



NEW ZEALAND'S EXCHANGE
TE PAEHOKO O AOTEAROA

Results announcement

(for Equity Security issuer/Equity and Debt Security issuer)

Results for announcement to the market		
Name of issuer	Z Energy Limited	
Reporting Period	12 months to 31 March 2020	
Previous Reporting Period	12 months to 31 March 2019	
Currency	NZD	
	Amount (\$m)	Percentage change
Revenue from continuing operations	\$4,987	(8.5%)
Total Revenue	\$4,987	(8.5%)
Net profit/(loss) from continuing operations	(\$88)	(147%)
Total net profit/(loss)	(\$88)	(147%)
Final Dividend		
Amount per Quoted Equity Security	No final dividend declared	
Imputed amount per Quoted Equity Security	Not Applicable	
Record Date	Not Applicable	
Dividend Payment Date	Not Applicable	
	Current period	Prior comparable period
Net tangible assets per Quoted Equity Security	(\$0.2750)	\$0.9875
A brief explanation of any of the figures above necessary to enable the figures to be understood	This announcement should be read in conjunction with the attached management commentary and financial statements for the twelve months ended 31 March 2020, media release and investor presentation.	
Authority for this announcement		
Name of person authorised to make this announcement	Debra Blackett	
Contact person for this announcement	Debra Blackett	
Contact phone number	021 410 752	
Contact email address	Debra.blackett@z.co.nz	
Date of release through MAP	11/05/2020	

Audited financial statements accompany this announcement.

Z ENERGY LIMITED AND SUBSIDIARIES

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

Statement of comprehensive income
for the year ended 31 March 2020

	Notes	2020 \$m	2019 \$m
Revenue	3, 6	4,987	5,450
Expenses			
Purchases of crude, product and electricity		3,093	3,450
Excise, carbon and other taxes		1,150	1,091
Primary distribution		50	48
Operating expenses	3, 7	484	413
Share of loss of associate companies (net of tax)		-	1
Depreciation and amortisation	12, 13	144	122
Net financing expense	8	50	51
Impairment	13	96	-
Net lease expenses	10	35	-
Fair value movements in interest rate derivatives		3	4
Gain on sale of property, plant and equipment		(2)	-
Increase in decommissioning and restoration provision	17	9	18
Total expenses		5,112	5,198
Net (loss)/profit before taxation		(125)	252
Taxation (benefit)/expense	9	(37)	66
Net (loss) profit for the year		(88)	186
Net (loss) profit attributable to the owners of the company		(72)	188
Net (loss) attributable to non-controlling interest		(16)	(2)
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Valuation adjustment of land and buildings		14	13
Revaluation of investments	15	(63)	(9)
Disposal of revalued assets		2	(1)
Decommissioning and restoration provision increase		-	(4)
Total items that will not be reclassified to profit or loss		(47)	(1)
Items that are or may be reclassified subsequently to profit or loss			
Cash flow hedge and cost of hedging		4	(3)
Other comprehensive (loss)/income net of tax		(43)	(4)
Total comprehensive (loss) income for the year		(131)	182
Total comprehensive (loss) income attributable to owners of the company		(115)	184
Total comprehensive loss attributable to non-controlling interest		(16)	(2)
Basic and diluted earnings per share (cents)		(18)	47

Statement of changes in equity
for the year ended 31 March 2020

	Capital \$m	Retained earnings \$m	Investment revaluation reserve \$m	Employee share reserve \$m	Hedging reserve \$m	Asset revaluation reserve \$m	Non- controlling interest \$m	Total equity \$m
Balance at 1 April 2018	429	188	(4)	(4)	(2)	250	-	857
Net profit/(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
Balance at 1 April 2019	429	238	(13)	(5)	(5)	258	18	920
Adjustment on initial application of NZ IFRS 16	-	1	-	-	-	-	-	1
Adjusted balance at 1 April	429	239	(13)	(5)	(5)	258	18	921
Net profit/(loss) for the year	-	(72)	-	-	-	-	(16)	(88)
Other comprehensive income	-	-	-	-	4	-	-	4
Revaluation of investment	-	-	(63)	-	-	-	-	(63)
Disposal of revalued assets	-	4	-	-	-	(2)	-	2
D&R tank provision increases	-	-	-	-	-	-	-	-
Revaluation of assets	-	-	-	-	-	14	-	14
Total comprehensive income for the year	-	(68)	(63)	-	4	12	(16)	(131)
Transactions with owners recorded directly in equity:								
Share based payments & own shares acquired	1	-	-	(1)	-	-	-	-
Dividends to equity holders	-	(188)	-	-	-	-	-	(188)
Supplementary dividends to equity holders	-	(15)	-	-	-	-	-	(15)
Tax credit on supplementary dividends	-	15	-	-	-	-	-	15
Total transactions with owners recorded directly in equity	1	(188)	-	(1)	-	-	-	(188)
Balance at 31 March 2020	430	(17)	(76)	(6)	(1)	270	2	602

Statement of financial position
At 31 March 2020

	Notes	2020 \$m	2019 \$m
Shareholders' equity			
Equity attributable to owners of the company		600	902
Non-controlling interest		2	18
Total equity		602	920
Represented by:			
Current assets			
Cash and cash equivalents		19	111
Accounts receivable and prepayments		297	499
Income tax receivable	9	24	-
Inventories	11	565	578
Derivative financial instruments	19	32	9
Assets held for sale	12	4	27
Total current assets		941	1,224
Non-current assets			
Property, plant and equipment	12	819	830
Right of use assets	10	282	-
Goodwill	13	158	193
Intangible assets	13	628	475
Investments	15	48	105
Derivative financial instruments	19	153	17
Other non-current assets		16	3
Total non-current assets		2,104	1,623
Total assets		3,045	2,847
Current liabilities			
Accounts payable, accruals and other liabilities		748	677
Income tax payable	9	-	19
Provisions	17	19	23
Short-term borrowings	18	70	135
Derivative financial instruments	19	91	13
Lease liability	10	14	-
Total current liabilities		942	867
Non-current liabilities			
Other liabilities		10	20
Provisions	17	74	68
Derivative financial instruments	19	26	26
Deferred tax	9	74	143
Long-term borrowing	18	1,032	803
Lease liability	10	285	-
Total non-current liabilities		1,501	1,060
Total liabilities		2,443	1,927
Net assets		602	920

Approved on behalf of the board on 10 May 2020



Abigail Kate Foote
Chair



Andrew Mark Cross
Chair, Audit and Risk Committee

Statement of cash flows
for the year ended 31 March 2020

	Notes	2020 \$m	2019 \$m
Cash flows from operating activities			
Receipts from customers		5,156	5,431
Dividends received		1	4
Interest received		43	53
Payments to suppliers and employees		(3,889)	(4,075)
Excise, carbon and other taxes paid		(985)	(930)
Interest paid		(104)	(101)
Taxation paid	9	(63)	(113)
Net cash inflow from operating activities		159	269
Cash flows from investing activities			
Proceeds from assets held for sale		2	-
Proceeds from sale of property, plant and equipment		24	19
Lease payments received from leases	10	1	-
Purchase of intangible assets		(51)	(37)
Purchase of investments		(5)	(30)
Purchase of property, plant and equipment		(51)	(35)
Net cash (outflow) from investing activities		(80)	(83)
Cash flows from financing activities			
Net proceeds/(repayment) from bank facility	18	182	31
Issue of bonds and USPP notes	18	-	125
Purchase of shares	22	-	(1)
Dividends paid to owners of the company	21	(203)	(152)
Repayment of bonds	18	(135)	(150)
Payment of lease liabilities	10	(15)	-
Net cash (outflow) from financing activities		(171)	(147)
Net (decrease)/increase in cash		(92)	39
Cash balances at beginning of year		111	72
Cash at end of year		19	111

