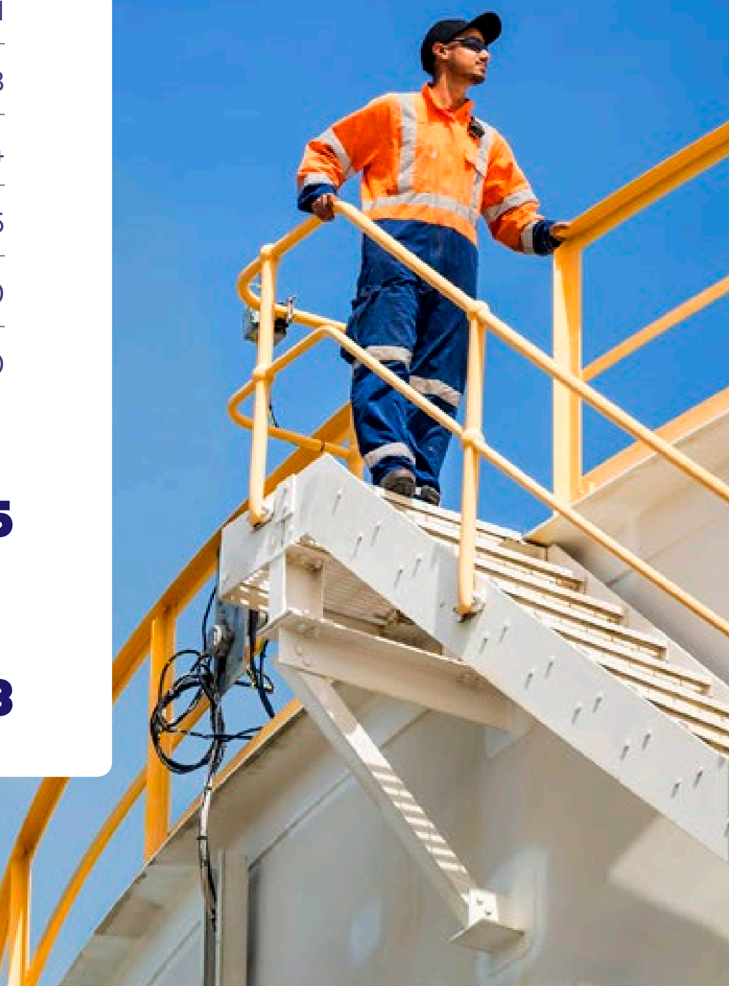
Doing more of what matters

Z Energy Annual Report 2018

We're doing more of what matters today, as we build capability for what will matter in the future.

Contents



We've created an interactive annual report this year.
For the best reading experience, go to z.co.nz/AR18

Our year in review

Kia ora and welcome to our annual report for 2018

Z's goal is to be a safe and successful customer-centric organisation with an increasingly productive fuels business at its core. Mindful of our changing context, we are making important decisions now that will enable us to continue to achieve this goal well into the future.

We seek to deliver strong earnings growth by focusing on increasing the efficiency of our operations and exploiting the best of the opportunities we have to improve our customer experience, increase our capability to use data, and optimise our supply chain scale.

We are already in action in all of these areas. The work to bring all our fuels terminals under our direct control, for example, will be completed before the end of this year. This will allow us to more effectively manage our supply chain and reduce overheads.

In all our activities, we will continue to manage our capital wisely by recycling invested funds and reducing debt from our strong cash flows. Our confidence in our future performance has allowed us to review our distribution policy and indicate to our shareholders a significantly higher dividend flow from a growing business in the years to come.

This report sets out our performance and achievements this year, and explains more about our Strategy 3.0 and the option-rich future we want to explore over the longer term.

We continue to improve our annual reporting

Last year, we produced our first fully integrated annual report. Following the <IR> Framework*, we were able to clearly explain how we create value over time and provide greater transparency on every aspect of our activity.

We remain committed to <IR> because we know an increasing number of investors and other stakeholders are interested in how we create long-term sustainable value.

We also follow the Global Reporting Initiative (GRI) Framework and have prepared this report in line with the GRI Standards: Core option.

This year, we've changed the way we report on remuneration and corporate governance to increase the clarity of reporting and the transparency of how we operate. We're also reporting against the United Nations SDG goals for the first time.

*This year's report is guided by the principles of the <IR> Framework and focuses on the six <IR> capitals: human, intellectual, natural, manufactured, social, and financial. Visit **www.theiirc.org** for more information on integrated reporting.

"The board and executive have worked closely in developing our strategy."

I would like to acknowledge all of the board for their support in preparing and presenting this integrated annual report. They have all demonstrated a strong commitment to ensuring the clarity and integrity of our reporting.

Integrated thinking drives our strategy

Over the year, the board and executive have worked closely in developing our strategy. As thought partners, we share insights, question assumptions, and challenge each other's thinking, leading to more innovative solutions.

The three separate but related areas we worked on were Strategy 3.0, which considers the business up to 2021; the *What is Next* framework, which takes us beyond that time into the future; and Z's capital allocation strategy.

The board seeks to be transparent in our communications with shareholders, and we listen to what they tell us. We showed this in our work on capital management, by listening to the views of a range of shareholders, and reflecting their feedback in our new dividend policy.

The board strives to continually add value

Z's directors have a genuine desire to continue developing their capabilities as individuals and as a group. We have adopted several techniques to foster this process. As an example, after each board or committee meeting, we take time to review how the meeting went. Were we effective? Was our contribution and collective output of good quality? We then consider how we could improve.

As part of the process to constantly improve, the board and individual directors are subject to regular external and peer reviews. We make sure that we act on all of the recommendations from our reviewers.

As well as our regular board and committee meetings, directors also took part in a diverse range of activities (see page 72) this year.

Of particular interest was the first session of Unconscious Bias training at Z. The exercise on understanding our own particular privilege brought home to us the origins of unconscious bias – how our individual experiences and how we see the world affects our approach to decision-making.

> **“Directors took part in a diverse range of activities.”**

Becoming increasingly aware of and more sensitive to this type of innate bias is an important part of building effective teams and generating true diversity in our company. The board wants to lead the way on unconscious bias and so we opted to be the first to receive the training now being rolled out across the business.

Around our board table we have a strong mix of skills and experience that support the core business. Our intention is to align the board's skills with the changing needs of our strategy. We will continue to recruit new directors with the appropriate skills to support the business as it is today, and for the transition we know must come.

Recognition of our people and capability

All of the board wish to acknowledge the work of CEO Mike Bennetts and the executive team. Every year brings its challenges and one of this year's more memorable events was the disruption to Auckland's fuel supply due to pipeline damage. This required a significant response from across the company.

Our leaders and teams did well in very difficult circumstances to establish alternative supply routes and manage the competing demands for service.

We're committed to full disclosure

We're confident that we can continue to deliver improved financial returns while living up to our values and commitments. We're a company committed to full disclosure. At Z, we call it 'being straight up' and 'sharing everything'.

This is our report dated 2 May 2018 for the financial year to 31 March 2018.

Peter Griffiths
Chair, Z Energy

Mark Cross
Chair, Audit and Risk Committee

Doing more of what matters

Kia ora te whānau o Z Energy.

Z is focused on building a more productive core business as we explore what the future looks like in a world that's increasingly volatile, uncertain, complex, and ambiguous – what we call a VUCA world.

We recognise that our future is more about being capability-led, rather than asset- or investment-led as we have been for the last 8 years. It's less about what we've got and more about how we do things.

We're working to improve our capability and to make sure everything we do works well so that our customers can get on with doing what they need to do.

Using a compass rather than a map

It used to be that companies could come up with a map for the future and say, 'Here's where we are today, and in 5 years' time we want to be over there'. The future was reasonably predictable then. You can't do that anymore. You can't even do it for 2 years, let alone 10.

That's why at Z, our future direction now depends on strategy that operates like a compass. By being agile and flexible, without losing sight of where we're headed, we can take sensible steps along the way, no matter how the landscape changes.

Preparing for the future

We've got the hydrocarbon-related assets we need for a strategic advantage. Now we're investing in capability – customer experience, digital transformation, innovation, brand, and organisational development. These capabilities will support us in building a more productive core business this side of 2021 and will drive our choices for what is next beyond 2021.

The opportunity for us is to create something that's really good for our shareholders and all our other stakeholders. We're looking at how we will transition from fossil fuels to a low-carbon future and how we can sensibly extend our brand and capabilities to adjacent opportunities.

> **"We've got the assets we need. Now we're investing in capability."**

"That means that we can also return more in dividends to our investors."

Experimenting with future-focused innovation

We're recycling capital from assets we no longer need so that we can experiment with new options for our customers. Any growth investments in our core business are funded from divestment proceeds rather than free cash flow. That means we can also return more in dividends to our investors, while paying down debt.

There's a healthy tension for us between being more rigorous and thorough in how we do things and being agile and super-responsive to our customers' changing needs.

We're experimenting with an investment in a Wellington-based start-up called Mevo, the world's first climate-positive, on-demand vehicle company. That investment is allowing us to explore what car sharing using electric vehicles has to offer in the future.

Many of our retail customers have now had the opportunity to use *Fastlane*, a new way of paying that makes refuelling faster and easier. We didn't wait until *Fastlane* was perfect. Instead, we openly trialled an early version of it to get feedback directly from our customers.

Strengthening what Z stands for

Our four stands are the foundations of the business and support our aspirations in diversity and inclusion; community; health and safety; and environmental sustainability.

We've woven our four stands together so that they are mutually reinforcing. Together, they drive innovation and create value for our people, our communities, and all of Aotearoa New Zealand.

We've embedded diversity and inclusion into our people policies, processes, and practices. Doing so enabled us to be certified with the Rainbow Tick this year. We've also set a target to achieve 50/50 gender balance at all employee levels by 2020 – from senior executives through to frontline teams.

"Our stand on health and safety has seen us achieve the international OHSAS 18001 standard."

We've refreshed and expanded our stand on community, as evidenced by more hardship grants from the Z Foundation and more healthy food and beverage options being offered in our stores. We provided more training opportunities for our retail staff and more support for our communities. And we've included environmental groups for the first time in our Good in the Hood programme.

We're working to develop a generative safety culture by 2020. Our stand on health and safety has seen us achieve the international OHSAS 18001 standard. We're also on track to be one of the first companies in the world to gain the brand new ISO 45001 standard.

Environmentally, we've set a minimum energy standard for shipping to make our supply chain more energy efficient. We advocated for the Climate Change Commission and hosted thousands of people in Wellington and Auckland to see Al Gore's film, *An Inconvenient Sequel: Truth to Power.*

Opportunities to improve our systems and processes

During the third quarter, we experienced some operational failures and shortfalls that had adverse impacts on our customers. There was the highly visible outage of the refinery to Auckland pipeline, and some other errors. We acknowledge these events made life and business tougher for our customers than it should have been.

For all of that, we sincerely apologise. We've learnt from it and taken actions. We responded to these issues with reviews akin to those typically conducted for a workplace fatality. That is how seriously we have taken our poor operational performance during that time.

On a more positive note, in November we went live with our upgraded transaction processing and management information (ERP) system. This upgrade means fewer errors, improved response times, and better reliability for our customers.

"Our underlying profit was towards the top end of expectations."

Based on external advice, we also identified some opportunities to improve by upgrading Z's cyber security. As a result, we've implemented the top four security controls recommended by the National Cyber Security Centre and the Australasian Signals Directorate.

We fully achieved our financial objectives for the year

Across our balanced scorecard – health and safety, customer satisfaction, operations, and strategy – we have achieved most of what we set out to do and excelled in a couple of areas. As a result, the board assessed our performance as 'meeting expectations'.

Of particular interest to our shareholders, Z has delivered historical cost net profit after tax of $263 million and RC EBITDAF of $449 million, towards the top end of guidance. We have delivered $39 million of synergy benefits from the Caltex deal.

The first year of Strategy 3.0 delivered annualised EBITDAF benefits of $5m – a good start towards our promise of $30–35 million of annual earnings growth within the next 3 years.

We met our 3-year debt-reduction target 1 year early as we continue to reduce debt from the Caltex deal. We also managed to extend the tenure on a good portion of our debt, giving further confidence to the strength of our balance sheet.

A final word

I would like to thank all of those people who have supported us during the past year – our employees, shareholders, business partners, and suppliers alike. I never take any of that support for granted.

I appreciate all of the feedback and advice I receive for how Z can be a better company and fulfil our purpose of solving what matters for a moving world.

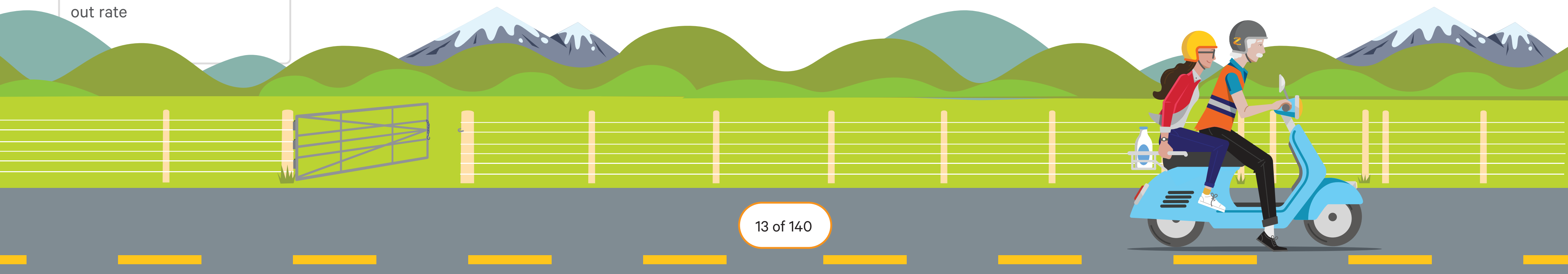
Nō reira, kia ora koutou.

Mike Bennetts
CEO, Z Energy

Year at a glance

	2017	2018	
Historical cost net profit after tax (net profit)	$243m	$263m	Up
Replacement cost net profit after tax	$176m	$205m	Up
Replacement cost EBITDAF profit	$423m*	$449m	Up
Total dividend per share	29.3 cents	32.3 cents	Up
Total fuel volume (retail and commercial)	3,795 million litres	4,145 million litres	Up
Total transactions on Z-branded retail sites	55.3m	56.9m	Up
Taxes paid to the IRD	$174m	$173m	Down
Replacement cost net profit after tax per share	44 cents	51 cents	Up
Replacement cost net profit after tax per litre	4.6 cents	4.9 cents	Up
Capital expenditure	$77m	$91m	Up
Health, safety, security, and environment actions close-out rate	100%	100%	

* excluding transition expenses and reclassification of associated income



About Z

Z is for New Zealand

Our purpose is simply to solve what matters for a moving world. We aim to bring that purpose to life for our customers, all our stakeholders, and for New Zealand.

Z is a publicly listed company on the New Zealand and Australian stock exchanges, with around 8,875 shareholders and 7,509 bondholders.

Our ambition is to be a world-class Kiwi company. We've spoken about this ambition since day one of Z's existence, back in 2010.

Z supplies fuel to retail customers and large commercial customers

Z owns pipelines, terminals, and bulk storage terminal infrastructure around the country.

From one end of New Zealand to the other, we supply fuel to retail customers and large commercial customers including airlines, trucking companies, mines, shipping companies, and vehicle fleet operators. We also provide bitumen and lubricants to industry.





Z has increased its scale and scope

In 2016, Z purchased the shares of Chevron New Zealand and is now the wholesale fuel supplier to the network of Caltex-branded service stations. The Caltex retail network of 139 stations remains independently owned and operated, with the retailers setting their own retail fuel prices.

Z directly employs around 460 people and indirectly employs around 2,000 people through the Z retail network of 204 service stations.

Across both Z and Caltex retail sites, we have around 90 million customer interactions a year. We have a network of 156 truck stops and sell around 45 percent of New Zealand's total transport fuel. We own a 15 percent stake in New Zealand's refinery at Marsden Point and we operate terminals in six New Zealand ports.

We're a member of three loyalty schemes: Fly Buys, Air New Zealand Airpoints, and AA Smartfuel. We own a 25 percent stake in Loyalty New Zealand, famous for its Fly Buys programme.

Our values are reflected in everything we do

Our values are reinforced throughout all of our people processes, from how we recruit people to how we develop our employee value proposition. See z.co.nz/about-z/who-is-z-energy/the-z-why/

These are the values we're committed to.

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

Meet our board

We constantly reflect on our performance and look for ways to improve

1. Alan Dunn
2. Abigail Foote
3. Mark Cross
4. Stephen Reindler
5. Peter Griffiths
6. Julia Raue

Alan Dunn, Director

CMInstD

Alan is an experienced corporate leader. He was CEO and Chair of McDonald's Restaurants New Zealand before moving to Chicago to become Vice President of Operations. He later became Regional Vice President in the Nordic region, and Managing Director of McDonald's Sweden. Alan's professional director career started in 2009 and he is currently on the boards of NZ Post, Burger Fuel, and several local government entities as well as small private companies.

Mark Cross, Director

BBS, CA, CMInstD

Mark is a professional director with experience in listed and early-stage growth companies and institutional investment funds, following 20 years' international experience in investment banking. Mark is the Chair of Milford Asset Management and SIL/MFL Superannuation Funds, and a director of Genesis Energy, Chorus, Argosy Property, and other private companies in which he is an investor. Mark is a member of Chartered Accountants Australia and New Zealand and a Chartered Member of the Institute of Directors.

Peter Griffiths, Chair

BSc (Hons), CMInstD

Peter is a professional director and international oil-industry veteran. Until 2009, Peter was Managing Director of BP New Zealand. He previously served on the boards of The New Zealand Refining Company, Liquigas, New Zealand Oil and Gas, Energy Direct, Wanganui Gas, and Bitumix. In addition to a range of personal interests, Peter is a director of Metro Performance Glass.

Abigail Foote, Director

LLB (Hons), BCA, CMInstD, INFINZ (cert)

Abby is a professional director with experience in publicly listed and Crown companies. Trained as a lawyer, she has worked in corporate, treasury, and legal roles for over 20 years. Abby is a former director of Transpower New Zealand, and currently serves on the boards of Livestock Improvement Corporation, TVNZ, Sanford Limited, and Museum of New Zealand Te Papa Tongarewa.

Stephen Reindler, Director

BE (Hons), AMP, FEngNZ, CFInstD

Stephen is a professional director and mechanical engineer with experience in engineering-related industries, large infrastructure, and workplace health and safety. He holds several directorships, including with Meridian Energy Limited, Steel and Tube Holdings Ltd, Waste Disposal Services, Broome International Airport, Yachting NZ, and WorkSafe New Zealand. He is a Fellow of Engineering New Zealand and a Chartered Fellow of the Institute of Directors.

Julia Raue, Director

GAICD, CMInstD

Julia is a professional director with 26 years' experience in customer experience, innovation, technology, business transformation, and strategic planning. She was the Chief Information Officer at Air New Zealand for 8 years, and has held management positions in local government, telecommunications, and not-for-profit organisations. Julia is a director of TVNZ, The Warehouse Group, Jade Software, and Southern Cross Health Society.

Meet our **executive** team

We work closely together in an integrated way

1. Mike Bennetts
2. Debra Blackett
3. David Binnie
4. Nicolas Williams
5. Lindis Jones
6. Helen Sedcole
7. Julian Hughes
8. Meredith Ussher
9. Mark Forsyth
10. Chris Day
11. Jane Anthony

Mike Bennetts | CEO

"I'm committed to our work on bringing digital, innovation, and productivity together to create a great customer experience while we contribute to the big things New Zealand needs to deal with, like climate change."

Debra Blackett | Chief Governance Officer

"What matters to me is making sure our corporate governance provides strong and visible leadership to all of Z's people so that they perform at their best to deliver what matters most to our customers."

David Binnie | GM, Supply and Distribution

"I'm focused on delivering what matters to our customers every day – supplying fuel where and when they need it."

Nicolas Williams | GM, Commercial

"We sell just under half of the fuel that powers New Zealand business. I'm determined to unlock value for our commercial customers by making sure everything we do is simple, safe, sustainable, and efficient."

Lindis Jones | GM, Corporate

"I believe we can continue to be successful and demonstrate that Z has a distinctive future in the eyes of our owners, our customers, and our own people."

Helen Sedcole | GM, People and Culture

"As the pace of change in our world increases, I'm committed to continuing to create an environment where we can be successful, being ourselves." .

Julian Hughes | GM, Health, Safety, Security, and Environment

"I'm committed to building a generative HSSE culture at Z, to living our HSSE Stand, and ensuring our people go home healthy and safe."

Meredith Ussher | General Counsel

"I'm committed to realising our widest possible field of play within the boundaries of the law. I want to support our innovators to explore new ways to take the next big step."

Mark Forsyth | GM, Retail

"What matters to me is keeping our people safe and developing their potential, delivering an awesome customer experience for our Z and Caltex customers, and being the partner of choice for our retailers."

Chris Day | Chief Financial Officer

"In a volatile world, I'm dedicated to values-based leadership that productively creates sustainable, long-term shareholder value by making the most of our technology, managing risk, and making great choices about where we allocate capital."

Jane Anthony | GM, Marketing

"I'm passionate about the role of marketing in leading organisational change with a focus on creativity, customer experience, digital, and technology to build our brand and guide how we engage with our customers."

Our purpose drives our business model

Inputs

Our people and culture

Our capability

Our environment

Our assets

Our place in New Zealand

Our finances

Our ambition

To be a world-class Kiwi company

Our values

Share everything

Have the passion

Be bold

Be straight up

Back our people

What we stand for

Health, safety, security, and the environment

Sustainability

Community

Diversity and inclusion

Outcomes

We create value for our stakeholders by focusing on solving what matters for a moving world. Our ambition, what we stand for, and our values are reflected in everything we do.

When we make decisions about how to manage and build our business, we take into account the resources and relationships that are critical to our ability to create value.

Our people and culture

Staff engagement remains high at 76 percent. We continue to experience robberies and have spent a lot of time and effort on our layered defence to detect and delay offenders as much as possible.

Sustainable development goals

Our capability

Our organisational capability strategy has been developed to ensure our people have the necessary capability for the future, no matter what that holds.

Sustainable development goals

Our environment

Z's greenhouse gas emissions have increased this year compared to FY17. Supply disruptions increased supply chain emissions. Our new stand has set ambitious reduction targets. Construction of our BioD plant is complete and we have begun the commissioning process.

Sustainable development goals

Our assets

We are recycling capital by selling lower-returning assets to invest in new assets. We're bringing all our terminals under our operational control and continue to invest in robbery prevention measures.

Sustainable development goals

Our place in New Zealand

Our new community stand focuses on a resilient and powerful Aotearoa. We continued to run our Good in the Hood programme and included environmental groups for the first time. Significant fuel disruptions impacted many of our customers.

Sustainable development goals

Our finances

We achieved our earnings targets, reduced and refinanced our debt and revised our distribution policy to reflect 'Better with you than with us'.

