5 November 2018

Supplementary commentary on Z Energy First-half FY19 earnings

Since announcing revised earnings guidance on 1 November, Z has received feedback from the market and had the opportunity to review analyst coverage. There have been varying interpretations of Z's commentary on dividend and debt leverage. Accordingly, the Board provides the following further information to supplement its announcement of revised RC (replacement cost) EBITDAF guidance.

Full-year FY19 dividend

Z announced a new dividend policy at its Investor Day in September 2017 to come into effect in FY19. The policy is to pay out 90-100% of underlying free cash flow, calculated as net cash from operations less maintenance capex and debt repayments. Organic growth capex is to be funded from asset divestment.

In accordance with this policy, Z confirms that dividend guidance for FY19 ranges from 32 to 41 cents per share. This is calculated as a 100% pay-out for the revised RC EBITDAF guidance of $400-435m as announced on Thursday 1 November.

For further clarity and consistent with previous guidance, the major elements of the FY19 dividend guidance range are maintenance capex of approximately $60m, debt repayments of $40m, net financing payments of approximately $50m, and a cash tax payment of circa $120m. While Z focuses its key financial metrics on replacement cost performance, cash tax payments are calculated on historic cost earnings with the timing of these payments in two financial years. The material increases in crude prices in 2HFY18 and in 1HFY19 has resulted in a significant difference between replacement cost and historic cost profits and therefore the cash tax payable. Z's cash tax in FY19 therefore reflects historic cost earnings in FY18 and estimated historic costs earnings in FY19.

In the opinion of the Board, this reflects a prudent approach given the volatility experienced in crude markets and that first half earnings have resulted in a debt leverage ratio of 2.4x.

Capital strategy and debt leverage

As indicated at the September 2017 Investor Day, a leverage ratio of 2.0x net debt to EBITDAF was considered an upper limit for business as usual conditions. At that time Z announced its intention to reduce leverage towards a ratio of circa 1.5x by the end of FY21 through debt repayments of $30-50m a year, earnings growth from its Strategy 3.0 program and with cash from divestments that was not required to fund organic growth capex being also used to reduce debt.

The lower ratio was intended to ensure there was sufficient flexibility in Z's debt arrangements to allow the company to withstand "foreseeable shocks" such as the earnings impact from the unplanned

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refinery shutdown in the first half of this financial year. It is the Company's intention to continue progressing towards our target capital structure.

This additional announcement is intended to clarify the application of Z's revised Distribution policy in its first year, and to assure shareholders and other stakeholders that dividends will be consistent with the disclosed policy, and in line with the revised forecast earnings guidance.

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