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

	2020 \$m	2019 \$m
Net profit for the year	(88)	186
Adjustments to reconcile profit to net cash inflow from operating activities		
Depreciation and amortisation	144	122
Impairment	96	
Share of loss/(earnings) of associate companies (net of tax)	-	1
Fair value of derivatives	3	4
Change in ETS units	(253)	120
Other	14	(5)
Changes in assets and liabilities, net of non-cash, investing and financing activities		
Change in accounts receivable and prepayments	202	(162)
Change in inventories	13	64
Change in accounts payable, accruals and other liabilities	71	(19)
Change in taxation	(43)	(42)
Net cash flow from operating activities	159	269

Notes to the financial statements

for the year ended 31 March 2020

(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, its ordinary shares quoted on the NZX main board equity security market ('NZX Main Board'), 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

Except for the adoption of NZ IFRS 16, the accounting policies have been applied consistently to all years presented in these Group financial statements.

Adoption status of relevant new financial reporting standards and interpretations

Leases (Note 10)

The Group adopted NZ IFRS 16 Leases on 1 April 2019. Z has applied NZ IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application of \$1m is recognised in retained earnings at 1 April 2019. Refer to Note 10 for the changes applied to leases and the financial impact on the Statement of financial position and Statement of comprehensive income.

(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 17)

Liabilities are estimated for decommissioning and restoration ('D&R') of certain sites of operation.

Measurement of fair value (notes 12, 15 and 19)

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 12.

(3) Critical accounting estimates and judgements (continued)

Goodwill (note 13)

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.

COVID-19 Pandemic

On 11 March 2020 the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19. Following this, on Wednesday 25 March 2020 the New Zealand Government raised its Alert Level to 4 (full lockdown of non-essential services) for an initial 4 week period. Following the level 4 alert, Z experienced a loss in demand for both fuel and convenience store goods. As a result, Z has:

- Taken a number of actions within the supply chain due to falling demand. Z has been able to reduce its supply of crude and product through a combination of cancellation/selling whole or partial refined product imports, slowing down or stopping RNZ production and using floating storage and vessel demurrage. The longer-term effects of COVID-19 on the Z business remain uncertain and the potential impacts of the pandemic continue to evolve rapidly.
- Revised provisions for losses that will be incurred throughout Z's supply chain including expected losses to be realised in Z's trade receivables.

An assessment of the impact of COVID-19 on the Z balance sheet is set out below, based on information available at the time of preparing these financial statements:

Balance Sheet Item	COVID-19 Assessment	Note
Cash	No impact to the carrying value of cash on hand.	
Accounts receivable and Prepayments	Z has updated the provisions for doubtful debts for the increase in expected credit losses.	3
Income Tax	The decrease in commodity prices driven by COVID-19 has resulted in Z overpaying provisional tax. Refund recorded at amount to be received.	9
Inventories	The decrease in commodity prices driven by COVID-19 has resulted in a net realisable value write down to Z's inventory on hand at balance date.	11
Derivatives financial instruments	COVID-19 has impacted commodity markets. Derivatives are recorded at fair value, the carrying value reflects quoted prices at balance date.	19
Assets held for sale & Property plant and equipment	Z's land and buildings are held at fair value. Given the alert level 4 restrictions have not been in place long enough at report date, there is insufficient property transactions to draw any conclusions on the impact of COVID-19 on the market at balance date. Terminals and plant & machinery are held at depreciated replacement cost. Z has no evidence that there has been a decline in the value of these assets post COVID-19 as they remain critical infrastructure to provide an essential service.	12
Right of use assets	Z is not currently seeking any rent relief from landlords or considered any changes to extension of leases within the lease portfolio resulting from COVID-19.	10
Goodwill	Z has reconsidered the carrying value of the goodwill based on the expected COVID-19 impacts.	13
Intangibles	Z has reconsidered the carrying values of intangibles as a result of COVID-19 including recognising a provision for the carrying value of the Caltex customer contracts.	13
Investments	Investments are equity or fair value accounted for. The carrying value of RNZ represents the share price at balance date.	15
Accounts payable, accruals and other liabilities	Z has accrued for costs related to the expected impact of COVID-19.	3

(3) Critical accounting estimates and judgements (continued)

Provisions	The material provision is the decommissioning and restoration provision which is driven by the expected cost to exit a site, the remaining life of the site/asset and the risk-free rate used to discount future cashflows. Z does not anticipate any change to these key assumptions as a result of COVID-19.	17
Leases	Lease recorded as per lease contract (refer to right of use assets above).	10
Borrowings	Borrowings are held at amortised cost and the Group's USPP is exchanged to NZD using the exchange rate at balance date. The impact on the NZD v USD exchange rate driven by COVID-19 is incorporated in the USPP carrying value.	18

COVID-19 Provisions

The Group has recorded the following provisions to account for the impacts of the COVID-19 pandemic on the 31 March 2020 financial results:

Provision	Recognition in Statement of comprehensive income	2020 \$m
Doubtful debts	Operating expenses	17
Convenience stores	Operating expenses	7
Finished product costs	Cost of goods sold	9
Total provisions relating to COVID-19		33

Doubtful debts

Commercial customers

Z has performed an assessment of credit risk on its largest commercial customers and provided for these based on a risk weighting. The criteria for the risk weightings includes:

- whether it is an essential service
- whether it has access to capital markets and other sources of finance
- Z's understanding and experience with the customer

Retail customers and sub-tenants

Given the estimated impact of COVID-19, an assessment of the credit default risk of Z's retailers and Z sub-tenant's at Z's retail sites has been made for the upcoming 3-month horizon. Z has recorded provisions to account for the estimated financial impact of any defaults.

Convenience stores

Z convenience store sales have been significantly reduced as a result of the COVID-19 pandemic and Z has taken the view that sales will not return to normal levels for 3 months. A provision has been made for costs committed at year end to Z retailers over this period.

Finished product costs

Z typically orders crude and finished products 3 months in advance of when they will be required for sale because of the length of time needed to import to New Zealand. Z's supply chain has been impacted by the significant and immediate reduction in demand for transport fuels. This has required Z to cancel or divert incoming cargos at a cost to Z. These cancellations have been recorded as onerous contracts on the basis that the costs incurred exceed the economic benefit expected to be received.

(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, commodity gains and losses and the associated tax impact.

Income statement on RC basis	2020	2019
	\$m	\$m
Revenue	4,987	5,450
Expenses		
Purchases of crude, product and electricity	3,005	3,471
Excise, carbon and other taxes	1,150	1,091
Primary distribution	50	48
Operating expenses (net of foreign exchange and commodity gains on fuel purchases)	416	405
Total expenses	4,621	5,015
RC operating EBITDAF*	366	435
Share of (loss)/earnings of associate companies (net of tax)	-	(1)
RC EBITDAF	366	434
Below RC EBITDAF expenses		
Depreciation and amortisation	144	122
Net financing expense	50	51
Impairment	96	-
Lease depreciation	19	-
Lease interest income	(1)	-
Lease interest expense	17	-
Fair value movements in interest rate derivatives	3	4
(Gain) on sale of property, plant and equipment	(2)	-
Increase in decommissioning and restoration provision	9	18
Total below RC EBITDAF expenses	335	195
RC net profit before taxation	31	239
Taxation (benefit)/expense	(13)	61
RC net profit for the year	44	178

*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').

