
See
You
Soon
Z Energy
Annual Report
2019

Kia kite anō

About this report

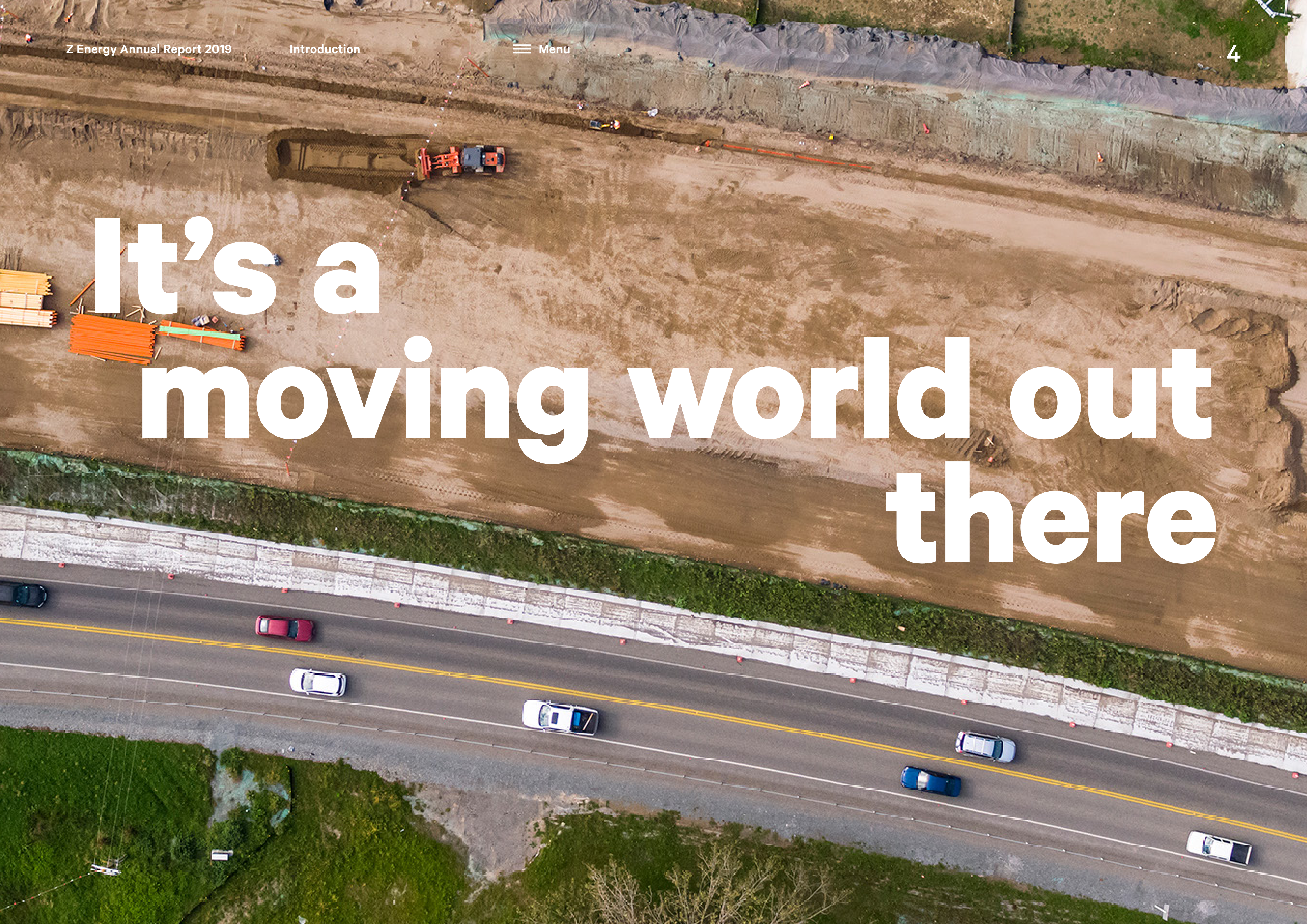
This is our third integrated report as defined by the Integrated Reporting <IR> Framework. It covers the financial year 1 April 2018 to 31 March 2019 and focuses on the following <IR> capitals: people and culture, capability, environment, assets, our place in New Zealand, and finances. We also use the Global Reporting Initiative (GRI) Standards: Core option.

We continue to report on remuneration and corporate governance more broadly than required in response to shareholder requests for greater transparency around how we operate and how we reward our people. We have been guided by the New Zealand Shareholders Association CEO Remuneration Reporting Framework in this area.

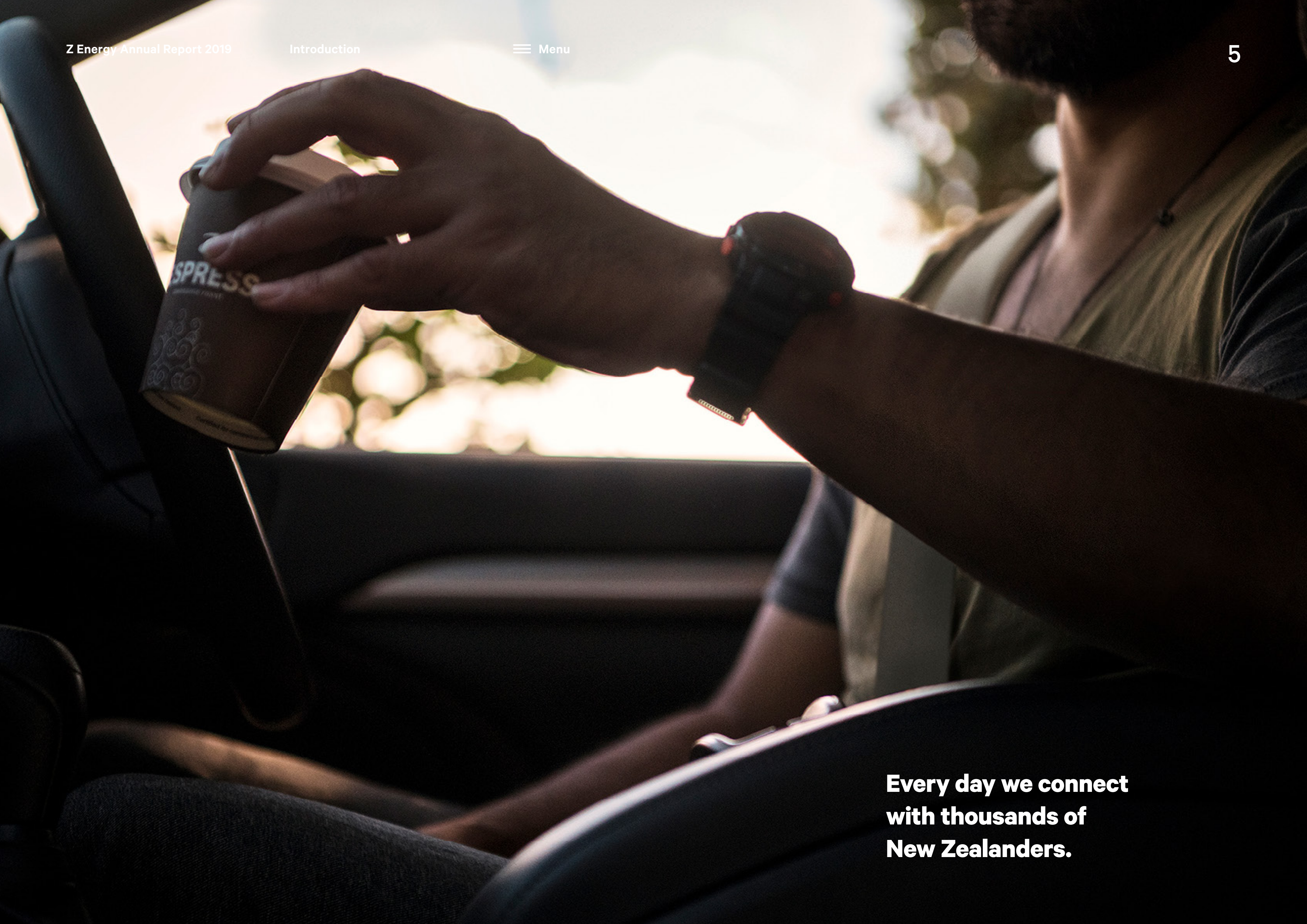
Finally, in consultation with policy think tank the McGuinness Institute, we have chosen for the first time to include a Climate Change Statement that gives an overview of our approach to managing and reporting on climate change risks. The McGuinness Institute believes that all listed issuers should report on climate change in a standardised and comparable way. We support this, so we have used its recommended framework in our report.

This document, in conjunction with Z Energy's Corporate Governance Statement 2019, constitutes the 2019 Annual Report to shareholders of Z Energy Limited. It complies with the NZX Corporate Governance Code and the NZX Environmental, Social and Governance Guidance Note.

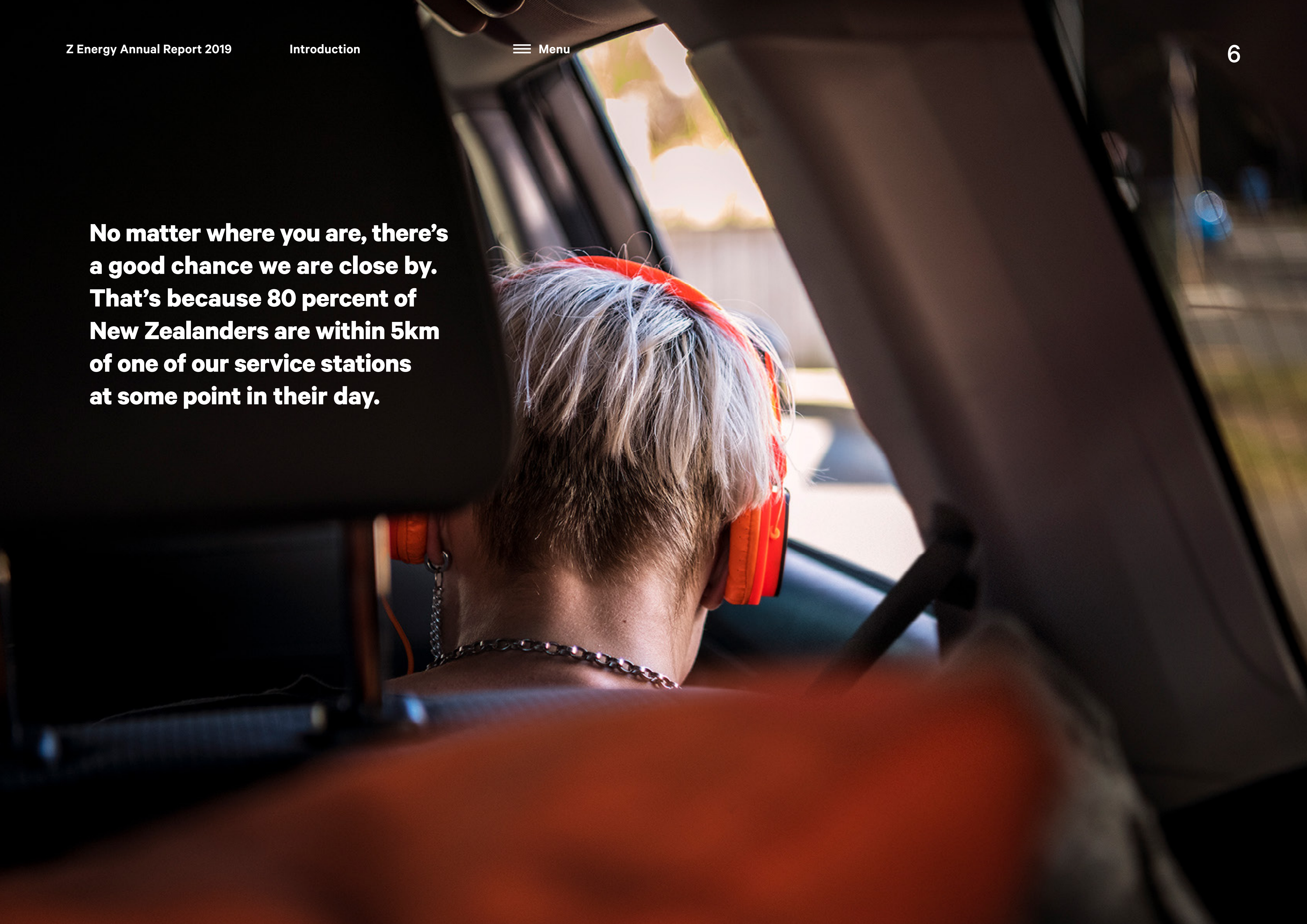
Menu



It's a moving world out there

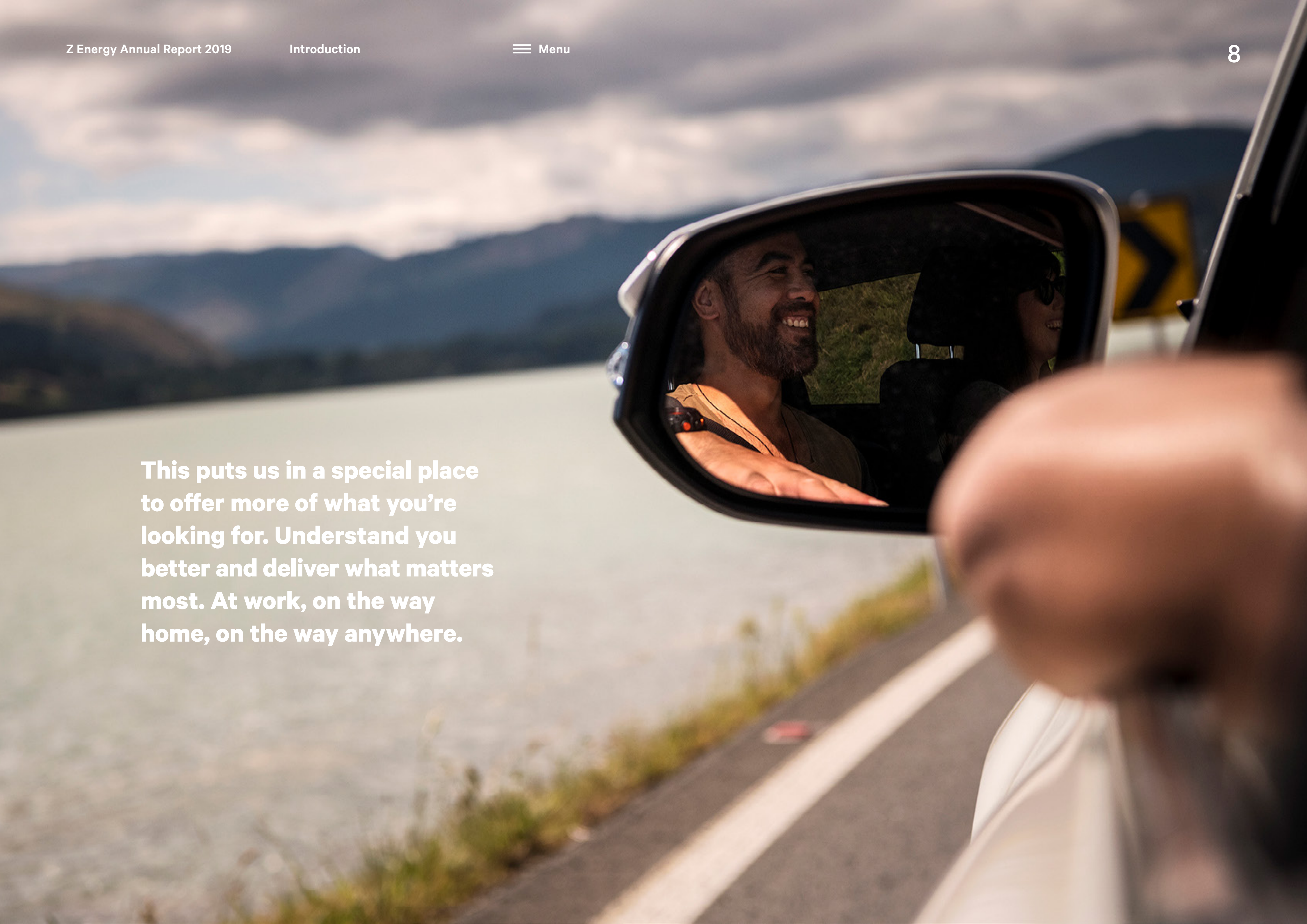


Every day we connect with thousands of New Zealanders.

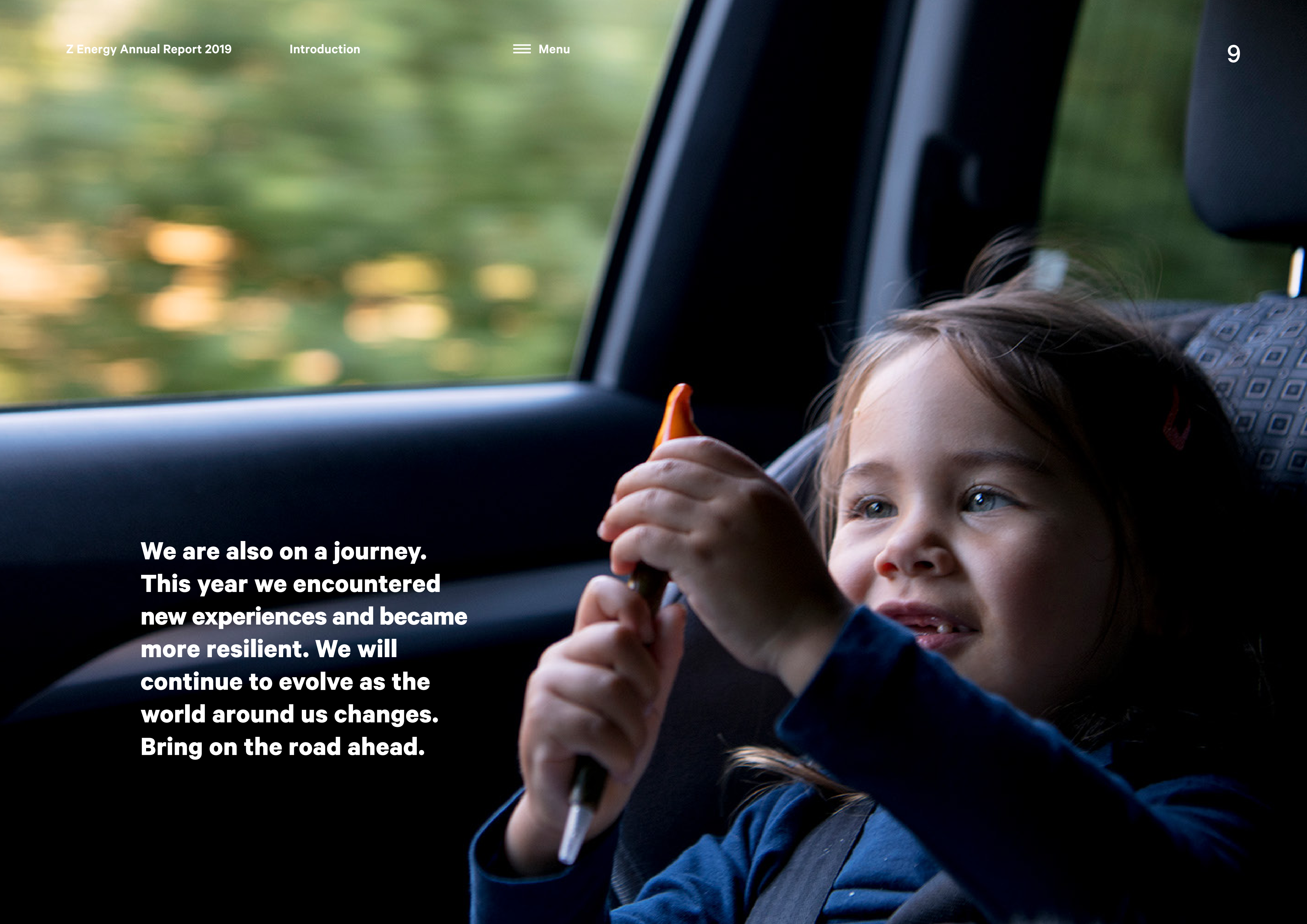


No matter where you are, there's a good chance we are close by. That's because 80 percent of New Zealanders are within 5km of one of our service stations at some point in their day.

We supply nearly half of New Zealand's fuel. Every year around 55 million retail transactions take place across the Z network.



This puts us in a special place to offer more of what you're looking for. Understand you better and deliver what matters most. At work, on the way home, on the way anywhere.



We are also on a journey. This year we encountered new experiences and became more resilient. We will continue to evolve as the world around us changes. Bring on the road ahead.

Where we are right now

An overview of our achievements against our commitments as a business

The year at a glance

FY19

Annual results comparison

FY18

▼ 29%

$186m

Historical cost net profit after tax

$263m

▼ 13%

$178m

Replacement cost net profit after tax

$205m

▼ 3%

$434m

Replacement cost EBITDAF

$449m

▲ 33%

43 cents

Total dividend per share

32.3 cents

▲ 0.65%

4,172 million litres

Total fuel volume (retail and commercial)

4,145 million litres

▼ 0.35%

56.7m

Total transactions on Z-branded retail sites

56.9 million transactions

▼ 12%
45 cents
Replacement cost net profit after tax per share

51 cents

▼
-5.2%
Total shareholder return

+3.4%

▼ 12%
4.3 cents
Replacement cost net profit after tax per litre

4.9 cents

▼ 5%
$86m
Capital expenditure

$91m

▼ 0.5%
99.5%
Health, Safety, Security and Environment actions close-out rate

100%

▲ 8%
13.1 million tonnes
Total carbon footprint, carbon dioxide equivalent (tCO2e)

12m tonnes

▲ 2%
2,656
Z direct employees, contractors and retail network members

2,611

+17
Employee Net Promoter Score

Chair's report

"Z is focused on maintaining its market position, continuing to improve the operational efficiency of its asset base and building a strong, capability-led team with clear focus on our strategy and performance goals."

Peter Griffiths
Chair, Z Energy

Kia ora tātou
The 2019 financial year was one of the most challenging on record for Z Energy. Significant market volatility returned, with the Brent indicator trading between US$51 and US$84 per barrel in the last six months of FY19. It reinforced that our business is based on a global commodity where prices can move quickly and unpredictably.

The volatile trading conditions tested the Z team. I'd like to acknowledge Mike, the executive team and all of Z's employees who have worked diligently in uncertain market conditions to deliver a result that was slightly below the lower end of our initial earnings guidance for the year.

Focus on our core
While the future for fossil fuels is a source of much debate, Z is focused on maintaining its market position, continuing to improve the operational efficiency of its asset base and building a strong, capability-led team with clear focus on our strategy and performance goals.

Our operating environment continues to be increasingly competitive which means we must keep getting better at everything we do, leveraging our brands, preserving the numerous strengths in our supply chain, maintaining our commercial relationships and optimising our retail network.

Capital allocation for a capability-led strategy
Our strategy to invest in capabilities helps us to limit the amount of capital deployed in our traditional asset base. We already have a safe and resilient supply chain and customer-facing network of sufficient scale for the current market demand.

We will maintain an appropriate level of capital expenditure to ensure the integrity and safety of our operations. Investment opportunities that aim to grow the bottom line, will come from 'recycling' our current capital employed. By limiting the capital in our core business and continuing to churn the least productive assets to fund growth we will be able to maintain a resilient balance sheet.