Sustainable development goals

Working towards sustainable development

Our aspirations as a company align with many of the Sustainable Development Goals (SDGs) set by the United Nations.

Z can have the greatest impact on the following nine SDGs.

SUSTAINABLE DEVELOPMENT GOALS

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

Good health and well-being

3 GOOD HEALTH AND WELL-BEING

Quality education

4 QUALITY EDUCATION

Gender equality

5 GENDER EQUALITY

Affordable and clean energy

7 AFFORDABLE AND CLEAN ENERGY

Decent work and economic growth

8 DECENT WORK AND ECONOMIC GROWTH

Sustainable cities and communities

11 SUSTAINABLE CITIES AND COMMUNITIES

Responsible consumption and production

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Climate action

13 CLIMATE ACTION

Peace, justice and strong institutions

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Z's supply chain provides a competitive advantage

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

Imported crude oil and fuel

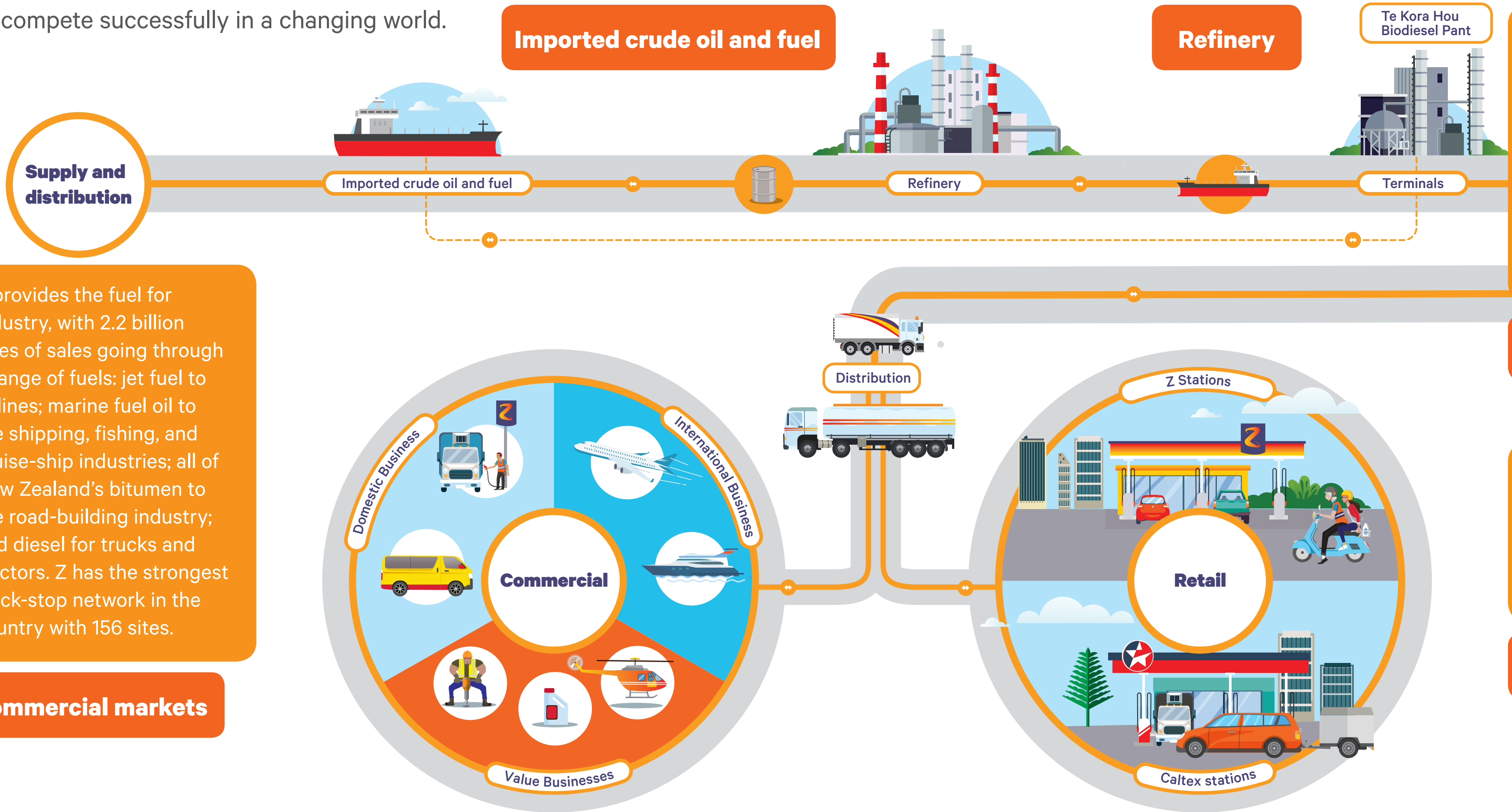
Z does not explore or drill for oil, so we need to purchase it on the international market. Z imports 14.7 million barrels of crude oil and 4.5 million barrels of refined fuel per year – nearly half of New Zealand's total transport fuel.

Refinery

All crude oil imported into New Zealand is refined by Refining NZ – New Zealand's only oil refinery. Z uses nearly half of the capacity of the Marsden Point refinery where crude is refined into petrol, diesel, jet fuel, fuel oil, and bitumen. Z has a 15 percent shareholding in the refinery.

Supplying our customers

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



Commercial markets

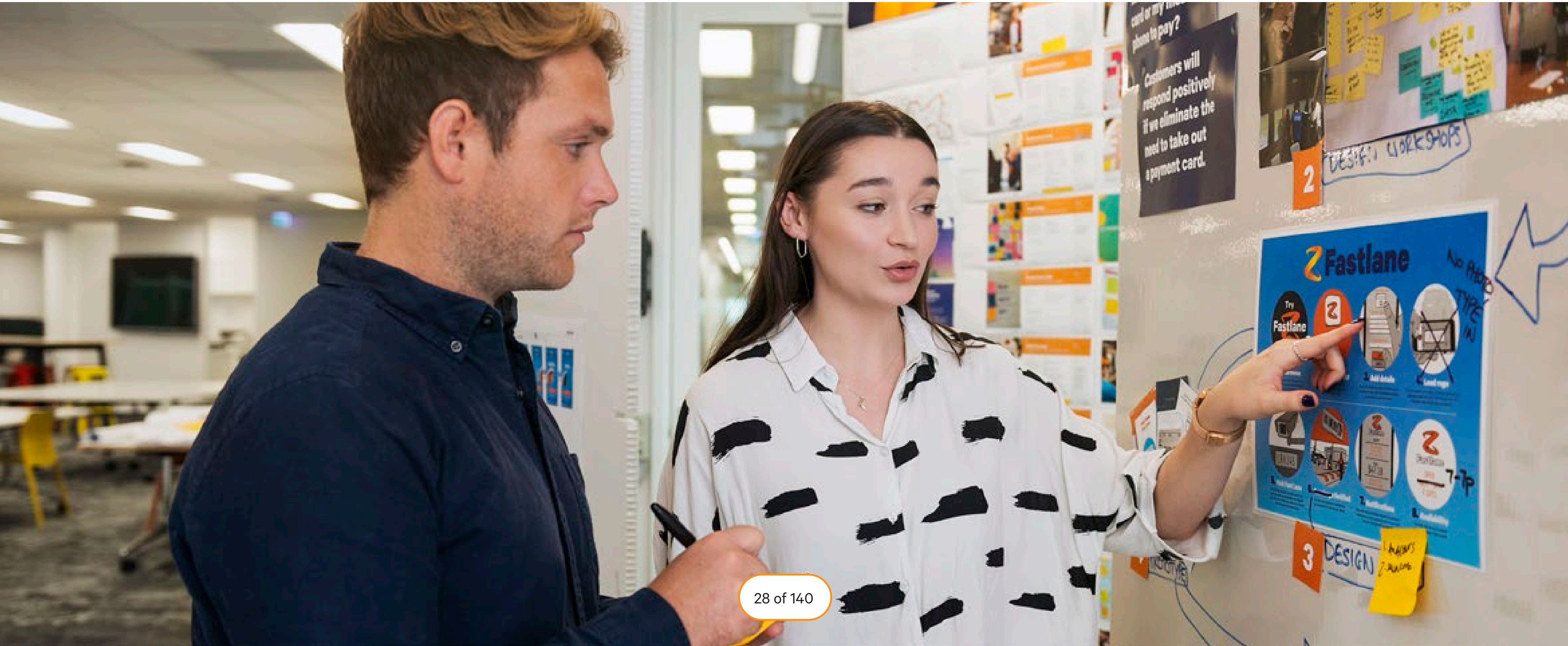
Z provides the fuel for industry, with 2.2 billion litres of sales going through a range of fuels: jet fuel to airlines; marine fuel oil to the shipping, fishing, and cruise-ship industries; all of New Zealand's bitumen to the road-building industry; and diesel for trucks and tractors. Z has the strongest truck-stop network in the country with 156 sites.

Retail service stations

Z has 343 retail service stations in its network: 204 Z-branded sites and 139 Caltex stations.

Creating value by doing more of what matters today

Shifting to a capability-led business



Shifting to a capability-led business

Doing more of what matters reflects a shift from being an asset- and investment-led business to becoming a capability-led business.

Everything that has created Z's success until now has been really important. But we can't rely on next year being a repeat of what we did last year. In a world that is changing and more connected than ever before, this will not be good enough.

"It's less about what we've got and more about how we do things."

We're investing in five areas of capability: customer experience, digital transformation, innovation, brand, and organisational development. We're investing in these capabilities because they will create a more productive core business through to 2021 and enable choices for what comes next.

To grow our capability to innovate – to do different things or do things differently – is critical to the future success of Z. We can't predict the future, so having the ability to experiment and learn enables us to act in the face of uncertainty.

Placing big bets and assuming certainty in an uncertain world is not a responsible use of our owners' money and our people's commitment.

We're fortunate that we have a successful enterprise to build on. And we appreciate that the reasons for our past achievements do not guarantee the future loyalty of our customers.

However, in a business that has our scale in New Zealand, and around 90 million customer interactions a year across both retail brands, there is significant opportunity for us to increase value by doing things differently, with a focus on the customer experience.

Strategy 3.0 will deliver a more productive core business

We know that our industry is going to fundamentally change in the decades ahead. We also believe there is an opportunity to maintain distinctive performance, competitively and financially, for many years to come. That's why we continue to seek opportunities arising from the scale created through the acquisition of the Caltex business.

We recognise that our owners and our people have significant investment in Z, so we test our strategic choices against all possible futures. We make sure that where we put our efforts and resources will be good for decades to come, not just for the next few years.

We have sufficient scale and our assets are advantaged. So our investment in capital is more about leveraging these through greater capability than investing in fixed assets.

Simply put, our aspiration is not diminished; our scale provides new choices.

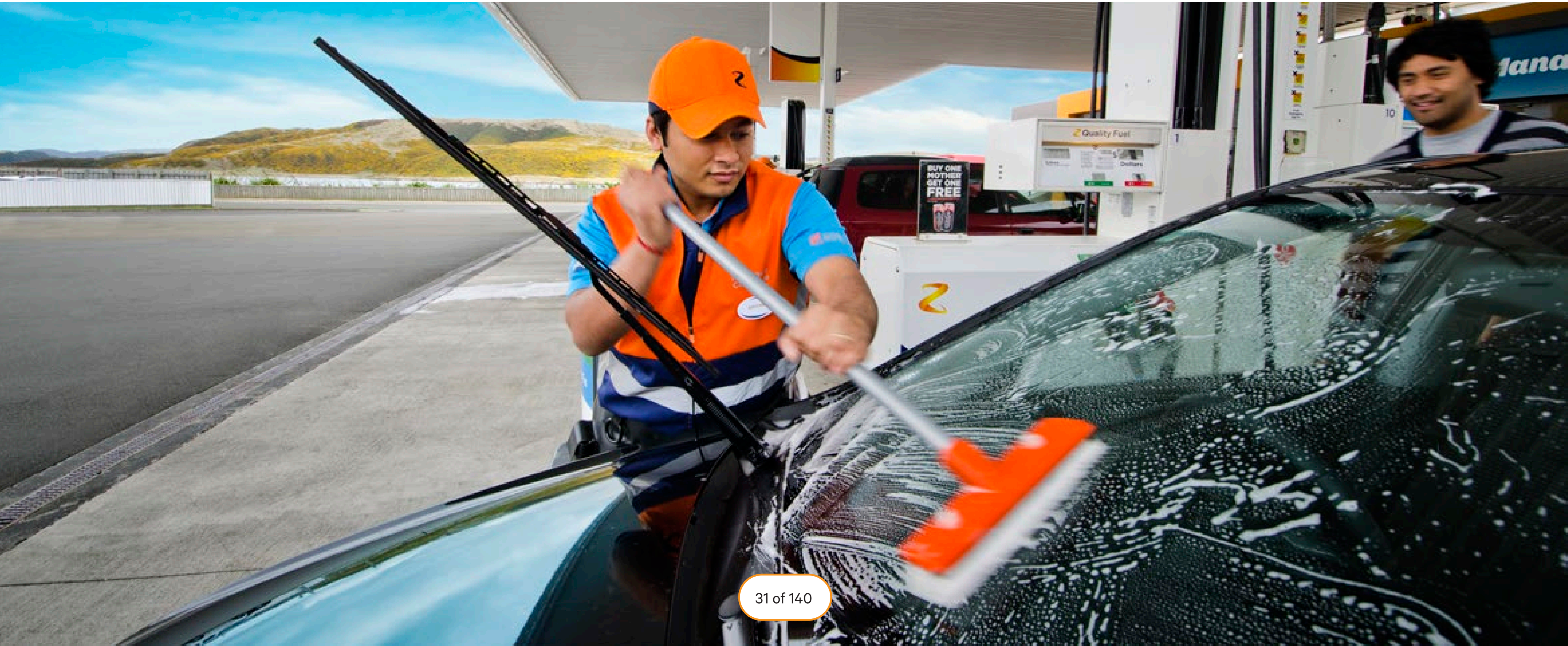
Strategy 3.0 is a very deliberate capability-led strategy that focuses on building the capabilities that will enable us to operate a more productive core business and deliver earnings growth through to and beyond 2021.

It follows on from our previous two strategies that were essentially investment-led: we invested growth capital and built customer-facing assets and supply chain infrastructure.

Hamish O'Brien is Z's Strategy Manager.

> *"Strategy 3.0 introduces an increased focus on capability and productivity for the business, and is aligned with our capital strategy.*
>
> *If we are to invest further growth capital in the core business, it will be through recycling capital. We will invest in new capabilities in customer experience and technology, a key enabler for Z. Recycling capital will also enable us to invest in innovation within and beyond our core business.*
>
> *The various strategies align with what we stand for. They're not about unwinding or doing anything that would be inconsistent with our aspirations to be a world-class Kiwi company."*

Evolving our customer experience

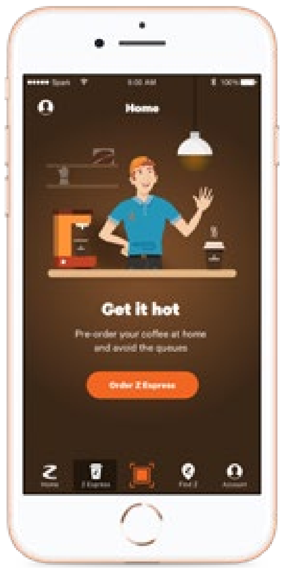


Evolving our customer experience

We're working to develop and deliver a differentiated and relevant customer experience to drive customer loyalty and, in turn, create the opportunity for Z to deliver superior business returns.

Direct feedback tells us we've been delivering a great experience for our retail customers, especially on the forecourt. We want to continue to evolve that experience to increase the number of customers who are emotionally connected – loyal – to our brands.

We've been 'walking in our customers' shoes' and looking at how we can take away the pain points for our customers and create an unexpected experience that they love.



The cost of retaining customers has never been higher. Naturally, customers want a great offer and a great price.

We want to be more responsive to our customers and bring products and services to market more quickly. What we've done and how we've led over the last 8 years to create a successful business won't be enough for the future.

Jane Anthony is Z's GM, Marketing.

> *"We've always been passionate about our customers and always will be. In a commodity market that's heavily driven by price promotion, the only way to differentiate for our customers is through customer experience. That's what makes people come back. A great customer experience creates true loyalty."*

"A great customer experience creates true loyalty."

SDG included here

3

Making a change for good in our retail stores

Our pies, including vegetarian and vegan options, are big sellers.

We're increasing the healthy food options in our retail stores because we want to make it easy for people who want healthy food on the go.

- We've increased our snacks range to include more healthy options.
- Our new, fresh sandwich range has increased our sandwich sales by 50 percent year on year.
- We have more low-sugar options in our drinks range.
- Our drink promotions now have a healthy option. For a food and beverage combo promotion, customers can choose a bottle of water or a fruit juice instead.
- We sell bottles of water to raise money for Plunket. Last year, we contributed $16,000.

SDG included here

12

Z retailers have stopped offering plastic bags to customers

Our research showed that the average number of items a customer buys from one of our convenience stores is three. And usually their car is parked right outside the store.

We still have some plastic bags in-store if a customer asks for one. But when they run out, we won't be replacing them.

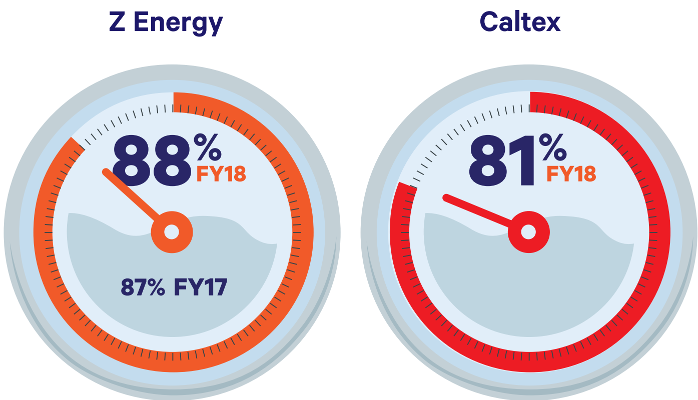
The goal is by June this year, customer plastic bags will be gone from Z.

The Sustainability team has worked closely with our Convenience Store team to lead the industry on getting rid of plastic bags.

We're pretty careful about packaging in our stores. Our pies don't come wrapped in plastic.

> "Plastic bags will be gone from Z."

Customer satisfaction



Building our innovation capability

Through innovation, we're building on the fast, friendly, hassle-free value proposition we have with our customers. Innovation for us means systematically identifying missed opportunities with existing customers to find what works for them.

We've created a dynamic, flexible, and experimental approach to innovation. We've built and placed next-generation products and services into the market to test with customers. And we've built our innovation capability across the company through initiatives such as our Innovation Masterclass.

Last year, we brought on board Chief Innovation Officer Scott Bishop. This year, Scott has led a dedicated team, working purely on the customer experience, at the Innovation Refinery – Z's innovation hub in Auckland.

The team is made up of human-centred design practitioners, service designers, creatives, and makers. Most of them have no oil industry experience – an intentional choice to drive outside-in, customer-centric conversations.

Meredith Ussher is Z's General Counsel.

> *"We want to focus ourselves more and more on supporting our innovators to explore new ways to take the next big leap. It's about putting ourselves in the strongest position to make the biggest impact we can."*

With the support of the business, the team developed *Fastlane* – the ultimate refuelling experience.

Using a new mix of existing technologies, *Fastlane* enables our customers to drive in, fuel up, and drive off. No onsite payment is needed.

Fastlane came out of the Innovation Refinery as an experiment. It took around 3 months to get it from concept stage and into nine sites.

With the goal of reducing pain points for our customers, we'll be doing a lot more sprint innovation activity.

Mark Forsyth is Z's GM, Retail.

> *"People are time poor. They want things to be easy, and they want things to be relevant to them. So we're focused on making it easy for people to get in and get out. And that's whether they're fuel customers or shop customers."*

SDG included here

13

Investing in Mevo to learn

Z has invested $250,000 in Mevo, a Wellington-based start-up that offers car sharing, using electric vehicles (EVs). Mevo is the world's first climate-positive on-demand vehicle company.

It's another experiment for us. Z entered into the partnership with Mevo to learn more about the use of technology in the customer experience. We're keen to learn more about what the future holds for zero car ownership, mobility on demand, and changes in customer consumption.

These projects are part of a wider portfolio of opportunities that the innovation team is exploring for future developments.

Erik Zydervelt is Founding Director and CEO at Mevo.

> *"With Z's support, Mevo is helping to shape the future of mobility in New Zealand. Together we are learning so that we can grow a transport network that supports the future needs of our cities and the people living in them."*

Supporting our people to fulfil their potential

At Z we focus on achieving extraordinary outcomes by setting the appropriate context, rather than by trying to control people. High-performing and talented people will do much better work if they understand the context.

We don't just employ people, divide them into functional departments, and tell them what to do. We give them a reason for belonging, the possibility of a bigger purpose, and all the support they need to achieve their goals.

We recognise and remunerate our people (see page 132) well for creating value through performance.

> **"Z is creating an environment where we can be successful, being ourselves."**

Developing the capabilities and mindset for growth

SDG included here
8

Z's Organisational Development Strategy 2018–2020 was developed to support the delivery of Strategy 3.0. The strategy is underpinned by three strategic enablers, each with a set of outcomes supported by a programme of work.

- Culture – our culture inspires and facilitates extraordinary performance and enables a mindset and the capabilities we need for growth.
- Capacity – our people are able to focus on the right things and do more of what matters most, with less.
- Capability – we have the organisational, functional, and technical people capabilities needed to deliver on Z's aspirational goals and to sustain business success.

Helen Sedcole is Z's GM, People and Culture.

> *"We're an iconic employer in New Zealand, and that didn't happen by chance. As the world continues to change, Z is creating an environment where we can be successful, being ourselves. We're taking a well-rounded approach, focusing on culture, capacity, and capability. We're holding on to what makes us special – what we believe in and what we stand for."*

High employee engagement in our retail networks

Both networks are made up of focused and committed retailers.

Our Z retail network continues to have strong engagement scores. The engagement score for Z's retail site staff this year is 71 percent.

This year, Z's retailer network was one of 10 employers across Australia and New Zealand to achieve Aon Best Employer accreditation status.

The status recognises record high employee-engagement scores and outstanding people practices. Engaged employees contribute to a great customer experience and create measurable value for the company over time.

Keith Murray is a Z Retailer who operates 10 sites across central Auckland. Keith employs 97 staff and is involved in decision-making at Z's corporate level.

> *"I'm on the HSSE Retail Forum and the Retail Panel. I've been involved in bringing a retailer perspective to innovations such as the trial store concept and Fastlane, which is in use at three of my sites."*

Best employer accreditation for Z

This year, Z's corporate entity received its third consecutive year of Aon Best Employer accreditation status. In May 2018, we'll find out if we have once again been accredited for another year.

Within Z's corporate office, our engagement result this year was 76 percent. This remains the same as last year, and sits in the top quartile of engagement results for all organisations in Asia Pacific that measure with Aon.