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

	2020	2019
	\$m	\$m
Statutory net profit after tax	(88)	186
COSA	88	(21)
Net foreign exchange and commodity gains on fuel purchases	68	8
Tax benefit on COSA	(24)	5
Replacement cost net profit after tax	44	178

(5) Non-controlling interest

Z consolidates 100% of Flick's results and presents the portion of profit/(loss) and other comprehensive income attributable to non-controlling interest (NCI).

Flick results for the year ended 31 March 2020	Flick 2020 \$m	Flick 2019* \$m
NCI Percentage	30%	30%
Assets		
Cash	4	11
Other current assets	2	-
Intangible assets	2	2
Other non-current Assets	1	-
Total assets	9	13
Liabilities		
Trade payables	(1)	-
Deferred tax	-	-
Provisions	-	-
Other non-current liabilities	(1)	-
Total liabilities	(2)	-
Net assets	7	13
<i>Net assets attributable to NCI (30%)</i>	<i>2</i>	<i>4</i>
Revenue	39	28
Net loss	(7)	(5)
Other comprehensive income	-	-
Total comprehensive income	(7)	(5)
<i>Total comprehensive income attributable to NCI (30%)</i>	<i>(2)</i>	<i>(2)</i>
Flick goodwill write-down attributable to NCI	(11)	-
Other losses attributable to NCI on consolidation	(3)	-
Total comprehensive loss attributable to NCI	(16)	(2)

*On 1 September 2018, Z acquired 70% of the share capital and control of Flick Energy Limited. The 2019 comparatives represent seven months of results.

(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.

	2020 \$m	2019 \$m
Fuel	4,870	5,342
Convenience retail	64	63
Other	53	45
Total revenue	4,987	5,450

(7) Audit fees

Included in operating expenses are fees paid to the auditors:

	2020	2019
	\$	\$
Audit and review of financial statements	332,000	297,000
Agreed upon procedures - covenants and trustee reporting	12,000	12,000
Agreed upon procedures - licence fee return	6,000	6,000
Cost of stock adjustment review	10,000	10,000
Total audit and audit-related fees	360,000	325,000

(8) Net financing expenses

	2020	2019
	\$m	\$m
Financing income		
Interest income from derivatives	40	50
Interest income from cash	1	2
Other finance income	1	-
Total financing income	42	52
Financing expense		
Interest expense on bonds	20	25
Interest expense on derivatives	42	51
Interest expense on secured bank facilities	5	4
Interest expense on USPP notes	19	16
Financing fees	1	3
Other finance expense	5	4
Total financing expense	92	103
Net financing expense	50	51

(9) Taxation

Taxation expense or benefit is determined as follows:

	2020	2019
	\$m	\$m
Net (loss)/profit before taxation	(125)	252
Less share of loss of associate companies (net of tax)	-	1
Net (loss)/profit before taxation excluding share of earnings from associates	(125)	253
Taxation (benefit)/expense on profit for the year at the corporate income tax rate of 28% (2019: 28%)	(35)	71
<i>Taxation adjustments:</i>		
Non-deductible expenditure	11	-
Reinstatement of depreciation on buildings	(12)	-
Over-provision in prior periods	(1)	(5)
Taxation (benefit)/expense	(37)	66
<i>Comprising:</i>		
Current taxation	32	84
Deferred taxation	(69)	(18)
Taxation (benefit)/expense	(37)	66

(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.

In March 2020, the Government re-introduced the deductibility of depreciation on buildings for tax purposes, for buildings not primarily used for residential accommodation. This amendment applies from 1 April 2020 and the depreciation rate is 2% diminishing value. The impact of this change increases the tax base for these assets, giving rise to a reduced difference between the carrying cost and tax base and results in a reduction in deferred tax liability and reduction in tax expense of \$12m.

	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 2018	(54)	(116)	1	4	2	4	3	(156)
Recognised in the Statement of comprehensive income	14	6	(1)	-	-	2	(2)	19
Recognised in other comprehensive income	(1)	-	-	-	-	-	-	(1)
Over-provision in prior periods in the Statement of comprehensive income	-	(5)	-	-	-	-	-	(5)
Balance at 31 March 2019	(41)	(115)	-	4	2	6	1	(143)
Balance at 1 April 2019	(41)	(115)	-	4	2	6	1	(143)
Recognised in the Statement of comprehensive income	12	28	1	(1)	5	11	4	60
Over-provision in prior periods in the Statement of comprehensive income	(2)	-	-	-	-	-	(1)	(3)
Reinstatement of depreciation on Buildings	12	-	-	-	-	-	-	12
Balance at 31 March 2020	(19)	(87)	1	3	7	17	4	(74)
						2020		2019
						\$m		\$m
Deferred tax expected to be settled within 12 months						(12)		(1)
Deferred tax expected to be settled after 12 months						(62)		(142)
Deferred tax						(74)		(143)

Imputation credits available for use in subsequent reporting periods are \$118m (2019: \$115m).

(10) Leases

Leases as a Lessee – Modified retrospective approach

Z previously classified leases as operating or finance leases based on whether all the risk and rewards incidental to ownership of the underlying asset were transferred to Z. Under NZ IFRS 16, Z recognises right of use assets and lease liabilities for most property leases.

Leases previously classified as operating leases under NZ IAS 17, on transition were measured using the present value of the future lease payments and discounted using Z's incremental borrowing rate. The right of use assets were measured at an amount equal to the lease liability, and are depreciated over the estimated remaining lease term on a straight-line basis. Z presents the right of use assets and lease liabilities separately on the face of the statement of financial position.

Z applied the following practical expedients when applying NZ IFRS 16 to leases previously classified as operating leases under NZ IAS 17:

- A single discount rate to a portfolio of leases with similar characteristics;
- Exemption to not recognise right of use assets for low-value leases; and
- Exemption to not recognise right of use assets for leases with less than 12 months remaining.

(10) Leases (Continued)

For leases previously classified as finance leases under NZ IAS 17, on transition the right of use asset and lease liability were determined as the leased asset and liability under NZ IAS 17 at 31 March 2019.

Financial impact for transition to NZ IFRS 16

On transition to NZ IFRS 16 the opening balances were measured using the weighted average incremental borrowing rate of 5.59% and recognised in the statement of financial position as follows:

Increase	1 April 2019
	\$m
Right of use assets	277
Sublease receivables (Other current assets)	12
Lease liability (current)	12
Lease liability (non-current)	276
Equity adjustment (Retained earnings)	1

If NZ IFRS 16 had been applied to the comparative period presented the following profit and loss impact would have occurred:

Increase/(decrease)	31 March 2019
	\$m
Revenue	(1)
Operating expenses	(28)
Lease depreciation expense	11
Lease interest income	1
Lease interest expense	17

Nature of lease payments as a lessee

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

Information about leases for which Z is a lessee is presented below:

Right-of-use assets	31 March 2020
	\$m
Balance at 1 April 2019	285
Depreciation charge for the year	(19)
Additions to right-of-use assets	6
Adjustments to existing right-of-use assets	10
Derecognition of right-of-use assets	-
Balance at 31 March 2020	282

Right-of-use assets related to leased properties that do not meet the definition of investment property are represented as property, plant and equipment.