Investors should also expect continued modest experimentation for the purpose of market and product development in the three identified areas of future fuels, mobility and the 'last mile'.

A clear, simple and sustainable dividend
The increasingly mature nature of our industry and the underlying strength of our business means the Board regularly considers the ideal sources and uses of capital. The Board balances the immediate capital requirements for Z along with the long-term desired level of debt on the balance sheet and providing dividends to reward our shareholders for their investment in Z.

In September 2017 Z announced a refreshed dividend policy, setting a target pay-out range of 80 to 100 percent of Underlying Free Cashflow flow. Underlying Free Cashflow being defined as the net cash from operating activities less integrity capex, principal debt repayments and any adjustment for working capital fluctuations.

Due to the increased volatility experienced this year we had to adjust our earnings and dividend forecasts, which on top of the change in policy, led to a level of uncertainty for our shareholders.

To simplify the dividend policy and provide greater clarity for future dividends the Board will seek to pay ordinary dividends of 70 to 85 percent of Operating Cashflow, where Operating Cashflow is defined as RC EBITDAF less RC tax, net financing costs and Integrity Capex. Integrity Capex is defined as stay in business capex including maintenance capex and IT expenditure.

For FY19 the Board has approved a final dividend of 30.5 cents per share, which will take our full year payment to 43.0 cents per share. This is a 33 percent increase over FY18 and equates to a total cash dividend pay-out of $172 million. This also represents a 95 percent pay-out of underlying free cash flow as defined by the current dividend policy.

Our competitive reality
The competitive environment for retail fuels in New Zealand has changed significantly since Z's inception.

The industry has seen a notable increase in the number of retail outlets across the country, reversing a long established declining trend. In recent years, there has been a five percent increase in the total number of truck stops and service stations from 1,457 to 1,533 sites as more recent entrants build out their networks and seek to capture increased market share.

Independent operators are now present in all New Zealand markets, for example more than half of the retail outlets in the South Island do not carry the brands of a traditional supplier operating in New Zealand. There is an increasingly divergent range of choices for customers with service-led convenience experiences competing with simple, price-led offers.

Z believes the retail fuel industry in New Zealand is more competitive than ever. Z welcomes the Commerce Commission market study into the fuel industry and believes that the Commission will find that the industry is competitive.

Competing against price-led competitors
We do not underestimate the challenges in our market, automated sites now accounting for around 14.9 percent of total industry volume. In response we will continue to manage our costs, focus on our customers and attempt to provide exemplary service offers that are truly valued.

While new entrants continue to build their operational footprints in the typical manner we will continue to deliver competitive offers and invest in our capability-led strategy. We will make greater use of smart data and analytics to identify our customers and attract them to our extensive network.

We continue to make progress on our drive for a more productive core business, delivering operating efficiencies throughout the supply chain, especially in those areas where we have scale advantages. To date, we have delivered our refinery optimisation strategy and brought back in-house operational control of our fuel storage terminals. We have simplified our bulk fuel distribution under a new long-term contract. In short, we are ensuring our existing business is running effectively and efficiently.

> **“I am confident that the future for our company is a good one.”**

Preparing for a lower carbon future
This year the Board travelled overseas to learn how other countries and industry participants are preparing for a lower carbon future. As a result of the trip the Board is confident that we will have adequate time to properly navigate the expected market transition. We accept that our industry faces long term disruption, but it will not manifest as material demand destruction in New Zealand for some considerable time.

While we keep an eye on the future, what requires our immediate and on-going attention is operating our existing business well, driving operational efficiencies, and generating value from the core asset base so we can effectively manage an orderly transition to a lower carbon future.

The Board also believes that New Zealand will have to come up with a solution that is right for New Zealand, our situation is unique, and we cannot simply copy what has been done in Singapore or Norway or California as they are responding to their own particular circumstances.

While much of the current public debate focuses on electrification of the light passenger fleet, it would be remiss to not also consider the changes that will have to occur to meet commercial fuel demand which are principally currently satisfied by diesel. We continue to focus on alternatives for this fuel. As part of the solution it is pleasing that Z’s biodiesel plant, Te Kora Hou, is now producing and we are making deliveries to our foundation customers.

The fuel replacement for aviation and marine remains challenging. The Board is interested in understanding the potential of hydrogen and think it should continue to be a part of the debate around our future energy mix. We welcome the comments made by the government about the exploration of hydrogen as a possible energy source for large-scale commercial transport needs in New Zealand.

Z aims to make a meaningful contribution to what is best for New Zealand’s energy future and is actively engaged in the policy debate with legislators, industry bodies, market commentators and the public.

Signing off
This is my last letter to you, shareholders of Z Energy as Chair. Being a member of the Board since 2009 and being part of one of New Zealand’s business success stories has been one of the highlights of my career.

I am confident that the future for our company is a good one. While we will have to lean into headwinds from time to time, I believe that Z will successfully navigate these and remain a strong and relevant New Zealand company. I wish the Board, with Abby as the new Chair, and Mike and his management team all the very best in their future endeavours.

Kia ora koutou a ka kite anō

Peter Griffiths
Chair, Z Energy

CEO's report

> As a result of our work over the past three years, we now have competitively advantaged infrastructure and customer facing assets, unrivalled scale in our supply chain, and a customer base with unmatched size and geographic reach.

Mike Bennetts
CEO, Z Energy

Kia ora koutou o te whānau a Z Energy
Our experience in the first half of the financial year was very different from that in past years. Supply disruptions and significant price rises beyond our control, combined with a vibrant competitive landscape, signals of potential regulatory review and growing consumer frustration exacerbated by policies such as the regional fuel tax, resulted in significant changes in customer behaviour. We recovered well in the second half as we learnt our lessons and crude prices went through their more typical up and down cycle.

> **“The investment in our five organisational capabilities is critical to us sustaining competitive advantage and maintaining market share.”**

The first half was certainly a new experience for many of our employees and business partners. Any new experience provides opportunities to learn for next time and change the way some things are done. That experience counts as volatility and uncertainty grow.

Responding, and not simply reacting
Faced with the trading conditions we experienced in the first half, we resisted the impulse to react in a knee-jerk manner. The Board challenged us to learn from the challenges we were facing and to respond with both care and speed. Much of what was happening was transitory rather than structural, and we looked past the things we couldn't control, such as record high fuel prices and a longer-than-expected refinery shutdown. We identified and considered risks and responded in two ways: improving our operational execution and reducing the time to take new products to market. Responding, rather than reacting, is easy to say now but it was challenging when the pressure to perform was on and financial results were well short of expectations.

The new reality for all businesses today is that planning is on shorter timeframes. We must continue to change and adapt to the things that affect us. So we took opportunities to identify blind spots, get into action on any weak signals across our teams and increase the pace of our actions.

Strategy keeps us on course
As a result of our work in the past three years, we have competitively advantaged infrastructure and customer-facing assets, unrivalled scale in our supply chain, and a customer base with unmatched size and geographic reach. Strategy 3.0 — our plan for a more productive core business — is about extracting the greatest benefits that we can from our expanded scale and taking every opportunity to do more with fewer resources while always managing risk, acting safely and working within our stands and values.

Rather than relying upon our competitively advantaged assets, we now also focus on five organisational capabilities that enable us to have a more productive core business — customer experience, productivity, innovation, digitisation and brand. We have introduced an assessment tool for each of these that now provides quantitative and qualitative measures of progress. That's because it is way easier and obvious to see the progress of an asset-led strategy, such as that for building service stations, than it is to see progress in customer experience or innovation.

Making people more comfortable with innovation hinges on our being more agile in the way we work. We are changing how we think about projects and customer offers and introducing contained, cross-functional responses to customer pain points. We have had the usual growing pains around changing how we work, and we have supported our people with training and other development experiences so they can grow both their confidence and capabilities. For example, 159 of our people have completed our Innovation Masterclass and are getting into action with human-centred design.

During the year we also looked for ways to demonstrate the diversity and inclusion we value so deeply by practising inclusive leadership and establishing diverse teams to learn fast, stay focused on customer outcomes and take every opportunity to prototype in measured and deliberate ways.

Bringing people together through diversity
Productivity increasingly hinges on our ability to respond to changing situations, so the skills to navigate a volatile environment successfully cannot sit in departments. Digitisation is not the sole responsibility of IT; culture is not just the domain of People and Culture. Rather, opportunities and problems are owned across the business.

That's been a huge opportunity and a challenge for us, and it becomes more complicated as new people and skills are added to Z. Facing a tough trading environment this year, we depended on our people to pull together and recognise and manage our risks, execute our strategy and transition these new skills right across our business.

When we brought in-house all our terminal operations, we integrated the teams and their skills and experience in line with our values while encouraging them to still be themselves. We saw that a safe and efficient supply chain is about tapping in to diverse backgrounds and experiences to gain new perspectives that more fully inform what we do. That's how we will grow a learning organisation with ever-expanding capabilities.

The most important things in an increasingly risky world

Our paramount concern is health, safety, security and the environment (HSSE). Increasingly, we are building a generative culture by empowering those closest to operational risks to manage those risks. During the year we developed a safety leadership programme that broadened the scope of what we mean by safety to include mental wellbeing.

Stakeholders naturally want to know that we have identified risks that could potentially erode value in environments that are volatile, uncertain, complex and ambiguous. Because those risks range from government regulation to electric vehicles (EVs) to robberies, it's important that we are specific about where they exist, and manage them astutely and efficiently.

Success will depend on our ability to manage the risks we know about and build resilience to prepare for the unknowns, or at least respond to a higher level of volatility from that which is already known. This year we did a good job of seeing risks for what they were — transitional or structural — and dealing with them accordingly, albeit at times responding less quickly than we should have.

Our emphasis on new capabilities will never compromise or replace our focus on safety and any of our other commitments. In fact, quite the opposite — we continue to improve our risk management systems and approach our future with a consolidated view of our risks according to varying time horizons.

People are integral to that. Risks tend to be seen as mechanical but, in most cases, vulnerabilities spring from human actions or a lack of them. If we are to succeed in managing our risks well, we need to make sure our people are aware of risk and committed to mitigating it personally. We've always said that the Z Why is non-negotiable. The reason is simple — there's too much to lose if you put what you stand for aside to deal with what's bothering you at the time. Our values link to our HSSE management system and to our risks — because all three are about acknowledging the importance and value of humanity in our culture.

Strategy benefits are on track

At the September 2017 investor day presentation, we said that operating at our new scale would deliver investors $30–35 million of underlying EBITDAF in the following three years through our Strategy 3.0 initiatives, on top of the $39 million of synergy benefits delivered by the end of FY18. At FY19 year end, our Strategy 3.0 benefits are $24 million of underlying EBITDAF, and we remain on track to deliver on our commitment. Throughout the year, the benefits mostly came from actions in our supply chain — a new refinery optimisation partner, bringing terminal operations in-house, improved cost recoveries on selected imports, and a lift in margin from the shift in the jet fuel supply market to import price parity.

The value from our investment in our five organisational capabilities will be in addition to that; they are critical to our sustaining competitive advantage and maintaining market share. From next year we will be able to point to the value that comes from our investment in the culture, technology and people that are needed for these capabilities to develop.

It can be challenging to press forward with a capability-led strategy when our competitors are investing heavily in traditional asset-led strategies. The advantaged scale of our infrastructure, nationwide coverage and strong locations provides a level of resilience to the increased number of service stations being built. On top of that we can point to new products in the market (such as mobile pre-order coffee), the roll-out of new Z and Caltex apps, our partnership with Foodstuffs (NZ) Limited, and the initial roll-out of Fastlane as tangible examples of an improved customer experience. There is more to come in the next year for both our retail and commercial customers.

Bringing our capabilities together

The Fastlane initiative may not have been rolled out widely yet, but it has shown that we can innovate quickly to deliver a product that customers love. It integrates with the increasing digitisation of our business and fundamentally changes the customer experience. And it enables us to gather new insights about our customers that will improve our understanding while reducing our cost to serve.

Being great at Digital will become increasingly important over time. Our customers are already calling for market innovations that leverage our capabilities and competitively advantaged asset base, move us closer to them and their expectations, and are typically Z. Much of this comes from increasing digitisation through both new and existing technology. That's why we have established a Digital business unit and externally recruited a new Chief Digital Officer.

At first glance, our roll-out of Office 365 is simply about improving our technology. We took the opportunity to collaborate with Microsoft and used human-centred design to focus on unlocking capability and changing behaviours. Giving our people new mobile ways of working increases our overall digital capability by freeing us to focus on what matters most — our customers. It changes how we can work, enabling us to involve people who might otherwise not be included, meaning we can work faster and more effectively. In doing so, it changes the shape of Z by enabling geographically dispersed people to stay connected through technology and provides scope to reduce our operational carbon footprint through reduced travel.

The acquisition of 70 percent of Flick Energy Limited (Flick) is part of our investment in future growth opportunities. The near-term opportunity is to leverage Z's scale and reach into this adjacent energy sector, pursuing joint product development and transferring some of Flick's digital capability into Z. Longer term, Flick provides options for growth in each of the three market spaces we have identified for growth post 2020 — future fuels, mobility and the 'last mile'. Having a scalable, digital first platform at the centre of Z and Flick's customer offers will support the change of customers' attitudes to energy mobility. Shortly after the acquisition, significant market events caused substantial increases in spot power prices — a real challenge for Flick's business model. There were customer losses during this period but the strategic reasons for investing remain.

Climate Leaders Coalition
We remained active with our contribution to a more sustainable agenda for New Zealand business. We adopted a leadership role in the business community with those who wanted to take a more assertive stance on reducing emissions. The Climate Leaders Coalition is a signal to stakeholders that we care and that we will look to make a collective difference.

I hope the coalition is seen as a signal to New Zealanders, regulators and government alike that business acknowledges that a new sustainability conversation is needed. We will work with legislators and government agencies to introduce such changes to the New Zealand markets in ways that, if I can mix my metaphors, move the dial without spooking the horses.

Initial financial forecasts not met
At the half year our financial performance was well below the expectations set in our original guidance range. At year end, on the back of our second-half recovery, we have delivered historical cost net profit after tax of $186 million and RC EBITDAF of $434 million. This RC EBITDAF compared to our original guidance of $450–485 million, our last revision of $420–450 million and compares to last year of $449 million.

Across our balanced scorecard — health and safety, customer satisfaction, operations and strategy — the Board assessed our performance as 'below expectations'. This was primarily driven by the shortfall in profit performance arising from our failure to deliver the volume and margin combination we committed to. Quite rightly, this performance rating greatly reduces the level of at-risk pay our employees will receive. In some cases there will be no at-risk pay at all, which is entirely consistent with our principle of paying for performance.

Evolution not revolution
As much as our current markets can be volatile and the long term is hard to forecast, we continue to evolve our business rather than pursue some revolutionary pathway. We are clear that our focus for this side of the next decade is on a more productive core business by delivering the benefits that can be achieved because of our scale and reach. In preparing for the next decade we are developing options and learning from small-scale experiments in the three market spaces — future fuels, mobility and the 'last mile'.

With that in mind we have made changes within our executive team. With the establishment of our Digital business unit and the subsequent reduction in his responsibilities, our CFO, Chris Day decided that it was time to move on from Z, having been here since just before our IPO in 2013. Lindis Jones, a member of the executive team for nine years, will take up the role of CFO. Mandy Simpson joined us as our Chief Digital Officer, clearly showing our commitment to improving our digital capability through her unique skills and experiences. At year end Mark Forsyth stepped down after nine years in the role, and we welcomed Andy Baird as our new General Manager, Retail. Andy's substantial international experience will be valuable as we embrace changing customer expectations.

My thanks go to both Chris and Mark for their leadership and commitment to Z.

Both have led large teams of people who have made a significant contribution to the growth of Z, and I wish them well.

Of course I need to acknowledge that Peter Griffiths, our Chair, is retiring from the Board. I've really appreciated all of Peter's wisdom and guidance in the past six years as we have worked in partnership together. As much as I will miss him personally, I am looking forward to a similarly positive relationship with Abby Foote as our new Chair.

A final word of thanks
As I said earlier, it's been a year of new experiences and I would like to thank our customers as well as all those people who have worked so hard, including our employees, business partners and suppliers. A big thank you to the Board for its counsel, challenge and guidance throughout.

To those joining us, welcome aboard at an exciting time in our history as we continue to pursue our purpose of solving what matters for a moving world and our ambition to be a world-class Kiwi company.

Nō reira, kia ora koutou

Mike Bennetts
CEO, Z Energy

Our business model

Our ambition

To be a world-class Kiwi company

Our values

Share everything
Have the passion
Back our people
Be straight up
Be bold

Our stands

Health, Safety, Security and Environment
Environmental Sustainability
Community
Diversity and Inclusion

Our inputs

1. Our assets
2. Our finances
3. Our capability
4. Our people and culture
5. Our environment
6. Our place in New Zealand

Our outcomes

1. Our assets
2. Our finances
3. Our capability
4. Our people and culture
5. Our environment
6. Our place in New Zealand

For a breakdown on how our outputs have worked towards achieving our SDGs in 2019 see the next page.

3 4 5 7 8 11 12 13 15 16

The United Nations Sustainable Development Goals set a global context around sustainable development. Our positive aspirations and actions align closely with 10 of the Sustainable Development Goals.

1 **Our assets**
All of our terminals are now under our operational control. We invested in innovative technology for the roll-out of Fastlane, providing customers with new ways of fuelling up without leaving their vehicles. Investments in technology are setting us up for a more digital future.

7 12 13 16

2 **Our finances**
We achieved our revised earnings targets, continued to reduce our debt and simplified our dividend policy to provide increased clarity and certainty to investors. We remain on track to deliver the synergy benefits expected from the Caltex acquisition.

3 5 7 8 11 12 13

3 **Our capability**
Our organisational capability strategy continues to develop to align with our focus on customer experience, innovation and digitisation under Strategy 3.0. It is designed to ensure our people have the skills they need to succeed for the future. As part of this we have rolled out an ambitious Innovation Capability Programme.

3 7 12 13 16

4 **Our people and culture**
Our staff engagement levels remain high. Z appointed its first female Board Chair and celebrated the first anniversary of attaining the Rainbow Tick diversity and inclusion certification.

3 4 5 7 8 12 13 16

5 **Our environment**
Z's greenhouse gas emissions decreased this year compared to FY18, driven by reductions in operational emissions from coastal shipping, ground freight of fuel and retail electricity use. Our biodiesel is now fuelling Fonterra's North Island milk tanker fleet. We have not made as much progress toward our waste reduction targets as planned.

7 12 13 15 16

6 **Our place in New Zealand**
We remain committed to our Community stand and to doing good in our neighbourhoods. In the 2018 Good in the Hood programme we ran a fuel discount day, raising extra funds for community groups across the country.

3 4 5 7 8 11 12 13 16

To learn more about Sustainable Development Goals visit www.un.org/sustainabledevelopment

Reporting on what matters

To determine our material matters, we talked to a diverse range of our internal and external stakeholders about all sorts of things that mattered to them.

Central government

We engaged with government agencies, regulators, Ministers and Members of Parliament about the macro-environment in which we operate. We had constructive conversations about fuel prices, industry competition, alternative fuels and clean energy, climate change, and the security of energy supply.

Our investors

We run regular domestic and international investor roadshows. This year, key material topics included capital allocation, performance in Retail, the Flick acquisition and our dividend policy.

Our customers

We talked to customers about our latest innovations and ways to improve our customer service, such as through Fastlane and the Good in the Hood programme. This was through customer surveys and face-to-face interviews conducted as part of innovation projects.

The media

We participated in public forums and media interviews on a range of topics that matter to New Zealanders. We are known for being totally accessible and straight up when speaking in public; through this approach, we hope others will respond positively.

A diverse range of organisations

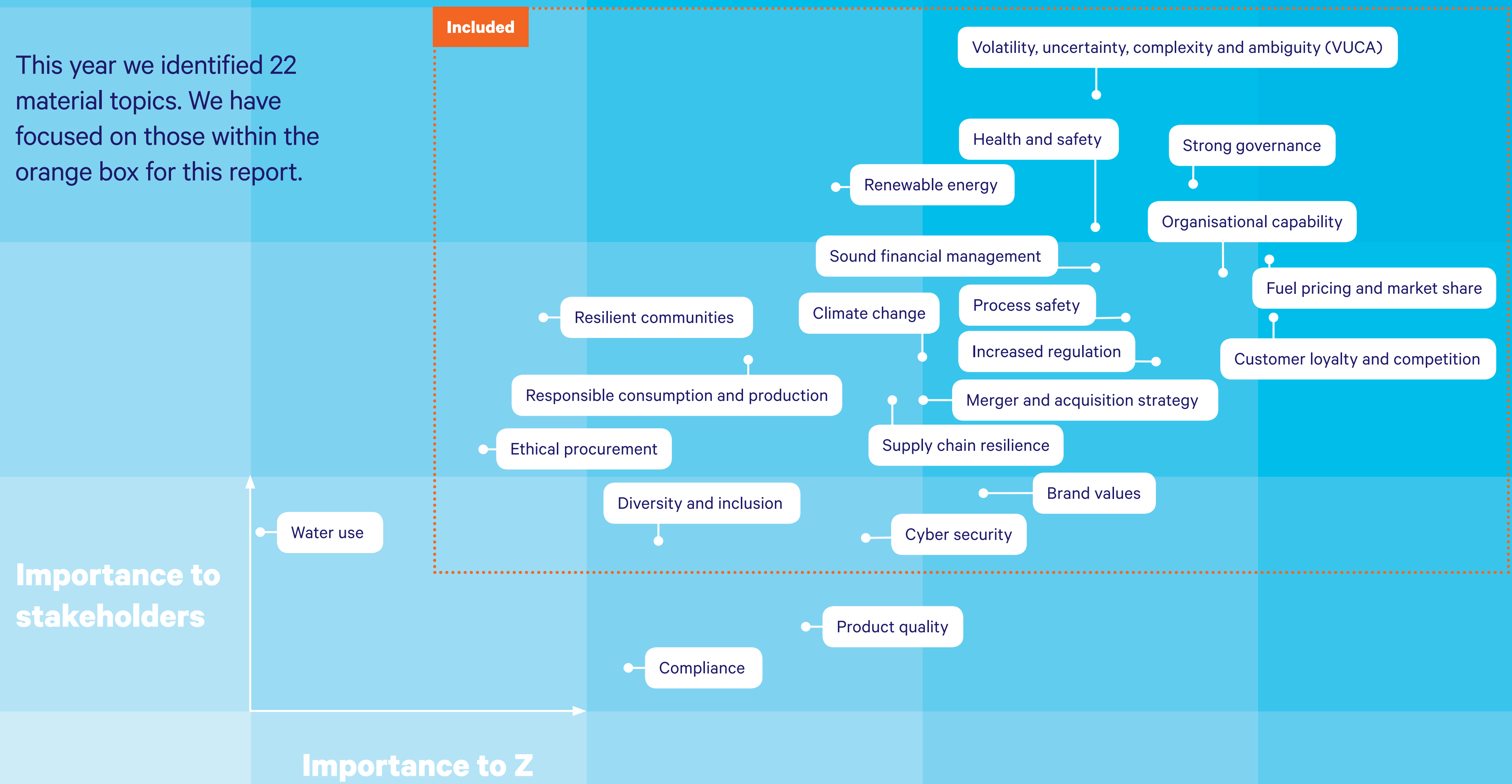
We engaged with local government, community groups, not-for-profit organisations and the sustainability sector about environmental and sustainability issues, and how Z can best make a difference in our local communities.

