Annual Review 2012

Welcome to the very first Z review

We're a New Zealand company based in New Zealand, staffed by New Zealanders, for New Zealanders.

We want Z to represent what New Zealanders can achieve when they put their minds to the things that matter – things like putting the service into service stations, fuelling New Zealand to get ahead, supporting local neighbourhoods, and rewarding our investors and bondholders for their belief in us.

This Annual Review is structured according to Z's five brand and organisational values. Our values underpin everything that we do, so we thought it only right to report on our activities against them.

At Z, great work is all about having the energy to do what matters. And, really, we're just getting started.

Contents

What this means

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.

Be straight up

As New Zealanders we call it the way we see it. Our view is that you have a right to know what we've been up to, and we're only too happy to share.

We take this approach in everything we do. Being straight up, honest and transparent really matters to us. So here's our view on the 12 months to 31 March 2012, including what we've done, what went well, and where we have room to improve.

Z highlights for 2011/12

Good gains lift earnings

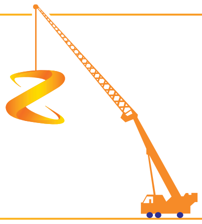
Earnings before interest, tax, depreciation, amortisation and financial instruments (EBITDAF) lifted from $157 million to $172 million in a volatile market.

$18 million paid into the NZ Superannuation Fund

$18 million in dividends was paid into the New Zealand Superannuation Fund, benefiting future generations of Kiwis.

Second bond issue successful

Our second bond issue, this one for seven years and seeking to raise $100 million, again closed over-subscribed and raised $150 million. Over 6,000 Kiwis now have a direct stake in Z through retail bonds, shifting debt from banks to local investors.



'Z'ing the nation

We embarked on one of the largest rebranding programmes in New Zealand. By 31 March 2012, over half our service station and truckstop network was successfully rebranded as Z, with the rest expected to be completed by June 2012.

Our brand

The Z brand is already highly recognisable, with brand tracking showing that the vast majority of New Zealanders are aware of Z and know we're a Kiwi company.

We are "excellent" – it's official!

Z was awarded New Zealand Energy Company of the Year in the Deloitte Energy Excellence Awards.

Marketing maestros

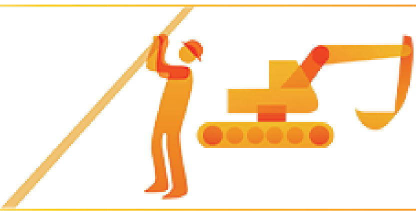
We were a finalist in the NZ Marketing Awards, and were awarded eight awards, including two gold, at the Fly Buys Marketing Awards.

More tanks, secured supply

Three new 10-million-litre fuel storage tanks were successfully commissioned at the Port of Lyttetlon – a $25 million investment towards securing supply in Canterbury through much more robust national fuel infrastructure.

For New Zealand, even in the bad times
Awanuia and her crew worked wonders at the site of the Rena grounding to safely remove 1,300 tonnes of fuel oil safely off the ship, preventing a much larger environmental tragedy.

Z is for Zealand
Neighbourhood investment programmes enjoyed huge support locally, as we donated $5,000 per re-branded Z site to each neighbourhood's favourite charities. By the end of the rollout in June 2012, we'll have contributed $1.2 million to New Zealand neighbourhoods.



Jobs for Kiwis
Over 3,500 local jobs were created as part of the national brand rollout and refit.

Z is for Canterbury
Our investment in post-quake Christchurch tops $3 million. Two sites in Christchurch, Shirley and Linwood, were completely rebuilt this year as flagship Z sites, the first two in the South Island.

Connecting with the nation
Our Facebook page, launched in May 2011, is now one of the most popular pages in the country with almost 50,000 fans.

The premium fuel
The launch of ZX premium fuel gives New Zealanders a new premium fuel choice, with an engine cleaning and friction modifier additive that helps improve engine efficiency.

We're in it for the long haul
We've made some significant commitments to being a sustainable company by 2015.

Real-life Kiwi heroes
Kevin Milne, Sarah Gibbs, Al Brown, Sir Peter Leitch and the Very Reverend Peter Beck feature as our real-life Kiwi heroes and helped launch our values by bringing them to life.

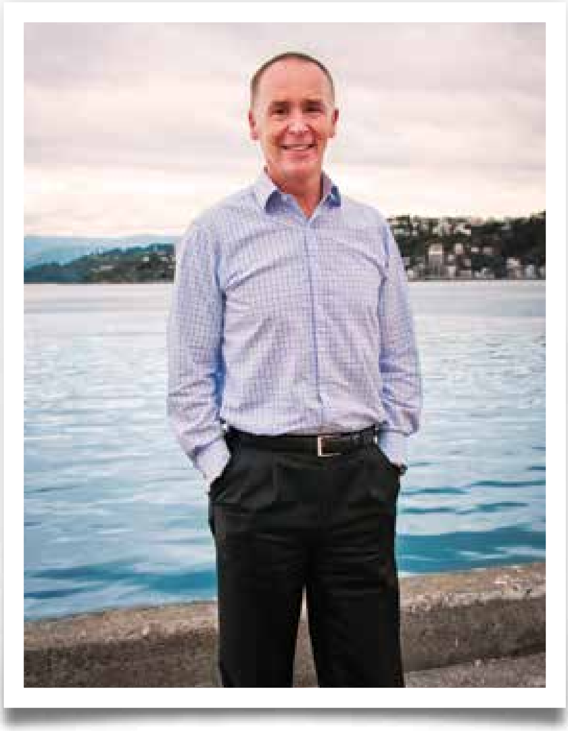
Technology that saves you money
We signed an agreement with E-ROAD to help commercial fleets better manage their fuel spend – a first step in our bid to diversify our business and help our customers use less fuel and reduce their emissions.

CEO's report

Before I began drafting these comments I went back to what I said a year ago in our first ever Annual Review. The contrasts between then and now are quite stark – back then we spoke as Greenstone Energy, still used the Shell logo on our service stations and had just completed a year of transitioning from the previous owners. Our customer offers were pretty much the same as on the day we bought the company and we had no social media presence. Much has changed in the past 12 months and it is time that we made ourselves accountable to you by reporting on what has happened.

It's our commitment to accountability and transparency that leads us to publish an Annual Review. We gladly do it because we know you have higher expectations of a local company. You believe we have the resources to deal with issues and you trust us to act more responsibly than an international company. The research we undertook clearly stated that you are willing to go on a journey with us provided we operate safely and reliably; are straight up; look after our customers and community; and play to win. This Annual Review should speak to each of those expectations.

The most visible change we made in the last year was launching the Z brand. A great deal of thought and research went into the decision to change brands, as well as into the name, logo, colours and positioning that are now in the market.



It has been great to receive all the feedback we've had since May 2011, when we announced the launch of Z. The feedback hasn't all been positive, but we really appreciate people taking the time to let us know what's on their minds, and how well, or not, we're doing.

Getting better at listening is fundamental for Z, and that shows up in our ongoing customer research, how we participate in social media, and our focus on the customer. In the past year we renovated our head office to feel more like Z, and it is now full of images of customers so that the people most removed from the customer interface are continually reminded of what our business is all about. It's not about selling oil products, it's about helping our customers get through their busy days and run successful businesses. This is what we call the energy to do what matters.

There are things happening in our sector, the downstream oil industry, that cause us concern. Things like declining customer choice and offers, capital investment well below depreciation, a less resilient supply chain than ever before, and low returns to shareholders. Much of that has happened over the past decade in a way that wasn't always clear to New Zealanders.

There is a need for wider debate about the economic and environmental sustainability of our industry. Speaking about these issues may make us unpopular – as is anyone who raises the difficult issues that no one else will.

Nevertheless, we will speak about these issues and we will do our very best to ensure everyone has the opportunity for a basic understanding of our industry, the context we operate in, and the strategic issues that both the industry and Z are facing.

New Zealand needs substantial companies that are committed to this country, invested in by Kiwis and that will invest in resources and infrastructure to ensure New Zealand keeps moving forward. A steadily declining downstream oil industry is bad news for Kiwi consumers and businesses as there are few transport fuel alternatives and we are a long way from supply sources. Our strategy gives us a way to deal with this decline in a responsible manner by first improving our financial performance as the foundation from which to make the much-needed investments in customer offers and supply chain infrastructure.

Environmental sustainability is a strange thing for a "dirty" fossil fuel company to be talking about but it's something Z can provide leadership on. We believe we have a unique set of circumstances that provide us with an opportunity to make a difference towards a more environmentally sustainable future on a scale few companies within New Zealand have.

As gatekeepers to the fuel user, our industry is seen as the problem. We market products that can contribute up to 90% of our commercial customers' carbon footprints and an estimated 25% of an individual's carbon footprint.

Here are two thoughts that may surprise you. First, we genuinely want to be in the middle of the solution and not the middle of the problem. Second, success for our company does not have to come from selling more. In the high fixed cost, low margin business we're in, if we sold 20% less volume we would only have to increase prices by 3% to be financially neutral. If we help our customers save 20% on their fuel bills then I'm sure they would be ok with giving 3% back to Z.

We have made a stand on sustainability and published our commitments on our website – z.co.nz. In this Annual Review we take the first steps in making ourselves more accountable by reporting on our medium-term sustainability goals. In future Annual Reviews we will tell you more about the progress we're making against these goals.

We haven't got it all worked out yet but the next steps are quite obvious and what comes beyond that is becoming clearer. One of our first steps was to shift our entire company car fleet to hybrids as of May this year as the current leases progressively came to an end. This does little to help with carbon emissions but it does help us understand the customer's perspective on hybrid vehicles and could open up ideas on how to help get the country's vehicle fleet transitioning away from its almost 100% reliance on fossil fuels.

I would like to close with a sincere thank you to our local shareholders, the 6,000 retail investors who hold our bonds, our ever-growing customer base and the people of Z Energy – from our head office to those in the front line managing our 65 million customer interactions a year and ensuring 2.6 billion litres of our products are made available to our customers.

For an industry that spans decades, it seems a little odd to be celebrating a second anniversary. In those two years lots has changed and some has stayed the same. This Annual Review is an update on our progress and I look forward to hearing whether you think we are going in the right direction, at the right pace and in a manner that really shows Z is for New Zealand.

Mike Bennetts
CHIEF EXECUTIVE OFFICER

Chairman's report

The launch of Z into the New Zealand fuels market this year marks much more than the introduction of another brand at the pumps. It is a clear example of our commitment to invest in a market that we see as having significant potential if it is managed well.

Our work this year opening new stations, upgrading existing sites, investing in additional fuel storage infrastructure, and rethinking our commercial offering has shown our willingness to address what we see as the lack of customer choices, sustained under-investment and an industry under pressure. The fuel supply chain is critical infrastructure, as important as electricity or telecommunications, and as such requires significant ongoing investment.

As a proud New Zealand company we are doing things differently. The extensive research we did before we launched Z told us that New Zealanders were unhappy with what they were receiving and genuinely interested in dealing with a local company that felt much more like one of them. This explains why our new retail offering and the continuing work in our commercial business have been so well received.

We've set the pace and added new urgency to the case for reinvestment. We believe that as the brand that is "for New Zealand", and with one of the largest market shares, we have to meet these challenges head on. Mike and his team are doing that with energy, clarity and consistency, and the response from customers has been encouraging.

Reinvestment will of course impact our returns in the short term, but overall it will add considerably to the long-term health of the business and the industry. We also hope our actions will reinforce our view that a reliable and responsive downstream oil industry is an important part of New Zealand's future success – and one that requires strong leadership.

On behalf of the Board, my thanks to Mike, his leadership team and everyone who has strategised, operated, communicated and delivered the Z promise this year. You can be proud of all your achievements. Thanks too to the thousands of New Zealanders who have chosen to back us in our quest by investing in our bonds. And most of all, thank you to our customers, who have chosen to support a new Kiwi company.

Two years in, we are on track. The Board is satisfied with returns and Z is in good health.

Marko Bogoievski
CHAIRMAN

'As a proud New Zealand company we are doing things differently'

Who's on our Board?

As a Kiwi company, it's only right that Z Energy is governed locally.
Meet our Board of Directors.

Marko Bogoievski

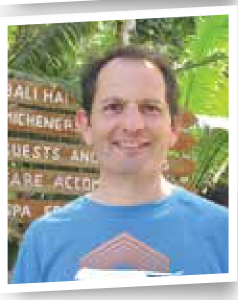
CHAIRMAN

Marko is Chief Executive of Infratil, and Infratil's manager, Morrison & Co. He is also a director of Infratil Limited, TrustPower Limited and various Z Energy Group companies. He was previously Chief Financial Officer of Telecom New Zealand, responsible for corporate finance, mergers and acquisitions and group strategy. He is a member of the New Zealand Institute of Chartered Accountants.

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.



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.

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 NZ Post, Burger Fuel Worldwide and a number of private companies.

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 Limited and also Chairman of BP South West Pacific Limited. 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.