(10) Leases (Continued)

Amounts recognised in profit or loss	\$m
2020 – Leases under NZ IFRS 16	
Lease depreciation	19
Interest expense on lease liabilities	17
Lease expense on short-term leases	3
2019 – Operating leases under NZ IAS 17	
Operating lease payables as lessee	36
	2020
Maturity analysis	\$m
<i>Lease liabilities as lessee</i>	
Between 0 to 1 year	13
Between 1 to 5 years	74
More than 5 years	212
Lease liabilities as lessee	299

Leases as a Lessor

Z has assessed leases where it is a lessor and determined that no adjustments were required as a result of NZ IFRS 16.

Z has assessed subleases where Z acts as a lessor for subleases on sites that Z leases. Z has assessed each sublease based on the right of use asset and expected useful life of the head lease and where a sublease is for a significant part of the expected life of the lease, Z has derecognised part of the right of use asset and recorded this as sublease receivable. At transition, sublease receivables were measured using the present value of the future sublease income, discounted using Z's incremental borrowing rate. Subleases which are not classified as being for a significant part of the expected life of the lease or of marginal costs have been classed as operating leases and will continue to be accounted for as they have been prior to transition to NZ IFRS 16.

The Group has receivables from leases as a lessor relating to the lease of premises as shown below:

	31 March 2020
Operating lease income as a lessor	\$m
Income from subleasing right-of-use assets	1
	31 March 2020
Total lease expenses/(income) as lessor and lessee	\$m
Lease interest income	(1)
Lease depreciation	19
Lease interest expense	17
Net lease expenses	35

(11) Inventories

Inventory is stated at the lower of cost or net realisable value (NRV). The cost of inventories is based on the first-in-first-out principle. NRV is the estimated selling price in the ordinary course of business less applicable variable selling expenses. The impact of COVID-19 drove a significant fall in commodity prices resulting in a \$53m write down of the closing value of crude and refined products as NRV fell below cost for certain products. The write down is recorded in cost of goods sold.

(12) 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 plants) 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 and 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

Year ended 31 March 2020

	Construction in progress	Buildings	Land and improvements	Plant and machinery	Terminal plant	2020 Total	2019 Total
Cost/valuation	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Balance at beginning of year	25	122	311	393	195	1,046	1,027
Additions	51	-	-	-	-	51	47
Disposals	-	(1)	-	(11)	-	(12)	(14)
Transfers between asset classes	(42)	2	1	23	16	-	-
Right of use asset	-	(5)	(3)	-	-	(8)	-
Assets held for sale	-	-	(4)	-	-	(4)	(27)
Valuation adjustment	-	-	14	-	-	14	13
Balance at end of year	34	118	319	405	211	1,087	1,046
Accumulated depreciation and impairment							
Balance at beginning of year	-	(22)	(10)	(161)	(23)	(216)	(157)
Depreciation	-	(8)	(3)	(37)	(14)	(62)	(65)
Disposals	-	1	-	9	-	10	6
Balance at end of year	-	(29)	(13)	(189)	(37)	(268)	(216)
Carrying amounts							
At 1 April 2019	25	100	301	232	172	-	830
At 31 March 2020	34	89	306	216	174	819	

Included in buildings (\$16m) and plant and machinery (\$1m) are assets held under finance leases (2019: land \$3m, buildings \$23m and plant and machinery \$1m).

(12) 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 \$48m (2019: \$50m); land and improvements \$132m (2019: \$138m); terminals \$145m (2019: \$143m); plant and machinery \$191m (2019: \$201m).

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.

Z notes COVID-19 is expected to have an impact on fuel throughput margin (within land and buildings) and fuel throughput (through Z's terminal plant and machinery) in the short term under the government's COVID-19 Alert Levels and the associated restrictions on both businesses' and consumers' fuel buying habits. Z has considered the impact on the carrying value of land and buildings and concluded the short-term demand disruption will be recovered through active management of fuel throughput margin until volumes recover as the Alert Levels are reduced. In the case of terminal plant and machinery in addition to fuel volumes recovering as Alert Levels reduce, Z notes there is no evidence of technical or functional obsolescence which would impact a depreciated replacement cost valuation. As a result, there has been no reduction in the fair value of land and buildings or terminal plant and machinery.

(12) Property, plant and equipment (continued)

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 four land bank sites. The sites were classified as PPE with a carrying value of \$4m (land). \$1m is held in the revaluation reserve for the sites held for sale. Fair value is \$4m.

(13) 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.

Chevron acquisition goodwill

On 1 June 2016, Z acquired 100% of the share capital of Chevron New Zealand (renamed Z Energy 2015 Limited), an importer, distributor and seller of transport fuel and related products. The acquisition has strengthened the Group's fuel network within New Zealand. Z recognised \$158m of goodwill as part of the purchase price allocation. As at 31 March 2020 an annual impairment test of the goodwill was undertaken. The impairment test considered the expected impacts of COVID-19 on the carrying amount of the 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). This was calculated using a Z Board approved 20 year discounted cash flow valuation ('DCF'). Significant assumptions within the DCF include:

- Discount rate of 6.3% (real terms)
- Terminal value growth rate of -2%
- Future sales volumes which have been extrapolated using the growth rate assumptions within the Tui and Kea Energy forecast fuel use scenarios developed by the BusinessNZ Energy Council for the period to 2060 ('BEC2060 Scenarios')

A 20 year DCF has been used instead of a 5 year DCF due to the industry life-cycle. The headroom between the carrying amount and the recoverable amount of the CGU has decreased due to the current market conditions however, there is still sufficient headroom to conclude that no impairment is required. The discounted cashflows are most sensitive to the following assumptions:

Change in key assumptions	Reduction in valuation \$m	Increase in valuation \$m	Would the indicated sensitivity result in impairment?
Discount Rate [+/-0.50%]	74	78	No
Retail Margins [-/+ 1cpl]	112	112	No
Capital Expenditure [+/- \$10m]	123	123	No
Market Demand change [Kea/Tui]	374	866	No

Z will continue to monitor market conditions on an ongoing basis and make necessary judgement on the need for impairment of the goodwill.

Flick acquisition goodwill

Z acquired Flick on 1 September 2018 recognising the acquired assets and liabilities at fair value and resulting goodwill of \$35m.

As at 31 March 2019 an impairment test of the goodwill was undertaken because of unexpected changes in the wholesale electricity market in October 2018, primarily driven by gas shortages. This had a material impact on retail electricity pricing and resulted in lower than anticipated customer growth. In order to restore historical customer growth trajectories Flick introduced a new product (Fixie) to mitigate the impact of high wholesale electricity prices on customer growth. Z also considered the market would return to previous operating conditions.

(13) Intangible assets (continued)

At 31 March 2019 there was insufficient information available to conclude whether the downturn experienced in October 2018 represented a permanent change in the market and whether Flick's new product would restore customer growth as forecasted, therefore no impairment was recorded.