Members of the public

We remain active on social media and receive feedback and comments from members of the public. During the year we ran several prominent campaigns, including one about removing single-use plastic bags from our service stations and the more lighthearted 'What's the name of your car?'

Our material topics

This year we identified 22 material topics. We have focused on those within the orange box for this report.



Creating value for our shareholders

Z Energy is committed to creating value for investors by focusing on a safe and profitable core fuels business. We aim to extract value from our current asset base by delivering outstanding customer experiences, while positioning ourselves for future industry disruption.

Z aims to be an attractive long-term investment by providing high-quality, reliable returns to our investors by:

Optimising our market-leading position

- Z's unrivalled supply chain infrastructure provides competitive advantage through scale and reach
- Z is one of New Zealand's most recognised and trusted brands capable of extending to adjacent markets
- Z's scale provides options that allow us to adapt and innovate in a market that will be slowly disrupted by long-term trends

Pursuing a differentiated strategy that generates long-term customer loyalty

- Focus on Z's capabilities in customer experience, productivity, innovation, digitisation and brand
- Deliver distinctive customer experiences that drive loyalty
- Reduce time to market and lower investment risk through human centred design, innovation and experimentation

Delivering earnings growth in a changing industry

- Continue to deliver moderate earnings growth by operating a more efficient and productive core business
- Invest in the core business with rigour; only invest when discounted paybacks are less than five years
- Experiment in three adjacencies for alternative or replacement revenue streams — future fuels, mobility and the 'last mile'

Allocating capital with discipline to maximise shareholder value

- Manage cashflows and capital to deliver a sustainable dividend in line with earnings growth
- Limit capital employed in our core business to $2 billion by selling the least productive assets to fund growth
- Maintain a strong balance sheet with the capacity to leverage debt to fund non-organic investments

Remaining a people and values-based company

- Committed to our purpose 'to solve what matters for a moving world' and our ambition to be 'a world class Kiwi company'
- Maintain high levels of employee engagement and customer satisfaction
- Develop organisational capabilities and individual talent for an uncertain future

Doing good in Aotearoa New Zealand by recognising our heritage and being committed to future generations

- Contribute to a sustainable future at a scale that few other companies can by supporting the transition to a lower carbon future
- Provide thought leadership where we have a track record, especially in areas like HSSE, Diversity and Inclusion, and customer experience
- Actively support the communities in which we operate on what really matters to them

A few twists and turns

The year that was

How we saw our world this year
across the core parts of our business

Working hard for our commercial customers

Our strategy in Commercial is to combine the best of our Caltex and Z heritages. This means doing the hard work to keep things simple for our customers and using our scale to unlock value.

Currently, we serve more than 40,000 business customers through 11 delivery channels to more than 7,000 physical delivery points nationally. In order to grow volume, we combine distinctive assets and high levels of service across key channels. This includes direct-to-ship refuelling through our marine fuel barge in Auckland, our market-leading bitumen offer and our national Mini-Tanker fleet.

This year, commercial trading conditions were affected by volatile crude prices. In a volatile pricing environment, we worked hard to grow volume across our diverse product and channel portfolio. Overall for the year, we delivered a material increase in the underlying profitability of the commercial business and commercial volumes increased by three percent.

Our aviation and marine businesses performed well this year. Marine sales increased by 20 percent, with more cruise-ship customers using the *Awanuia* fuel oil barge to refuel in port. Our aviation refuelling business, which services large commercial jet aircraft at Auckland and Christchurch, continued to see growth, albeit at a slower rate than in previous years. We also increased our bitumen capacity by 39 percent using the new vessel MT *Kokako*, which supported deliveries of increased bitumen volumes this year.

The commercial diesel market continues to be highly competitive. This year saw the highest levels of customer change in many years, in terms of both losses and wins. Our volumes in this market grew by two percent during the year, with growth concentrated in our distributor and Mini-Tanker channels.

Z
\+ Caltex

= Value

Our commercial customers have told us they want their lives to be simpler and ease of access to our sites is important. We have an opportunity to improve performance in this space by maintaining competitive pricing while delivering distinctive solutions to drive customer loyalty in the long term.

Our immediate target is to unlock the Z and Caltex truck stop and service station networks for our business customers by combining them into a single nationwide fuel card network. The merging of Z Card and StarCard early in the new financial year will mean our 40,000 business customers and 300,000 cardholders can use a single card across New Zealand's largest single-supplier fuel network. Over 25 percent of all fuel sales through our Z service station network take place on a fuel card. The new unified card offer will help us to learn more about these longstanding customers, what they need and then recognise and reward them in ways that reflect what they value.

In terms of our carbon footprint in this part of the business, emissions from our offshore refuelling ship the *Awanuia* fell by 19 percent this year. We continue to explore alternative fuels such as biojet, but viable products at scale in this space are still some way off.

We made our first delivery of biodiesel to Fonterra as well as five other public and private truck stops. We are currently focused on ramping up production and getting our product into more truck stops in the Auckland, Waikato and Bay of Plenty regions, with full plant capacity expected to reach 20 million litres. Replacing 20 million litres of ordinary diesel with five percent biodiesel would reduce New Zealand's carbon footprint by 37,000 tonnes each year.

Commercial Net Promoter Score	**+15**
Business customers	**40,000**
Growth in commercial fuels volume	**2.3%**
Growth in aviation volume	**3.5%**
Growth in bitumen volume	**6.5%**

The Commercial Net Promoter Score helps us to understand how likely someone is to recommend us to others.

Delivering new customer experiences in Retail

Our strategy in Retail is to differentiate our Caltex and Z brand positions, segment the respective customer bases, and grow rational (price based) and emotional (brand based) loyalty. In a highly competitive environment, we will be relentlessly customer focused and leverage our network strength to maintain market share.

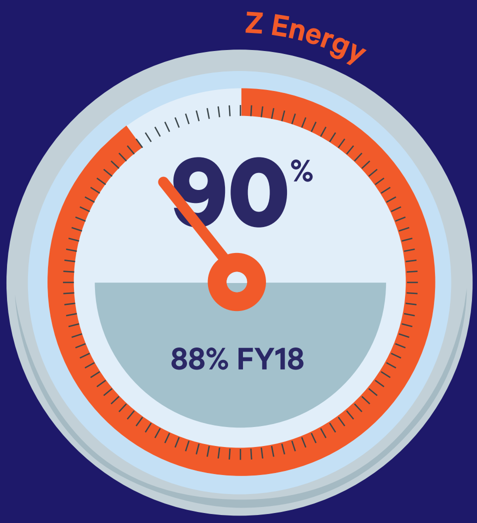
Our retail business had a lot to contend with this year. Media interest in the fuels market was significant. Customers became frustrated with high and rising prices as well as new fuel taxes. The competitive landscape intensified as our competitors invested heavily in their physical networks and targeted more price-sensitive customers.

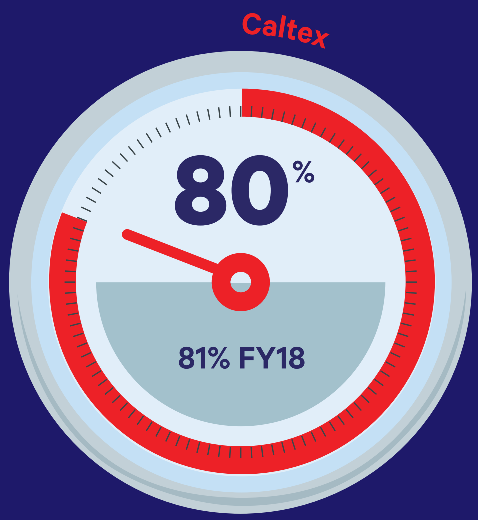
Retail margins recovered in the second half after a poor start to the year; however, our volume performance across all three networks was below our expectations. Improving retail volumes is a central focus for us. While our competitors have been growing volume by investing in sites, our strategy takes a longer-term view and is all about leveraging our new capabilities in brand, customer experience and innovation to create new experiences for our retail customers. This year we built the foundations for these capabilities, with value showing up from next year.

There are opportunities for us to position our Z and Caltex brands to better meet customer needs. We will pull aspects of the brands together to take advantage of our scale. At the same time, we will forge distinct value equations that focus on Caltex providing local value while Z is all about experiential service. For Caltex, that means a quality service at the right price in convenient locations. At Z, it's about a best-in-class convenience offer and superior forecourt service. Both brands will continue to be underpinned by a distinctive loyalty offer and a solid network fit for the future.

Our store sales came under pressure this year; however, our ongoing investment in high-quality Z Espress food and drink offers resulted in customers continuing to spend on these products. We will continue to redefine our convenience store offer to provide high-quality coffee and fresh food in line with consumer demand. This is all about driving habitual behaviour to keep customers coming back to our sites. We have two pilot stores trialling next-generation offers, increasing to 10 stores next year, and options to scale up after that.

Customer satisfaction





The customer satisfaction score shows how many of those surveyed were very satisfied with their experience. This is part of our commitment to listen and act on customer feedback and directly informs the way we prioritise activity at Z.

We launched our Caltex mobile app in September. Currently, we have more than 265,000 people registered on the Z app and more than 117,000 registered on the Caltex app, with momentum building across both. Our customers with apps are more engaged, more likely to come to Z or Caltex more often and more likely to spend a greater amount than non-app customers. The app also unlocks new experiences for our customers such as mobile pre-order coffee and Fastlane.

We established an exclusive, nationwide fuel partnership with Foodstuffs. Further work is required to realise the full benefits of this arrangement, however, it means customers shopping at two of the most popular Kiwi supermarket brands can now earn fuel discounts and redeem them at any Z-branded service station around the country. The partnership also sees us supplying fuel to the country's 53 New World- and PAK'nSAVE-branded fuel sites. This is another means of differentiation in order to maintain market share.

We launched Pumped, Z's new proprietary fuel discount programme that allows our Fly Buys and Air New Zealand Airpoints customers to receive fuel discounts as well as earn rewards simply by scanning their card. This shift gives us scope to engage with a broader range of consumers, provides Z another point of difference in the retail market and gives our customers – both old and new – greater choice over how to save and earn in a way that's important to them.

Our retail network was the frontline for many of our successful sustainability initiatives this year.

- We worked with suppliers to reduce packaging
- We introduced energy-reduction performance targets for service station operators and updated our energy rating standards for chillers and other equipment in service stations, to cut our electricity consumption
- We introduced new recycling bins to 143 of our forecourts, boosting material being recycled to around 24kg per week for sites with forecourt recycling bins
- We banned the use of plastic bags at our sites in June, stopping 2.5 million single-use plastic bags per year from reaching landfill
- Our customers have been making greater use of our EV charging stations with charges up by 37 percent on last year.

Site staff within the Z network competed in a nationwide 'Z Waste Warriors' competition, diverting more than 343 tonnes — the equivalent of more than three full Olympic swimming pools — of waste away from landfill to recycling or composting in three months. The competition winner from Timaru, Chloe Witika, and her team from Z Caroline Bay recycled 93 percent of their waste over the course of the competition.

We increased our site security to keep our frontline staff safer and to reduce the opportunities for any direct contact in the event of a robbery.

Many thanks to our Z and Caltex retailers and their site teams who proved themselves up for the challenges. It's a tribute to them and the huge goodwill they have built in their communities that they continue to enjoy record high customer satisfaction ratings.

People employed across 201 Z service stations **2,000**

Z Espress sites with pre-order coffee **117**

Active users of the Z app **82,700+**

Active users of the Caltex app **53,600+**

EV charges, a 37% increase on the last year **12,000**

Capturing the benefits of scale in Supply

Our strategy in Supply is to leverage our scale and geographic reach. We now have all we need to deliver the most cost-effective and reliable supply chain in the industry. By capturing the benefits of scale and simplifying and optimising what we source, we can produce the best mix of products to meet our customer needs — even more efficiently.

Performance in the first half was negatively affected by the 15-yearly shutdown at Refining NZ. This was much longer than anticipated due to a number of complications. The flow-on effects of the 24-day delay were material as all participants worked hard to rebalance stock positions at the time and in the months that followed. We actively leveraged our product networks and reputation when the industry needed it most. We went above and beyond to source four of the six additional cargoes required to ensure effective fuel supply across New Zealand and ultimately kept our customers moving through the extended shutdown. The complexity of balancing our physical position had financial implications and continued to affect Supply performance in stock position and coastal distribution.

This year we brought all our terminals in-house, giving us the largest national network, with storage capacity at all the major ports. Bringing operations back into Z and incorporating them with our aviation and biofuel capabilities added new skills to Z, significantly lifted our operational capability and delivered savings of $2 million.

Our refining and procurement optimisation programme helps us to secure the right quality crude at the right time and the right price. This drove incremental earnings for Z this year, and enabled improved processing efficiency at the refinery.

We combined our road transport needs under one partnership with Pacific Fuel Haul Limited (PFH). This fleet, the largest of its type in the country, simplifies our logistics with one specialist partner and will allow us to reduce our costs.

The PFH agreement targets an annual reduction in fuel consumption of five percent in the short term, and a reduction in CO_2 emissions of 19 percent by 2024. In other parts of the business we are already making headway to reduce our carbon footprint.

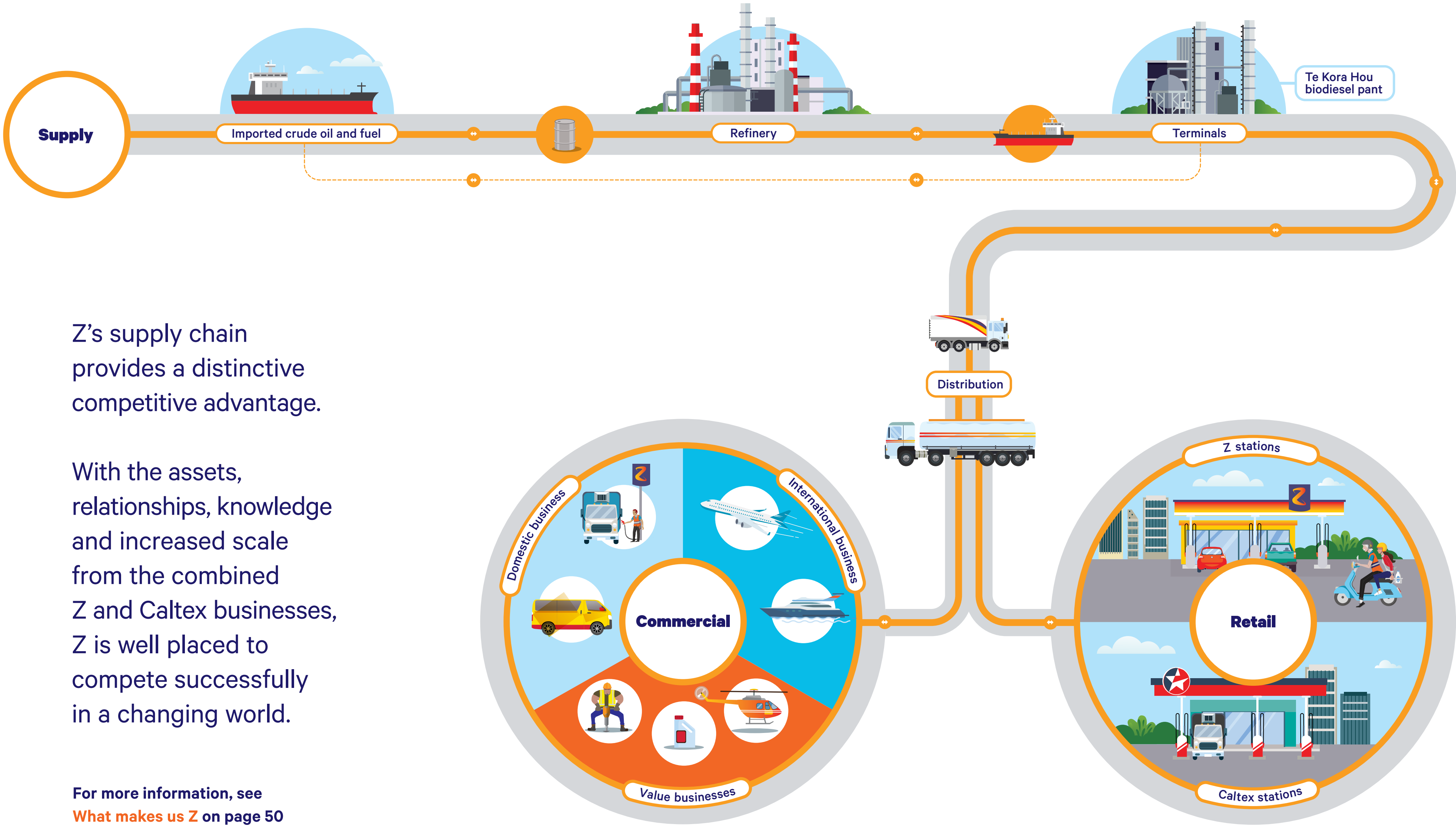
Barrels of crude oil imported **18.5m**

Barrels of refined products imported **9m**

Optimised capacity at Marsden Point **75%**

Fuel supplied (retail and commercial) **4,172m**

Our resilient supply chain



Z's supply chain provides a distinctive competitive advantage.

With the assets, relationships, knowledge and increased scale from the combined Z and Caltex businesses, Z is well placed to compete successfully in a changing world.

For more information, see What makes us Z on page 50

Imported crude and refined products
Z does not explore or drill for oil, so we need to purchase it on the international market. In FY19 Z imported over 18.5 million barrels of crude oil (net, including condensate from New Plymouth, including adjustments with Mobil as refinery optimisation partner) and just over nine million barrels of refined products.

Refinery
All crude oil imported into New Zealand is refined by Refining NZ — New Zealand's only oil refinery. Crude is refined into petrol, diesel, jet fuel, fuel oil and bitumen. Z uses nearly half of the capacity of the Marsden Point refinery and optimises around 75 percent of overall capacity through its collaboration agreement with Mobil. Z has a 15 percent shareholding in the refinery.

Supplying our customers
From the terminal storage facilities, refined product is distributed in smaller amounts across New Zealand by road tankers, pipelines and marine barges to retail service stations, truck stops and commercial customers.

Commercial markets
Z provides around 2,568 million litres of fuel to commercial customers: jet fuel to airlines; marine fuel oil to shipping, fishing and cruise-ship customers; bitumen to the road-building industry; and diesel for trucks and tractors. Z has the strongest truck stop network in the country with 155 Z and Caltex truck stops.

Retail service stations
Z provides around 1,604 million litres of fuel to retail customers through 343 retail service stations in its network: 203 Z-branded sites and 140 Caltex stations.

Average sailing time for crude cargo from the Middle East — roughly 70 percent of our crude

30 days

Average sailing time for crude and product cargo from the Far East — roughly 30 percent of our crude and the vast majority of finished product

20 days

Shipments via lower-emission ships

41%

Our stands

What we stand for matters, and we stand for changing the game in New Zealand in:

HSSE

Environmental Sustainability

Includes our Climate Change Statement

Community

Diversity and Inclusion

Our stands are the lenses we look through to make decisions. As such, they underpin our business and our aspirations. They ensure we devote energy and thought leadership to priorities that align with what we stand for.

Our aspirations in these areas can have the greatest impact on the following 10 United Nations Sustainable Development Goals:

Health, Safety, Security and the Environment

HSSE matters because it is about the safety and wellbeing of our people and planet, while sustaining the long-term future of our company.

Successfully managing changes in our supply chain without a major incident was a significant achievement.

We now have a common terminal network and a single logistics provider, and we are manufacturing biodiesel at Te Kora Hou in South Auckland. Further work will be needed to reduce operational risks; however, we have established a solid base and built core capability.

100%

1 Motor vehicle incidents
FY18: 2

0%

Zero Number of spills (loss of containment)
FY18: Zero

114%

1.84 Total recordable case frequency
FY18: 0.86

Z employees: FY19: 0.49 FY18: 0.26
Retailers and Mini-Tankers franchisees: FY19: 2.19 FY18: 1.00

4%

58 Executive safety 'walk and talks'
FY18: 56

100%

Zero Tier 1 and Tier 2 process safety incidents
FY18: 1

122%

1.44 Lost time injury frequency
FY18: 0.65

Z employees: FY19 0.24 FY18 0.26
Retailers and Mini-Tankers franchisees: FY19 1.75 FY18 0.75

Z's Operational Risk Management System (ZORM) creates a framework for our people to manage operational risks effectively and keeps our teams safer as they go about our business.

We became one of the first companies in the world to be successfully certified to ISO 45001. This standard is now the globally accepted standard for health and safety management, and we successfully concluded our first periodic audit in March 2019 to maintain the certification.

During the year we further increased the profile of ZORM with line management as these people are risk owners.

Our focus in the year ahead is to digitise the system and make it more predictive. This will assist us to build a more generative culture with individuals taking ownership of showing leadership in HSSE.

In recent years we've made important investments in our Z retail sites and the training we provide for our site teams to keep them safer in the event of robberies.

These measures have included safe rooms to physically separate staff from intruders, along with improved CCTV, fog cannons, reinforced glass, alarms, bollards and tobacco units (dispensing safes) at key sites. These efforts are working. Robbery events have reduced to almost half those in previous years and, in the robbery events this year, site staff were able to get to safe areas and did not suffer physical harm.

We have not lost sight of the psychological impact that dramatic events such as robberies can have. This year we also boosted our post incident assistance programmes to support our people to recover from dramatic events.

▼ 64%

14

Robberies
FY18: 23

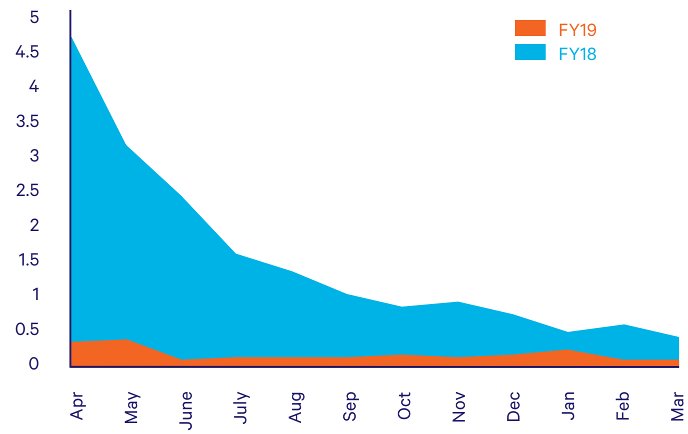
We reduced the risk of a road transport incident in our Mini-Tankers business by focusing on reducing fatigue and distraction, and continuing to limit speed across the fleet.

In-cab fatigue and distraction monitoring cameras installed in all our Mini-Tanker vehicles empower our drivers and Mini-Tanker franchisees (known as Zees) with real-time information about fitness to drive. The camera system is also an important control against mobile phone use when driving and we now have quality data on this for the first time. Although this has resulted in an increase in recorded 'Life Saver breaches' within the year, we are confident that the resulting data-driven safety conversations have already led to a significant reduction in this unsafe activity, compared to a previously unknown 'pre-camera' baseline.

