Annual Review 2013

Welcome to the second Z Annual Review

For the year ended 31 March 2013

Everything we do at Z revolves around our five organisational values, and this Review is no exception.

We've once again structured our Annual Review according to Z's five values so you can see what our values mean to us and how they guide this company.

1 Be straight up

As far as we're concerned there's only one way to do business, and that's the New Zealand way. So we make it our mission to be honest, open, transparent and real.

2 Have the passion

It's impossible to be the best unless you are absolutely passionate about what you are doing and you take ownership of it. We are and we do. Our business helps to keep the country running. And we intend to do it better than anyone and to bring more benefits to the whole of New Zealand, and New Zealanders, as a result.

3 Be bold

There's no point being in business to be just another fuel company. We intend to be the best. We can only do that by taking the initiative, by challenging the status quo, by being courageous and by backing ourselves.

4 We back people

We back our employees to grow and succeed. We give back to the neighbourhoods we work in. We back our customers by knowing what they want and how we can support them.

5 Share everything

We believe that so much more can be achieved if we are united. If we share our thoughts, our knowledge and our passion then we'll all share the success.

Contents

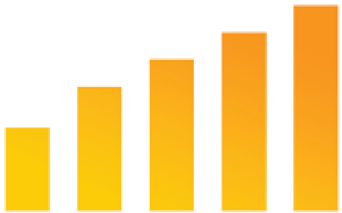
Reneesha from Mini-tankers takes a scenic cycle along the beach.

Be straight up

In this section:

Rick Ward and Wayne Davidson in Z's Christchurch Aviation team are right there with customers on the tarmac

The Best of Z 2012/2013



Strong lift in earnings

Replacement cost earnings before interest, tax, depreciation, amortisation and financial instruments (EBITDAF) lifted from $172 million to $195 million in an increasingly competitive market.

$39 million paid to our shareholders

$39 million in dividends was paid to our two shareholders, the New Zealand Superannuation Fund and Infratil, for the year ending 31 March 2013.

Third bond issue successful

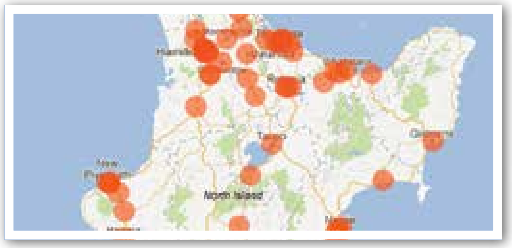
Our third bond issue, this one for seven years and four months, raised a further $135 million. Over 8,000 Kiwis now have a direct stake in Z through our retail bonds.

New Zealand is now fully Z-ed

We have now completed one of the largest rebranding programmes ever undertaken in New Zealand; safely, on time and on budget. Our entire network of 211 retail service stations and 94 truck stops is now Z.

Stores refit on track

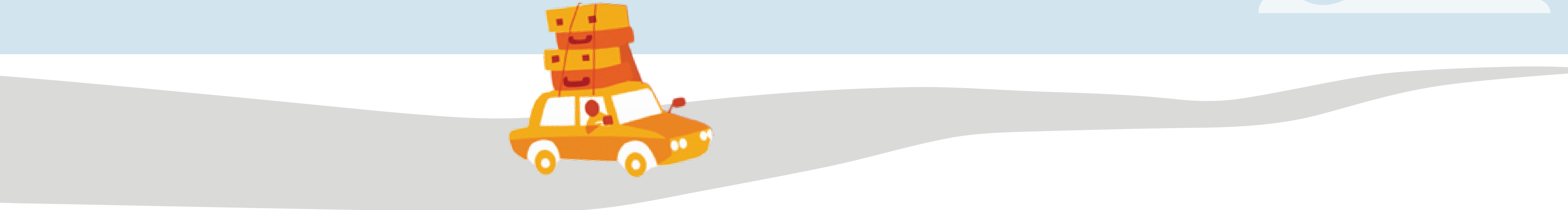
We have successfully refitted 78 of our 211 retail stores nationwide.

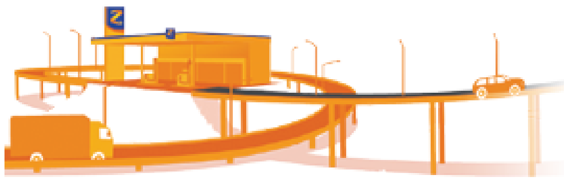


We continue to grow our network

We opened four new sites and 11 car washes this year, and started construction on two more sites in Wellington and Taupo, which will be completed in 2013.

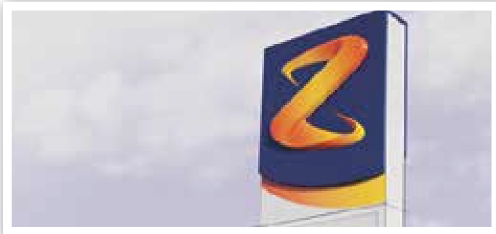
The Best of Z 2012/2013





We got faster

We completed a $12 million upgrade of our point of sale system, to significantly speed up retail transaction times and cut queues. This means Kiwis will collectively spend 7,500 fewer days in queues every year!

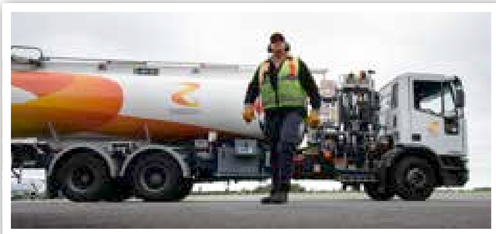


Our brand

Z is now New Zealand's most preferred retail fuel brand.

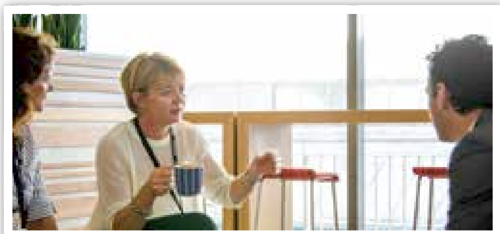
Striving for best practice in health and safety

We introduced ICAM and risk manager software to help us better understand where and why incidents occurred and to help prioritise our efforts in harm prevention. Human Factors experts Dr Kathleen Callaghan and Bridget Mintoft joined us to help ensure our health and safety fits with being a world-class Kiwi company.



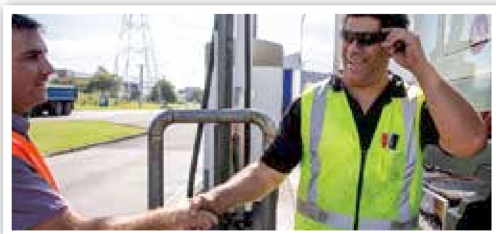
Our values recognised

Z was awarded the HR Initiative of the Year Award for its work on values and their impact on Z's business results.



Z one of 10 signatories to Women's Empowerment Principles

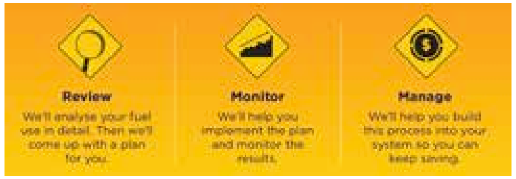
We signed up to the UN Women's Empowerment Principles in keeping with our commitments to diversity and inclusion.



Commercial contracts renewed

We renewed commercial contracts with some of New Zealand's largest fuel users on more sustainable terms, and have been increasing our penetration of the small to medium enterprise segment.

The Best of Z 2012/2013



Fuelwise offers savings to our customers

We launched our new Fuelwise service, which offers commercial customers the opportunity to save millions of dollars by using less fuel.

Preserving Wellington's history

We worked closely with Ngāti Awa and the Historic Places Trust to preserve the cultural significance of a historical stream and double-barrel brick vault drain at our site on Vivian Street in Wellington.

Secured supply

We signed new and favourable crude and refined products contracts, saving us more than $8 million per annum.

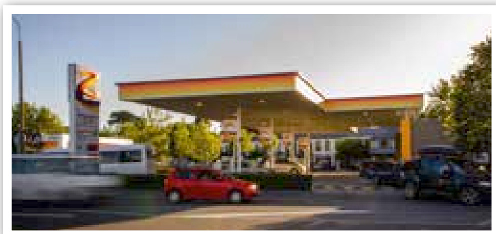
Good in the Hood

We allocated $5,000 per Z site to each neighbourhood's favourite charities through our "Good in the Hood" local sponsorship programme. That means that we will once again contribute over $1 million to New Zealand neighbourhoods over the 2013 calendar year.

GOOD in the HOOD

Connecting with the nation

Our Facebook page continues to grow in popularity, with 108,000 fans as at the end of March 2013.



Opportunities for owning a piece of Z

Z's shareholders Infratil and the NZ Superannuation Fund announce a possible IPO for Z on the back of a successful transition and rebranding from Shell, strong cash flows, a good dividend outlook and growth options.

Mike Bennetts

CEO's Report

This Annual Review is one example of how Z can be held accountable for doing what we said we would, and is entirely consistent with our value of "share everything". Last year we made some forward-looking statements about our performance, people, brand and strategy, all in the context of "Z is for New Zealand". This Annual Review is intended to inform you of progress in these areas and provide a platform and forum for you to feedback how you reckon we are delivering against what we said a year ago.

This past financial year was consistent with the previous two as we persisted with the changes we feel are necessary within the industry, invested in our strategy projects and maintained the continual evolution inside Z towards being a world-class Kiwi company.

We have made a sizeable investment of money and emotional energy into our Z brand, and were able to respectfully retire the Shell brand from New Zealand's downstream oil market in July 2012. This project was completed safely, on time, within budget and to the desired level of quality. This is a real testimony to Z's willingness and ability to partner with a diverse group of creative minds and contractors to complete a substantial rebranding project.

When we announced the brand change in May 2011, at the launch events I said "a brand has to have an emotional connection to our customers. It speaks to the heart and mind, generating loyalty and commitment. Today we have presented you with a name, logo, colours and brand values. When we deliver an experience to our customers that brings all of this together with our new customer offers, then we have a brand". Easy to say at the time and harder to do!

Since that time we have rigorously measured our progress and performance through a monthly brand tracker conducted by a leading research company that has substantial experience in monitoring brands. Each month around 400 randomly selected individuals from across the country respond to a standard set of questions.

The results are very encouraging – Z is now the most preferred retail fuel brand in the market, 16% higher than the industry average and 6% higher than the closest competitor. 31% of the market are "raving fans" of Z. These are people who score us as the best across all the attributes we measure. Our nearest competitor sits at 20%, and the others all score less than 10%. This demonstrates that Z is not only differentiated against others in the market, but that the differentiation is valued and appreciated.

The success of Z as a brand and our increasing customer loyalty was the catalyst for much increased activity by our competitors. I reckon this is good for everyone, as Kiwi consumers and businesses have much greater choice today than ever before. Increased competition also helps Z – it keeps our feet on the ground and pushes us to up our game on all fronts. Our balanced scorecard of results is an indicator of our ability to compete against global companies, respond tactically to what comes our way and continue implementing our strategy – investment in infrastructure, improved customer offers, the shaping of industry structures and our sustainability programme.

In our last Annual Review we shared our 2015 sustainability goals and targets with you. It is fair to say that we have had a mixed bag of performance since that time – progress in some areas, slower than desired progress in others and deterioration in another. This is not unexpected given what we are getting after and the challenges that come with stepping out from our peer group, especially in an industry that is poorly regarded for its commitment to and delivery of a more sustainable energy future.

Consistent with our value of being straight up, we have reported on our results one year into our three-year sustainability programme. There are no stories here; we simply tell you what we have done or not done, and what we are going to do about the shortfall. Please continue to hold us accountable for what we say we will do, as we are still learning, and remain open to the views and inputs of others given the importance of getting this right.

The team at Z can be proud of many achievements in the past year. We sensibly invested in our store upgrades, with four new or rebuilt service stations, faster point of sale technology, expansion of our car wash network and new and improved customer offers, and continued with our asset integrity program – an essential part of running a safe and reliable business. We completed a number of system projects that enabled us to simplify our business and get the right information to people who need it, all in pursuit of delivering better customer outcomes. We successfully completed another bond issue, raising $135 million, which was used to retire our remaining bank debt. Importantly for our shareholders and investors, our financial outcomes grew for the third year in a row despite intense competition.

Z is now the most preferred retail fuel brand in the market, 16% higher than the industry average and 6% higher than the closest competitor.

There are areas of our performance of which we are much less proud, and in some cases humbled. Some of our health and safety metrics have been adversely trending, partly through improved reporting and partly through poorer performance. While these safety metrics are in the top 10% when benchmarked to other companies, they are inconsistent with our commitment to Zero Harm and the focus we need to have on health and safety within an industry like ours.

Having raised expectations about our customer service, we are not delivering on these consistently. In some respects that is to be expected given the quantum change from the past we are asking for; however, there are too many examples of where we have scored own goals by not being sufficiently attentive to what matters to our customers or simply taking too long to remediate the gaps we know about.

You can expect safety and customer service to be a focus going forward, and I know our teams are excited about taking our performance to new highs in both of these areas.

In the same week that I am writing this report, I am finalising plans for the next financial year with our Board. After the past three years of significant change, the next year will be a period of consolidation. This does not mean that we back off from any of our commitments, slow the momentum in any part of our business, or walk away from the changes we are calling for within the industry. Instead it means that we finish off what we have already started, achieve more from our underlying business and past investments, build the foundations for a faster pace the following year, and preserve the sense of excitement and innovation that our people value in working for Z.

I should also touch on our shareholders' announcement of a possible listing of Z Energy on the NZX. While this may be a done deal by the time you read this report, at the time I am writing this, we are busily preparing the company for a potential listing. Given that we are a Kiwi, customer-facing business, I am particularly excited about the opportunity for Z's customers, bondholders and members of the New Zealand public to take an ownership stake in a significant Kiwi business.

In a year when our customers and investors had more choice and alternatives than they have had for a while, I thank all of you for your continued support of Z. The 3,000 odd people who are directly and indirectly associated with us as employees, partners and contractors really appreciate your engagement and feedback, and we do not take it for granted in any way.

Right now I am reminded of a saying of one of my former bosses: the best is yet to come ...

Mike

Mike Bennetts
CEO

Marko Bogoievski

Chairman's Report

It's been a positive year. The "heavy lifting" required to complete the initial brand rollout and our substantial retail investment has been successfully completed. Having made the transition from global subsidiary to a New Zealand-focused brand, growing customer preference and a healthy lift in same-store sales signal that Z is continuing to build pleasing momentum.

We are ahead of where we originally expected to be at this point. Our customers are responding well, endorsing our belief that the measured risk we took with the rebranding was the right call and has delivered a locally relevant company that we will continue to invest in with confidence.

The headway Z has made has brought new and welcome vitality to the sector. This year saw the rest of the industry respond to our investment pretty much as we expected, with tactical retail initiatives and more aggressive, volume-based competitive behaviour. While we have the means to respond to such tactics, and will retain the ability to do so as required, ultimately our focus is more long term. It now remains to be seen whether others will follow our lead and meet the investment challenge going forward to address the long-term sustainability of the sector.

The next phase will be important. In the year ahead, we will look for returns from the significant investments we have made in our brand and retail product offering and, at the same time, seek to make gains from our investment in leadership capability, technology, and supply and distribution. We will look to consolidate our position and see the returns from our investments reflected in the bottom line.

Simultaneously, we will advocate for further changes to the overall industry structure. Partly that's about investing in the future with an open mind. Having supported Refining NZ's expansion plans, we are looking for a new economic model that will ensure the refinery remains relevant and competitive in the years ahead.

We have strong capability in a local management team and owners who are looking further than next year's earnings. The challenge we have set for ourselves is to strike the right balance between representing New Zealand's interests, long-term sustainability for the company and meeting our investors' expectations.

While we want to consolidate the gains made during our first three years, the Board is also developing the agenda for future investments beyond our current core, such as alternative fuels, new technology options and our network and distribution strategies going forward.

By the time you read this report, you will be aware that Z has registered an Investment Statement and Prospectus in preparation for a possible share market listing. At the time of purchase Z Energy had the challenge of transitioning off the Shell global platform, new capital investment priorities and executing a countrywide rebranding. Now, three years on, these challenges have been met, and Z has strong cash flows, a good dividend outlook and growth options which would suit a wider public investor base. Given that we see future growth options for the company, both Infratil and the NZ Superannuation Fund plan to retain a combined stake in the company of between 40% and 50% post listing.

The other news to share is that this will be my last year as Chairman of Z Energy. Given the possible listing, it is appropriate for the Chairman of the Board to be independent of the major shareholders. I will however remain a Director with Z Energy, so this is not a goodbye.

I'd like to take the opportunity to introduce you to the incoming Chairman of the Board, Peter Griffiths. Peter has been a Director on Z's Board since the company's inception in 2010, and has extensive experience in the downstream fuel industry, including ten years at the helm of one of New Zealand's largest fuel companies.

We are delighted with the progress made and the value that has been created to date by Mike and the entire Z team, and I have no doubt that Z will continue on its positive trajectory under the stewardship of its new Chairman, Peter.

Marko Bogoievski
Chairman

Meet the Z Board

Marko Bogoievski
Chairman

Marko is Chief Executive Officer of Infratil and Morrison & Co. He was previously Chief Financial Officer of Telecom New Zealand, responsible for corporate finance, mergers and acquisitions and group strategy. He is a director of Infratil, TrustPower and an alternate director of Auckland International Airport. Marko holds a Master of Business Administration from Harvard University.

Marko stepped down as Chairman on 25 July 2013, but remains a Director on the Z Energy Board.

Peter Griffiths
Director

Peter is an oil industry veteran. He has been General Manager BP Papua New Guinea and Commercial Manager for BP New Zealand's fuel and LPG interests. For the last 10 years he was Managing Director of BP New Zealand and also Chairman of BP South West Pacific. Peter has served on the boards of Refining NZ, Liquigas and Bitumix. He is a director of Wanganui Gas, New Zealand Oil and Gas and New Zealand Diving and Salvage.