As at 30 September 2019, the market had not returned to normal operating conditions pre-October 2018 which made customer acquisition challenging and as a result customer growth had stagnated since March 2019. Flick's Fixie product has not seen customer growth return to levels experienced prior to October 2018. In addition, there were increased signs of structural supply/demand change in the market.

Given expected customer growth had not materialised, Z undertook an impairment test of goodwill at 30 September 2019. An updated DCF was prepared to estimate the recoverable amount of the CGU, with a resulting valuation range of \$19m - \$38m. The DCF supports the \$35m goodwill impairment.

The following key assumptions were applied in the value in use calculation:

- 10 year DCF supplied by Flick (31 March 2019: 10 year DCF). A 10 year DCF was favoured over a 5 year DCF given Flick's start up nature and strong customer acquisition targets.
- Post-tax discount rate of 14.5% (31 March 2019: 15%). The discount rate reflects Z's view that Flick is a medium risk investment.
- Terminal growth rate of 3.6% (31 March 2019: 2%). The terminal growth rate is aligned to the individualistic profile within the NZ Energy Scenarios for residential electricity growth (BEC2060 Scenarios). The previous estimate was aligned to long term GDP expectations.
- The customer growth has been adjusted for historically observed metrics and reasonable expectations of future growth of customer numbers in year 10, a 25% decrease compared to 31 March 2019. The decrease in customer numbers reflects Z's view that customer acquisition will be more challenging as a result of changes in the market.
- The customer acquisition costs increased by 50% - 67% from March 2019. The increase in costs reflect Z's view that customer acquisition will be more challenging as a result of changes in the market.

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.

As at 31 March 2020, Z undertook an impairment test on the current value of both the Flick and Chevron customer contracts as per the requirements of NZ IAS 36 Intangible Assets. Despite the challenging market conditions as a result of COVID-19, no adjustment was deemed necessary for the Flick customer contracts as these were appropriately supported by the DCF at 31 March 2020.

Chevron customer contracts

On 1 June 2016, Z acquired the Caltex NZ business from Chevron. Included in this purchase was an allocation of \$345m for the intangible assets relating to the Caltex retail customer contracts. These were valued at the net present value of future cash flows and amortised over 21 years on a straight-line basis.

Under NZ IAS 36 Impairment of Assets, contracts acquired are finite life intangible assets that have a measurable life which can be amortised over a measurable period. Accordingly, accounting standards require this type of asset to be tested for impairment when there is an indicator of impairment due to triggering of a significant event, for example a decline in performance. If this indication is present, an entity is required to make a formal estimate of recoverable amount.

The Board concluded the decline in Caltex financial performance together with the revised BEC2060 Scenarios, prompted the need to perform an impairment test on the carrying value of these contracts. As such an impairment test was carried out as at 31 March 2020 using the method and assumptions set out below.

Cash flow projections are based on Z's forecasts for the year ending 31 March 2021 ('FY21 Plan'), adjusted for the expected COVID-19 impacts which are modelled using stress case analysis. The analysis provides for a material decline on FY20 (for further details on the financial impacts of COVID-19 see note 3).

(13) Intangible assets (continued)

In estimating the cash flow projections beyond FY21, Z has extrapolated the volumes by overlaying the growth rate assumptions within the Tui and Kea BEC2060 Scenarios. The Tui Scenario is most consistent with evidence observable today and likely to determine medium term (5-10 year) volumes. Z's view is that there will be various societal and technology changes beyond this, that will cause a reversion to Kea Scenario in the middle of this decade. The Kea Scenario provides for a more pessimistic view on fuel demand.

The revised assumptions for the 31 March 2020 calculation are as follows:

- 20 year DCF (previously 31 years). The change in DCF period is aligned to the updated BEC scenarios.
- Retail gross margin based on FY21 forecast.
- Discount rate of 6.5% (real terms), which is the current weighted average cost of capital (WACC) estimated by Z. (Z has moved from a nominal WACC to a real WACC to align with a change in forecasting methodology. The change in WACC methodology does not impact the valuation.)
- Volume scenarios being Z's FY21 Plan adjusted for the expected impacts of COVID-19 and the Tui and Kea BEC2060 Scenarios, formerly the Waka/Kayak Scenarios midpoint from the BEC 2050 report.

Using the revised assumptions, the recoverable amount as at 31 March 2020 was determined to be \$209m, which is lower than the carrying amount of \$270m, therefore a \$61m impairment has been recorded in the Statement of comprehensive income.

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 14 for the 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.

Year ended 31 March 2020

	Software in progress \$m	Goodwill \$m	Brands \$m	Contracts acquired \$m	Emissions units \$m	Other \$m	2020 Total \$m	2019 Total \$m
Balance at beginning of year	37	193	20	380	8	30	668	750
Additions	46	-	-	-	290	-	336	180
Transfers from PPE in progress	(79)	-	-	-	-	79	-	-
Transfers between asset classes	-	-	-	(4)	-	4	-	-
Utilised	-	-	-	-	-	-	-	(90)
Leased	-	-	-	-	(37)	-	(37)	(115)
Impairment	-	(35)	-	(61)	-	-	(96)	-
Amortisation	-	-	(6)	(34)	-	(45)	(85)	(57)
Balance at end of year	4	158	14	281	261	68	786	668
Cost	4	193	37	445	261	184	1,124	839
Accumulated impairment	-	(35)	-	(61)	-	-	(96)	-
Accumulated amortisation	-	-	(23)	(103)	-	(116)	(242)	(171)
Balance at end of year	4	158	14	281	261	68	786	668

(14) 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.

	2020 Units millions	2019 Units millions
Stock of units		
Balance at beginning of year	-	7
Units acquired and receivable	6	3
Units (leased)/reacquired	4	(5)
Units utilised	-	(5)
Balance at end of year	10	-

(14) Emissions trading scheme (Continued)

Obligation	2020 Units Millions	2019 Units millions
Obligation payable at 31 March	10	8

The Emissions Trading Scheme obligation of \$246m (2019: \$209m) 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 2020 prior to Z's obligation falling due.

(15) Investments

The Group's investment in Refining NZ is recognised at the NZX-listed share price at 31 March 2020 of \$0.78 (2019: \$2.10) giving rise to a \$63m reduction in the fair value for the financial year which is accounted for in other comprehensive income. During the year, Z paid processing fees, customs and excise duties to Refining NZ of \$791m (2019: \$732m) and payables due to Refining NZ at the end of the period were \$52m (2019: \$55m).

	2020 \$m	2019 \$m
Investment in NZ Refining (fair value hierarchy level 1)	38	101
Investment in associates	10	4
Total investments	48	105

The Group wholly owns or has a partial interest in the below associates and subsidiaries:

Associates and subsidiaries		2020 % Holding	2019 % Holding
Drylandcarbon One Limited Partnership	Associate	37%	37%
Mevo Limited	Associate	32%	32%
Loyalty NZ Limited	Associate	25%	25%
Wiri Oil Services Limited (WOSL)	Associate	44%	44%
Coastal Oil Logistics Limited (COLL)	Associate	50%	50%
Flick Energy Limited	Subsidiary	70%	70%
Z Energy 2015 Limited (formerly Chevron New Zealand)	Subsidiary	100%	100%
Z Energy ESPP Trustee Limited	Subsidiary	100%	100%
Z Energy LTI Trustee Limited	Subsidiary	100%	100%

(16) 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 2020, there were no contingent liabilities for the jointly controlled operations (2019: nil). The value of assets in these interests is \$13m (2019: \$14m).