Over the past 18 months we have continued to reduce overspeed events and have reduced average monthly speed events by over 90 percent since we began monitoring these events in 2016. This is an example of our HSSE strategy in action — combining robust safety systems with strong safety leadership. However, there was a significant loss of control event within the Mini-Tankers fleet, which shows there is further work to be done.

As well as continuing to reduce on road transport risk, next year we will focus on site risk and wellness as key enablers of our commitment to zero harm.

Monthly average speed events per 100km summary



▲ 618%

474 **Lost work days**
FY18: 66

Z employees: FY19: 0 FY18: 4
Retailers and Mini-Tankers franchisees: FY19: 474 FY18: 62

▲ 123%

29 **Lost-time injuries (LTIs)**
FY18: 13

Z employees: FY19: 1 FY18: 1
Retailers and Mini-Tankers franchisees: FY19: 28 FY18: 12

▲ 153%

38 **Life Saver breaches**
FY18: 15

▲ 118%

37 **Total recordable cases**
FY18: 17

Z employees: FY19: 2 FY18: 1
Retailers and Mini-Tankers franchisees: FY19: 35 FY18: 16

▲ 1%

4.02 **Exposure hours (millions)**
FY18: 3.97

Z employees: FY19: 0.82 FY18: 0.78
Retailers and Mini-Tankers franchisees: FY19: 3.20 FY18: 3.19

Environmental Sustainability

Our Climate Change Statement

Our Environmental Sustainability stand commits us to three outcomes with targets to achieve by 2020. We are making good progress against many of the targets, although some are proving more challenging than others. A summary is set out at right. Full details on our targets are available at z.co.nz.

Outcome	Actions	Status
Use less and waste less in our operations		
Reduce carbon emissions	Operational and New Zealand supply chain emissions decreased due to lower emissions in Supply, for example in coastal shipping and ground freight of fuel to our sites. We voluntarily offset 58,000tCO2e this year to cover our operational emissions, including those from corporate travel, retail electricity, coastal shipping and hauliers.	Green
Reduce waste to landfill	We measure and manage our waste. As a proportion of waste, landfill volumes increased this year.	Red
Reduce electricity use	Electricity consumption is measured across our offices and retail network. This year electricity consumption decreased at our retail sites.	Green
Making purchasing decisions that support sustainability		
Supply chain	Our supplier Code of Conduct is being used for procurement decisions and contracts for major suppliers, including for ground fleet distribution of fuel and refined imported products. Our minimum energy standard for shipping was implemented, increasing the use of the most energy efficient ships.	Green
Customers reduce fossil fuel use	Biodiesel production is underway (500,000+ litres B100 in FY19) and we are focusing on ramping up production and rolling out delivery to our customers.	Orange
Lower-carbon products and services	Our investment in climate-positive car sharing company Mevo is consistent with a pathway to the future of mobility we foresee. The Mevo team have established a strong presence in the Wellington market and are well positioned to grow the unique free-floating car sharing product with both consumers and businesses, with its registered members up by more than 340% and monthly trips up by more than 270%.	Green

Key

Green	We are on track and doing well
Orange	We've made some good progress, but we need to do more
Red	We are not on track and need to do more

“We stand for an environmentally sustainable New Zealand that is an example to the rest of the world and an inspiration to Kiwis. Z will move from being a part of the climate change problem to the heart of the solution.

We will be bold and provide leadership and a range of solutions to enable our customers, stakeholders and communities to join us on the journey to a lower carbon future.”

Key

● (green)	We are on track and doing well
● (orange)	We’ve made some good progress, but we need to do more
● (red)	We are not on track and need to do more

Outcome	Actions	Status
Enable others to reduce their impact		
Customers experience emerging transport technologies	A social media campaign allowed customers to try EVs in Wellington. The Z network contains eight EV charging sites, providing around 12,000 charges in the past year. Our Z Vivian Street site is one of the most used EV charging points in New Zealand.	We are on track and doing well
Carbon offsets	We are actively looking at ways to enable customers to purchase carbon offsets online and we continue to look actively at ways to make this service available to all customers.	We’ve made some good progress, but we need to do more
Partnerships for low-emission economy	We continued to develop our association with Trees That Count. In this year’s season, Z supported 30 planters establishing more than 20,000 trees. Z also joined forces with Air New Zealand, Contact Energy and Genesis Energy to form Dryland Carbon to accelerate afforestation and planting in New Zealand for carbon sequestration. See the next page for more details on Dryland Carbon.	We are on track and doing well
Local permanent forest providers	We are the largest single purchaser of voluntary carbon credits in New Zealand, partnering with Permanent Forests NZ. At an average cost of around $25 per tonne, this comes to an annual cost of about $1.5 million per year. The credits are created through the protection and covenanting of domestic forestry projects — these are a mixture of exotics (blackwoods, eucalypts and pine) and native trees (mānuka, kānuka and tōtara).	We are on track and doing well
Policy	We were a founder and convener of the Climate Leaders Coalition, a collaboration of major businesses in New Zealand with 86 signatories representing over 50 percent of this country’s emissions. The coalition was described as “globally significant” by Chris Stark, CEO, United Kingdom Committee on Climate Change. No other country has managed to do this. The initiative is in alignment with the thinking of global investors like BlackRock and is a key part of using our leadership position and those of others to influence New Zealand business overall.	We are on track and doing well

Measuring our emissions

We have been measuring our emissions since 2012, but reset our base year to FY17 following the acquisition of Caltex. We follow the principles of the Greenhouse Gas Protocol to measure our greenhouse gas emissions. We measure direct emissions, such as those from the vehicles we own, and indirect emissions, such as the electricity we consume, travel and waste, our Z retail sites and Caltex operations. We include emissions across the entire supply chain and from the products we sell. Emissions from Flick are not included. Information on the greenhouse gas emissions profile of Flick is available at FlickElectric.co.nz.

While Z continues to focus on lowering operational emissions we are also committed to reducing indirect emissions from our customers through greater production of biodiesel and supporting the growth of EV use in New Zealand.

Greenhouse gas emissions

	FY19	Calendar year 2017 (base year)
Scope 1 — Z offices and retail sites	**3,837**	3,907
Scope 2 — Z offices and retail sites	**4,195**	4,045
Scope 3 — Z offices and retail sites	**4,495**	3,339
Scope 3 — New Zealand supply chain	**37,910**	40,031
Scope 3 — Share of refinery	**555,892**	634,848
Scope 3 — Rest of supply	**902,215**	807,542
Scope 3 — Z product emissions from our customers	**11,640,509**	9,488,277
Total emissions	**13,149,051**	10,981,989

We also have a liability under Liquid Fossil Fuels in the New Zealand Emissions Trading Scheme (ETS). We surrendered five million units for obligations in the 2018 calendar year. See note 13 in the financial statements.

Z invested in a long-term carbon farming and afforestation partnership to produce a stable supply of forestry-generated New Zealand Unit (NZU) carbon credits to help Z meet a portion of its ETS surrender obligation. Z will participate as a limited partner, contributing capital in an initial five-year period (subject to certain pre-agreed investment criteria/hurdles being meet), but we will not be involved in the day-to-day operations of Dryland Carbon.

Climate change risks
Forecasting future demand for fossil fuels becomes more complex when considering technology developments that may emerge over time. We use the BusinessNZ Energy Council scenarios as outlined on page 44 of this report.

As a company selling around 45 percent of New Zealand's total transport fuel; or put another way, primarily through the products we sell, nine percent of New Zealand's total emissions, Z is at risk from both the transition to a low-carbon economy and the physical impacts of climate change. However, as a downstream energy company, with no exposure to upstream drilling and extraction operations, we are well-placed to manage the change to a low-carbon economy.

There are also valuable opportunities to transition the company from fossil fuels to a low-carbon future and to do it in a way that's good for all our stakeholders.

We've been more deliberate in linking our overall risk profile to our direct and indirect exposure to climate change risks. With climate change being one of the material issues we focus on, we are working on the impact of, and adaptation to, climate change risks for Z. Our Sustainability team recently merged with the Strategy and Risk team in order to respond to these risks more deliberately.

Close to half the material topics we've reported on this year relate to management of our climate change risks. These topics are: Flick purchase, renewable energy, VUCA future, responsible consumption and production, climate action, increased regulation, supply chain resilience, ethical procurement and brand value. These topics are interrelated.

We manage risks associated with these topics to reduce the negative impacts on our capitals (our assets, our finances, our capability, our people and culture, our environment, and our place in New Zealand).

Waste measures

▼ 6%
2,523 tonnes
Recycling — cardboard and paper
FY18: 2,681 tonnes

▼ 27%
912 tonnes
Recycling — plastics, cans and glass
FY18: 1,250 tonnes

▼ 3%
6,343 tonnes
Total waste
FY18: 6,554 tonnes

These waste figures are estimated based on actual volumes from 70% of retail sites.

▼ 18%
385 tonnes
Composting and organics
FY18: 471 tonnes

▲ 18%
2,523 tonnes
Waste to landfill
FY18: 2,142 tonnes

Community

At Z, we stand for a resilient and healthy Aotearoa New Zealand that empowers our youth, neighbourhoods and Z whānau.

What this stand looks like in action is focused in two areas: doing good in our hoods, and powering up the future generation.

Good in the Hood continues to be loved by Kiwis and community groups. This year, around 550 community groups received a share of the $1 million in funding given away during the Good in the Hood voting month in May. Since 2012, more than $6 million of Good in the Hood funding has gone to community groups and projects helping the country's neighbourhoods to thrive. In addition to the $1 million, this year we ran a fuel discount day, with 6 cents per litre sold on a day in May being donated to the community groups in that region. This day raised an additional $190,000 funding for groups.

We enlisted the Ākina Foundation to do an assessment and report on the actual social impact delivered by the programme; this is due to be completed in late May 2019.

This year we also completed a pilot programme designed to lift the potential of young people by giving them the right tools to make informed career choices with confidence. We provided Mana College with the funding required to implement Minded, an edu-tech online platform that helps young people better understand who they are and the careers that might suit them. Since witnessing first-hand the inspiration and empowerment experienced by the young people using it, we've agreed to provide the funding for Minded to a further six low-decile schools across the country.

We ran two prototyping workshops, tested our draft hypotheses and protype with more than 400 young people, and enlisted the help and advice of dozens of educators and sector experts across New Zealand.

Our innovation team is also running a human-centred design process to ensure these measures result in tangible outcomes for young people from disadvantaged backgrounds.

High schools sponsored to empower young Kiwis to better understand themselves and become job ready

5

Community groups supported through Good in the Hood

550

Diversity and Inclusion

We will lead the way in developing an inclusive Kiwi company that has our people being successful being themselves.

We are passionate about building an inclusive business where our people are free to be successful being themselves. We believe that our business benefits from a diversity of perspectives. That's why we have built diversity and inclusion into a number of our ways of working at Z, and we continue to grow in this space.

In light of the tragic events in Christchurch on 15 March 2019, we will be focusing more intently on enabling a Z that reflects the diversity of New Zealand at all levels, and supports and empowers all of our Z whānau, no matter where they come from. As part of this, we will be taking measures to ensure our site staff feel fully equipped to deal with racial verbal abuse at any Z sites.

Engagement

Our retail network engagement score was 71 percent for the second year in a row.

We believe high employee engagement drives high customer engagement so we now have the same scoring system for both. In February 2019 our Employee Net Promoter Score was +17. This places us within the top quartile globally for all organisations that use Peakon, our new provider for measuring engagement.

Supporting Te Ao Māori

We continued our commitment to Te Ao Māori with te reo accreditation for site staff, integrating respective practices into our onboarding, Māori language classes and using te reo on signage inside our corporate offices.

Reflecting New Zealand's diversity

We were proud to partner with TupuToa this year — introducing its guided internship at Z, with a three-year commitment to creating pathways for Māori and Pasifika students into careers in the corporate and professional sectors. Like TupuToa, we aspire for our nation to have a nimble, strengths-based economy that meets the needs of culturally and ethnically diverse markets, both here and overseas.

Rainbow Tick

Z Energy is proud to be the only fuel retailer in New Zealand to have attained Rainbow Tick certification, signalling publicly that Z is an employer that values, embraces and provides a safe working environment for current and future staff who identify as members of the Rainbow Community. Support has ranged from increased internal communication and training workshops to external events such as supporting the Wellington Pride Festival and our CEO being a judge and panellist speaker at the inaugural 2019 New Zealand Rainbow Excellence Awards.

Gender balance improves

This year our gender balance went from 40 percent female to 39 percent female due to the large intake of male staff following the consolidation of our terminals business. We still have a target of 50/50 gender at all levels by 2020. We are also now close to pay parity across the business, having reduced the gap from 12 percent two years ago to two percent now.

Reverse mentoring

We introduced reverse mentoring, where employees with more than 10 years' experience are paired with and mentored by newer employees. We have found this helps both groups to discover new perspectives.

Parental leave

We further enhanced our parental leave policies to ensure that returning parents were not disadvantaged if they took annual leave within 12 months of returning to work. We are also starting to see some of our fathers taking paid parental leave.

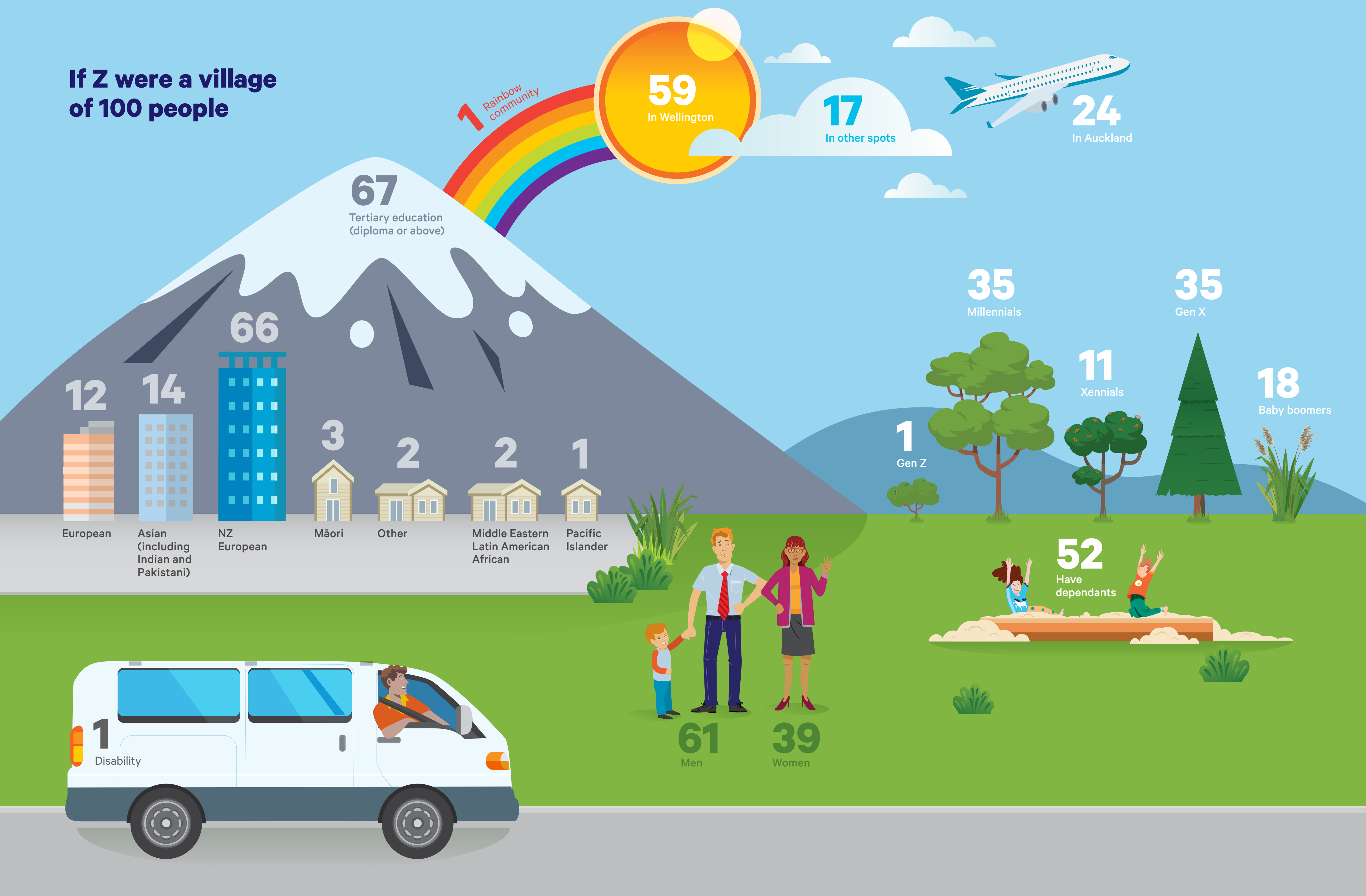
▲ 2%

1.36%

Absenteeism rate

FY18: 1.33%

If Z were a village of 100 people



Up ahead

The future we see for ourselves

The capabilities we're growing to be the Z of the future

The next 20 years

To prepare for the future, Z operates across two timeframes. We think about the short-term dynamics that affect us today and the long-term risks and opportunities as we can identify them.

In the short term, oil price volatility, signals of potential regulatory review, changes in customer behaviour and a highly competitive landscape will continue to challenge how we do business. That's why our focus through to the next decade is on continuing to build a more productive core business and maximising the benefits of Z's scale and reach.

We also need to ensure the business is set up to be successful for the future. We believe demand for fossil fuels is likely to change, but at the same time we don't have a crystal ball; so we use scenarios to support our decision-making in the face of uncertainty. The BusinessNZ Energy Council has developed two plausible scenarios for energy supply and demand extending out to 2050. We use these to test our existing strategies, make sense of current trends and feed into our foresight programme. Under both scenarios, by 2030 total fossil fuel demand will not be materially different from that of today, but the product mix will have changed.

We believe the future disruption in fossil fuels is being signalled with sufficient time for us to react. In preparation for this disruption, we have identified three future market spaces where Z is well placed to explore options for future growth.

2040

2030

2020

“The ability to get to market quickly with products that meet real needs will be a distinctive advantage for Z and one that will enable us to improve customer loyalty and retention.”

These are areas in which we will continue to engage in modest experimentation in order to learn more about adjacent markets and to inform market and product development.

The three market spaces we have identified are:

- **future fuels:** we anticipate and support continued growth in the adoption of low- to zero-carbon fuels as climate change drives a lower-carbon economy. Along with EVs, these include fuel options such as biodiesel, hydrogen and biojet
- **mobility as a service:** we believe the application of new technology to the automotive sector will result in new services changing the way people move and send and receive goods and services. This should see continued growth in on-demand mobility such as car sharing and, ultimately, it will mean the adoption of autonomous vehicles
- **‘last mile’:** opportunities will continue to arise to leverage our retail network to deliver new goods and services.

What we do have is greater certainty about are the capabilities that will help us to be successful in the short term as well as the long term. That is, leveraging our excellent nationwide network with ruthless capital efficiency; building our innovation, customer experience and digital capabilities; and using experiments to generate new options. These are activities that will create value within the existing business but also enable us to participate in different market spaces in future.

Short-term gains

Our investment in innovation is already proving its worth. For example, we’ve learnt that customers using Fastlane buy more fuel compared to other ways of fuelling, and this product is attracting new customers we’ve never seen at our Z stations. So far we’ve restricted the application of this product to forecourt pumps, but the idea could easily be applied to carwashes and, when combined with the new card we’re developing for commercial customers, it could be a game-changer for our relationship with businesses.

Similarly, the roll-out of our pre-order mobile coffee service to 117 sites means customers can save time by paying in advance. Innovations like this are all about responding to changing customer needs and unlocking new customer experiences.

The ability to get to market quickly with products that meet real needs will be a distinctive advantage for Z and one that will enable us to improve customer loyalty and retention. We now realise the importance of being able to scale these opportunities quickly. Our Business Accelerator Team, established this year, has started challenging how we work day to day as part of an internal ambition to do things one-third faster.

Informed experiences

We established a Customer Experience Council specifically focused on lifting our organisational capability in customer experience and data. Already we are gaining powerful insights into our customers, finding new ways to solve their problems and making their journeys easier.

With a data-driven understanding of customer preferences, we will be able to create significant opportunities to address those preferences. For example, through Fastlane we have learnt that the right technology at the pump can change the rewards and experiences that customers seek. Some people will always prefer financial savings, but for others the ability to save time may be more attractive.

It’s all about maximising the insights we have into more than 1.5 million customers through our loyalty partners (and increasingly through our digital interactions), and delivering delightful, personalised experiences that are win-win for New Zealanders and for our business.

The market has become increasingly driven by customers seeking discounts and we see an opportunity to change this behaviour. By tailoring rewards to the individual customer based on their preferences, we can reward their loyalty with offers they value more highly than a discounted price.

“Building a digital business starts with changing the culture by equipping our people to become digital leaders.”

Moving to digital
We have an ambition to become a digitised company because we believe it will enable us to become more efficient and offer our customers something distinctive. This year was all about laying the foundations; we established new partnerships, appointed a Chief Digital Officer and set up a dedicated digital business unit.

Building a digital business starts with changing the culture by equipping our people to become digital leaders. Microsoft, one of our newly established partners, has already enabled our people to work faster and more effectively with the roll-out of Office 365.

The implications of digitisation will be far-reaching for Z. In Retail, this includes enabling our customers to communicate and interact with us using a wider range of options, including new types of transactions via our mobile apps. In Commercial, it's about simplifying and automating to make our services quicker and easier to use. The use of artificial intelligence technologies will also improve our ability to predict and fulfil all our customers' needs, while reducing inefficiencies in our supply systems.

As we digitise the business, security and privacy are increasingly critical. The more that customers trust us with their data, the more important it is that we manage and store it appropriately. Regulators also want a detailed understanding of what we know and how we will use that information appropriately. Following a data breach in the Z Card Online system reported last year we made a number of improvements: we appointed a Managed Security Service Provider; we ensured continued vigilance around our own and our customers' digital assets; and we retained the services of a specialist security organisation to help us proactively identify security risks in our systems so they can be mitigated in a timely manner.

Investment in future growth opportunities

Flick and our future

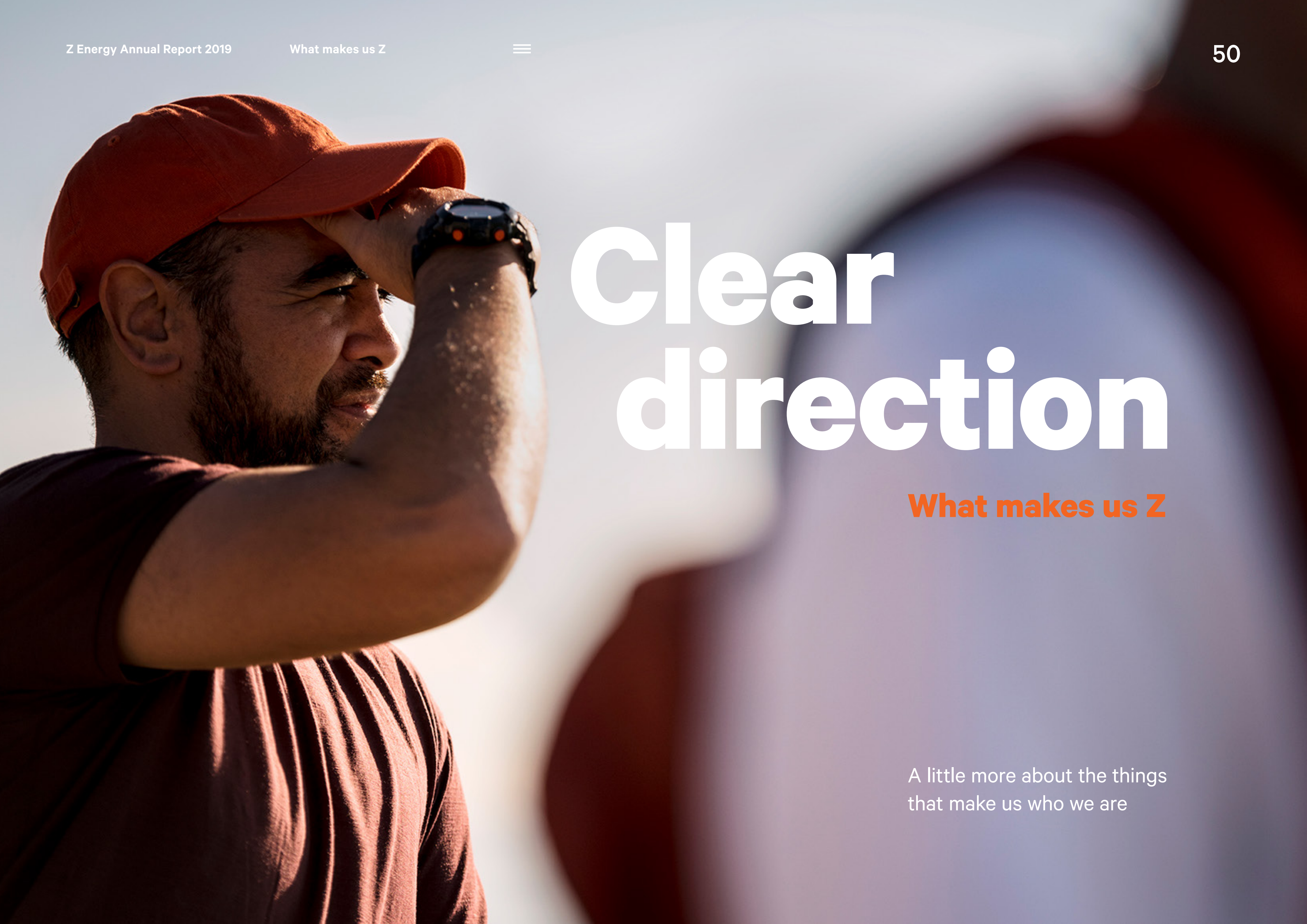
Our decision to invest in, and partner with, Flick enables Z to access the digital capabilities of Flick, and Flick the national scale of Z. It's also a unique opportunity for us to build knowledge and learn about this adjacent energy sector as we prepare for the future.

In the long term there is an opportunity for Flick and Z to lead the way by being relentlessly customer focused as this adjacent market goes through its own transformation. Together, we will be well placed to develop new products and services that help customers to consume energy differently, and minimise energy consumption, in a digitally enabled way.

Mevo — changing how people move

Z first invested in Mevo, a Wellington-based car sharing company, in May 2017. The Mevo team have established a strong presence in the Wellington market and are well positioned to grow the unique free-floating car sharing product with both consumers and businesses. Given how attractive this mobility solution has proven, Mevo now has options to expand to new products and geographies.

Already, Z's involvement with Mevo has allowed us to understand more about the potential role of shared mobility in New Zealand's future.



Clear direction

What makes us Z

A little more about the things that make us who we are

Why all the way

We're a New Zealand company supplying fuel to Kiwis up and down the country. We have two brands: Z and Caltex. Our customers include ordinary Kiwis as well as large commercial customers like airlines, trucking companies, shipping companies and vehicle operators. We also provide roading contractors with bitumen for New Zealand's roads.

Z has always been a distinctive company. We want Z to represent what New Zealanders can achieve when they put their minds to the things that matter in a moving world. Our people are different, the way we do stuff is different and what we aspire to is different. Where others see an industry whose participants look pretty much the same, we see ourselves as a locally focused solutions business that uses its scale, experience and capabilities to compete meaningfully in a dynamic and rapidly changing industry with huge challenges, opportunities and responsibilities.

We talk about the 'Z Why' as our philosophy because, as we like to say, we're a Why company not a Way company. At our core we are values based. Our values are: Share everything; Have the passion; Back our people; Be straight up; and Be bold. 'Why we do things around here' lies at the very heart of our identity, meaning, values and beliefs, individually and collectively. We focus on what matters, and because of that stakeholders can have confidence that our Board and management are having the right conversations and working together to build a potent culture where people feel engaged and motivated to perform.

While we are insistent on sustainability, we also acknowledge that we live and compete in a world where oil is the transport fuel of choice at the moment. No other energy source has yet combined the availability, storability and energy density of oil, and no other company competes as comprehensively in the New Zealand downstream fuels market as Z does. Horizontally, we cover more grades, more locations, more channels and more customer segments than any of our competitors.

Our ambition is, and has always been, to be a world-class Kiwi company. That's about delivering superior returns, being distinctively and competitively advantaged and exploring adjacent products and services as options for the future. It's also about being a thought leader and using our voice to set the agenda for progress and innovation, owning iconic brands and being a place for personal growth for our people.

Z is for New Zealand

NZX/ASX Publicly listed on both stock exchanges

203 Z service stations

25% Stake in Loyalty New Zealand

10,000+ Shareholders

140 Caltex service stations

2 Investments in adjacencies Flick and Mevo

4,370 Unique bondholders

11 Z terminals and five joint venture terminals in nine ports

3 Loyalty schemes: Fly Buys, Air New Zealand Airpoints and AA Smartfuel

44% of New Zealand's total transport fuel

50% Stake in Coastal Oil Logistics Limited

1 Discount fuel partnership via Foodstuffs

155 Truck stops

15% Stake in Refining NZ

Our Board

Our Board

Our Board combines proven experience in governance with the diversity of perspectives that comes with appointing people from a range of backgrounds.

1 **Mark Cross**
joined 28 August 2015

2 **Peter Griffiths**
joined 2 April 2010, leaves 2 May 2019

3 **Abby Foote**
joined 15 May 2013

4 **Blair O'Keeffe**
joined 1 August 2018

5 **Steve Reindler**
joined 1 May 2017

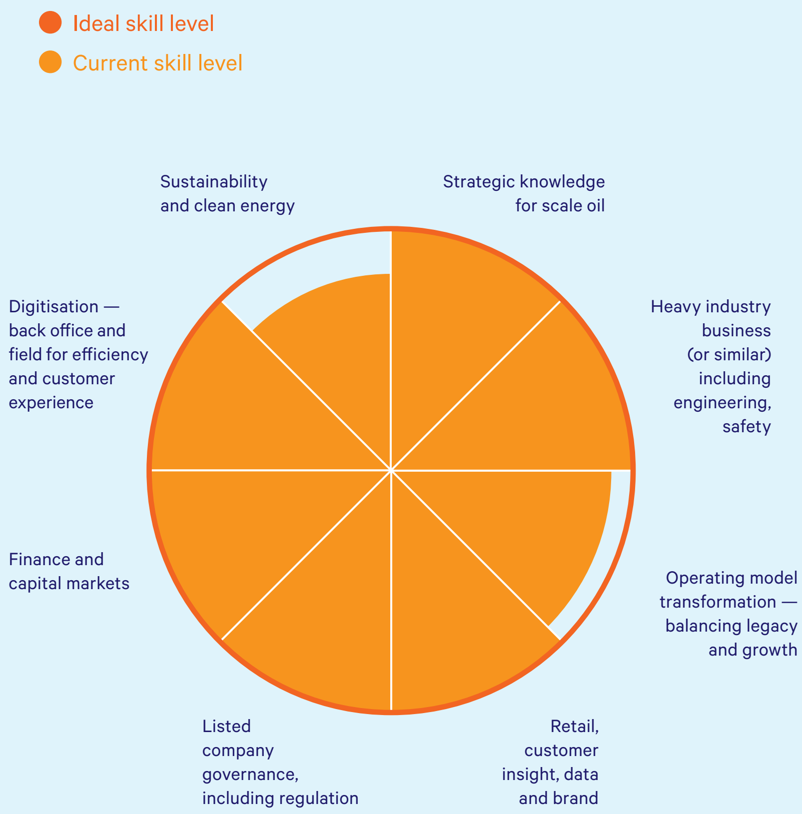
6 **Julia Raue**
joined 15 February 2016

7 **Alan Dunn**
joined 2 April 2010

Read more about Z's Directors on our Investor Centre

Directors' skill matrix at 31 March 2019

Collective skills to take us forward
Z's Board focuses on context, strategy, risk and assurance. This year the Board continued to strengthen the links between capital allocation (including the dividend policy and deleveraging), the enterprise risk framework and core strategy.



Key activities for our Board
Last year we reported on our compliance with the New Zealand Stock Exchange (NZX) Corporate Governance Code in a separate statement and focused the annual report on what the Board had been in action on during the year. We received positive stakeholder feedback and are continuing with the same approach this year. Our Corporate Governance Statement is posted on our Investor Centre website at z.co.nz, together with our core corporate governance documentation. We have renovated our Investor Centre since last year in line with best practice, including commentary on the NZX Corporate Governance Guide, to improve access to open and transparent information about Z.

Inside the boardroom
This year the Board tested and affirmed Z's strategy given changing market conditions, noting that Z's strategy is deliberately differentiated from those of its competitors.

During the year the Board focused on performance, core business and strategy, including capabilities, as well as maintaining last year's focus on climate change both globally and locally, including the establishment of the Interim Climate Change Committee and regulatory settings such as zero carbon legislation and potential ETS frameworks.

The Board continued to monitor Z's preparation and organisational maturity for managing risk, including learning from issues arising during the year. The Board approved a refreshed view on how Z thinks about and manages risk across the company in order to provide a framework for Z's leaders to take the right levels of the right risks. During the year the Board also participated in structured learning, in particular on psycho-social risk.

The Board worked with the Z team to ensure the capability of the new internal terminals team and to obtain assurance around the management of the increase in major hazard risks, following the successful project to bring all Z terminal management in-house. The Board also worked on understanding capability for the convenience retail sector.

The Board discussed Board and executive team succession planning. The Board also discussed talent management, including the adoption of the same engagement approach to measure employee engagement as that currently used to measure customer engagement, so the goal of high employee engagement underpinning high customer engagement can be measured, tracked and worked on in a more deliberate and joined-up manner.

"The Board continues to evolve its approach to reflect our commitment to world-class governance that is responsive to the increasingly dynamic environment we are operating in, while continuing to provide support and challenge to the executive team."

Abby Foote
Director/Incoming Chair
2 May 2019, Z Energy

“A relentless focus on our core business is the best thing we can do to prepare for a range of future scenarios.”

Outside the boardroom
The Board’s learning programme this year included a deep dive into the future of the industry, travelling to a range of markets to investigate: advanced regulatory settings focused on the future; new entrants to the industry in core and adjacent businesses; and consumers and their future needs.

The Board met with the Ministry of Transport in Singapore to discuss autonomous vehicle (AV) development and to walk through an AV testing facility. In Germany, the Board met with BMW to discuss mobility trends and visited a hydrogen refuelling station. In Norway, the Board met with Couche-Tard, a fuel business working in a market with high EV penetration rates. The Board also discussed retail developments in new energy spaces with industry participants in London.

Following the trip, the Board formed the view that the New Zealand response to changing future fuel demand is likely to be unique, that material decline is a medium- rather than short-term risk, and importantly, that a relentless focus on our core business is the best thing we can do to prepare for a range of future scenarios.

Based on learnings from the trip, the Board worked with Z’s executive team to ensure a focus on: running the core business on a best-in-class cost basis; operational excellence; and leveraging the Flick shareholding for joint product roadmaps. The Board asked the executive team to investigate strategic options for meeting the changing needs of EV customers and to continue with clear and transparent stakeholder communications.

The Board also approved the purchase of Flick in August 2018, consistent with Z’s ‘What is next?’ strategy to make scalable investments in adjacent sectors.

The Board was a sponsor of and participated in the ‘Diverse Thinking Capability Audit of New Zealand Board Rooms 2018’ conducted by the Superdiversity Institute for Law, Policy and Business. The Board participated in Diversity and Inclusion Training with Rainbow Tick. Rainbow Tick noted they normally worked at executive level and it was a positive development to be invited to engage directly with a board. The Board also engaged in Cultural Intelligence training.

Structured stakeholder engagement also included:

- meeting political advisors to discuss the (then) new Coalition Government
- meeting a niche investor in start-up businesses to discuss the optimal relationship settings for corporate investors and start-ups
- meeting a member of the Interim Climate Change Committee
- meeting shareholders to discuss their views of Z’s performance, strategy and risk
- training on Safety 2 leadership.

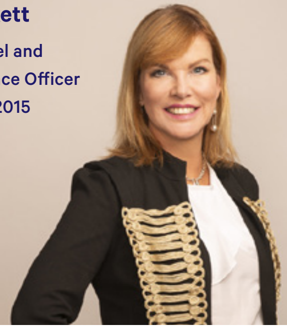
While the Board maintains a clear distinction between matters of governance and matters of management, exceptions are made where the Board can add specific value, such as working with management on issues, participating in retail forums across the Z and Caltex networks, taking safety walk and talks across Z’s terminal networks, visiting major suppliers’ premises, and providing executive mentoring on specific issues.

Our executive team

Read more about Z's executive team on our Investor Centre

Our executive team combines strong industry experience with the new skills and capabilities we need to move forward under a capability-led strategy.

Mike Bennetts
Chief Executive Officer
Joined 1 April 2010



Debra Blackett
General Counsel and
Chief Governance Officer
Joined 2 June 2015

David Binnie
General Manager, Supply
Joined 8 September 2014

Nicolas Williams
General Manager,
Commercial
Joined 7 June 2011

Lindis Jones
General Manager, Corporate
(until 31 March 2019)
Chief Financial Officer
(From 1 April 2019)
Joined 10 May 2010

Helen Sedcole
General Manager,
People and Culture
Joined 29 January 2018

Julian Hughes
General Manager, HSSE
(Until 31 March 2019)
General Manager,
Strategy and Risk
(From 1 April 2019)
Joined 16 February 2015

Mandy Simpson
Chief Digital Officer
Joined 19 February 2019

Andy Baird
General Manager, Retail
Joined 1 April 2019

Mark Forsyth
General Manager, Retail
Joined 10 May 2010
Departed 31 March 2019

Chris Day
Chief Financial Officer
Joined 31 July 2013
Departs 10 May 2019

Jane Anthony
General Manager, Marketing
Joined 10 May 2010

Performance and remuneration

CEO and senior officer total remuneration for FY19

We believe in creating a clear link between performance and reward. In this report we show remuneration earned for the respective year of performance rather than remuneration paid as a more appropriate way of illustrating how pay relates to performance. For this reason, we've included the cash bonus and long-term incentive (LTI) earned for FY19. The Board has approved the cash bonus, which will be paid in May 2019.

Although it is not required In New Zealand, we have disclosed the remuneration for our senior officers (as disclosed to the NZX) as well as the CEO. This is consistent with our commitment to an open and transparent relationship with our shareholders who have expressed increasing interest in remuneration reporting in recent years. We have also provided information on the performance targets Z set for the CEO and senior officers in this period.

This is our second year of reporting in this way, and we welcome feedback on the changes we've made.

CEO and senior officer remuneration

Position	Salary and fees	Fixed taxable benefits	Subtotal	Pay for performance			Total remuneration
				STI paid FY20 for FY19 performance	Gross LTI paid in FY20 for 2016–19 period	Subtotal	
CEO	$819,488	$40,974	$860,462	–	–	–	$860,462
CFO	$455,235	$24,238	$479,473	$182,094	–	$182,094	$661,567
GM, Commercial	$360,500	$19,501	$380,001	$54,075	–	$54,075	$434,076
GM, Corporate	$408,000	$20,400	$428,400	$61,200	–	$61,200	$489,600
GM, Retail	$379,250	$20,439	$399,689	$113,775	–	$113,775	$513,464
GM, Supply	$377,400	$20,346	$397,746	$56,610	–	$56,610	$454,356

Notes
1. Pay for performance is paid in the financial year following performance. The performance amounts shown will be paid in FY20 for performance achievements in FY19. They have been approved by the Board at the time of publishing and will be paid in May 2019.
2. Gross long-term incentive (LTI) — no payment as performance hurdles were not met.
3. Gross short-term incentive (STI) — includes agreed performance metrics for exiting executives, and excludes any KiwiSaver contributions.
4. Total remuneration excludes payments that arise from calculating holiday pay in line with legislation, and loan repayment and tax deduction for LTI. It is the estimated remuneration earned from performance in FY19.
5. Fixed benefits are five percent employer KiwiSaver contribution and medical insurance.

Breakdown of pay for performance

Z's remuneration position is to benchmark total fixed remuneration (base pay) to the upper quartile of the external market. This means that with our STI annual bonus payment (cash bonus), the total rewards we offer are in the top 10 percent of the New Zealand market when people deliver results above plan. This includes both individual targets and company-wide targets.

The executive team and selected senior employees are also eligible for the Restricted Share Long-Term Incentive Plan (RSLTIP). The RSLTIP is a share-based incentive scheme, not a cash bonus payment. The RSLTIP focuses on alignment with long-term shareholder interests by using a share-based incentive over a three-year vesting period on an at-risk basis aligned with the achievement of defined performance targets. Again, these are both individual and company targets.

For shares to vest under the scheme, participants must meet their individual performance targets and the company must achieve a total shareholder return (TSR) in the three-year period of at least 25th on the NZX 50. Payment is also subject to the discretion of the Board.

Short-term incentive scheme at Z

Z's STI cash bonus is based on three things:

1. Individual performance ratings
2. Company performance ratings
3. Base salary and the on-target bonus for career level.

In February/March, the CEO and the Board agree on the company objectives to be achieved in the following financial year. The Board assesses them in April after year end. In determining an overall performance rating, the Board assesses the key result areas individually and considers any additional achievements beyond plan.

Once the company objectives are set, individual objectives for the CEO and each executive are set and cascaded through the company.

An STI bonus will be paid only if 85 percent of the annual company RC EBITDAF target has been met. Once this threshold has been met, payment is subject to both individual and company performance ratings.

To qualify for any payment, individuals must achieve a minimum overall performance rating of 'meets expectations' against their individual targets. To meet expectations, individuals must deliver their individual commitments to a strong standard and exhibit behaviour consistent with Z's values over the course of the year.

The STI bonus is paid only if both the company and the individual achieve these threshold levels of performance. The Board retains complete discretion over paying STI bonuses and may determine that no bonus will be paid in a given year.

The Board considers the following areas of performance when determining the overall level of company performance.

- Significant HSSE incidents, such as fatalities
- Significant adverse reputational incidents, such as customer reaction to an operational failure
- The company's reputational alignment with being a world-class Kiwi company

Restricted Share Long-Term Incentive Plan

For the 2016 RSLTIP, the total shareholder returns over a three year period have not met the required entry level benchmark of #25 within the NZX50. Z actually ranked #36, and the Board have determined that no payout will be made. This is consistent with the principle that there should be strong alignment between shareholder interests and those of Z's senior managers.

The Board holds absolute discretion on the cash bonuses paid to participants, which are used to repay the participant loan balances on the vested shares.

Further details about how we link pay to performance and other more detailed remuneration disclosures follow.

RSLTI 2016–2019

Key criteria

- Must achieve at least 'meets expectations' each year, otherwise pro-rated
- Continued employment on the vesting date
- Board discretion for significant operational failures
- TSR must be higher than the 50th percentile of NZX companies
- Outperformance to market is rewarded by additional pay-out of up to 200 percent for ranking of 5 or better

RSLTI leadership percentage

- CEO — maximum of 2 × 50 percent of salary
- All senior officers — maximum of 2 × 30 percent of salary

Pay for performance measures

Company STI FY19

- HSSE operational risk management indicators, such as the total recordable case frequency rate, the motor vehicle incident frequency rate, the number of Tier 1/2 process incidents, retailer and Zee capability, safety leadership programmes, safety walk and talks, and incident close-out rate
- Financial performance indicators, such as RC EBITDAF, capital expenditure and leverage
- Organisational leadership indicators such as brand positioning and offer development, loyalty project development, innovation capability development and market share
- Strategic leadership such as strategy 3.0 project delivery, customer experience capability, organisational development and employee engagement.

CEO STI FY19 — 50 percent of salary if Z meets company targets and CEO meets individual targets

Meets all company targets above, plus demonstrates personal leadership, staff engagement, stakeholder management, brand ambassadorship and thought leadership.

Senior officers must meet individual performance targets and Z must meet company targets.

STI targets for senior officers	Enterprise value	Be more productive	Engage our customers	Deliver the future	Leadership behaviours
CFO — 40% of salary	✓	✓	✓	✓	✓
GM, Commercial — 30% of salary	✓	✓	✓	✓	✓
GM, Corporate — 30% of salary	✓	✓	✓	✓	✓
GM, Retail — 30% of salary	✓	✓	✓	✓	✓
GM, Supply — 30% of salary	✓	✓	✓	✓	✓

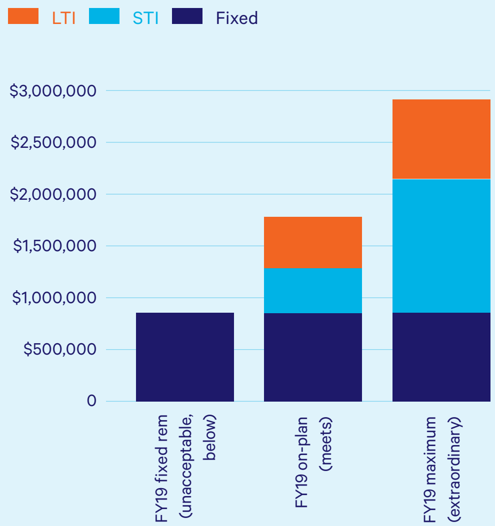
Notes

- 'Enterprise value' is underpinned by retaining operational momentum in the business and includes several financial, behavioural and HSSE operational measures.
- 'Be more productive' includes project execution, organisational development, continuous improvement of ERP and technology, and financial management.
- 'Engage our Customers' includes measures for our HSSE systems, customer experience capability and customer engagement.
- 'Deliver the future' includes measures for brand positioning, data management, organisation development roadmap, innovation and strategies for the future.
- 'Leadership behaviours' include measures for staff engagement and demonstrating company values.

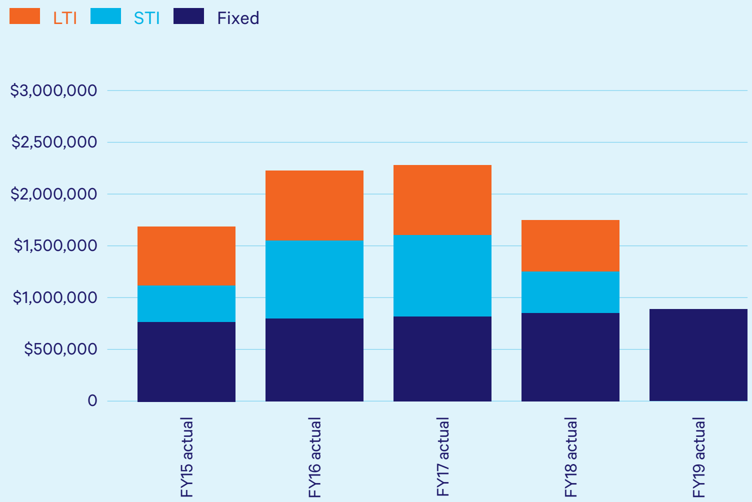
Remuneration policy and disclosures

The figures on the right are the total of current-year salary and fixed benefits paid in the year noted, and performance payments earned in that year and paid in the following financial year.

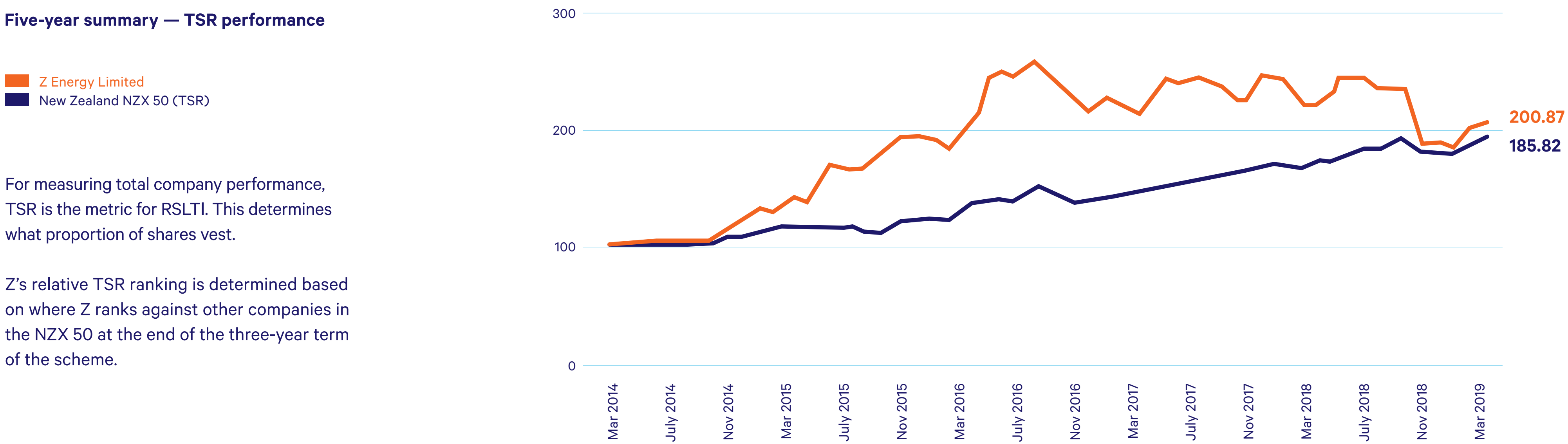
CEO pay for performance scenario FY19



Five-year summary CEO remuneration



Five-year summary — TSR performance



For measuring total company performance, TSR is the metric for RSLTI. This determines what proportion of shares vest.

Z's relative TSR ranking is determined based on where Z ranks against other companies in the NZX 50 at the end of the three-year term of the scheme.

Explanation of remuneration policy and items in scenario charts
The CEO target bonus amount for Z meeting expectations for both company and individual performance is 50 percent of base salary.

Short Term Incentive Scheme at Z

		Individual performance				
		Unacceptable	Below expectations	Meets expectations	Exceeds expectations	Extraordinary
Company performance	Extraordinary	0	0	2	2.5	3
	Exceeds expectations	0	0	1.5	2	2.5
	Meets expectations	0	0	1	1.5	2
	Below expectations	0	0	0.5	0.75	1
	Unacceptable	0	0	0	0	0

The numbers in the table above indicate the multiplier applied to an employee's bonus depending on company and individual performance.

Performance evaluation descriptors are as follows.

- **Below expectations:** performance usually of a satisfactory standard but with inconsistencies in delivery, or performance falls short of standards in a key area
- **Meets expectations:** consistently meets performance objectives in all key areas and is of an acceptable standard for all others
- **Exceeds expectations:** exceeds expectations in most areas and delivers effectively against all objectives; performance is consistently strong
- **Exceptional:** exceeds expectations in all key areas and has produced exceptional delivery against highly challenging objectives

Required disclosures

- **Pay gap:** CEO fixed remuneration ratio to Z permanent employee median fixed remuneration is 8.1:1 (excludes STI and LTI)
- **Explanation of key elements of TSR methodology:** as explained above
- **Any information that has been omitted:** no material information is omitted
- **Any benefits not included:** variances in pay based on annual leave paid out, based on 12 months' prior earnings, and termination benefits for CFO and GM, Retail
- **Key terms of any CEO benefits:** Z has agreed to pay Mike Bennetts' reasonable accommodation and living expenses in Wellington, and reasonable travel expenses for national travel (particularly between Wellington and Auckland). Mike has agreed to non-solicitation commitments (applying to Z's suppliers and employees) and a restraint of trade (restricting him from involvement in the downstream oil industry in New Zealand). Both of these generally apply for 12 months after the end of his employment as CEO. The restraint of trade does not apply if Mike is made redundant
- **Any amounts withheld/clawed back:** none
- **Summary of any estimates used:** none
- **Remuneration that uses related parties:** none

Directors' fees

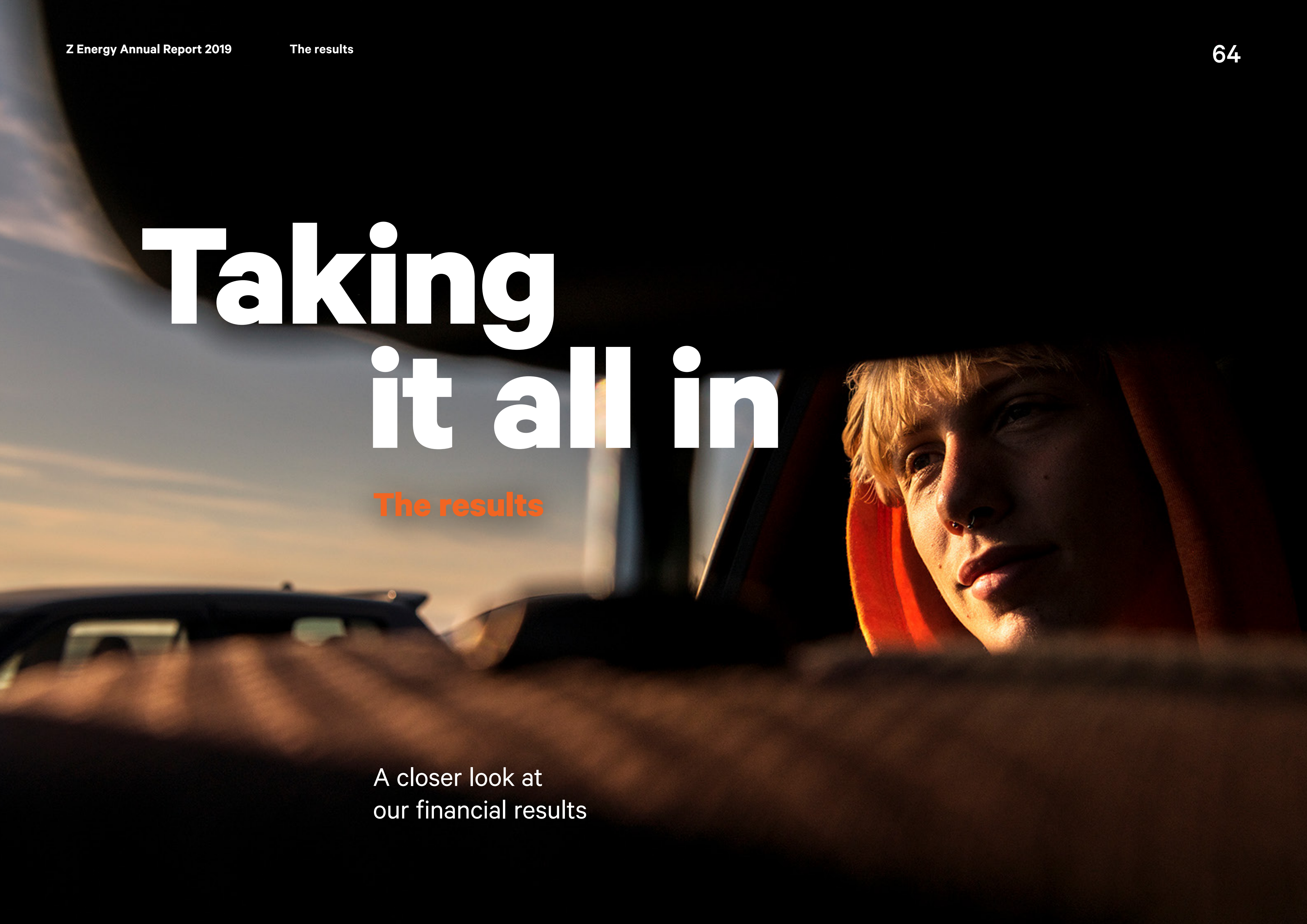
As a result of feedback and Board reflection, we have chosen not to participate in the Ernst & Young Directors REM survey in 2019. In the course of the FY20 year, we will consider and take advice on alternative options for assessing director fees. Z's Directors will not be seeking a fee increase in FY20.

Corporate governance

Once again, Z has created a stand-alone document for its Corporate Governance Statement, which is linked to this report.

Our Corporate Governance Statement demonstrates Z's compliance with the NZX Corporate Governance Code.

Z considers that we materially complied with the NZX Corporate Governance Code during the reporting period.



Taking it all in

The results

A closer look at
our financial results

Statement of comprehensive income for the year ended 31 March 2019

	Notes	2019 $m	2018 $m
Revenue	6	5,450	4,570
Expenses			
Purchases of crude, product and electricity		3,450	2,579
Excise, carbon and other taxes		1,091	1,011
Primary distribution		48	56
Operating	7	413	397
Share of loss/(earnings) of associate companies (net of tax)		1	(1)
Depreciation and amortisation	11, 12	122	102
Net financing expense	8	51	52
Fair value movements in interest rate derivatives		4	9
(Gain) on sale of property, plant and equipment		–	(4)
Increase in decommissioning and restoration provision		18	3
Total expenses		5,198	4,204
Net profit before taxation		252	366
Taxation expense	9	66	103
Net profit for the year		186	263
Net profit attributable to the owners of the company		188	263
Net loss attributable to non-controlling interest		(2)	–
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Valuation adjustment of land and buildings		13	20
Revaluation of investments		(9)	(4)
Disposal of revalued assets		(1)	–
Decommissioning and restoration provision increase		(4)	–
Total items that will not be reclassifiied to profit or loss		(1)	16
Items that are or may be reclassified subsequently to profit or loss			
Cash flow hedge and cost of hedging		(3)	(2)
Other comprehensive (loss)/income net of tax		(4)	14
Total comprehensive income for the year		182	277
Total comprehensive income attributable to owners of the company		184	277
Total comprehensive (loss) attributable to non-controlling interest		(2)	–
Basic and diluted earnings per share (cents)		47	66

The accompanying notes form part of these financial statements.

Statement of changes in equity for the year ended 31 March 2019

	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)
Balance at 31 March 2018	429	188	(4)	(4)	(2)	250	–	857
Balance at 1 April 2018	429	188	(4)	(4)	(2)	250	–	857
Net profit/(loss) for the year	–	188	–	–	–	–	(2)	186
Other comprehensive income	–	(1)	–	–	(3)	–	–	(4)
Revaluation of investment	–	9	(9)	–	–	–	–	–
Disposal of revalued assets	–	1	–	–	–	(1)	–	–
D&R tank provision increases	–	4	–	–	–	(4)	–	–
Revaluation of assets	–	(13)	–	–	–	13	–	–
Total comprehensive income for the year	**–**	**188**	**(9)**	**–**	**(3)**	**8**	**(2)**	**182**
Transactions with owners recorded directly in equity:								
Own shares acquired	–	–	–	(1)	–	–	–	(1)
Flick non-controlling interest	–	–	–	–	–	–	20	20
Dividends to equity holders	–	(138)	–	–	–	–	–	(138)
Supplementary dividends to equity holders	–	(14)	–	–	–	–	–	(14)
Tax credit on supplementary dividends	–	14	–	–	–	–	–	14
Total transactions with owners recorded directly in equity	**–**	**(138)**	**–**	**(1)**	**–**	**–**	**20**	**(119)**
Balance at 31 March 2019	**429**	**238**	**(13)**	**(5)**	**(5)**	**258**	**18**	**920**

The accompanying notes form part of these financial statements.

Statement of financial position at 31 March 2019

	Notes	2019 $m	2018 $m
Shareholders' equity			
Equity attributable to owners of the company		902	857
Non-controlling interest	5	18	-
Total equity		920	857
Represented by:			
Current assets			
Cash and cash equivalents		111	72
Accounts receivable and prepayments		499	337
Inventories	10	578	642
Derivative financial instruments	18	9	4
Assets held for sale	11	27	9
Total current assets		1,224	1,064
Non-current assets			
Property, plant and equipment	11	830	870
Goodwill	12	193	158
Intangible assets	12	475	592
Investments	14	105	113
Derivative financial instruments	18	17	5
Other non-current assets		3	3
Total non-current assets		1,623	1,741
Total assets		2,847	2,805

	Notes	2019 $m	2018 $m
Current liabilities			
Accounts payable, accruals and other liabilities		677	696
Income tax payable		19	61
Provisions	16	23	26
Short-term borrowings	17	135	150
Derivative financial instruments	18	13	17
Total current liabilities		867	950
Non-current liabilities			
Other liabilities		20	16
Provisions	16	68	47
Derivative financial instruments	18	26	33
Deferred tax	9	143	156
Long-term borrowing	17	803	746
Total non-current liabilities		1,060	998
Total liabilities		1,927	1,948
Net assets		920	857

Approved on behalf of the board on 1 May 2019

Peter Ward Griffiths
Chair

Andrew Mark Cross
Chair, Audit and Risk Committee

The accompanying notes form part of these financial statements.

Statement of cash flows for the year ended 31 March 2019

	Notes	2019 $m	2018 $m
Cash flows from operating activities			
Receipts from customers		**5,431**	4,524
Dividends received		**4**	12
Interest received		**53**	2
Payments to suppliers and employees		**(4,075)**	(3,150)
Excise, carbon and other taxes paid		**(930)**	(888)
Interest paid		**(101)**	(46)
Taxation paid		**(113)**	(59)
Net cash inflow from operating activities		**269**	395
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**19**	19
Purchase of intangible assets		**(37)**	(18)
Purchase of investments		**(30)**	(1)
Purchase of property, plant and equipment		**(35)**	(68)
Net cash (outflow) from investing activities		**(83)**	(68)
Cash flows from financing activities			
Net proceeds/(repayment) from bank facility	17	**31**	(504)
Issue of bonds and USPP notes	17	**125**	376
Purchase of shares	21	**(1)**	(2)
Dividends paid to owners of the company	20	**(152)**	(134)
Repayment of bonds	17	**(150)**	–
Net cash (outflow) from financing activities		**(147)**	(264)
Net increase in cash		**39**	63
Cash balances at beginning of year		**72**	9
Cash at end of year		**111**	72

The accompanying notes form part of these financial statements.

Statement of cash flows for the year ended 31 March 2019 (continued)

Reconciliation of net profit for the year to cash flows from operating activities

	2019 $m	2018 $m
Net profit for the year	**186**	263
Adjustments to reconcile profit to net cash inflow from operating activities		
Depreciation and amortisation	**122**	102
Share of loss/(earnings) of associate companies (net of tax)	**1**	(1)
Fair value of derivatives	**4**	9
Dividends received	**4**	-
Change in ETS units	**120**	(45)
Other	**(9)**	4
Changes in assets and liabilities, net of non-cash, investing and financing activities		
Change in accounts receivable and prepayments	**(162)**	(61)
Change in inventories	**64**	(178)
Change in accounts payable, accruals and other liabilities	**(19)**	265
Change in taxation	**(42)**	37
Net cash flow from operating activities	**269**	395

The accompanying notes form part of these financial statements.

Notes to the financial statements for the year ended 31 March 2019

1. Basis of accounting

Reporting entity
Z Energy Limited is a profit-oriented company registered in New Zealand under the Companies Act 1993 and an 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 financial statements presented are those of Z Energy Limited (the Company, Parent) 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. They comply with the New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') as appropriate for profit-oriented entities, and with International Financial Reporting Standards ('IFRS'). Z has reported as a Tier 1 entity under the External Reporting Board ('XRB') Accounting Standards Framework, as a listed entity.

The measurement basis adopted in the preparation of these financial statements is historical cost, modified by the revaluation of certain assets, investments and financial instruments as identified in the accompanying notes. The functional and reporting currency used to prepare the financial statements is New Zealand dollars, rounded to the nearest million ($m), unless otherwise stated. The financial statements have been prepared on a GST-exclusive basis except billed receivables and payables which include GST.

Basis of consolidation
Consistent accounting policies are employed in preparing and presenting the Group financial statements. Intra-group balances and any unrealised income or expenses arising from intra-group transactions are eliminated in preparing the Group financial statements.

2. Changes in accounting policies

The accounting policies have been applied consistently to all years presented in these Group financial statements. NZ IFRS 15 Revenue from Contracts with Customers, which has been adopted from 1 April 2018, has no financial impact on the financial statements.

Adoption status of relevant new financial reporting standards and interpretations
The Group has chosen not to early adopt NZ IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019). NZ IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise material assets and liabilities for all leases with a term of more than 12 months. Accounting by lessors is unchanged under NZ IFRS 16. When adopted, NZ IFRS 16 will impact the Group's financial statements. Based on leases held at 31 March 2019 it is estimated to increase property, plant and equipment by $278m, sublease receivables by $12m, liabilities by $289m and a one-off equity adjustment of $1m. In addition, adoption will increase interest expense by $13m, depreciation expense by $18m, while operating expenses will reduce by $26m, with a net profit reduction of $5m.

3. Critical accounting estimates and judgements

The preparation of financial statements requires management to make the following judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

Provisions (note 16)
Liabilities are estimated for decommissioning and restoration ('D&R)' of certain sites of operation. The D&R rates per tank have been increased following a triennial independent valuation review.

Measurement of fair value (notes 11, 14 and 18)
Some of the Group's accounting policies and disclosures require the measurement of fair values. Land and land improvements are now adjusted based on a land inflation index marker, see note 11.

Goodwill (note 12)
Goodwill is an indefinite-life intangible asset and is tested annually for impairment by estimating the future cash flows that the Group is expected to generate. Estimating future cash flows requires key judgements including expected fuel volume growth or decline, expected future margins, and the discount rate for valuing future cash flows.

Business combinations (note 5)
The recognition of business combinations requires the Group to make judgements and estimates in relation to the fair value allocation of the purchase price and goodwill.

4. Replacement cost reconciliation

Replacement cost ('RC') is a non-GAAP measure used by the downstream fuel industry to report earnings. RC removes the impact of changes in crude oil and refined product prices on the value of inventory held by Z. Z manages the Group's performance based on RC. The difference between HC earnings and RC earnings is a cost of sales adjustment ('COSA'), foreign exchange and commodity gains and losses and the associated tax impact.

Income statement on RC basis

	2019 $m	2018 $m
Revenue	5,450	4,570
Expenses		
Purchases of crude, product and electricity	3,471	2,657
Excise, carbon and other taxes	1,091	1,011
Primary distribution	48	56
Operating	405	398
Total expenses	5,015	4,122
RC operating EBITDAF*	435	448
Share of (loss)/earnings of associate companies (net of tax)	(1)	1
RC EBITDAF	434	449
Below RC EBITDAF expenses		
Depreciation and amortisation	122	102
Net financing expense	51	52
Fair value movements in interest rate derivatives	4	9
(Gain) on sale of property, plant and equipment	–	(4)
Increase in decommissioning and restoration provision	18	3
Total below RC EBITDAF expenses	195	162
RC net profit before taxation	239	287
Taxation expense	61	82
RC net profit for the year	178	205

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

	2019 $m	2018 $m
Statutory net profit after tax	186	263
COSA	(21)	(78)
Net foreign exchange and commodity losses/(gains) on fuel purchases	8	(1)
Tax benefit on COSA	5	21
Replacement cost net profit after tax	178	205

* 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 provision ('EBITDAF')

5. Business combinations

On 1 September 2018, Z acquired 70% of the share capital and control of Flick Energy Limited ('Flick'). Flick is a retail electricity supplier that enables customers access to the spot price of electricity. The acquisition allows Z and Flick to maximise the innovation potential of the energy sector as it transitions to a lower carbon future. Z acquired a 22% shareholding through Flick issuing new securities for $16m, 48% from existing shareholders for $30m and 0.1% from buying out the Flick Employee Share Ownership Plan ('ESOP') for $1m, post provisional accounting at 30 September 2018.

Z has elected to measure non-controlling interest ('NCI') at fair value upon acquisition, which means goodwill recognised includes a portion attributable to ordinary NCI.

	$m
Cash paid for 70% investment	47
Gross up for 100% investment (recognised in NCI)	20
Implied equity value	**67**

Acquisition related expenses of less than $1m are included in operating expenses in the Statement of comprehensive income. Z acquired $20m of cash in the opening Flick balance sheet. The Group's net cash outflow for the investment of $27m has been included in investing cash flows 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:

	Finalised fair value allocation $m	Provisional fair value $m
Assets		
Cash	20	18
Intangible assets	21	2
Total assets	**41**	**20**
Liabilities		
Trade payables	1	1
Deferred tax	6	–
Provisions	2	2
Total liabilities	**9**	**3**
Net identifiable assets acquired	**32**	**17**
Assets to be identified (including goodwill)	–	49
Goodwill	35	–
Net assets acquired	**67**	**66**

Z consolidates 100% of Flick's results and presents the portion of profit/(loss) and other comprehensive income attributable to non-controlling interest. The impact on the Statement of comprehensive income for the year ended 31 March 2019 is a decrease to net profit after tax of $9m ($28m of revenue and $37m of expenses). If the acquisition had been at the start of the reporting period, it is estimated Z would have recorded $21m of additional revenue, bringing the combined revenue to $5,471m. It is estimated Z would have recorded $5m of additional losses, bringing the consolidated net profit to $181m (total NCI portion $21m loss).

6. Revenue

Revenue from major business activities — fuel and convenience retail
Revenue comprises of the fair value consideration received or receivable for the sale of fuel, convenience retail or other, which contains electricity income, in the ordinary course of the Group's activities. The Group's performance obligations are typically satisfied when the Group has supplied the product to the customer, the customer has accepted the product and the collectability of the related receivable is reasonably assured.

Fuel invoices are raised following delivery and settled in accordance with agreed payment terms. Some international customers are required to pay prior to delivery. Transaction price is based on agreed contract rates and delivered volumes and is allocated on delivery. Convenience revenue is recognised at the time of sale. Transaction price is based on the ticketed or contract price.

	2019 $m	2018 $m
Fuel	**5,342**	4,487
Convenience retail	**63**	60
Other	**45**	23
Total revenue	**5,450**	4,570

7. Audit fees

Included in operating expenses are fees paid to the auditors:

	2019 $	2018 $
Audit and review of financial statements	**297,000**	356,000
Audit of covenants and trustee reporting	**12,000**	12,000
Agreed upon procedures licence fee return	**6,000**	6,000
Cost of sales adjustment review	**10,000**	10,000
Total audit and audit-related fees	**325,000**	384,000

8. Net financing expenses

	2019 $m	2018 $m
Financing income		
Interest income from derivatives	**50**	15
Interest income from cash	**2**	1
Total financing income	**52**	16
Financing expense		
Interest expense on bonds	**25**	29
Interest expense on derivatives	**51**	14
Interest expense on secured bank facilities	**4**	13
Interest expense on USPP notes	**16**	4
Financing fees	**3**	3
Other finance expense	**4**	5
Total financing expense	**103**	68
Net financing expense	**51**	52

9. Taxation

Taxation expense or benefit is determined as follows:

	2019 $m	2018 $m
Net profit before taxation	**252**	366
Less share of loss/(earnings) of associate companies (net of tax)	**1**	(1)
Net profit before taxation excluding share of earnings from associates	**253**	365
Taxation expense on profit for the year at the corporate income tax rate of 28% (2018: 28%)	**71**	102
Taxation adjustments:		
Non-deductible expenditure	**–**	4
Over-provision in prior periods	**(5)**	(3)
Taxation expense	**66**	103
Comprising:		
Current taxation	**84**	109
Deferred taxation	**(18)**	(6)
Taxation expense	**66**	103

9. Taxation (continued)

Deferred tax

Deferred tax assets and liabilities are presented as a net deferred tax asset/(liability) in the Statement of financial position. The movement in deferred tax assets and liabilities is provided below:

	Property, plant and equipment $m	Intangible assets $m	Employee benefits $m	Finance lease $m	Other provisions $m	Derivative financial instruments $m	Other items $m	Total $m
Balance at 1 April 2017	(60)	(123)	1	4	2	3	3	(170)
Recognised in the Statement of comprehensive income	(1)	7	(1)	–	(1)	1	1	6
Recognised in other comprehensive income	9	–	–	–	–	–	–	9
Over-provision in prior periods in the Statement of comprehensive income	(2)	–	1	–	1	–	(1)	(1)
Balance at 31 March 2018	**(54)**	**(116)**	**1**	**4**	**2**	**4**	**3**	**(156)**
Balance at 1 April 2018	**(54)**	**(116)**	**1**	**4**	**2**	**4**	**3**	**(156)**
Recognised in the Statement of comprehensive income	**14**	**6**	**(1)**	**–**	**–**	**2**	**(2)**	**19**
Over-provision in prior periods in the Statement of comprehensive income	**(1)**	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**
Acquired in business combinations	**–**	**(5)**	**–**	**–**	**–**	**–**	**–**	**(5)**
Balance at 31 March 2019	**(41)**	**(115)**	**–**	**4**	**2**	**6**	**1**	**(143)**

	2019 $m	2018 $m
Deferred tax expected to be settled within 12 months	**(1)**	(10)
Deferred tax expected to be settled after 12 months	**(142)**	(146)
Deferred tax	**(143)**	(156)

Imputation credits available for use in subsequent reporting periods are $115m (2018: $40m).

10. 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.

11. Property, plant and equipment

Property, plant and equipment ('PPE') is measured at fair value based on periodic valuations, less accumulated depreciation and any impairment after the date of revaluation.

An independent revaluation of all Land and Buildings (including Terminal Plant) is undertaken by an independent valuer every five years using a level 3 fair value movement in line with the fair value hierarchy. In the years between independent valuations, the carrying value of Land is adjusted annually by a land inflation index provided by an independent valuer based on recent sales as considered by the Directors, as underlying Land values are considered the significant determinant of fair value changes for Z. An assessment of other PPE fair values is also performed annually by Z to assess the underlying assumptions for each asset class to determine whether any revaluation is required. Additions to PPE after the most recent valuation are recorded at cost.

The last independent revaluation was recorded at 31 March 2017, with the next revaluation scheduled for 31 March 2022.

Depreciation is provided on a straight-line basis. The major depreciation periods (in years) are:

Buildings	9–35
Plant and machinery	2–35
Land improvements	14–35
Terminal plant	5–35

11. Property, plant and equipment (continued)

Year ended 31 March 2019	Construction in progress $m	Buildings $m	Land and improvements $m	Plant and machinery $m	Terminal plant $m	2019 Total $m	2018 Total $m
Cost/valuation							
Balance at beginning of year	33	118	324	369	183	**1,027**	1,012
Additions	47	–	–	–	–	**47**	61
Disposals	–	(4)	(4)	(6)	–	**(14)**	(21)
Transfers between asset classes	(55)	8	5	30	12	**–**	–
Transfers to software in progress	–	–	–	–	–	**–**	(20)
Offset of accumulated depreciation on revaluation	–	–	–	–	–	**–**	(11)
Reclassification to assets held for sale	–	–	(27)	–	–	**(27)**	(9)
Valuation adjustment	–	–	13	–	–	**13**	15
Balance at end of year	25	122	311	393	195	**1,046**	1,027
Accumulated depreciation and impairment							
Balance at beginning of year	–	(13)	(7)	(126)	(11)	**(157)**	(112)
Depreciation	–	(9)	(3)	(41)	(12)	**(65)**	(62)
Disposals	–	–	–	6	–	**6**	6
Offset of accumulated depreciation on revaluation	–	–	–	–	–	**–**	11
Balance at end of year	–	(22)	(10)	(161)	(23)	**(216)**	(157)
Carrying amounts							
At 1 April 2018	33	105	317	243	172	–	870
At 31 March 2019	**25**	**100**	**301**	**232**	**172**	**830**	**–**

Included in land ($3m), buildings ($23m) and plant and machinery ($1m) are assets held under finance leases (2018: land $3m, buildings $22m and plant and machinery $1m).

11. Property, plant and equipment (continued)

For each revalued class, the carrying amount that would have been recognised had the assets been carried on a historical cost basis are: buildings $50m (2018: $56m); land and improvements $138m (2018: $172m); terminals $143m (2018: $142m); plant and machinery $201m (2018: $209m).

The following table shows the valuation technique used in measuring the fair value of PPE, as well as the significant unobservable inputs used.

Asset class	Valuation techniques during full revaluation	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement	Valuation adjustments between full revaluation
Land and Buildings	Direct capitalisation approach based on a sustainable market rental is capitalised at an appropriate rate of return or yield derived from comparable asset sales. The market rental is built up from: – fuel throughput margin – estimated shop rental (for non-fuel sales) The value ascribed to the land is allocated using a value estimated based on recent comparable land sales with the residual value being allocated to buildings.	Throughput rental rate (cents/litre) 1.15–2.35 (Retail) Throughput rental rate (cents/litre) 1.00 (Truck stop) Shop rental $125–$450 per square metre Capitalisation rate 5%–10%	The estimated fair value would increase (decrease) if: – throughput margins were higher (lower); – shop rental rates were higher (lower); – capitalisation rates were lower (higher).	Land and land improvements are adjusted based on a land inflation index marker. Land and buildings are assessed for impairment annually.
Terminal plant, and plant and machinery	Depreciated replacement cost approach is based on the gross current replacement cost, reduced by factors providing for age, physical depreciation, and technical and functional obsolescence considering an asset's total estimated useful life and anticipated residual value (if any).	Cost estimates sourced from contracting machinery suppliers and cost analysis of recent projects.	The estimated fair value would increase (decrease) if: – cost was higher (lower); – remaining useful life was higher (lower); – technical and functional obsolescence was lower (higher).	Assessed for impairment.
Finance Leases (Buildings)	Net present value of contracted rental cash flow at lease commencement over the remaining term of the lease.	Discount rate 6.5%. Rental payments are sourced from lease agreements.	The estimated fair value would increase (decrease) if: – Discount rate was lower (higher); – Net rental of the lease was higher (lower); – Remaining term of the lease was longer (shorter).	Assessed for impairment.

Highest and best use

Z holds properties where the current market value in use is lower than the highest and best alternative use. However, Z holds these properties as part of its strategic network and, therefore, does not currently intend to change the use of these assets. The assets are recorded at their highest and best alternative use valuation.

Assets held for sale

During the year, Z has committed to a plan to sell two retail sites. One site settled on 4 April 2019 and the other site is expected to settle in September 2019. The sites were classified as PPE with a carrying value of $27m (land $26m and buildings $1m). $1m is held in the revaluation reserve for the sites held for sale. Fair value is $27m.

12. Intangible assets

Goodwill
Goodwill is the excess of purchase consideration and net identifiable assets acquired. Goodwill is not amortised, but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, by estimating future cashflow considering expected fuel volumes, margin and discount rates. Goodwill comprises of $158m established on acquisition of Chevron New Zealand (Chevron) and $35m established on acquisition of Flick.

Chevron acquisition goodwill
The recoverable amount of the cash generating unit ('CGU') containing the goodwill has been calculated based on the present value of future cash flows expected to be derived from the CGU (value in use). The assumptions used included a Z Board approved 20-year Discounted Cash Flow ('DCF') with a post-tax discount rate of 9% and a terminal value growth rate of -2%. A 20-year DCF has been used instead of a 5-year DCF due to the industry life-cycle. The recoverable amount of the CGU was estimated to be higher than its carrying amount and no impairment was required. Management considers that no reasonably possible change in assumptions would cause the carrying amount to exceed the recoverable amount.

Flick acquisition goodwill
Goodwill was tested both as part of Z's annual impairment testing and due to indicators of impairment occurring during the financial year. The indicator of impairment was a decline in Flick's financial performance against the annual plan due to lower than expected customer growth and higher than expected customer churn as a result of an extended period of high wholesale electricity spot prices. As a result, Z has calculated the recoverable amount of the CGU containing the Goodwill on the present value of future cash flows expected to be derived from the CGU (value in use). These assumptions are based on a Flick Board approved 10-year DCF adjusted for customer growth rate assumptions with a post-tax discount rate of 15% and a terminal growth rate of 2%. The key assumptions are based off both experience and future expectations of the CGU's performance. A 10-year DCF has been used instead of a 5-year DCF given Flick's start up nature and strong customer acquisition targets. The value in use is most sensitive to changes in customer numbers, a 6% reduction in customer numbers would result in the elimination of the $8m excess of recoverable amount over the carrying amount and a 36% reduction in customer numbers would result in the write off of $35m of Goodwill.

Brands
Brands were acquired as part of the Chevron acquisition and are amortised over 6 years on a straight-line basis.

Contracts and customers acquired
Contracts acquired include customer contracts, supply agreements and leases acquired as part of the Chevron acquisition and Flick customers as part of the Flick acquisition. These contracts are amortised over 3 to 21 years on a straight-line basis.

Emissions trading scheme
Units acquired are carried at cost less any accumulated impairment as they are held for settlement of emissions obligations. Refer to note 13 for number of units held.

Other intangibles
Other intangibles include software, franchise rights, domain name, and occupation rights. Acquired computer software licences are capitalised based on the costs incurred to acquire and bring to use the specific software. These costs are amortised over 3 years on a straight-line basis. Intangible assets with indefinite lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

12. Intangible assets (continued)

Year ended 31 March 2019	Software in progress $m	Goodwill $m	Brands $m	Contracts acquired $m	Emissions units $m	Other $m	2019 Total $m	2018 Total $m
Balance at beginning of year	15	158	26	384	128	39	**750**	693
Additions	37	35	–	19	85	4	**180**	133
Transfers from PPE in progress	–	–	–	–	–	–	**–**	20
Transfers between asset classes	(15)	–	–	–	–	15	**–**	–
Utilised	–	–	–	–	(90)	–	**(90)**	(56)
Leased	–	–	–	–	(115)	–	**(115)**	–
Amortisation	–	–	(6)	(23)	–	(28)	**(57)**	(40)
Balance at end of year	37	193	20	380	8	30	**668**	750
Cost	37	193	37	445	8	119	**839**	864
Accumulated amortisation	–	–	(17)	(65)	–	(89)	**(171)**	(114)
Balance at end of year	**37**	**193**	**20**	**380**	**8**	**30**	**668**	750

13. Emissions trading scheme

The Group is required to deliver emission units to a government agency to be able to sell products that emit pollutants. A provision is recognised in the Statement of financial position and is measured at the average cost of units acquired to satisfy the emissions obligation.

Stock of units	2019 Units millions	2018 Units millions
Balance at beginning of year	7	6
Units acquired and receivable	3	5
Units leased	(5)	–
Units utilised	(5)	(4)
Balance at end of year	–	7

Obligation	2019 Units millions	2018 Units millions
Obligation payable at 31 March	8	7

The Emissions Trading Scheme obligation of $209m (2018: $125m) is included within accounts payable, accruals and other liabilities.

During the year Z entered into a contract to lease its Emissions Trading Scheme units to reduce its working capital funding cost. The units will be returned in May 2019 prior to Z's obligation falling due.

14. Investments

	2019 $m	2018 $m
Investment in Refining NZ (fair value hierarchy level 1)	101	110
Investment in associates	4	3
Total investments	105	113

The Group's investment in Refining NZ is recognised at the NZX-listed share price at 31 March 2019. During the year Z acquired 37% of Drylandcarbon One Limited Partnership.

15. Investment in joint operations

The Group has participating interests in five unincorporated jointly controlled operations relating to the storage and distribution of petroleum products. The revenues and expenses are allocated in the financial statements of a proportionate share on a performance/usage basis rather than the share of the joint arrangement.

The Group has rights to the assets and obligations for the liabilities relating to the jointly controlled operations. At 31 March 2019, there were no contingent liabilities for the jointly controlled operations (2018: nil). The value of assets in these interests is $14m (2018: $12m).

	Principal activity	2019 Holding	2018 Holding
Joint User Hydrant Installation	Fuel storage	**33%**	33%
Joint Interplane Fuelling Services	Fuel distribution	**50%**	50%
Jointly Owned Storage Facility	Fuel storage	**50%**	50%
Joint Ramp Service Operations Agreement	Fuel distribution	**50%**	50%
Wiri to Auckland Airport Pipeline	Fuel distribution	**40%**	40%

16. Provisions

Decommissioning and restoration costs are recognised at the estimated future cost. The estimated future cost is calculated using amounts discounted over the estimated useful economic life of the assets. The discount rate applied is a risk-free rate. Decommissioning and restoration costs expected to be settled within one year are classified as current liabilities. Decommissioning and restoration costs expected to be settled between 1 and 30 years are classified as non-current.

Estimated remediation costs of sites are recognised on an accrual basis at the time there is a formal plan or obligation, legal or constructive, in place. The remediation costs are expected to be settled between 1 and 30 years, depending on the location.

Other provisions include people-related costs, business development funds, onerous leases, customs and duties, and general business provisions.

For the year ended 31 March 2019	Decommissioning, restoration and remediation $m	Other $m	Total $m
Balance at beginning of year	62	11	**73**
Created	13	5	**18**
Utilised	(2)	(6)	**(8)**
Released	(2)	(2)	**(4)**
Unwind of discount	12	–	**12**
Balance at end of year	83	8	**91**
Current	15	8	**23**
Non-current	68	–	**68**
Balance at end of year	**83**	**8**	**91**

17. Borrowings

Financing arrangements

The Group's debt includes bank facilities, bonds and US Private Placement ('USPP') notes secured against certain assets of the Group. The facilities require Z to maintain certain levels of shareholder funds and securities and operate within defined performance and gearing ratios. The arrangements also include restrictions over the sale or disposal of certain assets without bank agreement. The Group has complied with all debt covenant requirements imposed by lenders.

Bank facilities and bonds are recorded initially at fair value, net of transaction costs. After initial recognition, bank facilities and bonds are measured at amortised cost. Any difference between the initial recognised amount and the redemption value is recognised in the Statement of comprehensive income over the period of the borrowing. USPP notes are recorded initially at fair value, net of transaction costs and are revalued monthly for spot risk.

Bank facilities', bonds' and USPP notes' issue expenses, fees and other costs incurred in arranging finance are capitalised and amortised over the term of the relevant debt instrument or debt facility, using the effective interest-rate method.

Banking facilities

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 year ranged from 2.8% to 3.2% (2018: 2.8% to 3.3 %).

	2019 $m	2018 $m
Secured bank facilities	**530**	530
Facilities drawn down	**68**	37
Balance at end of year	**68**	37
Current	**–**	–
Non-current	**68**	37
Balance at end of year	**68**	37

The facilities comprise a $180m revolving term debt facility drawn to $68m plus a $350m working capital facility drawn to nil, both maturing in December 2021.

17. Borrowings (continued)

Bonds

	2019 $m	2018 $m
Balance at beginning of year	502	501
New bonds issued	125	–
Issuance costs	(1)	–
Bonds repaid	(150)	–
Amortisation	1	1
Balance at end of year carrying value	477	502
Current	135	150
Non-current	342	352
Balance at end of year carrying value	477	502
Fair value of bonds	510	539

USPP notes

	2019 $m	2018 $m
Balance at beginning of year	357	–
New USPP notes issued including issuance costs	–	376
Movement in fair value hedge	12	(14)
Movement in foreign-exchange revaluation	24	(5)
Balance at end of year carrying value	393	357
Current	–	–
Non-current	393	357
Balance at end of year carrying value	393	357
Fair value of USPP notes	452	400

18. Financial risk management

The Group has a Treasury Management Committee to review and set treasury strategy within policy guidelines and report on market risk positions and exposures. The Group has developed a comprehensive, enterprise-wide risk management framework that guides management and the board in identifying, assessing and monitoring new and existing risks. Management report to the Audit and Risk Committee and the Board on the relevant risks and the controls and treatments for those risks.

Summary of the Group's exposure to financial risk and the management of those

The Group has exposure to the following risks:

Financial risk	Exposure	Product	Management of risk
Market risk			
Foreign exchange risk	Movement in foreign exchange rates	Bills Libor (Basis swap)	Quarterly resetting notional (based on the actual FX spot rate of the NZD/USD) on the 8, 10 and 12-year basis swaps offset with the 1-year basis swap, reviewed annually for renewal.
		Forward exchange contract	Reduce price fluctuations risk of foreign currency commitments, mainly associated with purchasing hydrocarbons.
		Cross currency interest rate swaps (CCIRS)	Hedge variability risk in cash flows arising from price fluctuations of foreign currency of the USD USPP notes. To mitigate profit or loss volatility, the CCIRS is designated into a fair value hedge and cash flow hedge relationship.
Sensitivity to FX	Foreign-currency – At 31 March 2019, if the New Zealand dollar had strengthened/weakened by 10% against the currencies with which the Group has foreign-currency risk (with all other variables held constant), after-tax profit would change by $1m higher/$3m lower (2018: $5m higher/$13m lower) and the change in other comprehensive income for the year would be $5m higher/lower(2018: $5m).		
Interest rate risk	Movement in interest rates	Interest rate swaps (IRS)	Minimise the cost of debt (interest) and manage the volatility to the Groups earnings. The CCIRS is designated into a fair value hedge and cash flow hedge relationship to mitigate profit or loss volatility.
		Cross currency interest rate swaps	
		Bills Libor (Basis swap)	Reduce exposure on the basis cost of the CCIRS.
Sensitivity to interest rate	At 31 March 2019, if bank interest rates at that date had been 100 basis points higher/lower (with all other variables held constant), after-tax profit would change by $8m higher/$5m lower (2018: $12m higher/$15m lower) and the change in other comprehensive income for the year would be $1m higher/lower (2018: $3m).		
Commodity price and timing risk	Changes in crude and product prices	Commodity swaps	Match commodity purchase and sales.
Liquidity risk			
	Risk that the Group will not be able to meet its financial obligations as they fall due		Active management of cash flow, access to committed funds and lines of credit and the maturity profile of its financial obligations.
Credit risk			
	Risk of loss to the Group due to customer or counterparty default		Limited exposure due to credit checks carried out on new customers, credit terms and standard payment terms. Less than 1% of the Group's receivables are overdue (2018: 2%).
	Risk of derivative counterparties and cash deposits being lost		Bank facilities are maintained with A+ or above rated financial institutions, with a syndicate of four bank counterparties to ensure diversification.

18. Financial risk management (continued)

The CCIRS is classified as level 2 in fair value hierarchy and is hedge accounted. All other products are level 2 and accounted for as fair value through the Statement of comprehensive income.

The fair value of the CCIRS and IRS's excludes accrued interest. All other derivatives do not contain interest components.

Recognition and measurement of derivatives

Derivative financial instruments are recognised initially at fair value at the date they are entered into (trade date). After initial recognition, derivative financial instruments are stated at fair value at each Statement of financial position date. The resulting gain or loss is recognised in the Statement of comprehensive income immediately, unless the instruments are designated in an effective hedge accounting relationship.

Liquidity risk

The following tables analyse the Group's financial liabilities into relevant maturity groupings based on the earliest possible contractual maturity date at year end. The amounts in the tables are contractual undiscounted cash flows, which include interest through to maturity.

At 31 March 2019	6 months or less $m	6 to 12 months $m	1 to 2 years $m	2 to 5 years $m	5+ years $m	Contractual cash flows $m	Statement of financial position $m
Non-derivative financial liabilities							
Accounts payable	272	–	–	–	–	272	272
Finance leases	1	1	2	11	15	30	18
Long-term loan	1	1	2	71	1	76	68
Bonds	11	144	14	248	128	545	477
USPP notes	8	8	16	48	461	541	393
Non-derivative financial liabilities	**293**	**154**	**34**	**378**	**605**	**1,464**	**1,228**
Derivative financial instruments							
IRS	(2)	(2)	(6)	(14)	(2)	(26)	(25)
Commodity hedges	–	–	–	–	–	–	(1)
CCIRS	–	1	1	–	13	15	13
Basis swap	–	12	(1)	–	(2)	9	–
Derivative financial instruments	**(2)**	**11**	**(6)**	**(14)**	**9**	**(2)**	**(13)**

18. Financial risk management (continued)

At 31 March 2019	6 months or less $m	6 to 12 months $m	1 to 2 years $m	2 to 5 years $m	5+ years $m	Contractual cash flows $m	Statement of financial position $m
Non-derivative financial liabilities							
Accounts payable	585	–	–	–	–	585	585
Finance leases	1	1	2	10	11	25	16
Long-term loan	1	1	37	–	–	39	37
Bonds	164	9	151	170	72	566	502
USPP notes	7	7	15	45	449	523	357
Non-derivative financial liabilities	758	18	205	225	532	1,738	1,497
Derivative financial instruments							
IRS	1	(2)	(3)	(6)	(7)	(17)	(18)
CCIRS	(1)	(1)	(3)	(14)	(37)	(56)	(22)
Basis swap	–	(5)	–	6	25	26	(1)
Derivative financial instruments	–	(8)	(6)	(14)	(19)	(47)	(41)

18. Financial risk management (continued)

Discussions on refinancing bank-debt facilities will normally begin at least 6 months before maturity with facility terms agreed at least 3 months before maturity.

Interest rate risk analysis

At 31 March 2019	Less than 1 year $m	1 to 2 years $m	2 to 5 years $m	5+ years $m	Total Notional $m
Interest-rate exposure borrowing	135	–	288	503	926
Cross-currency swaps	378	–	–	(378)	–
Interest-rate swaps	(130)	–	75	55	–
Net interest-rate exposure	**383**	**–**	**363**	**180**	**926**

At 31 March 2018	Less than 1 year $m	1 to 2 years $m	2 to 5 years $m	5+ years $m	Total Notional $m
Interest-rate exposure borrowing	187	135	150	448	920
Cross-currency swaps	378	–	–	(378)	–
Interest-rate swaps	(120)	(135)	75	180	–
Net interest-rate exposure	445	–	225	250	920

Offsetting of financial instruments

Z enters into derivative transactions under International Swaps Derivatives Association (ISDA) master agreements. The ISDA agreements do not meet the criteria for offsetting in the balance sheet for accounting purposes. This is because Z does not have any current legally enforceable right to offset recognised amounts. Under the ISDA agreements the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events. The potential net impact of this offsetting is disclosed in 'Amount after applying rights of offset under ISDA agreements. Z does not hold and is not required to post collateral against its derivative positions.

	Derivative position 2019 $m	Amount after applying rights of offset under ISDA agreements $m	Derivative position 2018 $m	Amount after applying rights of offset under ISDA agreements $m
Derivative assets	26	–	9	–
Derivative liabilities	39	13	50	41
Derivative financial liabilities	13	13	41	41

18. Financial risk management (continued)

Hedge accounting
The nature and the effectiveness of the hedge accounting relationship will derive where the gains and losses on re-measurement are recognised. The CCIRS derivatives are designated as either:

- **Fair value hedges** the derivative is used to manage the variability in the fair value of recognised liabilities, to hedge the interest-rate risk (the hedged risk) arising from the USD USPP notes (the hedged items).
  The following changes are recognised in profit or loss:
  - The change in fair value of the hedging instruments;
  - The change in fair value of the underlying hedged items attributable to the hedged risk.

  Once hedging is discontinued, the fair value adjustments to the carrying amount of the hedged item arising from the hedged risk is amortised through profit or loss from that date through to maturity of the hedged item.

- **Cash flow hedges** derivatives are used to manage the variability in cash flows of highly probable forecast transactions, to hedge the variability in cash flows arising from interest rate and foreign currency exchange rate movements of the USD USPP notes (the hedged items).

  The following changes are recognised in profit or loss (interest costs):
  - any gain or loss in relation to the ineffective portion of the hedging instrument,
  - fair value changes in the hedging instrument previously accumulated in other comprehensive income, transfer to profit or loss when the underlying transactions are recognised in the Statement of comprehensive income.

  Once hedging is discontinued, any cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss (interest costs) either:
  - at the same time as the forecast transaction, or
  - immediately if the transaction no longer expected to occur.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting.

Z designates the entire CCIRS to hedge its foreign-currency risk and interest rate risk and applies a hedge ratio of 1:1, except for the cross-currency basis elements of the CCIRS that are excluded from the designation and are separately accounted for as a cost of hedging. This cost is recognised in other comprehensive income in a cost of hedging reserve. The Group's Treasury Policy is for the critical terms of the CCIRS contracts to align with the hedged item.

Z determines the existence of an economic relationship between the hedging instrument and the hedged item based on the currency, amount and timing of the respective cash flows, reference interest rates, tenors, repricing dates, maturities and notional amounts. Z assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting the changes in cash flows of the hedged item using the hypothetical derivative method.

In these hedge relationships, the main source of ineffectiveness is the effect of the counterparty and Z's own credit risk on the fair value of the CCIRS.

18. Financial risk management (continued)

The effect of Z's hedge accounting policies in managing both its foreign-exchange risk and its interest-rate risk related to borrowings denominated in foreign currency is presented in the tables below. The details of the CCIRS hedging instruments and items at 31 March 2019 are recognised in the balance sheet within derivative financial instruments and borrowings as follows:

At 31 March 2019	Nominal amount of the CCIRS (hedging instrument) USDm	Carrying amount of the USPP (hedged item) $m	Accumulated fair value hedge adjustment to USPP carrying amount (hedge item) $m	Carrying value of CCIRS (hedging instrument) $m	Life to date change in value used for calculating hedge ineffectiveness $m	Accumulated cost of hedging reserve $m
Cash flow hedge and fair value hedge						
Interest-rate risk and foreign-currency risk						
8 years, rate 3.83%	90	(131)	–	5	5	–
10 years, rate 4.04%	90	(131)	1	4	5	(1)
12 years, rate 4.14%	90	(131)	1	4	5	(1)
Total	**270**	**(393)**	**2**	**13**	**15**	**(2)**

The hedged item is recognised in Borrowings and the hedging instrument is recognised in Derivative financial instruments.

Hedge ineffectiveness for the year ended 31 March 2019 was $2m (2018: nil).

At 31 March 2018	Nominal amount of the CCIRS (hedging instrument) USDm	Carrying amount of the USPP (hedged item) $m	Accumulated fair value hedge adjustment to USPP carrying amount (hedge item) $m	Carrying value of CCIRS (hedging instrument) $m	Life to date change in value used for calculating hedge ineffectiveness $m	Accumulated cost of hedging reserve $m
Cash flow hedge and fair value hedge						
Interest-rate risk and foreign-currency risk						
8 years, rate 3.83%	90	(120)	4	(7)	(7)	–
10 years, rate 4.04%	90	(119)	5	(7)	(7)	–
12 years, rate 4.14%	90	(118)	5	(8)	(8)	–
Total	270	(357)	14	(22)	(22)	–

19. Leases

Operating leases

Operating leases, where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items, are recognised in the Statement of comprehensive income on a straight-line basis over the period of the lease term.

The Group has receivables from operating leases as a lessor relating to the lease of premises. These receivables expire as follows:

	2019 $m	2018 $m
Operating lease receivables as lessor		
Between 0 to 1 year	**4**	4
Between 1 to 5 years	**9**	8
More than 5 years	**2**	2
Operating lease receivables as lessor	**15**	14

The Group as the lessee has various non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the lease are renegotiated. The lease payables are predominantly for the lease of land and buildings.

	2019 $m	2018 $m
Operating lease payables as lessee		
Between 0 to 1 year	**36**	32
Between 1 to 5 years	**120**	106
More than 5 years	**118**	116
Operating lease receivables as lessee	**274**	254

Lease costs expensed, and sub-lease income received through the Statement of comprehensive income during the year were $36m (2018: $34m) and $3m (2018: $3m) respectively.

Finance leases as lessee

Finance leases, which transfer to the lessee substantially all the risks and benefits incidental to ownership of the leased items, are capitalised at the lower of fair value or present value of the minimum lease payments. The leased assets and corresponding liabilities are therefore recognised, and the assets are depreciated in line with the Group's depreciation policy to reflect the estimated useful lives.

Each lease payment is allocated between the liability and finance charges to produce a constant periodic rate of interest on the remaining balance of the liability for each year.

The Group has finance leases arising from the sale and leaseback of buildings and plant and machinery. These lease contracts expire within 2 to 17 years and have additional terms of renewal. The Group also receives some sub-lease income on these assets, but this does not have a significant impact on the Statement of comprehensive income.

	2019 $m	2018 $m
Present value of minimum lease payments		
Between 0 to 1 year	**2**	1
Between 1 to 5 years	**8**	7
More than 5 years	**8**	8
Present value of minimum lease payments	**18**	16

	2019 $m	2018 $m
Lease liability under finance leases		
Between 0 to 1 year	**3**	3
Between 1 to 5 years	**12**	11
More than 5 years	**15**	11
Minimum lease payments	**30**	25
Less interest attributable to future years	**12**	9
Present value of minimum lease payments	**18**	16

20. Share capital and distributions

Ordinary shares (fully paid)	2019 $m	2018 $m
Total authorised and issued capital at beginning of year	429	430
Movements in issued and fully paid ordinary shares		
Share-based payment	–	(1)
Total authorised and issued capital at end of year	**429**	**429**

Ordinary shares (fully paid)	2019 Shares millions	2018 Shares millions
Total issued capital at end of year	**400**	400

The par value of one share is $1.

Z Energy LTI Trustee Limited holds 762,263 shares at a cost of $6m for Z's restricted share long-term incentive plan (2018: 747,420, $5m).

Z holds Treasury stock of 339,884 shares.

	$m	cents per share
Dividend		
2017 Final dividend (paid June 2017)	80	19.9
2018 Interim dividend (paid December 2017)	42	10.4
2018 Final dividend (paid May 2018)	88	21.9
2019 Interim dividend (paid December 2018)	50	12.5

Final dividend declared after balance date not provided, refer to note 25.

21. Share-based payments

Z Energy Restricted Share Long-Term Incentive Plan (RSLTIP)

Z provides the RSLTIP for selected senior employees. Under the RSLTIP, ordinary shares in the Parent are purchased on-market by Z Energy LTI Trustee Limited ('the Trustee'). Participants purchase shares from the Trustee with funds lent to them by the Parent.

The number of shares that vest will depend on Z's total shareholder return ranking within a peer group of the NZX50 over a 3-year period, although a reduced period may be used in some cases. If the individual is still employed at the end of the vesting period, the employee is provided a cash bonus which must be used to repay the loan and the shares are then transferred to the employee.

Grant date	Vesting date	Exercise price	Balance at the start of year Number of shares	Granted during year Number of shares	Exercised during year Number of shares	Forfeited during year Number of shares	Balance at the end of year Number of shares	Vested and exercisable at end of year Number of shares
2019								
29 May 2015	**31 March 2018**	**$5.98**	**235,681**	**–**	**(235,681)**	**–**	**–**	**–**
23 May 2016	**31 March 2019**	**$8.20**	**206,361**	**–**	**–**	**(206,361)**	**–**	**–**
22 May 2017	**31 March 2020**	**$8.00**	**223,787**	**–**	**–**	**(42,494)**	**181,293**	**–**
22 May 2018	**31 March 2021**	**$7.45**	**–**	**266,384**	**–**	**(46,794)**	**219,590**	**–**
Total			**665,829**	**266,384**	**(235,681)**	**(295,649)**	**400,883**	**–**
Weighted average exercise price					**$5.98**	**$8.05**	**$7.70**	
2018								
20 May 2014	31 March 2017	$3.84	324,070	–	(324,070)	–	–	–
29 May 2015	31 March 2018	$5.98	323,296	–	–	(87,615)	235,681	235,681
23 May 2016	31 March 2019	$8.20	222,540	–	–	(16,179)	206,361	–
22 May 2017	31 March 2020	$8.00	–	238,751	–	(14,964)	223,787	–
Total			869,906	238,751	(324,070)	(118,758)	665,829	235,681
Weighted average exercise price					$3.84	$6.54	$7.35	$5.98

21. Share-based payments (continued)

Measurement of fair values

The fair value of the RSLTIP has been determined using the framework of the Black-Scholes and Margrabe option pricing models for the schemes vesting 2017–2019. For the scheme vesting 2020 a Monte Carlo Simulation has been used.

	Vesting date of scheme			
	31 March 2021	31 March 2020	31 March 2019	31 March 2018
Weighted average share price at grant date	$7.45	$8.00	$8.20	$5.98
Contractual life	2.85 years	2.86 years	3.00 years	2.84 years
Risk-free rate	2.0%	2.1%	2.1%	3.1%
Standard deviation of Z share price	–	–	20%–25%	17.5%–22.5%
Standard deviation of Z's TSR	25%–27%	18%–25%	–	–
Standard deviation of NZX50	–	–	9.0%	8.0%
Standard deviation of peers' TSR	18%–21%	20%–22%	–	–
Correlation between Z share price and NZX50	–	–	0.32–0.40	0.32–0.40
Correlation between Z's TSR and peers' TSR (average)	0.15–0.16	0.16–0.19	–	–
Estimated fair value per share	$3.78	$4.22	$3.48	$2.24

Assumptions have been made that the participants will remain employed with Z and will achieve the minimum performance levels in each period to the vesting date. Dividends paid on shares are not material to the value of the shares granted under the RSLTIP.

The fair value of the share-based payments is recognised as an expense, with a corresponding increase in equity, over the vesting period of the plan. The expense relating to the RSLTIP in the year ended 31 March 2019 was $0.2m (2018: $0.6m).

An employee share purchase programme also exists, which does not have a material impact on these financial statements. The ESPP scheme holds 85,904 shares. The LTI plan also holds unallocated shares of 361,380.

Employee benefits payable are $11m (2018: $15m).

22. Related parties

Certain Z Directors have relevant interests in several companies with which Z has transactions in the normal course of business. Some Z Directors are also non-executive directors of other companies. Any transactions undertaken with these entities have been entered into as part of ordinary business.

Key management personnel have been defined as the Directors, the CEO and the executive team for the Group. Executive members also participate in the Group's Restricted Share Long-Term Incentive Plan, refer to note 21.

Included in operating expenses are directors' fees of $1m (2018: $1m).

Transactions with related parties received/(paid)	2019 $m	2018 $m
Refining NZ — sale of goods and services	**2**	1
Refining NZ — processing fees, Customs and excise duties	**732**	798
Associates — sale of goods and services	**1**	–
Associates — purchase of goods and services		
– COLL — distribution	**36**	23
– NZOSL	**7**	13
– WOSL	**11**	13
– Other	**5**	7
Key management personnel		
– Short-term employee benefits	**5**	8
– Other long-term benefits	**–**	2
– Termination benefits	**1**	–
Balances at the end of period		
– Refining NZ — processing fees, Customs and excise duties	**(55)**	(59)

23. Commitments

Commitments relate to PPE, intangibles and the Good in the Hood community programme of $32m (2018: $30m).

24. Contingent liabilities

The Group has guaranteed an exposure of up to USD2m ($3m) to a financier of one of the Group's associate companies (2018: USD3m ($4m)). This guarantee reduces by USD1m annually.

25. Events after balance date

Dividend
On 1 May 2019 the directors approved a fully imputed dividend of 30.5 cents per share, which is equal to $122m, to be paid on 29 May 2019 (2018: 21.9 cents per share, $88m).

Independent Auditor's Report

To the shareholders of Z Energy Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Z Energy Limited (the company) and its subsidiaries (the group) on pages 65 to 98:

i. present fairly in all material respects the Group's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

— the consolidated statement of financial position as at 31 March 2019;

— the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other assurance services to the group in relation to a review of the cost of stock 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 auditor of the group. The firm has no other relationship with, or interest in, the group.

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Scoping

The scope of our audit is designed to ensure that we perform adequate work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the financial reporting systems, processes and controls, and the industry in which it operates.

The context for our audit is set by the major activities in the financial year ended 31 March 2019, which included the acquisition of Flick Energy on 1 September 2018.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $15 million determined with reference to a benchmark of group total revenue. We chose the benchmark because, in our view, this is a key measure of the group's performance. The group also evaluates its own performance on replacement cost profit and we have benchmarked against this measure and historical cost profit.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
Acquisition of Flick Energy	
Refer to Notes 5 and 12 in the Financial Statements. A key audit matter was the Group's acquisition of Flick. The key judgement and estimation in the acquisition is the allocation of purchase price to assets and liabilities (and resulting goodwill) by estimating the fair value of identifiable tangible assets, intangible assets and liabilities. Due to the downturn in the acquired business operations after acquisition, another key judgement is the testing of goodwill for impairment. The Group uses complex models to perform their testing of goodwill for impairment. The models use adjusted historical performance, and a range of internal and external inputs to the assumptions. Complex modelling, using forward-looking assumptions tend to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application.	Working with our valuation specialists, our procedures included: *Purchase price allocation* • We read the sale and purchase agreement to understand the key terms and conditions of the agreement in considering the accounting applied. • We assessed the appropriateness of the valuation methodology adopted to identify and allocate purchase price to intangible assets (e.g. customer contracts) by comparing to industry trends. • We assessed the tangible assets and liabilities acquired and the method for determining the fair value allocated to them. • We recalculated goodwill as the difference between the purchase price and the acquired net assets. *We are satisfied that management undertook an appropriate process in determining the accounting for the acquisition of Flick and we identified no evidence of management bias and influence.* *Goodwill impairment testing* • We assessed the integrity of the value in use model used, including the accuracy of the underlying calculation formulas. • We checked the consistency of the customer growth rates to past performance of the Group, and our experience regarding the feasibility of these in the industry in which they operate. • We challenged the customer growth rates and terminal growth rates used, in light of the higher than expected customer churn as a result of an extended period of high wholesale electricity spot prices, by comparing to published information on industry trends, and considered differences and expected trends for the Group's operations. We used our knowledge of the Group, their past performance, business and customers, and our industry experience. • We analysed the Group's discount rate by comparing to an independently developed discount rate range using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in.

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- We considered the sensitivity of the model by varying key assumptions, such as forecast growth rates, terminal growth rates and discount rates. We did this to identify those assumptions at higher risk of bias or inconsistency in application and to focus additional procedures.

We found the valuation methodology and inputs used in the testing of goodwill for impairment to be appropriate. We consider the entity has appropriately considered those key assumptions that support the current carrying value of goodwill given the industry impacts since the recent acquisition.

Other information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information includes the Chairman's report, Chief Executive's report, disclosures relating to corporate governance and statutory information. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor's 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 audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated financial statements

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

— the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;

- implementing necessary internal control to enable the preparation of a consolidated set of 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 audit of the consolidated financial statements

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

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Wellington
1 May 2019

GRI Index

GRI standards: Core option

CGS refers to the associated Corporate Governance Statement assessed at z.co.nz.

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omissions and explanations
General Disclosures			
GRI 102: General Disclosures 2016	102-1 Name of the organisation	68	
	102-2 Activities, brands, products, and services	25–30, 52–54	
	102-3 Location of headquarters	107	
	102-4 Location of operations	49	Operates in New Zealand only
	102-5 Ownership and legal form	68	
	102-6 Markets served	25–30	
	102-7 Scale of the organization	25–30	
	102-8 Information on employees and other workers	40–42, CGS 3–6	
	102-9 Supply Chain	30	
	102-10 Significant changes to the organization and its supply chain	30	No significant changes
	102-11 Precautionary Principle or approach	CGS 15–17	
	102-12 External initiatives	(a)	
	102-13 Membership of associations	(b)	
	Strategy		
	102-14 Statement from senior decision-maker	16–19	
	102-15 Key impacts, risks, and opportunities	44–47	
	Ethics and integrity		
	102-16 Values, principles, standards, and norms of behaviour	20, 23, 31–42, 49, 54, CGS 1–2	
	Governance		
	102-18 Governance structures	CGS 2–3, 7–9	
	Stakeholder engagement		
	102-40 List of stakeholder groups	21	
	102-41 Collective bargaining agreements		None

(a) Zero Harm workplace, NZX Corporate Governance Code, Women's Empowerment Principles, Rainbow Tick Certification.
(b) Climate Change Coalition, Sustainable Business Council, Sustainable Business Network.

GRI Index (continued)

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omissions and explanations
General Disclosures (continued)	102-42 Identifying and selecting stakeholders	21	
	102-43 Approach to stakeholder engagement	21	
	102-44 Key topics and concerns raised	22	
	Reporting practice		
	102-45 Entities included in the consolidated financial statements	68	
	102-46 Defining report content and topic Boundaries	22	Variations noted below and with data
	102-47 List of material topics	22	
	102-48 Restatements of information	71	Flick acquisition
	102-49 Changes in reporting	22	Fuel pricing and market share, Mergers and Acquisition Strategy
	102-50 Reporting period	2	
	102-51 Date of most recent report	2	
	102-52 Reporting cycle	2	
	102-53 Contact point for questions regarding the report	107	
	102-54 Claims of reporting in accordance with the GRI Standards	2	
	102-55 GRI content index	102–106	
	102-56 External Assurance	97–101, CGS 17	
Material Topics GRI 200: Economic Standard Series			
Economic Performance			
GRI 103: Management Approach 2016	Z Group	63–96	
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	63–96	
	201-2 Financial implications and other risks and opportunities due to climate change	15, 19, 20, 35–38, 54, 81	

GRI Index (continued)

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omissions and explanations
GRI 300: Environmental Standards Series			
GRI 103: Management Approach	Z Corporate & Z Retail plus supply chain emissions	37	
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	37	
	305-2 Energy indirect (Scope 2) GHG emissions	37	
	305-3 Other indirect (Scope 3) GHG emissions	37	
	305-4 GHG emissions intensity	37	
Effluents and Waste			
GRI 103: Management Approach 2016		35	Includes Z Corporate and Z Retail operations
GRI 306: Effluents and Waste 2016	306-2 Waste by type and disposal method	38	
Environmental Compliance			
GRI 103: Management Approach 2016		35	
GRI 307: Environmental Compliance 2016	307-1 Non-compliance with environmental laws and regulations	CGS 1	
Supplier Environmental Assessment			
GRI 103: Management Approach 2016		35	
GRI 308: Supplier Environmental Assessment 2016	308-1 New suppliers that were screened using environmental criteria	35	
	308-2 Negative environmental impacts in the supply chain and actions taken	20, 26, 29, 35–38	
GRI 400 Social Standards Series			
GRI 103: Management Approach 2016	Z Corporate only	30, 40–42	Include Z direct employees
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	CGS 5	
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	CGS 13–14	
	401-3 Parental leave	CGS 6	
Occupational Health and Safety			
GRI 103: Management Approach 2016		32–34	
GRI 403: Occupational Health and Safety	Hazard identification, risk assessment, and incident investigation	32–34	

GRI Index (continued)

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omissions and explanations
Training and Education			
GRI 103: Management Approach 2016		17, 33, 52	Includes Z direct employees
GRI 404: Training and Education	404-3 Percentage of employees receiving regular performance and career development reviews	CGS 14	
Diversity and Equal Opportunity			
GRI 103: Management Approach 2016		40	Includes Z direct employees and directors only
GRI 405: Diversity and Equal Opportunities	405-1 Diversity of governance bodies and employees	41, CGS 4–6	
	405-2 Ratio of basic salary and remuneration of women to men	CGS 4	
Local communities			
GRI 103: Management Approach 2016	Z Corporate only	39	
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programmes	39–40	
Socioeconomic Compliance			
GRI 103: Management Approach 2016		CGS 2	
GRI 419: Socioeconomic Compliance 2016	419-1 Non-compliance with laws and regulations in the social and economic area	CGS 2	
Oil and Gas Sector Disclosures			
Asset Integrity and Process Safety			
GRI 103: Management Approach 2016		32	
G4-OG13 Process Safety Events	Number of process safety events by business activity	32–34	
Fossil Fuels Substitutes			
GRI G4-DG14	Volume of biofuels produced and meeting Sustainability Criteria	35	500,000 litres

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Alan Michael Dunn
Abigail Kate Foote
Blair Albert O’Keeffe
(Appointed 1 August 2018)
Julia Margaret Raue
Stephen Reindler

Executive team

Mike Bennetts
Chief Executive Officer

Chris Day
Chief Financial Officer
(Resigning 10 May 2019)

Mandy Simpson
Chief Digital Officer
(Appointed 19 February 2019)

Jane Anthony
General Manager, Marketing

Andy Baird
General Manager, Retail
(Appointed 1 April 2019)

David Binnie
General Manager, Supply

Debra Blackett
General Counsel and Chief Governance Officer

Mark Forsyth
General Manager, Retail
(Resigned 31 March 2019)

Julian Hughes
General Manager, Health, Safety, Security, and Environment
(Until 31 March 2019)
General Manager, Strategy and Risk
(Appointed 1 April 2019)

Lindis Jones
General Manager, Corporate
(until 31 March 2019)
Chief Financial Officer
(Appointed 1 April 2019)

Helen Sedcole
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Annual Shareholder Meeting 2019
3–4pm
Thursday, 20 June 2019
Wellington


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