Lindis Jones is Z's GM, Corporate.

> *"Z has an extremely high level of staff engagement. We don't measure for measurement's sake; we understand the value of the discretionary effort our team commits to every day. For us, that's a very real competitive advantage. Z is also competitively advantaged through the loyalty of our customers. We've gained that loyalty by being worthwhile to deal with, not just through loyalty schemes."*

SDG included here
3

A strong focus on keeping our people safe

We want to run a business that is healthy and safe for our people, our partners, and the environment. We made good progress in FY18 and improved many of the measures we monitor for Health, Safety, Security, and the Environment (HSSE). We also significantly reduced the operational risks of robberies and road transport incidents while improving the biodiesel plant so that it is now safer.

Z's Operational Risk Management system (ZORM) is key to achieving ongoing improvements. ZORM creates a framework that our people can use to more effectively manage operational risks. In March 2018, ZORM was certified against an international standard (OSHAS 18001), meaning we are now confident it has been set up well and will deliver results over time.

We are now half way through our 4-year plan to develop a generative safety culture by 2020. The progress we have made means we are now ready for the next stage of this journey.

Next year, we will increase our focus on building an integrated business-led approach that we believe is needed for sustainable operational risk management. This will mean everyone at Z takes a proactive approach and initiates actions; everyone has the capabilities, resources, and confidence to lead on HSSE.

Our full HSSE performance metrics are set out in the appendices.

Executive safety 'walk and talks'

FY18	FY17
56	76

Total recordable case frequency (TRCF)

Total

FY18	FY17
0.86	1.36

	FY18	FY17
Z employees	0.26	0.56
Retailers and Mini-Tankers franchisees	1.00	1.54

Lost time injury frequency (LTIF)

Total

FY18	FY17
0.65	1.20

	FY18	FY17
Employees	0.26	0.56
Retailers and Mini-Tankers franchisees	0.75	1.35

Shane Blackwell is Retail Business Development Manager at Z. Shane earned the title of HSSE Hero by working with Z's retailers and site staff to help make our environments safer against robberies.

> *"My role enables me to make a difference with our people. At Z, health and safety are not just words. I want to make sure all our people have the structures, resources, and capability to safely perform their roles and go home safe and well every day."*

Managing fatigue through technology

Z's Mini-Tanker business is demonstrably safer now than it was a year ago. We piloted and then installed two-way cameras in our Mini-Tanker cabs. The cameras that point into the cabs have retina-scanning technology that monitors a driver's alertness and fatigue levels.

Getting speed down through better conversations

Our improvements in the Mini-Tankers fleet also resulted in a reduction in over-speed events. Twelve months ago, there were close to 11 over-speed events per 100kms travelled. We have dramatically improved this result and are now averaging less than 0.35 over-speed events per 100kms.

This outcome has been achieved by working with our Mini-Tanker operators and having straight-up conversations about why their safety matters.

SDG included here

3

A failed robbery still puts site staff at risk

We've put a lot of time and effort into our layered defence to detect offenders as early as possible. We aim to delay them and buy time for our staff to get to safety, and make it difficult for offenders to take anything.

Motor vehicle incidents

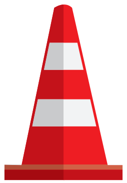
FY18 **2** FY17 4

Robberies

FY18 **23** FY17 23

Number of spills (Loss of containment)

FY18 **0** FY17 0



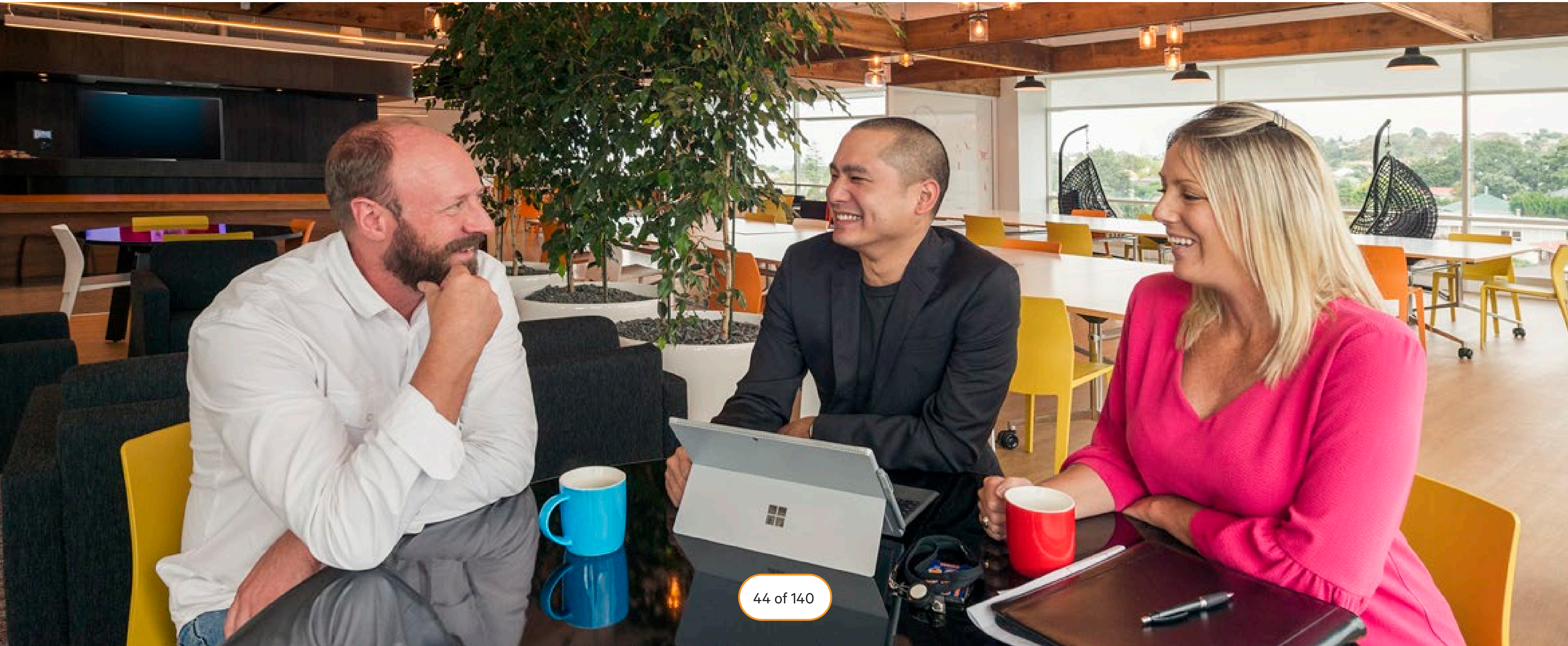
We now have bollards across the front of every one of our sites to stop ram raids. We've invested in improved CCTV, fog cannons, reinforced glass, alarms, tobacco safes, as well as safe rooms for staff. And it's starting to work.

This year around 70 percent of robberies had no site-staff contact.

Julian Hughes is Z's GM, HSSE.

> *"A failed robbery still puts our staff at risk. We have a concept called 'failing safely'. We consider we've failed safely when there's a robbery at one of our sites, and our staff have no contact with offenders. A robbery is traumatic for staff. We wanted to lessen that trauma by creating some physical separation from the offenders.*
>
> *The layered approach buys our people time, and the safe rooms provide somewhere safe for them to operate the fog cannons and call the police. Failing safely is an accurate way to describe what safety is all about. You can't prevent everything from happening. But you can control the environment so that when a robbery does happen, people don't get hurt."*

Making the disciplined business decisions



Delivering the financial benefit

We have delivered the synergies from our increased scale since acquiring Caltex. The business benefit has generated $39 million, which shows up in this year's financial result.

We won't be referring to synergies in the future, but future value realised will show up in the form of strategy value. This is less about the transaction and more about how we generate future value from the assets and capabilities of the business.

Focusing on earnings growth

SDG included here
8

Our goal is to be a customer-focused and productive organisation. We're making the disciplined business decisions that will enable us to achieve that.

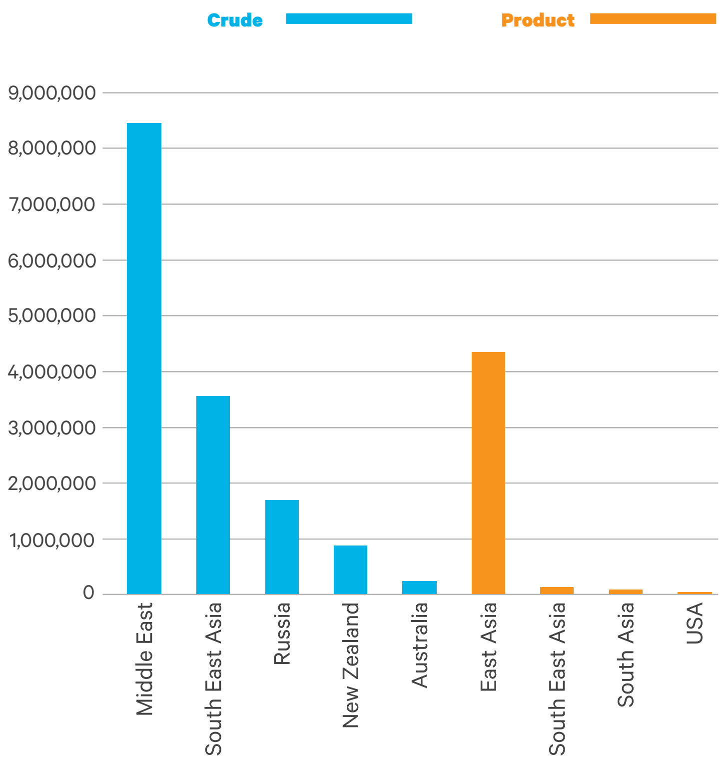
The capital base of Z's core business will not expand. We will recycle capital by selling assets that produce lower returns and put that money to work in areas where we can realise higher value and support Z's business beyond hydrocarbons.

We're committed to increasing distributions to shareholders, and reducing debt at half the rate that we've reduced it at over the past 2 years.

Earnings growth will come from existing assets and market positions, with limited capital investment. A large portion of our earnings growth will come from within the supply chain and commercial businesses.

We are committed to maintaining volume and margin through innovation, data capability, and customer experience initiatives.

Product and crude purchases by origin (barrels)



Leveraging the scale of our supply chain

SDG included here
12

We're maximising profitability from Z's supply chain. Within the supply chain, the key source of value lies in changing existing arrangements to make sure we capture the benefits of scale, both physical and contractual.

Scale gives us flexibility and options for the future. With something bigger, we can simplify and optimise it so that our cents-per-litre cost goes down as we get more efficient. We're working to be more efficient, more productive, and more resilient.

Dave Binnie is Z's GM, Supply and Distribution.

> *"We've got a bigger train set if you like, so we can connect it up differently. Where we had two separate things, we've now got one thing. That means we can optimise how that asset is working. We continue to release capital by selling some of the kit we no longer need."*

Another way we drive strategy through the supply chain is with our partnerships. Z has recently entered into a new refining partnership with Exxon Mobil. We'll work together on our crude oil purchases and process them through the refinery in a way that generates more efficiencies.

Z and Farmlands have entered into a partnership that strengthens fuel options to rural New Zealand. Peter Reidie is CEO, Farmlands Co-operative Society Limited.

> *"Farmlands shareholders now have access to the largest fuel-supply network in the country, which includes service stations, diesel stops, and product delivered on site. Through that network, Farmlands provides shareholders with a high-value card fuel offering with its Farmlands Card, which is now accepted at all Z-branded sites."*

With increased scale, comes increased risk. Our reputational risk is higher now, simply because we're bigger. Z owns a big chunk of the country's infrastructure.

Being such a big part of the industry creates more general operational risk for us as well. That could be a supply risk or an environmental risk. Any share-price impact from reputational damage is now bigger too.

Meredith Ussher is Z's General Counsel.

> *"We can continue to lead New Zealand in how we participate by addressing our risks early, responding rapidly to any unpleasant surprises, and driving fast, robust solutions that minimise disruption to our customers, our people, and our business."*

Bringing third-party terminals under Z's operational control

Project Pātaka (storehouse) is another of our Strategy 3.0 commitments. Z operates six major fuel terminals in New Zealand and has another six operated by a third-party company that also operates all of BP's terminals.

Over the next few months, Pātaka will bring all six third-party terminals out of that arrangement and under Z's operational control. Combining them with the Caltex terminals, which we operate ourselves, means lower overheads, and greater efficiencies and benefits.

Maximising opportunities within the core business

A focus this year is to maximise all the opportunities within the core business so that we remain competitively advantaged in any future scenario.

With two networks we have more options. If we think a Z site makes a more attractive option for us being a Caltex site, we can sell it to one of our existing Caltex retailers.

Selling Z sites to our existing Caltex retailers gives the retailers an opportunity to invest in more sites to grow their individual businesses.

The advantage to Z is we keep that volume in the whānau. And it allows us to invest money from the sale of those sites in continuing to upgrade our Z sites. By recycling capital, we can preserve growth capital for moving beyond the core.

Nicolas Williams is Z's GM, Commercial.

> *"Immediately following the Caltex acquisition, Z set about to unify the two commercial businesses into a single, unified, national fuel offer for commercial customers. We've invested in people, systems, and in technology such as a unified card platform that will bring the two networks together. Over the next year, investments in these three areas will start to generate new value for our customers and investors."*

Z welcomes a Commerce Commission study

The Ministry of Business, Innovation and Employment (MBIE) last year commissioned a report into the financial performance of the fuel market in New Zealand. The report concluded that "we cannot definitely say that fuel prices in New Zealand are reasonable, and we have reason to believe that they might not be."

Some fundamental issues compromised the integrity of the study: it involved only four market participants; the timeframes were very tight; the terms of reference were not met; and it was not possible to obtain necessary information from two of the companies.

MBIE has recommended to the Minister that the Commerce Commission carry out a market study once legislation is enacted to do so.

Z welcomes the involvement of the Commission because it has the right expertise and authority to obtain information from all fuel-industry participants.

We will engage in our straight-up way and share everything in any inquiries and investigations into supply chain resilience, fuel quality, and fuel pricing. Part of our engagement is to help provide a full understanding of the fuel industry and different business models to support well-informed decisions.

We believe the industry is strongly competitive. However, we acknowledge that both the level of discounting across the industry and the different pricing in different parts of the country can be confusing for customers.

We have submitted evidence to the study that shows:

- Z's returns are fair and reasonable against domestic and international comparators
- low to no barriers to entry to the New Zealand market across the value chain
- competition in the retail market has never been stronger.

Significant supply disruptions

Z will participate in the ministerial review of the refinery to Auckland pipeline outage that will take place this year. The pipeline, owned and operated by Refining NZ, is a highly strategic asset for the country as a whole. All of Auckland Airport's jet fuel passes through the pipeline, as does a large volume of Auckland's petrol and diesel.

After a critical failure in September last year, the pipeline needed to be shut down for repairs, primarily affecting our aviation customers. Along with the rest of the industry, Z operated for 10 days in September in crisis-management mode to maintain fuel supply to Auckland by truck.

As a result of the crisis, our retail and commercial customers experienced significant supply disruptions between November 2017 and early January 2018.

The disruptions created the most material fuel issue New Zealand has seen in the last 20 years.

New Zealand is isolated from major fuel markets and relies heavily on the safe and secure operation of key infrastructure. While the current infrastructure has served New Zealand well for decades, Z had previously submitted to the government that this type of disruption was a risk. We are on record as saying we believe there's a need for more infrastructure resilience.

There is no economic business case for Z in either building a second pipeline or independently building more resilience into existing infrastructure. However, as a company committed to doing right by New Zealand, we want to discuss options to build greater infrastructure resilience.

Blair Howell is Z's Risk and Assurance Manager.

> *"What's important is that we learn from these types of events, so that in the future we are more resilient and better prepared. The more resilient we are, the more resilient our customers and communities will be."*

"The disruptions created the most material fuel issue New Zealand has seen in the last 20 years."

SDG included here
7 13

Rescheduling the full-scale launch of Z's Bio D

The construction of our Bio D plant is complete and tested, and we've successfully produced biodiesel.

We've now completed the necessary improvements to ensure the health and safety of our operators and the protection of the environment.

Our focus now turns to ensuring reliable production before going to market in FY19.

Getting debt down to a level we want

We've got our debt down to a level we want one year ahead of target, enabling us to pay more dividends to our shareholders sooner. And we'll continue to pay down our debt.

We replaced short-term acquisition bank facilities with, on average, 10-year debt by taking long-term debt from the US called United States Private Placement notes. It diversifies our funding sources, significantly extends the average duration of our debt portfolio, substantially reduces refinancing risk, and provides options for future financing decisions. This also increased our balance sheet resilience and capacity to withstand unexpected shocks.

We completed the issue at a competitive margin and created relationships with a new set of highly sophisticated long-term investors.

Better with you than with us

Since listing in August 2013, Z has paid cash dividends of $448 million and grown the dividend per share from 22 cents in FY14 to 32 cents in FY18, an annual growth rate of 10 percent.

The board expects to pay a dividend of 90 – 100 percent of underlying free cash flow at the midpoint of earnings guidance in the first year of the new policy.

The theme we refer to when we talk about capital management and the distribution policy, is 'Better with you than with us'. This is the opposite of building a 'war chest' and keeping cash for what the future might hold. We're giving it back to shareholders as quickly as possible while also reducing debt.

We canvassed our shareholders extensively

We canvassed our shareholders extensively, and 'Better with you than with us' is what they've told us they want.

At 31 March 2018, on a 12-month forward net-dividend yield basis, Z will offer one of the top 5 yields based on the midpoint of dividends per share guidance on the NZX20 (excluding property comparators).

Z's Historical Cost (HC) NPAT has been volatile over the past 5 years. The volatility reflects the impact of changes in crude oil and refined product prices on the value of inventory Z holds. Under NZ GAAP accounting, these flow into reported earnings.

To best measure underlying financial performance and enable a comparison of Z's core underlying business across years, Z uses Replacement Cost (RC) EBITDAF and RC NPAT. These are non-GAAP measures commonly used by downstream-fuel businesses.

RC measures adjust the cost of sales as if product had been procured at the time of sale. This has the effect of excluding the impact of changes in crude oil and refined product prices on the value of inventory Z holds.

SDG included here
8

Z's earnings have grown year on year over the last 5 years

On an RC basis, Z's earnings (NPAT and EBITDAF) have grown year on year over the last 5 years. This has been driven by a focus on high-value capital investment and optimising Z's volumes and margins.

The acquisition of Caltex NZ generated a significant change in earnings in FY17. Earnings growth has continued in FY18 primarily due to a full-year contribution to earnings from Caltex and a realisation of synergies from the acquisition.

Dividends have increased by around 10 percent each year

Since listing in August 2013, dividends have increased by around 10 percent each year to a total FY18 dividend of 32.3 cents per share or $129 million. To fund the Caltex acquisition, Z increased its leverage to 2.6× Debt/EBITDAF. During FY17 and FY18, the business has deleveraged to a Debt/EBITDAF of 2.1× while at the same time delivering dividend growth of 10 percent per year.

The table on the right summarises Z's key financial performance measures over the period since the company was listed on the New Zealand and Australian stock exchanges in August 2013.

Chris Day is Z's Chief Financial Officer.

> *"In the new financial year, our distribution policy will change as a further evolution of what we've been doing for the last 8 years.*
>
> *We've been able to pay down debt faster as a result of delivering greater synergies than was originally anticipated and by sustaining the growth in business performance. That means we're hitting our debt targets one year earlier than projected.*
>
> *Our shareholders will benefit from that success in the form of a significantly higher dividend from the 2019 financial year onwards."*

5-year summary financials		FY14	FY15	FY16	FY17	FY18
HC NPAT	$m	95	7	64	243	263
RC NPAT	$m	101	121	123	176	205
RC EBITDAF	$m	213	279	287	425	449
Operating cash flow	$m	81	182	129	255	395
Dividend per share	cps	21.7	24.2	26.6	29.3	32.3
Dividend cash paid	$m	87	97	106	117	129
Capex integrity	$m	34	32	28	45	77
Capex growth	$m	40	38	42	32	14
Capex total	$m	**73**	**70**	**70**	**77**	**91**
Leverage	%	30%	31%	33%	58%	52%
Debt/EBITDAF ratio	×	1.2	0.8	1.3	2.3	2.1
Opex (excluding gains/losses and CNZ acquisition expenses)	$m	288	294	302	369	398
Marketing volume	ml	2,318	2,309	2,248	3,795	4,145
Margin per litre	cpl	**18.0**	**19.3**	**21.3**	**17.6**	**16.5**

RC EBITDAF variances to FY17

Fuel margins impacted by increased loyalty costs with year-on-year opex growth

Refining

Volume throughput up 16 percent (3m bbl) to PCP

Per-barrel margin up 14 percent to PCP

Average NZD/USD exchange rate comparable to PCP (0.72 to 0.71)

Fuels and non-fuel

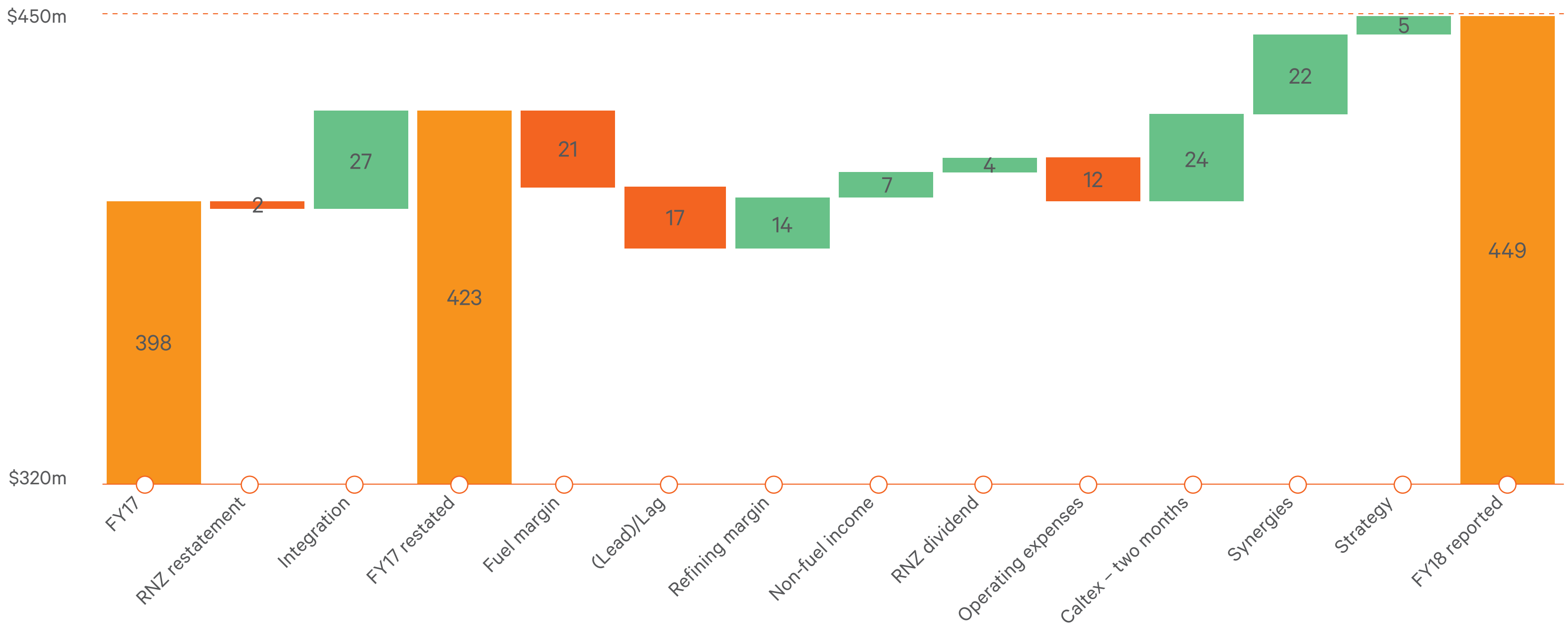
Fuel volumes relatively static driven by market dynamics which have negatively impacted margin (discounting and loyalty)