Principal activity	2020 % Holding	2019 % Holding
Joint User Hydrant Installation	33%	33%
Joint Interplane Fuelling Services	50%	50%
Jointly Owned Storage Facility	50%	50%
Joint Ramp Service Operations Agreement	50%	50%
Wiri to Auckland Airport Pipeline	40%	40%

(17) Provisions

Decommissioning and restoration (D&R) 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. For the majority of assets, the discount rate applied is the Treasury 30 year risk free rate (currently 2.12%) and the inflation rate is the Treasury 30 year CPI rate (currently 1.72%). Exceptions to this are the Caltex Retailer-owned Retailer-operated ('RORO') sites which use the 6 year risk free rate and the 6 year CPI rate, and Caltex Truckstops which use the 12 year risk free rate and the 12 year CPI rate. These rates are revised annually in February each year.

D&R costs expected to be settled within one year are classified as current liabilities. D&R costs expected to be settled between 1 and 30 years are classified as non-current liabilities.

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.

Z has updated the D&R provision for the Bio Diesel plant to reflect the updated costs of disposing contaminated waste and return the plant back to a greenfield site.

Z engages a third party to provide an estimate of the D&R obligations for Z. Estimates are reviewed every 3 years, with the next review due in February 2022. The current D&R obligations are between \$40k - \$45k for above ground tanks and \$65k - \$75k for below ground tanks.

Other provisions include people-related costs and general business provisions.

For the year ended 31 March 2020	Decommissioning, restoration and remediation \$m	Other \$m	Total \$m
Balance at beginning of year	83	8	91
Created	9	2	11
Utilised	(2)	(6)	(8)
Released	(1)	(3)	(4)
Unwind of discount	3	-	3
Balance at end of year	92	1	93
Current	18	1	19
Non-current	74	0	74
Balance at end of year	92	1	93

(18) 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 securities and operate within defined performance and gearing ratios. The arrangements also include restrictions over the sale or disposal of certain assets without lender agreement. The Group has complied with all debt covenant requirements imposed by lenders for the year ended 31 March 2020. The impacts of COVID 19 have resulted in Z forecasting a significant loss in demand for both fuel and convenience store goods under alert levels 3 and 4. As a result Z has modelled certain scenarios where a breach in certain covenants may occur at the next three measurement dates being 30 September 2020, 31 March 2021 and 30 September 2021, without corrective action being undertaken.

Z is currently undertaking an underwritten equity placement of \$290m and a share purchase plan (not underwritten) (refer to note 25 Events after balance date) and in addition has worked with its debt providers (including the Bond Supervisor) in advance of these measurement dates to agree a combination of temporary waivers and temporary adjustments to covenant definitions. This gives Z greater confidence that there will be no default event in respect of its financial covenants through this period.

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

(18) Borrowings (Continued)

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 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 1.5% to 3.0% (2019: 2.8% to 3.2 %).

	2020 \$m	2019 \$m
Secured bank facilities available	530	530
Balance at end of year (facilities drawn down)	250	68
Current	70	-
Non-current	180	68
Balance at end of year	250	68

The facilities comprise a \$180m revolving term debt facility drawn to \$180m plus a \$350m working capital facility drawn to \$70m, both maturing in December 2021.

Bonds

	2020 \$m	2019 \$m
Balance at beginning of year	477	502
New bonds issued	-	125
Issuance costs	-	(1)
Bonds repaid	(135)	(150)
Amortisation	1	1
Balance at end of year carrying value	343	477
Current	-	135
Non-current	343	342
Balance at end of year carrying value	343	477
Fair value of bonds	340	510

USPP notes

	2020 \$m	2019 \$m
Balance at beginning of year	393	357
Movement in fair value hedge	60	12
Movement in foreign-exchange revaluation	56	24
Balance at end of year carrying value	509	393
Current	-	-
Non-current	509	393
Balance at end of year carrying value	509	393
Fair value of USPP notes	574	452

(19) 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.

(19) Financial risk management (continued)

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

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 2020, 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 \$16m higher/\$20m lower (2019: \$1m higher/\$3m lower) and the change in other comprehensive income for the year would be \$2m higher/\$1m lower (2019: \$5m higher/lower).		
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.
		Cross currency interest rate swaps	The CCIRS is designated into a fair value hedge and cash flow hedge relationship to mitigate profit or loss volatility.
		Bills Libor (Basis swap)	Reduce exposure on the basis cost of the CCIRS.
Sensitivity to interest rate	At 31 March 2020, 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 \$4m higher/\$3m lower (2019: \$8m higher/\$5m lower) and the change in other comprehensive income for the year would be \$2m higher/\$3m lower (2019: \$1m higher/lower).		
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 7% of the Groups receivables are overdue (2019: 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 five bank counterparties to ensure diversification.

The CCIRS is classified as level 2 in fair value hierarchy and are 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.

(19) Financial risk management (continued)

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 2020	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							
Working capital loan	70	-	-	-	-	70	70
Accounts payable	304	-	-	-	-	304	304
Lease liabilities	15	15	29	86	336	481	299
Long-term loan	1	1	182	-	-	184	180
Bonds	7	7	163	213	-	390	343
USPP notes	9	9	18	54	503	593	509
Non-derivative financial liabilities	406	32	392	353	839	2,022	1,705
Derivative financial instruments							
IRS	(3)	(4)	(7)	(12)	-	(26)	(25)
Commodity hedges	37	-	-	-	-	37	(37)
CCIRS	4	4	7	21	43	79	130
Basis swap	-	(17)	2	6	27	18	-
Derivative financial instruments	38	(17)	2	15	70	108	68

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)

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.

(19) Financial risk management (continued)

Interest rate risk analysis

At 31 March 2020	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	-	330	195	378	903
Cross-currency swaps	378	-	-	(378)	-
Interest-rate swaps	(130)	-	5	125	-
Net interest-rate exposure	248	330	200	125	903

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

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 2020 \$m	Amount after applying rights of offset under ISDA agreements \$m	Derivative position 2019 \$m	Amount after applying rights of offset under ISDA agreements \$m
Derivative assets	185	69	26	-
Derivative liabilities	(117)	(1)	(39)	(12)
Derivative financial assets/(liabilities)	68	68	(13)	(12)

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:
 - o The change in fair value of the hedging instruments;
 - o 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.

(19) Financial risk management (continued)

- **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):

- o any gain or loss in relation to the ineffective portion of the hedging instrument,
- o 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:

- o at the same time as the forecast transaction, or
- o immediately if the transaction is 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.

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 2020 are recognised in the balance sheet within derivative financial instruments and borrowings as follows:

At 31 March 2020	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						
<i>Interest-rate risk and foreign-currency risk</i>						
8 years, rate 3.83%	90	(165)	(14)	39	39	-
10 years, rate 4.04%	90	(170)	(19)	44	44	-
12 years, rate 4.14%	90	(174)	(24)	47	48	(1)
Total	270	(509)	(57)	130	131	(1)

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 2020 was \$0m (2019: \$2m).