Peter transitioned into the role of Chairman of Z Energy on 25 July 2013.

Alan Dunn
Director

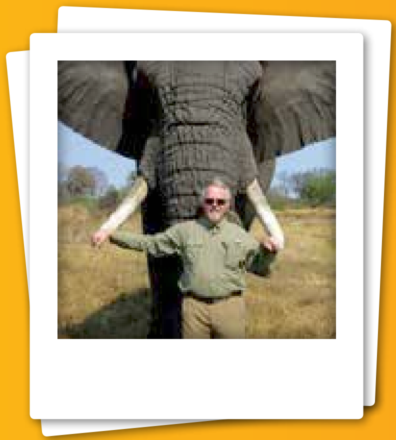
Al knows all about retail and business leadership. He was Chief Executive Officer and Chairman of McDonald's New Zealand from 1993 to 2004 before heading to Chicago to become Vice President Operations, then Regional Vice President in the Nordic region and Managing Director of McDonald's Sweden. These days he manages his own business, Trumpeter Consulting, specialising in business leadership and development. He is also a director of New Zealand Post, Burger Fuel Worldwide and a number of private companies.

Abby Foote
Director

Abby is an experienced director of both publicly listed and Crown companies. Based in Christchurch, she has worked in a range of corporate, treasury and legal roles over the last 20 years. Abby holds a number of directorships, including as a Director of Transpower New Zealand and of New Zealand Local Government Funding Agency Limited, where she chairs the Audit and Risk Committee.

Abby joined the Z Board in May 2013.

Meet the Z Board



Paul Fowler
Director

Paul has primary industries in his blood. He was the founding Chief Executive Officer of Nyrstar NV, the world's largest producer of zinc metal. Before that he was Chief Operating Officer of Zinifex, an Australian zinc and lead mining and smelting company. He has also been Chief Executive Officer of Fletcher Challenge Forests and Carter Holt Harvey Forests and spent 15 years with BP in crude oil trading, strategic planning, refining and retail marketing. Paul has served on the boards of Refining NZ and Evergreen Forests.

Justine Munro
Director

Justine Munro is a New Zealand Rhodes Scholar who is globally recognised in the fields of corporate social responsibility and business, community and government partnerships. Justine is returning to Auckland from Sydney where she was Executive Director, Education at Social Ventures Australia. Justine was the founding CEO of the New Zealand Centre for Social Innovation and helped to establish New Zealand Global Women in 2008. She has also worked in Australia and New Zealand as a lawyer and strategic management consultant.

Justine joined the Z Board in May 2013.

Lib Petagna
Director

Lib is an Executive Director and the Chief Investment Officer of Morrison & Co and has led the purchase and sale of airport, energy and transport assets in New Zealand, Australia and Europe. Lib is also a director at NZ Bus and Infratil Property.

This is our Executive Team

Rob Wiles
GM Corporate

Rob has had an international career in corporate finance, infrastructure, treasury management, mergers and acquisitions, strategy and business development. He also has experience in the development of start-up businesses. Rob has held senior positions with National Australia Bank, Bank of New Zealand, South Pacific Merchant Finance and the National Bank of New Zealand.

Meredith Ussher
General Counsel & Company Secretary

Previously with Todd Energy and the New Zealand Racing Board/TAB, Meredith is an experienced corporate lawyer in both the energy and retail network industries. She also has a strong private practice history, having worked at Minter Ellison Rudd Watts as a Senior Associate. Within Z she has responsibility for all group legal risks as well as relevant strategic and legal advice in respect of all operational matters including major contracts with key suppliers and customers. Meredith is also responsible for the Company Secretariat and advises on governance matters.

Rob Freeman
GM Supply & Distribution

Before moving to New Zealand, Rob held senior management roles in Shell Australia in commercial marketing, services, distribution and logistics. He is Chair of New Zealand Oil Services and a director of Wiri Oil Services. Rob is responsible for the fuel supply distribution chain, from sourcing in international markets to domestic distribution and supply.

Mike Bennetts
CEO

Mike became CEO of Z Energy after 25 years with BP in a variety of downstream roles in New Zealand, China, South Africa, the UK and Singapore. His last role was as CEO of BP's Eastern Hemisphere supply and trading business.

Mark Forsyth
GM Retail

Mark has held management positions with Shell in New Zealand, the UK and Ireland. He oversees Z Energy's 200+ service stations and nearly 100 truck stops, as well as marketing, brand and asset management. Mark is a Director of Loyalty New Zealand.

Chris Day
CFO

Before moving to Z Energy, Chris has held general management, Chief Financial Officer and Financial Controller roles in a range of listed and commercial companies, most recently as Financial Controller for Contact Energy and before that as Chief Financial Officer for AXA New Zealand. He is a member of the New Zealand Institute of Chartered Accountants and is a director of Landcorp Farming Limited.

Chris Day joined Z after the end of the 2012/2013 financial year. He replaces Mark Edghill as CFO, and began at Z on 31 July 2013.

Lindis Jones
GM Commercial

Lindis was Head of Property at ANZ National Bank, leading a number of significant property transactions and developments. Prior to that, he was with Shell for 13 years, primarily in retail operations and strategy in Europe, Asia and New Zealand.

Huma Faruqui
GM Capability & Organisational Development

Before moving here from the UK in late 2003, Huma worked in HR roles for Deutsche Bank, Cater Allen/Abbey National Bank and Deloitte. In New Zealand she has held HR leadership roles with Vero Insurance and, most recently, Telecom.

Have the passion

In this section:

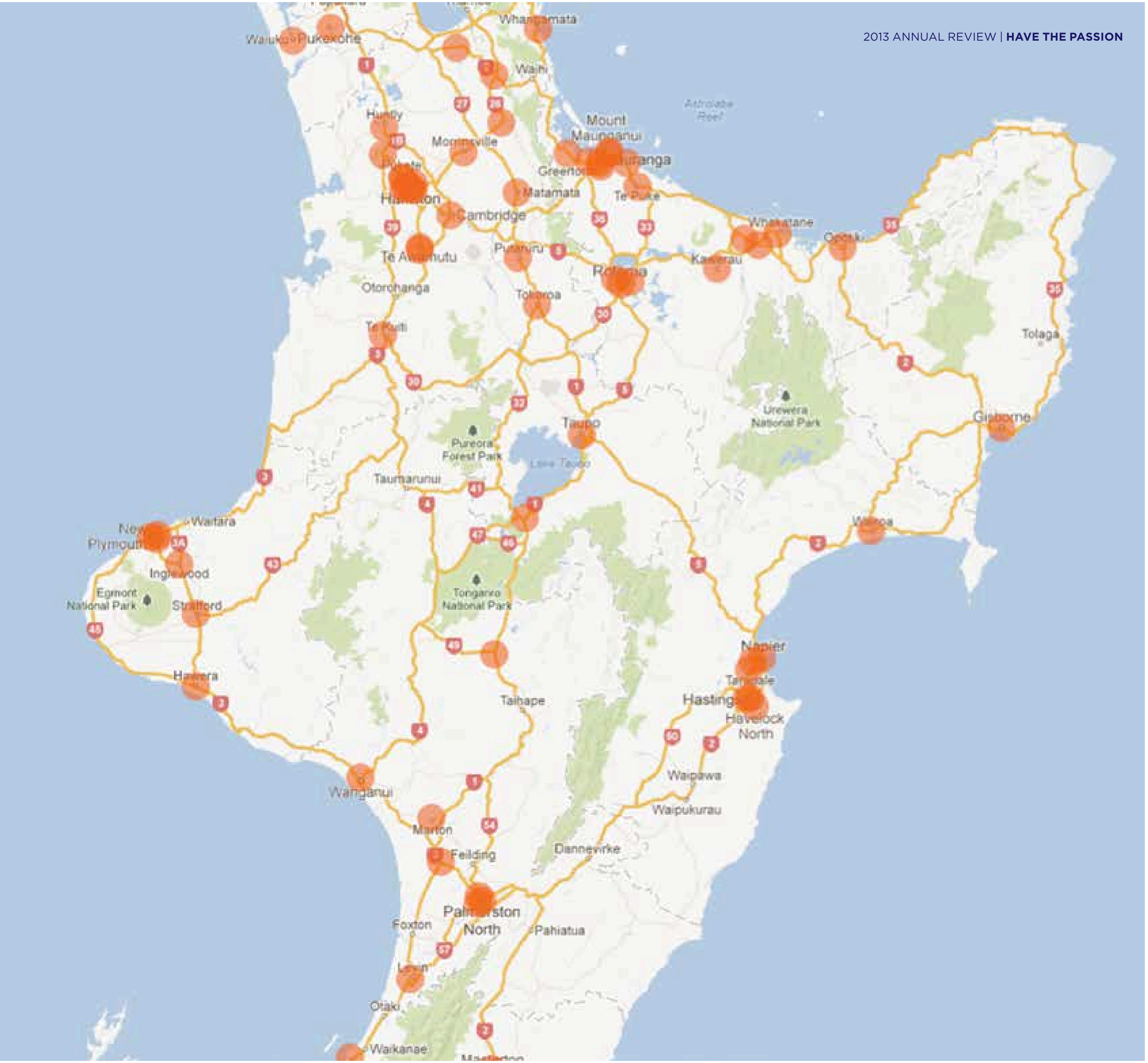
Over 250 places to find us
A brand for New Zealanders
Guest column – James Bickford, Interbrand
Helping history flow
The faces of Z
Striving for the fastest service in fuel
Loyal to New Zealanders

Forecourt Concierge Awhi is a star at Z Five Crossroads' and embodies having the passion.

Over 250 places to find us

In 2012 we finished rolling out one of the largest rebranding projects ever undertaken in New Zealand. You can now find Z in over 250 places: 211 service stations, 94 truck stops and 50 airfields (as at 31 March 2013).

We continue to invest, opening four brand-new service stations in the last financial year and with plans to open three more over the next few months on the Taupo Bypass, Vivian Street in Wellington and Manukau Road in Auckland. In fact, we intend to build several new sites a year over the next few years.

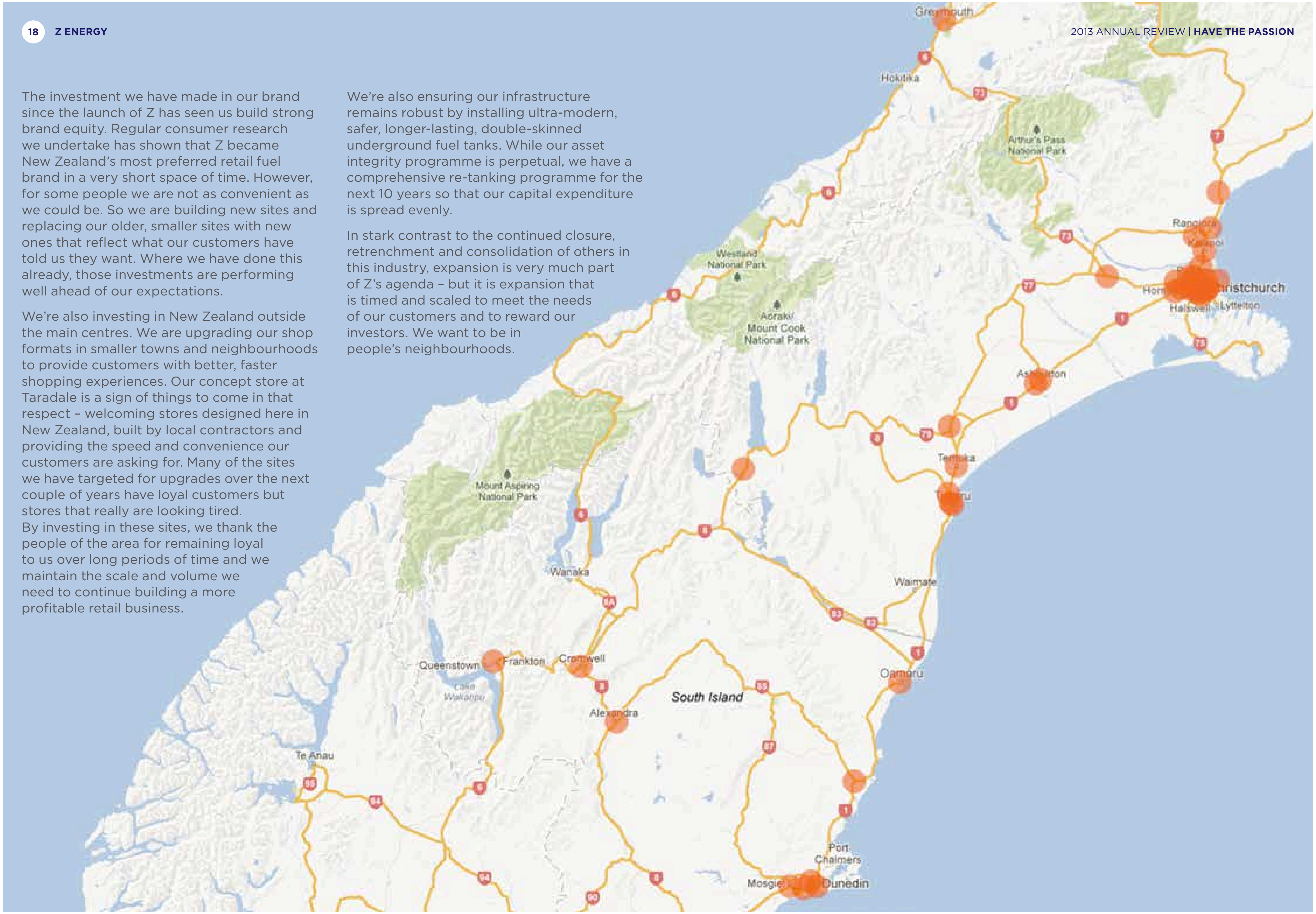


The investment we have made in our brand since the launch of Z has seen us build strong brand equity. Regular consumer research we undertake has shown that Z became New Zealand's most preferred retail fuel brand in a very short space of time. However, for some people we are not as convenient as we could be. So we are building new sites and replacing our older, smaller sites with new ones that reflect what our customers have told us they want. Where we have done this already, those investments are performing well ahead of our expectations.

We're also investing in New Zealand outside the main centres. We are upgrading our shop formats in smaller towns and neighbourhoods to provide customers with better, faster shopping experiences. Our concept store at Taradale is a sign of things to come in that respect – welcoming stores designed here in New Zealand, built by local contractors and providing the speed and convenience our customers are asking for. Many of the sites we have targeted for upgrades over the next couple of years have loyal customers but stores that really are looking tired.
By investing in these sites, we thank the people of the area for remaining loyal to us over long periods of time and we maintain the scale and volume we need to continue building a more profitable retail business.

We're also ensuring our infrastructure remains robust by installing ultra-modern, safer, longer-lasting, double-skinned underground fuel tanks. While our asset integrity programme is perpetual, we have a comprehensive re-tanking programme for the next 10 years so that our capital expenditure is spread evenly.

In stark contrast to the continued closure, retrenchment and consolidation of others in this industry, expansion is very much part of Z's agenda – but it is expansion that is timed and scaled to meet the needs of our customers and to reward our investors. We want to be in people's neighbourhoods.



A brand for New Zealanders

As part of our goal to become a truly world-class company, we're determined to become an iconic brand and earn the trust, respect and preference of our customers. To achieve that, we must deliver New Zealand motorists and businesses the best experience and the best overall value of any fuel supplier.

Our regular consumer research shows that Z has the highest consideration, availability and preference ratings of any fuel brand in the country. The number of people saying that Z is their first preference also continues to increase. Most importantly, over the past year we continued to create increasing numbers of what we call "raving fans", the customers who say that we are the top performer across all the brand attributes that we measure.

We are now two years ahead of schedule in hitting our brand targets, and are growing into our brand's potential.

We've struck a chord. New Zealanders tell us every day that they get our story and they relate to our brand personality – youthful, independent, passionate and always optimistic. The fact that Z is a New Zealand company helping fill up the NZ Superannuation Fund is important, but we know it's not enough. There has to be more – and in our case, that means clear and distinct offers such as a friendly helpful experience, forecourt concierges, speed, Fly Buys rewards and great Z Espress coffee.

Combine what we offer with the difference we're helping to make in neighbourhoods, and it can be seen that Z is a company that's doing good things and that has a value proposition that sets it apart from the industry. We're proud of that reputation and work hard to continue to earn and retain it.

New Zealanders have told us what Z means to them. Now we've asked brand valuation experts Interbrand to quantify and value the contribution of our brand to our business. To us, our Z brand is an asset; an asset that we need to grow into the world-class icon we know it can be.

Guest column
James Bickford,
Managing Director – New Zealand for Interbrand

The importance of building a strong brand and the contribution of brand to business results

Why is it important to build a strong brand? Many would think that brands are just consumer products we see on shelves or showrooms, yet all businesses boast a brand, whether strong or incredibly weak. Unfortunately most don't realise the true potential of a brand. When well harnessed, a brand delivers growth to the business, with benefits not only to the shareholder but also to the many audiences that the brand interacts with.

From a financial perspective, a brand is a business asset that when managed well reduces risk in terms of future return. From a human perspective, great brands create belief and belonging; they encompass organisational culture as well as customer delight. They are a mark of credibility, quality and consistency of experience not only for customers, but for employees, partners and the public at large.

At Interbrand, we therefore define brands as "living business assets, brought to life across all touch points, which, if properly managed, create identification, differentiation and value". If you think of brands as living business assets, then you start to think of them as being alive, organic, fluid and dynamic.

They do need managing, but brands also need to be protected and intuitively nurtured if they are to grow and reach their full potential. This is especially true in a highly social age, when brand owners no longer have total control.

Make no mistake; brands are there to realise business objectives. This is achieved through driving preference for the goods or services that the business provides. Brands are differentiating. This leads to a greater perception of value in the eyes of the customer when compared to unbranded offerings such as commodities.

Brands create continuity in demand, thereby making expected returns likelier – while reducing risk.

A strong brand benefits not only a business' core offerings, but also other products and services that the business produces. A halo of reputation is built on the attributes associated with the initial core offer.

