$18m of cash in the opening balance sheet. The Group's net cash outflow for the investment of \$28m has been included in investing cash flow in the Statement of cash flows. In addition to the initial investment Z has a combination of put and call options which could enable Z to acquire the NCI by 2025.

The assets and liabilities recognised as a result of the acquisition are shown below.

	\$m
Cash	18
Intangible assets	2
Trade payables	(1)
Provisions	(2)
Net identifiable assets acquired	17
Assets to be identified (including goodwill)	49
Net assets acquired	66

Revenue and profit contribution

Since 1 September 2018 \$5m of revenue and \$0.7m of losses has been recognised in the consolidated Z Statement of comprehensive income. If the acquisition had been at the start of the reporting period, it is estimated Z would have recorded \$27m of additional revenue, bringing the combined revenue to \$2,701m. It is estimated Z would have recorded \$6m of losses, bringing the combined net profit to \$133m (NCI portion \$2m loss).

3. Inventories

Inventory is stated at the lower of cost or net realisable value. The cost of inventories is based on the first-in-first-out principle. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

During the period, there was a reversal of the write down of inventories to net realisable value amounting to \$5m (30 September 2017: write down of \$1m; 31 March 2018: reversal of write down of \$3m). The movement is included in purchases of crude and product in the Statement of comprehensive income.

	Unaudited 30 September 2018 \$m	Unaudited 30 September 2017 \$m	Audited 31 March 2018 \$m
Raw materials and consumables	412	168	259
Finished goods/trading products	434	243	383
	846	411	642

4. Property, plant and equipment

During the period the Group recognised additions of \$29m to Buildings, Land and improvements, and Plant and equipment. Included within work in progress is \$15m relating to the Fuel Card Infrastructure Replacement Programme.

5. Assets held for sale

During the period, Z has committed to a plan to sell three retail sites. Efforts to sell these sites have started and the last sale is expected by June 2019. The sites were classified as Assets held for sale with a carrying value of \$33m (land \$31m and buildings \$2m). \$1m is held in the revaluation reserve for the sites held for sale. The fair value of the sites held for sale is \$33m as at 30 September 2018.

6. Investments

Z's investment in Refining New Zealand is accounted for as an equity investment at fair value through other comprehensive income in compliance with NZ IFRS 9. During the period the investment has increased by \$13m to reflect the fair-value movement in the share price of Refining New Zealand to \$2.57 at 30 September 2018.

7. Accounts payable, accruals and other liabilities

	Unaudited 30 September 2018 \$m	Unaudited 30 September 2017 \$m	Audited 31 March 2018 \$m
Accounts payable	518	178	384
Accruals and other liabilities	327	228	298
Employee benefits payable	8	14	15
	853	420	696

8. Financing arrangements

Z's debt includes bank facilities, bonds and USPP notes secured against certain assets. The facilities require Z to operate within defined performance and gearing ratios and includes restrictions over the sale or disposal of certain assets without bank agreement.

Throughout the period, Z has complied with all debt covenant requirements as imposed by lenders.

At 30 September 2018, Z had secured bank debt facilities of \$530m (30 September 2017: \$890m, 31 March 2018: \$530m).

At 30 September 2018 there was \$88m drawn against these facilities (30 September 2017: \$495m, 31 March 2018: \$37m). The facilities comprise a \$180m revolving-term debt facility drawn to \$88m plus a \$350m working capital facility drawn to nil, both maturing May 2019.

The bank debt facilities are able to be drawn down as required, provided Z is compliant with debt covenants. All loans must be repaid on the relevant due dates. Interest rates are determined by reference to prevailing money market rates at the time of draw-down, plus a margin. Interest rates paid during the 6 months ended 30 September 2018 ranged from 2.8% to 3.2% (30 September 2017: 2.8% to 3.2%, 31 March 2018: 2.8% to 3.3%).

On 15 August 2018 Z repaid \$150m of bonds, and a new bond of \$125m was issued on 3 September 2018.

USPP notes fair-value hedge movement for the period was \$11m (30 September 2017: nil, 31 March 2018: \$14m) and foreign-exchange revaluation movement for the period was \$35m (30 September 2017: nil, 31 March 2018: \$5m).

9. Share capital and distributions

During the period, 266,506 shares at a cost of \$2m (30 September 2017: 238,751 shares, \$2m; 31 March 2018: 238,751 shares, \$2m) were purchased and held by Z Energy LTI Trustee Limited for Z's restricted share long-term incentive plan.