(19) Financial risk management (continued)

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						
<i>Interest-rate risk and foreign-currency risk</i>						
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)

(20) Share capital and distributions

Ordinary shares (fully paid)	2020 \$m	2019 \$m
Total authorised and issued capital at beginning of year	429	429
Movements in issued and fully paid ordinary shares	-	-
Total authorised and issued capital at end of year	429	429

Issued capital	2020 Shares millions	2019 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 811,823 shares at a cost of \$4m for Z's restricted share long-term incentive plan (2019: 762,263, \$6m). Z holds Treasury stock of 339,884 shares.

Dividends	\$m	cents per share
2018 Final dividend (paid May 2018)	88	21.9
2019 Interim dividend (paid December 2018)	50	12.5
2019 Final dividend (paid May 2019)	122	30.5
2020 Interim dividend (paid December 2019)	66	16.5

The Z Board has determined that no final dividend will be paid out for the second half of this financial year (Note 25).

(21) Share-based payments

Z Energy Restricted Share Long-Term Incentive Plan (RSLTIP) & Z Energy Limited - Performance Rights Long Term Incentive Plan (PRLTIP)

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. Z stopped making new offers under the RSLTIP after the year ended 31 March 2019. In the year ended 31 March 2020 the Group has moved to a new stock settled share rights scheme for selected senior employees (PRLTIP). Under the scheme performance rights have been granted at no cost to the holder. For each performance share right that vests, one share will be issued.

Under the RSLTIP 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. Under the PRLTIP 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 shares are then transferred to the employee.

Plan type	Grant date	Vesting date	Exercise price	Balance at the start of year	Granted during year	Exercised during year	Forfeited during year	Balance at the end of year	Vested and exercisable at end of year
				Number of shares	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares
RSLTIP	22 May 2017	31 March 2020	\$6.99	181,293	-	-	(181,293)	-	-
RSLTIP	22 May 2018	31 March 2021	\$6.93	219,590	-	-	(7,270)	212,320	-
PRLTIP	11 April 2019	31 March 2022	\$6.25	-	590,644	-	(6,041)	584,603	-
				400,883	590,644	-	(194,604)	796,923	-
Weighted average exercise price						\$0.00	\$6.96	\$6.43	
2019									
RSLTIP	29 May 2015	31 March 2018	\$5.98	235,681	-	(235,681)	-	-	-
RSLTIP	23 May 2016	31 March 2019	\$8.20	206,361	-	-	(206,361)	-	-
RSLTIP	22 May 2017	31 March 2020	\$6.99	223,787	-	-	(42,494)	181,293	-
RSLTIP	22 May 2018	31 March 2021	\$6.93	-	266,384	-	(46,794)	219,590	-
				665,829	266,384	(235,681)	(295,649)	400,883	-
Weighted average exercise price						\$5.98	\$7.83	\$6.96	

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 - 2020. For the RSLTIP and PRLTIP schemes vesting after 2020 a Monte Carlo Simulation has been used.

(21) Share-based payments (continued)

	Plan Type			
	PRLTIP	RSLTIP	RSLTIP	RSLTIP
	31 March 2022	Vesting date of scheme		31 March 2019
	31 March 2021	31 March 2020		
Weighted average share price at grant date	\$6.18	\$7.45	\$8.00	\$8.20
Contractual life	2.77 Years	2.85 Years	2.86 years	3.00 years
Risk-free rate	1.0%	2.0%	2.1%	2.1%
Standard deviation of Z share price	-	-	-	20%-25%
Standard deviation of Z's TSR	19%-22%	25%-27%	18%-25%	-
Standard deviation of NZX50	-	-	-	9.0%
Standard deviation of peers' TSR	9%-48%	18%-21%	20%-22%	-
Correlation between Z share price and NZX50	-	-	-	0.32-0.40
Correlation between Z's TSR and peers' TSR (average)	0.12-0.15	0.15-0.16	0.16-0.19	-
Estimated fair value per share	\$2.52	\$3.78	\$4.22	\$3.48

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 2020 was \$11,000 (2019: \$0.2m). The expense relating to the PRLTIP in the year ended 31 March 2020 was \$0.5m (2019: nil).

An employee share purchase programme (ESPP) vested in December 19, which does not have a material impact on these financial statements. The ESPP no longer holds any shares.

Employee benefits payable are \$7.6m (2019: \$11m).

(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 (2019: \$1m).

	2020	2019
Transactions with related parties received/(paid)	\$m	\$m
Associates – sale of goods and services	-	1
Associates – purchase of goods and services	-	-
Coastal Oil Logistics Ltd – distribution	(34)	(36)
Wiri Oil Services Ltd	(11)	(11)
Loyalty Ltd	(7)	(5)
Key management personnel		
- Short-term employee benefits	(6)	(5)
- Termination benefits	-	(1)

(23) Commitments

Commitments relate to property, plant and equipment of \$19m (2019: \$32m).

(24) Contingent liabilities

Z currently guarantees a total potential exposure relating to Flick Energy Ltd of up to \$12m as per the below.

Counterparty	2020 \$m	2019 \$m
Westpac	5	-
Mercury	4	-
Genesis	3	-
Total exposure	12	-

The Group has also guaranteed an exposure of up to USD1m (\$2m) to a financier of one of the Group's associate companies (2019: USD2m (\$3m)). This guarantee reduces by USD1m annually.

(25) Events after balance date

Dividend

On 2 April 2020 the Z Board determined that no final dividend will be paid out for the second half of this financial year (2019: 30.5 cents per share, \$122m).

COVID 19 – Equity raise and covenant relief

As noted within the financial statements the impacts of COVID 19 have resulted in Z forecasting a significant loss in demand for both fuel and convenience store goods under alert levels 3 and 4. As a result Z has modelled certain scenarios where a breach in certain covenants may occur at the next three measurement dates being 30 September 2020, 31 March 2021 and 30 September 2021, without corrective action being undertaken. As a result, Z has taken the following corrective actions:

- On 11 May Z will announce a fully underwritten equity placement of \$290m and Share Purchase plan (not underwritten).
- Z has agreed a combination of temporary covenant waivers and temporary adjustments to covenant definitions with its debt providers.

As a result of these corrective actions Z has greater confidence that there will be no default event in respect of its financial covenants through this period.

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(Appointed as Chair 2 May 2019)
Peter Ward Griffiths
(Resigned 2 May 2019)
Andrew Mark Cross
Alan Michael Dunn
Blair Albert O'Keeffe
Julia Margaret Raue
Mark Roy Malpass
(Appointed 30 October 2019)
Stephen Reindler

Executive team

Mike Bennetts
Chief Executive Officer

Lindis Jones
Chief Financial Officer

Jane Anthony
Chief Customer Officer

Andy Baird
General Manager, Retail

David Binnie
General Manager, Supply

Debra Blackett
General Counsel and Chief Governance
Officer

Julian Hughes
General Manager, Strategy and Risk

Helen Sedcole
Chief People Officer

Mandy Simpson
Chief Digital Officer

Nicolas Williams
General Manager, Commercial

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**Australia registered business
number**
164 438 448



Independent Auditor's Report

To the shareholders of Z Energy Limited

Report on the audit of 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 1 to 29:

- i. present fairly in all material respects the Group's financial position as at 31 March 2020 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 2020;
- 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 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.



Scoping

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

The context for our audit is set by the group's major activities in the financial year ended 31 March 2020, which included the impairment of goodwill relating to Flick Energy and the impairment of retail customer contracts



recognised on acquisition of Chevron New Zealand, together with an assessment of any impacts of the COVID-19 pandemic.