Think of the power the Virgin name carries to the many start-up businesses it embarks upon each year. Without the influence of its strong recognisable brand, embodying customer advocacy and irreverence, these businesses would encounter considerably greater risk in their initial and ongoing operations.

A strong brand benefits not only a business' core offerings, but also other products and services that the business produces. A halo of reputation is built on the attributes associated with the initial core offer.

In this manner, a brand provides credible stretch for a business, to the point that a strong brand can actually guide the development of the business, beyond just capitalising on apparent market opportunities. The global brand BIC serves as an example of this. BIC made its name through the development of the disposable biro, a market it still exerts considerable influence over, despite intense competition. In looking to expand, rather than merely searching for other opportunities in the pen or stationery market, BIC was guided by its brand's proposition of making consumers' lives easier through something simple yet reliable. This led it into endeavours such as disposable lighters, shavers and even racing dinghies for children; all of which adhered to the brand's core proposition, despite being in disparate market sectors.

By expressing their proposition across all touch points, brands help shape perceptions and, therefore purchase behaviour, making products and services less substitutable.

Brands can drive businesses in an era of more demanding customers in which purchase decisions are more fluid, better informed and dynamic. Over a decade ago, *The Financial Times* classed brands as the ultimate source of sustainable, competitive advantage. More recently, *The Economist* stated branded businesses enjoy margins double that of their counterparts.

Why? Most of us have always wanted to experience brands as a series of seamless, connected experiences, where visiting an organisation's retail outlet, talking to a staff member, visiting their website and the experience of the product or service all feel the same.

Interbrand has, for over a decade, valued the world's best brands. The brand valuation process is now ISO certified and the valuation expressed as a figure. Global best brands understand the importance of building brand value and putting it at the core of their business.

Brand value is not just a question of how much – it is, more importantly, about how and why.

James Bickford
Interbrand

Helping history flow

This year we unearthed a unique find on Vivian Street in Wellington and then worked closely with local iwi and the Historic Places Trust to respect and preserve what had taken place there and honour the history of the city.

Z Vivian Street prior to opening day.

In 2012, Z made the decision to build a new Z site on a vacant lot on Vivian Street in Wellington that we owned. However, not long after excavations began, we unearthed a beautiful Victorian double-brick barrel vault drain running through the site.

Further investigation revealed that the drain itself enclosed the Waimapihi stream, a waterway running from the Aro Valley down underneath the city to Wellington harbour. The stream in its headwaters is a beautiful clear creek that holds special cultural significance to local Māori, because a revered elder used the stream to bathe in. 'Wai' means water, and 'Mapihi' was the name of the revered ancestor.

Recognising the area's cultural and historical value, excavation was halted, and we worked with local Māori trust the Port Nicholson Block Settlement Trust and the Historic Places Trust to find a way to enable development to continue, while honouring both the history and the cultural importance of the site. In order for Z to install its tanks underground, the stream needed to be diverted around the station site and then reconnected to the brick drain on the other side.

The bricks from the removed section of the drain on the site were used by accomplished Wellington artist Ra Vincent to create a memorial at the service station that reflects the history of the area, with an accompanying information board. Ra came to this project immediately after the conclusion of his work on the set of *The Hobbit*; he also created the nine-metre-high Gandalf sculpture that was erected atop the Embassy Theatre for the premiere of the movie.

As he neared completion of his sculpture for the Vivian Street site, Ra was nominated for an Academy Award for his work on set design for *The Hobbit*. Despite the travel to and from the United States that this nomination led to, the sculpture was completed on time, and Z Vivian Street now boasts a tourist attraction in its own right!

The original path of the stream is marked on the forecourt as a sign of respect, and so New Zealanders can trace the path of a little bit of history.

This project represented a journey of learning for Z and the beginning of a partnership with local Māori that has enriched the normally mechanical process of service station build with cultural learning and understanding.

The opening of the new site, together with the blessing and unveiling of the sculpture, took place in April 2013.

The Waimapihi memorial sculpture at the Vivian Street site by Ra Vincent.

The faces of Z

One of our strengths as a company is that we think centrally and deliver locally. We thought you might like to meet some of the people at the heart of what we consider to be our competitive advantage.

Meet Selwyn Cook and the team at Z Five Crossroads

Selwyn Cook, the Z Retailer for Hamilton, takes a huge amount of pride in his staff and the care taken to make sure he gets the right person for the right job.

"One of the absolute pleasures of doing this job over the last 22 years has been the changes we can make in peoples' lives. Those changes can be for the staff, our customers or even for me."

Selwyn knows that finding the right people is crucial to the Z brand, so his team works closely with Workbridge who have helped him and his team introduce some pretty fantastic and special people to their team; 45 in total.

Ross McKenzie, an employment consultant with Workbridge said: "The people that we have enrolled with us are pretty representative of the talents that exist across the whole Hamilton community. We have people with educational qualifications, and people with no qualifications; what they all have is a willingness and capacity to work, and the desire to work.

One of the people who joined Z from Workbridge with the passion and enthusiasm for working at Z Five Cross Roads is Awhi Horn.

Awhi is a Forecourt Concierge and says of her work: "My community is really awesome. If you are genuine and straight up with your customers you can help them with almost anything, whether it is with their petrol or whether it is the little things like advising them whether they can wash their windscreen when it has a crack – you can but it depends on the pressure."

Awhi says her favourite vest is her Z one. "Basically I've worn it almost every single day and I have pride in it whenever I put it on. It says 'I am the Forecourt Concierge'; it's like my red Superman cape. When I put it on it makes me feel proud; it makes me be present; it makes me to do all the things Z have taught me to do."

Selwyn says about using Workbridge, it's not about finding staff, it is about finding people, "people who are happy to serve our customers, who enjoy this environment, and want to deliver that Z Factor."

The faces of Z

Meet Hamish Wright

Hamish has been a Retailer for Z for 10 years. Before getting into the fuel industry, he worked in hospitality. Today he runs eight sites spread out from central to eastern Christchurch: Belfast, Shirley, New Brighton, Linwood, Woolston, Brougham St, Moorhouse and Carlton Corner. All up, Hamish's cluster employs around 85 staff.

Hamish is the first to admit he's a glutton for hard work. Having been in the hospitality industry, he's used to managing staff and service needs in an industry that operates seven days a week. He credits his Site Leaders with developing a truly caring and friendly environment at each site, and says that in this business no two days are ever the same. The only consistencies are interruptions and calls. In fact, Hamish reckons he hasn't turned his phone off since he started in the fuel industry.

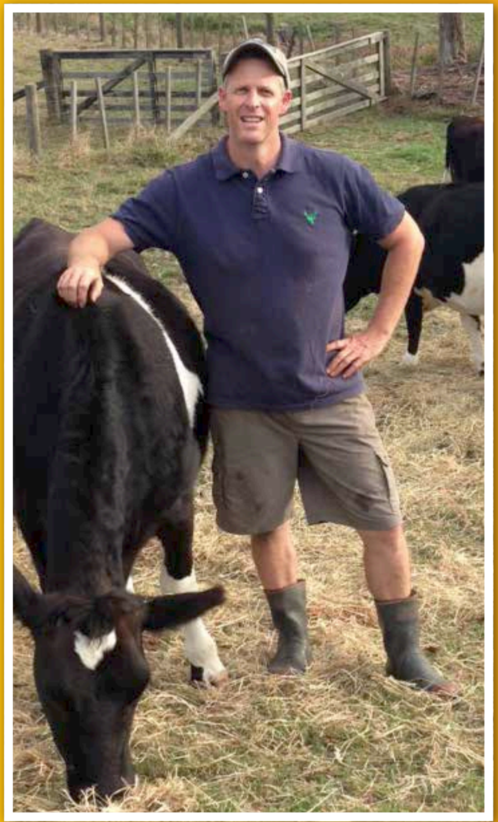
One of the things he really loves about the culture at Z and the new food offer is that it gives Z people so many opportunities to interact with other staff and with customers. Work, he says, is about having fun and enjoying the theatre of making a decent cup of coffee!

Just as no two days are the same, neither are any two sites. Some stations have a strong commercial bias and are patronised by contractors and car yard operators. At other sites, particularly those in suburban areas, staff regularly deal with mum or dad rushing in for milk and bread. At New Brighton, a neighbour keeps an eye on the site when it's closed. At Belfast, another regular shops in the store every morning for his groceries. He never buys fuel, because he doesn't drive. With so many colourful characters, few things take Hamish and his staff by surprise any more.

Passionate about developing people, Hamish and his team have been working with LSV (Limited Service Volunteers), running a campaign to employ some of their graduates by offering them fulltime work in the business so that they have a positive pathway once they finish their LSV course. They've also established a relationship with the Canterbury Touch Association, sponsoring a drinks caravan at their home tournaments and helping their teams to fundraise by offering carwashes at one site on Saturday mornings.

There's never too much time away from work, but when he does get a chance to slip away, Hamish enjoys watching his family play sport, mountain biking, cricket and cheering for the Crusaders in the Super Rugby competition.

The faces of Z



Meet Wayne Kennerley

Wayne looks after 11 Z service stations in South Auckland stretching from Waiuku and Pukekohe to Manukau, with 103 staff. He's been with Shell and then Z for seven years now, before which he worked in corporate roles for Mars, Goodman Fielder and Bluebird Foods. Prior to that, Wayne was something of an entrepreneur – starting a vending machine business at a time when the industry was still in its infancy and he was attending Waikato University. He later sold the business to Bluebird Foods.

Wayne says he chose to work for Z because he wanted to be self-employed and also to put the skills he had developed while in the corporate world to good use. He's inspired every day, he says, by the hardworking, professional, passionate teams he has around him. Take Prem, who has worked for Shell and now Z for 20 years. He may be eligible for the pension but he turns up without fail to Z Manurewa where he provides great customer service. Wayne says he loves seeing the smile on Prem's face and the huge sense of enjoyment he brings to his work. It's inspiring for everyone, he says, to have people on your team who don't need to work but continue to do so because they truly want to.

Nearly all of Wayne's site leaders started out on the frontline, and new staff members quickly come to understand that if they are keen to work hard, learn and develop their leadership skills within their community, they really do have the opportunity to operate a site that in itself is a large business.

Every day is different. Some days, Wayne's on site coaching the team and looking at how to improve the store and interactions with customers. Another day he'll be working with a local community. The next day he could be involved in a strategic discussion about how Z can improve the customer experience. Then, there are those days when he must react to the incidents that can occur in a business that pumps 70 million litres of fuel per year.

Running a cluster is not the easiest job in the world. Wayne says he can't be certain if hair loss is a side-effect of running a business this big, but he's not ruling it out. Seriously, his worst moments have involved dealing with armed robberies. But, for all that, there are two things this Retailer loves about his job. The first is providing opportunities to staff to develop themselves into professional business leaders. The second is witnessing staff and customers enjoying their experience at Z. It brings a smile to his face when he overhears an interaction where a staff member not only knows a customer's name, but they also know exactly how they like their coffee. In fact, the team will often have that coffee ready for that customer before the person has even made it to the till.

In addition to Z's Good in the Hood programme, Wayne supports the South Auckland Food Bank by providing them with goods that the stations are no longer selling but that are still fine to eat.

Outside of work, Wayne is a keen gardener and landscaper.

The faces of Z

Meet Raswinder Singh and Tarmindar Kaur

Raswinder (Ras) and Tarmindar operate 11 stations in Upper and Lower Hutt, Kapiti Coast and Masterton. They employ 102 staff, and have been with Z for the last three years.

Ras grew up in Perth, trained as a radiographer and became Head of the Radiology Department at Casey Hospital in Melbourne. But even as he walked the wards, he found his passion for business continuing to grow. That passion would lead him to enrol at the Melbourne Business School and inspire him to focus his managerial skills on retail. Tarmindar is a lawyer, who worked in criminal and family law before moving to dispute resolution and corporate governance at the Telecommunications Industry Ombudsman.

Both say they chose Z because they wanted to work in a business environment that was not stuck in the past. They love Z's fresh approach to the industry, and enjoy Z's willingness to adapt to local needs quickly. "If our customers want flowers, we are quick to respond and get flowers on site," says Ras. "We can do this with Z rather than being the standard 1980s-style service station."

The couple say they believe in hard work, and in letting staff bring their own personalities to the job. They are lucky, they say, to have people working for them who go well beyond what is required.

Each station in their cluster, they say, is a true mix of the best of New Zealand. Z Levin is home to fervent grassroots rugby supporters; Masterton Z has its Wairarapa Supergrans who fill up at the station and provide great services to the community; Z Mana and Kapiti serve the boaties well with bait and refreshments.

Ras and Tarmindar encourage community involvement and have been able to support several charities at each of their stations, including the Hutt Hospital Children's Ward, Bellyful (which provides cooked meals for new mums), Masterton Athletics, the New Zealand Para Olympians, Trentham Community House, Paraparaumu Red Cross "Meals on wheels", Hutt City Kindergarten, the Clean Up the Beach Petone initiative and the Salvation Army's "Capturing the Heart of the Community" campaign.

They say they really enjoy training and developing staff to provide world-class customer service and actively encourage the people who work for them to bring their personalities to the job. The icing on the cake for them is that they get to live and work in a beautiful part of New Zealand with the pristine Kapiti coast on one side and the Rimutaka Ranges on the other.

When they're not at work, Ras enjoys sailing, golf and spending the day at a local park with their son, Akaal. For her part, Tarmindar enjoys reading, swimming and sending Akaal to the park with his Dad.

Striving for the fastest service in fuel

Nobody ever wants to wait. To ensure our customers are served as quickly as possible, this year we rolled out a $12 million project to replace the electronic point of sale systems in all of Z's service stations and truck stops.

The initiative shifts Z's service from a slow, 20-year-old system to state-of-the-art, Kiwi-made technology with industry-leading speed. It has already cut average EFTPOS transaction times by as much as 60%, enabling our customers to get in and out of our sites as quickly as possible.

Cutting 10 seconds off a transaction time may not sound significant in itself, but in a business that undertakes tens of thousands of transactions a day – or approximately 60 million per year – the time savings certainly add up, especially at peak times. For customers, a minute is valuable time when you're standing in a queue.

The new platform also lays the groundwork for future initiatives. One of these is Pay-at-Pump, which we are currently trialling at five sites and looking to roll out nationwide over the next year. This will mean that many "fuel only" customers will no longer have to come inside to pay; they'll get the convenience of paying right at the pump.

Combine these initiatives with new stretchy fuel hoses at most sites to make it easier to refuel, diesel available on more pumps and guaranteed forecourt concierge service available from 10am to 5pm on every site, every day, and it's clear we're listening to what people want in terms of greater speed and great service.

Loyal to New Zealanders

Our customers love Fly Buys, and no wonder. 72% of New Zealand households have a Fly Buys card – and the only fuel company where Fly Buys customers are rewarded is Z.

There's an extra incentive for New Zealanders to buy their fuel, food, drinks and other products from Z – Fly Buys. Z owns a 25% share in Loyalty New Zealand, the company behind Fly Buys, and with over 2.4 million cardholders and 7.9 million rewards redeemed since Fly Buys began in 1996, Fly Buys is a great Kiwi success story in its own right.

This year, Fly Buys met customers' wishes for more choices in how they receive their rewards by introducing instant reward draws. Customers making purchases of any amount go into the draw to win up to $100,000 in cash. In a much more competitive retail environment where most people receive a discount of some sort, the battle lines are being drawn around value. Fly Buys is a key part of our value offering, and we'll continue to listen to what customers want when it comes to how we reward them through Fly Buys.

FlyBuys

100% recognition

100% brand recognition in New Zealand.

50+ partner businesses

Including Z of course.

3,000 outlets

Almost 3,000 outlets nationwide – including all Z stations.

2.4m+ people

Over 2.4 million people collect Fly Buys points in New Zealand.

750,000+ rewards received

750,000+ rewards received in the past year alone.

7.9m rewards redeemed

7.9 million rewards redeemed since Fly Buys began in 1996.

Be bold

In this section:

Retail Sales Manager Richard Barker is an ironman and perfectly comfortable in open water.

Commercial Decisions

This year saw a significant rethink of our commercial business as we looked to make dealing with us simpler, faster and easier for our valued commercial customers. At the same time, we took deliberate steps to achieve best use of our capital and protect the financial integrity of our business.

Seven major projects aimed at improving our people, processes and systems capabilities have been completed or are close to completion.

Resetting our ability to deliver on the service expectations of our customers and adding meaningful value for New Zealand businesses requires a deliberate approach. Our industry has traditionally responded to historically unsustainable margins by reducing service levels to such an extent that the average business customer in our industry is dissatisfied with the service provided. By contrast, the Z approach is to invest in those areas that will enable a simpler and faster experience for our customers.

At the same time we've been more disciplined about ensuring we earn a fair return on our investments in serving customers. We have focused on the customers whose businesses we can add value to, adjusted our pricing to make it more realistic and looked to achieve acceptable returns on the capital we need to invest to service our customers. As a result, we have lost a couple of customers who we had been selling fuel to uneconomically. It is sad to end these relationships, especially given the length of the relationships concerned and the safe efficient supply we provided, but the capital we have released and elevated returns have resulted in a more profitable business.

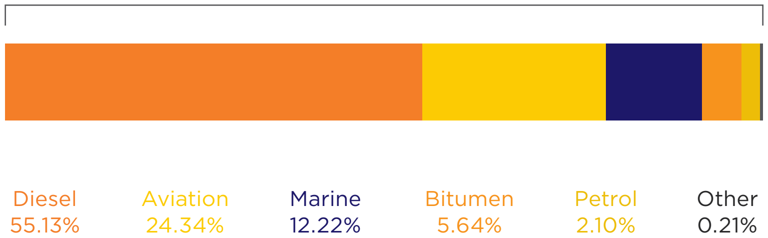
We have confirmed our relationships with some of New Zealand's most iconic companies, including Higgins and Fulton Hogan. We value these relationships highly, and are proud to be associated with these two iconic New Zealand firms. Together they represent a significant proportion of the work being done to firm up horizontal infrastructure across the country. While both were with our predecessors for more than 50 years, we have only discussed their first contract rollovers with Z this past year. We also confirmed our relationship with Southfuels, our partner in servicing the fuel needs of rural New Zealand.