Price lag mainly in jet contracts

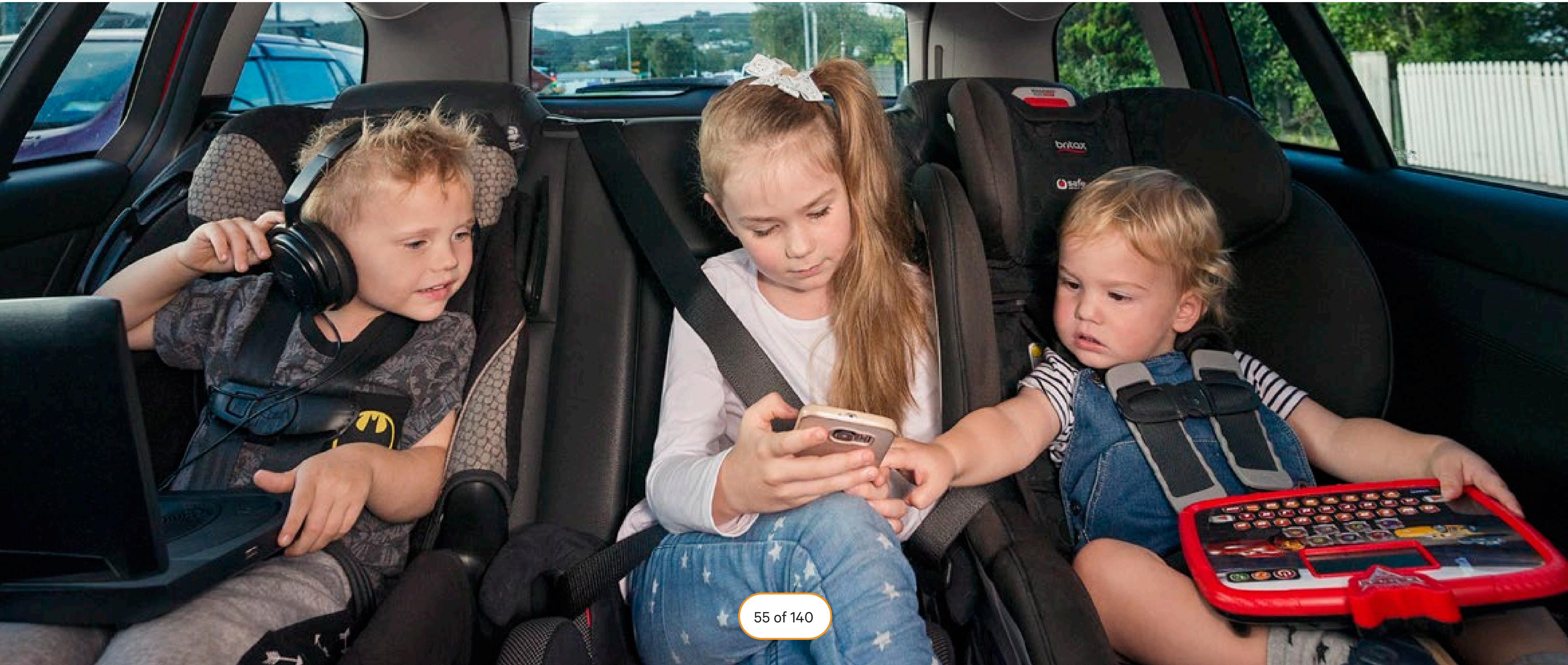
Non-fuel margin year-on-year increase due to strategic promotional activities

Operating expenses and one-offs

Opex has increased $12 million as a result of Refining NZ pipeline outage and Z's investment in capability development – customer experience, innovation, loyalty and data management



Preparing for what will matter in the future



Making informed choices about our future

We still live in a world where oil is the transport fuel of choice – no other energy source has yet combined the same availability, storability, and energy density.

We believe that from the middle of the next decade, demand for petrol and diesel will start to decline as traditional internal combustion engines are replaced in greater numbers by electric vehicles.

Z is a downstream retail-energy company, with no exposure to upstream drilling and extraction operations. That makes us well placed to manage this change and continue to have a sustainable business in a world that will transition to more sustainable forms of energy.

“We’re excited by the opportunity to transition the company from fossil fuels to a low-carbon future.”

Agility in a volatile world

SDG included here

7

We know the future is at times volatile, uncertain, complex, and ambiguous. It could well be all four of those things at once.

The benefit we have as a company is that what will disrupt our business is relatively certain. We see it coming. This is a privilege few industries enjoy in a world of unparalleled change being driven by technology.

We believe that the future of transport and energy sectors will change progressively throughout the world. For this reason, we continue to spend time exploring other markets globally. We will be as prepared as we can be to make the most of changes to our market in New Zealand.

We’re determined to author our own future through the choices we create. We’re not going to execute every single one, but having choices is incredibly important.

The characteristics of our business provide market spaces where we could be advantaged in the future. We believe the success of this exploration depends on our ability to engage customers and innovate with new products and services. These are the same capabilities we are relentlessly pursuing in our core business.

None of this is about resisting a future that we believe is positive for the planet. We're excited by the opportunity to transition the company from fossil fuels to a low-carbon future and to do it in a way that's good for all our stakeholders.

> *"In the face of greater uncertainty, it can be risky and, over time, value destroying to bet billions of dollars on assets that must live productively for 30 years. In contrast, agility...is a better fit for a highly volatile world."*
>
> *– WEF/McKinsey White Paper*
> *Game Changers in the Energy System*

Our *What is Next* strategy focuses on creating options that will provide long-term sustainable value beyond 2021. We believe our future includes products and services we don't currently participate in. So we're exploring ways to set ourselves up to create value from those future opportunities.

From our view of the plausible demand for our core products, we don't expect our core business to be disrupted in the near term. That's why our focus is on creating value in the decades beyond 2021.

> *"Z's communication and clarity on strategic issues remains class-leading on the NZX."*
>
> *– Grant Swanepoel, Analyst at Craigs Investment Partners*
> *CIP Morning Sales Focus – 29 September 2017*

SDG included here
7 11
12 13

Continuing to solve what matters for a moving world

Our purpose *to solve what matters for a moving world* means that we plan for being more than a hydrocarbon company. We'll investigate participating in markets beyond fossil fuels.

Through building our capability to predict and react to the future, Z has already identified attractive market spaces that could open up opportunities for us to participate in.

We've identified three markets where we could win by extending our current capabilities or brand, or both.

- Future fuels – the next-generation fuels that will complement electricity as it replaces fossil fuels.
- We developed a house view on what we think the future of mobility in New Zealand looks like.
  See investor-centre.z.co.nz/investor-centre/assets/Uploads/House-View-No-2-Future-of-Mobility-January-2018.pdf
- The last mile – 80 percent of New Zealand's population lives within five kilometres of one of our sites.

"80 percent of New Zealand's population lives within five kilometres of one of our sites."

SDG included here

12 13

Preparing for an industry in decline

We can see the 'sunset' coming. This is not a blind-disruption scenario. We have the time to prepare and the benefit of seeing how the decline plays out in other markets across the world before it happens in New Zealand. That gives us the opportunity to learn from other countries' insights on the best way to manage it.

"Our medium-term focus is on maximising value from the core business we know today."

Returns can still be attractive in an industry in decline. In our industry, we'd have minimal excess capacity (terminal storage facilities) and low price elasticity of demand. Consolidation can occur, and Z has already done this – with possibly more to come.

Our medium-term focus is on maximising value from the core business we know today. It's a capability-led strategy to increase productivity by optimising the scale of the two businesses we joined together.

Chris Durno is responsible for exploring Z's future options.

> *"In the medium term, we want to leverage our capability and our brand to extend the business into products or services that are relatively close to what we do.*
>
> *We're not going to go salmon farming in the Marlborough Sounds. But we may go into supply-chain management of another product because we're fairly good at that.*
>
> *In the long term, we're looking for growth opportunities that we can start getting active in now. Opportunities that we believe will come to fruition over that longer term. They'll look more like small innovation bets. They'll be agile as opposed to big. They'll involve partnering with people, and we'll explore our way into them."*

Everything we do must align with what we stand for

Our stands

We're making our stands more integrated so that each one supports the others. As with any unified approach, weaving them together makes them stronger than they are individually. They all work together and are of equal importance. See z.co.nz/about-z/what-matters/

Health, Safety, Security, and Environment

Health, Safety, Security, and Environment (HSSE) matters because it is about the safety and wellbeing of our people and planet, while sustaining the long-term future of our company.

Community

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

Environmental Sustainability

We stand for an environmentally sustainable New Zealand that is an example to the rest of the world and an inspiration to Kiwis.

Diversity and Inclusion

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

Standing out through our 'why'

This year we relaunched *The Z Why*, our foundation document that explains our brand, vision, values, and strategy, and what Z stands for. Z people are committed to The Z Why. It's why we do things. See why.z.co.nz/why

The relaunch came about as our internal and external contexts changed. We are a much larger organisation with the addition of Caltex, and our customers expect more from us. In turn, our stands have evolved too.

What we stand for

The stands are the foundations of the business and support our aspirations in diversity and inclusion; community; health and safety; and environmental sustainability.

As a large, locally focused business, we can bring our energy and thought leadership to shaping this moving world in a way that is consistent with what we stand for.

This year, we launched our Diversity and Inclusion Stand and updated our other three stands. The changes reflect a fundamental resetting of the company's foundations and context, and sets our vision for the next 3 years.

> **"The stands are the foundations of the business."**

SDG included here
5 8 11

Our new Diversity and Inclusion Stand

Last year, we announced the introduction of our Diversity and Inclusion Stand (z.co.nz/about-z/what-matters/diversity/), and this year we've embedded diversity and inclusion into our people policies, processes, and practices. We've also been certified with the *Rainbow Tick*.

We want to reflect the diversity of New Zealand with an inclusive culture so that our own diversity can be fully expressed and create tangible benefits.

"We will lead the way in developing a Kiwi company that has our people being successful, being themselves."

Our gender balance has improved significantly since the early days of Z, and our target is to achieve 50/50 gender balance at all levels by 2020. We took a small backward step after the Caltex acquisition, but we will close the gap by 2020.

This year, we measured inclusion for the first time using the Deloitte Inclusion Maturity model and the feedback from our annual engagement survey. Both show inclusion is high overall, but our Asian and Māori staff feel less included.

We have three focus areas leading up to 2020.

1. Māori – we have embraced Te Ao Māori and it is an integral part of Z.

2. Gender – our gender balance reflects New Zealand at all levels, including the board and operational roles.

3. Inclusion – our Asian staff have equally high levels of inclusion as other employees.

SDG included here
4 11

Our broader Community Stand

We refreshed and broadened our Community Stand, which was first launched in 2014 (z.co.nz/about-z/what-matters/community/). The original stand was focused more on 'close to home', with initiatives mainly within the wider Z whānau and our local communities. We want to do more.

Some of our achievements under the previous stand included:

- Z Foundation (hardship fund) launched
- scholarships for Z retail network
- skilled volunteering programmes
- financial literacy training for site staff
- offering New Zealand Certificate in Retail – Level 4 qualifications for site staff
- Workbridge partnership and inter-agency partnership for disability employment
- St John commercial partnership and rollout of defibrillators across all Z sites.

One of Z's key areas of focus under our new community stand is to lift the potential of young people by building their capability, confidence, and career choices. We've commissioned research into how Z can amplify the voice of youth and support vulnerable young people to find their voice.

We've also partnered with Minded, who build online learning to help young people understand themselves, plan their future, and get ready for starting a job.

Tom Ware is Site Leader with Z's retail network. He recently graduated with a Bachelor of Applied Management through Z's scholarship programme.

> *"Being part of the programme was a once-in-a-lifetime opportunity for me. I was able to complete my degree due to sheer determination and Z's support and encouragement to help me achieve my goal."*

Over $5 million of Good in the Hood funding has gone to community groups

SDG included here

11

Once again, we ran our annual Good in the Hood community fundraising programme. The 820 groups selected to participate at Z service stations all received a share of the $1 million in funding given away during the Good in the Hood voting month in May.

Groups also benefit from increased exposure and the chance to interact with the community at their local Z during voting month.

Each of Z's 204 service stations selects four groups to support and has $4,000 to donate. Customers then determine what percentage of the funding goes to each group by voting with an orange token every time they shop at Z during voting month.

Every Z service station donated an additional $1,000 of Good in the Hood funding this year outside of voting month.

Since 2012, over $5 million of Good in the Hood funding has gone to community groups and projects helping the country's neighbourhoods to thrive.

Everything comes back to our aspiration to be a world-class Kiwi company.

SDG included here
3 8

Our HSSE Stand

We believe Z's purpose to solve what matters for a moving world compels us to act on HSSE.

Our stand for health, safety, security, and environment (z.co.nz/about-z/what-matters/health-safety-security-and-environment/) remains more relevant than ever. Over the past year, we've built the capability, leadership, and culture to operate a safe business.

We continue to make changes to our business, including progressively integrating our terminals under one management system, commissioning the biodiesel plant, and optimising our retail networks.

We achieved certification for ZORM against an international standard while reducing the amount of harm to people and the environment and improving the controls for some of the top priority operational risks in our business. This is a significant achievement that we are proud of.

We still have work to do, however, and we have defined what the next phase of our work looks like. In FY19, we will enter a continual improvement phase, where we look to leverage what we've created and build even greater ownership for HSSE with all of our people.

"We will build even greater ownership of HSSE with all of our people."

SDG included here

7 11 12 13

Our refreshed Environmental Sustainability Stand

We will be bold and provide leadership and solutions to enable our customers, stakeholders, and communities to join us on the journey to a low-carbon future (z.co.nz/about-z/what-matters/sustainability/). Some of our activities are set out below.

We're setting a minimum energy standard for shipping

Our Supply and Distribution team and our Sustainability team have taken an integrated approach to set a minimum energy standard for tankers shipping our refined products from Asian markets.

We also work to get tankers that can take backloads whenever possible.

The minimum standard includes picking up methanol from Methanex on their return. Backhauling means we're not sending back empty ships.

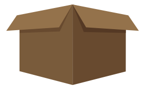
Collecting data on our waste

Each year, we collect data for around 50 percent of our waste streams from our retail sites, and conduct a waste audit on our key corporate sites. We then use this data to estimate the total volume of waste we generate as a business.

The total amount of waste plastics, cans, glass, and organic material recycled or composted increased due to the roll-out of our new forecourt recycling bins across Z Stations.

Recycling – cardboard and paper

FY18 **2,681** tonnes ↓ FY17 3,212 tonnes



Composting and organics

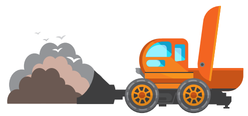
FY18 **470** tonnes ↑ FY17 442 tonnes

Recycling – plastic, cans, and glass

FY18 **1,250** tonnes ↑ FY17 923 tonnes

Waste to landfill

FY18 **2,142** tonnes ↑ FY17 1,698 tonnes



Total waste

FY18 **6,544 tonnes** ↑ FY17 6,275 tonnes

SDG included here
13

Greenhouse gas emissions

We follow the principles of the GHG protocol to measure our greenhouse gas emissions.

Operational and supply-chain emissions intensity increased due to greater emissions in the supply chain, resulting from the supply disruptions.

Due to the increased size of our business with the acquisition of Caltex, we've reset our emissions baseline to FY17 and have set targets against this baseline.

	FY18	Base Year FY17
Scope 1 – Z offices and retail sites	3,853	3,907
Scope 2 – Z offices and retail sites	4,223	4,045
Scope 3 – Z offices and retail sites	3,875	3,339
Scope 3 – New Zealand supply chain	40,770	40,031
Scope 3 – Share of refinery	618,483	634,848
Scope 3 – Rest of supply chain	983,939	807,542
Scope 3 – Z product emissions from our customers	10,330,585	9,488,277

Total emissions

Calendar year 2017 (base year)

10,981,989

FY18

11,985,728

We're investing in permanent forests

SDG included here
13

Our corporate and retail staff are getting out and planting trees. The planting is part of Z's partnership with Trees That Count, an organisation that's building New Zealand's community marketplace for native-tree planting.

Last year, Trees That Count planted 25,000 native trees in partnership with Z across New Zealand through Z's funding.

In July, we held a discount day. From every litre of fuel sold, we donated six cents to Trees That Count. We also gave customers a discount of six cents per litre. We'll be doing the same again later this year.

We've committed to offsetting our own operational carbon footprint through partnering with permanent forest providers to offset the emissions we're unable to reduce.

Our operational carbon footprint, including emissions from transporting our fuel around New Zealand, is quite big. This includes emissions from travel for our staff; electricity in our terminals, offices, and Z retail sites; waste from our terminals, offices, and Z retail sites; and HVAC in our offices and Z retail sites.

We're doing our bit to offset that through investing in permanent forest sinks. We estimate the total land area of the forests needed to offset our operational emissions would cover an area about the size of Great Mercury Island.

We continue our drive to reduce waste to landfill

SDG included here
12

Most of Z's waste comes from our convenience stores. We've countered that by putting modular recycling bins on Z's forecourts. The black part of the bins is made from 100 percent recycled plastic and our old grey bins make up some of the feedstock.

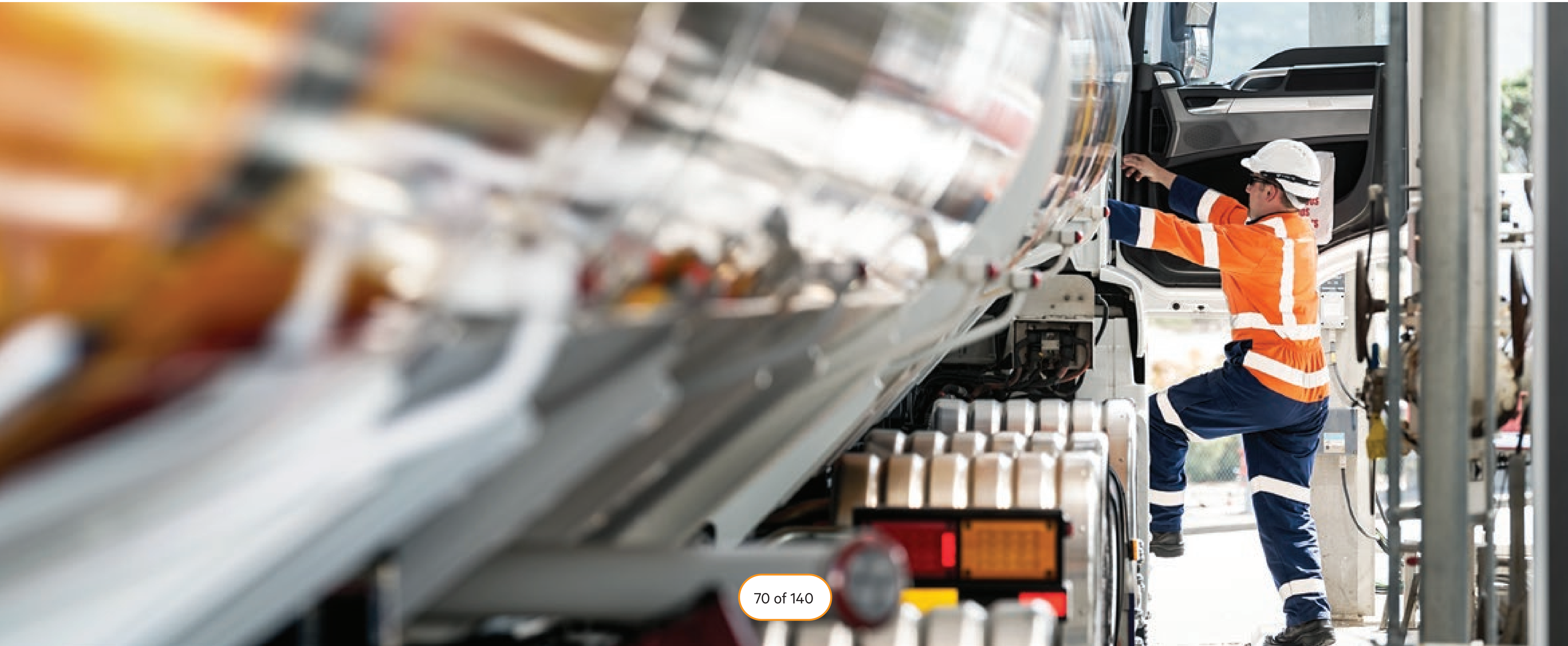
We found that, with the old bins, a lot of recycling was getting tainted and had to be thrown into landfill.

The new modular forecourt bins make it easy for customers to separate their recycling materials. And because the materials are less contaminated, there's a much higher chance they'll get recycled.

We encouraged conversations about climate change

We hosted a screening of the movie *An Inconvenient Sequel: Truth to Power* to thousands of people in Wellington and Auckland. The screenings, attended by 1400 stakeholders, reflected our leadership position and encouraged conversations about climate change.

Active corporate governance supports value creation



SDG included here
16

Leading Z on what matters most

This year, we are changing the way we report on corporate governance.

Our detailed corporate governance statement (z.co.nz/AR18CGC) reports against the NZX Corporate Governance Code, but is not repeated in the body of this report.