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

Impairment of the carrying value of retail customer contracts recognised on acquisition of Chevron New Zealand

Refer to Note 3 and Note 13 of the consolidated financial statements.

The impairment of the group's retail customer contracts is a Key Audit Matter due to the complexity of auditing the judgements used by the group to determine the recoverable amount of these assets.

Our consideration of the group's assessment of the carrying value of the retail customer contracts has focussed on the significant assumptions and judgements the group applied in determining the recoverable amounts of these assets. These assumptions and judgements relate to short-term forecasted sales volumes, long-term retail demand for fuel in New Zealand, retail gross margin per litre, and a relevant discount rate. Such judgements and assumptions carry a

Our audit procedures included:

- We assessed the integrity of the value in use calculation model, including the accuracy of the underlying calculation formulae.
- We checked the consistency of short-term forecasted sales to past performance of the group, and our experience regarding the feasibility of these in the industry in which they operate. This also included an adjustment for the impact of COVID-19 and the associated Level 4 lockdown enforced by the New Zealand Government.
- We challenged the assumptions around long-term retail demand for fuel in New Zealand by comparing to published information on industry trends and the historical accuracy of relevant forecasts. We used our knowledge of the group, their past performance, business and customers, and our industry experience.
- We worked with our valuation specialists to analyse the group's discount rate by comparing to an independently developed discount rate using publicly available market data for comparable entities, adjusted by risk factors specific to the group and the industry it operates in.
- We considered the sensitivity of the model by varying key assumptions, such as long-term retail demand for fuel in New



The key audit matter

higher risk of bias and error which required additional scrutiny by us.

How the matter was addressed in our audit

Zealand and retail gross margin per litre. 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 calculation of the recoverable amount of the retail customer contracts to be appropriate. We consider the group has appropriately considered those key assumptions that support the impairment charge recognised.

Assessment of goodwill

Refer to Note 3 and Note 13 of the consolidated financial statements.

The group's testing of goodwill for impairment is a Key Audit Matter due to the complexity of auditing the judgements used by the group to determine the recoverable amount of the relevant cash generating units (CGU's). The relevant CGU's are Flick Energy and the Z Energy group.

The group used complex models to perform their assessment of the recoverable amount. The models used a range of external and internal inputs, including assumptions made by the group. Complex modelling using forward-looking assumptions are 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 consistent application.

In addition to the above, the group recorded an impairment charge of \$35 million against goodwill relating to Flick Energy, resulting from a sustained downward trend in customer acquisition numbers. This further increased our audit effort in this key audit area.

Our audit procedures included:

- We considered the appropriateness of the valuation methods applied by the group to each CGU to perform the test of goodwill for impairment against the requirements of the accounting standards.
- We assessed the accuracy of previous group forecasts to inform our evaluation of forecasts incorporated in the models.
- We checked the consistency of forward-looking assumptions to the group's stated plan and strategy, past performance of the group, published information on industry trends, and our experience regarding the feasibility of these in the industry in which they operate. The key forward-looking assumptions we checked for each CGU are as follows:

Flick Energy CGU:

- Customer acquisition numbers and growth rates
- Terminal growth rate

Z Energy Group CGU:

- Retail fuel market share
- Retail fuel market demand
- Retail gross margin per litre

- We worked with our valuation specialists to analyse the group's discount rates used in the valuation models by comparing to independently developed discount rates using publicly available market data for comparable entities, adjusted by risk factors specific to the group and the industry in which they operate.
- We considered the sensitivity of the model by varying key assumptions, such those listed above. We did this to identify those assumptions at higher risk of bias or inconsistency in application and to focus additional procedures, particularly in the context of the COVID-19 pandemic.
- We assessed the disclosures in the consolidated financial statements using our understanding of the issue obtained from our testing and against the requirements of the accounting standards.

We found the valuation methodology and inputs used in the calculation of the recoverable amount of the CGU's to be appropriate. We consider the group has appropriately considered those key assumptions that support both the carrying value for goodwill relating to the Chevron



The key audit matter

How the matter was addressed in our audit

New Zealand acquisition, and the impairment charge recognised for goodwill relating to Flick Energy.

Financing – basis of preparation

Refer to Note 18 and Note 25 of the consolidated financial statements.

The Directors have determined that the use of the going concern basis of accounting is appropriate in preparing the consolidated financial statements. Their assessment of going concern was based on debt covenant compliance forecasts. The preparation of these forecasts incorporated a number of assumptions and actions undertaken subsequent to balance date.

In assessing this Key Audit Matter, we involved senior audit team members who understand the group's business, industry, and the economic environment in which it operates.

Our audit procedures included:

- We reviewed agreements with financiers to understand the actions the group had taken subsequent to balance date including renegotiation of existing debt facilities and agreeing waivers in meeting financial loan covenants in future periods.
- We read minutes of meetings of Directors and relevant correspondence with the group's advisors to understand the group's ability to raise additional shareholder funds.
- We reviewed documentation relating to the underwritten equity placement which occurred subsequent to balance date.
- We evaluated the group's going concern disclosures in the consolidated financial statements by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the group's plans to address those events or conditions, and accounting standard requirements.

We found the group has appropriately considered the impacts of current and future financial performance on the going concern assumption, and disclosures made appropriately describe actions undertaken to support the use of the going concern assumption.

Transition to NZ IFRS 16 Leases

Refer to Note 2 of the consolidated financial statements.

The group has adopted NZ IFRS 16 effective from 1 April 2019, using the modified retrospective approach. The new standard requires the group to recognise its lease commitments as a liability in the consolidated statement of financial position, along with an associated right of use asset.

The group's adoption of NZ IFRS 16 is a Key Audit Matter due to the complexity of auditing the judgements and assumptions involved in the calculation of the right of use assets and associated lease liabilities.

Our audit procedures included:

- We assessed the group's process relating to the recording, recognition, and measurement of leases.
- We assessed the group's judgements made in applying practical expedients against the requirements of NZ IFRS 16.
- We worked with our valuation specialist to analyse the incremental borrowing rate (IBR) applied by the group to the lease portfolio by comparing to an independently developed IBR using publicly available market data for comparable entities, adjusted by risk factors specific to the group and the industry in which they operate.
- We selected a sample of leases and examined the calculation of the associated lease liability and right of use asset. For each lease selected we performed the following:
 - Agreed key inputs such as commencement date, expiry date, rent amount, and rent payment frequency to the underlying lease agreement.
 - Recalculated the lease liability and right of use asset based on the key inputs noted above and the IBR as assessed by our

The key audit matter

How the matter was addressed in our audit

valuation specialist, and compared our recalculation to the balances recorded by the group.

- Checked the appropriateness of the classification of the lease liability between current and non-current based on the remaining term of the lease.

— We assessed the disclosures in the consolidated financial statements against the requirements of NZ IFRS 16.

We found the methodology used by the group in transitioning to NZ IFRS 16 to be appropriate. We consider the group has appropriately considered those key assumptions that underly the calculation of the associated balances.

Other information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information may include 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.

The Annual Report is expected to be made available to us after the date of this Independent Auditor's Report. Our responsibility is to read the Annual Report when it becomes available and consider whether the other information it contains is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit, or otherwise appears misstated. If so, we are required to report such matters to the Directors.

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.



xlr 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

KPMG
Wellington

10 May 2020