There's been a real focus on how we can add value to our customers. A more decisive approach to acceptable returns has been accompanied by initiatives like Fuelwise, to help our customers achieve the lowest total cost for their fuel. Where appropriate, we have also explored a wider range of arrangements, including fixed pricing for customers that need greater cost certainty for their businesses.

We see our future not simply in the sale of commodities but in providing simple and efficient solutions that help our customers manage and reduce their overall fuel spend. At the same time, we continue to optimise our supply chain to ensure we can deliver essential products efficiently and sustainably.

Z commercial fuel sales

Fuel sales to businesses account for half of Z's transactions by volume



Supporting the backbone of New Zealand's economy

One thing we began to realise as we started to better understand our customers was that we were not paying enough attention to small to medium enterprises (SMEs). Historically, fuel companies have not shown much interest in such businesses, which form a significant percentage of the overall economy. By specifically targeting those SME segments that rely heavily on fuel, and by developing products and services that suit their ways of working, Z is looking to build its presence with these businesses.

Some of the things we're doing include working alongside chambers of commerce, the SME accounting software company Xero and Cardplus to lift service levels to some of the 450,000 SMEs in New Zealand. By lifting our capacity to serve them on a more individualised basis, we intend to increase the value they receive from us.

Saving money on your fuel bill

Fuel can account for up to 25% of operating costs for our larger customers. Our Fuelwise service provides large users with clear and practical steps to reduce their fuel bills, bringing a significant improvement to their bottom line.

We have made a public stand that by 2015 Z will have a game-changing, leading or active position in four key sustainability areas. This includes a commitment, in the area of carbon intensity, that by 2015, "with Z's help, customers have reduced their fuel consumption and been rewarded for their efficiency".

Helping companies save on fuel may seem counter-intuitive for a fuel company. However, we are finding that it makes us more valuable to our customers and completely changes the conversations that they have with us. They see our participation in helping them reduce their operating costs as a clear point of difference. They are also more inclined to buy fuel from us at a more economically sustainable margin because it still costs them less overall.

Based on a significant amount of international research, Z believes that there are potential fuel savings of 5 to 20% to be made in almost every business. Given that fuel can represent 15 to 25% of a customer's operating costs and profit margins are often as slim as 1 to 4%, these sorts of savings will make a significant bottom-line impact. For example, if fuel makes up 15% of a company's operating costs and they have a profit margin of 3%, a 10% saving in fuel equates to 1.5% percentage points or a 50% increase in that company's profit margin!

In our high fixed cost, low margin business, selling 20% less volume would only need a 3% price increase in order for Z to remain fiscally neutral and our customers to save substantially. We believe that saving customers 15% on their fuel bill if we only need to recover 3% of that seems like a win-win situation for customers, Z and our natural environment. What's more, research has shown that drivers who improve their driving from a fuel efficiency perspective also become safer drivers.

Despite the potentially significant financial benefits available from saving fuel, there are a range of reasons why progress across the heavy transport industry has been limited. These include a lack of awareness of the actual benefits, a perception that the effort to achieve savings is unjustified, a lack of understanding of what's needed to achieve savings and a lack of meaningful and useful data on fuel use.

It was pertinent and very timely that the Energy Efficiency and Conservation Authority (EECA) launched its Heavy Vehicle Fuel Efficiency programme in 2012. The programme aims to deliver fuel savings of at least 15 million litres by 2014 and reduce carbon emissions by around 40,000 tonnes.

Z now has an EECA-accredited, in-house Heavy Vehicle Performance Advisor, and we are offering his expertise in heavy vehicle fuel savings to our customers – by itself, or as part of our broader fuel management Fuelwise offer.

While saving money on fuel is not a new or novel idea, we are seeing a growing desire from our customers to look more closely at fuel use, primarily because of the impact on company profitability but also because of a focus on environmental sustainability. Technology developments over the last few years have made managing fuel use simpler. This represents a great opportunity to make a quantum leap in managing and reducing fuel usage, because we are much better placed to measure and monitor performance.

In addition to this new activity, our direct into machinery operations, Mini-Tankers, already save many of our customers thousands of litres in fuel consumption by delivering fuel exactly where they need it, wherever they are.

More ways to fuel New Zealand

In our third year as a New Zealand company, we continue to demonstrate our ability as a stand-alone fuel business that can consistently and reliably deliver high-quality fuel products to customers where and when they need it, and at competitive prices.

Z is the only major, national fuel retailer in New Zealand that is not part of a global oil-producing company. What has become increasingly apparent to us in the last three years is that we have more choices and flexibility when it comes to sourcing crude oil and refined products.

Most of the fuel we sell in New Zealand continues to be imported as crude oil refined at New Zealand's only oil refinery, Refining NZ at Marsden Point. However, New Zealand uses more fuel than the refinery can deliver, and over the last year, we have been meeting this additional demand through a supply agreement with a large, modern Asian refinery. We selected this particular supplier because the petrol and diesel they produce meet New Zealand's very high and specific fuel specifications, they are reliable and the price is right. One year on, the quality remains consistently high, and we have already saved approximately $5 million in annual costs.

Additionally, we have recently signed a new three-year supply contract with one of the world's largest crude oil traders. The new contract ensures we have better access to the right crudes, at the right times at competitive prices. We have the ability to select the crude oils we want as well as the regions we want to import from. We expect this new contract to generate annual cost savings of around $3 million in our supply chain.

We still believe that further investment in New Zealand's fuel infrastructure is necessary to strengthen the supply chain and increase efficiency. Most of the country's fuel infrastructure operates under fuel industry joint venture agreements. These joint ventures have operated for years to provide coastal shipping and facilities, and have worked, to a point. They have helped keep down short-term costs for the companies concerned, but provide limited incentive for reinvestment and maintenance of existing infrastructure assets. Z continues to push for agreements that operate on a transparent, competitive and commercial footing, and that encourage reinvestment, which we believe is the right thing for New Zealand.

We continue to look for investments that can increase security of supply for New Zealand while increasing the efficiency of our supply chain. As we indicated last year, we are looking to invest up to 40 million litres of new bulk fuel storage over the next couple of years. We are in the preliminary engineering and resource consenting phases for significant investments at Mount Maunganui and Lyttelton. Greater storage capacity at these ports would enable us to use bigger ships for imports, saving on freight and providing greater security of supply at more competitive rates. On top of the 30 million litres of storage we commissioned at Lyttelton in 2011, this additional tankage will address some of the infrastructure deficit that has been allowed to develop over previous decades.

We're approaching a defining moment in how fuel is transported around New Zealand. With the industry's two coastal shipping vessels due for review in November 2014, there are options to retire, replace or re-charter these vessels at the end of 2014. Some of the questions that need to be asked include what the optimal number and size of ships needed are, whether they should be purpose-built and whether coastal shipping itself holds up against the option of importing point-to-point. We are looking for decisions that deliver the best value in terms of unit cost, and that means all options are currently still on the table.

Overall, Z's supply and distribution strategy is on track, our industry arrangements are slowly but surely moving towards a realistic commercial footing and we continue to look for smart investment opportunities that can lower our unit cost or provide us with sources of distinction.

Our supply chain

Delivering fuel to our customers is a complex operation that requires an extensive and robust supply chain. It begins with the procurement of crude oil and refined fuel products, and finishes with the delivery of refined fuel products to customers.

It's extracted

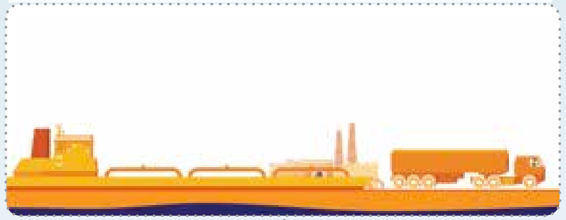
Crude oil is extracted from beneath the earth's surface via oil wells from all over the world. Z does not explore or drill for oil so we have to purchase it on the international oil market.

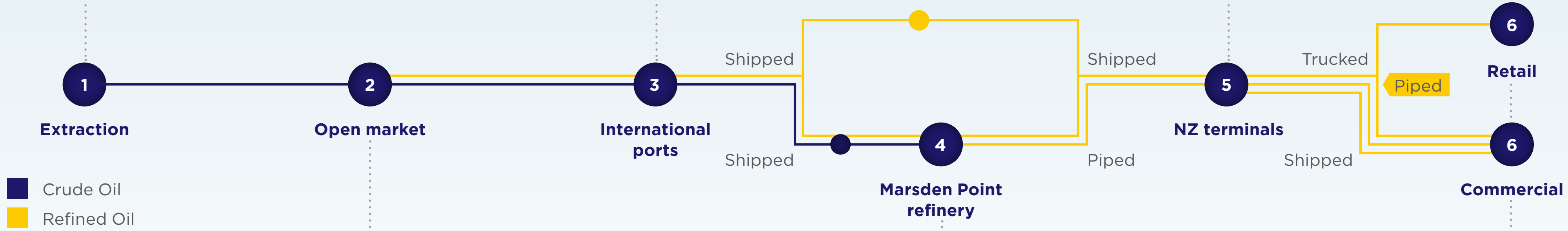
It's shipped

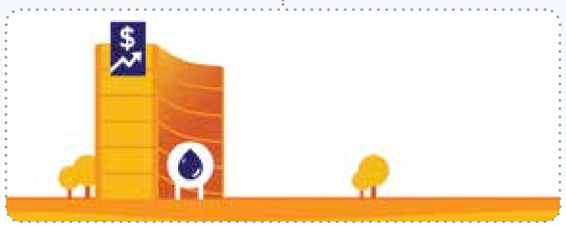
Crude oil and refined products are then shipped from international ports to New Zealand.

We distribute it

The refined products are shipped, trucked or piped to terminals around New Zealand.







We buy it

We buy crude oil and refined products (petrol and diesel) on the international oil market. Most of the crude oil Z imports is from the Middle East and Asia. The refined products we buy are imported from Asia.

It arrives

Crude oil arrives at Marsden Point where the crude is refined into petrol, diesel, jet fuel, fuel oil and bitumen. Refined products are shipped and piped straight to terminals around New Zealand.

You use it

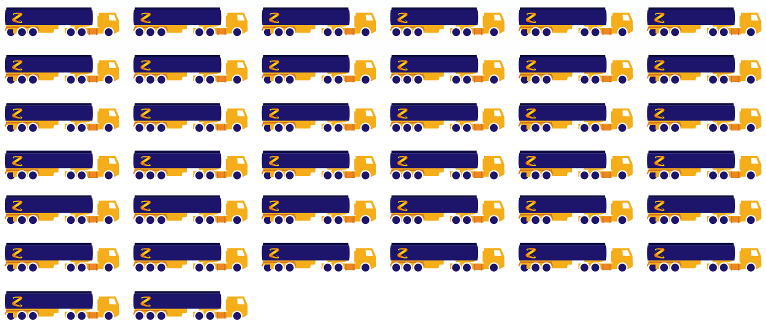
The fuel products are then trucked to service stations, truck stops, aviation pumps and commercial customers around New Zealand, ready for our customers to use.

Z on the road

At Z we have **96 drivers**

Trend: Down on last year due to smaller activity (less volume and lower distance travelled).

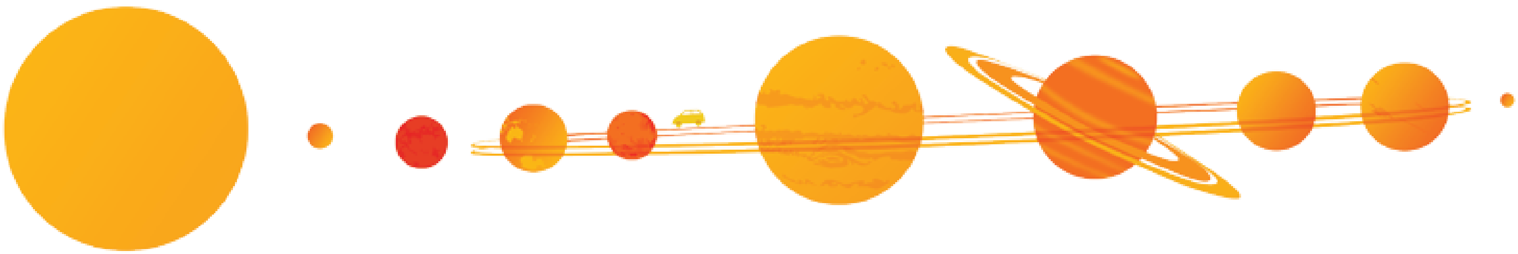
driving **38 trucks**



Trend: Lower than last year due to smaller activity (less volume and lower distance travelled) and improved efficiency.

they travelled **7.3 million kilometres**, the equivalent of **10 round trips to the moon**

Trend: Lower than last year due to smaller activity (less volume and lower distance travelled) and improved efficiency.



and delivered **1.7 billion litres of fuel**; that's enough fuel that **an average car could drive to Neptune and back twice.** Trend: About the same as last year.

Increasing our on-road efficiency

Our fuel products are imported or refined, piped and shipped to bulk storage terminals at the country's main ports and Auckland's Wiri terminal, and delivered by road to our commercial customers, truck stops and retail outlets. This year, we implemented an industry-leading delivery and demand forecasting tool to reduce product returns, trucks needing to be rerouted and distances travelled. In the first 12 months, the resulting efficiency gains have already saved us twice the cost of investment, not to mention the carbon emissions saved from fewer kilometres on the road.

Fuels we deliver

Diesel, petrol, avgas, jet fuel, fuel oils.

Frequency of delivery

Varies greatly, from several loads to a site each day to only once a year.

An industry in need of investment

We continue to have significant concerns about the state of New Zealand's fuel infrastructure after decades of deferred investment. That said, we're committed to leading the industry onto a more commercial and economically sustainable footing.

In last year's annual review, we highlighted the gap that has emerged in bulk fuel storage investment, which has been static while fuel demand has grown considerably. The consequence has been much greater use of trucking; for example, all petrol in the Taranaki region is now trucked into the region from either Wellington or Mount Maunganui.

We continue to see a reluctance to invest capital in New Zealand's infrastructure. Z was one of only two oil company shareholders that voted in favour of a $365 million expansion of Refining NZ that would enable greater levels of domestic fuel production. In our view, the less than unanimous approval for this project is an indication of how the New Zealand downstream fuel industry is continuing to evolve and fragment.

A key part of the problem has been old industry arrangements from when the four main fuel companies had equal market share, selling the same products into the same markets. This is now far from the case, and old agreements are no longer serving the industry or New Zealand well. In fact, they are a barrier to much-needed investment.

From industry arrangements on access to the Marsden Point refinery to the way terminals are operated on a "cost recovery" basis, there is a lack of commercial rigour in the downstream fuels sector that we are committed to changing. We want to ensure the refinery recognises and rewards scale and remains competitive against increasingly competitive fuel imports, and to ensure terminals recover the capital employed in them.

Why would anybody spend tens of millions of dollars on bulk storage tanks and then let competitors use them for only the cost of operation? It would be like building a brand new house and renting it out for only the cost of local council rates. The answer is nobody would, and nobody has.

This is why we're actively talking about commercial arrangements right across our supply chain. Better commercial arrangements will likely result in incentive for investment, and therefore better security of supply, to the benefit of all fuel consumers.

Refining NZ at Marsden Point, Whangarei.

Alternative(s) thinking

This will be an important decade for transport energy. There have been significant developments in alternate fuel technologies, with increasing levels of commercialisation. On the other side of the equation, an international shale oil and gas revolution has caused a rethink of the concept of 'peak oil'.

Z Bitumen and Business Development Manager Paul Prendergast plays some racquet sport with Charlie.

For the first time in about a decade, the world is looking at a significant increase in the production of oil and gas. This has led to slowing momentum on investment in renewable fuels. In fact, according to the Chief Economist of the International Energy Agency, last year was the worst year for investment in renewable energy globally in a decade.

So what does this mean for Z? As a company that's not an oil producer, we are not wedded to fossil fuels and we're looking to do the right thing for New Zealand. At Z we believe that climate change is real and accelerated by human activity, and we want to move from being a part of the problem to being at the heart of a solution.

The rapid growth in shale oil and gas production makes the introduction of alternate fuels more challenging, but that doesn't mean for one moment that we shouldn't be looking at the alternatives.

It's not just about climate change. The next two decades are going to see increasing options for transport energy, and New Zealand can either be near the front of the curve or at the end of the line. Looking ahead now and building capability in alternative fuel will better enable us, as a nation, to choose what suits our needs and has maximum benefit for New Zealand, instead of defaulting to whatever the second hand transport market brings us.

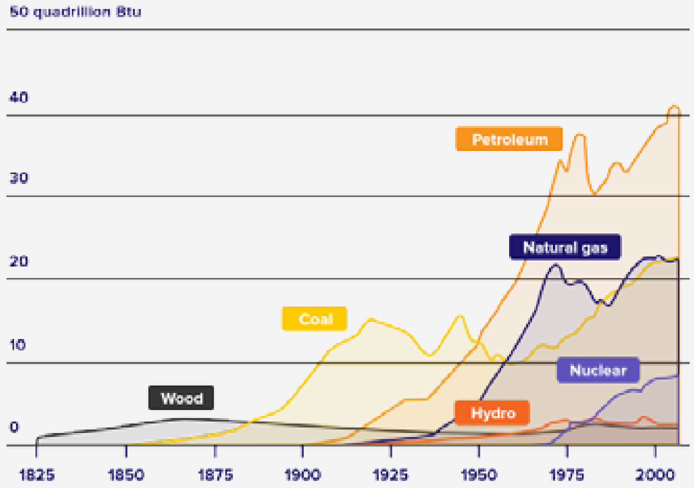
We're not looking at an overnight revolution – the evolution of energy sources to mainstream energy supplies is measured in decades rather than years. Taking a look back over the last couple of hundred years, it is not unusual for transitions between major energy sources to take time. Even petroleum took over 30 years to gain traction, and another 30 years before it overtook coal as the most highly consumed energy source.

At Z we believe that climate change is real and accelerated by human activity, and we want to move from being a part of the problem to being at the heart of a solution.

Just because the pace is slow doesn't mean that advances aren't happening and alternate fuels aren't gaining traction. The major technological advancements that continue as we speak indicate that we will have more choices for energy in the future than ever before. For example, major car manufacturers such as Toyota and Daimler have committed to commercialising hydrogen fuel cells by 2015 and 2017 respectively, and there are cars in California already driving on fuel from algae.

As a New Zealand company committed to playing a part in shaping New Zealand's transport energy future, we need to start planning and investing now, even though we might not see widespread traction or commercial gain straight away. So a big question for us at Z in the year ahead will be "what does it take to change what powers New Zealand's transport?" We're currently working on an alternative energy strategy that not only looks at doing the right thing for New Zealand but also ensures the long-term viability of our business. Biofuels is something we're interested in right now and which you can read about further down this page, but we'll also be taking the time to explore the full range of opportunities and appraise them thoroughly for effectiveness, fit with New Zealand, required resourcing and scale. Doing this will enable Z to make informed decisions about what we choose to invest in and when.

US Primary Energy Consumption, by Source, 1825 to 2008



Source: Power Hungry: The Myths of "Green" Energy and the Real Fuels of the Future

Biofuel: A future in progress

The biofuel industry in New Zealand seems to be stalled at the lights, but we still believe that it has potential. We are committed to becoming New Zealand's leading biofuel provider by 2014 and we are looking at a range of ways to achieve this.

There are challenges when you try to bring biofuels to a broad customer base. They include scale and security of supply, quality, and ongoing sustainability. But there is appetite for biofuels in the market.

We spoke to a number of leading New Zealand companies about their own sustainability targets and how they plan to meet them. What we found was a real desire to reduce emissions, with the use of biofuels highlighted as one of the key ways to achieve this.

New Zealand Post, for example, has aggressive targets to reduce its total carbon footprint, and continues to search for step-change strategies that will deliver the biggest results. A future strategy that the company expects will deliver significant and on-going carbon reductions will be the greater use of biofuels throughout its transport and delivery network, with the aim of reducing carbon emissions from the use of fuel by 6%. New Zealand Post already has five vehicles that are capable of operating on pure biodiesel.

In another example, Fonterra are already incorporating biofuel-compatible ideas into their business planning even though there isn't a sufficient quantity of biofuel in New Zealand yet. Taking a stand, Fonterra designed their recently commissioned site in Darfield to ensure that they have options in the future to supply biodiesel to their Darfield milk collection tanker fleet.

What's missing for these companies is the lack of a secure and competitively priced supply of biofuels at scale.

We're currently completing detailed design and pricing on a tallow to biodiesel plant and the associated supply chain infrastructure. This would result in the annual production of 20 million litres of B100 (pure biodiesel) from inedible animal fats that would otherwise be exported for the production of soaps and candles. This would enable us to sell B5 biodiesel (which is a 5% bio and 95% mineral diesel blend) through most of our upper North Island service stations and to our commercial customers who, like us, are committed to reducing their carbon emissions. At a modest cost and short time frame the plant could be further expanded to 40 million litres per annum.

In the longer term, we are still looking at second generation biofuel technology that could be a good fit for New Zealand. Given the scale of New Zealand's plantation forests and wood processing, a project utilising wood as feedstock could lead to a promising biofuels future for New Zealand, while at the same time revitalising New Zealand's forestry sector.

Pursuing second generation biofuels from indigenous raw materials could have significant advantages beyond transport energy and for New Zealand as whole. Emerging hydrothermal technology that enables woody biomass (the woody material from trees) to be turned into bio-crude (or "green crude") could have exciting implications for New Zealand.

The potential benefits from domestic production of green crude from woody biomass are material. These benefits include a renewable energy supply beyond the electricity sector and improved domestic fuel supply security by meeting 10% of transport fuel demands from domestic wood waste alone. It would also achieve reduced transport greenhouse gas emissions by 1 million tonnes of CO_2 equivalent as well as lowering the carbon footprint for New Zealand manufactured goods. Not to mention the step change to New Zealand's forestry sector by adding value to 1.6 million tonnes of underutilised wood residues.

Given the compelling possibility for turning trees into fuel, we're working with pulp and paper manufacturer Norske Skog to scope the potential for a pilot plant that would use second generation technology to process wood waste from the forestry sector into bio-crude. This project is supported by the Ministry for Primary Industries through their Primary Growth Partnership fund.

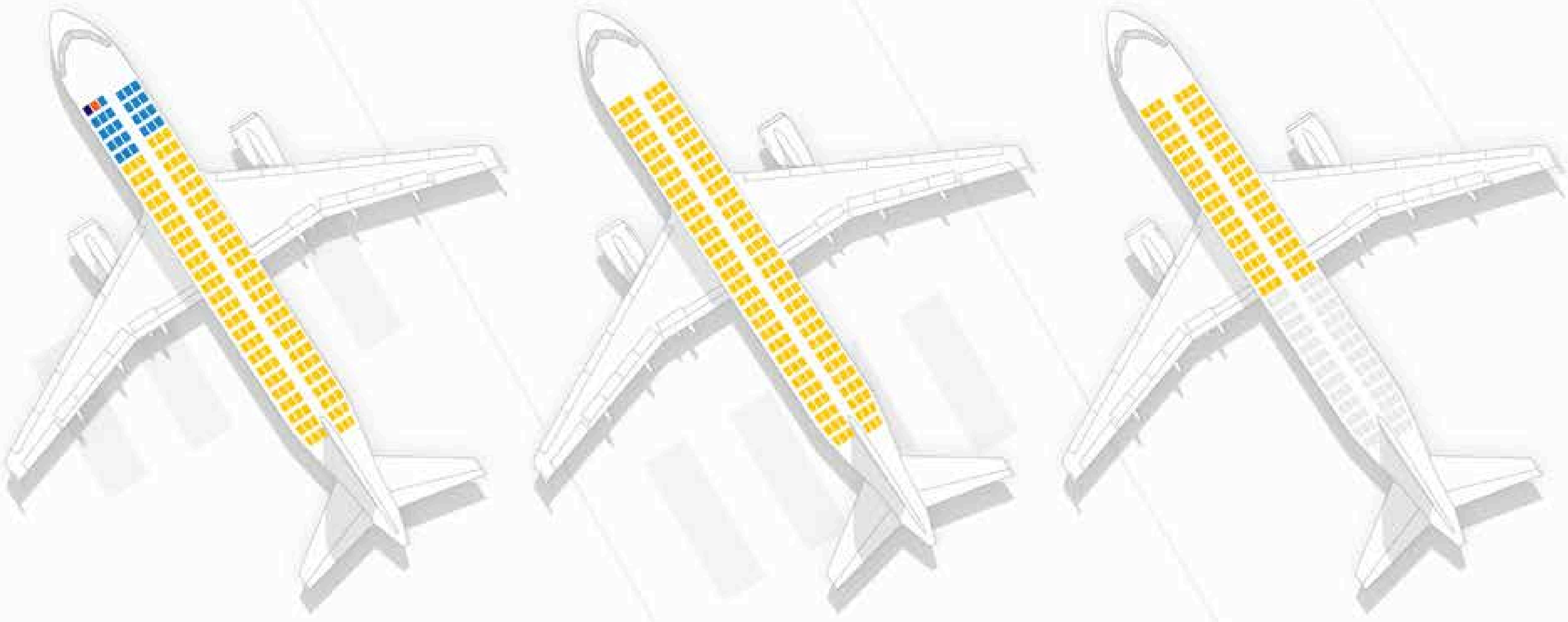
We're not venturing into biofuels blindly or without due diligence. Offsetting the substantial benefits of biofuels are some real challenges. The upfront capital costs of building biofuels infrastructure is high, and the production costs can also be significantly higher than fossil fuels. The economics will be hard, but without starting to build capability in biofuels now, New Zealand would risk missing a significant opportunity.

CO_2 emissions profile

(in kilo tonnes) for Z operations and customers using Z products

Why are we so focused on trying to give our customers lower carbon options? This is where we can make the greatest impact in helping to reduce New Zealand's carbon emissions.

Imagine that Z's carbon emissions are seats in the Air New Zealand Airbus jet that flies from Auckland to Wellington...



Z offices and retail sites
1 Seat or 13.5 kt

NZ supply chain
1 Seat or 13.4 kt

Share of the refinery
25 Seats or 371 kt

Our customers using Z products
417 Seats or 6,325 kt

Our progress on sustainability

Last year we announced our intention for Z to have a game-changing, leading or active position in four key sustainability areas by 2015:

1
Using less and wasting less in our own business

2
Reducing the carbon intensity of our customers

3
Reducing reliance on fossil fuels

4
Supporting New Zealand businesses and communities

We achieved many of our 2013 milestones in pursuit of our 2015 goals but we've also struggled with the basics, gone backwards on one area completely within our control and realised the depth and breadth of commitment required to meet our aspirational targets.

We are disappointed by our failure to reduce our own carbon emissions. Air travel was the biggest contributor to us missing our objective – with a 43% increase in kilometres flown, we completely missed our objective to reduce our carbon footprint by 10% in 2012. With air travel representing more than 40% of our carbon footprint, the challenge for this year is to bring that back down to 2011 levels and then reduce it further to meet the 25% reduction target for 2015.

We're determined to get back on track next year, even though turning around our travel habits won't be easy. By providing staff and teams with individual travel data, we're looking to help people make better choices. Some teams have already put in place lower travel allowances for the coming year to help reduce the number of flights taken. However, it's not all about a "less" mind-set, we also intend to inspire the "more" side of the equation – greater use of technology, smarter travel choices and rewarding what is done well in the business rather than just pointing out failures.

We're pleased to be increasing our action on our environmental sustainability initiatives at our retail sites. We have begun installing water reclamation units in our carwashes that will enable us to reclaim, clean and reuse up to 60% of the water used. Already we have saved eight million litres of water through using these water reclamation units. These units are installed at all new carwashes, and will progressively be retrofitted to all carwashes in our network.

We have also committed to installing exterior LED lighting across our service stations over the next two years. This $2.5 million investment will cut our lighting electricity consumption by 50-70%, which is a 16% reduction in carbon dioxide equivalent (CO_2e).

Over 84% of Z's overall emissions are from customers using our fuel. So helping our customers use less fuel is the simplest way for us to help our customers reduce their carbon emissions. Taking a progamme into the commercial sector would make a noticeable difference to the whole country's annual emissions.

This is an area we're proud to say we've gained some ground in. We launched Fuelwise in September 2012 and we're currently working with seven of our commercial customers to review, monitor and manage their fuel usage to help them use less fuel. More information on Fuelwise can be found on page 33 of this Annual Review.

As indicated in last year's annual review, we are committed to reporting on our progress against our sustainability goals every year. The following table provides a "state of the nation" on where we are tracking with each of our sustainability pillars. As our milestones and reporting become more sophisticated, we will be sharing the metrics behind our successes and failures.

Sustainability report

1 3 5 / 2 4 R	1 3 5 / **2** 4 R	1 **3** 5 / 2 4 R	1 3 5 / 2 **4** R	1 3 **5** / 2 4 R	1 3 5 / 2 4 **R**
Scoping the projects	Baseline established	Measurement and progress	Results on track	Achieved the goal for the year	Not achieving targets

Share the journey		When we succeed we are	FY13 goal
1. **Carbon reporting**	The first step we committed to is getting our carbon footprint audited. This has happened, which means we now have a benchmark figure of 7,237,125kg of CO_2e for all our NZ emissions sources including customers using Z products that we can report against in coming years.	Active	1 **3** 5 / 2 4 R
2. **Sustainability reporting**	We have missed our milestone of starting to use an external sustainability reporting tool or standard in 2012. This was deferred.	Active	1 3 5 / 2 4 **R**

Fossil fuel reduction		When we succeed we are	FY13 goal
1. **Leading biofuel supplier 2014**	We're currently exploring a number of options with a commitment to make some decisions on the avenue we will take by the end of 2013. There are two main projects we are exploring. The first is a project that will enable Z to produce biodiesel from tallow. The second is a longer-term project to turn wood waste into biofuels.	Game changer	**1** 3 5 / 2 4 R
2. **10% biodiesel in our business**	Z's bulk delivery fleet is compatible with a 5% biodiesel blend, and we had conversations with some of our contractors on whether trucks in certain areas can take a higher, 10% biodiesel blend. The only thing we are now waiting on is being able to secure the supply of sustainably produced biodiesel.	Game changer	1 **3** 5 / 2 4 R
3. **Leading implementer of emergent transport**	Z has initiated a comprehensive technology review on which transport options are viable in the short and medium term for NZ.	Game changer	**1** 3 5 / 2 4 R

Carbon intensity		When we succeed we are	FY13 goal
1. 25% reduction of head office footprint	We made a 10% reduction across all aspects of our head office operations except travel. As a result, we not only missed our target for last year, we slightly increased our carbon footprint.	Leading	1 3 5 / 2 4 **R**
2. 15% reduction on distance travelled to deliver fuel	By increasing the average delivery size to retail sites and commercial customers, there's been a 6% reduction in distance travelled. An additional 1.3% reduction was achieved by reducing unplanned deliveries through better forecasting and scheduling.	Leading	1 3 5 / 2 **4** R
3. 25% reduction on delivery emissions	Specific initiatives have been identified and are in various stages of execution. Fuel consumption monitoring is now available, but still only at whole-fleet level. Driver training for safe and fuel-efficient driving has not yet begun. We are still working on securing biodiesel supply for use in fuel delivery vehicles.	Leading	1 3 5 / 2 **4** R
4. 10% CO_2 reduction across convenience stores	Benchmarking our current footprint so that we have a baseline measure is currently in progress.	Leading	**1** 3 5 / 2 4 R
5. 25% CO_2 reduction with 10 suppliers	Three of our suppliers have already reduced the carbon footprint of our shared activities by 5%.	Leading	1 3 5 / **2** 4 R
6. Reduce retail customer fuel use	Initial scoping work as to how best to make an impact on reducing the fuel use of retail customers has kicked off.	Game changer	**1** 3 5 / 2 4 R
7. Reduce commercial customer fuel use	We've progressed a number of initiatives which we expect to gain traction over the next year. We now have an in-house Heavy Vehicle Performance Assessor that can advise customers on fleet efficiency. We launched our new fuel management system, Fuelwise, and we're currently working with seven of our customers to help them use less fuel.	Game changer	**1** 3 5 / 2 4 R

Use less waste less		When we succeed we are	FY13 goal
1. 10% electricity reduction across retail network	We have just determined our electricity consumption baseline, (29,650,558kwh) which will enable us to track and report on progress.	Leading	**1** 3 5 / 2 4 R
2. 50% water reduction across retail network	Last year we benchmarked our current usage so that we have a baseline measure. We have begun rollout of water recycling units at Z car washes that will enable us to reuse up to 60% of water used.	Active	**1** 3 5 / 2 4 R
3. 70% less retail operation waste to landfill	Total material generated by the Z retail network over a 12-month period (Nov 2011-Oct 2012) is estimated to be 5,765 tonnes of which 57% (3,308 tonnes) was sent to landfill and 43% (2,456 tonnes) was cardboard sent for recycling.	Leading	**1** 3 5 / 2 4 R
4. Head office Zero Waste	We have reduced our head office waste to landfill from an average of 70kgs a week to 27kgs a week.	Leading	1 3 5 / 2 **4** R

Support New Zealand		When we succeed we are	FY13 goal
1. Safety at home ambassadors	While some work has been done to encourage safety at home ambassadors, the project has been deferred while we concentrate on improving workplace safety at our service stations.	Leading	1 3 5 / 2 4 **R**
2. Safety performance best in class	We have moved from multiple systems to a one-stop shop risk management system called Risk Manager. Risk Manager is now providing us with an access point for all Z business and business partners to understand risks across the business, allowing us to prioritise and manage risks based on what we know.	Leading	1 **3** 5 / 2 4 R
3. 365 skilled worker days	Scoping of how this could work in practice and how Z staff can make the biggest impact is currently happening. Internal staff engagement has kicked off.	Active	1 **3** 5 / 2 4 R
4. Developing skills of our own team and others	We have invested heavily in developing our own people and the people with whom we work. Over the past 12 months we have invested half a million dollars in developing another 25 leaders in Z and a further half a million dollars to provide leadership development for our 23 retailers. We have also invested in putting together a NZQA programme for our retail site staff.	Leading	1 **3** 5 / 2 4 R
5. Neighbourhood investment connects us to communities	Over $1 million was donated to over 600 groups making a difference in local neighbourhoods. This is in addition to Z's Retailers connecting with local organisations in their respective regions and working with local communities to back what matters most to each neighbourhood.	Leading	1 3 **5** / 2 4 R

We back people

In this section:

Retail Strategy and Operations Manager Michelle Simons backs Jonny to fly high.

Doing good in the hood

“Good in the Hood” is how Z gives back to local neighbourhoods to support the things that really matter to them. It’s a unique approach and one that encourages people to have a say in what Z supports in their local neighbourhoods.

GOOD in the HOOD

At Z, we don't really "sponsor" anything. Instead, we put money into local neighbourhoods – and we do that because, when we asked New Zealanders what mattered to them, they told us we should back the people who back us.

So in 2013, every Z station will once again be contributing $5,000 to neighbourhood groups and projects that help people who need it. With 210 Z stations in our network, that represents over $1 million across New Zealand.

$4,000 of the $5,000 per station has been given to four neighbourhood groups who applied online and were chosen by Z's local Retailers and site staff. Selecting the four groups per site was the toughest part, as there were so many worthy applications. Z site teams eventually settled on 600 groups across Z's service station network, with groups varying from Coastguard to SuperGrans!

To work out how much of the $4,000 we gave to each group, we asked customers to vote for their favourite groups throughout March. The top 10 groups voted for in an online token hunt got an additional top-up of $500 each.

The remaining $1,000 per station will be used by the Retailers throughout the year to support other neighbourhood projects making a difference in the community.