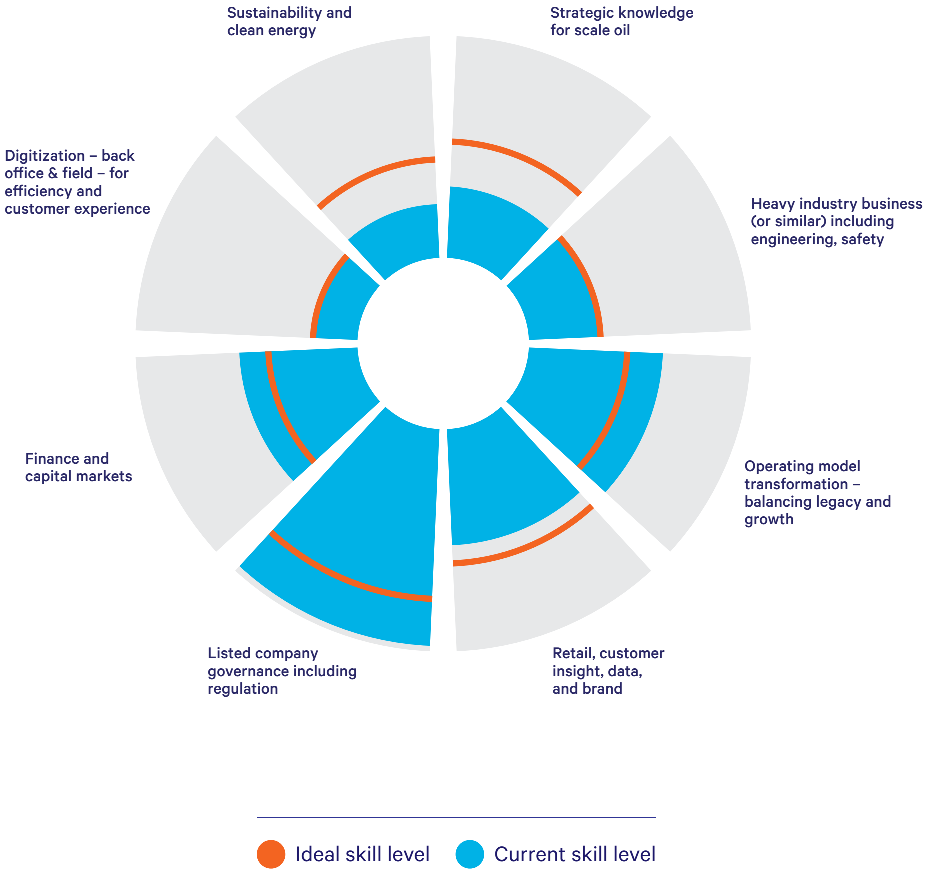
Instead, after talking to various stakeholders, we set out in this report a summary of what the board focused on during the year and the key focus for next year.

Z's board believes it should relentlessly focus on four matters: context, strategy, risk, and assurance.

To support the board's focus, each board meeting begins with an in-depth strategy discussion and finishes the day on administrative and compliance matters to provide sufficient time on what really matters.

The board has worked to strengthen the links between the capital allocation policy (including the revised dividend policy and debt deleveraging), the enterprise risk framework, and core strategy.

Director skills matrix at 31 March 2018



The board has focused on governance outside the board room

This year, the board focused on governance outside the board room. Directors have participated in Z's annual Safety Day, retail forums, safety walks and talks, and institutional and retail roadshows.

The board spent half a day with terminals staff following the integration of Z's terminals into Z management instead of third-party operators.

Director Alan Dunn has provided the benefit of his retail experience in New Zealand and overseas in working with Mark Forsyth, our GM Retail. Alan brings considerable experience in food safety, franchisee arrangements, and new product development.

Other directors also engaged in working with and mentoring our executives on matters they have particular expertise in. This work occurs outside of the usual governance/management boundaries. It happens, however, in a way that enhances the board/executive relationship, provides Z with the benefit of specific expertise, and supports the board in having insight and assurance about Z's people and operations.

The board is committed to engaging with ongoing learning, which includes learning from an 'outside-in' and experiential perspective.

The board's ongoing learning included the following topics.

- Income inequality – Max Rashbrooke (journalist and academic on politics, finance, and social issues) talked with the board about poverty and income inequality, what this means for New Zealand society in the future, and the impacts it may have on Z.
- Political environment – a political commentator talked to the board about the new coalition government and the likely policy direction, including topics such as the new Climate Change Commission.

- Exploring mobility as a service (one of our future strategic options) – the board experienced the future of mobility through a simulated experience aimed at growing an understanding of future transport options.

- Visiting Z's biodiesel plant – the board visited our biodiesel plant Te Kora Hou in Wiri, Auckland, in December 2017. The board had a working lunch with the plant team and heard from them about the journey to build the plant. They then carried out a safety walk and talk on site.

- Inclusive leadership – an external facilitator ran a training session with the board to understand unconscious bias and the potential impact on recruitment and the employment lifecycle for Z's people.

  The training was part of the board's goal to provide strong leadership on diversity and inclusion as well as supporting our new Diversity and Inclusion Stand and associated 3-year implementation plan.

- Discussing HSSE case studies – the board reviewed case studies of accidents, individually and as a group, and discussed key insights from an HSSE perspective.

- Engagement with Mini-Tankers – the board engaged several times with the Mini-Tankers team following an operational risk review that showed the need for improvement.

  The board discussed the findings of the risk review, and reviewed how the actions were implemented. Some board members also engaged directly with the wider Mini-Tankers team, and some attended the Mini-Tankers conference.

Board development will continue next year

Board development will continue next year with a series of planned activities covering the following topics.

- Innovation – understanding the capital flows supporting innovation in New Zealand, the potential entry points in New Zealand, successful innovation, and innovation within existing businesses.
- Sustainability in New Zealand – how Z can continue to show leadership in a low-carbon future and support the new Climate Change Commission.
- Governance and investor trends – ensuring governance within Z is current and consistent with best practice. Directors will also be active in developing their own skills and knowledge through external training and education.
- Partnering – how we can create value through partnerships, rather than working on our own.

The board plans to travel overseas to study businesses with similar features to Z. They want to explore businesses in parts of the world that have advanced carbon regulation or advanced EV penetration, or both. The aim is to better understand, and test our assumptions about, Z's future strategic options.

“We're looking at how we can create value through partnerships.”

Our financial statements

Statement of comprehensive income for the year ended 31 March 2018

	Notes	2018 $m	2017 $m
Revenue	Refer to note 4	4,570	3,863
Purchases of crude and product		(2,579)	(2,010)
Excise and carbon expenses		(1,011)	(941)
Primary distribution expenses		(56)	(41)
Operating expenses	Refer to note 5	(397)	(389)
Share of earnings of associate companies (net of tax)	Refer to note 17	1	6
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)		**528**	488
Depreciation and amortisation	Refer to notes 13 and 14	(102)	(89)
Net financing expense	Refer to note 6	(52)	(56)
Fair-value movements in interest rate derivatives		(9)	3
Impairment	Refer to note 13	–	(5)
Gain / (loss) on sale of property, plant and equipment		4	(1)
Movements in decommissioning and restoration provision		(3)	2
Net profit before taxation		**366**	342
Taxation expense	Refer to note 7	(103)	(99)
Net profit for the year		**263**	243
Net profit attributable to owners of the company		**263**	243
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Valuation adjustment of land and buildings (net of tax)		20	5
Share of associate other comprehensive loss (net of tax)		–	(1)
Revaluation of investments		(4)	–
		16	4
Items that are or may be reclassified subsequently to profit or loss			
Cash flow hedge – effective portion of changes in fair value		(2)	–
Other comprehensive income net of tax		**14**	4
Total comprehensive income for the year		**277**	247
Total comprehensive income attributable to owners of the company		**277**	247
Basic and diluted earnings per share (cents)	Refer to note 8	66	61

The accompanying notes form part of these financial statements.

Statement of changes in equity for the year ended 31 March 2018

	Notes	Capital $m	Retained earnings $m	Investment revaluation reserve $m	Employee share reserve $m	Hedging reserves $m	Asset revaluation reserve $m	Total equity $m
Balance at 1 April 2016		431	(94)	–	(3)	–	232	566
Net profit for the year		–	243	–	–	–	–	243
Other comprehensive income		–	(1)	–	–	–	5	4
Disposal of revalued assets		–	2	–	–	–	(2)	–
Total comprehensive income for the year		–	244	–	–	–	3	247
Transactions with owners recorded directly in equity:								
Own shares acquired		–	–	–	(1)	–	–	(1)
Share-based payment		(1)	–	–	1	–	–	–
Dividends to equity holders	Refer to note 24	–	(110)	–	–	–	–	(110)
Supplementary dividends to equity holders		–	(11)	–	–	–	–	(11)
Tax credit on supplementary dividends		–	11	–	–	–	–	11
Total transactions with owners recorded directly in equity		(1)	(110)	–	–	–	–	(111)
Balance at 31 March 2017		430	40	–	(3)	–	235	702
Balance at 1 April 2017		430	40	–	(3)	–	235	702
Net profit for the year		–	263	–	–	–	–	263
Other comprehensive income		–	–	(4)	–	(2)	20	14
Disposal of revalued assets		–	5	–	–	–	(5)	-
Total comprehensive income for the year		–	268	(4)	–	(2)	15	277
Transactions with owners recorded directly in equity:								
Own shares acquired		-	2	-	(2)	-	-	-
Share-based payment		(1)	-	-	1	-	-	-
Dividends to equity holders	Refer to note 24	-	(122)	-	-	-	-	(122)
Supplementary dividends to equity holders		-	(12)	-	-	-	-	(12)
Tax credit on supplementary dividends		-	12	-	-	-	-	12
Total transactions with owners recorded directly in equity		**(1)**	**(120)**	**-**	**(1)**	**-**	**-**	**(122)**
Balance at 31 March 2018		**429**	**188**	**(4)**	**(4)**	**(2)**	**250**	**857**

The accompanying notes form part of these financial statements.

Statement of financial position as at 31 March 2018

	Notes	2018 $m	2017 $m
Shareholders' equity		**857**	702
Represented by:			
Current assets			
Cash and cash equivalents	Refer to note 9	72	9
Accounts receivable and prepayments	Refer to note 10	337	278
Inventories	Refer to note 11	642	464
Derivative financial instruments	Refer to note 22	4	4
Assets held for sale	Refer to note 12	9	–
Total current assets		**1,064**	755
Non-current assets			
Property, plant and equipment	Refer to note 13	870	900
Goodwill	Refer to note 14	158	158
Intangible assets	Refer to note 14	592	535
Investment in Refining NZ	Refer to note 16	110	–
Investments in associates	Refer to notes 17 and 18	3	116
Derivative financial instruments	Refer to note 22	5	5
Other non-current assets		3	4
Total non-current assets		**1,741**	1,718
Total assets		**2,805**	2,473

	Notes	2018 $m	2017 $m
Current liabilities			
Accounts payable, accruals and other liabilities	Refer to note 19	696	431
Income tax payable		61	24
Provisions	Refer to note 20	26	18
Short-term borrowings	Refer to note 21	150	51
Derivative financial instruments	Refer to note 22	17	10
Total current liabilities		**950**	534
Non-current liabilities			
Other liabilities		16	14
Provisions	Refer to note 20	47	50
Derivative financial instruments	Refer to note 22	33	12
Deferred tax	Refer to note 7	156	170
Long-term borrowings	Refer to note 21	746	991
Total non-current liabilities		**998**	1,237
Total liabilities		**1,948**	1,771
Net assets		**857**	702

Approved on behalf of the board on 2 May 2018

Peter Ward Griffiths
Chair

Andrew Mark Cross
Chair, Audit and Risk Committee

The accompanying notes form part of these financial statements.

Statement of cash flows for the year ended 31 March 2018

	Notes	2018 $m	2017 $m
Cash flows from operating activities			
Receipts from customers		4,524	3,911
Dividends received		12	4
Interest received		2	23
Payments to suppliers and employees		(3,150)	(2,622)
Excise and carbon paid		(888)	(940)
Interest paid		(46)	(71)
Taxation paid		(59)	(50)
Net cash inflow from operating activities		**395**	255
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		19	23
Net proceeds from divestments		–	18
Purchase of intangible assets		(18)	(5)
Chevron New Zealand acquisition		–	(778)
Purchase of investment		(1)	–
Purchase of property, plant and equipment		(68)	(70)
Net cash outflow from investing activities		**(68)**	(812)
Cash flows from financing activities			
Net proceeds / (repayment) from bank facility	Refer to note 21	(504)	541
Issue of bonds and USPP notes	Refer to note 21	376	220
Purchase of shares	Refer to note 25	(2)	(3)
Dividends paid to owners of the company	Refer to note 24	(134)	(121)
Repayments of bonds	Refer to note 21	–	(147)
Net cash (outflow) / inflow from financing activities		**(264)**	490
Net increase / (decrease) in cash		63	(67)
Cash balances at beginning of year		9	76
Cash and cash equivalents at end of year		**72**	9

Statement of cash flows for the year ended 31 March 2018 (continued)

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

	Notes	2018 $m	2017 $m
Net profit for the year		263	243
Adjustments to reconcile profit to net cash inflow from operating activities			
Depreciation and amortisation		102	89
Impairment		–	5
Share of earnings of associate companies (net of tax)		(1)	(6)
Fair value of derivatives		9	(3)
Dividends received	Refer to note 17	–	4
Change in ETS units		(45)	(39)
Other		4	20
Changes in assets and liabilities, net of non-cash, investing and financing activities			
Change in accounts receivable and prepayments		(61)	(25)
Change in inventories		(178)	(83)
Change in accounts payable, accruals and other liabilities		265	2
Change in taxation		37	48
Net cash flow from operating activities		**395**	255

The accompanying notes form part of these financial statements.

Notes to the financial statements for the year ended 31 March 2018

1. Basis of accounting

Reporting entity

Z Energy Limited is registered in New Zealand under the Companies Act 1993 and is an FMC Reporting Entity under the Financial Markets Conduct Act 2013. The financial statements have been prepared in line with the requirements of these Acts and the Financial Reporting Act 2013.

Z Energy Limited is listed on the New Zealand (NZX) and Australia (ASX Limited) stock exchanges and has four series of bonds quoted on the NZX Debt Market. The financial statements presented are those of Z Energy Limited (the Company, Parent, or the Parent Company) together with its subsidiaries, interests in associates, and jointly controlled operations ('Z' or 'the Group').

Basis of preparation

The financial statements have been prepared in line with New Zealand Generally Accepted Accounting Practice ('NZ GAAP') and the Financial Reporting 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 new External Reporting Board ('XRB') Accounting Standards Framework. Z meets the definition of a Tier 1 entity because it is 'publicly accountable' and 'large' as defined by the XRB.

The functional and reporting currency used 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.

Z no longer accounts for The New Zealand Refining Company Limited (Refining NZ) as an investment in associate as it is not considered to meet the criteria under NZ IAS 28 Investments in Associates and Joint Ventures (NZ IAS 28). On the early adoption of NZ IFRS 9 Financial Instruments (NZ IFRS 9), the accounting treatment for the equity investment in Refining NZ was considered and it is now treated as a financial asset at fair value through other comprehensive income. Refer to note 16 for impact.

Basis of consolidation

A list of associates and subsidiaries is shown in notes 17 and 18. Consistent accounting policies are employed in preparing and presenting the Group financial statements. Intra-group balances and any unrealised income or expenses arising from intra-group transactions are eliminated in preparing the Group financial statements.

2. Changes in accounting policies

The accounting policies have been applied consistently to all years presented in these Group financial statements, except for NZ IFRS 9 which has been adopted early from 1 April 2017. The impact of no longer accounting under NZ IAS 39 and adopting NZ IFRS 9 has been assessed. No material changes have occurred other than the impact of hedge accounting for the cross currency interest rate swaps taken out for the USPP notes issued on 4 January 2018. Refer to note 22.

Presentational changes

Certain comparatives have been reclassified to ensure consistency with the current period's presentation; the impact is immaterial.

Adoption status of relevant new financial reporting standards and interpretations

The Group has chosen not to early adopt the following standards.

NZ IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018), which has been issued. Adopting this standard is not expected to have a material impact on the financial statements of Z.

NZ IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019), which has been issued. NZ IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Accounting by lessors is unchanged under NZ IFRS 16. As such, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. When adopted, NZ IFRS 16 will have an impact on the Group's financial statements. The estimated impact based on leases held at 31 March 2018 is an increase in property, plant and equipment of $424m, liabilities of $424m, interest expense of $22m, depreciation expense of $13m, and a decrease in operating expenses of $35m. There is no impact on net profit over the duration of the lease.

3. Critical accounting estimates and judgements

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

The principal areas of judgement in preparing these financial statements are set out below.

Provisions

Liabilities are estimated for decommissioning and restoration of certain sites of operation. Such estimates are valued at the estimated future costs of the expenditure expected to settle the obligation. Z has made key assumptions as to the expected amount and timing of expenditure to remediate, based on the expected lives of the assets employed on the sites, discounted using a risk-free rate. Refer to note 20.

Measurement of fair value

Some of the Group's accounting policies and disclosures require the measurement of fair values. For further information about the assumptions made in measuring fair values. Refer to notes 13, 16, and 22.

Goodwill

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. Refer to note 14.

4. Revenue

Revenue comprises the fair value of consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Sales of goods are recognised when a Group entity has supplied products to the customer, the customer has accepted the products, and the collectability of the related receivables is reasonably assured.

	2018 $m	2017 $m
Fuel	4,487	3,794
Non-fuel	83	69
Total revenue	**4,570**	3,863

5. Operating expenses

	2018 $m	2017 $m
Secondary distribution	71	64
Employee benefits	69	69
Administration and other expenses	62	54
Selling commissions	59	59
On-site expenses	59	57
Marketing expenses	28	28
Professional fees	22	39
Storage and handling	22	20
Insurance	6	6
Operating expenses excluding (gains) on foreign exchange and commodity transactions	**398**	396
(Gains) on foreign exchange	(1)	(7)
Total operating expenses	**397**	389

Included in professional fees are fees paid to auditors:

	2018 $	2017 $
Audit and review of financial statements	356,000	358,000
Technical accounting opinions	–	6,526
Audit of bank covenants and trustee reporting	12,000	12,000
Agreed upon procedures licence-fee return	6,000	6,000
Total audit and audit-related fees	**374,000**	382,526
IRD risk review	–	6,500
Global Reporting Initiative reporting review	–	13,000
Pro forma financial statements for retail bond issue	–	34,600
Z retailer advisory	–	30,000
Cost of sales adjustment review	10,000	10,000
Total other service fees	**10,000**	94,100
Total auditor fees	**384,000**	477,626

Included in professional fees are directors fees of $1m (2017: $0.9m).

6. Net financing expense

Interest revenues are recognised as accrued, taking into account the effective yield of the financial asset.

	2018 $m	2017 $m
Interest income from derivatives	15	20
Interest income from cash	1	1
Other finance income	–	1
Total financing income	**16**	22
Interest expense on bonds	(29)	(29)
Interest expense on derivatives	(14)	(19)
Interest expense on secured bank facilities	(13)	(19)
Interest expense on USPP notes	(4)	–
Financing fees	(3)	(9)
Other finance expense	(5)	(2)
Total financing expense	**(68)**	(78)
Net financing expense	**(52)**	(56)

7. Taxation

Taxation expense comprises both current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance date, and any adjustment to tax payable for previous years. Deferred tax is recognised for the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The amount of deferred tax provided is based on the expected manner of realising or settling the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available, against which the asset can be utilised. A deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Income tax is recognised as an expense or benefit in the Statement of comprehensive income, except when it relates to items credited or debited directly to other comprehensive income or equity. In this case, the deferred tax is also recognised directly in other comprehensive income or equity.

Taxation expense or benefit is determined as follows:

	2018 $m	2017 $m
Net profit before taxation	366	342
Less share of earnings of associate companies (net of tax)	(1)	(6)
Net profit before taxation excluding share of earnings from associates	**365**	336
Taxation expense on profit for the year at the corporate income tax rate of 28% (2017: 28%)	(102)	(94)
Taxation adjustments:		
Non-deductible expenditure	(4)	(6)
Over provision in prior periods	3	1
Taxation expense	**(103)**	(99)
Comprising:		
Current taxation	(109)	(108)
Deferred taxation	6	9
Taxation expense	**(103)**	(99)

7. Taxation (continued)

Deferred tax

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

	Property, plant and equipment $m	Intangible assets $m	Employee benefits $m	Finance lease $m	Other provisions $m	Derivative financial instruments $m	Other items $m	Total $m
Balance at 1 April 2016	(43)	–	1	5	1	3	1	(32)
Recognised on acquisition	(18)	(130)	1		2	–	(3)	(148)
Recognised in the Statement of comprehensive income	–	7	(1)	(1)	–	–	4	9
Under provision in prior periods in the Statement of comprehensive income	1	–	–	–	(1)	–	1	1
Balance at 31 March 2017	(60)	(123)	1	4	2	3	3	(170)
Balance at 1 April 2017	(60)	(123)	1	4	2	3	3	**(170)**
Recognised in the Statement of comprehensive income	(1)	7	(1)	–	(1)	1	1	**6**
Recognised in other comprehensive income	9	–	–	–	–	–	–	**9**
Over provision in prior periods in the Statement of comprehensive income	(2)	–	1	–	1	–	(1)	**(1)**
Balance at 31 March 2018	**(54)**	**(116)**	**1**	**4**	**2**	**4**	**3**	**(156)**

	2018 $m	2017 $m
Deferred tax (liabilities) expected to be settled within 12 months	(10)	(7)
Deferred tax (liabilities) expected to be settled after 12 months	(146)	(163)
Deferred tax liabilities	**(156)**	(170)

Imputation credits available for use in subsequent reporting periods are $40m (2017: $17m).

8. Earnings per share

	2018	2017
Profit after tax attributable to shareholders of the parent company ($m)	263	243
Weighted average number of shares (million)	400	400
Basic and diluted earnings per share (cents)	66	61

9. Cash and cash equivalents

Cash and cash equivalents comprise cash on deposit at banks and investments in money market instruments, excluding outstanding bank overdrafts.

10. Accounts receivable and prepayments

Receivables (classified as loans and receivables), are initially recognised at fair value. From then on, they are measured at amortised cost less any provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect the amount due. Receivables that are no longer collectible are written off.

	2018 $m	2017 $m
Trade receivables	313	249
Prepayments	14	17
Other receivables	10	12
Accounts receivable and prepayments	**337**	278

11. Inventories

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

	2018 $m	2017 $m
Finished goods/trading products	259	306
Raw materials and consumables	383	158
Inventories	**642**	464

During the year, there was a reversal of the write-down of inventories to net realisable value amounting to $3m (2017 write-down: $10m). The reversal of prior year write-down is included in 'Purchases of crude and product' in the Statement of comprehensive income.

12. Assets held for sale

During the year, Z has committed to a plan to sell three retail sites. Efforts to sell the sites have started and the last sale is expected by September 2018. The sites were classified as property, plant and equipment with a carrying value of $9m (land $6m, buildings $2m, and plant $1m). No amounts are held in the revaluation reserve for the sites held for sale.

The fair value of the sites held for sale is $9m.

13. Property, plant and equipment

Property, plant and equipment (PPE) is measured at fair value based on periodical valuations by an independent valuer, less accumulated depreciation and any impairment after the date of revaluation. Additions to PPE after the most recent valuation are recorded at cost. Cost includes expenditure that is directly attributable to the acquisition of the item, including: the cost of all materials, direct labour, resource management consent costs, and an appropriate allocation of variable and fixed overheads.