	Cents per share	Unaudited 6 months ended 30 September 2018 \$m	Unaudited 6 months ended 30 September 2017 \$m	Audited 12 months ended 31 March 2018 \$m
Dividend				
2017 Final dividend (paid June 17)	19.9	–	80	80
2018 Interim dividend (paid December 17)	10.4	–	–	42
2018 Final dividend (paid May 18)	21.9	88	–	–

10. Related parties

Transactions with related parties Received / (paid)	Unaudited 6 months ended 30 September 2018 \$m	Unaudited 6 months ended 30 September 2017 \$m	Audited 12 months ended 31 March 2018 \$m
Refining New Zealand – sale of goods and services	1	–	1
Refining New Zealand – processing fees, customs and excise duties	(341)	(407)	(798)
Key management personnel			
– Short-term employee benefits	(4)	(5)	(8)
– Other long-term benefits	(1)	(1)	(2)
Balances at the end of period			
– Refining New Zealand – processing fees, customs and excise duties	(62)	(49)	(59)

11. Contingent liabilities

Z has guaranteed an exposure up to USD2m (\$3m) to a financier of one of Z's associate companies (30 September 2017: USD3m (\$4m), 31 March 2018: USD3m (\$4m)). This guarantee reduces by USD1m annually.

12. Events after balance date

On 31 October 2018, the directors approved a fully imputed dividend of 12.5 cents per share, which is equal to \$50m, to be paid on 11 December 2018 (30 September 2017: \$42m, 10.4 cents per share, 31 March 2018: \$88m, 21.9 cents per share).



Independent Review Report

To the shareholders of Z Energy Limited

Report on the interim consolidated financial statements

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements on pages 6 to 15 do not:

- i. present fairly in all material respects the Group's financial position as at 30 September 2018 and its financial performance and cash flows for the 6 month period ended on that date; and
- ii. comply with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting..

We have completed a review of the accompanying interim consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 September 2018;
- the consolidated statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for conclusion

A review of interim consolidated financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of Z Energy Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Our firm has also provided other services to the group in relation to the review of the cost of sales adjustment. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as reviewer of the group. The firm has no other relationship with, or interest in, the group.



Use of this Independent Review Report

This report is made solely to the shareholders as a body. Our review work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the Independent Review 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 shareholders as a body for our review work, this report, or any of the opinions we have formed.



Responsibilities of the Directors for the interim consolidated financial statements

The Directors, on behalf of the group, are responsible for:

- the preparation and fair presentation of the interim consolidated financial statements in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting;
- implementing necessary internal control to enable the preparation of interim consolidated financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's Responsibilities for the review of the interim consolidated financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these interim consolidated financial statements.

This description forms part of our Independent Review Report.

KPMG
Wellington

31 October 2018

Supplementary financial information for the 6 months ended 30 September 2018

The supplementary financial information does not form part of the financial statements. To assist in understanding the Group's performance, the directors have provided additional disclosure of the Group's results for the 6 months on a replacement cost basis.

Income statement on replacement cost basis¹

	6 months ended 30 September 2018 \$m	6 months ended 30 September 2017 \$m	12 months ended 31 March 2018 \$m
Revenue	2,674	2,086	4,570
Purchases of crude, product and electricity	(1,651)	(1,193)	(2,579)
Excise and carbon expense	(502)	(492)	(1,011)
Primary distribution expenses	(19)	(21)	(56)
Cost of sales adjustment (COSA)	(136)	34	(78)
Operating expenses	(191)	(193)	(398)
Replacement cost EBITDAF	175	221	448
Share of earnings of associate companies (net of tax)	–	–	1
Replacement cost EBITDAF	175	221	449
Depreciation and amortisation	(57)	(47)	(102)
Net financing expense	(26)	(27)	(52)
Fair-value movements on interest rate derivatives	(5)	(4)	(9)
Gains on sale of PPE	2	3	4
(Increase) in decommissioning and restoration provision	–	(1)	(3)
Replacement cost net profit before taxation	89	145	287
Taxation expense	(55)	(31)	(103)
Tax benefit / (expense) on COSA	38	(9)	21
Replacement cost net profit after taxation	72	105	205

Reconciliation from statutory net profit after tax to RC EBITDAF

	6 months ended 30 September 2018 \$m	6 months ended 30 September 2017 \$m	12 months ended 31 March 2018 \$m
Statutory net profit after tax	139	80	263
COSA	(136)	34	(78)
Foreign exchange and commodity (gains) on fuel purchases	31	–	(1)
Tax benefit / (expense) on COSA	38	(9)	21
Replacement cost net profit after tax	72	105	205
Depreciation and amortisation	57	47	102
Net financing expense	26	27	52
Fair-value movements on interest rate derivatives	5	4	9
Taxation (including tax on COSA and foreign exchange and commodity gains and losses on fuel purchases)	17	40	82
Gains on sale of PPE	(2)	(3)	(4)
Increase in decommissioning and restoration provision	–	1	3
Replacement cost EBITDAF	175	221	449

¹ Replacement cost is a non-GAAP measure used by the downstream fuel industry to report earnings. The difference between HC earnings and RC earnings is the COSA and foreign exchange and commodity gains and losses.