Good in the Hood is one of the key ways we can support the things that matter locally and make a positive contribution right across New Zealand.








Recognising the value of our values

In November 2012, the Human Resource Institute of New Zealand (HRINZ) formally recognised Z's work on the development and rollout of Z's organisational values by awarding us the HR Initiative of the Year award. This award paid tribute to Z's unique bottom-up approach to developing its values and the positive impacts that the embedding of our values have had on our business results.

It's been over a year now since we developed and launched our values. Our values – Be straight up, Be bold, Have the passion, Share everything and Back people – have been an enabler within the organisation and continue to play an integral role in helping us build a world-class Kiwi company with a distinct New Zealand identity.

Our values underpin everything we do. We use the language of our values in everyday conversations and communications. They represent what we stand for, and guide not only how we act with each other but also how we connect with customers and stakeholders.

The impact of our values has been showing up in staff engagement, anecdotal feedback from customers and customer service scores.

In July, we ran a comprehensive engagement survey (conducted by Aon Hewitt) across all Z employees. The purpose of this was to get a sense of how engaged and emotionally connected our people felt to Z, including our brand, purpose, values and strategy.

Measuring engagement allows us to understand how connected people are with Z and whether that level of connection is driving long-term business performance. We chose to work with Aon Hewitt because their methodology shows a strong correlation between their measure of engagement and business performance.

We had a 98% response rate (the highest Aon Hewitt have ever seen) and an engagement score of 66%, putting Z in the high performance zone and top quartile for New Zealand employers. A staggering 88% of our people agreed or strongly agreed that "this organisation's values are a good match with my personal values". This is significant because research has shown that personal values trump organisational values, and organisational values that align deeply with the personal values of a team improve commitment, which in turn translates into better performance and retention.

The survey showed us that we do strategy well at Z, in particular drawing a clear line of sight between our strategy and how each person can contribute. The survey also indicated that we are better at generating innovation than other companies. In terms of opportunities to improve, the two key areas of focus for us next year are providing our people with greater clarity on career opportunities and supporting them to achieve their aspirations, and making sure our people leaders consistently model what Z stands for.

Adding the Z factor

We believe that the launch and embedding of our values right through to the frontline of customer service has been critical to our significantly improved customer experience.

To help our retail site staff think about their roles differently and get excited about working for a truly Kiwi company, we rolled out a comprehensive programme called "the Z Factor", with Z's values at its core. We wanted site teams to be able to take ownership of the values in their own way and to turn them into behaviours that fitted with their day-to-day roles. In particular, we wanted to encourage them to express themselves and their personalities without feeling constrained.

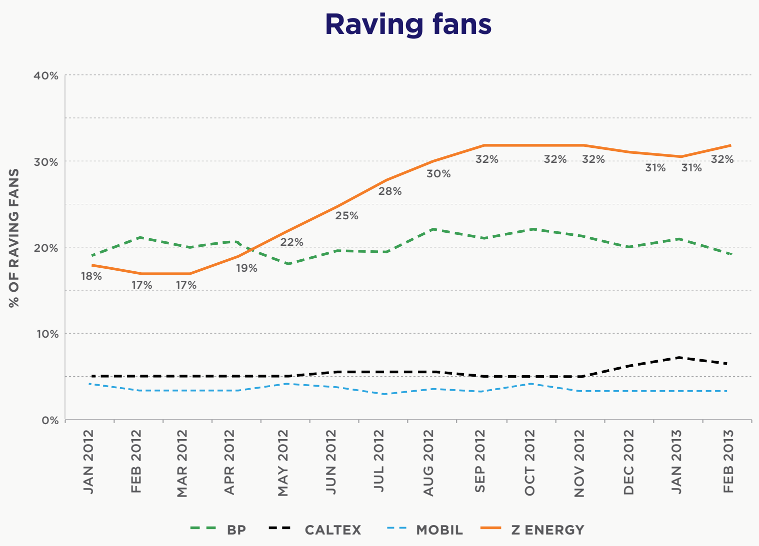
The results have been more than what you'd expect from a standard training programme. The customer research we regularly undertake indicates that the Z Factor has delivered a whole new attitude to customer service. One of our measures of success is the percentage of people who are "raving fans" of Z: those who rate our brand higher than any other brand across all brand attributes.

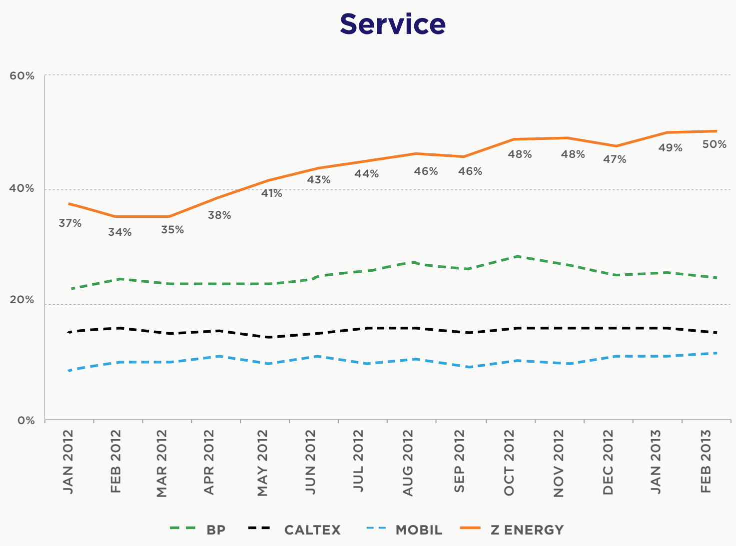
As the Z Factor was rolled out to site staff, we saw a steady increase in the percentage of our raving fans and we're thrilled to see that number continue to climb. Our score for service has also been on a steady incline, sitting on 50%, while our closest competitor scored at around 25%.

That really matters when service is a key element of our value proposition.

It's not just our customers who are influenced by our values. We recently polled our suppliers on how well Z is role-modelling our Z values. 89% felt they have a clear understanding of Z's values based on what they've seen, and 84% rated Z staff as 7 or higher out of a possible 10 when asked whether Z acts consistently with its values.

Basing everything we do on our values is not about telling others how to act. It is about letting our suppliers know what they can expect, and that in turn is making the relationships we have with others more transparent and our ways of working more closely aligned. It's also about putting a stake in the ground and asking to be held accountable for the way we behave relative to what we say we stand for.





The raving fans score is the percentage of people who rate a particular brand higher than any other brand across an average of all attributes.

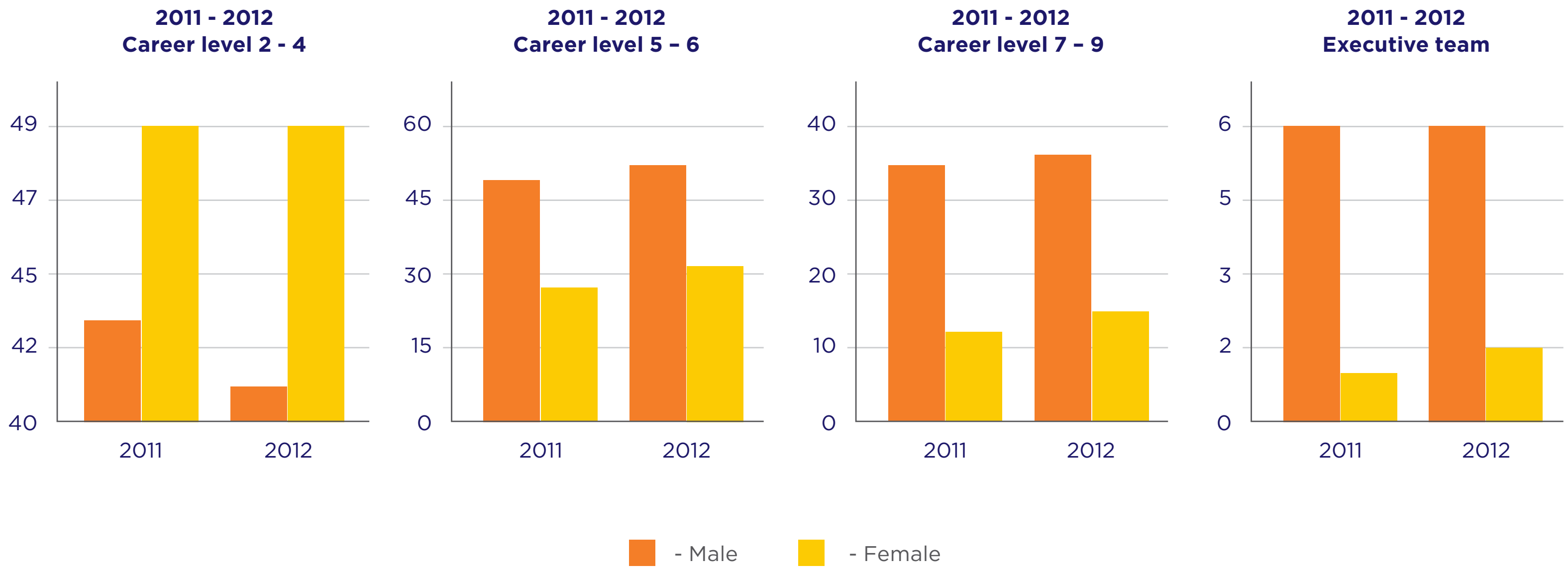
Base: All respondents Feb-13 n=1, 158

We signed on for women's empowerment

This year, we showed our support for greater inclusion as one of 10 New Zealand signatories to the UN's Women's Empowerment Principles.

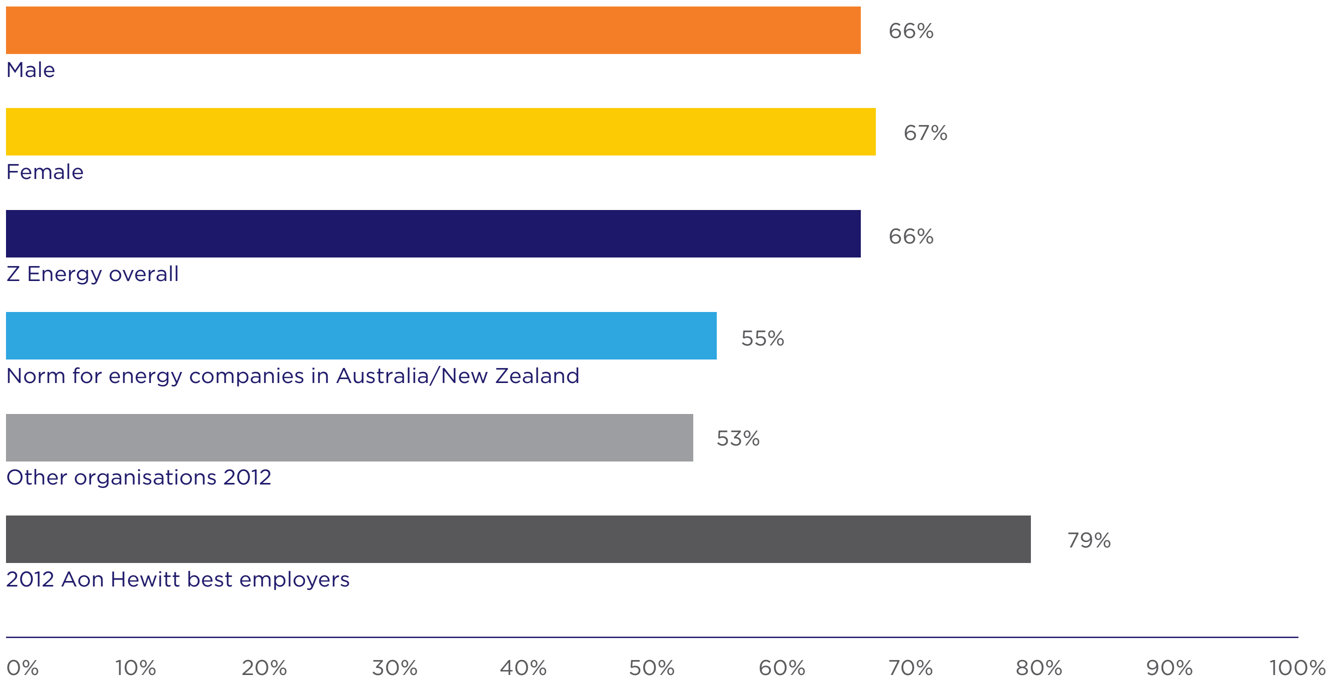
Diversity is about celebrating healthy differences not just in gender but also in ethnicity, experience and opinions. In the early days of our business, women were under-represented in our wider leadership. Since then, a ratio of 1:4 in the top three career levels has improved to 2:3. We are now actively monitoring our diversity metrics: particularly gender diversity.

One of the things we really like about the Women's Empowerment Principles is that their application extends beyond Z and into our supply chain. Being a signatory is our opportunity to support the career development of women into greater roles in other organisations we do business with. It's one more way we're backing people, while at the same time reaping the benefits that diversity can bring to a business.



Engagement scores by gender

There is no difference between the level of engagement of males and females. There are also no differences in engagement by employment type (part time, full time, contractor) or by manager location.



Making safety more human

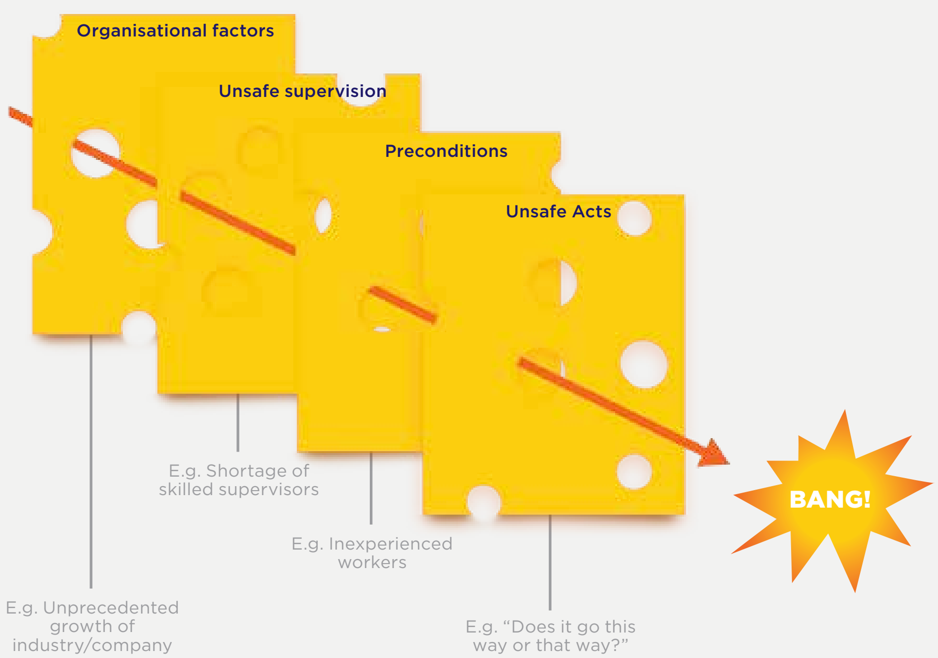
Health and safety is a key priority in our business, which is why we continually push ourselves to do better. One of the things we have learned this year is that knowledge of rules and policies alone does not necessarily change the actions of people in a high-risk activity. Making a workplace safer requires taking account of the "human factors", and this year we've invested in building our understanding of these factors as part of our commitment to Zero Harm.

Accident assessment has traditionally focused on the failed events themselves and their immediate precursors. In Human Factors thinking, however, the investigation begins further back in the accident sequence, and examines and fixes the problems at the highest levels. While it is really important to understand the technical aspects of an incident, from an accident prevention perspective we also need to understand the human factors aspects – in other words, it is less about mechanical cogs, wheels and levers and more about the cogs, wheels and levers of the human brain.

Renowned psychologist James Reason's "Swiss Cheese" accident causation model demonstrates how most accidents can be traced to four levels of failure: organisational factors, supervision, preconditions and unsafe acts. In the Swiss Cheese model, the steps to prevent accidents are modelled as a series of barriers, like slices of Swiss Cheese. The holes in the cheese represent the weaknesses in each part of the system. They always vary in size and position in all four slices. The system as a whole fails when all of the holes in each of the slices align, allowing a failure to get through.

James Reason's "Swiss Cheese" accident causation model

Your accident waiting to happen



Realistically, people commit unsafe acts all day, every day, despite the fact that they know they're not supposed to. The best way to change behaviour is to address factors above the level of the individual. So instead of focusing all our energy on preventing holes in the last slice of Swiss cheese, we've been seeking to understand the root causes of incidents and focusing our energy on what we can do at the organisational and supervision levels.

Some of the ways we're doing this are through using new Incident Causation Analysis Method (ICAM) to help us better investigate accidents, and introducing electronic risk management systems into our retail network to codify activities and map where risks are occurring.

As a company that distributes and sells around 2.5 billion litres of fuel and that comes into contact with thousands of people every day, we have to be obsessed with safety. Improving our safety statistics starts with the operations that are closest to us, our head office and our retail and commercial networks, and progresses out to our supply chain. Together, our new accident investigation systems, our integrated approach and our in-house Human Factors expertise are giving us new understandings of how people work and enabling us to better look after our people, and help them better look after themselves.

How safe were we?

It wasn't a great year for Z in terms of safety, despite a concerted effort to get things right, with improved reporting and a great deal of focus on personal process and environmental safety. While our safety performance overall was slightly better, the number of lost-time injuries increased (though their severity declined) and we spilt more litres of fuel.

A key reason for our heightened awareness of where things have gone wrong is that we are encouraging people to report more, and they are doing so in real time. In order to do this, we have had to strike the right balance between creating a culture where people are encouraged to report, through being "error tolerant", while ensuring that people understand the serious implications of their actions, intended or unintended.

Health, Safety, Security and the Environment (HSSE) key performance indicators – financial year ending 31 March 2013	FY12	FY13
Exposure hours (millions)	3.67	4.57
Compliance with HSSE plan	99%	97%
HSSE actions close out rate	100%	100%
Life saving rules infringements*	31	32
Safety critical maintenance completed on time	100%	100%
Lost-time injuries	9	8
Lost-time injury frequency	2.45	1.75
Number of spills (loss of containment)	7	8

*Z Life Saving Rules

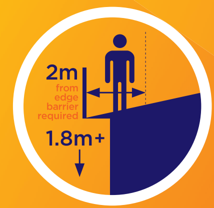
Z's Life Saving Rules aim to prevent harm to people and cover 12 high-risk operations at work. They are mandatory and are applicable to all Z Energy operations.

Work with a valid Work Permit when required

Conduct gas test when required

Verify isolation before work begins & use specified life protection equipment

Obtain authorisation before entering a confined space



Protect yourself against a fall when working at height

Obtain authorisation before overriding or disabling safety critical equipment

Don't smoke outside designated smoking areas

No alcohol or drugs while working or driving

While driving don't use your phone or exceed speed limits

Wear your seat belt

Follow prescribed Journey Management Plan

Don't walk under a suspended load

Hans Buwalda

Safety: Managing Injuries or Managing Risks?

Fletcher Building has received public acknowledgement for a significant reduction in its injury rates in recent years. In 2006, its total recordable injury frequency rate per million hours was over 60. It is now less than eight.

The apparent conclusion that is drawn from this is that our safety performance must have improved by several orders of magnitude. Undoubtedly there have been significant improvements. Other measures such as safety culture surveys verify that there is a high level of engagement in safety management, at all levels within our company.

We are aware however, that injury rates don't tell us the full story with regard to our safety performance. No one performance measure can.

Because of our focus on injury rates, we have comprehensive, consistent, verifiable data, across the whole company. We do not have similar quality data for other indicators of safety management. We collect records of all reported "near miss" incidents, (unplanned events).

Some basic analysis of this data has been carried out, and this paints another picture of our safety management:

- Now that we have achieved much lower injury rates, our injury incidents no longer reflect the range of safety incidents and risks on our sites. A sample of recordable injuries in April showed that most are sprains, strains and lacerations, arising from incidents using hand-tools and moving products.
- Over a similar period, near miss incidents with the potential to cause serious injury were identified. These incidents result from a different set of risks and hazards (vehicles, on-site product movement and storage, process safety). There is only a small overlap between these.

FletcherBuilding

Hans Buwalda, Fletcher Building

Therefore if we used only injury data to determine our safety priorities, we will not be placing adequate focus and priority on our significant operational risks. Total recordable injuries contain many high-frequency, low-consequence incidents, (strains, sprains and lacerations). These are not a good indicator of exposure to low-frequency, high-consequence events.

On the next phase of our journey, we are increasing our focus on managing hazards that could result in serious injuries or fatalities.

This will mean more focus on significant operational risks. For these, the causal factors are different. There are frequently different sets of circumstances surrounding severity:

- In unusual and non-routine work
- Where upsets occur
- In non-production activities
- Where sources of high energy are present
- During at-plant construction operations

On the next stage of our journey, we will be:

- Categorising the hazards which create the risk of serious or fatal injuries.
- Identifying the precursors of events that can result in serious or fatal injuries
- Developing multi-level controls for managing these hazards
- Developing further lead performance indicators so that we can monitor our effectiveness in managing these significant hazards.

On the next phase of our journey, we are increasing our focus on managing hazards that could result in serious injuries or fatalities.

The safety culture that we have within Fletcher Building, and our leadership commitment to safe workplaces, create the foundation for these further improvements. We will be building on what we have. However, we will increasingly differentiate our hazards. We will reduce our focus on injury frequency rates as a measure of performance and effectiveness.

Hans Buwalda,
Fletcher Building

Driving for safety

The people who transport Z's fuel around the country do their utmost to keep themselves and others on the road as safe as possible. Yet every day, they face and respond to risks and challenges on the road that can have life-threatening consequences.

To better understand what the men and women who transport our fuel encounter every day, we asked Dave Philips from fuel haulage business Hooker Pacific for a view from the cab.

Dave Philips
from Hooker Pacific

Can you tell us about the lengths you go to to keep drivers and others safe on the roads?

"The big thing for us is ensuring we make sure our drivers are fatigue-free and also that they follow all the road rules. They need to be patient with people, and not try to beat/overtake them or anything like that.

They need to be out there being safe and seen to be safe.

What are some of the lengths you go to in order to protect the environment?

To protect the environment we take all precautions so that we don't have any leaks. We make sure all our fittings, such as our hoses are up to standard, and all procedures are followed so we don't have any leaks or spills to the environment at all.

The other thing the drivers have got to be aware of with the environment is the cost of recovering any spills. If it gets into the waterways. It's a big expense to clean up.

Why is health and safety so important for a fuel haulage operator?

Health and Safety in my role is making sure that the drivers are protected properly, we've all got families to go home to so we all like to go home the way we arrived; with eight fingers, two thumbs and ten toes.

What sort of checking is required to make sure the vehicles are safe and roadworthy?

The maintenance on the vehicles is paramount of course and we have a pre-start check every morning, and every shift to report all defects. If a truck is not up to standard it does not leave the yard until those things have been fixed.

How can other drivers help to keep the roads safe?

The big thing for the public to remember is the weight of the vehicles, and the potential danger of what they are carrying - don't be impatient with the trucks!

Share everything

In this section:

Helen, Andrew, Julie and Niki from Z enjoy each other's company while working collaboratively.

Our customers are looking for value

The fuel industry is a high fixed cost, low margin business – we make surprisingly little from every litre of fuel we sell. By the time our fuel products have been refined or purchased and taxes and levies paid to the government, Z receives around 17 cents per litre. After all of our operating costs, financing costs and taxes – staff salaries, transport, energy costs, interest and so on – have been met, we earn a net profit of 2–3 cents a litre. This year, with a higher New Zealand dollar but ongoing price competition, we averaged 2.3 cents per litre.

Our customers have told us that it's not just about the price. Sure, price is important, but our customers are increasingly looking for a fast fuel up and great service, all while still being competitive on price.

The industry and New Zealand has nothing to gain from continuing the old way of cutting costs to the bone and competing away margin at any cost – that's why our infrastructure is in such poor shape, the number of service stations in New Zealand has halved over the last 20 years and, until Z came along, good old-fashioned service was disappearing, as companies reduced staff.

Over the past year, Z's total retail fuel volumes dropped by 7% due to heightened competition, roughly offsetting market share gains in Z's first two years of operation. However, a more sustainable and realistic margin has compensated for the decline in volume, and overall we have met financial targets for our retail business.

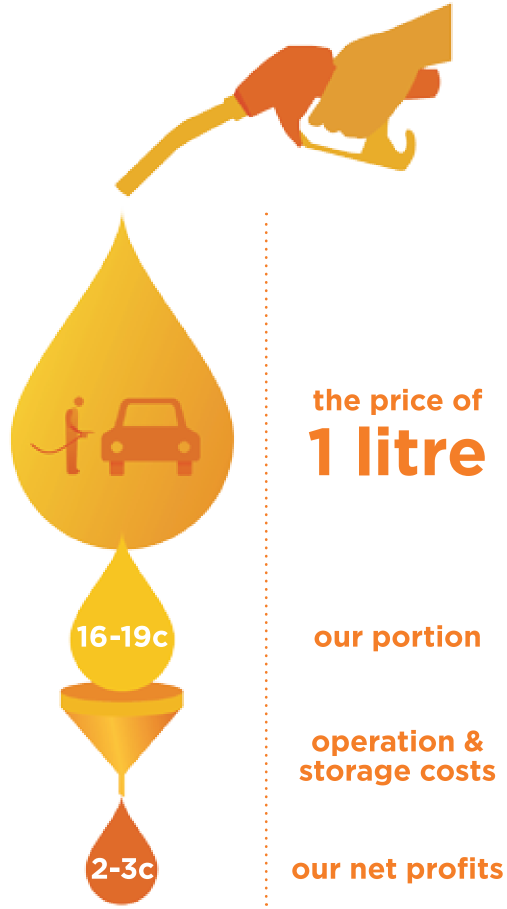
We will continue to pursue a different strategy based on providing the best overall value – both for our customers and for New Zealand. The investments we have made in food, coffee, toilets and forecourt service provide our customers with clear choices in terms of who they choose and what they get for what they pay. Our willingness to invest in our industry while others continue to cut costs allows us to deliver much-needed capital into critical pieces of energy infrastructure.

We've invested millions in our people to change the service experience that New Zealanders can expect. Our research results and real-time feedback from customers show that Z offers levels of service that rate alongside the best companies in New Zealand, and still we know we can do a great deal more. The feedback proves to us that a world-class level of service is absolutely attainable, and it provides us with the ability to put things right when we get it wrong.

The boost in sales in our new format stores clearly shows that New Zealanders are enjoying the investments we have made. We know that we will continue to gain more sales from our food and coffee as we listen and improve. This year, New Zealanders asked us to add donuts to the food on offer. We obliged. We also followed up the launch of our Z Espress coffee brand with a new coffee app that allows customers to collect the digital equivalent of coffee stamps on their iPhones and android phones.

Looking after our own people, looking after our customers and investing for the future are the ways forward for Z. We will apply the same approach to our commercial business over the next 12 months in order to lift service standards and provide New Zealand businesses with the fuel they need quickly and simply.

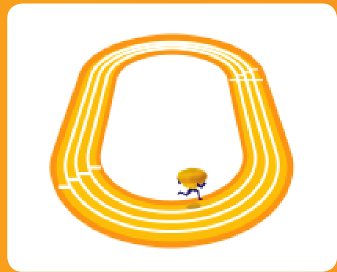
We are confident in our strategy but we also recognise that in a competitive market, the last thing anyone can afford to do is set and forget. We will continue to listen to our customers, and we will continue to check and refine our strategy.



Z customers purchased:

1,634 bathtubs or **326K litres** of Z Espress coffee

42 Sky Towers of stacked Z cupcakes



Enough pies to go **541 laps** of an Olympic stadium

Invercargill to Auckland traffic jam of cars from Z2O washes

Z by the numbers

60,015,879

Transactions per year

That's almost two per second!

18,794,560

Fly Buys cards scanned per year

That's over 50,000 every day!

12,872,473

People had their thirst quenched with a cold drink last year.

That's over 24 every minute!

678,023,136

Litres of Z 91 per year

That's over 20 litres pumped every second!

ZX

We're proud of our fuels. We add a cutting-edge additive with cleaning and friction modification properties that help deliver improved performance, a cleaner engine and great value for motorists. Research conducted last year showed that comparison of three fuels (ZX and other 95 and 98 fuels) indicated that on average ZX resulted in the lowest fuel consumption on the lab Dyno testing.

It's not just our premium fuel that cares for your engine. Our 91 octane fuel includes a lower dose of the same additive used in ZX which helps keep your engine clean. So whether or not you fill up with our premium fuel, ZX, when you fill up at Z you know that you're getting some of the highest quality fuel available in the industry.

We continue to listen

Z was the first fuel company in New Zealand to commit to a significant social media presence. Our conversations on Facebook and Twitter are valuable to us because they let us engage with our customers and potential customers in real time and hear what's on their minds. More than 108,000 'Likes' on Facebook and over 1,000 Twitter followers keep us really connected with New Zealand and help us do the things that really matter.

Over the last year, we hosted two "Ask Mike" social media sessions, which gave people interested in Z the chance to ask our CEO, Mike Bennetts, anything they liked. The opportunity to help people understand what Z is all about, to get real-time feedback and to hear the compliments and the criticisms directly was priceless.

Social media is a double-edged sword. You have to be accessible, honest, up front and ready to hear the good with the bad. Our social media presence is unique among the major players in this industry.

The insights we've gained through engaging with and listening to our customers have proven so valuable that we continually use them to get better at what we do, and at providing what our customers want.

facebook twitter

How much money did we make?

In our first year as Z, we focused on building the Z brand and implementing our strategy. This year, we countered competitive market conditions with a speed and service-driven model that prioritised value. We largely anticipated the challenges thrown down by the market this year and delivered performance consistent with what we told our shareholders and our investors we would deliver.

Z's statutory reported net surplus for the year ended 31 March was $35 million, down 55% from $77 million last year. Our statutory reported numbers are calculated on the historic cost basis required by international financial reporting standards (IFRS). For this result, the cost of fuel sold is quantified on a first-in, first-out basis, meaning historic cost earnings include changes in the value of inventory. These can vary depending on how much the price of oil fluctuates. This year Dubai crude, which is the benchmark for the majority of crude we import, started the year at NZ$147 per barrel and finished at NZ$128.

Because Z is constantly selling fuel and buying product, we focus on replacement cost earnings (calculated by revaluing the cost of fuel to its current value), which is the worldwide industry norm. The difference between historic cost earnings and replacement cost earnings reflects the differing valuations of our inventory. Over time, these should be similar, but there will be differences in any one accounting period and, generally, historic cost earnings will be more volatile.

Our replacement cost earnings before interest, tax, depreciation, amortisation and fair value movement of interest rate derivatives (operating EBITDAF) grew well despite vigorous competition and a stubbornly slow domestic economy, increasing from $172 million last year to $195 million, up 13%. This is at the upper end of guidance, and shows consistent year-on-year growth in earnings from $130 million in 2010.

We enjoyed reliable and consistent cashflow despite continued volatility in global and domestic fuel markets. This was reflected in operating cashflow that increased by $324 million to $355 million. We reinvested some of those increased earnings into our infrastructure improvement programme and our retail and truck stop network.

We believe that our retail strategy of improving the overall experience at our service stations coupled with strengthening our brand is the right approach. Although this year our fuel volumes were down 7% compared to the same period last year, our margin on fuel sold has improved. Shop sales in reformatted Z stores delivered a 9% growth in sales year on year.

The volume of fuel sold through our commercial business has declined, reflecting some deliberate choices we made about what level of returns we were willing to accept on certain lines of business. We have a plan to recover some of this volume at a better rate of return in the coming year.

We enjoyed reliable and consistent cashflow despite continued volatility in global and domestic fuel markets.

Once again, we improved return on average capital employed (ROACE), a critical financial measure for capital-intensive businesses like ours, while also increasing our asset base. ROACE was up 0.5% to 10.3% this year. We are trending nicely to the levels of return required to enable the ongoing investment in infrastructure that has been deferred in this industry for decades. We're confident that the investments we have made and continue to make will future -proof the business.

We undertook a number of initiatives to strengthen and diversify the company's balance sheet over the course of the year. We announced a third bond issue of seven years and four months, successfully raising $135 million (the amount we sought was $100 million) at 6.5%. We've used the money to pay off our bank debt and extend the company's debt maturity profile. We now have our long-term funding with Kiwis for the most part, with short-term funding available from a group of major banks. We have a $50 million debt facility and a $350 million working capital facility to fund volatility in oil prices and exchange rates.

Towards year end, we settled contracts to sell and lease back 47 secondary retail service station properties across New Zealand, on top of the eight properties already sold and leased back last year. That decision realised $82 million cash for investment or distribution. We continue to create headroom in the covenants we have agreed with our banks and bondholders. This means their money is safe and we will be able to raise more funds in the future.

We are not expecting the year ahead to be very different in terms of overall trading conditions. We are expecting to see our combination of a differentiated, value-driven retail service model and a more customer-focused and valued commercial service model paying off, with greater loyalty, higher retained margins and increasing EBITDAF. Our shareholders Infratil and the New Zealand Superannuation Fund share our belief in the potential of the long game.

Disclosure

The information in this annual review relates to Aotea Energy Holdings Limited (AEHL), which is the company owned by Infratil and the New Zealand Superannuation Fund. Our bonds are guaranteed by Aotea Energy Limited (AEL), which is a separate entity 100% owned by AEHL, through a subsidiary, and which has a different set of financial results.

Our performance at a glance

Key measures	Guidance for FY13	Full year actual
Average crude price (NZD/bbl)	$137	$132
Gross refinery margin (USD/bbl)	$7.00	$7.40
RNZ processing volume (ml)	1,880	1,966
Sales volume (ml)	2,600	2,524
Operating costs	$260-270m	$280
Operating EBITDAF (replacement cost)*	$185–200m	$195m
Capex	$70–90m	$71m

* EBITDAF and replacement cost are non-Generally Accepted Accounting Policy (GAAP) measures and are not comparable to International Financial Reporting Standards (IFRS) measure of performance. These measures are reconciled on page 82.

Five key factors influence our earnings

1 Changes in oil prices impact our reported earnings, mainly through changes in consumer demand.

2 Changes in the US dollar exchange rate impact what we pay. These fluctuations are largely hedged, but there is still some volatility in earnings, mainly due to timings for revaluing receivables and payables.

3 The gross refining margin (GRM) represents the difference in value between the products produced by a refinery and the crude oil used to produce them, and is affected by international crude and product prices and foreign exchange rates. Refining margins are influenced by global supply of, and demand for, refining capacity.

4 Fluctuations in the gross fuel margin impact cash earnings. Margins have increased this year to a current cost net profit after tax (NPAT CCS) for every litre of fuel bought by consumers of around 2.3 cents NPAT CCS per litre, up from 2.1 cents in the previous financial year.

5 Operating costs also affect earnings, and this year we have continued to invest in our brand and our service offer.

Bondholders as at 31 March 2013

	No. of bondholders	No. of bonds (at $1 each)
New Zealand	8071	428,786,000
Other	48	3,214,000
	8119	432,000,000

Key Performance Indicators (KPI) at a glance

Key Performance Indicators

Business performance is a key measure of our success as a company, but so is our performance in regard to people and the neighbourhoods we operate in, and how we treat our environment and resources.

The following table is our economic, social and environmental performance at a glance. We are partway through undertaking robust benchmarking across the social and environmental factors in particular, and we look forward to sharing more detailed reporting with you in future.

Business Performance	FY13 % Increase / (decrease)	FY13	FY12	FY11
Volume (mL)	-5%	2,524	2,647	2,654
Revenue (NZ$M)	-6%	2,989	3,179	2,795
Dividends paid	29%	40	31	9
Historic Cost EBITDAF (Operating) (NZ$M)	-19%	163	202	219
Replacement Cost (RC) Operating EBITDAF (NZ$M)	13%	195	172	157
Depreciation and Amortisation expense (NZ$M)	13%	41	37	27
NPAT – Historic Cost (NZ$M)	-55%	35	77	203
NPAT – Replacement Cost (NZ$M)	3%	58	56	153
Cents per Litre (Replacement Cost NPAT)*		2.3	2.1	1.2
Gross Refining Margin (USD/bbl)	10%	7.40	6.70	7.53
ROACE	5%	10.3%	9.8%	7.8%
Stock on hand (NZ$M)		482	671	549
Capital Expenditure (NZ$M)		71	74	29

EBITDAF, ROACE and RC are all non-Generally Accepted Accounting Principles (GAAP) measures and are not comparable to the International Financial Reporting Standards (IFRS) measure of performance. These measures are reconciled on page 82 of the Annual Review.

* 2011 CPL calculation has been adjusted to exclude the gain on acquisiton of $121.4m

People and neighbourhoods	FY13 % Increase / (decrease)	FY13	FY12	FY11
Total employees	1.2%	241	238	221
Learning and development ($ spend)	-20%	1,600,000	2,000,000	750,000
Lost time injuries (total days)	-11%	8	9	4
Community donations ($)	223%	1,387,594	429,088	683,308

Environment and resources	FY13 % Increase / (decrease)	FY13	FY12	FY11
Number of spills to ground	14%	8	7	10
Head office waste (kg)	-61%	27	70	-

Financial Performance

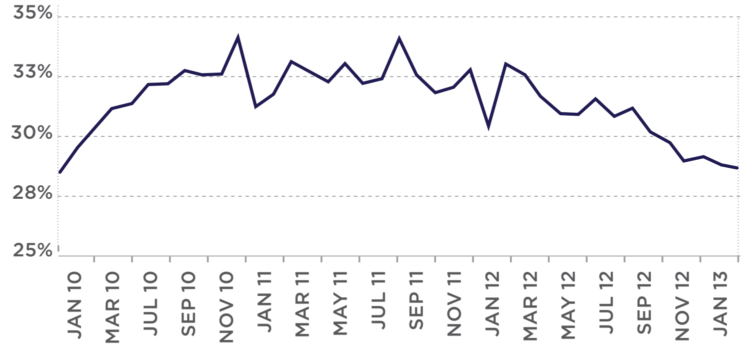
The first year of operation as a local company was focused on ensuring a smooth transition. The second year was focused on building a new brand and implementing Z's strategy.

This past year, our third year of operation, was about completing the rollout of the Z brand and delivering on our brand promise, bedding down our strategy and maintaining the continual evolution inside Z towards being a world-class Kiwi company.

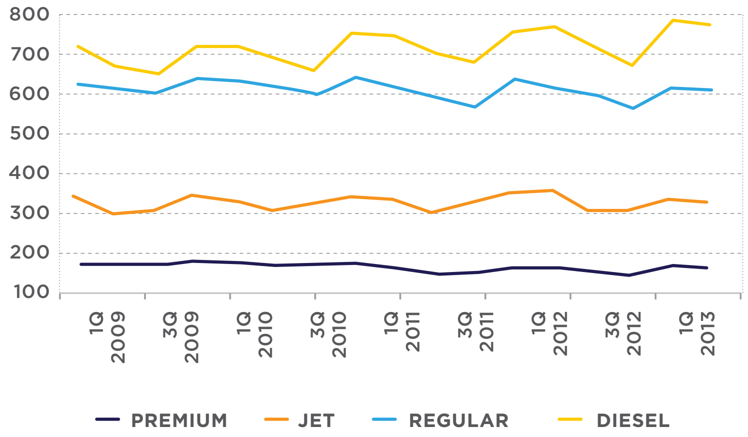
In the year ended 31 March 2013, our retail fuel volumes were down 7% compared to the same period the year before, though our margin on fuel sold has improved. In our commercial business, the volume of fuel sold has declined, reflecting some deliberate choices we made about what level of returns we were willing to accept on certain lines of business.

In terms of a New Zealand wide view, the petrol market in New Zealand is in decline though the diesel market is growing at a rate slightly less than GDP. Z's market share declined in FY13 albeit our actions were consistent with our goal to grow profits and returns.

Market Share – all products

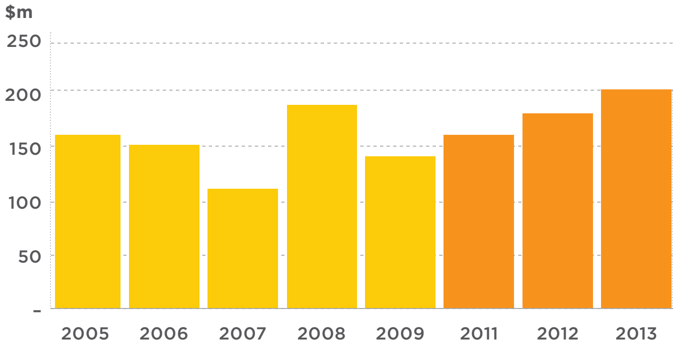


Industry Volumes (million litres)

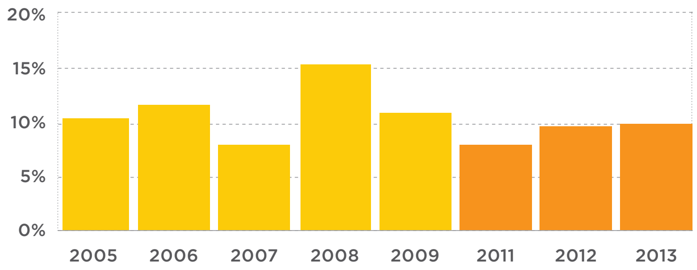


The following charts show performance under Shell (NZ) for their last 5 full years, ending 31 December 2005 to 31 December 2009. The first full year of Z is the financial year to 31 March 2011.

Replacement Cost EBITDAF



Return on Average Capital Employed



Replacement cost earnings (EBITDAF) has improved despite volatile oil prices and the Christchurch earthquake. Replacement cost EBITDAF is an industry accepted measure of operating profitability. EBITDAF is calculated by taking net income and adding interest, taxes, depreciation, amortisation, and fair value movements of interest rate derivate expenses back to it.

'Replacement cost' is calculated on the basis that as fuel is sold a roughly similar amount will be purchased. This differs from 'historic cost', which uses the cost of fuel sold on a first-in, first-out basis.

While reporting earnings to conform to accounting standards require cost of sales to reflect the historic cost of the fuel sold, as Z constantly sells fuel and buys product to replenish its inventory, replacement cost earnings are a more relevant measure of the company's performance.

Over time, the two measurements should be approximately the same, but there will be differences in any one accounting period and generally Historic Cost earnings will be more volatile.

ROACE is the rate of return on capital employed in the business (the long term funds supplied or invested by the creditors and owners of the company). Capital employed can be defined as the total of non-current liabilities and owner's equity. An investor can compare this return to alternate investments with similar risk profiles.

Bank Covenants

Z continues to trade comfortably within all bank covenants, designed to satisfy our bankers that we are generating sufficient cash to cover our interest (fixed) costs, that we have sufficient liquidity to fund our working capital requirements, and that our debt levels are within acceptably managed levels.

Z Energy Group's Financial Performance

The financial information in this section relates to the Z Energy Limited Group, being Aotea Energy Holdings Limited and its subsidiaries. All tables are extracted from the audited financial statements of Aotea Energy Holdings Limited and should be read in conjunction with the complete New Zealand international financial reporting statements.

Our statutory reporting conforms to accounting standards that require cost of sales to reflect the historic cost of the fuel sold. However in reality Z constantly sells fuel and buys product to replenish its inventory. Consequently replacement cost earnings (which excludes the impact of oil prices on inventory) are a better measure of a company's underlying performance and management and capital providers focus on this. Over time, the two measurements should be approximately the same, but there will be differences in any one accounting period and generally historic cost earnings will be more volatile.

Statement of comprehensive income

for the year ended 31 March 2013

	Group	
	2013 $Millions	2012 $Millions
Total revenue	2,989.3	3179.3
Cost of sales of goods	(2,549.8)	(2,715.1)
Gross Profit	**439.5**	**464.2**
Share of earnings of Associate Companies (net of tax)	5.9	4.3
Sales and administration expenses	(230.8)	(203.3)
Distribution expenses	(46.6)	(50.5)
Other operating expenses	(44.4)	(39.0)
Total operating expenditure	(321.8)	(292.8)
Operating surplus before financing, derivatives, impairment and sale of fixed assets	**123.6**	**175.7**
Net (loss)/gain on commodity, foreign exchange and interest rate derivatives	9.1	(0.6)
Results from operating activities	**132.7**	**175.1**
Interest income	1.6	7.2
Interest expense	(69.6)	(75.9)
Net financing expense	(68.0)	(68.7)
Impairment of investment in associate	(11.7)	-
Gain on sale of fixed assets	10.9	1.8
Net surplus/(loss) before taxation	63.9	108.2
Taxation expense	(28.9)	(31.2)
Net surplus/(loss) for the year	**35.0**	**77.0**
Net surplus/(loss) attributable to owners of the company	35.0	77.0
Other comprehensive income, after tax		
Actuarial Gains/Losses on defined benefit plan	-	(2.5)
Income tax on other comprehensive income relating to RBO	-	0.7
Share of other comprehensive income from associates (net of income tax)	(0.1)	(4.9)
Other comprehensive income for the year, net of income tax	(0.1)	(6.7)
Total comprehensive income for the year	**34.9**	**70.3**
Total comprehensive income attributable to owners of the company	34.9	70.3

For the year ended 31 March 2013, net profit after tax was $35 million, down by $42 million on the 2012 result.

Management and capital providers focus on replacement cost earnings before interest, tax, depreciation, amortisation, and fair value movements of interest rate derivative. Replacement cost earnings reflect the underlying profitability of the business and take out fluctuations associated with oil price changes. On a replacement cost basis the Aotea Energy Group achieved EBITDAF of $195 million, up 13% on the previous year.

Sales revenue (excluding tax and levies on fuel) of $2,989 million was down 6% on the prior period, mainly reflecting the increased cost of refined product. This also impacted cost of sales of $2,550 million, which was also down 6% on the previous year.

Operating costs of $322 million were up on prior year due to increased retailer commissions and Christchurch earthquake repairs and maintenance costs expensed from the balance sheet.

The company's focus on customers and executing its strategy has delivered a solid replacement cost operating EBITDAF improvement in a highly competitive market and positioned the company well for future growth.

Statement of financial position

as at 31 March 2013

	Group	
	2013 $Millions	2012 $Millions
Cash and cash equivalents	274.5	16.5
Trade, accounts receivable and prepayments	242.2	246.4
Derivative financial instruments	-	0.3
Inventories	481.5	671.0
Held for sale assets	2.0	-
Income tax receivable	2.0	-
Current assets	**1,002.2**	**934.2**
Property, plant and equipment	443.1	469.8
Derivative financial instruments	4.1	-
Intangible assets	34.3	25.3
Investments in Associates	184.8	194.1
Other non current assets	0.2	0.2
Investment in subsidiaries	-	-
Other investments	1.0	2.3
Non current assets	**667.5**	**691.7**
Total assets	**1,669.7**	**1,625.9**
Accounts payable, accruals and other liabilities	507.5	469.6
Provisions	3.7	4.9
Derivative financial instruments	5.6	10.4
Bank debt	-	32.5
Loan from Shareholders	244.5	-
Redeemable Preference Shares	115.0	-
Income tax payable	-	14.0
Total current liabilities	876.3	531.4
Bank debt	-	107.0
Other liabilities	17.5	-
Provisions	24.1	20.8
Derivative financial instruments	-	0.5
Deferred tax	38.1	21.6
Loan from Shareholders	-	244.5
Redeemable Preference Shares - Issued to Shareholders	-	115.0
Bonds	425.8	292.2
Non current liabilities	**505.5**	**801.6**
Attributable to owners of the Company	287.9	293.0
Total equity	**287.9**	**293.0**
Total equity and liabilities	**1,669.7**	**1,625.9**

Major movements in the Balance Sheet are disclosed below:

- **Trade, accounts receivable and prepayments** are largely made up of amounts due from customers that have been extended credit for sales made to them in the last 30 days.
- **Inventories** of $482 million, recorded at the lower of historic cost and net realisable value, comprise $102 million of crude oil and $380 million of refined products, which cover between two and three months' sales. At 31 March 2013, the Aotea Energy Group had 470 million litres of inventory on hand, which was down on 605 million litres at 31 March 2012. Inventory levels were increased at 31 March 2012 to accommodate an impending maintenance shut down at Refining New Zealand (NZRC).
- **Property, plant and equipment** of $443 million of property, plant and equipment includes:
  - freehold and leasehold land and buildings used as retail service stations and truck stops;
  - plant and equipment for use in retail service stations and truck stops;
  - storage and distribution infrastructure assets, which include port storage facilities, airport storage and refuelling equipment and pipelines.

The decrease in value of land, buildings, plant and equipment for the year ended 31 March 2013 is reflective of the sale and leaseback of 47 retail sites in 2013.

- **Intangible assets** include but are not limited to carbon obligations, the right to participate in the Fly Buys loyalty programme, franchise rights, domain names and software.
- **Investments in associates** mainly represents Aotea Energy Group's 17.14% holding (or 48 million shares) in the NZRC. The original carrying value was $3.99 and the value recorded was $192 million. As at 31 March 2013 the listed share price of NZRC was $2.51. Aotea Energy formed the view that there was an indicator of impairment and as such has compared the carrying value to its Value in Use (VIU) of $180 million. As the VIU was lower than the carrying value an impairment of $12 million was necessary. Z also has investments in Loyalty New Zealand Limited, New Zealand Oil Services Limited, Wiri Oil Services Limited, Penagree Limited, and Coastal Oil Logistics Limited.
- **Accounts payable, accruals and other liabilities** consist of hydrocarbon payables, government duties and tax payables and ETS payables.
- **Bank core debt** represents a $50 million revolving core debt facility to fund capital expenditure and general working capital, if required. This facility is not normally utilised and at year end was not drawn.
- **Bank working capital debt** represents a $350 million working capital facility to fund the day-to-day operations of the company. This fluctuates depending on transaction timing, predominantly around the timing of lumpy crude and refined product imports and at year end was not drawn.
- **Provisions** include environmental and decommissioning and restoration provisions. Decommissioning and restoration costs expected to be settled within one year are classified as current liabilities and those expected to be settled between one and 30 years are classified as non-current.
- **Bonds** represent the value of the Group's three existing series of bonds (maturing in 2016, 2018 and 2019). The increase in the value of the bonds is as a result of Z Energy Limited (ZEL) issuing a third series of bonds on 16 August 2012 with a face value of $135 million.

Statement of cash flows

for the year ended 31 March 2013

	Group 2013 $Millions	Group 2012 $Millions
Cash flows from operating activities		
Cash was provided from:		
Receipts from customers	2,995.4	3,165.1
Dividends received	3.4	6.6
Interest received	1.4	5.9
	3,000.2	3,177.5
Cash was disbursed to:		
Payments to suppliers and employees	(2,541.3)	(3,039.3)
Interest paid	(76.3)	(62.7)
Taxation paid	(27.8)	(44.5)
	(2,645.4)	(3,146.5)
Net cash inflow/(outflow) from operating activities	**354.8**	**31.1**
Cash flows from investing activities		
Cash was provided from:		
Proceeds from sale of property, plant and equipment	86.7	12.7
Proceeds from insurance recoveries	2.9	-
Proceeds from sale investments	1.4	-
	91.0	12.7
Cash was disbursed to:		
Purchase of intangible assets	(69.4)	(18.6)
Purchase of investments	(2.3)	-
Purchase of property, plant and equipment	(67.5)	(64.1)
	(139.2)	(82.7)
Net cash outflow from investing activities	**(48.2)**	**(70.0)**
Cash flows from financing activities		
Cash was provided from:		
Dividends	-	-
Issue of bonds	135.0	150.0
	135.0	150.0
Cash was disbursed to:		
Repay bank debt	(143.5)	(71.9)
Dividends paid to owners of the Company	(40.0)	(31.0)
	(183.5)	(102.9)
Net cash inflow/(outflow) from financing activities	**(48.5)**	**47.1**
Net increase in cash	258.1	8.1
Cash balances at beginning of year	16.5	8.4
Cash at end of year	**274.5**	**16.5**

Net cash provided from operating activities increased by $324 million as a result of lower year-end inventory levels and an increase in accounts payable. The decrease in inventory reflected a decrease in volumes from 3.8 million barrels at 31 March 2012 to 3.0 million barrels at 31 March 2013.

Net cash provided from investing activities reflects cash applied to the purchase of fixed and intangible assets and cash received from asset divestments. FY13 net cash provided from investing activities includes $87 million of proceeds from the sale and leaseback of retail sites.

Cash flows from financing activities included the issue of a third series of bonds which occurred during the financial year and had a face value of $135 million.

Reconciliation from operating EBITDAF (RC) to operating surplus

(per the statutory accounts)

Operating EBITDAF (RC)	195.3
Less depreciation and amortisation	(41.3)
Less impairments on PP&E	(0.5)
Less unrealised gains/losses	(4.4)
Less cost of sales adjustment	(31.5)
Add share of earnings of Associate Companies	5.9
Operating surplus before financing, derivatives, impairments and sale of fixed assets (statutory accounts)	123.6

Reconciliation from operating EBITDAF (HC) to operating surplus

(per the statutory accounts)

Operating EBITDAF (HC)	163.8
Less depreciation and amortisation	(41.3)
Less impairments on PP&E	(0.5)
Less unrealised gains/losses	(4.4)
Add share of earnings of Associate Companies	5.9
Operating surplus before financing, derivatives, impairments and sale of fixed assets (statutory accounts)	123.6

Return on average capital employed (ROACE)

Return on average capital employed (ROACE) is a measure of how effective we are in using our assets.

From the team at Z, **Thank you for reading our 2013 Annual Review**