An assessment of fair value is performed annually by an independent valuer to consider the underlying assumption of each asset class to determine whether a revaluation is required. Revaluation of land and buildings was performed at 31 March 2016; revaluation of terminal plant was performed at 31 March 2017, due to material changes in market conditions impacting the fair value.

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

Buildings	10 – 35
Plant and machinery	5 – 35
Land improvements	15 – 35
Terminal plant	5 – 35

13. Property, plant and equipment (continued)

Year ended 31 March 2018

	Construction in progress $m	Buildings $m	Land and improvements $m	Plant and machinery $m	Terminal plant $m	Total $m
Cost/valuation						
Balance at beginning of year	48	135	305	341	183	**1,012**
Additions	61	–	–	–	–	**61**
Disposals	–	(1)	(9)	(6)	(5)	**(21)**
Transfers between asset classes	(56)	10	6	35	5	**–**
Transfers to software in progress	(20)	–	–	–	–	**(20)**
Offset of accumulated depreciation on revaluation	–	(11)	–	–	–	**(11)**
Reclassification to assets held for sale	–	(2)	(6)	(1)	–	**(9)**
Valuation adjustment	–	(13)	28	–	–	**15**
Balance at end of year	33	118	324	369	183	**1,027**
Accumulated depreciation and impairment						
Balance at beginning of year	–	(13)	(4)	(95)	–	**(112)**
Depreciation	–	(12)	(3)	(36)	(11)	**(62)**
Disposals	–	1	–	5	–	**6**
Offset of accumulated depreciation on revaluation	–	11	–	–	–	**11**
Balance at end of year	–	(13)	(7)	(126)	(11)	**(157)**
Carrying amounts						
At 1 April 2017	48	122	301	246	183	900
At 31 March 2018	**33**	**105**	**317**	**243**	**172**	**870**

Included in land ($3m), buildings ($22m), and plant and machinery ($1m) are assets held under finance leases (2017: land nil, buildings $39m, and plant and machinery $1m).

For each revalued class, the carrying amount that would have been recognised had the assets been carried on a historical cost basis are: buildings $56m (2017: $50m); land and improvements $172m (2017: $172m); terminals $142m (2017: $146m); plant and machinery $209m (2017: $209m).

13. Property, plant and equipment (continued)

Year ended 31 March 2017

	Construction in progress $m	Buildings $m	Land and improvements $m	Plant and machinery $m	Terminal plant $m	Total $m
Cost/valuation						
Balance at beginning of year	67	113	206	258	115	**759**
Recognised on acquisition	1	14	114	32	85	**246**
Additions	72	–	–	–	–	**72**
Disposals	–	(3)	(25)	(11)	–	**(39)**
Transfers between asset classes	(92)	11	10	62	9	**–**
Offset of accumulated depreciation on revaluation	–	–	–	–	(26)	**(26)**
Impairment losses recognised in profit and loss	–	(1)	(4)	–	–	**(5)**
Revaluation adjustment	–	1	4	–	–	**5**
Balance at end of year	48	135	305	341	183	**1,012**
Accumulated depreciation and impairment						
Balance at beginning of year	–	(2)	(2)	(66)	(15)	**(85)**
Depreciation	–	(11)	(2)	(34)	(11)	**(58)**
Disposals	–	–	–	5	–	**5**
Offset of accumulated depreciation on revaluation	–	–	–	–	26	**26**
Balance at end of year	–	(13)	(4)	(95)	–	**(112)**
Carrying amounts						
At 1 April 2016	67	111	204	192	100	**674**
At 31 March 2017	**48**	**122**	**301**	**246**	**183**	**900**

PPE is valued using a level-three fair-value measurement in line with the fair-value hierarchy.

13. Property, plant and equipment (continued)

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

Valuation techniques	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair-value measurement
The majority of land and buildings are valued using the direct capitalisation approach. This method involves striking a sustainable market rental, which is capitalised at an appropriate rate of return or yield, derived from an analysis of sales of comparable assets. The market rental is built up from: • fuel throughput margin • estimated shop rental (for non-fuel sales). A total value for land and buildings is determined by this approach. The value ascribed to the land is estimated based on recent land sales near each site, 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 5.0% – 10.0%	The estimated fair value would increase (decrease) if: • throughput margins were higher (lower) • shop rental rates were higher (lower) • capitalisation rates were lower (higher)
Terminal plant and plant and machinery are valued using the depreciated replacement-cost approach. This approach is based on the gross current replacement cost, reduced by factors providing for age, physical depreciation, and technical and functional obsolescence, taking into account 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)
Buildings subject to finance leases are valued using the 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)

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.

14. 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.

Brands

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

Contracts acquired

Contracts acquired include customer contracts, supply agreements, and leases acquired as part of the Chevron New Zealand acquisition. These contracts are amortised over 13 to 21 years on a straight-line basis.

Emissions trading scheme

Units acquired are carried at cost less any accumulated impairment as they are held for settlement of emissions obligations. Refer to note 15 for number of units held.

Other intangibles

Other intangibles include software, franchise rights, domain name, and occupation rights. Acquired computer software licences are capitalised on the basis of 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 2018	Software in progress $m	Goodwill $m	Brands $m	Contracts acquired $m	Emissions units $m	Other $m	Total $m
Balance at beginning of year	-	158	32	407	84	12	**693**
Additions	33	-	-	-	100	-	**133**
Transfers from PPE in progress	20	-	-	-	-	-	**20**
Transfers between asset classes	(38)	-	-	-	-	38	**-**
Utilised	-	-	-	-	(56)	-	**(56)**
Amortisation	-	-	(6)	(23)	-	(11)	**(40)**
Balance at end of year	15	158	26	384	128	39	**750**
Cost	15	158	37	426	128	100	**864**
Accumulated amortisation	-	-	(11)	(42)	-	(61)	**(114)**
Balance at end of year	**15**	**158**	**26**	**384**	**128**	**39**	**750**

14. Intangible assets (continued)

Year ended 31 March 2017	Software in progress $m	Goodwill $m	Brands $m	Contracts acquired $m	Emissions units $m	Other $m	Total $m
Balance at beginning of year	-	-	-	-	33	11	44
Recognised on acquisition	-	158	37	433	12	2	642
Additions	-	-	-	-	61	6	67
Utilised	-	-	-	-	(22)	-	(22)
Divested	-	-	-	(7)	-	-	(7)
Amortisation	-	-	(5)	(19)	-	(7)	(31)
Balance at end of year	-	158	32	407	84	12	693
Cost	-	158	37	426	84	40	745
Accumulated amortisation	-	-	(5)	(19)	-	(28)	(52)
Balance at end of year	-	158	32	407	84	12	693

15. Emissions trading scheme

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

Stock of units	**2018 Units millions**	2017 Units millions
Balance at beginning of year	6	4
Units acquired and receivable	5	4
Units utilised	(4)	(2)
Balance at end of year	**7**	6

Obligation	**2018 Units millions**	2017 Units millions
Obligation payable at 31 March	**7**	4

16. Investment in Refining NZ

The Group's investment in Refining NZ has been derecognised as an investment in associate as the Group no longer has significant influence. The investment is now accounted for as an equity investment at fair value through other comprehensive income in compliance with NZ IFRS 9, early adopted from 1 April 2017. The change in accounting treatment has been applied prospectively from 1 April 2017.

The impact of changing the accounting treatment for the investment in Refining NZ as an investment in associate in compliance with NZ IAS 28 to an equity investment in compliance with NZ IFRS 9 is as follows.

Total comprehensive income decreased by net $7m for the year ended 31 March 2018:

- Increase attributable to dividends now recognised as revenue of $9m;
- Offset by share of equity earnings no longer recognised in profit and loss of ($12m) and fair-value movements now recognised in other comprehensive income of ($4m).

Investment in Refining NZ in the Statement of financial position has decreased by a net $8m to reflect fair-value movement in the share price of Refining NZ to $2.29 at 31 March 2018 and share of equity earnings and dividends no longer being offset against the investment value.

	NZ IFRS 9 $m	NZ IAS 28 $m	Variance $m
Statement of comprehensive income			
Revenue – dividends received	9	–	9
Share of equity earnings of associate companies	–	12	(12)
Other comprehensive income / (loss)	(4)	–	(4)
Statement of financial position			
Investments – in Refining NZ	110	118	(8)

Refining NZ is classified as level 1 in the fair-value hierarchy as quoted prices in an active market are used to value the investment.

17. Investments in associates

Associates are entities in which the Group has significant influence, but not control over the operating and financial policies. The Group financial statements include the Group's share of the net surplus of associates on an equity-accounted basis from the date significant influence begins to the date significant influence ends.

Carrying amounts	Note	2018 $m	2017 $m
Listed			
Refining NZ		–	114
Unlisted			
Loyalty New Zealand Limited (Loyalty)		2	2
Other associates		1	–
Total carrying amounts of investments in associates		**3**	116

Movements in carrying amounts	Note	2018 $m	2017 $m
Carrying amount at beginning of year		116	115
Derecognise Refining NZ as an associate	Refer to note 16	(114)	–
Dividends received		–	(4)
Share of earnings of associate companies net of tax		1	6
Share of other comprehensive loss net of tax		–	(1)
Carrying amount at end of year		**3**	116

Summary financial information for equity-accounted investments, not adjusted for the percentage ownership held by the Group (all with a reporting date of 31 December, except for Loyalty which has a 31 March reporting date).

	Principal activity	Ownership 2018	Ownership 2017
Listed			
Refining NZ	Refinery	–	15%
Unlisted			
Loyalty	Marketing	25%	25%
New Zealand Oil Services Limited (NZOSL)	Fuel storage	50%	50%
Wiri Oil Services Limited (WOSL)	Fuel storage	44%	44%
Coastal Oil Logistics Limited (COLL)	Shipping operator	50%	50%

17. Investments in associates (continued)

Refining NZ from 1 April 2017 is no longer treated as an associate. Refer to note 16 for details.

2018	**Loyalty $m**	**NZOSL $m**	**WOSL $m**	**COLL $m**
Current assets	80	5	3	14
Non-current assets	12	–	–	2
Current liabilities	70	5	3	14
Non-current liabilities	13	–	–	–
Revenue	89	36	28	57
Profit	1	–	–	–

2017	Refining NZ $m	Loyalty $m	NZOSL $m	WOSL $m	COLL $m
Current assets	147	80	5	2	13
Non-current assets	1,143	11	–	–	2
Current liabilities	224	73	5	2	13
Non-current liabilities	313	10	–	–	–
Revenue	354	92	41	24	57
Profit	47	2	–	–	–
Other comprehensive loss	(4)	–	–	–	–

18. Investment in subsidiaries and joint operations

Subsidiaries are those entities controlled, directly or indirectly, by Z. The purchase method is used to account for the acquisition of subsidiaries by Z. Identifiable assets acquired, liabilities, and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The financial statements of subsidiaries are included in the Group financial statements from the date control begins to the date control ends.

The subsidiaries of the Group and their activities are shown below.

The financial statements of the subsidiaries are included in the Group's financial statements. The financial year-end of all subsidiaries is 31 March.

	Principal activity	Country of incorporation	2018 Holding	2017 Holding
Subsidiaries				
Harbour City Property Investments Limited	Amalgamated	New Zealand	–	100%
Z Energy ESPP Trustee Limited	Trustee	New Zealand	100%	100%
Z Energy LTI Trustee Limited	Trustee	New Zealand	100%	100%
Challenge Petroleum Limited	Amalgamated	New Zealand	–	100%
Z Energy 2015 Limited	Downstream fuel company	New Zealand	100%	100%

On 29 March 2018, Harbour City Property Investments Limited and Challenge Petroleum Limited were amalgamated into Z Energy Limited. Joint operations are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. The Group financial statements includes the Group's proportionate share, line by line.

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 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 2018, there were no contingent liabilities for the jointly controlled operations (2017: nil). The value of assets in these interests is $12m (2017: $16m).

	Principal activity	2018 Holding	2017 Holding
Joint User Hydrant Installation	Fuel storage	33%	50%
Joint Interplane Fuelling Services	Fuel distribution	50%	50%
Jointly Owned Storage Facility	Fuel storage	50%	50%
Joint Ramp Service Operations Agreement	Fuel distribution	50%	50%
Wiri to Auckland Airport Pipeline	Fuel distribution	40%	60%

As a consequence of the acquisition of Z Energy 2015 Limited (previously known as Chevron New Zealand), Z Energy 2015 Limited was required under the terms of the joint venture arrangements to offer its ownership share in the JUHI and the WAP to the remaining participants (Z, Mobil and BP).

As a result of the pre-emptive process, Z Energy 2015 Limited no longer has an ownership share in either the JUHI or the WAP, and Z has decreased its interest in the JUHI to 33% and its interest in the WAP to 40%.

19. Accounts payable, accruals and other liabilities

	2018 $m	2017 $m
Accounts payable	585	378
Accruals and other liabilities	96	35
Employee benefits payable	15	18
Accounts payable, accruals and other liabilities	**696**	431

20. Provisions

A provision is recognised in the Statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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

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

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

For the year ended 31 March 2018	Decommissioning, restoration and remediation	Other	Total
Balance at beginning of year	61	7	**68**
Created	1	14	**15**
Utilised	(2)	(5)	**(7)**
Released	(1)	(5)	**(6)**
Unwind of discount	3	-	**3**
Balance at end of year	62	11	**73**
Current	15	11	**26**
Non-current	47	–	**47**
Balance at end of year	**62**	**11**	**73**

21. Borrowings

Financing arrangements

The Group's debt includes bank facilities, bonds, and USPP notes secured against certain assets of the Group. The facilities require Z to maintain certain levels of shareholder funds and securities, and operate within defined performance and gearing ratios. The arrangements also include restrictions over the sale or disposal of certain assets without bank agreement.

Throughout the year, the Group has complied with all debt covenant requirements imposed by lenders.

Bank facilities and bonds are recorded initially at fair value, net of transaction costs. After initial recognition, bank facilities and bonds are measured at amortised cost. Any difference between the initial recognised amount and the redemption value is recognised in the Statement of comprehensive income over the period of the borrowing, using the effective interest rate. USPP notes are recorded initially at fair value, net of transaction costs, and are revalued monthly. The movement in fair value is recognised in the hedging reserve.

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

Bank facilities

At 31 March 2018, the Group had secured bank-debt facilities of $530m (2017: $890m). At 31 March 2018, $37m was drawn against these facilities (2017: $541m). The facilities comprise a $180m revolving-term debt facility drawn to $37m plus a $350m working capital facility drawn to $nil, both maturing in May 2019.

The bank-debt facilities are able to be drawn down as required, provided Z complies with debt covenants. All loans must be repaid on the relevant due dates. Interest rates are determined by referring to prevailing money market rates at the time of draw-down, plus a margin. Interest rates paid during the year ranged from 2.8 percent to 3.3 percent (2017: 3.0 percent to 3.8 percent).

	2018 $m	2017 $m
Secured bank facilities	530	890
Facilities drawn down	37	541
Balance at end of year	**37**	541
Current	–	51
Non-current	37	490
Balance at end of year	**37**	541

21. Borrowings (continued)

Bonds

The Group has four series of bonds quoted on the NZX Debt Market.

	2018 $m	2017 $m
Balance at beginning of year	501	430
New bonds issued	–	220
Issuance costs	–	(3)
Bonds repaid	–	(147)
Amortisation	1	1
Balance at end of year	**502**	501
Current	150	–
Non-current	352	501
Balance at end of year	**502**	501
Repayment terms and interest rates:		
Maturing on 15 August 2018, 7.25% per annum fixed coupon rate	150	150
Maturing on 15 November 2019, 6.50% per annum fixed coupon rate	134	134
Maturing on 1 November 2021, 4.01% per annum fixed coupon rate	149	148
Maturing on 1 November 2023, 4.32% per annum fixed coupon rate	69	69
Balance at end of year	**502**	501

Fixed coupon

The fixed coupon bonds on issue are at a face value of $1.00 per bond. Interest is payable quarterly on all outstanding bonds.

At 31 March 2018, the fair value of bonds is $539m (2017: $548m) compared to the carrying value of $502m (2017: $501m). The fair value for bonds is the quoted price of the bonds on the NZX at 31 March 2018, representing a level-one measurement under the NZ IFRS 7 fair-value measurement hierarchy being quoted prices (unadjusted) in an active market for identical assets and liabilities.

USPP notes

On 4 January 2018, the US Private Placement (USPP) was drawn, issuing USD270m ($378m). The issue was made in three equal tranches maturing in 2026, 2028, and 2030.

	2018 $m	2017 $m
Balance at beginning of year	–	–
New USPP notes issued	378	–
Issuance costs	(2)	–
Movement in fair-value hedge	(14)	–
Movement in foreign-exchange revaluation	(5)	
Balance at end of year	**357**	–
Current	–	–
Non-current	357	–
Balance at end of year	**357**	–
Repayment terms and interest rates:		
Maturing on 4 January 2026, 3.83% per annum fixed coupon rate	119	–
Maturing on 4 January 2028, 4.04% per annum fixed coupon rate	119	–
Maturing on 4 January 2030, 4.14% per annum fixed coupon rate	119	–
Balance at end of year	**357**	–

Fixed coupon

Interest is payable semi-annually on all outstanding notes.

At 31 March 2018, the fair value of USPP notes is $400m (2017: nil) compared to the carrying value of $357m (2017: $nil). The fair value is calculated by discounting the future contractual cash flows at current market interest rates that are available for similar financial instruments. The fair value of the USPP notes are classified as level two on the fair-value hierarchy. Refer to note 22 for the gains and losses on borrowings.

22. Financial risk management

The Group has exposure to the following risks.

- Credit risk
- Liquidity risk
- Market risk

The board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The board has established an Audit and Risk Committee with responsibilities that include reviewing treasury practices and policies.

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.

Foreign-exchange contracts, interest-rate swaps (IRS), interest-rate collars, commodity hedges, and basis swaps derivatives are not hedge accounted and are required to be accounted for at fair value through the Statement of comprehensive income. 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. The fair value of cross-currency interest-rate swaps (CCIRS) and IRSs exclude accrued interest. All other derivatives do not contain interest components.

Hedge accounting

CCIRS are hedge accounted as they are designated into an effective hedge relationship as a hedging instrument. 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), or
- cash flow hedges (the derivative is used to manage the variability in cash flows of highly probable forecast transactions).

At inception, each hedge relationship is formalised in an NZ IFRS 9 compliant hedge documentation. At inception, Z decided to not include the cross-currency basis element in the hedging relationship as allowed under NZ IFRS 9.

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

Z issued foreign-currency debt on 4 January 2018. The Group's risk management policy is to convert all of the proceeds of the debt issuance to NZD and convert the foreign currency fixed rate of the debt issuance to NZD floating rate in line with Z's interest-rate risk management guidelines of Z using a fixed-to-floating CCIRS. To mitigate profit or loss volatility, the CCIRS is designated into a fair-value hedge and cash flow hedge relationship.

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, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in exchange and interest rates.

The effect of Z's hedge accounting policies in managing both its foreign-exchange risk and interest-rate risk related to borrowings denominated in foreign currency is presented in the tables on the next page.

22. Financial risk management (continued)

The details of the hedging instrument as at 31 March 2018 are as follows.

At 31 March 2018 Hedge type	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument $m	Statement of financial position line item	Change in value used for calculating hedge ineffectiveness $m	Cost of hedging reserve $m
Cash flow hedge and fair-value hedge					
Interest-rate risk and foreign-currency risk					
Cross-currency swaps (8 years, rate 3.83%)	USD 90m	(7)	Derivative financial instruments	(7)	–
Cross-currency swaps (10 years, rate 4.04%)	USD 90m	(7)	Derivative financial instruments	(7)	–
Cross-currency swaps (12 years, rate 4.14%)	USD 90m	(8)	Derivative financial instruments	(8)	–
Total	**USD 270m**	**(22)**		**(22)**	**–**

The details of hedged items as at 31 March 2018 are as follows.

At 31 March 2018	Carrying amount of the hedged instrument item		Accumulated amount of fair value hedge adjustment on the hedge item included the carrying amount				
Hedge type	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Statement of financial position line item	Change in value used for calculating hedge ineffectiveness $m	Cost of hedging reserve $m
Cash flow hedge and fair-value hedge							
Interest-rate and foreign-currency risk							
Borrowings (8 years, rate 3.83%)	–	(119)	4	–	Borrowings	7	–
Borrowings (10 years, rate 4.04%)	–	(119)	5	–	Borrowings	7	1
Borrowings (12 years, rate 4.14%)	–	(119)	5	–	Borrowings	8	1
Total		**(357)**	**14**	**–**		**22**	**2**

There was no hedge ineffectiveness for the year ended 31 March 2018.

The following table provides a reconciliation by risk category of components of equity and analysis of other comprehensive income items, net of tax, resulting from cash flow hedge accounting.

	Cash flow hedge reserve $m	Cost of hedging $m	Total $m
Opening balance	–	–	–
Hedging gains and losses recognised in OCI	7	–	7
Amount reclassified to profit or loss	(5)	–	(5)
Closing balance	**2**	**–**	**2**

22. Financial risk management (continued)

Fair-value hedges

Z has entered into CCIRSs (the hedging instruments) to hedge the interest-rate risk (the hedged risk) arising from the USD USPP notes (the hedged items). These transactions have been designated as fair-value hedges.

The following changes are recognised in profit or loss.

- The change in fair value of the hedging instruments.
- The change in fair value of the underlying hedged items attributable to the hedged risk.

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

Cash flow hedges

Z has entered into CCIRSs (the hedging instruments) to hedge the variability in cash flows arising from interest-rate and foreign-currency exchange-rate movements of the USD USPP notes (the hedged items).

The following changes are recognised in profit or loss (interest costs).

- Any gain or loss in relation to the ineffective portion of the hedging instrument.
- Fair-value changes in the hedging instrument previously accumulated in other comprehensive income, transfer to profit or loss when the underlying transactions are recognised in the Statement of comprehensive income.

Once hedging is discontinued, any cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss (interest costs) either:

- at the same time as the forecast transaction, or
- immediately, if the transaction no longer expected to occur.

Cost of hedging

The change in fair value of the hedging instrument relating to the foreign-currency basis component of the interest-rate swap is recognised in other comprehensive income and accumulated in a separate reserve in equity. Subsequently, the cumulative amount is transferred to the Statement of comprehensive income at the same time as the hedged item impacts the profit or loss.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Group. The Group is exposed to credit risk in the normal course of business, including risk arising from trade receivables with its customers, financial derivatives, and transactions (including cash balances) with financial institutions.

The Group has adopted a policy to assure the creditworthiness of our counterparties, as a means of mitigating the risk of financial loss from defaults. The Group minimises its exposure to credit risk of trade receivables by adopting counterparty credit limits and standard payment terms.

Derivative counterparties and cash deposit transactions are limited to high-credit, quality financial institutions and organisations in the relevant industry. The Group's exposure and the credit ratings of counterparties are monitored, and the aggregate value of transactions concluded are spread amongst approved counterparties.

The carrying amounts of financial assets recognised in the Statement of financial position best represent the Group's maximum exposure to credit risk at the reporting date. Generally, no security is held on these amounts except for retailer-owned, retailer-operated service stations where Z holds bank guarantees, and certain commercial customers where Z holds personal guarantees and registered interest in line with the Property Protection Securities Act.

Concentration of credit risk for trade receivables is limited due to the Group's large customer base. Less than 2 percent (2017: 1 percent) of the Group's receivables are more than 30 days overdue.

Liquidity risk

Liquidity risk is the risk that assets held by the Group cannot readily be converted to cash to meet the Group's contracted cash flow obligations. Liquidity risk is monitored by continuously forecasting cash flows and matching the maturity profiles of financial assets and liabilities.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions. The Group manages liquidity risk by maintaining an adequate amount of committed credit facilities and by spreading debt maturities.

22. Financial risk management (continued)

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 2018	6 months or less $m	6 to 12 months $m	1 to 2 years $m	2 to 5 years $m	5+ years $m	Contractual cash flows $m	Statement of financial position $m
Non-derivative financial liabilities							
Accounts payable	(585)	–	–	–	–	(585)	(585)
Finance leases	(1)	(1)	(2)	(10)	(11)	(25)	(16)
Long-term loan	(1)	(1)	(37)	–	–	(39)	(37)
Bonds	(164)	(9)	(151)	(170)	(72)	(566)	(502)
USPP notes	(7)	(7)	(15)	(45)	(449)	(523)	(357)
Non-derivative financial liabilities	**(758)**	**(18)**	**(205)**	**(225)**	**(532)**	**(1,738)**	**(1,497)**
Derivative financial instruments							
IRS	1	(2)	(3)	(6)	(7)	(17)	(18)
Commodity hedges	–	–	–	–	–	–	–
CCIRS	(1)	(1)	(3)	(14)	(37)	(56)	(22)
Basis swap	–	(5)	–	6	25	26	(1)
Derivative financial instruments	**–**	**(8)**	**(6)**	**(14)**	**(19)**	**(47)**	**(41)**

22. Financial risk management (continued)

At 31 March 2017	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	(378)	–	–	–	–	(378)	(378)
Finance leases	(1)	(1)	(2)	(7)	(7)	(18)	(11)
Long-term loan	(8)	(8)	(17)	(494)	–	(527)	(490)
Short-term loan	(51)	–	–	–	–	(51)	(51)
Bonds	(14)	(14)	(173)	(317)	(75)	(593)	(501)
Non-derivative financial liabilities	(452)	(23)	(192)	(818)	(82)	(1,567)	(1,431)
Derivative financial instruments							
IRS	–	–	(1)	(7)	(2)	(10)	(10)
Commodity hedges	(3)	–	–	–	–	(3)	(3)
Derivative financial instruments	(3)	–	(1)	(7)	(2)	(13)	(13)

The carrying value of financial assets and financial liabilities recorded in the financial statements is their amortised cost except for derivatives and Z's investment in Refining NZ (refer to note 16), which are recorded at fair value.

The fair value for derivatives, which is their carrying value, is calculated using observable market prices (forward price curve for the relevant underlying interest rates, foreign-exchange rates, or commodity prices) based on discounted cash flow analysis. It therefore represents a level-two measurement under the NZ IFRS 7 fair-value measurement hierarchy, being inputs other than quoted prices included within level one that are observable for the asset or liabilities, either directly (as prices) or indirectly (derived from prices).

The derivatives are classified as level two, as observable inputs are used to determine the fair value.

22. Financial risk management (continued)

Market risk

Commodity-hedges risk

The Group has exposure to purchase timing risk on commodities. This is defined as the difference in timing of when purchases of crude and product are priced, and when volumes of product are sold each month.

The Group enters into commodity-swap contracts under the terms of its Treasury policy to reduce the risk from price fluctuations, by matching purchase and sales volumes in a particular month. All hedging is within a 6-month duration. At 31 March 2018, the fair value of commodity hedges was $nil (2017: ($3m)).

Sensitivity analysis

At 31 March 2018, if the oil commodity price had weakened/strengthened by 10 percent in which the Group has commodity-price risk (with all other variables held constant), there would be $2m higher/lower impact on after-tax profit for the year (2017: nil).

Interest-rate risk

The Group's primary interest-rate risk arises from its total gross debt (refer to note 21). In line with its Treasury policy, the Group manages its exposure to interest-rate risk by entering into IRS and CCIRS. By managing the interest-rate risk, Z aims to minimise the cost of debt and manage the impact of interest-rate volatility on the Group's earnings.

The aggregate notional principal amount of the outstanding IRS at 31 March 2018 was $655m (2017: $735m) and the fair value of the IRS was ($18m) (2017: ($10m)). The aggregate notional principal amount of the outstanding interest-rate collar at 31 March 2018 was nil (2017: $30m) and the fair value nil (2017: nil). The aggregate notional principal amount of the outstanding CCIRS at 31 March 2018 was $378m (2017: nil) and the fair value of the CCIRS was ($22m) (2017: nil).

On the back of the USPP and the related CCIRS, Z entered into a Bill Libor swap to potentially reduce the costs associated with undertaking a US Private Placement (USPP).

Under the Bills Libor swap, Z receives NZDUSD Bills Libor in line with the duration of the underlying bond issuance and simultaneously pays NZDUSD Bills Libor on a shorter tenor of 1 year.

Basis swaps gives rise to foreign-exchange risk exposures both on the principal and on the interest payments. Under the contractual arrangements, the USD principal amount resets quarterly based on the actual FX spot rate of NZD/USD. The impact of quarterly resets are required to be cash settled under the contractual terms, and so fluctuations in foreign-exchange rates will have an impact on cash flows and valuations of these instruments.

Exposures to foreign-exchange risk on quarterly re-setting notionals on the 8-year, 10-year, and 12-year basis swaps are offset in the first 12 months with a shorter tenor 1-year basis swap contract. Past the initial 12 month term of these structures, Z intends to continually renew the 1-year basis swap contract to continue to offset this foreign exchange risk. These future contractual arrangements are not currently in place, and so Z has demonstrated the impact of these exposures for interest rate risk, foreign-currency risk, and liquidity risk.

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

At 31 March 2017	Less than 1 year $m	1 to 2 years $m	2 to 5 years $m	5+ years $m	Total $m
Interest-rate exposure borrowing	541	150	285	70	1,046
Cross-currency swaps	–	–	–	–	–
Interest-rate swaps	30	(150)	(135)	255	–
Net interest-rate exposure	**571**	**–**	**150**	**325**	**1,046**

Sensitivity analysis

At 31 March 2018, if bank interest rates at that date had been 100 basis points higher/lower (with all other variables held constant), it would change after-tax profit for the year by $12m higher/$15m lower (2017: $10m higher/$11m lower) and change other comprehensive income for the year by $3m higher/lower (2017: nil).

22. Financial risk management (continued)

Foreign-currency risk

The Group has exposure to currency risk on the value of its sales contracts, commodity/product supply purchases, other transaction flows, and assets/liabilities denominated in foreign currencies. The Group enters into forward exchange contracts under the terms of its Treasury policy to reduce the risk from price fluctuations of foreign-currency commitments, mainly associated with purchasing hydrocarbons. The Group enters into CCIRS under the terms of its Treasury policy to reduce the risk from price fluctuations of foreign currency of the USD USPP notes.

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the translation of the foreign currency into New Zealand dollars at the beginning and end of the periods. The resulting gain or loss is recognised in the Statement of comprehensive income immediately.

The aggregate notional principal amount of the outstanding forward foreign-exchange contracts at 31 March 2018 was $58m (2017: $9m). The aggregate notional principal amount of the outstanding cross-currency swap at 31 March 2018 was $378m (2017: nil). At balance date, the fair value of forward foreign-exchange contracts outstanding was nil (2017: nil). At balance date the fair value of cross-currency swap outstanding was ($22m) (2017: nil).

Sensitivity analysis

At 31 March 2018, if the New Zealand dollar had strengthened/weakened by 10 percent against the currencies with which the Group has foreign-currency risk (with all other variables held constant), after-tax profit for the year would change by $5m higher/$13m lower (2017: $9m higher/$10m lower) and change other comprehensive income for the year by $5m lower/higher (2017: nil).

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 as at 31 March 2018 $m	**Amount after applying rights of offset under ISDA agreements $m**	**Derivative position as at 31 March 2017 $m**	**Amount after applying rights of offset under ISDA agreements $m**
Derivative assets	**9**	**–**	9	–
Derivative liabilities	**(50)**	**(41)**	(22)	(13)
Non-derivative financial liabilities	**(41)**	**(41)**	(13)	(13)

Capital management

The key factors in determining the Group's optimal capital structure are:

- nature of activities
- forecast of earnings and cash flows
- capital needs over the forecast period
- available sources of capital and relative cost.

The Group's capital includes share capital and retained earnings. The Group's borrowings are subject to certain compliance ratios relevant to the facility agreements or the trust deed applicable to the borrowings.

Discussions on refinancing bank-debt facilities will normally begin at least 3 months before maturity with facility terms agreed at least 3 months before maturity. Bank facilities are maintained with AA- or above rated financial institutions, with a syndicate of four bank counterparties to ensure diversification.

23. Leases

Operating leases

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

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

	2018 $m	2017 $m
Operating lease receivables as lessor		
Between 0 to 1 year	4	3
Between 1 to 5 years	8	5
More than 5 years	2	2
Operating lease receivables as lessor	**14**	10

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

	2018 $m	2017 $m
Operating lease payables as lessee		
Between 0 to 1 year	32	30
Between 1 to 5 years	106	92
More than 5 years	116	102
Operating lease payables as lessee	**254**	224

Lease costs expensed and sub-lease income received through the Statement of comprehensive income during the year were $34m (2017: $31m) and $3m (2017: $1m) respectively.

Finance leases as lessee

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

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

The Group has finance leases arising from the sale and leaseback of buildings and plant and machinery. These lease contracts expire within 2 to 18 years and have additional terms of renewal. The Group also receives some sub-lease income on these assets, but this does not have a significant impact on the Statement of comprehensive income.

	2018 $m	2017 $m
Present value of minimum lease payments		
Between 0 to 1 year	1	1
Between 1 to 5 years	7	5
More than 5 years	8	5
Present value of minimum lease payments	**16**	11
Lease liability under finance leases		
Between 0 to 1 year	3	2
Between 1 to 5 years	11	9
More than 5 years	11	7
Minimum lease payments	25	18
Less interest attributable to future years	(9)	(7)
Present value of minimum lease payments	**16**	11

24. Share capital and distributions

Ordinary shares (fully paid)	2018 $m	2017 $m
Total issued capital at beginning of year	430	431
Movements in issued and fully paid ordinary shares		
Share-based payment	(1)	(1)
Total issued capital at end of year	**429**	430

Ordinary shares (fully paid)	2018 Shares millions	2017 Shares millions
Total issued capital at end of year	**400**	400

All fully paid ordinary shares have equal voting rights and share equally in dividends and equity. The issued shares have no par value. All authorised shares are issued.

Z Energy LTI Trustee Limited holds 747,420 shares at a cost of $5m for Z's restricted share long-term incentive plan (2017: 869,906, $5.5m).

	$m	cents per share
Dividend		
2016 Final dividend (paid June 2016)	72	18.1
2017 Interim dividend (paid December 2016)	38	9.4
2017 Final dividend (paid June 2017)	80	19.9
2018 Interim dividend (paid December 2017)	42	10.4

Final dividend declared after balance date not provided. Refer to note 30.

25. Share-based payments

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

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

The amount 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 by the Parent at the end of the vesting period, the employee is provided a cash bonus which must be used to repay the loan. The shares are then transferred to the employee.

Grant date	Vesting date	Exercise price	Balance at the start of year Number of shares	Granted during year Number of shares	Exercised during year Number of shares	Forfeited during year Number of shares	Balance at the end of year Number of shares	Vested and exercisable at end of year Number of shares
2018								
20 May 2014	31 March 2017	$3.84	324,070	–	(324,070)	–	–	–
29 May 2015	31 March 2018	$5.98	323,296	–	–	(87,615)	235,681	235,681
23 May 2016	31 March 2019	$8.20	222,540	–	–	(16,179)	206,361	–
22 May 2017	31 March 2020	$8.00	–	238,751	–	(14,964)	223,787	–
Total			**869,906**	**238,751**	**(324,070)**	**(118,758)**	**665,829**	**235,681**
Weighted average exercise price					**$3.84**	**$6.54**	**$7.35**	**$5.98**
2017								
19 August 2013	31 March 2016	$3.71	371,457	–	(371,457)	–	–	–
20 May 2014	31 March 2017	$3.84	373,776	–	–	(49,706)	324,070	324,070
29 May 2015	31 March 2018	$5.98	330,525	–	–	(7,229)	323,296	–
23 May 2016	31 March 2019	$8.20	–	225,984	–	(3,444)	222,540	–
Total			1,075,758	225,984	(371,457)	(60,379)	869,906	324,070
Weighted average exercise price					$3.71	$4.34	$5.75	$3.84

25. Share-based payments (continued)

Measurement of fair values

The fair value of the RSLTIP has been determined using the framework of the Black-Scholes and Margrabe option pricing models for the schemes vesting 2017 - 2019. For the scheme vesting 2020 a Monte Carlo Simulation has been used now Z has been listed on the NZX/ASX for 5 years and sufficient historical data is now available to implement this more comprehensive approach.

	Vesting date of scheme			
	31 March 2020	31 March 2019	31 March 2018	31 March 2017
Weighted average share price at grant date	$8.00	$8.20	$5.98	$3.84
Contractual life	2.86 years	3.00 years	2.84 years	2.86 years
Risk-free rate	2.1%	2.1%	3.1%	3.9%
Standard deviation of Z share price	–	20% – 25%	17.5% – 22.5%	17.0% – 22.5%
Standard deviation of Z's TSR	18% – 25%	–	–	–
Standard deviation of NZX50	–	9.0%	8.0%	9.2%
Standard deviation of peers TSR	20% – 22%	–	–	–
Correlation between Z share price and NZX50	–	0.32-0.40	0.32-0.40	0.32-0.54
Correlation between Z's TSR and peers TSR (average)	0.16-0.19	–	–	–
Estimated fair value per share	$4.22	$3.48	$2.24	$1.24

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

The fair value of the share-based payments is recognised as an expense, with a corresponding increase in equity, over the vesting period of the plan. The expense relating to the RSLTIP in the year ended 31 March 2018 was $0.6m (2017: $1m).

An employee share purchase programme also exists, which does not have a material impact on these financial statements. The ESPP scheme holds 102,837 shares.

The LTI plan also holds unallocated shares of 138,114.

26. Related parties

Included in the Statement of comprehensive income are sales and expenses that arise from transactions between the Group and associated companies. Such transactions comprise sales and purchases of goods and services in the ordinary course of business on normal trading terms, but also include dividends and interest.

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 the 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 25.

	2018 $m	2017 $m
Transactions with related parties		
Received/(paid)		
Associates – sale of goods and services	–	1
Associates – purchase of goods and services		
Refining NZ – processing fees, customs and excise duties	–	(756)
COLL – distribution	(23)	(24)
NZOSL	(13)	(18)
WOSL	(13)	(10)
Other	(7)	(10)
Refining NZ – sale of goods and services	1	–
Refining NZ – processing fees, customs and excise duties	(798)	–
Key management personnel		
Short-term employee benefits	8	7
Other long-term benefits	2	2
Balances at the end of year		
Associates – payable		
Refining NZ – processing fees, customs and excise duties	–	(56)
Other	–	(4)
Refining NZ – processing fees, customs and excise duties	(59)	–

27. Commitments

Commitments relate to PPE and the Good in the Hood community programme.

	2018 $m	2017 $m
Committed to but not provided for	**30**	40

28. Contingent liabilities

The Group has guaranteed an exposure of up to USD3m ($4m) to a financier of one of the Group's associate companies (2017: USD4m ($6m)). This guarantee reduces by USD1m annually.

29. Contingent assets

The Group has no contingent assets (2017: nil).

30. Events after balance date

Dividend

On 2 May 2018, the directors approved a fully imputed dividend of $0.219 per share, which is equal to $88m, to be paid on 30 May 2018 (2017: $0.199 per share, $80m).

KPMG

Independent Auditor's Report

To the shareholders of Z Energy Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Z Energy Limited (the company) and its subsidiaries (the group) on pages 76 to 116:

i. present fairly in all material respects the Group's financial position as at 31 March 2018 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 2018;

— 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.

KPMG

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

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

Scoping

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

The context for our audit is set by the major activities in the financial year ended 31 March 2018, which included the issue of the US private placement on 4 January 2018 and an ERP implementation from 1 November 2017.

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 $18 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.

KPMG

The key audit matter	How the matter was addressed in our audit
Issuance of USPP and NZ IFRS 9 transition	
Refer to Note 21 and 22 in the Financial Statements. The issuance of the US Private Placement (USPP), related cross-currency interest rate swaps (CCIRS) and the transition to NZ IFRS 9 is a key audit matter due to the significance to Z's consolidated statement of financial position. There is complexity and judgement involved in determining the appropriate valuation and accounting treatment for the CCIRS.	— We reviewed the USPP documentation and agreed key terms and balances to calculations and disclosures. — We reviewed hedge accounting structures to ensure compliance with NZ IFRS 9. — Our valuation specialists re-valued all CCIRS's using valuation models and inputs independent from those utilised by management. — We have reviewed the significant increase in disclosures required for NZ IFRS 9. *We found the accounting and completeness of disclosures for the issuance of the USPP, fair value of CCIRS's and the NZ IFRS 9 transition to be appropriate.*
Valuation of land and buildings	
Refer to Note 13 in the Financial Statements. Valuation of land and buildings is a key audit matter due to the magnitude and judgement involved in the assessment of the fair value of these assets. The judgment relates to the valuation methodologies used and the assumptions included in each of those methodologies.	— We read the valuation report prepared in the prior year and found the valuation approach was in accordance with professional valuation standards and suitable for determining the fair value of land and buildings. We assessed the competence, objectivity and independence of the valuer(s) used. — We updated our comparison of the assumptions inherent in the valuations which are judgemental in nature and which have the largest impact on the value of land and buildings, such as: • Comparing a sample of throughput volumes to Chevron New Zealand volume reports. • Assessing the reasonableness of the throughput cents per litre applied, with assistance from our valuation specialists. • Comparing shop rentals for a sample of sites, land values and capitalisation rates to recent sales data. • Comparing assets in the fixed asset register to those valued to check all sites have been included in the fair value exercise. — We compared the valuer's assessment of those asset classes which do not require a valuation, to market evidence which supports there is not a material change in the value of those asset classes. *We found the valuation methodology and inputs used in the measurement of the fair value of land and buildings to be appropriate.*

KPMG

Other information

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

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

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated financial statements

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

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

KPMG

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

KPMG
Wellington

2 May 2018

Supplementary financial information for the year ended 31 March 2018

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

Income statement on replacement cost basis[1]

	2018 $m	2017 $m
Revenue	4,570	3,863
Purchases of crude and product	(2,579)	(2,010)
Excise and carbon expenses	(1,011)	(941)
Primary distribution expenses	(56)	(41)
Cost of sales adjustment (COSA)	(78)	(83)
Operating expenses	(398)	(396)
Share of earnings of associate companies (net of tax)	1	6
Replacement cost EBITDAF	**449**	398
Depreciation and amortisation	(102)	(89)
Net financing expense	(52)	(56)
Fair-value movements in interest rate derivatives	(9)	3
Gains / (losses) on sale of PPE and impairment	4	(6)
Movements in decommissioning and restoration provision	(3)	2
Replacement cost net profit before taxation	**287**	252
Taxation expense	(103)	(99)
Tax benefit on COSA	21	23
Replacement cost net profit after taxation	**205**	176

1 Replacement cost is a non-GAAP measure used by the downstream fuel industry to report earnings. The difference between HC earnings and RC earnings is COSA and foreign exchange and commodity gains and losses. A full reconciliation from Statutory net profit after tax to RC EBITDAF is provided.

Reconciliation from statutory net profit after tax to RC EBITDAF

	2018 $m	2017 $m
Statutory net profit after tax	263	243
COSA	(78)	(83)
Foreign exchange and commodity (gains) on fuel purchases	(1)	(7)
Tax (expense) / benefit on COSA	21	23
Replacement cost net profit after tax	**205**	176
Depreciation and amortisation	102	89
Net financing expense	52	56
Fair-value movements in interest rate derivatives	9	(3)
Taxation (including tax on COSA and foreign exchange and commodity gains and losses on fuel purchase)	82	76
(Gains) / losses on sale of PPE and impairment	(4)	6
Movements in decommissioning and restoration provision	3	(2)
Replacement cost EBITDAF	**449**	398

Appendices

How Z links pay to performance and long-term shareholder value

CEO and senior officer total remuneration for FY18

This year, we've changed the way we report on remuneration. We believe that there should be, and is, a clear link between rewards and performance. In this report, we want to reflect the rewards that were received for the respective year of performance.

As our cash bonus and long-term incentive (LTI) are confirmed at the end of each period, they have historically reflected the period in which they were received, rather than the period over which the performance was delivered. Our short-term incentive (STI) for F17 performance, for example, would have been received and reported in FY18.

We think that showing total reward for the aligned periods more appropriately reflects pay and performance. For this reason, we've included the cash bonus and LTI earned for FY18 in this report. The board has approved this cash bonus, which will be paid in May 2018.

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

We have also provided information on the performance targets Z set for the CEO and senior officers over this period.

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

CEO and senior officer remuneration

				Pay for performance[1]			
Position	Salary and fees FY18	Fixed Taxable benefits[4] FY18	Subtotal	STI paid FY19 for FY18 Performance	Gross LTI paid in FY19 for 2015–2018 period[2]	Subtotal	Total remuneration[3]
CEO	$799,500	$39,975	$839,475	$399,750	$498,058	$898,258	**$1,737,733**
CFO	$445,000	$23,592	$468,592	$178,000	$153,940	$331,940	**$800,532**
GM, Commercial	$350,000	$18,842	$368,842	$105,000	$106,461	$211,461	**$580,303**
GM, Corporate	$400,000	$20,000	$420,000	$120,000	$127,748	$247,748	**$667,748**
GM, Retail	$370,000	$19,842	$389,842	$111,000	$128,412	$239,412	**$629,254**
GM, Supply	$370,000	$19,842	$389,842	$166,500	$125,625	$292,125	**$681,967**

Notes

1. Pay for performance is paid in the financial year following performance. The performance amounts shown will be paid in FY19 for performance achievements in FY18. They have been approved by the board at the time of publishing and will be paid in May 2018.
2. Gross LTI – loan repayment deduction and tax are not factored in.
3. Total remuneration excludes payments that arise from calculating holiday pay in line with legislation, and loan repayment and tax deduction for LTI. It is the estimated remuneration earned from performance in the FY18 year.
4. Fixed benefits are 5 percent employer KiwiSaver contribution and medical insurance.

How Z links pay to performance and long-term shareholder value (continued)

Breakdown of pay for performance

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

The executive and selected senior employees are also eligible for The Restricted Share Long-Term Incentive Plan (RSLTIP). The RSLTIP is a share-based incentive scheme, not a cash bonus payment. The RSLTIP focuses on alignment with long-term shareholder interests by using a share-based incentive over a 3-year vesting period on an at-risk basis aligned with the achievement of defined performance targets. Again, these are both individual and company targets.

For shares to vest under the scheme, participants must meet their individual performance targets, and the company must achieve a total shareholder return (TSR) over the 3-year period of at least 25th on the NZX 50. Payment is also subject to the discretion of the board.

Short-term incentive scheme at Z

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

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

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

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

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

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

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

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

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

Restricted Share Long-Term Incentive Scheme

Entitlements under the 2015 RSLTIP will be granted in 2018, based on the company performance against specific financial objectives for each year, relative to the performance of other NZX-listed companies. The number of shares granted is calculated as a percentage of the employee's base salary and, depending on the performance of the company, may be multiplied between zero and two times that percentage.

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

How Z links pay to performance and long-term shareholder value (continued)

Pay for performance measures

Performance measures

Company STI FY18

- HSSE operational risk management indicators, such as total recordable case frequency rate (TRCFR), motor vehicle incident frequency rate (MVIFR), number of Tier 1/2 process incidents, safety walks and talks (SWAT), and incident close-out rate
- Financial performance indicators, such as RC EBITDAF, capital expenditure and leverage
- Organisational leadership indicators such as customer satisfaction, product quality, customer volumes, ERP upgrade, and market share
- Strategic leadership such as synergy achievements, brand positioning, organisation development roadmap, and innovation hub operation

CEO STI FY18 – 50 percent of salary if Z meets company targets and CEO meets individual targets

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

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

RSLTI 2015-2018

Key criteria:

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

RSLTI leadership percentage

CEO – maximum of 2 × 50 percent of salary

All senior officers – maximum of 2 × 30 percent of salary

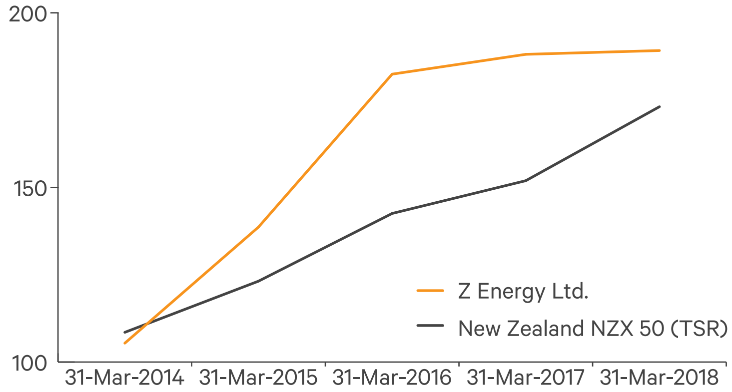
STI Targets for senior officers	Enterprise value	Strengthen our foundations	Compete to win	Deliver the future	Leadership behaviours
CFO – 40% of salary	✓	✓	✓	✓	✓
GM, Commercial – 30% of salary	✓	✓	✓	✓	✓
GM, Corporate – 30% of salary	✓	✓	✓	✓	✓
GM, Retail – 30% of salary	✓	✓	✓	✓	✓
GM, Supply – 30% of salary	✓	✓	✓	✓	✓

Notes

- Enterprise value is underpinned by retaining operational momentum in business and includes several financial, behavioural, and HSSE operational measures.
- Strengthen our foundations includes several customer, balance-sheet, and systems upgrade measures.
- Compete to win includes measures for our HSSE systems, synergy achievements, and stakeholder confidence.
- Deliver the future includes measures for brand positioning, data management, organisation development roadmap, innovation, and strategies for the future.
- Leadership behaviours include measures for staff engagement and demonstrating company values.

How Z links pay to performance and long-term shareholder value (continued)

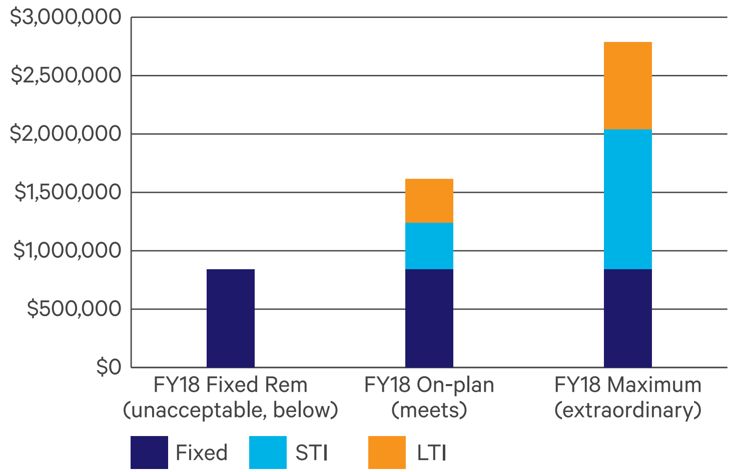
5-year summary – TSR performance



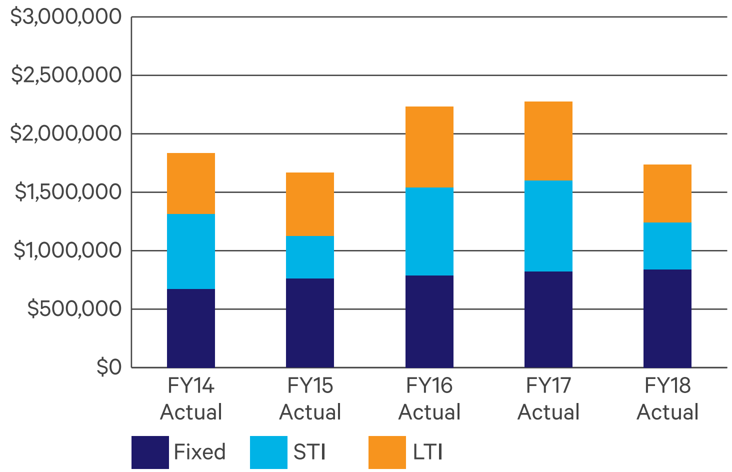
For measuring total company performance, total shareholder return (TSR) is the metric for RSLTI. This determines what proportion of shares vest. Z's relative TSR ranking is determined based on where Z ranks against other companies in the NZX 50 at the end of the 3-year term of the scheme.

Remuneration policy and disclosures

CEO pay for performance scenario FY18



5-year summary CEO remuneration



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

How Z links pay to performance and long-term shareholder value (continued)

Explanation of remuneration policy and items in scenario charts

The CEO target bonus amounts for Z meeting expectations for both company and individual performance is 50 percent of base salary.

Company Performance \ Individual Performance	Unacceptable	Below Expectations	Meets Expectations	Exceeds Expectations	Extraordinary
Extraordinary	0	0	2	2.5	3
Exceeds Expectations	0	0	1.5	2	2.5
Meets Expectations	0	0	1	1.5	2
Below Expectations	0	0	0.5	0.75	1
Unacceptable	0	0	0	0	0

Performance evaluation descriptors are as follows.

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

Required disclosures

Pay gap – CEO fixed remuneration ratio to Z Energy permanent employee median fixed remuneration is 7.8:1 (excludes STI and LTI).

Explanation of key elements of TSR methodology – As explained above.

Any discretion that has been exercised by the board or committee – The board exercised its discretion on the FY18 RSLTI to recognise the delay in the initial offer due to trading restrictions associated with the Caltex acquisition.

Any information that has been omitted – no material information is omitted.

Any benefits not included – variances in pay based on annual leave paid out based on 12 months' prior earnings.

Key terms of any CEO benefits – Z has agreed to pay Mike Bennetts' reasonable accommodation and living expenses in Wellington, and the reasonable travel expenses for national travel (particularly between Wellington and Auckland).

Mike has agreed to non-solicitation commitments (applying to Z's suppliers and employees) and a restraint of trade (restricting him from involvement in the downstream oil industry in New Zealand). Both of these generally apply for 12 months after the end of his employment as CEO. The restraint of trade does not apply if Mike is made redundant.

Any amounts withheld/clawed back – none

Summary of any estimates used – none

Remuneration that uses related parties – none

Directors fees

As a result of feedback and board reflection, we have chosen not to participate in the Ernst & Young Directors REM survey in 2018. Over the course of the FY19 year, we will consider and take advice on alternative options for assessing director fees. Z's directors will not be seeking a fee increase in FY19.

Corporate Governance Statement

Z has created a stand-alone document for its corporate governance statement (z.co.nz/AR18CGC), which is linked to this report.
The document demonstrates Z's compliance with the new NZX Corporate Governance code.

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

Determining our material issues

Z uses both the Integrated Report <IR> and Global Reporting Initiative (GRI) frameworks as the basis for preparing our annual report. We report using the GRI Standards: Core option.

Both of these frameworks require us to disclose the material issues for the business and the process we use to determine them. These material issues have, or may have, an effect on the organisation's ability to create value, both financial and non-financial.

To determine our material issues, we gather information internally and externally. The information enables us to rank the issues that are material to a diverse group of our stakeholders.

Gathering information internally

Each year, we gather information from a range of internal sources.

Board agendas

We collate the board and committee agendas from the previous year and review the material issues that were discussed at the board table.

Enterprise risk updates

We review our enterprise risks and ensure key risks, including new and emerging risks, are covered in the annual report.

Surveys and interviews

We survey employee representatives to determine and rank issues from our people's perspectives.

Gathering information externally

This year, we talked with all sorts of people about all sorts of things that matter to them.

Central government

We talked to central government ministries, authorities, agencies, and political parties about the environment in which we operate and compete. We talked about oil prices, alternative fuels, health and safety, sustainability, climate change policy, and the security of energy supply.

A diverse range of organisations

We talked with local government, community and not-for-profit organisations, and the sustainability sector about environmental and sustainability issues, and how best we could make a difference in our local communities.

Our customers

We talked with our customers about initiatives such as our Good in the Hood programme through customer-satisfaction surveys.

Our investors

We ran regular investor roadshows around the country. Key material issues should also include the Government's retail fuel price enquiry – this is probably one of the major concerns for investors at the current times.

The media

We participated in public forums and were often in the media speaking about things that matter to New Zealanders. By speaking publicly, we hope that others will join the conversation.

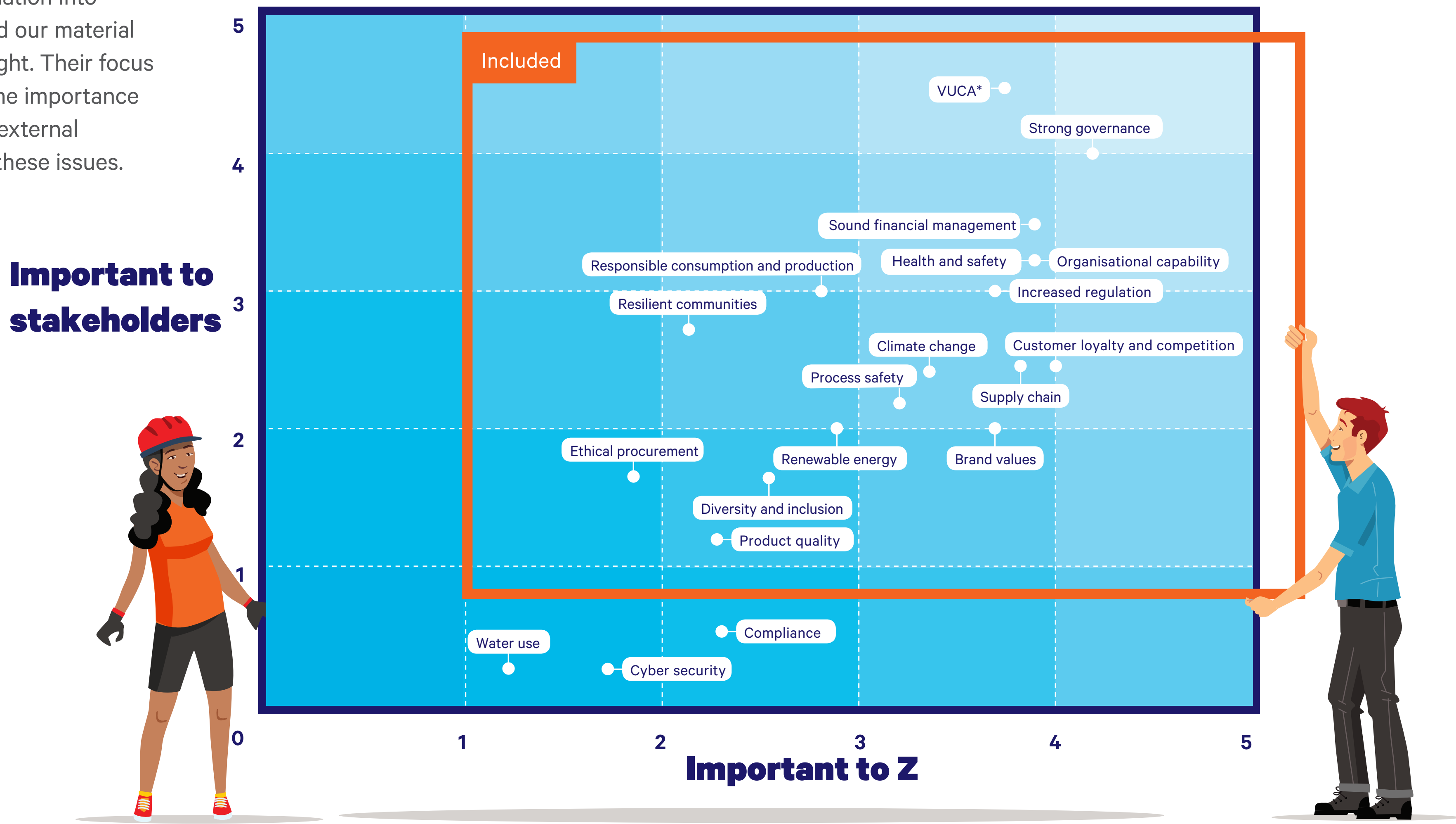
Members of the public

We're very active on Facebook and we receive regular feedback from members of the public. At the end of 2017, we ran the #wecandobetter campaign and asked people for their input on refreshing our Sustainability Stand.

Material issues

Taking all of this information into account, we determined our material issues, shown on the right. Their focus in this report reflects the importance both the business and external stakeholders place on these issues.

Material issues



* VUCA: volatility, uncertainty, complexity, ambiguity

HSSE measurements

HSSE measurements		FY18	FY17
Exposure hours (millions)	Total	3.97	3.83
	Z employees	0.78	0.71
	Retailers and Mini-Tankers franchisees	3.19	3.12
HSSE actions close-out rate		100%	100%
Life Saver breaches		15	7
Lost time injuries (LTIs)	Total	13	23
	Z employees	1	2
	Retailers and Mini-Tankers franchisees	12	21
Lost work days (LWDs)	Total	66	259
	Z employees	4	8
	Retailers and Mini-Tankers franchisees	62	251
Total recordable cases	Total	17	26
	Z employees	1	2
	Retailers and Mini-Tankers franchisees	16	24
Occupational diseases rate	Total	–	–
	Z employees	–	–
	Retailers and Mini-Tankers franchisees	–	–
Absenteeism rate		1.33%	1.24%
Work-related fatalities	Total	–	–
	Z	–	–
	Retailers and Mini-Tankers franchisees	–	–
HSSE forum membership		22%	21%
Tier 1 and Tier 2 process safety incidents		1	1

GRI Index

GRI standards: Core option

CGS refers to the associated Corporate Governance Statement accessed at www.z.co.nz/AR18CGC.

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omissions and Explanations
General Disclosures			
GRI 102: General Disclosures 2016	Organizational profile		
	102-1 Name of the organization	81	
	102-2 Activities, brands, products, and services	16–17, 25	
	102-3 Location of headquarters	139	
	102-4 Location of operations	16–17	
	102-5 Ownership and legal form	81	
	102-6 Markets served	16–17, 25	
	102-7 Scale of the organization	16–17, 25	
	102-8 Information on employees and other workers	17, CGS 4–7	
	102-9 Supply chain	25	
	102-10 Significant changes to the organization and its supply chain		no significant changes
	102-11 Precautionary Principle or approach	CGS 14	
	102-12 External initiatives	(a)	
	102-13 Membership of associations	(b)	
	Strategy		
	102-14 Statement from senior decision-maker	6–12	
	Ethics and integrity		
	102-16 Values, principles, standards, and norms of behavior	10, 17, 61–69, CGS 2	
	Governance		
	102-18 Governance structure	CGS 2	
	Stakeholder engagement		
	102-40 List of stakeholder groups	130–131	
	102-41 Collective bargaining agreements		none
	102-42 Identifying and selecting stakeholders	130–131	
	102-43 Approach to stakeholder engagement	130–131	
	102-44 Key topics and concerns raised	130–132	

(a) Zero Harm workplace, NZX Corporate Governance Code, Women's Empowerment Principles, YWCA Best Practice Compact, Rainbow Tick certification.
(b) Sustainable Business Council, Sustainable Business Network.

GRI Index (continued)

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omissions and Explanations
General Disclosures (continued)			
GRI 102: General Disclosures 2016 (continued)	Reporting practice		
	102-45 Entities included in the consolidated financial statements	81	
	102-46 Defining report content and topic boundaries	130 – 132	Variations noted below and with data
	102-47 List of material topics	132	
	102-48 Restatements of information		Noted below where changes have occurred due to Caltex acquisition
	102-49 Changes in reporting		No changes
	102-50 Reporting period	8	
	102-51 Date of most recent report	8	
	102-52 Reporting cycle	6	
	102-53 Contact point for questions regarding the report	139	
	102-54 Claims of reporting in accordance with the GRI Standards	6	
	102-55 GRI content index	134 – 138	
	102-56 External assurance	CGS 15	
Material Topics **GRI 200 Economic Standard Series**			
Economic Performance			
GRI 103: Management Approach 2016	Z Group	76–122	
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	76–122	
	201-2 Financial implications and other risks and opportunities due to climate change	30, 56 – 59	

GRI Index (continued)

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omissions and Explanations
GRI 300 Environmental Standards Series			
Emissions			
GRI 103: Management Approach 2016	Z Corporate & Z Retails plus supply chain emissions	68	A new baseline of FY17 has been set for comparative purposes due to the large change in activities levels due to the Caltex acquisition
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	68	
	305-2 Energy indirect (Scope 2) GHG emissions	68	
	305-3 Other indirect (Scope 3) GHG emissions	68	
	305-4 GHG emissions intensity	68	
	305-5 Reduction of GHG emissions	68	New targets have been set for emissions reductions calculated from FY17
Effluents and Waste			
GRI 103: Management Approach 2016		67	Includes Z Corporate and Z Retail
GRI 306: Effluents and Waste 2016	306-2 Waste by type and disposal method	67	
Environmental Compliance			
GRI 103: Management Approach 2016		66	
GRI 307: Environmental Compliance 2016	307-1 Non-compliance with environmental laws and regulations	CGS 2	
Supplier Environmental Assessment			
GRI 103: Management Approach 2016		67	
GRI 308: Supplier Environmental Assessment 2016	308-2 Negative environmental impacts in the supply chain and actions taken	67, 46	

GRI Index (continued)

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omissions and Explanations
GRI 400 Social Standards Series			
Employment			
GRI 103: Management Approach 2016	Z Corporate only	39	Includes Z direct employees only
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	CGS 5	
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	CGS 12	
	401-3 Parental leave	CGS 6	
Occupational Health and Safety			
GRI 103: Management Approach 2016		66	
GRI 403: Occupational Health and Safety 2016	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	133	
Training and Education			
GRI 103: Management Approach 2016		39	Includes Z direct employees only
GRI 404: Training and Education 2016	404-3 Percentage of employees receiving regular performance and career development reviews	CGS 13	
Diversity and Equal Opportunity			
GRI 103: Management Approach 2016		63	Includes Z direct employees and directors only
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	CGS 4 – 7	
	405-2 Ratio of basic salary and remuneration of women to men	CGS 5	

GRI Index (continued)

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omissions and Explanations
Local Communities			
GRI 103: Management Approach 2016	Z Corporate only	64	
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	64	
Socioeconomic Compliance			
GRI 103: Management Approach 2016		CGS 2	
GRI 419: Socioeconomic compliance 2016	419-1 Non-compliance with laws and regulations in the social and economic area	CGS 2	
Oil and Gas Sector Disclosures			
Asset Integrity and Process Safety			
GRI 103: Management Approach 2016		66	
GRI G4-OG13 Process Safety Events	Number of process safety events, by business activity	133	
Fossil Fuel Substitutes			
GRI 103: Management Approach 2016		51	
GRI G4-OG14 Biofuels produced and purchased	Volume of biofuels produced and purchased meeting sustainability criteria	–	No sales

Company directory

Registered and head office – New Zealand
3 Queens Wharf
Wellington 6011
z.co.nz

Contact us
For general enquiries phone 0800 474 355 and select '0' or email: general@z.co.nz

Facebook: Z Energy

LinkedIn: Z Energy

Directors

Peter Ward Griffiths (Chair)

Andrew Mark Cross

Alan Michael Dunn

Abigail Kate Foote

Julia Margaret Raue

Stephen Reindler
(Appointed 1 May 2017)

Justine Mary Munro
(Resigned 6 December 2017)

Paul Lightle Fowler
(Resigned 31 October 2017)

Executive team

Michael Bennetts
Chief Executive Officer

Christopher Day
Chief Financial Officer

Jane Anthony
General Manager, Marketing

David Binnie
General Manager, Supply and Distribution

Debra Blackett
Chief Governance Officer

Mark Forsyth
General Manager, Retail

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

Lindis Jones
General Manager, Corporate

Helen Sedcole
General Manager, People and Culture

Meredith Ussher
General Counsel

Nicolas Williams
General Manager, Commercial

Share Registrar

Link Market Services – New Zealand
PO Box 91976
Auckland 1142
New Zealand
+64 9 375 5998
linkmarketservices.co.nz

Link Market Services – Australia
Locked Bag A14
Sydney South NSW1235
Australia
+61 2 8280 7111

Auditor

KPMG
Maritime Tower
10 Customhouse Quay
PO Box 996
Wellington 6140

Lawyers

Chapman Tripp
10 Customhouse Quay
Wellington 6140

Minter Ellison Rudd Watts
18/125 The Terrace
Wellington 6011

Bankers

ANZ Bank New Zealand Limited
215–229 Lambton Quay
Wellington

Bank of New Zealand
80 Queen Street
Auckland

Hong Kong and Shanghai Banking Corporation
HSBC Tower
195 Lambton Quay
Wellington

Westpac Banking Corporation
188 Quay Street
Auckland

Registered office – Australia
c/- TMF Corporate Services (Aust) Pty Limited
Level 16, 201 Elizabeth Street,
Sydney NSW 2000, Australia
PO Box A2224,
Sydney South NSW 1235,
Australia
+61 2 8988 5800

Australia registered business number
164 438 448

z.co.nz