Meet our Executive Team

and hear what matters to them

Mike Bennetts
Chief Executive Officer

What matters to me for Z is that we grow into being a world-class Kiwi company, but that it's something that other people describe us as rather than us declaring for ourselves.

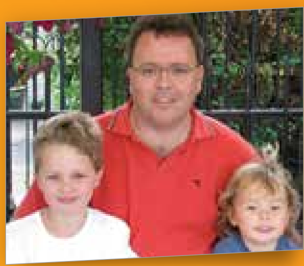
For me a world-class Kiwi company is one that is focused on customers, delivers returns for its shareholders, and has options for growth in the future. It's a company that has a great brand, one that is easily recognised and that people can identify with. It is a company that provides leadership to the business community and the issues that face New Zealand. And most importantly, it's a place where our employees can grow and succeed.

Rob Freeman
General Manager Supply and Distribution

What matters to me is delivering great products to our customers every day so they can get on with doing what matters to them.

Huma Farqui
General Manager Capability and Organisational Development

There are lots of things that matter, but what really matters to me the most is enabling people to be extraordinary, at work and in the contribution they make to Z, but also at home and in their personal lives and in all the areas that really matter to them.



Mark Forsyth
General Manager Retail

There are two things that matter the most to me: the first is to make our sites and our business the safest places they can possibly be for our people, our site teams, our retailers and our customers.

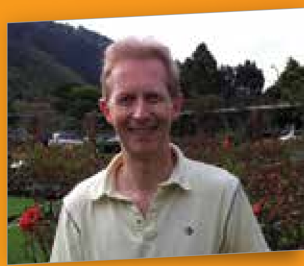
The second thing is really 'wowing' our customers, and that means every customer leaving our site with a smile on their face.

Rob Wiles
General Manager Corporate

What matters to me is having an extraordinary team which together delivers some extraordinary results. By this I mean we are doing some really big things in the areas of acquisitions, sustainability and in how we interact with New Zealanders.

Lindis Jones
General Manager Commercial

What matters to me is that my team really know our customers and know what matters to them, take action, and cause some great things to happen.



Mark Edghill
Chief Financial Officer

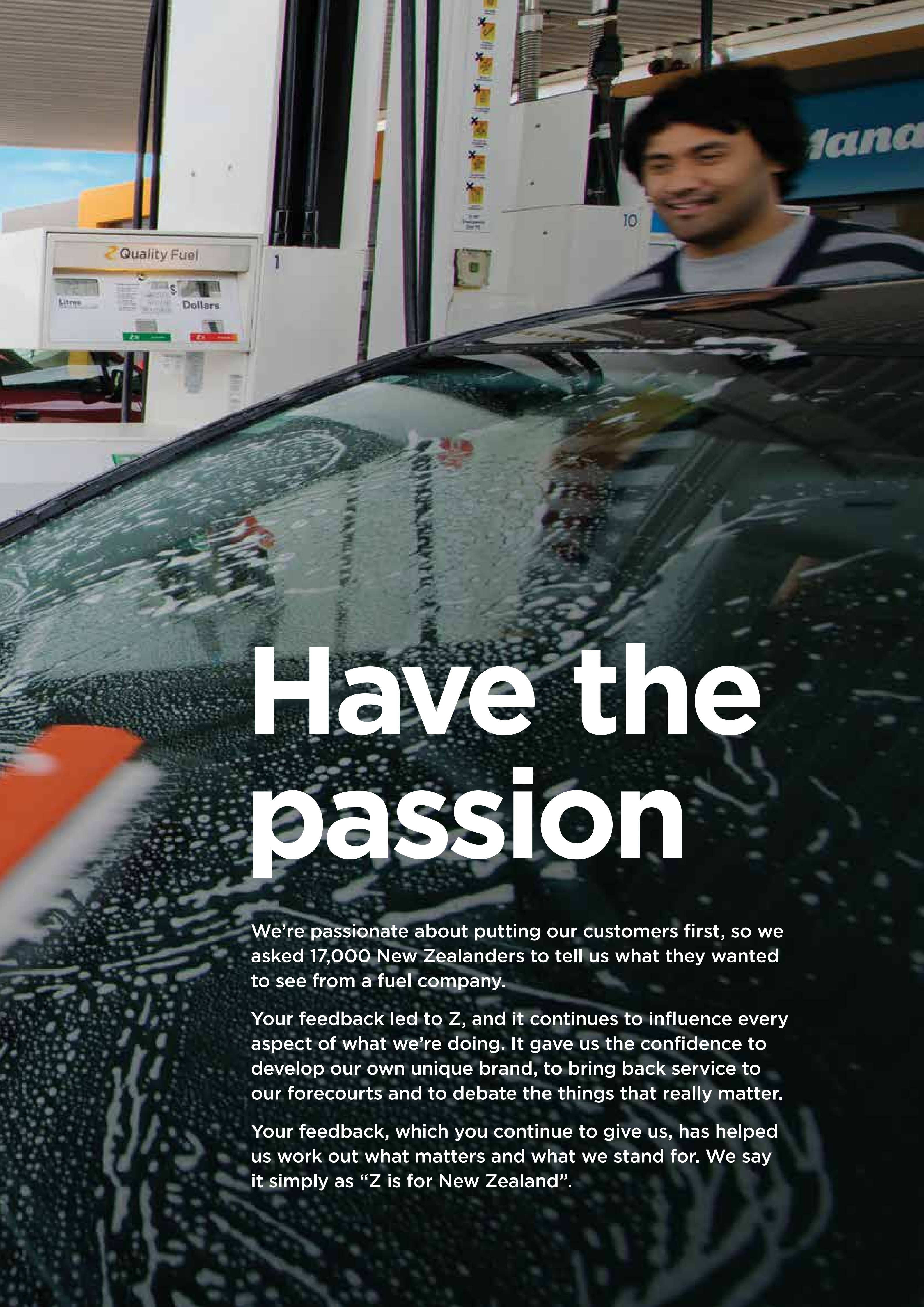
What matters to me is providing value for money to our customers and a competitive and sustainable return to our shareholders.

Meredith Ussher
General Counsel and Company Secretary

What matters to me is making sure that Z gets the best legal and commercial results in everything it does.

What this means

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



Have the passion

We’re passionate about putting our customers first, so we asked 17,000 New Zealanders to tell us what they wanted to see from a fuel company.

Your feedback led to Z, and it continues to influence every aspect of what we’re doing. It gave us the confidence to develop our own unique brand, to bring back service to our forecourts and to debate the things that really matter.

Your feedback, which you continue to give us, has helped us work out what matters and what we stand for. We say it simply as “Z is for New Zealand”.

Building a brand people rave about

Back in May, we sent a big signal to the country at large: here comes Z. The decision to replace Shell with a new Kiwi brand wasn't just a sign that there was a new local owner in the market. It also told every New Zealander that there was going to be a big shake-up of the New Zealand fuel industry.

Rent or build?

The decision to develop, build and own the company's identity, rather than 'rent' it from Shell, goes to the heart of our passion to be a world-class Kiwi company. A number of people have asked "why did we bother?"

It's a good question. We had a vision, but we wanted to make sure that we had it right, and we wanted to really, truly, understand what New Zealanders wanted from their local fuel company and how we could make the experience of refuelling more enjoyable and rewarding.

So we set about trying to understand what Kiwis actually wanted from a service station, how they felt about this sector and the companies operating in it. This became the biggest piece of industry-specific consumer research carried out in New Zealand in a decade, touching 17,000 Kiwis. The insights we gained from listening to our customers and those of our competitors saw us radically rethink our business.

Four phases to launch

1

Z is for New Zealand

We launched our story and told everyone of our aspiration to be a world-class Kiwi company.

2

The Z Trial

We asked New Zealanders to give us feedback on what we were doing across 10 trial sites.

3

Z Neighbourhoods

This was our big local launch, all about supporting neighbourhoods by supporting what matters to them, rather than through traditional corporate sponsorships.

4.

The Z Promise

Finally, our national roll-out campaign, which was all about welcoming New Zealanders to the Z they had helped design.

'Here comes something you'll never forget.'

The research was overwhelming in reinforcing the desire of New Zealanders to support world-class Kiwi companies, celebrate success, take on the world and win. The Shell brand was a credible and trusted brand in New Zealand, but it didn't represent who we were as a local company and where we wanted to take the business. New Zealanders struggled to see how we could tell a New Zealand story and reflect our local ownership while trading under an international brand.

Added to this was the fact that we had to pay a licensing fee to continue using the Shell brand. Aside from re-branding working out as cash positive after a reasonably short amount of time, the opportunity to truly reflect our own identity was even more compelling.

Our search for a modern, Kiwi brand eventually led us to Z – which we describe as the first letter of the last word of the country to which we are absolutely committed. We saw a new name as a strong symbol of change. It declares our New Zealandness, but it also says "we see the world differently" and "we're going to do things differently". But as a basic starting point, we needed to earn some credibility and respect.

Building the trust

So, a new brand, a new service promise and a commitment to New Zealand and our local neighbourhoods ...

How is it being received?

In September 2011, we asked New Zealanders how we were going. For a 16-week-old brand that was still only in the early phases of its roll-out, the results were very encouraging. Our brand tracking showed a high level of brand recognition and overwhelmingly positive customer experience feedback. 82 per cent of the Kiwis we asked said that they knew Z Energy ran the Shell service station sites. What really pleased us was that, so early on, Z already owned the "New Zealand owned and operated" association.

Additionally, over two thirds of people we asked found our new retail offer to be just what they were looking for.

By January 2012, the majority of the people we polled were saying we would be their first choice or they would seriously consider us. We were also quickly gaining a reputation for our customer service, coming up with new ideas and supporting our local neighbourhoods.

Z visually represents what we want to stand for. We want to be famous for our speed and great service, for our accessibility and being straight up. We stand for supporting the things that matter to local people, doing what we can to protect our planet and making sustainable returns.

But we're not about to rest on our laurels; it's still early days. To ensure that we continue to grow our brand we will carry on listening to our customers and bringing them on the journey with us.

More in store

Our retail offer is based on what you told us you wanted – fast and friendly service, great food, café-quality coffee, hotel-style toilets, easy parking, a layout that lends itself to a quick turnaround and a completely revamped car wash that makes your vehicle sparkle. Our vision was for our customers to have a friendly, enjoyable experience, instead of the usual drab forecourt experience. This is our journey so far ...

Rolling out across the country

The Z brand was announced in May. Over the next six months, 10 Z pilot sites were launched across the country. These stores all featured elements of our new Z offer for top tier sites. We asked people for feedback and when we got it, we used it to make changes that mattered to our customers. The coffee, for example, got stronger, we got rid of some products people didn't want and we added a few that were missing. We changed the layout again to make it even easier, and we put our forecourt concierges through their paces.

On 3 November 2011, we announced the full roll-out of the Z brand across the country. We are now seeing that come to life. Up to 100 of our larger retail sites are receiving a full shop refit that hosts all elements of the Z offer. And we are putting plans in place to tidy up some of our older, smaller shops too. All Z sites, big or small, have a forecourt concierge in place, with a forecourt service promise for those who want it between 10am and 5pm, every day. Guaranteed. Internally, we report on how often we fail to deliver what we guarantee so we keep ourselves honest.

Most of our 208 service stations, 93 truck stops and 50 airfields have now been converted to Z. The rest will be done by the end of July. All up, this is one of the largest rebranding programmes ever undertaken in New Zealand, and it's all about reflecting our local ownership and our commitment to this country.

Keeping it local

We could have got an overseas company to make all the signage. It probably would have been faster and possibly cheaper. But it just didn't feel right. Instead, we tendered the work to local manufacturers, all overseen by our expert Kiwi-owned project management company, Harkess-Ord.

Thirty crews have already been working around the country. By the time we're finished, 36,000 cubic metres of old Shell signage will have been recycled, and this whole project will have seen 3,500 Kiwis involved in the work in some way or other. That's what we mean about investing in New Zealand. It may not always be the quickest or most convenient way, but it's definitely the right thing to do.

It hasn't all been plain sailing. It's been a struggle at times to get everything done exactly when we needed it, but in every case our contractors have pulled out the stops.

A huge thanks to the teams at Harkess-Ord, Allan's Sheet Metals in Dunedin, Classique Plastics in Napier, MAG Asssembly and Rodiers in Auckland, and a bunch of installation contractors up and down New Zealand. We reckon you guys have done us proud.

To top it all off, we are using another Kiwi company, RHPage, to complete our shop upgrade program. Talk about keeping it local!

Z factor service

We've done a lot more than just change the corporate colours. Guaranteed forecourt service on every Z site between 10am and 5pm every day of the year is proof of our commitment to put the service into service stations.

When we looked around for great service role models to emulate in New Zealand, we found them few and far between. We were very clear in our own minds that being a world-class Kiwi company means having world class service. Great service means different things to different people, but when it comes down to it, we think that it boils down to a quick, easy experience, help when you need it, and friendly faces throughout your visit. We're not content seeking to be number one for service in the fuel industry. We want to be number one for service in New Zealand. We want to be world famous for it.

We want our customers to feel individually important. Part of our commitment to this is empowering staff to treat each person that way and not just hit them with a service "formula". For example, you told us you hated being prompted with counter "specials". The result? You won't be asked again.

To bring our service levels up to where we want them to be, we're putting all site staff through the "Z factor" wface-to-face training on customer service and another 500 get three days' training on delivering consistently outstanding food and coffee. The programme to deliver Z factor service will be completed alongside the rebrand. The service programme is accompanied by a new customer feedback tool which gives us direct, real time feedback from customers on how well our service is working. We know we won't always get it right, but that doesn't stop us trying!

So far, what we've heard is you love how we are looking after you. The real challenge of course will be keeping the magic alive – so that our service is just as great one, two or five years from now.

What can you expect to find at our larger sites?

Fancy a latte or hot chocolate?

Our freshly made Rainforest Alliance Certified™ Arabica coffee beans are roasted in New Zealand especially for us.

Non-coffee drinkers can enjoy a decadent hot chocolate or grab a fluffy for the kids.

Let them eat cupcakes

After our research showed people wanted something small and sweet to have on the run, we invited cupcake supremo Laurel Watson to add her magic to our offering. Some customers buy them six at a time to share with their workmates!

Let the good times roll

Iconic Kiwi piemaker and pie judge Phil Pollett, makes our Goodtime Pies, which go down a treat with customers. They're made in the Hawke's Bay, and the bacon and egg pies are extra special, all made by hand and featuring not one, but two eggs, in every pie.

Why dry when you can Dyson?

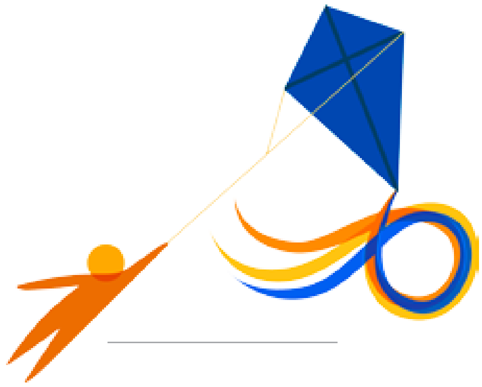
Our hotel-style bathrooms feature these great Dyson Airblade driers. Not only are they pretty cool, they are much more environmentally friendly than paper towels or the usual noisy hand dryers.

No station left untouched

It costs about $350,000 to completely revamp each major site, and we've identified up to 100 stores for a total shop refit. We're also sorting out our smaller stores, particularly in the provinces. A new concept store has opened in Taradale, giving a sneak peek at what the offering at our smaller sites will look like.

Roll the credits

- Architectural and retail design: **RCG**
- Physical rebranding: **Harkess-Ord**
- Store refits: **RHPage**
- Creative partners in developing the brand and our Z campaigns: **Assignment** and **Cato**



Loyalty deserves rewards

Z owns a 25% share in Loyalty New Zealand, the company behind Fly Buys – a great Kiwi success story in its own right. The Fly Buys programme currently has 2.55 million cardholders. Hundreds of thousands of people use Fly Buys every day to get rewards on all sorts of purchases, including of course the fuel, food, drinks and other products they buy from us.

72% of New Zealand households have a Fly Buys card and are actively using it – that's the highest active household penetration in the world for any loyalty programme – and we're the only fuel company involved.

Our customers love Fly Buys, and no wonder. With over $71 million worth of rewards collected last year alone, Fly Buys is the best at rewarding customer loyalty. For our regular customers, it offers another great reason to shop at Z. It is also a tempting reason for those who don't buy from us so often to choose to switch to Z.

To give people an even wider choice of rewards, Loyalty NZ recently teamed up with Air New Zealand to allow those on the Airpoints programme to use a co-branded Airpoints/Fly Buys card to gain their points. So now it's even easier for people to benefit from Fly Buys and choose the reward most relevant to them.

Fly Buys' vital statistics

100%

Brand recognition in New Zealand.

53

Partner businesses, including Z and other major retailers such as New World and BNZ.

3,000

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

750,000+

Rewards received in the past year alone.

2.55 million

Customers collect Fly Buys points in New Zealand.

7,000,000+

Rewards earned since Fly Buys began in 1996.

What this means

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

Photo courtesy of Joanne Horne

Be bold

You don’t become a world-class Kiwi company by doing what everyone else does. We’re a company that looks to lead in what we say, what we do and what we think.

We’ll speak up for a more sustainable future, new ways of thinking about how we do our business and what we think we should get back for the hard yards we put in. These aren’t always the easiest things to talk about, but we’re determined to tell it like it is, even if sometimes it isn’t what people want to hear.

Taking responsibility

The blunt reality is that the fuels business we are in will be profoundly different in 30 years' time. We can whinge about that, preach doom and gloom or deny its inevitability – or we can do the Z thing and commit to finding every opportunity we can to evolve this business into an organisation that is both environmentally and economically sustainable.

We don't have too much to crow about yet, but we've got to start somewhere. We've put a sustainability strategy in place, we're making headway with reducing waste and we're improving our supply chain efficiency, but to be frank those things are just about getting our house in order. They are about us being a commercially and socially responsible entity.

We need to go a lot further than that. Our view is that if we don't set out to do something so ambitious that it feels impossible, we won't do enough.

How about we sell less fuel?

So we've set ourselves a goal to successfully sell less fuel to our customers. We want to help our retail customers improve their fuel efficiency so they get further on less fuel. Reducing carbon emissions is important to New Zealand businesses, as are the benefits of fuel efficiency, so we'll be actively working with New Zealand's big fleets to reduce their fuel use and increase their efficiency.

We'll also walk the talk by using less fuel ourselves. Our distribution team is focused on reducing the distance we travel to deliver the fuel you need by 15% between now and 2015.

As you can see from the graphic below, our emissions profile shows that no matter how hard we work to reduce our carbon emissions in our business and our supply chain (and we have some ambitious aims there as well), the overall differences are relatively small. The vast bulk of emissions come through our customers' use of our products. If we could lower the carbon intensity of our customers and their reliance on fossil fuels, then New Zealand would see real differences.

Choosing option B

Our view is that:

A) you can talk about sustainability; or

B) you can roll your sleeves up and get on with doing the things that matter.

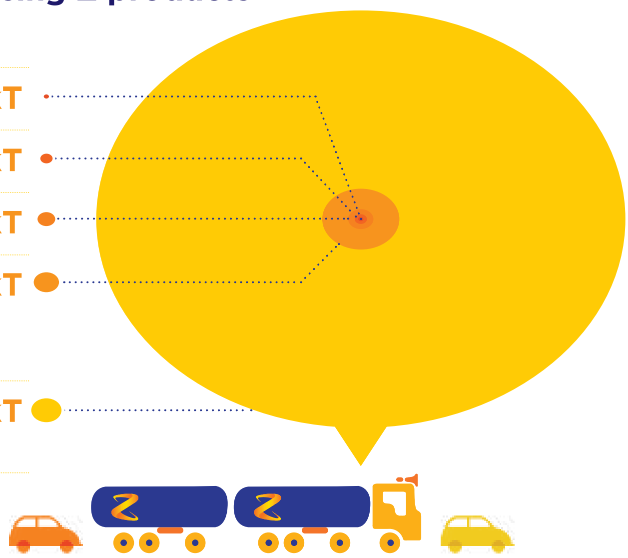
We're going for option B.

Option B is about doing things like moving more of our customers to biofuels. Through our wholly owned subsidiary, Mini Fuels, we're already selling 1 million litres of B20 (is a biodiesel blend that contains 20% biofuel) a year. This is not enough to really impact the carbon cycle – but it's a start.

It's also about working with customers and agencies to start to change behaviours. For example, this year we worked with the Energy Efficiency and Conservation Authority (EECA) on a tyre pressure campaign for customers designed to increase everyday fuel efficiency. You can save the equivalent of 16 cents a litre on your fuel bill just by keeping your tyres inflated to the correct tyre pressure, and of course better fuel efficiency means lower emissions.

The CO_2 emissions profile in kilo tonnes of Z's operations and the product emissions of our customers using Z products

1.	Z offices + retail sites	13.5 kT
2.	Z + NZ supply chain	26.9 kT
3.	NZ supply chain + share of refinery	371 kT
4.	Z + total supply chain (including transportation of fuel to and within NZ)	1,014 kT
5.	Z product emissions from our customers	6,325 kT



We've got to start somewhere so we're starting here

We take our responsibilities seriously. We're determined to see Z have a game-changing, leading or active position in four key sustainability areas by 2015. They are:

1. Using less and wasting less in our own business

2. Reducing the carbon intensity of our customers

3. Reducing the reliance on fossil fuels

4. Supporting New Zealand businesses and communities

The table below outlines the goals we plan to achieve by 2015 in each of the sustainability areas we have committed to. True to our aim of always being straight up, we will track our progress against these goals and starting from next year, we will tell you how we are tracking against them.

1. Use less waste less for 2015

Through our embedded operational processes we have reduced our energy demands and outgoing waste streams
Z uses 10% less electricity across the retail network
Z uses 50% less water in retail network operations
Z's retail operation waste to landfill has reduced by 70%
Z's head office is a zero waste operation because Z people understand the impacts of the waste we generate and play an active role to reduce it

2. Carbon intensity for 2015

In the way that we conduct our business and the tools we have provided to our customers we have reduced the carbon emissions of Z and our customers
The carbon footprint of Z's head office (already reduced by 25%) is held or reduced further for the next five years
In New Zealand, Z has reduced the distance it travels to deliver fuel by an average of 15% for every litre of fuel delivered
Delivery emissions are reduced by 25% independent of the reduction of kilometres travelled
Z reduces the carbon footprint of our convenience store operations by 10%
Z works with 10 significant suppliers to reduce the carbon intensity of our activities together by 25%
With Z's help, customers have reduced their fuel consumption and been rewarded for their efficiency

3. Fossil fuel reduction for 2015

By working with other organisations, investing in new technologies and researching and commercialising alternative fuels, Z has reduced New Zealand's reliance on fossil fuels
We are the leading New Zealand supplier of fuel products and services that minimise the environmental impact of our customers' businesses by:
Becoming New Zealand's leading biofuel supplier by 2014
Using more than 10% biodiesel in our business
Becoming the leading implementer of emergent transport energy in New Zealand

4. Support New Zealand for 2015

As a business, Z has demonstrated its commitment to New Zealand through its community programmes, sharing its skills and safety culture
Every Z employee is trained as a safety at home ambassador
Our safety performance is best in class and other New Zealand companies seek us out to improve their own safety performance
Z shares 365 skilled worker days, pro bono, with New Zealand every year
Z is recognised in New Zealand for developing the skills of our own team and the people we work with
Our neighbourhood investment continues to help people who need it in the communities we are connected to

Working smarter, saving smarter

Sustainable returns begin with ensuring our unit cost is as low as possible for the value we provide. So right across the business, how we do things smarter has been a real focus over the last year.

We've been sourcing our products from alternative sources, which is already starting to save us money. We've also changed how we distribute fuel by increasing the efficiency of our trucking routes, so that we get fuels to our network more quickly and more cost efficiently. When you're one of the largest fuel supplier in the country, such changes quickly mount up in terms of savings.

Productivity has also been a key focus. We've recognised that changing how people work is critical to removing cost and improving what gets done every day.

Part of building a world-class Kiwi company is instigating a technology platform that integrates all aspects of our business, helping people to work more efficiently and freeing them up to get on with the many tasks at hand instead of raging at the machines.

To our knowledge, no other company in New Zealand has embarked on a project of this scale, depth and with this much impact on organisational culture, speed and productivity.

Turning point of sale into point of speed

No one likes to linger any longer than necessary at a service station. People want to get in and out and get on with their busy lives. That's why we're currently working to significantly cut the time you queue in our stores. We're in the process of replacing our old POS (point of sale) system at over 300 service stations and truckstops, enabling us to serve the 170,000 customers who pass through those outlets every day more quickly.

This new $15 million state-of-the-art investment will cut electronic transaction times by more than two thirds, and give us the fastest electronic POS system in the industry. We are piloting it right now and the new system will be at a Z near you over the next few months.

Another great reason, alongside our forecourt service, to make a beeline for Z.

Thinking further than fuel

Two years into our strategy, things are on track and we're feeling pretty good about the direction we're taking. The development of our retail business is the most obvious expression of this, and soon all our service stations will be rebranded.

Our commercial customers will also be noticing changes in the way we deal with them, in particular our commitment to the continuity of their businesses by making sure they never run out of any of the fuels we provide them with.

An important part of a robust supply chain is making sure that the industry is sent the right investment signals. We are leading conversations with government about investing in essential supply infrastructure. We expect further industry consolidation as competitors look for better returns rather than making long overdue investments in New Zealand infrastructure. For our part, we will continue to find ways to increase efficiencies, make the most of our existing capabilities and invest where it makes sense to do so.

But the wider reality of Z is that the whole business we are in has a finite life expectancy. Per capita consumption of petrol is already declining in most western economies and society is looking for cost-effective alternatives to conventional liquid fuels. We're well aware of the long-term trend, and alive to the opportunities that will be created as the world starts to shift away from fossil fuels.

We're looking long and hard at the options and initiatives available to us. We're thinking about how to consolidate the business we have, while extending what we do. The key for us is to work with our Board to methodically shift into new areas that will align with our business and sustain it in the long-term, whether or not our core offering is still conventional liquid fuels.

Thinking further than fuel

Beyond the core

World-class companies innovate. This industry is not famous for its innovations, but Z is committed to turning this around. It's all about 'do-learn-do'. Initiate a shift, learn from it, and take further actions based on those learnings. It's also about understanding what we are not interested in doing – and why. For example, we won't be leasing oil drilling rigs any time in the future.

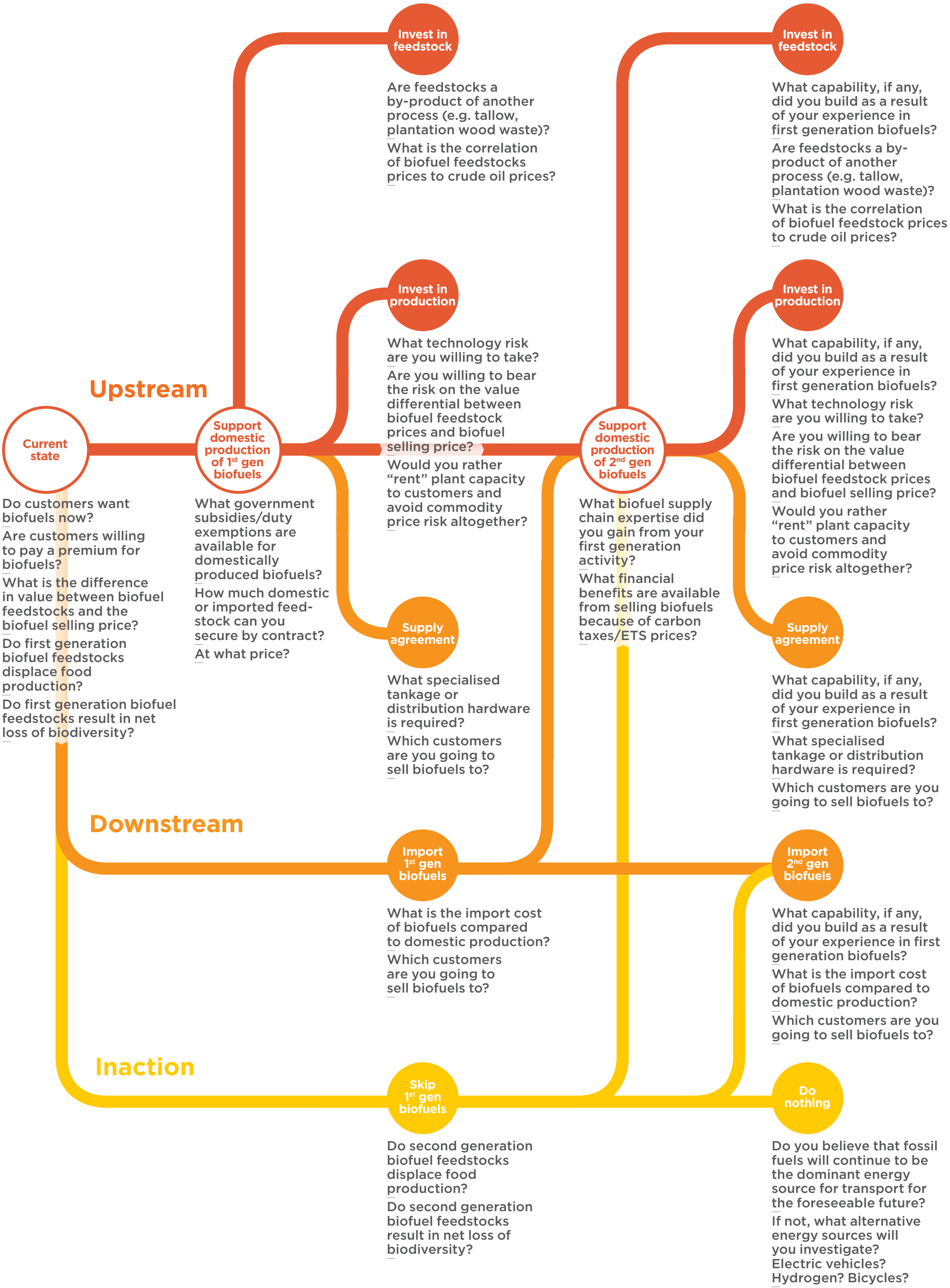
Z is currently exploring a number of interesting opportunities. Our aim is to continue to find and develop products and services in areas relevant to our core business. These could be from doing something new ourselves, a partnership such as that with EROAD, or even an equity investment in a company that is doing something cutting edge. This pipeline of opportunities should provide us with a range of options that we can progress as we learn more about the future we face.

Our decision to enter into an alliance agreement with EROAD is a solid example of partnering with a company similarly focused on innovation and efficiency. EROAD started out with the goal of modernising New Zealand's paper-based road user charge (RUC) regime with a solution that combines a GPS/cellular product with an online RUC management and payment system.

They've since developed a formidable suite of web-based services for commercial transport operators to monitor business drivers such as fuel consumption, driver compliance, fleet maintenance and road safety. Since forming the alliance we've worked with EROAD to take their expertise into new markets, particularly to some of our larger and more complex bulk commercial customers.

Teaming up with EROAD opens up a range of opportunities. CEO Steven Newman was previously the CEO of Navman – so not only does this agreement bring together Kiwis with world-class ambitions, it also sits very well with Z's commitment to innovation, sustainability, adding value to customers and helping New Zealanders cut their fuel bills.

We are committed to bringing biofuels to our customers. If you were CEO of Z, what are some of the questions you would need to consider?

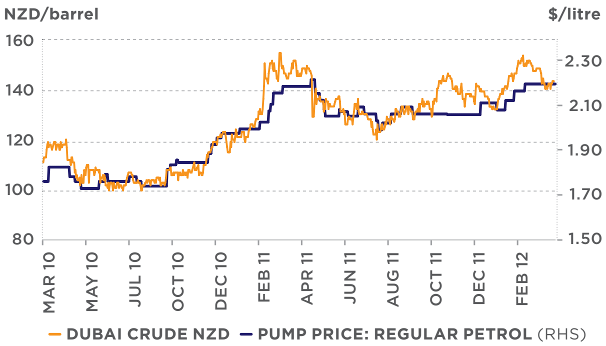

Upstream
Downstream
Inaction
Current state
Do customers want biofuels now?
Are customers willing to pay a premium for biofuels?
What is the difference in value between biofuel feedstocks and the biofuel selling price?
Do first generation biofuel feedstocks displace food production?
Do first generation biofuel feedstocks result in net loss of biodiversity?
Support domestic production of 1st gen biofuels
What government subsidies/duty exemptions are available for domestically produced biofuels?
How much domestic or imported feed-stock can you secure by contract?
At what price?
Invest in feedstock
Are feedstocks a by-product of another process (e.g. tallow, plantation wood waste)?
What is the correlation of biofuel feedstocks prices to crude oil prices?
Invest in production
What technology risk are you willing to take?
Are you willing to bear the risk on the value differential between biofuel feedstock prices and biofuel selling price?
Would you rather "rent" plant capacity to customers and avoid commodity price risk altogether?
Supply agreement
What specialised tankage or distribution hardware is required?
Which customers are you going to sell biofuels to?
Import 1st gen biofuels
What is the import cost of biofuels compared to domestic production?
Which customers are you going to sell biofuels to?
Skip 1st gen biofuels
Do second generation biofuel feedstocks displace food production?
Do second generation biofuel feedstocks result in net loss of biodiversity?
Support domestic production of 2nd gen biofuels
What biofuel supply chain expertise did you gain from your first generation activity?
What financial benefits are available from selling biofuels because of carbon taxes/ETS prices?
Invest in feedstock
What capability, if any, did you build as a result of your experience in first generation biofuels?
Are feedstocks a by-product of another process (e.g. tallow, plantation wood waste)?
What is the correlation of biofuel feedstock prices to crude oil prices?
Invest in production
What capability, if any, did you build as a result of your experience in first generation biofuels?
What technology risk are you willing to take?
Are you willing to bear the risk on the value differential between biofuel feedstock prices and biofuel selling price?
Would you rather "rent" plant capacity to customers and avoid commodity price risk altogether?
Supply agreement
What capability, if any, did you build as a result of your experience in first generation biofuels?
What specialised tankage or distribution hardware is required?
Which customers are you going to sell biofuels to?
Import 2nd gen biofuels
What capability, if any, did you build as a result of your experience in first generation biofuels?
What is the import cost of biofuels compared to domestic production?
Which customers are you going to sell biofuels to?
Do nothing
Do you believe that fossil fuels will continue to be the dominant energy source for transport for the foreseeable future?
If not, what alternative energy sources will you investigate? Electric vehicles? Hydrogen? Bicycles?

Price vs security

Most New Zealanders don't understand how this industry works, which is hardly surprising given the way it has communicated with its customers to date. As a result, there are a number of myths and misconceptions in the minds of consumers, not least around pricing and profitability.

We make surprisingly little from every litre of fuel we sell: our portion comes in at around 15–17 cents. By the time we take out increasing operating and storage costs, including the costs of funding and holding our substantial inventory (3.5 million barrels), we're down to a net profit of 2–3 cents a litre. The last time we reported, we were closer to the 3 cent mark. This year, with sustained high crude prices and stronger price competition, we earned closer to 2.1 cents per litre.

Crude and pump prices



Since deregulation in 1988, the downstream fuels industry has continued to cut costs and downsize its capital base, including through long-overdue deferred capital expenditure. This relentless drive for capital efficiency is reducing the industry's effectiveness and placing ageing infrastructure under stress. We reckon this is not in the best interests of New Zealand.

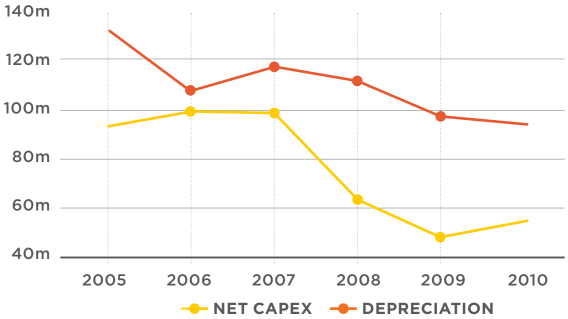
Terminals and sites continue to be closed; petrol storage mothballed or switched to diesel because of the lower compliance costs. There were around 3,000 service stations in New Zealand in 1985. Today there are only about 1,200.

The supply chain in the South Island is particularly tight. Fuel is regularly transported by road all the way from Canterbury into Bluff and Dunedin because there is not enough storage in parts of the South Island. It is south Canterbury businesses feeling the brunt of this through shortage of supply during peak demand times and regular threats of industry-wide stock outs. Because of the recent closure of petrol storage tanks in New Plymouth, all the petrol sold in Taranaki is trucked from Wellington or Mount Maunganui. This means more trucks on the roads, higher carbon emissions and higher transport costs.

In the mid-1980s, importer margins on fuel were around 50 cents per litre. But since then, costs have escalated significantly. The underlying commodity price alone has changed from its long-run average of US$20 per barrel to consistently more than US$100 per barrel since February 2011.

The industry has been operating in an unsustainable manner, characterised by sub-optimal returns on assets and the resulting underinvestment in capital.

Industry capex is trending below depreciation



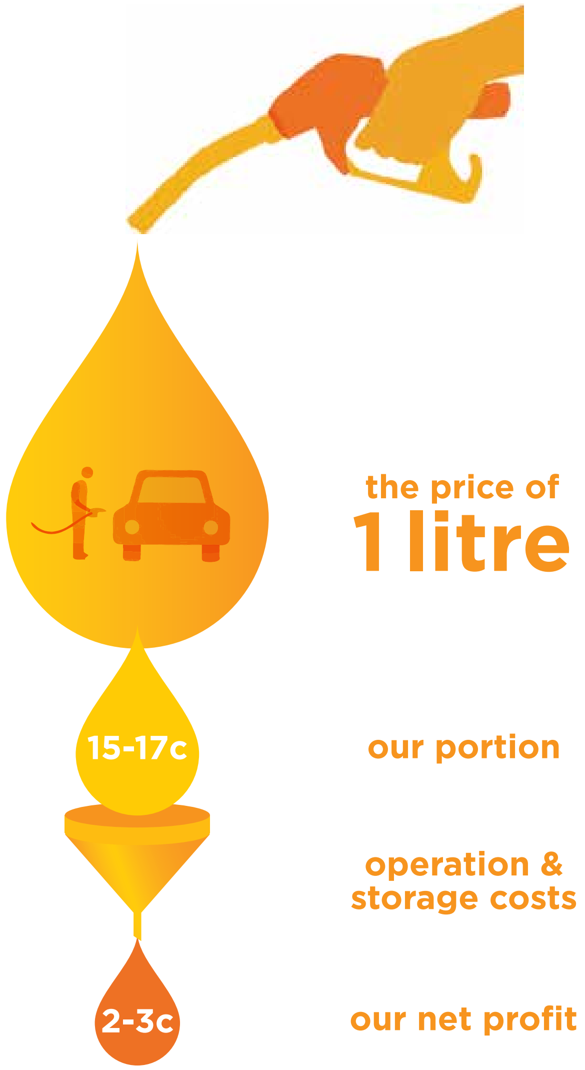
Source: BP, Mobil, Caltex & Z Statutory accounts

The contrast with Z couldn't be greater. We're not an oil producer, so we depend on our business in New Zealand to make a commercial return, and this means investing where it matters. This year, we spent tens of millions on upgrading fuel storage systems, but much more is needed.

With such poor returns, overseas decision makers are – unsurprisingly – often taking the "pass" option and putting their capital to better use elsewhere where they know they will get a better return. Oil producing companies have a return on average capital employed (ROACE) of approximately 20%. By contrast, it's about 8% in the downstream fuels sector.

We say it's time to come clean on the real cost of running fuel infrastructure, and to give New Zealanders and New Zealand businesses the security of supply they expect and deserve.

We think that there has been significant under-investment in infrastructure due to poor returns on those assets. We are actively reviewing our asset valuations and returns, to make sure that efficient investment decisions are being made.



We back people

New Zealanders have a thing about fairness. Nothing gets under our collective skin faster than people who don't care and who are only interested in making a profit. At Z, we believe that people deserve kindness and support, and businesses should support the neighbourhoods that support them.

We're also committed to making Z a great place to work, and a safe place to work. We're pulling out the stops to support the neighbourhoods we operate in, and to being the neighbour people want. And we're totally inspired by those who live and work in Christchurch. We can all learn a great deal from them.

What this means

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.

The power of people

A fundamental element of Z's approach is that our success will be people-powered. It will be supported by New Zealanders as customers and suppliers. But it will also be made possible by rethinking and revitalising the role that our own people play in the evolution of the business. In fact, one of our five organisational priorities is to develop extraordinary people that will be a source of competitive advantage for Z.

Leadership principles

Two people-focused principles underpin our intention to be a world-class Kiwi company. The first is that leadership can, and should, come from anywhere in the company. The second is that extraordinary leadership is what generates extraordinary results.

We've reinforced these principles this year through a three-level programme tailored to the three levels of leadership within our company: senior leaders, people leaders and leaders of self.

It's been a substantial investment, but we are already seeing some of the fruits of our labour. The enthusiasm that staff at every level of the organisation bring to work every day and the confidence they have in their own ability to contribute to Z's success indicates exciting things ahead for us.

Our values personified

People are such a fundamental part of who we are and what we're about that we've made backing them one of our values. Having deep-seated values at the epicentre of our culture influences every aspect of how we do business at Z. There's a lot more to that than just feel-good factor. Research shows that having a system of beliefs and values that are shared and reinforced through behaviours and learning can improve employee commitment by 19%. Increased staff commitment translates directly into increased performance and retention.

As the new Z brand was rolled out over the last year, we took our people on a values-based journey. If our values are to truly help unleash potential, people must own them, believe in them and practise them in their daily working lives. Part of bringing Z's values alive was introducing "heroes" to Z who embodied the very things we want to stand for.

So we asked ex-*Fair Go* frontman Kevin Milne to come in and tell us about being straight up. Entrepreneur Sarah Gibbs was our Kiwi hero for being bold. Restaurateur and chef Al Brown personified sharing everything. The Mad Butcher, the wonderfully energising Sir Peter Leitch, came in and showed us what having passion was all about and the Very Reverend Peter Beck spoke to us about backing people.

Looking ahead

Behaving in a Z way doesn't end at our doors. Our internal organisational values are also our brand values, so over the next year, we'll look to take the values, behaviours and leadership principles we've been working on out into our wider network and partnerships, including to our retail sites. The aim is to inspire and motivate people right across our wider Z community to deliver a Z quality of experience, every time.

Healthy, safe, secure and intact

We pay a lot of attention to Health, Safety, Security and the Environment (HSSE) and keeping people safe because we want our staff and contractors to go home to their loved ones in the same healthy state that they arrived at work in.

As a general rule, fuel companies have global HSSE programmes that spell out the company's views on health, safety, security and the environment. Since taking over the business, we've been systematically working on an HSSE programme that meets our needs, aligns with what we believe, addresses our specific risks and, therefore, sets the standard for New Zealand.

We've made good progress on safety. We're committed to being a Zero Harm workplace which means we take personal responsibility for making health and safety a vital part of the business, and creating a workplace where everyone views health and safety as being as natural and important as quality, profit and customer service.

Our chemicals manufacturing plant in Gracefield continued to be a stellar example of what can be achieved when businesses are genuinely committed to keeping their people safe. The Gracefield plant just celebrated 20 years since their last lost time injury.

As part of our safety commitment, this financial year, we'll be moving to certify Z to NZS/AS4801, a recognised Australasian occupational health and safety management system. We're doing this because while others rely on their global business system processes for managing risk, we want assurance that the systems we have in place are formally recognised as prudent ways of assessing and managing safety. We're doing this because it really matters to us, and we want everyone who works at Z to know that the systems there to protect them are world class.

Whenever you have staff in situations where there is a security risk, it's vital to do everything humanly possible to keep them safe. The conventional approach teaches compliance to a set of protocols. We've taken that deeper, with our Human Factors programme that helps people understand the psychology of individuals and teams in everyday situations and interactions with their work. It's a very different approach that focuses on why smart people do some dumb things.

In terms of the environment, we've been focusing on our underground storage assets. We are continuing a programme to upgrade our older tanks and therefore reduce the overall age of our tank network to help ensure that we remove any risk of product seeping into the ground.

A healthy team is a productive team, so this year we introduced a Wellness programme to help keep staff healthy and engaged. That programme includes onsite and online health assessments, MoleMaps, and our 10,000 Steps walking programme as well as a men's health programme. In some cases, it's helped us identify health problems for people and refer them to their GP.

The 10,000 Steps programme has been a big hit, giving people a chance not just to get out and walk as individuals and in teams but also, along the way, to talk about their health and work. The Men's Health initiative too got people talking, about things that guys generally would prefer not to discuss, like prostate health. During Movember, for example, a number of men at Z were sponsored to grow moustaches. Others sold their established moustaches, shaving them off to raise money.

Our goal is still to encourage people to do the right thing for themselves and others not because of rules that say they have to, but because of a genuine desire to keep themselves, their colleagues and their environment safe. We are building a culture of safety where everyone looks out for each other.

Healthy, safe, secure and intact

HSSE key performance indicators

We've been building a benchmark against key measures in the HSSE area. It's still evolving, but as part of our commitment to ongoing reporting, here is the scorecard to date:

For the year ending 31 March 2012	FY11	FY12
Exposure hours (millions)	3.7128	3.6734
Compliance with HSSE plan	98%	99%
HSSE actions close out rate	100%	100%
Overdue external/internal audit actions	N/A	0
Life saving rules infringements	21	31
Safety critical maintenance completed on time	100%	100%
Lost time injuries (LTI)	4	9
Lost time injury frequency (LTIF)	1.08	2.45
Total recordable cases (TRC)	10	14
Total recordable cases frequency (TRCF)	2.69	3.81
Number of spills (loss of containment)	10	7
Quantity of spills (kg)	234.6	126
Security incidents (robberies)	9	7
Product quality incidents	0	0
Food quality incidents	1	4
Control or compliance breaches	0	2

This is Rhett's story

Rhett Brown was the guest speaker at our Safety Day, Z's company-wide HSSE conference, this year. From his wheelchair, Rhett tells the story of the instant that changed his life. We thought we'd share his message with you as it really drives home why HSSE is so important.

"It was July 2004. I was standing on two planks on an unframed deck. Somehow I turned to walk across them but I fell … I fell 2.2 metres. I landed on my head. The initial impact broke my neck."

In the moments following the accident, as he lay on the ground, Rhett says it was impossible to take in the enormity of instantly being paralysed, of realising that he was going to live the rest of his life like this. How was he going to cope? Who was going to look after him? What was he going to do? Where was he going to live?

It would take two years to rationalise all those things out and to find answers, he says.

In many ways, Rhett's view is that the accident was inevitable. If it hadn't happened to him, there was a very high chance it would have happened to someone around him. "At the time of my accident I was working in an industry that was totally and utterly unregulated for safety concerns. We had no toolbox meetings. We had no hazard registers. We had no safety instructors on site. We never had lectures about hazards. We had no learning of tools or how to use them. We had nothing. We were simply expected to turn up and work.

"We worked without safety equipment like standing platforms or handrails, full restraints and so on … There was none of that. And the higher you worked, the more dangerous the situation, the bigger man you were. If you complained to your mates about the dangerous working environment, you got a reputation as a wuss. It was terrible. You had no-one to complain to. The bosses weren't interested. Your mates weren't interested. That was the culture."

He looks straight at the audience. "So my appeal to you administrators and supervisors who are in charge of staff is that you recognise that you have an obligation – I'll go further and say, you have a moral obligation – to ensure that your staff adhere to your rules, regulations and protocols."

At the end of the day, Rhett says, all of those things are there for one reason, and that is to see that staff go home the same way they came to work - not by ambulance, helicopter or even in a hearse.

"These rules and regulations [are more than just] bits of paper or verbal instructions. They are real. They save lives. And they prevent injuries. So please, put them in place and see that they're followed."

He looks at us again. "Thank you," he says quietly.

Rethinking what we do for neighbourhoods

Over the course of the 2011/2012 financial year, Z donated $554,200 to not-for-profit organisations and community groups throughout New Zealand.

When we asked New Zealanders what you expected from a truly Kiwi company, you told us you expected a lot more than you did from a multi national. You said we should be straight up, we should put things right quickly when they go wrong and we should give back to local neighbourhoods.

We're very aware that what matters to the community in Whangamata is quite different to what matters to the people of Dunedin. So we take a unique, localised approach to community investment and we don't do conventional "sponsorship". We decided that the best people to ask about where money should be allocated in a community were the communities themselves. So in every neighbourhood where we are rebranding a Z site, we asked people to vote for one of four charities or community organisations in the area. $5,000 was then allocated to these organisations in proportion to the number of customer votes they received.

That means that by the end of our Z brand rollout, New Zealand neighbourhoods will have received $1.2 million in donations from Z – and every cent of that money will have gone to charities that local people chose – charities that are helping fellow Kiwis who need it, in their own neighbourhoods.

It may not be as easy as throwing a sum of money at a national organisation, a stadium or a rugby team, but we think it's a good way to give back to the neighbourhoods that support us. A little innovation never hurt anyone, we don't think, especially when it's done in a spirit that gets to the heart of what we believe New Zealand is all about.

Being a good neighbour is important to us, and is part of delivering on "Z is for New Zealand". There are so many organisations doing great things in New Zealand, and while we can't support them all, we do our best to contribute where we think we can make a tangible difference.

Here are some examples of where you decided you wanted the money to go, New Zealand:

CLOCKWISE FROM TOP: Salvation Army Linwood, Happiness House Community Support Centre Queenstown, Turangi Search and Rescue, Waiuku Food Bank, Mangere Plunket, Bellyful Porirua, Taihape Volunteer Fire Brigade, Riding for the Disabled Taupo, Totara House Hospice South Auckland

Z is for Canterbury

We are in awe of the determination demonstrated by the people of Christchurch. We not only have our own staff and site staff there, but also many commercial and retail customers. Other Z people who don't currently work in the city have lived there in the past, were born there or have family there. So thoughts of what Christchurch people are going through are never far from our minds.

Since the first big jolt in September 2010, we've poured millions of dollars into the Canterbury economy through the initial recovery effort, donations and participation in community initiatives to try and keep things moving and spirits elevated. We'll keep doing all we can to help get Christchurch back on its feet.

Almost a year on from the first earthquake, we re-opened our sites in Shirley and Linwood as flagship Z sites. Both sites had been extensively damaged by the February earthquakes and closed, meaning a long trek for already-stressed residents to find fuel. We effectively rebuilt, re-tanked and reconsented the sites, and made a conscious decision to have them as two of our first 10 pilot sites. A real note of thanks to all our contractors who worked through difficult conditions and appalling weather to get both stations opened.

APRIL 18

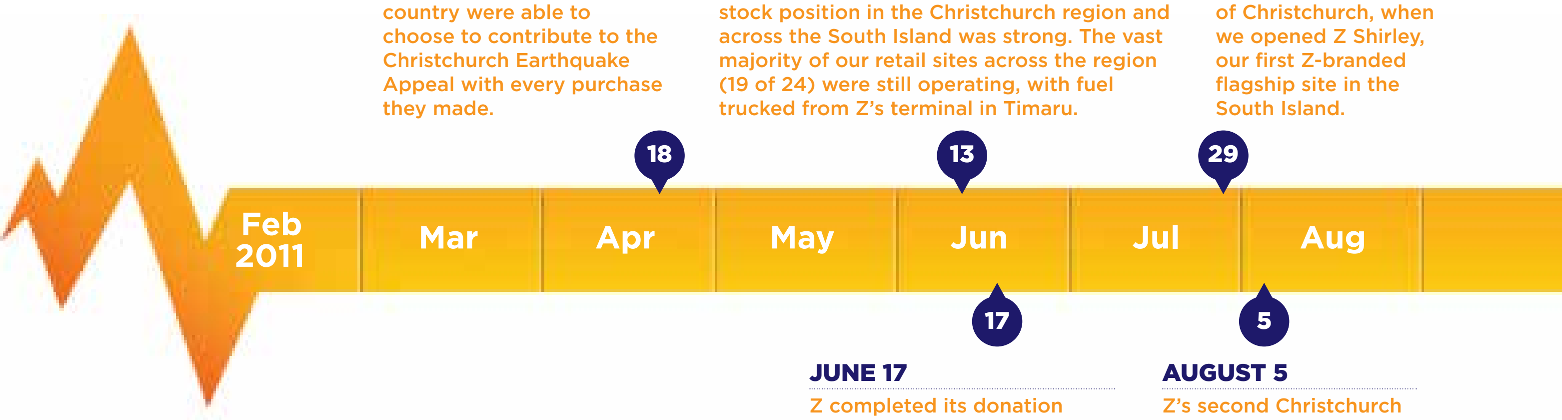
Customers at every Z-owned service station across the country were able to choose to contribute to the Christchurch Earthquake Appeal with every purchase they made.

JUNE 13

Post the large after-shock and subsequent strong demand for petrol, Z reported its fuel stock position in the Christchurch region and across the South Island was strong. The vast majority of our retail sites across the region (19 of 24) were still operating, with fuel trucked from Z's terminal in Timaru.

JULY 29

Z arrived in one of the worst-hit areas of Christchurch, when we opened Z Shirley, our first Z-branded flagship site in the South Island.



JUNE 17

Z completed its donation of 68 laptops to community organisations, charities and individuals in need in the city of Christchurch.

AUGUST 5

Z's second Christchurch site opened in Linwood.

In September, there was support of a different kind when Z Energy shareholder Infratil made a $1 million donation to help pay for the reconstruction of the country's largest tennis centre in Christchurch. Construction of what will be known as the Z Energy Wilding Park Tennis Centre is now underway, with the facilities progressively reopening over the next year.

In December, we joined forces with Air New Zealand to turn one of their 777-200ER aircrafts into a unique Christmas "sleigh" for the children of Christchurch. 150 young Cantabrians were taken with a parent or guardian on a one-hour round trip down to the majestic Aoraki Mt Cook and back. We donated the fuel for "Christmas Cheer in the Air" and gave away a number of seats to worthy Christchurch kids. Surprises on board included the Christchurch City Chorus singing carols throughout the flight and an unexpected drop-in from Santa and six little helpers who distributed sack-loads of goodies. It was a really fun and exciting day and children and adults alike had a fantastic time. Thanks to the Air New Zealand team for making it happen.

We will of course continue to lend support in a range of ways to what happens in the city. No one company can do everything, but we're absolutely determined to work alongside others where we can to be part of Christchurch's successful resurgence.

In keeping with our local approach, our team in Christchurch have been actively engaging with their community and figuring out where Z could make the most difference. The timeline below shows what we've done to help over the last financial year:

SEPTEMBER 9

The country's largest tennis centre in Christchurch became known as the Z Energy Wilding Park Tennis Centre following a $1 million donation from Z Energy shareholder, Infratil, to help pay for the reconstruction of the complex.

OCTOBER 26

Z commissioned 30 million litres of bulk fuel storage at the Port of Lyttelton at a cost of $25 million.

NOVEMBER 15

We donated $5,000 worth of fuel gift cards to cover the large number of volunteers involved in a project run by the National Council of Women to record and archive the experiences of women during the earthquake.

DECEMBER 15

Z gave Phillipstown School, a decile 1 school in central/east Christchurch, their own school van. The school had been badly affected by the earthquake losing its school hall, playground, heating, and some classrooms.

DECEMBER 20

More than 150 young Cantabrians experienced some early Christmas cheer with a special 'Christmas Sleigh' ride to Aoraki Mt Cook and back. Z supported the Air New Zealand flight by providing the fuel for the flight.

JANUARY 28

We donated $10,000 towards the rebuilding of classrooms at St Bede's School.

Sep | Oct | Nov | Dec | Jan 2012 | Feb | Mar

Share everything

To date, fuel companies have done a pretty poor job of explaining what they do, how the industry works and why it really matters. As a result, there's a lack of trust in, and understanding of, the industry.

We're committed to opening the doors of our business and inviting you in. We'll tell you what we're doing, how well we're going and where we're hitting speed bumps. We'll admit it when we get it wrong, and we'll provide all the information to enable people to make up their own minds about us.

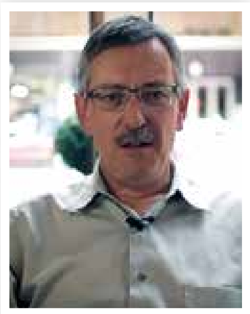
So, if there's something that needs to be said, we'll say it. If something really matters, we'll get it done. If we need to listen, we will. And considering that so many of you have invested in Z through our bond issues or as our customers, you should know where we stand financially.

What this means

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.

Creative transformation

By Rod Oram



Rod Oram has more than 30 years' experience as an international business journalist. He has worked for various publications in Europe and North America, including the *Financial Times* of London. He is currently a columnist for the *Sunday Star Times*; a regular broadcaster on radio and television; and a frequent public speaker on business, economics, innovation, creativity and entrepreneurship, in both New Zealand and global contexts.

For more than a decade, Rod has been helping fast-growing New Zealand companies through his involvement with Icehouse, the entrepreneurship centre at the University of Auckland's Business School.

Like all countries, New Zealand must adapt quickly to keep up with a rapidly advancing world. The sheer scale and speed of change in technology, markets, values and a host of other drivers of progress has never been so great in human history.

Unlike most countries, though, New Zealand depends heavily on its few large companies to lead its response to the revolution. We have some innovative small companies but they struggle to grow and survive in global markets.

Other small countries have the same challenge, which is why Nokia's rapid evolution from a maker of forestry and industrial products to global leader in mobile phones was so crucial to Finland's economic transformation.

Large companies are vital to small countries because of the depth of their skills, their ability to handle complexity and their opportunity to rapidly scale up new products and markets to make an economic impact.

But can they adapt to those incipient trends and emerging opportunities? Can they achieve the elusive and often contradictory combination of scale and agility?

No, is the blunt answer for the vast majority of them. Young companies rapidly oust old companies. Most of the fastest-growing over recent decades have been high technology companies such as Google and Apple. This is creative destruction, in the memorable phrase coined by Joseph Schumpeter, the Austrian economist.

The story is starkly told by the Standard & Poors 500 index. In 1958, constituent companies enjoyed an average 61-year tenure in the index. By 1980 it was 25 years. Today it is 18 years. Only 25% of today's companies will be in the index in 2027, says Richard Foster, a senior fellow at the Yale School of Management and a former senior partner in McKinsey & Co., the management consultants.

Our stock exchange shows a similarly quick turnover of companies but a very different pattern of new entrants, according to analysis by Brian Gaynor of Milford Asset Management. In 1981 eight of the 12 largest companies were private sector, export-oriented enterprises such as Fletcher Challenge, NZ Forest Products, Wattie's, Carter Holt and Feltex.

Today, there are only two such companies in the top dozen. Once the three state-owned electricity generators are partially floated, 10 of the top 12 companies will have come from the public sector and six of those 12 will be companies devoted almost entirely to generating electricity for domestic consumption.

Yet not all large companies ossify and die. IBM, for example, celebrated its 100th birthday last June. It has thrived because it has made three audacious leaps in technology from its origins in tabulating machines: to mainframe computers in the 1960s; to distributed systems built around PCs in the 1980s; and to services and consulting from the mid-1990s.

This was a remarkable feat, says Michael Cusumano, a professor in the Sloan School of Management at the Massachusetts Institute of Technology. Such dramatic shifts challenge everything a company stands for, particularly its technical skills, how it makes money, and its brand.

Indeed, IBM spent US$5 billion developing its ground-breaking System/360, more than the US government spent on the Manhattan Project to deliver the first atomic bomb. Launched in 1964, it became the first dominant computer range in the industry's history. The second, late, shift to PCs almost killed the company; and it was in parlous state when it exited hardware to focus on services.

Arguably the key ingredient in IBM's success was its sense of itself. It built itself around the idea that it was packaging technology for business – not exploiting a particular technology. Thus, it was able to morph with business and technology. In the process it advanced through three main business models: a US company; a US-based multinational; and today's "globally integrated enterprise."

The Living Company is one of the best analyses of the attributes of these large companies that survive by transforming. Its author, Arie de Geus worked for 38 years for one of them, Royal Dutch Shell, ending up as its head of strategic planning.

Here are four of the main concepts outlined in the book:

1. Sensitivity to its external environment represents a company's ability to learn and adapt.
2. Cohesion and identity are aspects of a company's innate ability to build a community and a persona for itself.
3. Tolerance and decentralisation are symptoms of a company's ability to build constructive relationships with other entities, within and outside itself.
4. Conservative financing is one element in a very critical corporate attribute: the ability to govern its own growth and evolution effectively.

Another view of transformation comes from *The Only Sustainable Edge*, written by Seely Brown and John Hagel, veterans of Xerox's Palo Alto research centre.

They argue a company's only enduring advantage is to learn and build capability faster than its competitors. By doing so, it shifts from managing continuity to managing discontinuity out on the edge of its enterprise, industry, country, technology and society. The people in the company learn to see, and learn to unlearn, knowing that the edge transforms the core.

Those are the challenges for us all in New Zealand if we are to make the most of the abundant opportunities created by this breath taking acceleration of change in the world.

Yet, a small country like ours is too thinly resourced in people and capital to cope with the wastefulness of creative destruction. Instead we need creative transformation by existing businesses. Every company and organisation can play its part. But the largest, like Z Energy, have the skills, scale and capital to deliver the biggest benefits.

Fuelling New Zealand business

Half of Z's total fuel volume is sold to businesses operating across the economy. We sell a range of products to these businesses, including marine fuel, aviation fuel, diesel, petrol and chemicals. This year has seen us expand our participation into sectors that we see as having enormous potential.

The cruise ship industry, for example, represents a big opportunity for our marine business (we're already the largest supplier of marine fuels in the country.) New Zealand is a hot destination right now, with the numbers of boats cruising in our waters likely to double over the next five years. While that represents a relatively small shift in commitment for the big cruise operators like Carnival, it has exciting implications for New Zealand, and for Z.

Mini-Tankers is New Zealand's largest on-site diesel refuelling and lubricant supply operation. Wholly owned by Z, it supplies diesel directly to diverse customers, most of whom operate in infrastructure (such as road building) or forestry. Mini-Tankers have a great offer that reduces risk and cost from our customers' businesses. They supply fuel directly to customer sites and machinery, which helps increase customers' productivity.

Mini-Tankers have about 53 trucks on the road delivering diesel on a day-to-day basis. In Christchurch, our local Mini-Tankers team have been invaluable in the recovery effort. From fuelling the fire service and civil defence operations and topping up back-up generators for utilities to fuelling road and infrastructure repair operations, Mini-Tankers have continued to play a significant role in the rebuilding of Christchurch.

We're not just another commodity supplier

We may sell a commodity product but how we get that product into our customers' tanks is anything but a commodity – it's a two to three month end-to-end supply chain that is dependent on the best people and the best infrastructure. We have invested heavily in our ability to provide security of supply to our customers, and we will continue to do so. As an example of this, as of 31 March 2012, out of the 84 million litres of diesel storage at ports in the South Island, Z owns 39.5 million litres. More detail on our infrastructure investments can be found on page 56.

Understanding our business customers, their needs and Z's own approach to pricing for their sectors is vital to delivering the best value we can for each organisation we do business with. We've been working with commercial partners to explore new possibilities for them as commercial customers together – really finding out how we can add value to their business in new and innovative ways.

One of the reasons for doing this is that we're simply not making anything like the returns that shareholders would expect. We import, refine and sell approximately 660 million litres of diesel a year to our commercial customers. By the time we have paid all the associated costs with delivery and funding the investment in working capital, we are sometimes selling that fuel at a loss.

It doesn't make sense for us to be selling millions of litres of fuel at a loss. We'd much rather reduce our customers' consumption and make a better return. By working with companies to help them use less fuel, we'll be more valuable as a partner and less onerous as a cost. After all, with many of our customers, we calculate that every percentage point we can save them in actual fuel use reduces their total fuel bill by more than a million dollars.

The cost of paying us a small amount more for the fuel they do buy will be well worth it if we can help our customers significantly reduce their overall consumption.

At the same time as we're looking to cut emissions, we're also committed to helping our customers achieve their own environmental targets. Z DEF, our newest commercial fuel product, is an example of how we believe this can be achieved. This New Zealand-made diesel exhaust fluid works with selective catalytic reduction (SCR) technology to reduce vehicle emissions. Nitrous oxide is a major contributor to air pollution, and SCR technology can cut up to 85% of nitrous oxide exhaust emissions. Many major engine manufacturers have chosen this SCR technology as a way forward for the future, and we have decided to help by supplying it. We're encouraging those customers of ours who don't already use it to get involved as well, as part of a joint commitment to sustainability, innovation and supporting the future of commercial road transport.

We're confident that through a combination of commercial realism, responsible savings and Kiwi initiative, we can deliver a situation where everyone wins.

Great work, Awanuia crew

One event that we are particularly proud to have been involved with was the salvage operation on the Rena. When the container vessel ran aground on the Astrolabe Reef off Tauranga in October, an environmental catastrophe loomed. The initial leak of around 350 tonnes of heavy fuel oil was devastating enough, but with more than 1,300 tonnes of oil remaining onboard the Rena, offloading that oil safely was a priority. Fortunately, as part of our marine fuel business, we have the exclusive charter for the marine refuelling barge, Awanuia.

The barge ferries around four million litres of product and diesel from the Marsden Point refinery to Ports of Auckland and is the only sea-based refuelling capability at the Ports. Her role is vital for large vessels such as cruise liners. Seeing that the Awanuia could play an important role in transferring oil from the Rena, we released the barge to the salvage crews.

For more than a month, the Awanuia and her crew pumped heavy fuel oil from the grounded ship into safe storage tanks within the Awanuia. On 13 November, the final fuel oil was successfully pumped aboard the Awanuia and she was released from service, just in the nick of time for the start of the cruise liner season.

None of this would have been possible without the immediate and unanimous consent of our marine customers, who, although they were inconvenienced by not having the barge available, showed incredible patience and understanding in allowing us to release the barge to help prevent a much greater environmental disaster. Our admiration and thanks also go to the Awanuia's crew who put up with incredibly difficult conditions to make such a nationally important contribution.

Investing in our future

New Zealanders get through over 50 million barrels of refined oil every year. Quite a bit of our fuel comes through Refining NZ at Marsden Point, New Zealand's only oil refinery. Refining NZ's high level of reliability makes it a top quartile performer of refineries worldwide, but we actually need more than the refinery can deliver us.

This year, we signed a contract to ensure the supply of the additional products we need. It's a sign of our gathering confidence and our determination to be a world-class Kiwi company that we're increasingly sourcing finished products ourselves. We're buying from other sources overseas and we're buying well. We're already starting to see savings in what we pay. We think that's an important step to be taking given what's happening in Europe and as tensions in the Middle East make pricing and sourcing of fuel increasingly volatile.

Closer to home, what continues to concern us is the run-down state of fuel storage infrastructural assets in New Zealand. Historically, the industry's bulk fuel storage assets were shared among four main participants, but the capital costs of those assets were not properly recovered. Over time, the arrangements, and the commitments to upkeep, have slipped.

We need to see these infrastructure assets operating on a realistic and transparent commercial footing, because that's the only way to enable reinvestment and increase New Zealand's security of supply. Not having a highly efficient and commercially run distribution system to effectively store and distribute fuel throughout the country, is a problem waiting to happen.

This year, we brought three new 10-million-litre tanks into service at the Port of Lyttleton. It cost us $25 million. And we'll invest around $40 million more in new fuel storage assets across the country over the next couple of years, provided we make decent returns on our investment.

It's vital that the country has reliable fuel stores at points that can be easily accessed.

On the road

Today, fuel products are imported, refined, piped and shipped to bulk storage terminals at the country's main ports and Auckland's Wiri terminal, and delivered via trucks to commercial customers, truck stops and retail outlets.

That makes road transport a vital part of the distribution equation. As these numbers show, getting fuel from the depots to all our stations in a timely and safe way is a complex task.

At Z we have:

120 drivers

TREND: Expect increases in our driver numbers with higher travel demand or shorter shift times (as a means of better managing fatigue).

50 trucks

TREND: The number of trucks are likely to increase unless more storage terminals become available. Z has pledged to reduce its kilometres while our competitors will likely be increasing theirs.

8,100,000 km driven

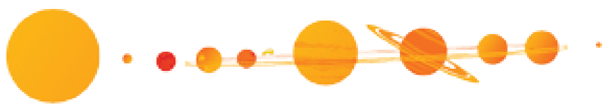
That's the same as over 10 round trips to the Moon

TREND: Upward from 6.4 million km in 2009 to 7.2 million km in 2010.

1.8 billion litres of fuel delivered

That's enough fuel that an average car could drive to Neptune and back twice

TREND: Relatively flat in total.



Fuels we deliver

diesel · petrol · avgas · jet fuel · fuel oils

TREND: Likely to increase slightly, for example through the addition of biofuels.

Frequency of delivery

Frequency varies substantially, from several loads to a site each day to once a year.

TREND: The range in frequency is likely to remain the same, however, in some cases drop sizes will increase due to more efficient scheduling and consequently the number of deliveries to a given site may reduce.

A good chat – Z on Facebook and Twitter

We Kiwis say what we think, and here at Z, we like to listen. At Z, we're very aware of that real sense of ownership that New Zealanders have in us through the New Zealand Superannuation Fund's shareholding.

We want to engage with our customers and the public on their terms – we will go to them instead of expecting them to come to us. This is the main reason why we are on Facebook and Twitter. People will talk about us whether we know about it or not. We figure we might as well participate in the conversation and find out what people really think.

Social media, particularly our Facebook page, is our forum for New Zealanders to have their say. It's also a place for us to chat, respond and learn. We understand that the best way to improve is to keep up with what Kiwis are talking about amongst themselves. We get that you wouldn't bother if you didn't care and if you didn't want to see changes. So please keep giving us your feedback, and we'll keep responding.

Z is the only energy company in the country with a significant Facebook presence. Launched in May 2011, it's now one of the biggest brand pages on Facebook in the country.

Courtesy of Charmayne Featherston

Courtesy of Suzy Atkin

Courtesy of Claire Lambert

Courtesy of Salvatore Elias-Drago

Courtesy of Dannielle Noqnoa

Financial reporting

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.

The bonds are guaranteed by Aotea Energy Limited (AEL), a separate entity that is 100% owned by AEHL through a subsidiary and has a different set of financial results. Bondholders can find more information on the structure and AEL financial results at z.co.nz/about-z/investor-centre/

So how did we get on financially?

We have a five-year plan to deliver our shareholders the returns they deserve, and we are making progress with our strategy to deliver this.

Z plans to be in business for a long time, and the decisions we have made in the last year reflect a longer term view than just one financial year. Our shareholders Infratil and the New Zealand Superannuation Fund are similarly future focused: they're in this business for the long game too.

Management and capital providers focus on current cost earnings before interest, tax, depreciation, amortisation and financial instruments (EBITDAF) which lifted from $157 million last year to $172 million this year with improved margins. Some of the increased earnings were reinvested in our infrastructure improvement programme and our retail roll-out. The investments we have made in New Zealand's infrastructure will generate earnings in the future, but in the short term this has meant that our return on assets is still not at a level that would encourage reinvestment in the industry. We need to improve our current returns if we are to continue to invest in the security of fuel supply in New Zealand.

Investing for the long game

Investing in assets that we know will benefit New Zealand industry and consumers has seen our capital expenditure climb to roughly three times what our predecessor was spending per annum. Everything that we are investing in right now is designed to generate a greater return than the core business we inherited. Increased volume is nice – it's a good sign of popularity – but at the end of the day it's a responsible rate of return on capital that we need. We'll continue to push for New Zealanders to see the value of great service and reliability of supply, and that good value is not always indicated by the lowest price. In the meantime, we need to be patient while our investments and our efforts start generating returns. Fortunately, our shareholders, Infratil and the New Zealand Superannuation Fund, understand that.

New Zealanders continue to bond with us

This year, we announced a second bond issue of seven years which raised $150 million. Like its $147 million predecessor, this was popular with Kiwi investors and oversubscribed. We've used the money to repay bank debt, spreading our debt obligations over time and diversifying our risk.

We've also expanded our working capital facility from $250 million to $350 million to fund the higher cost of oil and the greater volume of fuel we are keeping in storage, and extended our current bank facilities by another year to 2014.

The important news for our bondholders is that our bank covenants ratios, which were already comfortably within agreed limits, have further improved. That's a sure sign that we are generating sufficient liquidity to fund working capital and that our debt is manageable.

So, everything is on track and we have access to the funds we need to reasonably expect to trade safely through a period of continued volatility in the global economy, as well as to expand and invest when the circumstances are right.

More bondholder information

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. The bonds are guaranteed by Aotea Energy Limited (AEL) which is a separate entity that is 100% owned by AEHL, through a subsidiary, and has a different set of financial results. Bondholders can find more information on the structure and AEL financial results at z.co.nz/about-z/investor-centre/.

Five factors influencing our earnings

1. **Changes in oil prices impact our reported earnings mainly through changes in consumer demand. Pump prices have again lagged behind upward shifts in the crude oil price.**

2. **Changes in the USD:NZD exchange rate impact what we pay. These fluctuations are largely hedged but there is still some volatility in earnings because of timing mismatches in the revaluation of receivables and payables.**

3. **Refining margins are influenced by global supply of, and demand for, refining capacity. This year, the margin we pay for our refined product from Refining NZ has fallen with the decline in global demand.**

4. **Fluctuations in the gross fuel margin impact cash earnings. New Zealand fuel companies continue to engage in a "fight to the bottom" market strategy that means pricing has further deteriorated this year. Last year we earned around 3 cents current cost net profit after tax (NPAT CCS) for every litre of fuel bought by consumers. This year that figure is closer to 2.1 cents NPAT CCS per litre.**

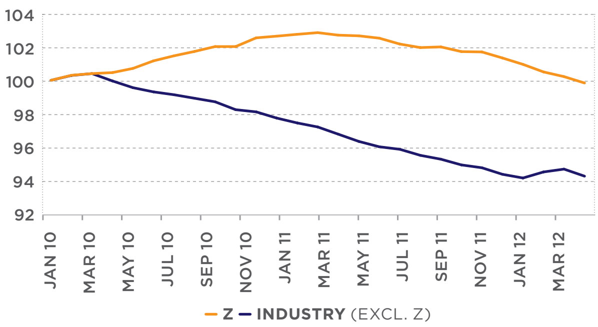
5. **Operating costs also affect earnings, and this year we have continued to invest in our brand and our service offer.**

Financial performance

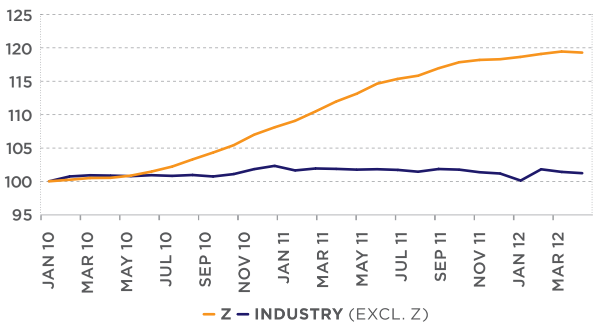
The first year of operation as a local company was focussed on ensuring a smooth transition. The second year has been focussed on building a new brand and implementing Z's strategy. These two elements in partnership are the cornerstone of being a local company and have enabled Z to post strong results in very competitive market conditions.

The petrol market in New Zealand is in decline though the diesel market is growing at a rate slightly less than GDP. Z is outperforming both these markets, reflecting the strength of the Z brand.

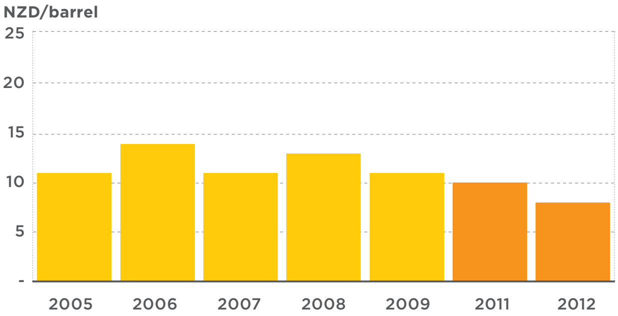
Indexed annual motor spirit sales



Indexed annual diesel sales

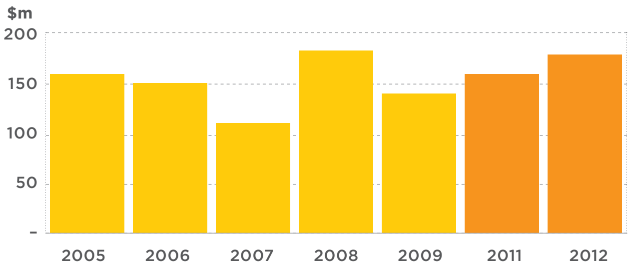


Gross refining margin



The gross refining margin (GRM) is the difference in value between the products produced by a refinery and the crude oil used to produce them. The GRM is affected by international crude and product prices and foreign exchange rates. The GRM forms part of our result through volume we process through Refining NZ, and further through our 17.14% holding in Refining NZ. GRM has declined in the last two years due to global over supply of refining capacity.

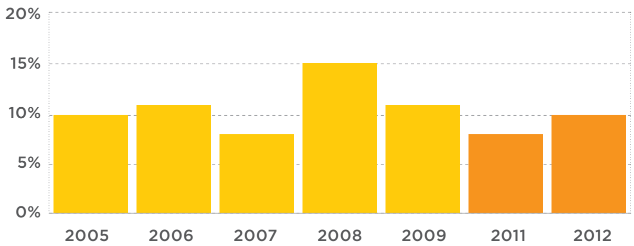
Current cost EBITDAF



The Z Energy Group provides information on its earnings based on both current costs and historic costs. Management and capital providers focus on current cost as these reflect the underlying profitability of the business. This differs from the statutory disclosed historic cost earnings which take into account changes in the value of inventory. Fluctuations in oil prices change the value of the Z Energy Group's inventory and consequently also the historic cost reported results.

Current cost EBITDAF has improved in the two years of local ownership. For further detail on our results, please refer to the Z Energy Group's financial performance section of this report.

Return on average capital employed



Return on average capital employed (ROACE) is a measure of how effective we are in using our assets. We have delivered an improvement in our ROACE while also increasing our asset base, however, the returns being generated are still not at the point that would enable widespread investment in the industry.

Z Energy Group's financial performance

The financial information in this section relates to the Z Energy 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 NZ International Financial Reporting Statements.

Our statutory reporting conforms to accounting standards which 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 current cost earnings (which excludes the impact of oil prices on inventory) are a better measure of the 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 2012

	Audited	
	2012	2011
	$Millions	$Millions
Total revenue	**3,179.3**	**2,794.6**
Cost of sales of goods	(2,727.9)	(2,323.4)
Gross profit	**451.4**	**471.2**
Share of earnings of Associate Companies (net of tax)	4.3	9.8
Sales and administration expenses	(188.7)	(203.5)
Distribution expenses	(50.5)	(47.3)
Other operating expenses	(39.0)	(27.9)
Total operating expenditure	(278.2)	(278.7)
Operating surplus before financing, derivatives, realisations, impairments and gain on acquisition	**177.5**	**202.3**
Net (loss)/gain on commodity, foreign exchange and interest rate derivatives	(0.6)	(10.0)
Results from operating activities	**176.9**	**192.3**
Interest income	7.2	1.0
Interest expense	(75.9)	(59.5)
Net financing expense	(68.7)	(58.5)
Gain on acquisition	-	121.4
Net surplus/(loss) before taxation	**108.2**	**255.2**
Taxation expense	(31.2)	(51.9)
Net surplus/(loss) for the year	**77.0**	**203.3**
Net surplus/(loss) attributable to owners of the company	**77.0**	**203.3**
Other comprehensive income, after tax		
Actuarial gains/losses on defined benefit plan	(2.5)	(0.9)
Income tax on other comprehensive income relating to RBO	0.7	0.3
Share of other comprehensive income from associates (net of income tax)	(4.9)	-
Other comprehensive income for the year, net of income tax	**(6.7)**	**(0.6)**
Total comprehensive income for the year	**70.3**	**202.7**
Total comprehensive income attributable to owners of the company	**70.3**	**202.7**

For the year ended 31 March 2012, net profit after tax was $77 million, down by $126 million on the 2011 result. However, the 2011 result included the recognition of fair value on acquisition of $121 million which relates to the revaluation of Z Energy's assets.

Management and capital providers focus on current cost earnings before interest, tax, depreciation, amortisation and financial instruments (EBITDAF). Current cost earnings reflect the underlying profitability of the business and take out fluctuations associated in oil price changes. On a current cost basis the Z Energy Group achieved operating EBITDAF of $172 million, up 10% on the previous year.

Sales revenue (excluding tax and levies on fuel) of $3,179 million was up 14% on the prior period, mainly reflecting the increased cost of refined product. This also impacted cost of sales of $2,728 million, which was up 17% on the previous year.

Operating costs of $278 million were consistent with the previous year despite increased depreciation costs associated with increased capital expenditure and increased costs associated with the brand roll-out.

The first year of operation as a local company was focused on ensuring a smooth transition. The second year has been about building a new brand and implementing the company's strategy. These two elements are the cornerstone of being a local company and have enabled Z to post strong results in very competitive market conditions.

Statement of financial position as at 31 March 2012

	Audited	
	2012	2011
	$Millions	$Millions
Cash and cash equivalents	16.5	8.4
Trade, accounts receivable and prepayments	246.4	226.5
Derivative financial instruments	0.3	-
Inventories	671.0	548.7
Current assets	**934.2**	**783.6**
Property, plant and equipment	469.8	431.0
Intangible assets	25.3	38.1
Investments in associates	194.1	200.3
Other non-current assets	0.2	0.5
Other investments	2.3	-
Non-current assets	**691.7**	**669.9**
Total assets	**1,625.9**	**1,453.4**
Accounts payable, accruals and other liabilities	469.6	392.7
Provisions	4.9	7.7
Derivative financial instruments	10.4	6.0
Bank debt	32.5	15.0
Income tax payable	14.0	23.4
Total current liabilities	**531.4**	**444.8**
Bank debt	107.0	196.5
Other liabilities	-	6.8
Provisions	20.8	18.0
Derivative financial instruments	0.5	4.0
Deferred tax	21.6	26.0
Loan from shareholders	244.5	244.5
Redeemable preference shares	115.0	115.0
Bonds	292.2	144.2
Non-current liabilities	**801.6**	**755.0**
Attributable to owners of the company	293.0	253.7
Total equity	**293.0**	**253.7**
Total equity and liabilities	**1,625.9**	**1,453.4**

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. The higher receivables balance as at 31 March 2012 reflects increasing commercial fuel sales and higher refined fuel prices.
- **Inventories** of $671 million, recorded at historic cost, comprise $288 million of crude oil and $383 million of refined products, which cover between two and three months' sales. At 31 March 2012, the Z Energy Group had 605 million litres of inventory on hand, which was up on 524 million litres at 31 March 2011. Inventory levels were increased at year end to accommodate an impending maintenance shut down at Refining NZ.
- **Property, plant and equipment** of $470 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; and

The increase in value of land, buildings, plant and equipment for the year ended 31 March 2012 is reflective of the increased capital spending of Z Energy.

- **Intangible assets** including but not limited to, carbon credits purchased for the settlement of carbon obligations and the right to participate in the Fly Buys loyalty programme.
- **Investments in associates** mainly represents Z Energy Group's 17.14% holding (or 48 million shares) in Refining NZ. The carrying value is the original purchase price, less dividends received, plus equity earnings. For the year ended 31 March 2012, Refining NZ posted a loss reflected in other comprehensive income which reduced the value of the holding in the Refining NZ. We note that at 31 March 2012, the share price closed at $2.87, 27% below the carrying value of $3.94. As a result we have assessed that there is an indicator of impairment. However, based on a value in use (VIU) calculation using a discounted cashflow model, we have assessed that the VIU is higher than the carrying value. As such no impairment of the investment was made. 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** is largely comprised of amounts owing to the Z Energy Group's suppliers of crude oil and refined products for which title has been received but for which the due date for payment is in the future. Payables are significantly influenced by the timing of crude and product shipments.
- **Bank core debt** represents a $203 million revolving core debt facility representing bank borrowing other than working capital and hedging facilities. This fluctuates depending on transactions and at year end totalled $107 million.
- **Bank working capital debt** represents funds drawn down to fund the day-to-day operation of the company. The Z Energy Group has working capital facilities provided by its banks amounting to $350 million. This fluctuates depending on transactions and at year end totalled $32.5 million.
- **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 two existing series of bonds (maturing in 2016 and 2018). The increase in the value of the bonds is as a result of Z Energy Limited issuing a second series of bonds on 9 August 2011 with a face value of $150 million.

Statement of cash flows for the year ended 31 March 2012

	Audited 2012 $Millions	Audited 2011 $Millions
Cash flows from operating activities		
Cash was provided from:		
Receipts from customers	3,165.1	2,703.8
Dividends received	6.6	5.8
Interest received	5.9	0.9
	3,177.5	2,710.4
Cash was disbursed to:		
Payments to suppliers and employees	(3,039.3)	(2,592.7)
Interest paid	(62.7)	(37.6)
Taxation paid	(44.5)	(21.4)
	(3,146.5)	(2,651.7)
Net cash inflow/(outflow) from operating activities	**31.1**	**58.7**
Cash flows from investing activities		
Cash was provided from:		
Proceeds from sale of property, plant and equipment	12.7	1.8
	12.7	1.8
Cash was disbursed to:		
Purchase of intangible assets	(18.6)	(30.9)
Acquisition of subsidiary (net of cash acquired)	-	(890.7)
Settlement of pre-acquisition liability	-	(8.8)
Purchase of property, plant and equipment	(64.1)	(24.0)
	(82.7)	(954.4)
Net cash outflow from investing activities	**(70.0)**	**(952.6)**
Cash flows from financing activities		
Cash was provided from:		
Bank funding	-	497.6
Shareholder loan	-	244.5
Shareholder redeemable preference shares	-	115.0
Shareholder equity	-	60.0
Issue of bonds	150.0	147.0
	150.0	1,064.1
Cash was disbursed to:		
Repay bank debt	(71.9)	(279.6)
Dividends paid to owners of the company	(31.0)	(9.0)
	(102.9)	(288.6)
Net cash inflow from financing activities	**47.1**	**775.5**
Cash acquired on business combination	-	126.7
Net increase in cash	8.1	8.4
Cash balances at beginning of year	8.4	-
Cash at end of year	**16.5**	**8.4**

Cash received from customers increased due to the increased cost of finished product. This also flowed through to cash disbursed to payments to suppliers as the cost of crude and finished product increased.

Cash from investing activities increased due to the sale and leaseback of eight retail sites. Cash outflows from investing activities decreased due to the first year's operations including the original acquisition of business.

However the amount being spent on the purchase of property, plant and equipment increased to $64.1 million, reflecting Z Energy's commitment to the brand roll-out and investment in its infrastructure.

Cashflows from financing activities included the issue of a second series of bonds which occurred during the financial year and had a face value of $150 million.

Our shareholders

Z Energy is 50% owned by the New Zealand Superannuation Fund and 50% owned by Infratil.

New Zealand Superannuation Fund

The Government-owned New Zealand Superannuation Fund aims to smooth the tax burden of the rising cost of New Zealand Superannuation, by investing money today to pay for superannuation entitlements in the future.

Withdrawals from the Fund are not scheduled to begin until 2029/30. This means that the Fund has a long-term investment horizon, and is focused on maximising its growth to benefit future generations.

At the end of March 2012 the Fund had NZ$19.46 billion in assets, including its stake in Z Energy.

NEW ZEALAND SUPERANNUATION FUND

nzsuperfund.co.nz

Infratil

Infratil is a New Zealand infrastructure investment company listed on the NZX and ASX.

Infratil owns businesses that operate in the energy and transport sectors, predominantly in New Zealand and Australia: TrustPower (in partnership with Tauranga Energy Consumers Trust), Infratil Energy Australia/Lumo, Perth Energy, Wellington Airport (in partnership with Wellington City), NZ Bus and Z Energy (in partnership with the New Zealand Superannuation Fund).

Infratil is a long term investor that creates value for its shareholders by creating value for the people who use its facilities and services and by having its businesses well regarded by the communities in which they operate.

Infratil

infratil.co.nz

Leilani having fun in the surf in Piha
Courtesy of Martin Hoffman

Alicia and Gemma with Lil Crazy Man, their pet lamb
Courtesy of Kim Keay

Marlborough Sounds, *Courtesy of Martin Halford*

Playing beach cricket barefooted by the bach in Ohawini Bay, Oakura
Courtesy of Pippa Bourke

Katherine enjoying the autumn leaves near Cromwell
Courtesy of Di Lewis

Chasing seagulls in Cathedral Cove
Courtesy of Peter O'Caroll

Woodcutter
Courtesy of Sharon Cooper

Learning to surf at Great Barrier
Courtesy of Gerard Murphy

This is why we love New Zealand

The Auckland night-scape
Courtesy of Yufeng

Castlepoint
Courtesy of Denise Gunn

"Doghug" featuring little Clara and Henry the dog
Courtesy of Mia Palmgren, of Mia DeLight Photos

Holly at Whangamata harbour
Courtesy of Jamie Anderson

Andy batting at 20/20 school cricket
Courtesy of Marion Bailey

"Stop laughing I am rowing!" - Purakanui
Courtesy of Bernadette Hay

Jared thinks the tractor is still good
Courtesy of Chrissy Mason

Chloe, Rachel and Brian enjoying an autumn day at Waitarere beach
Courtesy of Vivian Grapentin

Quinn and his little friend Jasper at Hillend, Otago
Courtesy of Emma Moore

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