Company directory

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Andrew Mark Cross
Alan Michael Dunn
Abigail Kate Foote
Julia Margaret Raue
Stephen Reindler
Blair Albert O'Keeffe
(appointed 1 August 2018)

Executive team

Michael Bennetts
Chief Executive Officer

Christopher Day
Chief Financial Officer

Jane Anthony
General Manager, Marketing

David Binnie
General Manager,
Supply and Distribution

Debra Blackett
General Counsel and
Chief Governance Officer

Mark Forsyth
General Manager, Retail

Julian Hughes
General Manager, Health, Safety,
Security, and Environment

Lindis Jones
General Manager, Corporate

Helen Sedcole
General Manager,
People and Culture

Meredith Ussher
General Counsel
(Resigned 12 October 2018)

Nicolas Williams
General Manager, Commercial

Share Registrar

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164 438 448



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Notice of event affecting securities

NZSX Listing Rule 7.12.2. For rights, NZSX Listing Rules 7.10.9 and 7.10.10.
For change to allotment, NZSX Listing Rule 7.12.1, a separate advice is required.

Number of pages including this one
(Please provide any other relevant
details on additional pages)

1

Full name of Issuer **Z Energy Limited**

Name of officer authorised to make this notice **Chris Day** Authority for event, e.g. Directors' resolution **Directors' resolution**

Contact phone number **+64 4 462 4620** Contact fax number Date **1 / 11 / 2018**

Nature of event
Tick as appropriate
 Bonus Issue ☐ If ticked, state whether: Taxable ☐ / Non Taxable ☐ Conversion ☐ Interest ☐ Rights Issue Renounceable ☐
 Rights Issue non-renounceable ☐ Capital change ☐ Call ☐ Dividend ☒ If ticked, state whether: Interim ☐ Full Year ☒ Special ☐ DRP Applies ☐

EXISTING securities affected by this

If more than one security is affected by the event, use a separate form.

Description of the class of securities **Ordinary Shares** ISIN **NZZELE0001S1**
If unknown, contact NZX

Details of securities issued pursuant to this event

If more than one class of security is to be issued, use a separate form for each class.

Description of the class of securities ISIN
If unknown, contact NZX

Number of Securities to be issued following event Minimum Entitlement Ratio, e.g. ① for ② for

Conversion, Maturity, Call Payable or Exercise Date Treatment of Fractions

Strike price per security for any issue in lieu or date Strike Price available. Enter N/A if not applicable ☐ Tick if pari passu ☐ OR provide an explanation of the ranking

Monies Associated with Event

Dividend payable, Call payable, Exercise price, Conversion price, Redemption price, Application money.

In dollars and cents
 Amount per security (does not include any excluded income) **\$0.125** Source of Payment **Retained Earnings**
 Excluded income per security (only applicable to listed PIEs)
 Currency **NZ Dollars** Supplementary dividend details - NZSX Listing Rule 7.12.7 Amount per security in dollars and cents **\$0.022059**
 Total monies **\$50,000,000** Date Payable **11 December, 2018**

Taxation

Amount per Security in Dollars and cents to six decimal places

In the case of a taxable bonus issue state strike price **\$** Resident Withholding Tax **\$0.008681** Imputation Credits (Give details) **\$0.048611**
 Foreign Withholding Tax FDP Credits (Give details)

Timing

(Refer Appendix 8 in the NZSX Listing Rules)

Record Date 5pm

For calculation of entitlements -

23 November, 2018

Application Date

Also, Call Payable, Dividend / Interest Payable, Exercise Date, Conversion Date. In the case of applications this must be the last business day of the week.

11 December, 2018

Notice Date

Entitlement letters, call notices, conversion notices mailed

Not applicable

Allotment Date

For the issue of new securities. Must be within 5 business days of application closing date.

Not applicable

OFFICE USE ONLY

Ex Date:
Commence Quoting Rights:
Cease Quoting Rights 5pm:
Commence Quoting New Securities:
Cease Quoting Old Security 5pm:

Security Code:

Security Code:

