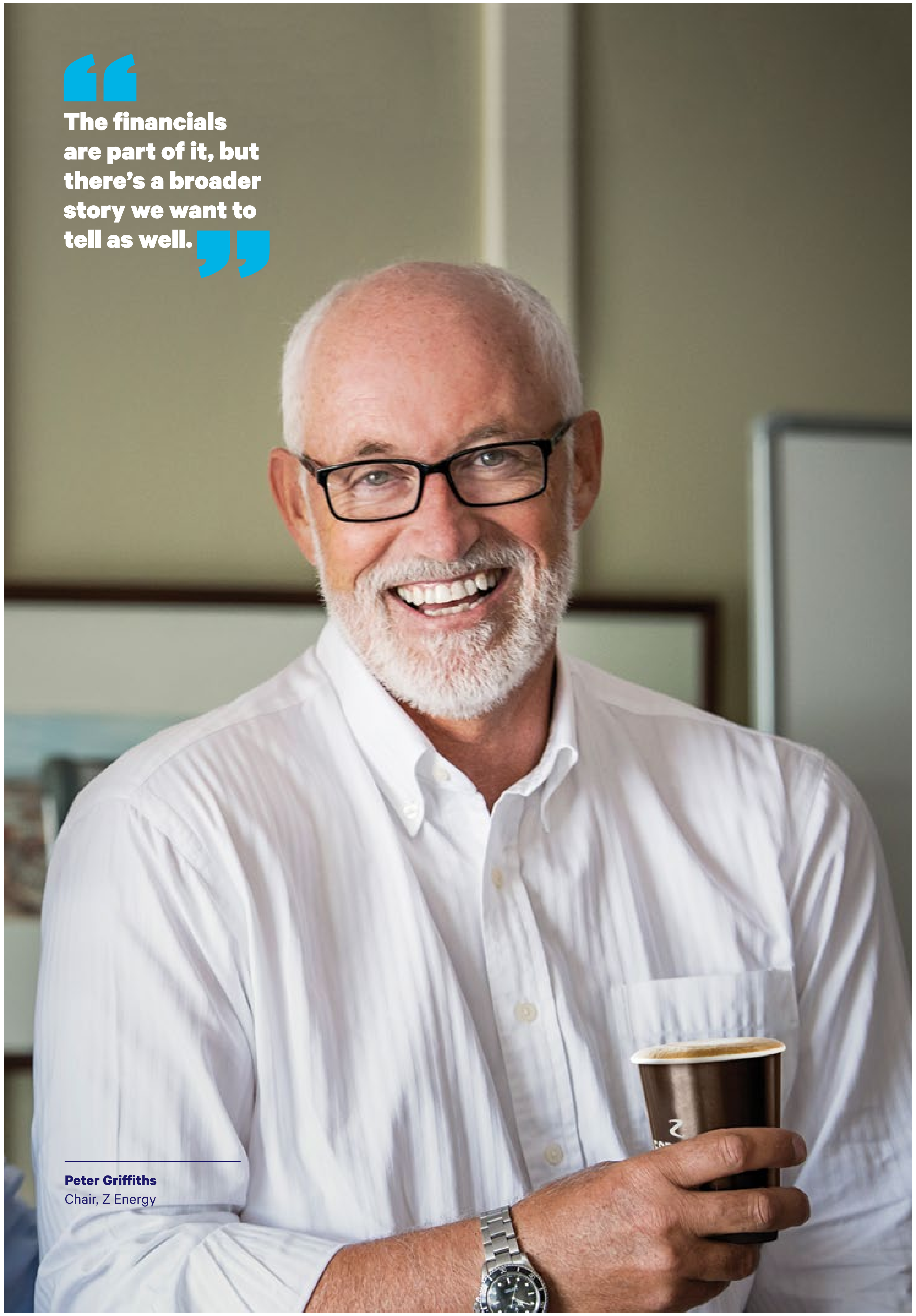
Solving what matters for a moving world

2017 Annual Report

Standing in the future of what can be and working backwards from there informs how you do things now.



Kia ora and welcome to our first integrated annual report

The board is very satisfied with this year's strong results. Z has delivered historical cost net profit after tax of $243 million. Z also measures its performance on a replacement cost basis. The replacement cost operating EBITDAF of $419 million (excluding one-off integration expenses) was achieved as we maintained a strong focus on our safety performance, our corporate reputation, and the engagement of our people.

The financial outcomes, however, are just part of the year's performance. There's a broader story we want to tell. It's not a longer story. It's a more concise and a more relevant story that links back to our business model.

In this year's annual report, we've chosen to adopt the principles of Integrated Reporting* <IR> because investors and other stakeholders are increasingly interested in sustainable value creation. The <IR> Framework helps explain how a business creates value over time, and provides transparency on every aspect of its activity. We think <IR> is best-practice reporting.

At the core of our business model is integrated thinking, which drives everything we do. When we're making decisions, we're asking: How do we manage risk? What will it cost? What return will we receive? How does it tie into our long-term view? How does it align with what we stand for as a company?

Z's acquisition of the Caltex New Zealand business in June 2016 is a great example of how integrated thinking has enabled Z to achieve improved results. We're around 70 percent bigger than we were at the beginning of the year and already we're seeing tangible results – not just from owning new assets, but from how we've brought these two companies together.

All of the board wish to particularly recognise the efforts of the CEO and the executive team this year. The challenge of integrating the two businesses was carried out well ahead of schedule with skill and care. Our latest employee engagement survey shows encouraging results from both our new Caltex colleagues and Z heritage employees. This is a key indicator of positive future results.

External recognition is one way to measure our standing in the wider New Zealand community. In December 2016, Z won the Deloitte Top 200: Company of the Year, and Mike Bennetts was recognised as CEO of the year. In early 2017, Z was placed third in the Colmar Brunton Corporate Reputation Index.

This recognition acknowledges Z's commitment to executing clear strategy for the benefit of all stakeholders, and our commitment to the distinctive way we seek to communicate. The decision to adopt <IR> reinforces those commitments.

Whatever else we're doing, operating safely is always at the front of our minds. During 2017, we completed the development and roll-out across the expanded company of our renewed safety-management system. We understand our risk profile and track a range of leading and lagging indicators across the enterprise.

Of particular concern is the increase in the number of robberies at our retail sites. To counter this trend, we have several initiatives under way to keep site staff safe and to make our sites more resistant to attacks.

Having focused on integration and value capture this year, our sights are firmly on the future with a refreshed strategy. Almost without exception, every business today is facing the effects of disruption to its activities. Z is acutely aware of this, and we are constantly looking at how we can create new value with the knowledge, relationships, and advantaged assets we now have.

Demand for our core products will be impacted by alternative fuels (particularly electricity), internet connectivity, and the pressures of climate change. While prediction is risky, we expect solid ongoing demand for liquid transport fuels out to 2030. This will provide the baseline for our business on which we will build other related capacities.

We don't want to slow down the adoption of new technology to protect our bottom line. Rather, we are looking for innovations that will contribute to a more efficient and lower-carbon economy. Z supports the government's plan to increase the number of electric vehicles (EVs) from the current 3,000 to 64,000 by 2021.

However, this will still be only a modest portion of the 3.7 million vehicles predicted to be on Kiwi roads. By comparison, the full deployment of our biodiesel production capacity planned for 2018–19 will have a similar carbon impact as the increase in EVs. How we choose to participate in the lower-carbon market and our contribution to elevating New Zealand's environmental performance are two key elements of our strategy, which is covered in this report.

We reckon the Z journey has been exciting and rewarding – this year in particular. We're confident that we can continue to deliver improved financial returns while living up to our values and commitments. As a key element of that, we're a company committed to full disclosure. At Z, we call it 'sharing everything'.

This is our report dated 10 May 2017 for the financial year to 31 March 2017.

Peter Griffiths
Chair, Z Energy

Abigail Foote
Chair, Audit and Risk Committee

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

PACIFIC
NEW ZEALAND

Back to contents

Solving what matters for a moving world

Seven years ago, New Zealand company Infratil Limited and the Guardians of New Zealand Superannuation got together and bought a global company's New Zealand downstream fuel business.

Z is now a publicly listed company on the Australian and New Zealand stock exchanges.

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

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

Z's aim is to bring our purpose to life for our customers, shareholders, and stakeholders. That purpose is simply to 'solve what matters for a moving world'.

We sell around 45 percent of New Zealand's total transport fuel.

We're listed on the New Zealand (NZX) and Australian (ASX) stock exchanges.

We've paid over $174 million in corporate taxes (including GST) in FY17.

We work with over 41,000 commercial customers in aviation, shipping, fishing, trucking, farming, and heavy industry.

We directly employ over 420 people and indirectly a further 2,500 through our Z retail network.

We've built New Zealand's first commercial-scale biodiesel plant.

We're a top 10 publicly listed company with around 9,000 shareholders and 6,500 bondholders.

We own a 15 percent stake in New Zealand's only refinery, at Marsden Point.

We're a member of three loyalty schemes – Fly Buys, Air New Zealand Airpoints, and AA Smartfuel.

We serve over 170,000 customers every day at our Z retail service stations.

Back to contents

Our year in brief

"The Caltex acquisition, the settlement, and the cutover were all done incredibly smoothly."

"It was like trying to put a person on the moon in terms of the planning that went into it, and we got the person on the moon and safely home."

"At one minute to midnight, we'd burnt the routers and said 'see you later' to a whole lot of integrated aspects of the business. A minute later, we switched them on and it all just worked."

"We've integrated two companies and now we're working on a unified strategy for the future."

"We took a lot of ground in health and safety last year, improving our systems in particular, on top of the Caltex acquisition."

"We want to really understand the end-to-end customer experience – where are we annoying people and where can we generate value for our customers?"

"You don't know when, you don't know what sites, you don't know how they'll turn up. Are they going to try and ram you with a car, smash a window, present a firearm? We've had all of that."

"At the start of the pilot, around 40 percent of Z front-line people were enrolled in KiwiSaver; by the end, 100 percent were enrolled."

$243m
Historical cost net profit after tax (net profit)

$176m
Replacement cost net profit after tax

$419m
Replacement cost operating EBITDAF profit ($392m including Caltex integration expenses)

29.3cents
Total dividend per share

$174m
Corporate income tax (including GST)

44 cents
Replacement cost net profit after tax per share

4.6 cents
Replacement cost net profit after tax per litre

$77m
Capital expenditure

$785m
Cost of purchase for Chevron New Zealand ($857m including the working capital adjustment)

3,795 million litres
Total fuel volume (retail and commercial)

35m
Vehicle traffic across our Z-branded retail sites

7
Electric vehicle charging stations in the Z network

157
Truck stops in the Z network

100%
Health, safety, security, and environment actions close-out rate

Back to contents

A momentous year

A summary from CEO Mike Bennetts

Kia ora koutou o te whānau a Z Energy

The Caltex acquisition in June 2016 was a momentous undertaking. I'm incredibly proud of the way our people have worked to achieve the systems cutover and the seamless integration of the two businesses. Without disruption to our core business, we were able to meet our obligations and stay true to Z's values: be straight up; have the passion; back people; share everything; be bold.

Given the sheer scale of the integration, our investors put extraordinary confidence in us. To reward that confidence with such a successful result was very pleasing for the team.

Our new colleagues from the Caltex business have brought new skills and wisdom to Z. They are passionate about the opportunity to develop a brand and an offer in the New Zealand context.

In a world where big companies are often seen as bad companies, Z will not be a big bad company. We are committed to remaining a good corporate citizen. We will take a balanced, measured, and well-informed view in everything we do.

The next iteration of our strategy will be capability led

Until now, Z's strategies have been largely investment led: we've spent money to make money. The business now has *what* we need. Our focus for the future is to build the capability that will drive the business and generate enterprise value up to and beyond 2020.

Cultural capability is equally important to us because leadership determines performance, and outstanding leadership leads to outstanding results. At Z, everyone's a leader whether they're a leader of self or a leader of people.

Climate change is a material issue

We accept the overwhelming scientific evidence on climate change and acknowledge that climate change is one of the biggest material issues facing our company, our industry, our communities, and the world. Z supplies a product that keeps New Zealand moving, but that contributes around 8 percent of New Zealand's carbon emissions, acknowledging that agriculture contributes around 49 percent.

Clearly, we are part of the problem. We're moving to be part of the solution and we want to work with others to lower those emissions. Z has no upstream assets so we don't need to sell oil if we can find something else to keep New Zealand moving.

The pace of change in the world makes the future impossible to predict

Our response to preparing for the long term is to develop our capability. Yes, we're thinking about the future, we're doing a lot of work to be ready. But no, we don't have one answer. No one does. For some people, that's not an adequate response, but that's a truthful response.

Towards the end of the year, we established an innovation team that will build a certain type of capability: a willingness to experiment, operate on limited information, and not be afraid of failure.

Being able to see what's happening to demand for fossil fuels gives us a unique opportunity to prepare for aspects of the future in a steady way. I'm confident that our people are the best at what they do and will naturally innovate and evolve the company as the future unfolds.

Robberies have become the biggest safety risk to our people and our business

Over the year, Z retail sites have sustained a disturbing 23 robberies, mostly in the Auckland region. Robberies are a significant problem for the industry and beyond: dairies and bottle stores are also being hit hard. We are working with police at national level, and their intelligence points to very organised criminal gangs stealing product to order.

Our HSSE team has spent a lot of time, energy, and resource on improving our management system and our thinking on health and safety. That's because we want zero harm to people and the environment, and we know that healthy, engaged people enable our business performance.

We are committed to supporting the communities we live and work in

Quite simply, Z is for New Zealand. From our retail sites all over the country, we sell the fuel that New Zealanders need to keep moving. That makes us a big part of every community up and down the country – and it's important to us that we continue to be a force for good.

Z's Good in the Hood programme continues to support hundreds of community projects – groups who are helping people in the neighbourhoods around our sites. In 2017, we've widened the programme to include groups who are supporting sustainable environments in the neighbourhoods around our sites.

We fully achieved our financial objectives for the year

Our financial statements show we delivered strong financial results. Our replacement cost operating EBITDAF was just above the upper end of our guidance range and reflected admirable performance across all areas of our business. Our replacement cost net profit was the equivalent of 4.6 cents per litre of fuel sold. Z's Total Shareholder Return for the 3 years to 31 March 2017 put us seventh within the NZX 50 for creating value for our shareholders.

Z is extremely well placed to achieve long-term value for our shareholders through a strong competitive position and a growing capability to deal with the uncertainty of the future. All of us at Z appreciate your ongoing support and we look forward to what the next year brings.

Nō reira, kia ora koutou.

Mike Bennetts
CEO

Mike Bennetts
CEO, Z Energy

Back to contents

Meet our board

1 Peter Griffiths
Chair

Member, Audit and Risk Committee

BSc (Hons), CMInstD

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

2 Justine Munro
Director

Member, People and Culture Committee, and HSSE Committee

LLB (Hons) (Vic), MLitt (Law) (Oxon), MInstD

Justine is a change leader currently working in the area of the future of work, and developing and measuring 21st century skills. She has led or helped establish many not-for-profit organisations. She is a former McKinsey & Company consultant, lawyer specialising in indigenous issues, and Rhodes Scholar. Justine is a trustee of Simplicity NZ, and was previously Director of Champions for Change – a group of 50 CEOs and chairs committed to advancing diversity and inclusion.

3 Julia Raue
Director

Member, HSSE Committee

GAICD, MInstD

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

4 Paul Fowler
Director

Chair, HSSE Committee; member, Audit and Risk Committee

BS (Marine Engineering), ME (Nuclear Engineering), MBA, FAICD

Paul has many years' experience in primary industries. He was the founding CEO of Nyrstar NV, the world's largest producer of zinc metal, COO of Zinifex, and CEO of Fletcher Challenge Forests and Carter Holt Harvey Forests. He spent 15 years with BP in crude oil trading, strategic planning, refining, and retail marketing. Paul has served on the boards of The New Zealand Refining Company and Evergreen Forests.

5 Alan Dunn
Director

Chair, People and Culture Committee; member, HSSE Committee

CMInstD

Alan is an experienced corporate leader. He was CEO and Chair of McDonald's Restaurants New Zealand before moving to Chicago to become Vice President of Operations, then Regional Vice President in the Nordic region, and Managing Director of McDonald's Sweden. Alan manages his own business, Trumpeter Consulting, and is a director of New Zealand Post, BurgerFuel Worldwide, and several private companies.

6 Mark Cross
Director

Member, Audit and Risk Committee, and People and Culture Committee

BBS, CA, MInstD

Mark is a professional director with 20 years' international experience in investment banking. He holds diverse directorships spanning publicly listed companies, institutional investment funds, and not-for-profit organisations. Mark is the Chair of Milford Asset Management and SIL/MFL Superannuation Funds, and a director of Genesis Energy, Chorus, Argosy Property, and Triathlon NZ. Mark is a member of Chartered Accountants Australia and New Zealand.

7 Abigail Foote
Director

Chair, Audit and Risk Committee; member, HSSE Committee

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

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

Back to contents

Meet our executive team

1 Mike Bennetts
Chief Executive Officer

BBS, Diploma in Corporate Management, CMInstD

Mike has led Z since its inception in 2010. He spent 25 years with BP in a variety of downstream roles in New Zealand, China, South Africa, the UK, and Singapore. Mike is a director of The New Zealand Refining Company and Chair of Punakaiki Fund Limited.

2 Chris Day
Chief Financial Officer

BBS, CA, CTP, CMInstD

Chris leads the finance and ICT team. He was previously Financial Controller for Contact Energy and, before that, CFO for AXA New Zealand. He is a member of Chartered Accountants Australia and New Zealand, and a director of Landcorp Farming.

3 Jane Anthony
General Manager, Marketing

BCom

Jane is responsible for building the Z brand and the company's marketing and customer strategy. Before joining Z, she worked with Shell for 14 years in brand, marketing, and operations positions in Australia, the UK, Europe, and New Zealand. Jane is also a director of Loyalty New Zealand.

4 Debra Blackett
Chief Governance Officer

LLB (Hons), MInstD

Debra works closely with our board of directors, board committees, subsidiaries, and joint venture partners to ensure Z complies with all listing requirements. Debra led the regulatory application to clear the Caltex acquisition. She has previously led legal teams at BP, ANZ, and Telecom, and worked for law firms Chapman Tripp and DLA Piper.

5 David Binnie
General Manager, Supply and Distribution

BEng (Hons) Mechanical Engineering, MBA, CMInstD

Dave leads Z's supply and logistics business, including biofuels, terminals, and aviation operations. Before joining Z, Dave spent 25 years with BP in a range of global roles. He was also Managing Director of OPITO, the UK's oil and gas industry's skills and competence development organisation.

6 Mark Forsyth
General Manager, Retail

BCom, CMInstD

Mark looks after Z's 204 retail sites, 139 Caltex retail sites, and around 3,700 people working on those sites. He has held management positions with Shell in the UK, Ireland, and New Zealand. Mark is a director of Loyalty New Zealand Limited.

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

BSc, MHSc, CMInstD

Julian is responsible for building leadership, engagement, and systems capability to manage Z's operational risks. He has worked in health, safety, rehabilitation, and wellness management for over 20 years. Before joining Z, Julian helped set up the Business Leaders' Health and Safety Forum, a group of 200 chief executives committed to improving workplace health and safety in New Zealand.

8 Lindis Jones
General Manager, Corporate

BCom (Hons) BSc, MFin

Lindis is responsible for strategy, communication, community, and sustainability. He was accountable for incorporating the Caltex business into Z and was previously our GM, Commercial. Before joining Z, Lindis was with Shell for 13 years, primarily in retail operations and strategy in Europe, Asia, and New Zealand.

9 Sharlene Taylor
General Manager, People and Culture

PgCert

Sharlene oversees all aspects of our people and culture. Before joining Z, she was with Fletcher Building where she held HR and change management roles in the building products and corporate divisions. Sharlene has also worked in HR management roles with Goodman Fielder throughout Australasia.

10 Meredith Ussher
General Counsel

LLB, BA

Meredith is responsible for all group legal risks, and strategic and legal advice for all operational matters, including major contracts with key suppliers and customers. Meredith has previously worked with Todd Energy, the New Zealand Racing Board/TAB, and at Minter Ellison Rudd Watts as a senior associate.

11 Nicolas Williams
General Manager, Commercial

LLB (Hons), BCom, MBA

Nicolas is responsible for all our business-to-business sales and account management activity, including Z Card and Star Card. He was previously Strategy Manager, responsible for Z's strategy development, and managing merger and acquisition activity. Before joining Z, Nicolas held various corporate finance-related roles at Macquarie and the New Zealand Treasury.

Back to contents

How we create value

Our capitals

Z is a distinctive company. The people are different, the way stuff gets done is different, and what we aspire to is different. Being distinctive enables us to achieve a range of extraordinary outcomes.

When it comes down to it, we are a values-based and organic firm of people, not a machine. Our obsession is to relentlessly look for solutions that help our customers get out and about, get on with their lives, and get on with running their businesses.

In everything we do, we act in ways that reflect our ambition, our values, and what we stand for.

Our year

We merged two companies into one this year without any material negative effects on our people and culture, capability, environment, assets, finances, or our place in New Zealand. We think that's a pretty good result.

We've got great things planned for the future and we're well placed to achieve long-term value creation for our shareholders, and to deliver what matters for our stakeholders and for New Zealand.

Our people and culture

We safely and reliably integrated two organisations, two cultures, and two remuneration frameworks while staff engagement remained in the upper quartile. Z retail sites sustained 23 robberies over the year.

Our capability

We fully implemented our operational risk management system, and brought on board a Chief Innovation Officer. We had no significant non-compliances with legal requirements.

Our environment

Our biodiesel plant was safely completed although the launch to market took much longer than we said it would. Our carbon footprint is 81 percent higher than FY16, most of which is due to our acquisition of the Caltex business.

Our assets

We leveraged the scale of our new network, worked with unprecedented changes in customer-loyalty programmes, and introduced technology to reduce robberies.

Our place in New Zealand

We expanded Good in the Hood, supported safe and healthy communities, supported the aspirations of our wider whānau, and contributed 686 hours of skilled volunteering.

Our finances

We achieved our earnings targets, completed the Caltex transaction, and invested for the future.

Our ambition

To be a world-class Kiwi company

Our values

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

What we stand for

Health, safety, security, and the environment
Sustainability
Community
Diversity and inclusion

Back to contents

Our supply chain

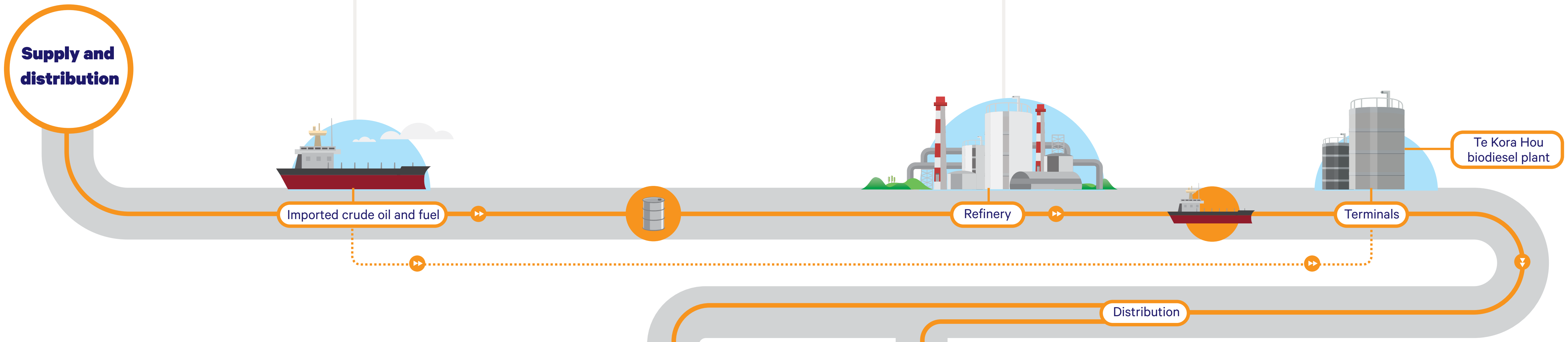
We focus on making the right choices across our integrated supply and distribution system so that we can operate a safe and highly efficient supply chain. We seek sustainable improvement in all we do across our supply chain, which spans half the globe.

Imported crude oil and fuel

Z does not explore or drill for oil, so we need to purchase it on the international market. Z imports 18 million barrels of crude oil and 7 million barrels of refined fuel per year – nearly half of New Zealand's total transport fuel.

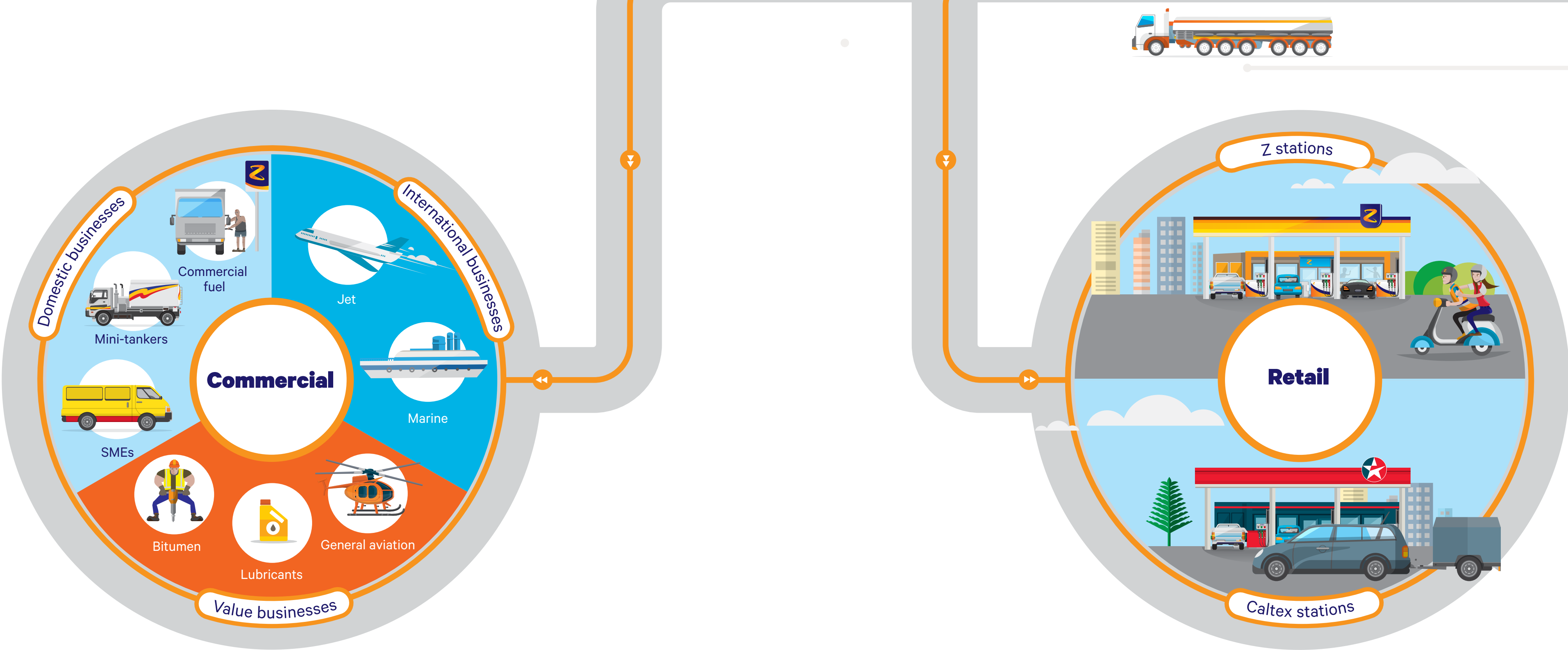
Refinery

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



Commercial markets

Z provides the fuel for industry, with 2.2 billion litres of sales going through a range of fuels: jet fuel to airlines; marine fuel oil to the shipping, fishing, and cruise-ship industries; all of New Zealand's bitumen to the road-building industry; and diesel for trucks and tractors. Z has the strongest truck-stop network in the country with 157 sites.



Supplying our customers

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

Retail service stations

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

Back to contents

Determining our material issues

Z uses both the Integrated Reporting <IR> and Global Reporting Initiative (GRI) reporting frameworks as the basis of our annual report. Both of these frameworks require us to disclose material issues for the business and the process we use to determine these material issues.

To determine our material issues, we use a 6-step process. The process enables us to collate and rank the issues that a diverse range of our stakeholders consider material.

"Our process enables us to collate and rank the issues that a diverse range of our stakeholders consider material."

In this report, 'stakeholders' includes investors, central government, media, local government, community organisations, NGOs, the sustainability sector, and our employees.

Outlining our 6-step materiality process

1. **Always in touch:** We keep in contact with a variety of our stakeholders throughout the year to maintain a good understanding of what matters to them. The core interests of Z's stakeholder base fall into broad groupings: financials, health and safety, community, and environmental sustainability.

2. **What's on investors' minds:** We run regular investor roadshows to develop a picture of what's on investors' minds and to keep pace with changes over time.

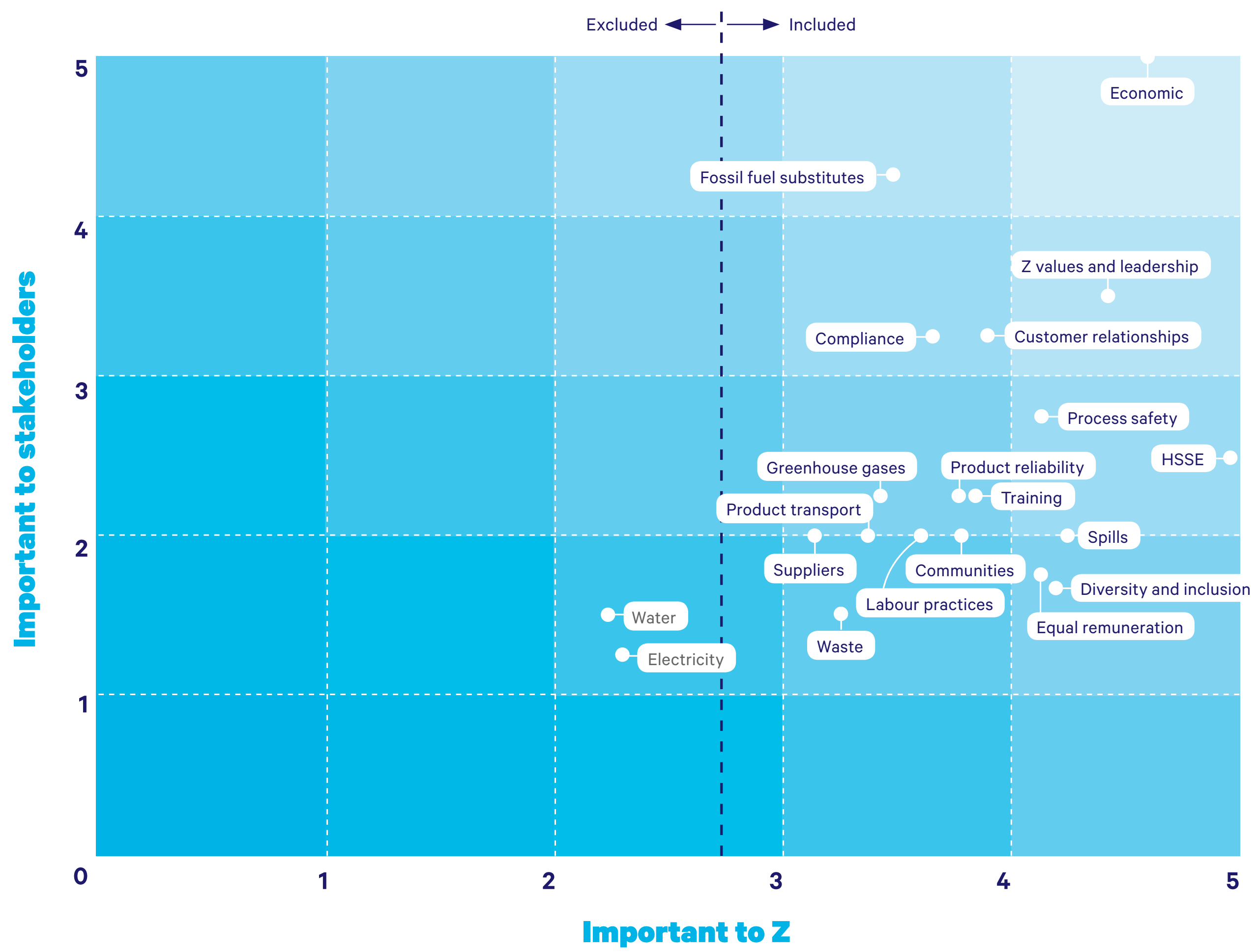
3. **Survey:** We survey key representatives of internal employees, the board, and key external stakeholders asking them to rate the relative importance of GRI indicators previously used for reporting.

4. **Board agendas:** We collate all agenda items discussed by the board during the year.

5. **Annual report interviews:** We summarise issues that arise in the annual report interviews with the executive team and other team members.

6. **Synthesis:** We draw on all of this information to determine our material issues for reporting.

Material issues



How we create value in a moving world

This section focuses on the six <IR> capitals: human, intellectual, natural, manufactured, social, and financial.

At Z, we call these six capitals:

Our people and culture

Our capability

Our environment

Our assets

Our place in New Zealand

Our finances

Back to contents

Our people and culture

Setting Z up for the future

Until now, Z's strategies have been largely investment led: we spent money to make money. The next iteration of our strategy will be capability led.

It's about building the capability that will support the generation of enterprise value up to and beyond 2020. The business has *what* we need; now we need the people with the right skill sets to drive the business.

Cultural capability is equally important. At Z, everyone's a leader whether they're a leader of self or a leader of people. We believe that leadership determines performance, and outstanding leadership leads to outstanding results.

Z's five values – be straight up; have the passion; back people; share everything; be bold – are embedded into every conversation, and every person in the company is connected with them and role-models them.

Jeremy Clarke – Z's Senior Communications Advisor is one of the many people who brought their Caltex heritage knowledge and skills to complement and build on Z's distinctive culture.

Back to contents

Integrating two organisations with different ways of doing things

The Caltex acquisition brought two very different companies together. The cultural integration of the two is critical for the company to be fit for the challenges over the next 10 years.

Sharlene Taylor is Z's General Manager, People and Culture.

"We needed to integrate two organisations, two cultures, and two different remuneration frameworks. And we needed to do it in a way that made everyone feel comfortable without giving up the 'Z-ness' of Z. Everyone from both heritage businesses has had to shift their thinking."

After the acquisition of the Caltex business, senior people leaders from Z and Caltex took part in a 2-day workshop to collectively understand how a clear culture helps to create value over time. Chief Executive Mike Bennetts led the workshop himself, rather than bring in an external facilitator.

"These are the people who will lead the integrated business into the future. It's important that we draw on the Caltex heritage knowledge and skills to complement and build on Z's distinctive culture. The unique mix sets us up to create significant value in the short, medium, and long term."

Z's new colleagues from Caltex were given choices throughout their transition to a new company.

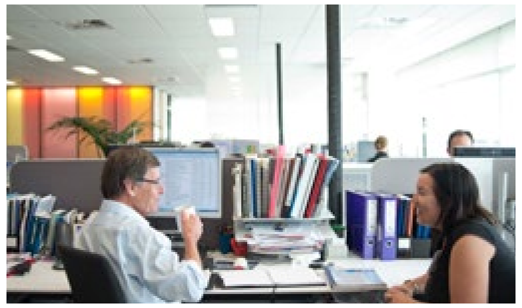
"They could choose to come across to a Z employment contract, or stay with what they'd been on in the past. It's been a genuine choice, and 97 percent of people chose to sign a Z contract within a very short space of time."

We completed a culture inventory to find out what the Caltex world looked like and compared it with what the Z world looked like.

One model that is useful in articulating an organisation's culture is likened to a tricycle. A big front wheel steers the trike and two back wheels support the direction.

"In Z's culture, the front wheel represents the concept of being 'related', which focuses on people. The back wheels that support the direction are 'control' and 'develop'. In the Caltex culture, the front wheel was 'control', which focused on operational effectiveness and cost-efficiency."

Z's new colleagues from Caltex were given choices throughout their transition to a new company.



Julian Hughes is Z's General Manager, Health, Safety, Security, and Environment (HSSE).

"Our focus was making sure we maintained safe and reliable operations during the cutover and integration period. We bought a business that carried out very similar activities, but actually some very different activities as well. Essentially, we ended up with a mixed model for how we manage the risks associated with fuel-storage terminals and fuel retailing. We now have a combination of in-house, joint venture, and wholesale models. This means we need to be very clear on our responsibilities across our value chain."

Embedding HSSE into the business

HSSE is as core to Z as our purpose, values, and other fundamentals that sit at the heart of everything we do.

Julian explains how HSSE functions at Z. "As an integrated part of what Z does, HSSE has a material impact on every element of the business. You can separate it out as a function, but if it's going to go well, it has to be embedded in and across your business."

The HSSE team has spent a lot of time, energy, and resource improving how Z thinks about people's health and wellbeing. And that's for a couple of reasons.

"We've got a strong commitment to people's health and safety, so we're thinking about making sure that what we do doesn't damage their health. Equally, we believe that healthy, engaged people perform better."

So at Z, HSSE is a key part of enabling our performance as much as it is about ensuring our people and environment don't get harmed.

Motor vehicle incidents

FY17	FY16
4	16

Number of spills
(Loss of containment)

FY17	FY16
0	1

Robberies

FY17	FY16
23	11

HSSE leadership
'Walk and talks'

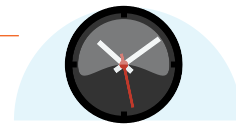
FY17	FY16
76	63

Total recordable case frequency (TRCF)

	FY17	FY16
Total	1.36	1.26
Z employees	0.56	0
Retailers and Mini-Tankers franchisees*	1.54	1.48

Lost time injury frequency (LTIF)

	FY17	FY16
Total	1.20	0.49
Employees	0.56	0
Retailers and Mini-Tankers franchisees*	1.35	0.58



Notes: Injury, occupational disease, and lost work day information follow criteria based on US OSHA guidelines.
*For GRI purposes, contractors are noted as retailers and Mini-Tankers franchisees.

Back to contents

Laying the foundations for the future

Z's People and Culture team is re-evaluating what Z's workforce looks like, how people work, and how flexible the workforce is to face the changes that are occurring externally.

"With so much talk about 'fluid' workforces, we need to be thinking differently in this space," says Sharlene.

"We're going through and refreshing the way we do things, making sure we've got the right systems in place. Those systems help people to get stuff done. It's like laying the foundations for our culture and performance aspirations. We're leveraging what we've got and looking at how we elevate current processes as well."

We're leveraging what we've got and looking at how we elevate current processes.

HSSE measurements

		FY17	FY16
Exposure hours (millions)	Total	4	4
	Z employees	0.7	0.5
	Retailers and Mini-Tankers franchisees	3	3
HSSE actions close-out rate		100%	100%
Life saving rules breaches		7	6
Lost time injuries (LTIs)	Total	23	9
	Z employees	2	0
	Retailers and Mini-Tankers franchisees	21	9
Lost work days (LWDs)	Total	259	47
	Z employees	8	0
	Retailers and Mini-Tankers franchisees	251	47
Total recordable cases	Total	26	23
	Z employees	2	0
	Retailers and Mini-Tankers franchisees	24	23
Occupational diseases rate	Total	0	0
	Z employees	0	0
	Retailers and Mini-Tankers franchisees	0	0
Absenteeism rate	Z employees	1.3%	1.3%
Work-related fatalities	Total	0	0
	Z employees	0	0
	Retailers and Mini-Tankers franchisees	0	0
HSSE Forum membership	% of total workforce	21%	5%
Tier 1 and tier 2 process safety incidents	Total	1	0

Recruiting the best people with the right fit

Just as the company is a different company from what it was a few years ago, so too is the way Z attracts talent. Attracting the right talent into the business is critical to set us up for building capability for the future.

In the last year Z has filled over 100 roles, many through internal career pathways.

"Plenty of people have come through with strong capability and could totally nail the job. But if the fit's not there, it's just not worth employing them on their skillset alone. You can build *capability*, but you can't build *fit*."

This is a key area of focus when we're looking to bring people into Z.

"*The Z Why* explains the identity, meaning, values, and beliefs of our people individually, and collectively as one team. This context supports everything we do. When people are looking to join Z, we encourage them to read *The Z Why* and make sure they connect with it before they make their decision."

z.co.nz/about-z/who-is-z-energy/

Culture, capability, leadership – and now capacity

Z aspires to be a world-class Kiwi company. Z's organisational development strategy will contain some fundamental choices in terms of culture, capability, leadership, and a new addition – capacity: how we free people up to get to the stuff that's really important.

The behaviours that support our five values form part of Z's performance contracts.

"In a lot of organisations, a person can get great results, but the way they've gone about achieving that mightn't have been ideal. They may have knocked a few people along the way or not shown suitable leadership. For us, great performance doesn't exist on delivery alone – the way in which you go about doing things is just as important."

Diversity and inclusion – Z's new stand

We believe our ambition to be a world-class Kiwi company is more likely to be realised with a diverse and inclusive working environment. Z's new Diversity and Inclusion Stand is being developed to support us in solving what matters for a moving world.

With the Caltex acquisition, Z has automatically become a bigger and more diverse company. We want to harness the benefits of diversity. Ultimately, diversity helps us get better at understanding our customer and stakeholder needs, and responding effectively as they change over time.

We recognise that diverse backgrounds, experiences, and perspectives lead to a better experience of work for our people. With improved engagement comes stronger teams, greater innovation and performance, more meaningful relationships with customers and stakeholders, and more value for our shareholders.

Z is a signatory to the UN Women's Empowerment Principles – one of over 1,400 businesses around the world demonstrating leadership on gender equality. The principles are created by the United Nations and serve to empower women in the workforce, marketplace, and community.

Back to contents

Our capability

Building capability, not trying to predict the future

The pace of change in the world makes the future impossible to predict. No one has one answer.

Z's answer to the long term is to develop our capability without knowing exactly how we'll need to use it. Our approach is 'Yes we see it, we're thinking about it, we're doing a lot of work to be ready. But no, we don't have one answer.' For some people, that's not an adequate response, but that's a truthful response.

We're thinking about how we transition from selling a product that contributes to climate change. Being able to see what's happening to fossil fuels elsewhere in the world gives us the opportunity to prepare for the future in a steady way. We're comfortable that our people are the best at what they do and will naturally evolve the company as challenges arise.

Scott Bishop
Z's Chief Innovation Officer

Back to contents

Z's Strategy team became a team of seven

The Strategy team is focused on getting a shared view of what the future could hold.

Lindis Jones is Z's General Manager, Corporate.

"We're getting on with making the choices for Strategy 3.0 – a capability-led strategy focused on our current core business."

The strategy sets out what we need to do to deliver on all of our strategic intents across the functional and the business strategies, and looks to What Is Next (WIN) beyond 2020. WIN is the long-term strategic thinking about the future of our business, the industry, and how we participate in a rapidly changing, carbon-constrained world.

"WIN is more far-reaching than ever before. We're looking at what skills we need to be successful in the next decade and what other market spaces Z could participate in. We're preparing for the gradual increase in the number of electric vehicles, and the need to reduce carbon emissions to combat climate change."

Continuing to grow our operational risk management system

This year, we fully implemented Z's new operational risk management system, ZORM, which provides a consistent approach to managing operational risks right across Z.

"It's about building the capability in the business to manage operational risks so that we have confidence to operate and ensure our people and the environment are safe," says Julian Hughes.

"As you get bigger, with more moving parts, a systematic approach to managing operational risk is really important. ZORM supports Z's stategy to build a generative HSSE culture by 2020."

This integrated approach focuses on three core areas: visible leadership, engaged people, and an enabled system.

"That way, we have the infrastructure and the engagement to get to the point where our people are really living HSSE and looking for ways to improve how we do things."

Julian says that Z's purpose – solving what matters for a moving world – compels the company to act on HSSE.

"We operate in an industry that has a wider range of hazards and risks than most. It's very hard to predict the future when you're managing operational risk in a business like ours. We've built our capability to manage operational risk, which allows us to make confident choices about our future operations."

The successful integration of Caltex and Z is an obvious example, and that same capability shows up in many different scenarios across the business.

Using design to eliminate risk

Last year, Z had a 'significant incident'. Julian Hughes describes what happened and how it changed the way we do things.

Z has a lot of tanks, holding a lot of hazardous products, all over the country. We've got a lot of controls to make sure the product stays in the tank.

One day a valve was left open, and we had a major leak from a tank at an airfield. A part of the tank was drained, and around 700 litres of jet fuel was released from storage. The fuel was quickly confined so that it didn't get into the ground, but it was still 700 litres of jet fuel not in the tank.

It was the first incident of that nature and of that size since Z has been operating. It's not the first leak we've ever had but because of its size, it was the most significant.

An operator had forgotten to close the valve. He'd been closing that valve for 20 years, no problem. But one day, for whatever reason, he forgot to close it.

Our investigation showed that while human error played a part in the incident so too did design. We've since changed some design elements to eliminate the risk of human error in that situation.

We're always looking for ways to remove that risk through design. We don't want to rely on someone remembering every day to turn the right knob. We want safety controls designed into the process.

Bringing a chief innovation officer on board

Z recently welcomed Chief Innovation Officer Scott Bishop into our team.

Scott has worked for Amazon and Microsoft, and most recently for Air New Zealand. He brings all of his experience to Z in a time of change and uncertainty to help our people tap into their potential and develop the capability to innovate.

Scott leads Z's innovation team, which is as much about driving culture change as it is about creating and exploring new products and services for the customer. He believes that innovation is driven by leadership behaviour. Companies need to develop leaders who move away from doing traditional research and making sure a product is 'perfect' to one of hypotheses and experimentation.

"When you're thinking about innovation, the whole premise is to not be certain," Scott says. "If you're confident in the outcome, then it's not an experiment. It requires a different type of leadership to be *unsure*, to be willing to take risks, operate on limited information, and not be afraid of failure. Experimenting with customers allows us to fail fast on concepts that don't get traction and accelerate those that do. This allows the business to move faster and involve customers in determining our future direction."

In the short term, the goal is to build a common language and operating model to help coach Z's different business groups on how to be more innovative.

"We want everyone to understand how to incorporate innovation into the ongoing rhythm of the business, and encourage people to make experiments that focus more on medium- and long-term value creation."

"And so we will investigate a portfolio of new near-term products and service opportunities combined with more ambitious projects that are more speculative and reach further into the future to ensure Z is a long-term, world-class Kiwi company."

The board as a thought partner

"At Z, the board is seen as a thought partner rather than an approver," says Debra Blackett, Z's Chief Governance Officer. "Everyone works to get to a better answer, so it's not about the board having all the answers. Everyone brings their experience and their thinking to build on the way we approach challenges."

In the same way that the company aspires to be a world-class Kiwi company, the board aspires to be a world-class Kiwi board. The board opens itself up to regular independent assessments of its performance. Given the volatility in the markets, the board's focus is on clear, distinctive, reliable corporate governance that supports sustainable value creation.

"The board works well as a team, largely because of the directors' diverse experience and ways of thinking."

The directors are highly engaged and put extra time and effort into working with the business to understand what's going on – site visits and safety 'walks and talks' are just part of the job.

The board has invested time and money in keeping up with the latest technologies and future thinking from around the world.

Z was the foundation sponsor of the SingularityU New Zealand Summit 2016, which almost all of the board attended over 3 days. The summit attracted speakers and attendees from around the world to focus on understanding, adapting, and thriving in an exponentially changing world.

singularityunz.com

"It requires a different type of leadership to be unsure, to be willing to take risks, operate on limited information, and not be afraid of failure."

Back to contents

Our environment

Working to be part of the solution

We are the first generation to feel the effect of climate change and the last generation who can do something about it.

– Barack Obama

Z accepts the overwhelming scientific evidence on climate change. We acknowledge that climate change is one of the biggest long-term material issues facing our company, our industry, our communities, and the world.

We supply a product that keeps New Zealand moving, but that also contributes to climate change. Clearly, we are part of the problem. We're moving to be part of the solution and we want to collaborate with others to make a difference.

Z is not tied to fossil fuels. We have no upstream assets. We don't need to sell oil if we can supply something else to keep New Zealand moving.

Saleshni Chand
Biodiesel Administrator at Z's Te Kora Hou biodiesel plant

Back to contents

Exploring alternative fuels

Z makes up almost half of the fossil fuels market in New Zealand, and the fuels the company sells contribute around 8 percent of New Zealand's carbon emissions. There is a need to transition to using less fossil fuel, and Z wants to be an agent of change.

Dave Binnie is General Manager, Supply and Distribution. He believes the opportunities that lie ahead in the short, medium, and long term for exploring alternative fuels are huge.

"We've got land everywhere in the country. We've got terminals. We're present across New Zealand. Couple that with all the retail sites we have now, and opportunities start to emerge. We could start to use the land we have differently. We could house more charging units for electric vehicles, for example – just one of the many different future options we are exploring."

We welcome electric vehicles to New Zealand

Z supports the introduction of electric vehicles (EVs) into New Zealand. With seven rapid-charging units at sites across the country, and three more on the way, we have a unique opportunity to watch the market and see how we might play a bigger part in the shift to EVs in the future.

Jonathan Hill is Z's Corporate Communications and Investor Relations Manager.

"EVs are perfectly suited to the New Zealand environment. Because our electricity generation is largely renewable, EVs are running on clean fuel. If you have to burn coal to make your electricity, EVs are not such a good story. New Zealand has one of the highest rates of renewable electricity generation in the world, so the opportunity to realise benefits from EVs is significant."

Z recently produced 'house view' on EVs, and shared it widely in the market.

"We want to be clear that we're not hiding from the challenges; we want to talk about them and engage with them. We're not being complacent, but equally, we're not panicking either. We have a role to play across a range of cleaner transport technologies and this is an area of real focus for Z."

Z's house view on electric vehicles

EVs are perfectly suited to the New Zealand environment because our electricity generation is largely renewable.

Z Bio D enters the market

After some delay, Z Bio D is soon to enter the New Zealand market.

"We took a commercial risk of investing $26 million in the first commercial-scale biodiesel plant in New Zealand," says Jonathan. "As far as we know, it's the world's first biodiesel plant built without any government subsidies."

The plant is part of Z's longer-term vision of transitioning to alternative fuels to counter climate change.

"It's a great example of the innovation from within the core of the company. Our asset base and the capability we've built in creating Bio D provides a powerful combination that enables us to create value over time."

Z Bio D will soon be available in the upper North Island, and owners of diesel vehicles can start using Bio D as it arrives in their region.

Z Bio D is made from locally sourced tallow, an inedible by-product of the meat industry, which doesn't compete with food production.

"It provides an instant reduction in carbon intensity for our customers. Straight away, you get a 4 percent emissions reduction. And for the first time, customers have a real choice to use a more sustainable product."

Jonathan says Z is pleased with the demand for the product from larger commercial customers.

"In particular, we want to thank Fonterra, Fulton Hogan, TIL, New Zealand Post, and Downers for their strong support for Z Bio D. We're really looking forward to putting a cleaner fuel in their tanks."

The biodiesel plant is part of Z's longer-term vision of transitioning to alternative fuels to counter climate change.

Greenhouse gas emissions

Tonnes CO_2e	Calendar year 2012 (base year)	FY17
Scope 1 – Z offices and retail sites	797	3,907
Scope 2 – Z offices and retail sites	5,984	4,045
Scope 3 – Z offices and retail sites	5,140	3,339
Scope 3 – New Zealand supply chain	21,167	40,031
Scope 3 – Share of refinery	542,590	634,848
Scope 3 – Rest of supply chain	612,911	807,542
Scope 3 – Z product emissions from our customers	6,101,736	9,488,277

Total emissions

Calendar year 2012 (base year)

7,290,325

FY17

10,981,990

With the inclusion of the Caltex business, our total emissions are now 51 percent higher than in our base year. Looking at operational and supply chain emissions, we've managed to reduce our intensity by 12 percent. Within our own operations, we've reduced our emissions by 58 percent per person compared to 2012 through energy efficiency and waste-reduction initiatives and the closing of our Gracefield plant in 2014.

Back to contents

Putting safety first at our biodiesel plant

Launching Z Bio D into the market has taken longer than we said it would. That's because we're committed to getting things right and running the plant safely and reliably.

Stewart Gibb and Sam Behzadi illustrated this commitment when, during a tank inspection, they saw something they both knew shouldn't be there.

GM HSSE Julian Hughes explains.

Stewart runs Z's biodiesel plant in Auckland; Sam manages operations. Both are absolutely committed to making sure that the plant operates safely.

Bio D was almost ready to enter the market, so they brought in the methanol – something you only do when you're ready to go because it's hard to get it out of the tanks once it's in.

During the final inspection, Stewart and Sam saw a small piece of corroded gasket. They knew the consequence of 'calling' it would be to not achieve what Z had publicly committed to do. They called it anyway. They announced that the Bio D launch would be delayed: they had to get things right.

Stewart and Sam didn't just fix that one gasket. If one gasket was a problem, then possibly all of them were compromised. They went right through the plant making sure that every gasket was 100 percent.

Their decision reflects the generative health and safety culture that Z is committed to building. You can be committed to safety or sustainability, but that commitment only means something if you act on it. Their health and safety leadership was acknowledged in Z's annual staff-awards ceremony.

Z's Biodiesel Administrator, Saleshni Chand, and Biofuels Operations Manager, Stewart Gibb

The less waste to landfill the better – for the environment and for the bottom line.

Environmental sustainability is smart business

The less waste to landfill the better – for the environment and for the bottom line. Over five years, Z retailers have reduced waste from the front line to landfill by 54 percent. That's a really good result given that, during that time, retail sites also increased their café offers.

In the past year, Z retail sites introduced locally made, compostable coffee cups. The cups are for composting, not recycling. They're commercially compostable rather than home compostable, so we have composting collections at 70 sites around the country. Our retailers take responsibility for that waste if people leave the cups at a Z site.

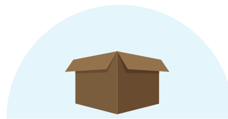
Forecourt recycling bins arrive at our retail sites in July this year. Instead of the one grey rubbish bin, our customers will have four different compartments to separate different types of recycling materials.

Dave Gillies, who operates a cluster of retail sites in the upper part of the North Island, says when reducing waste also benefits the local community, he and other retailers are all for it.

"Giving away coffee grinds to local gardeners has been an amazingly simple way to cut waste from our sites. Customers whisk the grinds away as fast as we can produce them."

Recycling – cardboard and paper

FY17 **3,212 tonnes** | FY16 **3,098 tonnes**



Composting and organics

FY17 **442 tonnes** | FY16 **456 tonnes**

Recycling – plastic, cans and glass

FY17 **923 tonnes** | FY16 **832 tonnes**

Landfill

FY17 **1,698 tonnes** | FY16 **1,461 tonnes**

Total waste

FY17 **6,275 tonnes** | FY16 **5,847 tonnes**

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

Back to contents

Our assets

Committed to zero harm to people and the environment

The biggest safety risk to our people and our business that we've had to deal with in the last year is the significant escalation in robberies.

Z retail sites have sustained 23 robberies over the year, mostly in the Auckland region. Robberies are a significant problem for the industry and beyond: dairies and bottle stores have also seen a rise in robberies.

We are working with police locally and at a national level, and their intelligence points to tobacco being stolen to order. The offenders are ram-raiding and smashing their way into stores. They're not bothering with cash because we don't hold any. They're just after tobacco.

Jessica McCleary
Forecourt Concierge
at Z Washdyke in Timaru

Back to contents

The rise of highly organised and executed robberies

The people carrying out the attacks are not always the end customer. They're often hired to carry out the robberies. They generally go after the product, not the people, but this year one of our front-line people was hospitalised after an attack.

Mark Forsyth is Z's General Manager, Retail.

"These robberies are an industry thing. It doesn't matter what brand is on the site, we're all getting attacked."

The industry has formed a security group that works together to find the most effective response to the attacks.

"Our number one priority is the safety of our people. With the number of robberies that we've had to deal with this year, we are not where we want to be in meeting our safety objectives."

Z has invested heavily in robbery prevention and will continue to invest over FY18. In the last quarter of this financial year, Z saw an increase in the number of attempted robberies that failed. At the same time, the rate of arrests for offenders has continued to be very high.

Protecting our people and assets through technology

We have increased our asset programme across Auckland to make our sites safer.

Bollards are now positioned across the front of every store, making it impossible to drive into a store.

We invested in licence-plate recognition software, linking our cameras to a police database. If cars or people of interest appear on our sites, that's immediately communicated to the police.

Across all of Auckland, we've installed fog cannons, a product that blasts the store with a sugar-soap cloud solution and reduces visibility to zero in a matter of seconds. It disorientates the offenders and puts them off coming in, in the first place.

We've rolled out a new glass film, which is a see-through product applied to the glass, distributing the force across the whole pane of glass. If someone hits the glass with a hammer, the film absorbs the blow and helps stop the glass from smashing.

Tobacco sales currently form a meaningful part of Z's retail profits, but that doesn't mean we will continue to sell the product in the future. Z recognises the harm of tobacco and supports any regulatory intervention on tobacco sales as long as it's fair and equally applied across all retailers.

Our number one priority is the safety of our people.

"If you buy 52 shipments of crude oil, you get a better price than if you buy 26 – both for the shipping and for the crude oil."

Delivering value through the scale of the Z and Caltex networks

Since the Caltex acquisition, the commercial scale of Z, as a company, has grown. With around 45 percent of the volumes in New Zealand now under local operation, a transformative opportunity presents itself for Z. Our new scale gives us the opportunity to do things differently.

Nic Williams is Z's General Manager, Commercial.

"Our strategy focuses on the opportunities from the combined commercial portfolio. We're working to capture the efficiencies of the Caltex operating model with the more flexible, customer-focused approach of Z."

Z continues to identify options for growing the value of the business, and we've got far more options than ever before. That comes from scale: the business is around 70 percent bigger than it was at the beginning of the year.

"We're already seeing some opportunities for the businesses to work together. We acquired a lubricants business, something Z hasn't had before, and so there's an opportunity for us to grow that business and bring that product line into the Z service stations."

The more immediate benefits will be in things like security of supply. We've got more terminals and terminal locations around the country now than anyone else. Because we can hold more stock, we'll be better placed to manage supply disruptions.

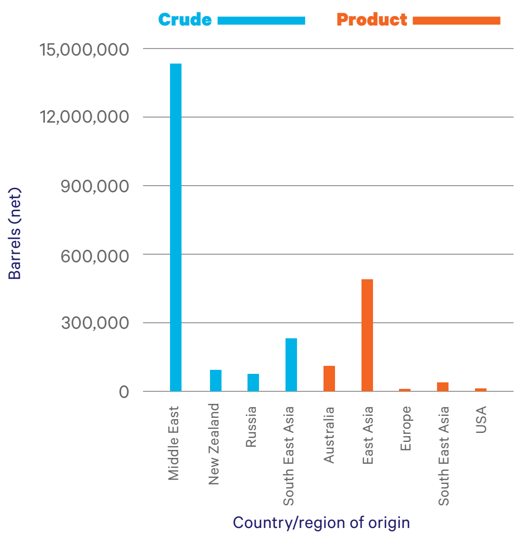
"There are some immediate scale benefits in terms of customer coverage. The more tangible benefits are likely to show up over the next year or two."

Scale provides all kinds of opportunity. "Very simply, we've got trucks that deliver to Caltex service stations driving past Z service stations. So we've now got the ability to be smart about how we do things."

Z has outlined to the market the supply-chain synergies from the combined business, such as increased procurement strength in international markets.

"If you buy 52 shipments of crude oil, you get a better price than if you buy 26 – both for the shipping and for the oil."

Product and crude purchases by origin (barrels)



Total crude		Total product		Grand total (barrels)
18,319,170	+	6,604,531	=	**24,923,701**

Back to contents

As demand for international air travel has rapidly increased, we've worked hard to ensure continuity of supply for our customers.

Supporting New Zealand's booming tourist industry

In the last 18 months, the number of airlines operating out of Auckland airport has increased by 50 percent, putting unprecedented pressure on jet-fuel supply as well as New Zealand's tourism infrastructure.

Z's Commercial team is working to keep all planes moving. Nic Williams explains.

As demand for international air travel has rapidly increased, we've worked hard to ensure continuity of supply for our customers.

Recently, a major airline signalled its intention to enter the New Zealand market, and started selling air tickets to Kiwis and international visitors. Our two major competitors couldn't supply the airline with jet fuel. Initially, we said we couldn't either because demand was so strong: we simply didn't have enough product. Then we took an NZ Inc approach to the situation.

How could we make it happen so as to not put a cap on New Zealand's tourist numbers when tourism is the number one export earner right now? We're the link between the customer and the refinery to enable that continuity of supply.

So we engaged with the refinery and our customers, and pulled out all the stops to make it happen.

The airline and several others are now bringing flights into New Zealand. By putting the time and effort into a problem-solving exercise, we found a way to make it happen. This is what we mean by 'solving what matters for a moving world'.

Historically, all jet fuel at Auckland International Airport has been manufactured at the refinery. With sustained, strong demand from the booming flight numbers through the airport, the market has moved to a model in which refined jet fuel now needs to be imported to supplement local production.

The structural move to importing jet fuel on an ongoing basis was always a likely outcome, but it has happened several years sooner than expected as a result of New Zealand's tourism boom.

Importing jet fuel requires investment to be made at the refinery, and it costs more than manufacturing locally. This will show up as a different price for Z's jet-fuel customers, but it will enable our tourism industry to maximise its opportunity for the benefit of New Zealand.

Differentiating our offer and experience for customers

Z now has a dual brand presence in retail that opens up a world of opportunities.

The brand strategy has three parts to it: the corporate brand; the Z retail brand; and the Caltex retail brand. Z's Marketing team is working on how the three parts live in harmony and create value for the business and for our customers.

Jane Anthony is Z's General Manager, Marketing.

"We don't want the different brands to be competing directly against each other; we want them to be complementary. Caltex will have a different identity from what it had under Chevron ownership. We're also not looking to turn the Caltex brand into the Z brand. The Caltex brand will be distinctive, yet relative to the Z brand."

The biggest challenge for marketing this year was the dynamic shift in the customer loyalty programmes and the potential for confusion in the market to impact on performance. Z now partners with the three largest loyalty programmes in the country: Fly Buys, Air New Zealand Airpoints, and AA Smartfuel.

"We see the partnerships as a privilege. We have a great opportunity to make the most of that for Z and for our customers."

In the medium to long term, digital will play a big part in loyalty.

"People around the world are already ditching loyalty cards for a simple phone app."

And the fuel version of that? Jane says it won't be inserting a card in the pump and tapping in a PIN. It will all happen automatically: easy, seamless, digital.

"Customers already have that expectation in many areas of life; it won't be any different at the pump."

Overall satisfaction scores

out of a total of 70,954 customers surveyed rated their experience 'very satisfied' or higher.

"We serve 60-odd million people in the Z network every year, making us the fourth biggest retailer in the country. We're only as good as how we served the last customer, about 3 seconds ago, somewhere in the country."

Back to contents

Our place in New Zealand

A Kiwi company doing good in the hood

Z is an NZX 10 company. It's no secret that we're a big business. We understand our responsibility to support the communities we live and work in.

Quite simply, Z is for New Zealand. From our retail sites all over the country, we sell the fuel that New Zealanders need to keep moving. That makes us a big part of every community up and down the country – and it's important to us that we're a force for good.

'Community' is one of Z's four stands – the things we are committed to as a company. The Community Stand has three parts: neighbourhood solutions; safe and healthy communities; and aspirations and achievement. We're in action on all of our goals, and making a difference in our communities.

Luana Tupou
Site Manager, Z Whitianga

Back to contents

Our skilled volunteering programme provides our employees with an opportunity to use their skills to help not-for-profit groups in the community.

We're part of neighbourhood solutions

Z's Good in the Hood programme continues to support hundreds of community groups every year. We are in our sixth year of helping groups who help people who need it in the neighbourhoods around our stations. This year, Z announced a widening of the programme to include groups who actively support our environment.

Christine Langdon leads Community at Z.

"Z wants to be part of sustainable environments, so Good in the Hood is playing its part."

The programme has evolved to include more than financial support.

"Just being part of Good in the Hood gives profile to groups we support. We provide tools and resources to help groups to promote themselves within their local communities. They can also go on-site and be forecourt concierges for a day to connect face to face with our local staff, retailers, and customers."

> **"We work to deliver the most benefit for the most people."**

Z is committed to supporting safe and healthy communities

Z-branded service stations across the country process around 60 million transactions a year with motorists travelling on our roads. It's fair to say that Z is fundamental to motorists, and that makes road safety fundamental to Z.

"Z collaborates with the police and NZTA to support their road safety initiatives, such as their summer speed campaigns. This includes promoting road safety messages at our Z stations and through social media."

Caltex has also been a leader in road safety initiatives, partnering with Students Against Dangerous Driving, and the Community Driver Mentor Programme. Christine sees the opportunity to combine the knowledge from both brands, and partner organisations, and deliver road safety initiatives that create the most impact in our communities.

Z retail stores operate on a business model traditionally based on selling pies and soft drinks.

"Demand has changed and so too will our offer. Z is working to offer customers a greater range of healthier food and beverages. This year that included a fresh fruit offer, a better-for-you drinks range, and new promotions on healthier options."

Despite all the health warnings about smoking, around 14 percent of Kiwis choose to smoke. Z doesn't want to tell people what they can or can't do, but we do believe customers should have choices. Z retail stores have started selling a nicotine-replacement product, giving customers somewhere they can buy the product at any hour of the day or night.

We publicly supported the introduction of electronic cigarettes, which we believe are likely to offer a safer alternative to traditional tobacco products. z.co.nz.assets/NEWS/Z-Energy-submission-on-ecigarettes.pdf

Supporting the aspirations of our wider whānau

Z supports the aspirations and achievements of our wider whānau, including the front-line staff at Z retail sites. Z runs a scholarship programme that, this year, supported eight site staff from Z-branded service stations to work towards a tertiary-level qualification.

"A lot of site staff come to work on Z's front line without having had the opportunity to achieve a tertiary qualification. The scholarship programme opens up a world of opportunities for staff – typically for the first member of a family ever to have taken the opportunity," says Christine. "The programme benefits our scholars and the people around them, as their families and workmates see them succeeding and see possibilities for themselves."

Two front-line staff recently graduated with a Bachelor of Applied Management and are excited to bring their new knowledge and skills back into the business to create value for Z.

Luana Tupou and Nathan Taramai both agree that after three years of study, they've grown and become more effective leaders. They say they now have a better understanding of strategic management and embrace new responsibilities.

"We can draw on our academic grounding to help design new approaches or coach others in our clusters," says Nathan.

Luana was 20 years out of school when she was selected for the scholarship programme.

"I was a bit anxious about whether I could hold down a full-time job and study until I met Nathan and the others on the programme. The ongoing support really helped me to get through."

Luana and Nathan want to inspire more front-line staff to take up the opportunity to study. Both are adamant that if they can do it, so can others.

Z's front-line employees Luana Tupou and Nathan Taramai both graduated this year with a Bachelor of Applied Management.

Back to contents

Sharing our skills with the community

All of Z's corporate employees are encouraged and supported to give back to the community. That's because, as a company, we recognise that we're very privileged. We also recognise that privilege comes with responsibilities.

"Our Skilled Volunteering programme provides our employees with an opportunity to use their skills to help not-for-profit groups in the community," says Christine Langdon.

This year, Z's Community team took their thinking a step further, and supported the development of a new external skilled-volunteering website initiative, 'HelpTank', expected to launch in June 2017.

"We've contributed funding and our skills to help get HelpTank set up because we see volunteering opportunities for our people, and HelpTank can support so many more community groups than we could on our own."

This year, Z's Community team took their thinking a step further, and supported a new external skilled-volunteering initiative, 'HelpTank', expected to launch in June 2017.

The Z Foundation supports people in sudden hardship

Z retailers, who employ Z's front-line people, often go beyond what you would expect of an employer, to help their staff.

They have put their commitment to their people in black and white in the Crew Promise. As part of the Crew Promise, this year they set up the Z Foundation.

The Z Foundation is a fund that provides financial support for site staff who find themselves in real hardship when the unexpected happens. It may be that they or a child in the family has a significant health problem, or the family car has been stolen, or the family home has burnt down.

"Retailers have put money into the Z Foundation and so has Z. We are committed to continuing to build the fund over the long term."

Fuel your finances: new financial-capability tools for front-line staff

Z is committed to building the financial capability of retailers' staff to empower them to make smart financial decisions for the future and for their retirement.

This year, Z piloted a financial-capability programme called *Fuel your Finances*. The programme is initially for Z's front-line people who might simply want to understand more about their payslip, or find options for how to use their money and save.

The pilot included both a face-to-face programme, and an online learning module.

"Results so far are very positive," says Christine. "At the start of the pilot, around 40 percent of staff who participated in the pilot were enrolled in Kiwisaver; by the end, 100 percent were enrolled."

> "Today, New Zealand has 21 brands in the retail fuel market – some operating low-cost, asset-light business models."

Petrol prices in New Zealand – confusing for customers

Z welcomed the recent announcement of a study into the operation of the New Zealand fuel market. The Ministry of Business, Innovation, and Enterprise is leading the study, and we hope it will bring clarity to the situation.

Only 10 years ago, four major brands were selling identical products in identical markets at identical prices.

Today, New Zealand has 21 brands in the retail fuel market – some operating low-cost, asset-light business models. Seventy percent of New Zealand service stations are now operated by independent business people – this has been a massive shift in the market and it's showing up in different prices.

Those brands have very low costs and can sell petrol at very low prices, creating intense regional competition. Z, on the other hand, owns and operates a nationwide infrastructure network that enables us to keep the country moving in the short, medium, and long term.

At Z service stations, we differentiate ourselves from these competitors with offers that our customers tell us they value – food and beverages on the go; forecourt concierges; hotel-style bathrooms; and pay@pump.

Our customers tell us they value our food and beverages on the go, our forecourt concierges, hotel-style bathrooms, and pay@pump.

Back to contents

Our finances

A strong financial story to tell

We have fully achieved our financial objectives for the year, and delivered on our commitment to investors.

The Caltex transaction was completed successfully and the financial performance of the acquisition has showed up in Z's financials in the first 10 months, consistent with our expectations.

Financial performance of $419 million of Replacement Cost Operating EBITDAF (excluding one-off integration expenses) was 1 percent above the upper end of our guidance range of $385–$415 million and reflected solid operating performance in most areas of the business. In replacement cost net profit terms, the return was around 4.6c per litre of fuel sold, including profits from the convenience stores.

Z's Total Shareholder Return (TSR) for the 3 years to 31 March 2017 ranked as number seven on the NZX50, achieving the company's target of upper quartile TSR performance.

Back to contents

The Caltex acquisition – the highlight of the financial year

Caltex was purchased for $785 million at an earnings multiple of around six times current replacement-cost earnings, with settlement on 1 June 2016. This followed an extended and thorough 11-month regulatory review and sign-off that enabled the transaction to proceed, subject to Z divesting 19 retail sites and one truck stop. This was completed ahead of the February deadline.

Chris Day is Z's Chief Financial Officer.

"In achieving the divestment outcome, we met all of our obligations and set goals in line with Z values, putting people and their jobs first. We're very proud of that. We could have just signed and walked away, but we didn't. We put a lot of time and effort into our communications with retailers and staff."

Acquiring Caltex delivered on Z's consolidation strategy and enables the company to build on the achievements of the company's first two rounds of strategy – Strategy 1.0 and Strategy 2.0. Both strategies were largely about establishing and building the Z brand while at the same time investing in the core business to enable a significant lift in operational performance and the value proposition for customers.

The higher returns that have come from executing these strategies have also enabled Z to reinvest in the resilience of the business, improve the offer for customers, and honour the commitments we have to running a safe business.

"This investment would not have been possible in the environment when Shell exited in 2010 because returns were below the cost of capital. The investment would not have been worthwhile."

The Caltex transaction was fully debt-funded and did not require any equity to be raised. Since settlement, we've reduced leverage from around 2.6 times RC Operating EBITDAF (excluding transition expenses) at the time of the transaction to around 2.3 times at 31 March 2017.

The leverage reduction was generated by our choices for capital recycling, from site sales and divestments, and operating cash flows that put us well on the way to meeting our deleveraging targets.

Investing in integrity and growth

Aside from the investment to acquire the Caltex business, Z invested $77m in capital expenditure in FY17. This was split between integrity ($45m) – maintaining pipes, tanks, and our ICT systems, and in growth ($32m) – principally in building four new sites and rebuilding existing sites.

As a final step in completing capital management activities in FY17, Z issued $220m in retail bonds to repay maturing bonds and replace some of the bank debt accumulated as part of the acquisition, with longer dated retail bonds.

"The net effect of the bond issue was to diversify funding, increase duration from 2.1 years to 3.2 years, and reduce annual financing expenses by around $5m."

Investing for the future

Z is undertaking a significant reinvestment in its key technology platforms to improve their integrity and make them fit for purpose in realising Z's strategy over the medium term.

This has seen the company begin updating the point of sale technology at all of the Z-branded retail sites with nine sites live at 31 March and roll-out to be completed around the middle of FY18.

Z is also reinvesting in its core Enterprise Resource Planning (ERP) computer system.

"We are delivering a broadened and refreshed ERP planned for the second half of FY18 and beginning a multi-year project to upgrade Z's fuel-card systems – both the Z and Caltex legacy systems."

Strategy 3.0 relies on delivering on the business choices we have available to us through building commercial relationships and partnerships with other parties.

Getting on with making the choices for Strategy 3.0

Strategy 3.0 relies on delivering on the business choices we have available to us through building commercial relationships and partnerships with other parties.

"We expect the capital demand associated with Strategy 3.0 will not be significant. However, we do expect that our organisational capability – in-house and through our partners – will need to be developed to enable us to make the most of the strategy. Z is instinctively well positioned to do that."

Investor Day – sharing our strategy for the future

Z's Investor Day held in October highlighted our strategy for the future and the option-rich portfolio that we've generated as a result of the Caltex transaction. It was also a chance for us to talk to the investor community about our strategies and give them confidence in the leadership of the business in the short, medium and longer term.

"Our focus is now on realising the full value from the transaction over the next two to three years. At the same time, we will be working on our strategy for What Is Next (WIN). We have a dedicated team developing options for WIN after Strategy 3.0."

We plan to hold an investor day on 28 September 2017. At that time, we will update progress on Strategy 3.0, provide some initial insight on WIN, and share our thinking on updating Z's distribution policy to take effect once we have deleveraged the business back to the two times RC operating EBITDAF target.

Back to contents

Our financial statements

For the year ended 31 March 2017

Back to contents

Statement of comprehensive income

for the year ended 31 March 2017

	Notes	2017 $m	2016 $m
Revenue	4, 5	3,871	2,521
Purchases of crude and product		(2,010)	(1,417)
Excise and carbon expenses		(941)	(569)
Primary distribution expenses		(41)	(27)
Operating expenses	6	(397)	(353)
Share of earnings of associate companies net of tax	15	6	23
Earnings before interest, taxation, depreciation including gains and (losses) on sale of fixed assets, amortisation, impairment, fair value movements in interest rate derivatives and movements in decommissioning and restoration provision (EBITDAF)		**488**	178
Depreciation and amortisation	12, 13	(89)	(41)
Net financing expense	7	(56)	(32)
Fair value movements in interest rate derivatives		3	(6)
Impairment	12	(5)	(5)
Loss on sale of property, plant and equipment		(1)	(1)
Movements in decommissioning and restoration provision		2	(7)
Net profit before taxation		**342**	86
Taxation expense	17	(99)	(22)
Net profit for the year		**243**	64
Net profit attributable to owners of the company		**243**	64
Revaluation of land and buildings net of tax		5	100
Movements in decommissioning and restoration provision recognised in asset revaluation reserve		-	(2)
Share of associate other comprehensive loss net of tax		(1)	-
Other comprehensive income net of tax		**4**	98
Total comprehensive income for the year		**247**	162
Total comprehensive income attributable to owners of the company		**247**	162
Basic and diluted earnings per share (cents)	20	61	16

The accompanying notes form part of these financial statements.

Statement of changes in equity

for the year ended 31 March 2017

	Notes	Capital $m	Retained earnings $m	Employee share reserve $m	Asset revaluation reserve $m	Total equity $m
Balance at 1 April 2015		432	(59)	(3)	135	505
Net profit for the year		-	64	-	-	64
Other comprehensive income		-	-	-	98	98
Disposal of revalued assets		-	1	-	(1)	-
Total comprehensive income for the year		-	65	-	97	162
Transactions with owners recorded directly in equity:						
Own shares acquired		-	-	(1)	-	(1)
Share-based payment		(1)	-	1	-	-
Dividends to equity holders	19	-	(100)	-	-	(100)
Supplementary dividends to equity holders		-	(7)	-	-	(7)
Tax credit on supplementary dividends		-	7	-	-	7
Total transactions with owners recorded directly in equity		(1)	(100)	-	-	(101)
Balance at 31 March 2016		431	(94)	(3)	232	566
Balance at 1 April 2016		431	(94)	(3)	232	566
Net profit for the year		-	243	-	-	243
Other comprehensive income		-	(1)	-	5	4
Disposal of revalued assets		-	2	-	(2)	-
Total comprehensive income for the year		**-**	**244**	**-**	**3**	**247**
Transactions with owners recorded directly in equity:						
Own shares acquired		-	-	(1)	-	(1)
Share-based payment		(1)	-	1	-	-
Dividends to equity holders	19	-	(110)	-	-	(110)
Supplementary dividends to equity holders		-	(11)	-	-	(11)
Tax credit on supplementary dividends		-	11	-	-	11
Total transactions with owners recorded directly in equity		**(1)**	**(110)**	**-**	**-**	**(111)**
Balance at 31 March 2017		**430**	**40**	**(3)**	**235**	**702**

The accompanying notes form part of these financial statements.

Back to contents

Statement of financial position

as at 31 March 2017

	Notes	2017 $m	2016 $m
Shareholders' equity		**702**	566
Represented by:			
Current assets			
Cash and cash equivalents	11	9	76
Accounts receivable and prepayments	8	278	234
Inventories	10	464	203
Derivative financial instruments	23	4	8
Income tax receivable		-	28
Total current assets		**755**	549
Non-current assets			
Property, plant and equipment	12	900	674
Goodwill	13	158	-
Intangible assets	13	535	44
Investments in associates and subsidiaries	15, 16	116	115
Derivative financial instruments	23	5	11
Other non-current assets		4	1
Total non-current assets		**1,718**	845
Total assets		**2,473**	1,394
Current liabilities			
Accounts payable, accruals and other liabilities	9	426	278
Income tax payable		24	-
Provisions	18	23	6
Short-term loan	21	51	-
Bonds	22	-	147
Derivative financial instruments	23	10	9
Total current liabilities		**534**	440
Non-current liabilities			
Other liabilities		14	15
Provisions	18	50	37
Derivative financial instruments	23	12	21
Deferred tax	17	170	32
Bonds	22	501	283
Long-term loan	21	490	-
Total non-current liabilities		**1,237**	388
Total liabilities		**1,771**	828
Net assets		**702**	566

Approved on behalf of the board on 10 May 2017.

Peter Griffiths
Chair

Abigail Foote
Chair, Audit and Risk Committee

The accompanying notes form part of these financial statements.

Statement of cash flows

for the year ended 31 March 2017

	Notes	2017 $m	2016 $m
Cash flows from operating activities			
Receipts from customers		3,911	2,557
Dividends received		4	13
Interest received		23	22
Payments to suppliers and employees		(2,622)	(1,794)
Excise and carbon paid		(940)	(592)
Interest paid		(71)	(50)
Taxation paid		(50)	(27)
Net cash inflow from operating activities		**255**	129
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		23	6
Net proceeds from divestments		18	-
Purchase of intangible assets		(5)	(5)
Chevron New Zealand acquisition	4	(778)	(79)
Purchase of property, plant and equipment		(70)	(72)
Net cash outflow from investing activities		**(812)**	(150)
Cash flows from financing activities			
Net proceeds from bank loan	21	541	-
Issue of bonds	22	220	-
Purchase of shares	19, 25	(3)	(2)
Dividends paid to owners of the company	19	(121)	(107)
Repayments of bonds	22	(147)	-
Net cash inflow / (outflow) from financing activities		**490**	(109)
Net decrease in cash		(67)	(130)
Cash balances at beginning of year		76	206
Cash and cash equivalents at end of year		**9**	76

The accompanying notes form part of these financial statements.

Back to contents

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

	Notes	2017 $m	2016 $m
Net profit for the year		243	64
Adjustments to reconcile profit to net cash inflow from operating activities			
Depreciation and amortisation		89	41
Impairment		5	5
Share of earnings of associate companies (net of tax)		(6)	(23)
Fair value of derivatives		(3)	6
Dividends received	15	4	13
Other		(19)	(1)
Changes in assets and liabilities, net of non-cash, investing and financing activities			
Change in accounts receivable and prepayments		(25)	6
Change in inventories		(83)	102
Change in accounts payable, accruals and other liabilities		2	(72)
Change in taxation		48	(12)
Net cash flow from operating activities		**255**	129

The accompanying notes form part of these financial statements.

Notes to the financial statements

for the year ended 31 March 2017

1. Basis of accounting

Reporting entity

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

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

Basis of preparation

The financial statements have been prepared in line with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and the Financial Reporting Act 2013. They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities, and with International Financial Reporting Standards (IFRS). Z has reported as a Tier 1 entity under the new External Reporting Board (XRB) Accounting Standards Framework. Z meets the definition of a Tier 1 entity because it is 'publicly accountable' and 'large' as defined by the XRB.

The functional and reporting currency used to prepare the financial statements is New Zealand dollars, rounded to the nearest million ($m). The financial statements have been prepared on a GST-exclusive basis except billed receivables and payables, which include GST.

The financial statements are prepared on the basis of historical cost except certain financial derivatives, which are valued in line with the accounting policy in note 23, and property, plant and equipment, which is valued in line with the accounting policy in note 12.

Basis of consolidation

A list of associates and subsidiaries is shown in notes 15 and 16. Consistent accounting policies are employed in preparing and presenting the Group financial statements. Intra-group balances and any unrealised income or expenses arising from intra-group transactions are eliminated in preparing the Group financial statements.

2. Changes in accounting policies

No changes to accounting policy have been made during the year and policies have been consistently applied to all years presented in the financial statements.

Presentational changes

Certain amounts in the comparative information have been reclassified to ensure consistency with the current period's presentation. The following balances have been reclassified: property, plant and equipment – terminal plant has been split out of plant and machinery; provisions – remediation has been included with decommissioning and restoration; and investment in associates – prior year comparatives for Coastal Oil Logistics Limited (COLL) have been restated.

Adoption status of relevant new financial reporting standards and interpretations

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

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

NZ IFRS 9 Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after 1 January 2018), which has been issued. Adopting this standard is not expected to have a material impact on the financial statements of Z.

Back to contents

2. Continued

NZ IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019), which has been issued. NZ IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Accounting by lessors is unchanged under NZ IFRS 16. As such, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. When adopted, NZ IFRS 16 will have an impact on the Group's financial statements. The estimated impact based on leases held at 31 March 2017 is an increase in property, plant and equipment of $424m, liabilities of $424m, interest expense of $20m, depreciation expense of $21m, and a decrease in operating expenses of $31m. The impact on net profit is nil over the duration of the lease.

3. Critical accounting estimates and judgements

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

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

Provisions

Liabilities are estimated for decommissioning and restoration of certain sites of operation. Such estimates are valued at the estimated future costs of the expenditure expected to settle the obligation. Key assumptions have been made as to the expected amount and timing of expenditure to remediate, based on the expected lives of the assets employed on the sites, discounted using a risk-free rate (refer to note 18).

Valuation of investments in associates and subsidiaries

Management performs an assessment of the carrying value of investments at least annually and considers objective evidence for impairment on each investment taking into account observable data on the investment, the fair value, the status or context of capital markets, its own view of investment value, and its long-term intentions. For more detail, refer to note 15 and 16.

Measurement of fair value

Some of the Group's accounting policies and disclosures require the measurement of fair values. For further information about the assumptions made in measuring fair values, refer to notes 12 and 23.

Business combinations

The recognition of business combinations requires the Group to make judgements and estimates about the fair value allocation of the purchase price. Where the purchase price exceeds the fair value of the identifiable assets, goodwill is recognised. In line with NZ IFRS 3 guidelines, the figures provided in these statements are final (refer to note 4).

Goodwill

Goodwill recognised through a business combination depends on the Group's judgements and estimates for the fair value of the assets acquired and the liabilities assumed. Goodwill is an indefinite life intangible asset and is tested annually for impairment by estimating the future cash flows that the Group is expected to generate. Estimating future cash flows requires key judgements including expected fuel volume growth or decline, expected future margins, and the discount rate for valuing future cash flows (refer to note 13).

4. Business combination

(a) Summary of acquisition

On 1 June 2016, the Company acquired 100% of the share capital of Chevron New Zealand (renamed Z Energy 2015 Limited), an importer, distributor and seller of transport fuel and related products. The acquisition has strengthened the Group's fuel network within New Zealand.

Details of the purchase consideration, the net assets acquired, and goodwill are as follows.

	$m
Cash paid	147
Debt	710
Total purchase consideration	**857**

The assets and liabilities recognised as a result of the acquisition are shown below.

	Fair value $m
Property, plant and equipment	246
Inventories	195
Trade receivables	86
Other current assets	4
Other non-current assets	4
Investment in subsidiaries and associates	1
Deferred tax	(148)
Trade payables	(135)
Provisions	(34)
GST and FBT payable	(4)
Intangible assets	484
Goodwill	158
Net assets acquired	**857**

The goodwill is attributable to the future earnings of the Group. Goodwill is not deductible for tax purposes.

(i) Contingent liabilities

A contingent liability has been recorded for back-dated excise duty claims by New Zealand Customs Service for periods 1 October 1996 to 31 December 2013, and 1 January 2015 to 30 September 2016.

On 7 March 2017, Z Energy 2015 received an assessment for excise and additional duty of $54.1m. This has been paid and the portion of the assessments that relates to the period before 1 June ($53m) has been funded by a third party under an indemnity.

(ii) Acquired receivables

The fair value of acquired trade receivables was $86m. The gross contractual amount for trade receivables due was $86m, all of which has been collected.

(iii) Revenue and profit contribution

The acquired business contributed revenues of $1,425m to the Group for the 10-month period to 31 March 2017.

If the acquisition had been at the start of the reporting period, it is estimated revenues for the combined entity would have been $4,149m.

It is impracticable to accurately derive profit or loss for each entity due to the combined purchasing and processing of crude and product together with the co-mingling of support and other services in the Group since the acquisition date.

Back to contents

4. Continued

(iv) Assets held for sale

As part of the Commerce Commission clearance process for the acquisition, Z was required to divest 19 retail service stations and one truck stop across the combined Z- and Caltex-branded sites. The Caltex-branded sites identified to divest made up $0.2m of property, plant and equipment acquired, and were recognised as assets held for sale. The divestment of these sites was completed by January 2017.

(v) Investment in associates

As a result of acquiring Z Energy 2015 Limited, the Group now owns a larger share of Coastal Oil Logistics Limited (COLL) (50%) and Wiri Oil Services Limited (WOSL) (44%). Despite this increase in ownership, the Group does not have control over either but continues to have significant influence. Therefore, both will continue to be reported as associates.

(b) Purchase consideration

	$m
Outflow of cash to acquire subsidiary:	
Acquisition price	785
Working capital adjustment	72
Cash acquired on acquisition	66
Total cash consideration	**923**
Less:	
Cash acquired on acquisition	(66)
Total purchase consideration	**857**
Deposit paid 2 June 2015	(79)
Outflow of cash from investing activities – Chevron New Zealand acquisition	**778**

(i) Acquisition-related expenses

Acquisition-related expenses of $14m (31 March 2016: $25m) are included in operating expenses in the Statement of comprehensive income and in operating cash flows in the Statement of cash flows.

5.

Revenue

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

	2017 $m	2016 $m
Fuel	3,802	2,457
Non-fuel	69	64
Total revenue	**3,871**	2,521

6.

Operating expenses

	2017 $m	2016 $m
Employee benefits	69	53
Secondary distribution	64	45
Selling commissions	59	59
On-site expenses	57	52
Administration and other expenses	54	37
Professional fees	39	39
Marketing expenses	36	23
Storage and handling	20	13
Insurance	6	6
Operating expenses excluding (gains) / losses on foreign exchange and commodity transactions	**404**	327
(Gains) / losses on foreign exchange	(7)	15
Losses on commodity transactions	-	11
Total operating expenses	**397**	353

Included in professional fees are fees paid to auditors. These fees include audit and audit-related fees of $383,026 (2016: $256,280) and other service fees of $94,100 (2016: nil). Audit and audit-related fees comprise the audit and review of financial statements $358,500 (2016: $216,820), technical accounting opinions $6,526 (2016: $21,460), fees for audit of bank covenants and trustee reporting $12,000 (2016: $12,000), and agreed upon procedures for license fee return $6,000 (2016: $6,000).

Other service fees comprise IRD risk review $6,500 (2016: nil), Global Reporting Initiative reporting review $13,000 (2016: nil), pro forma financial statements for retail bond issue $34,600 (2016: nil), Z Retailer reporting advisory $30,000 (2016: nil), and cost of sales adjustment review $10,000 (2016: nil).

Included in professional fees are directors' fees of $0.9m (2016: $0.8m).

Back to contents

7. Net financing expense

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

	2017 $m	2016 $m
Interest income from swaps	20	20
Interest income from cash	1	4
Other finance income	1	2
Total financing income	**22**	26
Interest expense on bonds	(29)	(30)
Interest expense on swaps	(19)	(19)
Interest expense on secured bank facilities	(19)	-
Financing fees	(9)	(4)
Other finance expense	(2)	(5)
Total financing expense	**(78)**	(58)
Net financing expense	**(56)**	(32)

8. Accounts receivable and prepayments

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

	2017 $m	2016 $m
Trade receivables	249	135
Prepayments	17	12
Deposit for Chevron New Zealand acquisition	-	79
Other receivables	12	8
Accounts receivable and prepayments	**278**	234

9. Accounts payable, accruals and other liabilities

	2017 $m	2016 $m
Accounts payable	378	241
Accruals and other liabilities	30	22
Employee benefits payable	18	15
Accounts payable, accruals and other liabilities	**426**	278

10. Inventories

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

	2017 $m	2016 $m
Finished goods / trading products	306	144
Raw materials and consumables	158	59
Inventories	**464**	203

During the year there was a reversal of the write down of inventories to net realisable value amounting to $10m (2016 write down: $9m). The reversal of prior year write down is included in Purchases of crude and product in the Statement of comprehensive income.

11. Cash and cash equivalents

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

12. Property, plant and equipment

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

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

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

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

Back to contents

12. Continued

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

Included in buildings ($39m) and plant and machinery ($1m) are assets held under finance leases (2016: buildings $46m and plant and machinery $1m).

For each revalued class, the carrying amount that would have been recognised had the assets been carried on a historical cost basis are: buildings $37m (2016: $32m); land and improvements $165m (2016: $78m); terminals $151m (2016: $60m); plant and machinery $236m (2016: $155m).

Year ended 31 March 2016	Construction in progress $m	Buildings $m	Land and improvements $m	Plant and machinery $m	Terminal plant $m	Total $m
Cost / valuation						
Balance at beginning of year	47	59	156	226	110	598
Additions	65	-	-	-	-	65
Disposals	-	(1)	-	(2)	-	(3)
Transfers between asset classes	(45)	2	4	34	5	-
Offset of accumulated depreciation on revaluation	-	(8)	(3)	-	-	(11)
Impairment losses recognised in profit and loss	-	(5)	-	-	-	(5)
Revaluation adjustment	-	66	49	-	-	115
Balance at end of year	67	113	206	258	115	759
Accumulated depreciation and impairment						
Balance at beginning of year	-	(8)	(3)	(41)	(10)	(62)
Depreciation	-	(3)	(2)	(27)	(5)	(37)
Disposals	-	1	-	2	-	3
Offset of accumulated depreciation on revaluation	-	8	3	-	-	11
Balance at end of year	-	(2)	(2)	(66)	(15)	(85)
Carrying amounts						
At 1 April 2015	47	51	153	185	100	536
At 31 March 2016	67	111	204	192	100	674

Level-three fair value

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

Back to contents

12. Continued

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

Valuation techniques	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
The majority of land and buildings are valued using the direct capitalisation approach. This method involves striking a sustainable market rental which is capitalised at an appropriate rate of return or yield derived from an analysis of sales of comparable assets. The market rental is built up from: • fuel throughput margin • estimated shop rental (for non-fuel sales). A total value for land and buildings is determined by this approach. The value ascribed to the land is determined using a value that is estimated based on recent land sales near each site, with the residual value being allocated to buildings.	Throughput rental rate (cents / litre) 1.15–2.35 (Retail) Throughput rental rate (cents / litre) 1.00 (Truck stop) Shop rental $125–$450 per square metre Capitalisation rate 5.0%–10.0%	The estimated fair value would increase (decrease) if: throughput margins were higher (lower); shop rental rates were higher (lower); capitalisation rates were lower (higher).
Terminal plant and Plant and machinery are valued using the depreciated replacement cost approach. This approach is based on the gross current replacement cost, reduced by factors providing for age, physical depreciation, and technical and functional obsolescence, taking into account an asset's total estimated useful life and anticipated residual value (if any).	Cost estimates are sourced from contracting machinery suppliers and cost analysis of recent projects.	The estimated fair value would increase (decrease) if: cost was higher (lower); remaining useful life was higher (lower); technical and functional obsolescence was lower (higher).
Buildings subject to finance leases are valued using the net present value of contracted rental cash flow at lease commencement over the remaining term of the lease.	Discount rate 6.5%. Rental payments are sourced from lease agreements.	The estimated fair value would increase (decrease) if: discount rate was lower (higher); net rental of the lease was higher (lower); remaining term of the lease was longer (shorter).

Highest and best use

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

13. Intangible assets

Goodwill

Goodwill is the excess of purchase consideration and net identifiable assets acquired. Goodwill is not amortised, but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Brands

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

Contracts acquired

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

Emissions trading scheme

Units acquired are carried at cost less any accumulated impairment as they are held for settlement of emissions obligations. Refer to note 14 for number of units held.

Other intangibles

Other intangibles include software, franchise rights, domain name, and occupation rights. Acquired computer-software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over 3 years on a straight-line basis.

Intangible assets with indefinite lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

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

Year ended 31 March 2016	Goodwill $m	Brands $m	Contracts acquired $m	Emissions units $m	Other $m	Total $m
Balance at beginning of year	-	-	-	21	11	32
Additions	-	-	-	22	4	26
Utilised	-	-	-	(10)	-	(10)
Amortisation	-	-	-	-	(4)	(4)
Balance at end of year	-	-	-	33	11	44
Cost	-	-	-	33	42	75
Accumulated amortisation	-	-	-	-	(31)	(31)
Balance at end of year	-	-	-	33	11	44

Back to contents

14. Emissions trading scheme

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

Stock of units	2017 Units millions	2016 Units millions
Balance at beginning of year	4	4
Units acquired and receivable	4	2
Units utilised	(2)	(2)
Balance at end of year	**6**	4

Obligation	2017 Units millions	2016 Units millions
Obligation payable at 31 March	**4**	3

15. Investments in associates

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

The Group is considered to have significant influence over its investment in The New Zealand Refining Company Limited (Refining NZ) because it has representation on the board of directors and, therefore, has equity accounted for this investment. Based on its closing share price of $2.38, the fair value of the Group's investment in Refining NZ is $114m (2016: $3.10, $149m).

Carrying amounts	2017 $m	2016 $m
Listed		
Refining NZ	114	113
Unlisted		
Loyalty New Zealand Limited (Loyalty)	2	2
Total carrying amounts of Investments in associates	**116**	115

Movements in carrying amounts	2017 $m	2016 $m
Carrying amount at beginning of year	115	105
Dividends received	(4)	(13)
Share of earnings of associate companies net of tax	6	23
Share of other comprehensive loss net of tax	(1)	-
Carrying amount at end of year	**116**	115

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

	Principal activity	Ownership 2017	Ownership 2016
Listed			
Refining NZ	Refinery	**15%**	15%
Unlisted			
Loyalty	Marketing	**25%**	25%
New Zealand Oil Services Limited (NZOSL)	Fuel storage	**50%**	50%
Wiri Oil Services Limited (WOSL)	Fuel storage	**44%**	28%
Coastal Oil Logistics Limited (COLL)	Shipping operator	**50%**	25%

As a result of acquiring Z Energy 2015 Limited, the Group now owns a larger share of COLL (50%) and WOSL (44%). Despite this increase in ownership, the Group does not have control over either but continues to have significant influence. Therefore, both will continue to be reported as associates.

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

2016	Refining NZ $m	Loyalty $m	NZOSL $m	WOSL $m	COLL $m
Current assets	179	83	6	3	14
Non-current assets	1,153	11	-	-	2
Current liabilities	227	79	6	3	14
Non-current liabilities	322	8	-	-	-
Revenue	447	91	44	62	57
Profit	151	1	-	-	-
Other comprehensive loss	2	-	-	-	-

Back to contents

16.

Investment in subsidiaries and joint operations

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

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

The financial statements of the subsidiaries are included in the Group's financial statements. The financial year-end of all subsidiaries is 31 March, except for Challenge Petroleum Limited, which has a 31 December reporting date.

	Holding 2017	Holding 2016	Principal activity	Country of incorporation
Subsidiaries				
Harbour City Property Investments Limited	**100%**	100%	Property	New Zealand
Z Energy ESPP Trustee Limited	**100%**	100%	Trustee	New Zealand
Z Energy LTI Trustee Limited	**100%**	100%	Trustee	New Zealand
Challenge Petroleum Limited	**100%**	-	Dormant	New Zealand
Z Energy 2015 Limited	**100%**	-	Downstream fuel company	New Zealand

Joint operations are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. The Group financial statements include the Group's proportionate share line by line.

The Group has participating interests in five unincorporated jointly controlled operations relating to the storage and distribution of petroleum products.

The revenues and expenses are allocated on a performance / usage basis rather than the share of the joint arrangement.

The Group has rights to the assets and obligations for the liabilities relating to the jointly controlled operations. At 31 March 2017, there were no contingent liabilities for the jointly controlled operations (2016: nil). The value of assets in these interests is $16m (2016: $8m).

	Holding 2017	Holding 2016	Principal activity
Joint Operations			
Joint User Hydrant Installation	**50%**	25%	Fuel storage
Joint Interplane Fuelling Services	**50%**	50%	Fuel distribution
Jointly Owned Storage Facility	**50%**	50%	Fuel storage
Joint Ramp Service Operations Agreement	**50%**	-	Fuel distribution
Wiri to Auckland Airport Pipeline	**60%**	20%	Fuel distribution

17.

Taxation

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

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

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

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

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

Taxation expense or benefit is determined as follows.

	2017 $m	2016 $m
Net profit before taxation	342	86
Less share of earnings of associate companies net of tax	(6)	(23)
Net profit before taxation excluding share of earnings from associates	**336**	63
Taxation expense on profit for the year at the corporate income tax rate of 28% (2016: 28%)	(94)	(18)
Taxation adjustments:		
Non-deductible expenditure	(6)	(5)
Over-provision in prior periods	1	1
Taxation expense	**(99)**	(22)
Comprising:		
Current taxation	(108)	(23)
Deferred taxation	9	1
Taxation expense	**(99)**	(22)

Back to contents

17. Continued

Deferred tax

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

	Property, plant and equipment $m	Intangible assets $m	Employee benefits $m	Finance lease $m	Other provisions $m	Derivative financial instruments $m	Other items $m	Total $m
Balance at 1 April 2015	(33)	-	1	5	2	2	5	(18)
Recognised in the Statement of comprehensive income	5	-	-	-	(1)	1	(3)	2
Recognised in other comprehensive income	(14)	-	-	-	-	-	-	(14)
Over-provision in prior periods in the Statement of comprehensive income	(1)	-	-	-	-	-	(1)	(2)
Balance at 31 March 2016	(43)	-	1	5	1	3	1	(32)
Balance at 1 April 2016	(43)	-	1	5	1	3	1	**(32)**
Recognised on acquisition	(18)	(130)	1	-	2	-	(3)	**(148)**
Recognised in the Statement of comprehensive income	-	7	(1)	(1)	-	-	4	**9**
Under-provision in prior periods in the Statement of comprehensive income	1	-	-	-	(1)	-	1	**1**
Balance at 31 March 2017	**(60)**	**(123)**	**1**	**4**	**2**	**3**	**3**	**(170)**

	2017 $m	2016 $m
Deferred tax (liabilities) / assets expected to be settled within 12 months	(7)	2
Deferred tax liabilities expected to be settled after 12 months	(163)	(34)
Deferred tax liabilities	**(170)**	32

Imputation credits available for use in subsequent reporting periods are $17m (2016: $1m).

18.

Provisions

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

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

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

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

For the year ended 31 March 2017	Decommissioning, restoration and remediation $m	Other $m	Total $m
Balance at beginning of year	41	2	**43**
Recognised on acquisition	22	12	**34**
Created	-	15	**15**
Utilised	(1)	(5)	**(6)**
Released	(2)	(12)	**(14)**
Unwind of discount	1	-	**1**
Balance at end of year	**61**	**12**	**73**
Current	12	11	**23**
Non-current	49	1	**50**
Balance at end of year	**61**	**12**	**73**

For the year ended 31 March 2016	Decommissioning, restoration and remediation $m	Other $m	Total $m
Balance at beginning of year	29	8	37
Created	13	15	28
Utilised	(2)	(19)	(21)
Released	(1)	(2)	(3)
Unwind of discount	2	-	2
Balance at end of year	41	2	43
Current	4	2	6
Non-current	37	-	37
Balance at end of year	41	2	43

Back to contents

19. Share capital and distributions

Ordinary shares (fully paid)	2017 $m	2016 $m
Total issued capital at beginning of year	431	432
Movements in issued and fully paid ordinary shares		
Share-based payment	(1)	(1)
Total issued capital at end of year	**430**	431

Ordinary shares (fully paid)	2017 Shares millions	2016 Shares millions
Total issued capital at end of year	**400**	400

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

869,906 shares at a cost of $5m are held by Z Energy LTI Trustee Limited for Z's Restricted Share Long-Term Incentive Plan (2016: 1,274,941, $5.5m).

Dividend	$m	Cents per share
2015 Final dividend (paid 15 June)	66	16.5
2016 Interim dividend (paid 15 December)	34	8.5
2016 Final dividend (paid 16 June)	72	18.1
2017 Interim dividend (paid 16 December)	38	9.4

Final dividend declared after balance date not provided (refer to note 30).

20. Earnings per share

	2017	2016
Profit after tax attributable to shareholders of the parent company ($m)	**243**	64
Weighted average number of shares (million)	**400**	400
Basic and diluted earnings per share (cents)	**61**	16

21. Interest-bearing loans and borrowings

	2017 $m	2016 $m
Secured bank facilities	890	400
Facilities drawn down	541	-

Financing arrangements

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

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

At 31 March 2017, the Group had secured bank-debt facilities of $890m (2016: $400m). At 31 March 2017, $541m was drawn against these facilities (2016: $nil). The facilities comprise a $540m revolving term debt facility drawn to $490m plus a $350m working capital facility drawn to $51m, both maturing May 2019.

The bank debt facilities are able to be drawn down as required, provided Z is compliant with debt covenants. All loans must be repaid on the relevant due dates. Interest rates are determined by reference to prevailing money market rates at the time of draw-down, plus a margin. Interest rates paid during the year ranged from 3.0% to 3.8% (2016: 3.7% to 4.7%).

Borrowings are recorded initially at fair value, net of transaction costs. After initial recognition, borrowings are measured at amortised cost, with any difference between the initial recognised amount and the redemption value being recognised in the Statement of comprehensive income over the period of the borrowing, using the effective interest rate.

Bond and bank debt issue expenses, fees and other costs incurred in arranging finance are capitalised and amortised over the term of the relevant debt instrument or debt facility using the effective interest rate method.

22. Bonds

	2017 $m	2016 $m
Balance at beginning of year	430	430
New bonds issued	220	-
Issuance costs	(3)	-
Bonds repaid	(147)	-
Amortisation	1	1
Unwind of fair value loss on substitution	-	(1)
Balance at end of year	**501**	430
Current	-	147
Non-current	501	283
Balance at end of year	**501**	430
Repayment terms and interest rates:		
Maturing on 15 October 2016, 7.35% per annum fixed coupon rate	-	147
Maturing on 15 August 2018, 7.25% per annum fixed coupon rate	150	149
Maturing on 15 November 2019, 6.50% per annum fixed coupon rate	134	134
Maturing on 1 November 2021, 4.01% per annum fixed coupon rate	148	-
Maturing on 1 November 2023, 4.32% per annum fixed coupon rate	69	-
Balance at end of year	**501**	430

Fixed coupon

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

The bonds require Z to maintain certain levels of performance, security and gearing.

Back to contents

23. Financial risk management

The Group has exposure to the following risks:

- Credit risk
- Liquidity risk
- Market risk

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

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

Derivatives are not hedge accounted and are required to be accounted for at fair value through the Statement of comprehensive income. Derivative financial instruments are recognised initially at fair value at the date they are entered into. After initial recognition, derivative financial instruments are stated at fair value at each Statement of financial position date. The resulting gain or loss is recognised in the Statement of comprehensive income.

Credit risk

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

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

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

The carrying amounts of financial assets recognised in the Statement of financial position best represent the Group's maximum exposure to credit risk at the reporting date. Generally, no security is held on these amounts except for retailer-owned, retailer-operated service stations where Z holds bank guarantees.

Concentration of credit risk for trade receivables is limited due to the Group's large customer base. Less than 1% (2016: 1%) of the Group's receivables are more than 30 days overdue.

Liquidity risk

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

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

The following tables analyse the Group's financial liabilities into relevant maturity groupings based on the earliest possible contractual maturity date at year end.

The amounts in the tables are contractual undiscounted cash flows, which include interest through to maturity.

At 31 March 2017	6 months or less $m	6–12 months $m	1 to 2 years $m	2 to 5 years $m	5 years + $m	Contractual cash flows $m	Statement of financial position $m
Non-derivative financial liabilities							
Accounts payable	(378)	-	-	-	-	(378)	(378)
Finance leases	(1)	(1)	(2)	(6)	(7)	(17)	(11)
Long-term loan	(8)	(8)	(17)	(494)	-	(527)	(490)
Short-term loan	(51)	-	-	-	-	(51)	(51)
Bonds	(14)	(14)	(173)	(317)	(75)	(593)	(501)
Non-derivative financial liabilities	**(452)**	**(23)**	**(192)**	**(817)**	**(82)**	**(1,566)**	**(1,431)**
Derivative financial instruments liabilities							
Foreign exchange contracts	-	-	-	-	-	-	-
Interest-rate swaps	-	-	(1)	(7)	(2)	(10)	(10)
Commodity hedges	(3)	-	-	-	-	(3)	(3)
Derivative financial instruments liabilities	**(3)**	**-**	**(1)**	**(7)**	**(2)**	**(13)**	**(13)**

At 31 March 2016	6 months or less $m	6–12 months $m	1 to 2 years $m	2 to 5 years $m	5 years + $m	Contractual cash flows $m	Statement of financial position $m
Non-derivative financial liabilities							
Accounts payable	(237)	(4)	-	-	-	(241)	(241)
Finance leases	(1)	(1)	(2)	(7)	(9)	(20)	(12)
Bonds	(15)	(162)	(20)	(306)	-	(503)	(430)
Non-derivative financial liabilities	(253)	(167)	(22)	(313)	(9)	(764)	(683)
Derivative financial instruments (liabilities) / assets							
Foreign exchange contracts	(1)	-	-	-	-	(1)	(1)
Interest-rate swaps	1	-	-	(7)	(7)	(13)	(11)
Commodity hedges	1	-	-	-	-	1	1
Derivative financial instruments liabilities	1	-	-	(7)	(7)	(13)	(11)

Market risk

Interest-rate risk

The Group's primary interest-rate risk arises from its total gross debt (refer to notes 21 and 22). In line with its treasury policy, Z manages its exposure to interest-rate risk by entering into interest-rate swaps (IRS) and interest-rate collars. By managing the interest-rate risk, Z aims to minimise the cost of debt and manage the impact of interest rate volatility on the Group's earnings.

The aggregate notional principal amount of the outstanding IRS at 31 March 2017 was $735m (2016: $735m). The fair value of the IRS is $(10)m (2016: $(11)m). The aggregate notional principal amount of the outstanding interest-rate collar at 31 March 2017 was $30m (2016: nil). The fair value of the IRS is nil (2016: nil).

Sensitivity analysis

At 31 March 2017, if bank interest rates at that date had been 100 basis points higher / lower, with all other variables held constant, it would change after-tax profit for the year by $10m higher / $11m lower (2016: $9m higher / $10m lower).

Back to contents

23. Continued

Foreign-currency risk

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

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

The aggregate notional principal amount of the outstanding forward foreign exchange contracts at 31 March 2017 was $9m (2016: $26m). At balance date, the fair value of forward foreign exchange contracts outstanding was nil (2016: $(1)m).

Sensitivity analysis

At 31 March 2017, if the New Zealand dollar had strengthened / weakened by 10% against the currencies with which the Group has foreign currency risk, with all other variables held constant, after-tax profit for the year would change by $9m higher / $10m lower (2016: $2m higher / $2m lower).

Commodity-hedges risk

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

The Group enters into commodity swap contracts under the terms of its treasury policy to reduce the risk from price fluctuations, by matching purchase and sales volumes in a particular month. All hedging is within a 6-month duration. At 31 March 2017, the fair value of commodity hedges was $(3)m (2016: $1m).

Sensitivity analysis

At 31 March 2017, if the oil commodity price had weakened / strengthened by 10% in which the Group has commodity price risk with all other variables held constant, there would be nil impact on after-tax profit for the year (2016: $2m lower / $2m higher).

Fair value measurement in the financial statements

The carrying value of financial assets and financial liabilities recorded in the financial statements is their amortised cost except for derivatives, which are held for trading at fair value.

At 31 March 2017, the fair value of bonds is $548m (2016: $464m) compared to the carrying value of $501m (2016: $430m). The fair value for bonds is the quoted price of the bonds on the NZDX at 31 March 2017, representing a level-one measurement under the NZ IFRS 7 fair value measurement hierarchy being quoted prices (unadjusted) in an active market for identical assets and liabilities.

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

Selecting variables requires judgement, and therefore a range of reasonably possible assumptions for these variables could be used in estimating the fair value of these derivatives.

Capital management

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

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

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

Discussions on refinancing bank-debt facilities will normally begin at least 6 months before maturity, with facility terms agreed at least 3 months before maturity. Bank facilities are maintained with AA- or above rated financial institutions, with a syndicate of four bank counterparties to ensure diversification.

24.

Leases

Operating leases

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

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

	2017 $m	2016 $m
Operating lease receivables as lessor		
Between 0 and 1 year	4	1
Between 1 and 5 years	11	7
More than 5 years	27	24
Operating lease receivables as lessor	**42**	32

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

	2017 $m	2016 $m
Operating lease payables as lessee		
Between 0 and 1 year	30	24
Between 1 and 5 years	92	74
More than 5 years	102	86
Operating lease payables as lessee	**224**	184

Lease costs expensed and sub-lease income received through the Statement of comprehensive income during the year were $31m (2016: $23m) and $1m (2016: $1m) respectively.

Finance leases as lessee

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

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

The Group has finance leases arising from the sale and leaseback of buildings and plant and machinery. These lease contracts expire within 4 to 13 years and have additional terms of renewal. The Group also receives some sub-lease income on these assets but this does not have a significant impact on the Statement of comprehensive income.

Back to contents

24. Continued

	2017 $m	2016 $m
Present value of minimum lease payments		
Between 0 and 1 year	1	1
Between 1 and 5 years	5	4
More than 5 years	5	7
Present value of minimum lease payments	**11**	12

	2017 $m	2016 $m
Lease liability under finance leases		
Between 0 and 1 year	2	2
Between 1 and 5 years	9	9
More than 5 years	7	9
Minimum lease payments	18	20
Less interest attributable to future years	(7)	(8)
Present value of minimum lease payments	**11**	12

25. Share-based payments

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

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

The amount of shares that vest will depend on Z's total shareholder return ranking within a peer group of the NZX 50 over a 3-year period, although a reduced period may be used in some cases. If the individual is still employed by the Parent at the end of the vesting period, the employee is provided a cash bonus which must be used to repay the loan. The shares are then transferred to the employee.

Grant date	Vesting date	Exercise price	Balance at the start of year Number of shares	Granted during year Number of shares	Exercised during year Number of shares	Forfeited during year Number of shares	Balance at the end of year Number of shares	Vested and exercisable at end of year Number of shares
2017								
19 August 2013	31 March 2016	$3.71	371,457	-	(371,457)	-	-	-
20 May 2014	31 March 2017	$3.84	373,776	-	-	(49,706)	324,070	324,070
29 May 2015	31 March 2018	$5.98	330,525	-	-	(7,229)	323,296	-
23 May 2016	31 March 2019	$8.20	-	225,984	-	(3,444)	222,540	-
Total			**1,075,758**	**225,984**	**(371,457)**	**(60,379)**	**869,906**	**324,070**
Weighted average exercise price						$4.34	$5.75	$3.84
2016								
19 August 2013	31 March 2016	$3.71	397,291	-	-	(25,834)	371,457	371,457
20 May 2014	31 March 2017	$3.84	402,134	-	-	(28,358)	373,776	-
29 May 2015	31 March 2018	$5.98	-	330,525	-	-	330,525	-
Total			799,425	330,525	-	(54,192)	1,075,758	371,457
Weighted average exercise price						$4.00	$3.17	$3.71

Measurement of fair values

The fair value of the RSLTIP has been determined using the framework of the Black-Scholes and Margrabe option pricing models.

	Vesting date of scheme			
	31 March 2019	31 March 2018	31 March 2017	31 March 2016
Weighted average share price at grant date	$8.20	$5.98	$3.84	$3.71
Contractual life	3.00 years	2.84 years	2.86 years	2.61 years
Risk-free rate	2.1%	3.1%	3.9%	3.7%
Standard deviation of Z share price	20%–25%	17.5%–22.5%	17.0%–22.5%	17.5%–22.5%
Standard deviation of NZX50	9.0%	8.0%	9.2%	9.0%
Correlation between Z share price and NZX50	0.32–0.40	0.32–0.40	0.32–0.54	0.28–0.57
Estimated fair value per share	$3.48	$2.24	$1.24	$1.26

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

The fair value of the share-based payments is recognised as an expense, with a corresponding increase in equity, over the vesting period of the plan. The expense relating to the RSLTIP in the year ended 31 March 2017 was $1m (2016: $1m).

An employee share purchase programme (ESPP) also exists, which does not have a material impact on these financial statements. The ESPP scheme holds 112,336 shares.

26. Related parties

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

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

Key management personnel have been defined as the directors, the CEO, and the executive team for the Group. Executive members also participate in the Group's Restricted Share Long-Term Incentive Plan (refer to note 25).

Back to contents

26. Continued

	2017 $m	2016 $m
Transactions with related parties		
Received / (paid)		
Associates – sale of goods and services	**1**	2
Associates – purchase of goods and services		
Refining NZ – processing fees, customs and excise duties	**(756)**	(557)
COLL – distribution	**(24)**	(19)
NZOSL	**(18)**	(18)
WOSL	**(10)**	(30)
Other	**(10)**	(7)
Infratil Group (ceased to be a related party 6 October 2015)		
Sales of goods and services	**-**	1
Key management personnel		
Short-term employee benefits	**7**	5
Other long-term benefits	**2**	2
Balances at end of year		
Associates – payable		
Refining NZ – processing fees, customs and excise duties	**(56)**	(33)
Other	**(4)**	(4)

27. Commitments

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

	2017 $m	2016 $m
Committed to but not provided for	**40**	19

28. Contingent liabilities

The Group has guaranteed an exposure of up to USD4m ($6m) to a financier of one of the Group's associate companies (2016: $8m). This guarantee reduces by USD1m annually.

29. Contingent assets

The Group has no contingent assets (2016: nil).

30. Events after balance date

Dividend

On 10 May 2017, the directors approved a fully imputed dividend of $0.199 per share, which is equal to $80m, to be paid on 7 June 2017 (2016: $0.181 per share, $72m).

Back to contents

Independent Auditor's Report

To the shareholders of Z Energy Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Z Energy Limited (the company) and its subsidiaries (the Group) on pages 60 to 91:

i. present fairly in all material respects the Group's financial position as at 31 March 2017 and its financial performance and cash flows for the year ended on that date; and

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

We have audited the accompanying consolidated financial statements which comprise:

— the consolidated statement of financial position as at 31 March 2017;

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

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

Basis for opinion

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

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

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

Our firm has also provided other services to the group in relation to assurance, general accounting services, tax risk review and advisory services of pro-forma financial statements, integrated reporting gap analysis, retailer reporting and cost of sales adjustment review. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Scoping

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

The context for our audit is set by the Group's major activities in the financial year ended 31 March 2017. The Group has had an active year with the acquisition of Chevron New Zealand on 1 June 2016. They have undergone a full acquisition exercise to determine the assets and liabilities acquired on 1 June 2016 and the subsequent measurement of goodwill.

Materiality

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

Key Audit Matters

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

The key audit matter	How the matter was addressed in our audit
Accounting for the acquisition of Chevron New Zealand	
As disclosed in note 4 of the financial statements, the Group has undertaken a major transaction to acquire Chevron New Zealand. The key judgement and estimation is the allocation of the purchase price to assets and liabilities (and resulting goodwill) by estimating the fair value of identifiable tangible assets (principally inventory and property, plant and equipment), intangible assets (such as brands, franchise agreements and commercial customer relationships), and liabilities (including decommissioning and restoration	*Tangible assets* — We attended a sample of Chevron New Zealand stock counts with material inventory balances. — We assessed the Group's opening inventory fair value calculation and agreed a sample to physical stock counts and comparable prices. — We assessed the valuation of acquired land and buildings, as outlined in the valuation key audit matter below. *Intangible assets* — We assessed the appropriateness of the valuation methodology adopted by comparing the valuations to the internal rates of return (based on purchase price and expected future cash flows), the weighted average costs of capital and weighted average return on assets for each category of asset.

Back to contents

The key audit matter	How the matter was addressed in our audit
provisions, and imposed regulator divestments).	— We used our valuation specialists to check the underlying assumptions of the valuations by comparing key assumptions to market data, and past performance of the acquired business. *Liabilities* — We found the methodology applied to determine the fair value of decommissioning and restoration provisions was consistent with the Group's method. — We considered whether there was any contingent assets or liabilities that should have been recognised at acquisition. — For a sample of divestments, we checked the consideration received and found it agreed to the relevant contracts and bank statements. *Goodwill* — We read the sale and purchase agreement and found the application of key terms and conditions was appropriate. — We recalculated goodwill as the difference between the purchase price and the acquired net assets. *We are satisfied that management undertook an appropriate process in determining the accounting for the acquisition of Chevron New Zealand and we identified no evidence of management bias and influence.*
Valuation of land and buildings	
As disclosed in note 12 of the financial statements, the Group has land and buildings of $423 million (2016: $315 million). As part of the accounting required for the acquisition, all property, plant and equipment from the Chevron New Zealand entity was revalued. Valuation of land and buildings is a key audit matter due to the magnitude and judgement involved in the assessment of the fair value of these assets. The judgment relates to the valuation methodologies used and the assumptions included in each of those methodologies.	— We assessed the competence, objectivity and independence of the valuer(s) used. We read the valuation report and found the valuation approach was in accordance with professional valuation standards and suitable for determining the fair value of land and buildings. — We compared the various assumptions inherent in the valuations which are judgemental in nature and which have the largest impact on the value of land and buildings, such as: • Comparing a sample of throughput volumes to Chevron New Zealand volume reports. • Assessing the reasonableness of the throughput cents per litre applied, with assistance from our valuation specialists. • Comparing shop rentals for a sample of sites, land values and capitalisation rates to recent sales data. • Comparing assets in the fixed asset register to those valued to check all sites have been included in the fair value exercise. — We compared the valuers assessment of those asset classes which do not require a valuation, to market evidence which supports there is not a material change in the value of those asset classes. *We found the valuation methodology and inputs used in the measurement of the fair value of land and buildings to be appropriate.*

Other Information

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

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

Use of this Independent Auditor's Report

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

Responsibilities of the Directors for the consolidated financial statements

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

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

— implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the consolidated financial statements

Our objective is:

— to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and

— to issue an Independent Auditor's Report that includes our opinion.

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

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

Back to contents

KPMG

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

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx.

This description forms part of our Independent Auditor's Report.

KPMG

Graeme Edwards

For and on behalf of

KPMG
Wellington

10 May 2017

Supplementary financial information

for the year ended 31 March 2017

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

Income statement on replacement cost basis[1]	2017 $m	2016 $m
Revenue	3,871	2,521
Purchases of crude and product	(2,010)	(1,417)
Excise and carbon expenses	(941)	(569)
Primary distribution expenses	(41)	(27)
Cost of sales adjustment (COSA)	(83)	83
Operating expenses[2]	(404)	(327)
Replacement cost operating EBITDAF	**392**	264
Share of earnings of associate companies net of tax	6	23
Replacement cost EBITDAF	**398**	287
Depreciation and amortisation	(89)	(41)
Net financing expense	(56)	(32)
Fair value movements on interest rate derivatives	3	(6)
Impairment and losses on sale of PPE	(6)	(6)
Movements in decommissioning and restoration provision	2	(7)
Replacement cost net profit before taxation	**252**	195
Taxation expense	(99)	(22)
Tax on COSA	23	(24)
Replacement cost net profit after taxation	**176**	149

Reconciliation from statutory net profit after tax to RC operating EBITDAF	2017 $m	2016 $m
Statutory net profit after tax	243	64
COSA	(83)	83
Foreign exchange and commodity (gains)/losses on fuel purchases[2]	(7)	26
Tax on COSA	23	(24)
Replacement cost net profit after tax	**176**	149
Depreciation and amortisation	89	41
Net financing expense	56	32
Other	(3)	6
Taxation (including tax on COSA and foreign exchange and commodity gains and losses on fuel purchase)[2]	76	46
Share of earnings in associates	(6)	(23)
Impairment and losses on sale of PPE	6	6
Movements in decommissioning and restoration provision	(2)	7
Replacement cost operating EBITDAF	**392**	264

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

2 From FY17 onwards, the impact of foreign exchange and commodity gains and losses on fuel purchases, calculated on an NZ GAAP basis, is removed from the replacement cost results. Comparative numbers for prior periods have been adjusted to reflect this.

Back to contents

Corporate Governance

For the year ended 31 March 2017

Back to contents

Z's corporate governance

Strong corporate governance is fundamental to strong business performance.

Positioning corporate governance to drive value creation

Z's governance structure is designed to support the company's ability to create value in the short, medium, and long term. We appreciate growing interest among market participants in effective Environmental, Social and Governance (ESG) issues, and seek to deliver value through the way we engage and report in this space.

This year we are reporting against the Financial Markets Authority (FMA) Corporate Governance Principles and Guidelines, as we did last year. We were actively engaged with the NZX in developing the proposed new NZX Corporate Governance Best Practice Code, and we welcome the consistency of the proposed code with the FMA Corporate Governance Principles and Guidelines and the ASX Corporate Governance Principles and Recommendations.

To the extent that we could at the time of printing, we have taken the latest draft of the NZX Corporate Governance Best Practice Code into account in the way we have reported this year.

Z takes a continuous-improvement approach to corporate governance and aspires to operate at best-practice level for an NZX 10 business. We have adopted international corporate governance practices, over and above those prescribed by the local regulatory environments, where we believe the quality of Z's performance and the board's ability to create value is enhanced.

Our corporate governance programme over the last year has seen us:

- update chief executive and board succession plans
- develop the board's collective skillset
- implement recommendations from an external review of the board and committees
- restructure and repurpose the People and Culture Committee
- expand our shareholder relations programme
- adopt a fully Integrated Reporting <IR> environment
- commit to a new Diversity and Inclusion Stand.

We have also worked to simplify corporate governance reporting and compliance. The company has now been granted Foreign Exempt Listing status by the ASX. This means that we remain fully dual-listed, but the compliance requirements for our ASX listing are significantly reduced.

Z considers that, during the reporting period, the corporate governance principles we adopted and followed did not materially differ from NZX's Corporate Governance Best Practice Code, except for Principle 2.7. There is no formal process encouraging board members to invest a portion of their directors' fees in Z securities (as recommended by Principle 2.7 of the NZX Corporate Governance Best Practice Code), but some elect to do so.

Principle 1:

Ethical standards

"Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for delivering these standards throughout the organisation."

Z's board sets clear and consistent expectations of all directors and Z people (both employees and contractors) through the Code of Conduct. The board also ensures that Z maintains a culture that supports and leads ethical and responsible conduct.

Z's framework for ethical behaviour includes day-to-day focus on the business purpose and values, as well as the stands we are committed to on community, sustainability, health and safety, and diversity and inclusion.

Code of conduct for Z people and directors

The Code of Conduct is the cornerstone of expected behaviour and company culture at Z and is published on our website, z.co.nz. The code applies to all Z people (directors, employees, contractors, and consultants), who are required to read and understand the Code of Conduct and acknowledge that they have done so.

The Code of Conduct requires Z people to carry out their roles honestly and diligently and in the best interests of Z, to declare any conflicts of interest, to disclose any gifts over $200, and to ensure any gifts under that value do not compromise them. It requires Z people to maintain confidentiality of all Z information, including information about our business, customers, and people, and not to use Z information or assets (including intangible assets) improperly.

The Code of Conduct also provides a range of escalation processes and procedures for reporting ethical breaches, including the assurance of anonymity for whistleblowers, consistent with the Protected Disclosures Act 2000.

During the reporting period, Z had no significant fine or monetary sanctions imposed by any government authority, and was not made aware that it had broken any material law.

Principle 1 contains data regarding ethical standards. The numbers reported under Principle 1 relate to Z permanent employees only, and do not include contractors, consultants, or employees of Z- or Caltex-branded retail sites, who are employed directly by retail operators.

Diversity and inclusion: being successful, being ourselves

Z is committed to a culture that promotes and values diversity and inclusion. Our Diversity Policy sets out Z's diversity philosophy, its practical application, and our process for reviewing and measuring progress towards achieving the policy objectives. The policy sets out our goals to:

- leverage diversity as a competitive advantage through our recruitment and development practices
- develop inclusiveness as a core capability for our people leaders and as a channel to our people.

Back to contents

For FY17, we committed to create a comprehensive diversity and inclusion strategy that would produce more wide-ranging and ambitious objectives. During the past year, a new diversity and inclusion stand was developed by an internal team from all parts of Z. The team was supplemented with some outside-in expertise to make sure we captured best practice from others who are better at this than we are. In April 2017, the board supported the development of the stand and a supporting 3-year strategy with the strap line 'Being successful, being ourselves'.

Developing Z's Diversity and Inclusion Stand included training for the team on diversity and inclusiveness and a review of Z's current diversity and inclusion practices. Based on this review, the board considers that we've made progress on diversity and inclusion at Z, but we still have more work ahead to achieve all of the objectives of our diversity policy. Z is yet to reach its diversity targets (in the table below) for the whole organisation and executive, and our aim to reflect the ethnic diversity of New Zealand has not yet been met for Z employees.

Across most dimensions, Caltex was a less diverse organisation than Z was previously, so some progress made towards previous targets has been offset with the inclusion of our Caltex colleagues. The board, management, and the Diversity and Inclusion team remain committed to reaching our ambitions and targets through the new strategy.

Gender

Z's gender composition

	Objective: % Female	Actual % Female
Board	20	43
Executives	40	36
Whole organisation*	**50**	**40**

These figures have been assessed at 31 March 2017.

* This reference to whole organisation excludes the executive and board members. All other references to whole organisation in this chapter exclude board members but include the executive.

Below is the gender composition of Z permanent employees at 31 March 2017. For comparison, we also include figures for the previous year.

Female

	FY2017 #	FY2017 %	FY2016 #	FY2016 %
Leader of self*	138	42	91	42
People leader**	31	33	26	37
Executive	4	36	4	36
Whole organisation	**173**	**40**	**121**	**41**
Board	3	43	3	38

Male

	FY2017 #	FY2017 %	FY2016 #	FY2016 %
Leader of self*	187	58	125	58
People leader**	62	67	44	63
Executive	7	64	7	64
Whole organisation	**256**	**60**	**176**	**59**
Board	4	57	5	63

Percentages are represented as whole numbers.

* Leader of self does not have direct reports.

** People leader has direct reports.

Z's gender-pay ratios

The ratios of female to male average pay for Z permanent employees at 31 March 2017 are set out below.

	Leader of self %	People leader %	Executive %	Board %
Average base salary woman to man	91	97	71	NA
Average remuneration* woman to man	89	96	68	NA
Directors' fees female to male**	NA	NA	NA	82

* Remuneration is composed of a base salary, a short-term incentive (% on top of salary), health insurance, any other allowances, and a long-term incentive for certain senior employees.

** All directors are paid the same base fee, except the Chair, who has a higher base fee. Committee chairs and members are paid an additional fee on top of their base fee.

Age

Z's age composition

The age groups of Z's permanent employees and board at 31 March 2017 are as follows.

	Leader of self %	People leader %	Executive %	Board %
Under 30 years	11	2	0	0
30–50 years	62	72	73	43
Over 50 years	27	26	27	57

Total number and rates of new permanent employee hires and permanent employee turnover by age group and gender.

	New employee #	New employee %	Employee turnover #	Employee turnover %
Male	115	27	35	8
Female	73	17	21	5
Under 30 years	19	4	3	1
30–50 years	121	28	42	10
Over 50 years	48	11	11	3
Total employees at the end of the period				**429**

Ethnicity

We collect information from our permanent employees and contractors on which ethnicities they choose to identify with. Our reporting fields align with New Zealand census-collection data, although we do allow employees to select 'other' or choose not to respond.

Part of Z's Diversity and Inclusion Stand is that we are committed to reflect the diversity of Aotearoa New Zealand with an inclusive culture so that diversity can be fully expressed and manifest in tangible benefits.

Compared to the latest New Zealand census data (2013), we have the same proportion of European and Asian people as the general population does. Z is partnering with organisations and groups that provide talent pipelines not previously used (such as Workbridge), with a view that more people from diverse groups will be employed.

The ethnicities of Z permanent employees and board at 31 March 2017 are set out in the following table.

Back to contents

Diversity by ethnicity

Employee ethnicity	Leader of self #	Leader of self %	People leader #	People leader %	Executive #	Executive %	Whole organisation #	Whole organisation %	Board #	Board %
NZ European/Pākehā	161	50	67	72	10	91	238	55	5	71
European	35	11	7	8	1	9	43	10	2	29
Asian (including India and Pakistan)	44	14	4	4			48	11		
Multiple ethnicities	16	5	3	3			19	4		
Other ethnicity	12	4	3	3			15	3		
Middle Eastern/Latin American/African	7	2	1	1			8	2		
Māori	7	2	1	1			8	2		
Pacific Islander	3	1	2	2			5	1		
Information not provided	40	12	5	5			45	10		
Total	**325**		**93**		**11**		**429**		**7**	

Percentages are represented as whole numbers.

Family responsibility

Employees' dependants

The percentage of Z permanent employees with dependants at 31 March 2017 is as follows.

	Percentage of employees with dependants %
Leader of self	48
People leader	69
Executive	100
Whole organisation	**54**
Board	86

Return-to-work and retention rates after parental leave

All our employees who are eligible by law are entitled to parental leave. In FY17, 12 male employees took two weeks' parental leave funded by Z.

The following table shows the return-to-work and retention rates of Z permanent employees after exercising legal entitlements to parental leave, as at 31 March 2017.

	Employees who have taken parental leave in FY17	Employees due to return from parental leave in FY17	Returned to work after leave in FY17	Return-to-work rate	Returned to work after leave prior year	Employed 12 months after return to work from parental leave	Retention rate
Female	16	4	4	100%	5	5	100%

Education

The highest level of education reached by Z's permanent employees and board at 31 March 2017 is as follows. Percentages are represented in whole numbers.

	Secondary %	Tertiary %	Post-graduate %	None or unknown %
Leader of self	14	51	18	17
People leader	4	54	31	11
Executive	0	36	64	0
Whole organisation	**12**	**51**	**22**	**15**
Board	14	57	29	0

Principle 2:

Board composition and performance

"To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives."

Z's board is a leader in New Zealand in gender balance and brings a diverse mix of age, skills, and experience to the board table.

Since Marko Bogoievski's resignation on 6 July 2016, all Z directors are independent, including the Chair and the board committee chairs. For a director to be considered independent, the board must determine that the director has no disqualifying relationship (other than solely as a consequence of being a director). The basis for determining whether a director has a disqualifying relationship is set out in the Z Board Charter.

To ensure a strong balance of independence, skills, knowledge, experience, and perspective, Z has developed a detailed skills matrix for the board over the last year. The matrix matches the desirable skills for the board against current risks and opportunities, overall strategy, and Z's requirements, with a core focus on the ability of the board to add value in the short- medium-, and long-term.

The skills matrix is intended to be regularly updated and used as a 'living' document to assist with targeted director succession and appointment, and to inform and guide the board-development plan. Board and CEO succession are regular agenda items and kept under review, as is senior-management succession.

These are the directors on the board at 31 March 2017, their appointment dates, and how long they have been on the board.

Peter Griffiths
Chair – Independent
2 April 2010
(7 years)

Paul Fowler
Independent
2 April 2010
(7 years)

Justine Munro
Independent
15 May 2013
(3 years, 10 months)

Alan Dunn
Independent
2 April 2010
(7 years)

Mark Cross
Independent
28 August 2015
(1 year, 7 months)

Abby Foote
Independent
15 May 2013
(3 years, 10 months)

Julie Raue
Independent
15 February 2016
(1 year, 1 month)

*Marko Bogoievski left Z's board on 6 July 2016 after 6 years, 3 months.

Effective boards – high challenge, high support

The Z Board Charter sets out how the board exercises and discharges its powers and responsibilities, including through committees established by the board. The Charter defines and prescribes the relationship between the board, the CEO, and the executive team.

The board has statutory responsibility for the business affairs of Z, including overall responsibility for the strategy, governance, culture, and performance of Z, working with, and through, the CEO.

Day-to-day management and administration of Z's affairs is delegated to the CEO by Z's Delegated Authority Framework. The CEO may also sub-delegate authority within specified financial and non-financial limits.

This framework is consistent with our philosophy of 'freedom in a framework' and describes the purpose of delegations as enabling 'Z employees to carry out business activities efficiently without overly restrictive approval requirements'. Part of Z's governance philosophy includes preventing unnecessary 'corporate spread'.

When Z people make decisions under a delegated authority, they are authorised to exercise appropriate and informed decision-making within a controlled, accountable, and transparent framework. They must refer to budgets, comply with the law, and meet the objectives of Z throughout the organisation. Z's governance structure also includes a commitment by all Z people to its policies, stands, values, and business purpose.

The 2016 external review of the board provided a structured framework to consider the board's operating mode with management. Z's board was assessed as being an "engaging board" that operates on a "high-challenge, high-support" basis with management. 'An engaging board' was described in the review as "a board characterised by strong levels of challenge, debate, and pressure-testing of key decisions along with a supportive environment for management".

Back to contents

Nominating and appointing directors to the board

Board succession is the responsibility of the People and Culture Committee on behalf of the board. This year, the committee developed a 3-year board-succession plan, based on a formal skills matrix. The matrix includes current and desirable skills and experience of the board, key risks and opportunities for Z now and in the medium and long term, and diversity and inclusion factors.

We use an external search agency to produce a short list. The potential candidates on the short list are then interviewed by the Chair and the chairs of the People and Culture Committee and the Audit and Risk Committee.

Background checks are conducted on the person's character, experience, education, criminal record, and bankruptcy history.

Board members enter into a written agreement establishing the terms of their appointment including Z expectations for the director's role.

The Board Charter allows directors to seek independent professional advice at Z's cost.

Continuous improvement – positioning the board to add value

Z is committed to ongoing board development on the same 70/20/10 basis as Z employees.

For the board, the 70% on-the-job element consists of deep dives, participating in Z events such as safety days and site visits, strategy leadership, and stakeholder engagement sessions.

The 20% element relates to structured learning and includes a dedicated $30,000 annual fund for external development opportunities and external speakers.

The final 10% element relates to ensuring the board receives external feedback such as 360-degree feedback from fellow directors and management and formal external review.

Board development during this period focused on collective development of the board, correlated to key business risks and opportunities for Z. Topics included future strategy (such as disruption and innovation), governance and investor trends, income inequality and other social-context factors, and sustainability.

Evaluating executive performance

The board is responsible for monitoring the performance of the CEO and the executive team against established objectives.

Z's People and Culture Committee reviews and approves annual performance review programmes for executives and draws on external market information when considering remuneration arrangements.

In determining each executive's total remuneration, external benchmarking is used to ensure comparability and competitiveness alongside the individual's performance, skills, expertise, and experience.

Executives' performance was evaluated during FY17 in line with this process.

Information on Z's executive remuneration arrangements (fixed remuneration, short- and long-term performance incentives) is set out under Principle 5: Remuneration.

One hundred percent of all Z permanent employees, including management, have undertaken regular performance reviews in 2017. One hundred percent of the executive, 97% of people leaders, and 86% of leaders of self* had individual development plans at the time of our annual drive in July.

Review of the board and director performance

The board regularly reviews and evaluates the performance of the board, individual directors, and committees to ensure they are performing in line with formal obligations and Z's values, and are positioned to create value for the business in the short, medium and long term.

The People and Culture Committee has developed the process for evaluating how recommendations from external reviews are prioritised and implemented, with progress measured in subsequent reviews.

Board meetings open with scheduled 'board only' time and 'CEO/board only' time. Reflecting on the meeting is a formal agenda item at the end of each board meeting.

Z's board is committed to 'outside-in' learning, including benchmarking against best practice across New Zealand boards. In 2014 (the financial year after listing), the board obtained its first intensive external review. In 2015, the board obtained a 'pulse-check' review.

* Leader of self: does not have direct reports.

In 2016, the board commissioned a second intensive review that noted good progress on implementing its previous recommendations. Board strengths were listed as leadership by the Chair, the board's relationship with management, the quality of board discussion and debate, and the quality of information and papers provided for the board.

Since the 2016 review, we have made significant progress on implementing its recommendations. Specifically, we have:

- focused on board and CEO succession
- reviewed and restructured the Human Resources and Nominations Committee (now the People and Culture Committee)
- established a formal and detailed skills matrix for the board
- agreed on a structured plan for board development aligned with Z strategy
- developed a streamlined electronic induction process for new directors.

In the independent review planned for later in 2017, we will specifically ask for a review of the implementation of material recommendations for board, committee, and director performance.

Principle 3:

Board committees

"The board should use committees where this will enhance its effectiveness in key areas while still retaining board responsibility."

Board committees at Z are established to perform particular work on an ongoing basis. The board has three standing committees to help carry out its responsibilities – Audit and Risk; People and Culture; and Health, Safety, Security, and Environment. All board and committee charters are published on our website.

Audit and Risk Committee

Abby Foote (chair), Paul Fowler, Mark Cross, Peter Griffiths

The role of the Audit and Risk committee (ARC) as defined by the ARC Charter is to govern enterprise risk management, financial management, accounting, audit and reporting. The responsibilities and duties delegated to the ARC by the board are also intended to help board members in taking reasonable steps to acquire and maintain up-to-date knowledge of enterprise risk management and financial reporting matters relevant to Z.

The ARC provides an independent reporting line for the Risk and Assurance Manager, and meets with the Risk and Assurance Manager and external auditors (either together or separately) as the ARC chair considers appropriate.

All members of the ARC are independent non-executive directors. The roles of board Chair and ARC chair are separate. The skills and relevant qualifications of each member of the Audit and Risk Committee are set out on page 14 and include details of the ARC chair's accounting and financial background. For more information about auditing and reporting of Z's financial performance, see Principle 4.

People and Culture Committee

Alan Dunn (chair), Justine Munro, Mark Cross, Julia Raue

Based on recommendations from the external review of the board and board committees, Z has reviewed the People and Culture Committee (PCC) in the last year. The result of the review was a renewed PCC Charter and a new annual work plan to implement the revised purpose and function of the committee.

The PCC's role is to ensure that Z's people and culture strategy (organisational design, remuneration strategy, succession planning, and any related strategy or policy) supports and delivers on Z's business plan and strategy. The PCC also oversees Z's commitment to continuously develop a strong and open culture, maintain public transparency on remuneration, and manage other people matters.

The PCC approves performance criteria and remuneration for the CEO, and recommends incentive payment or other adjustments to CEO remuneration to the board, taking into account the CEO's performance review with the board. The PCC establishes, develops, and oversees a formal and transparent process for the board to review and evaluate board performance, and the performance of board committees and individual directors. It also determines appropriate board remuneration, subject to approval by shareholders.

As part of its responsibility for building Z's culture, the PCC guides and oversees diversity and inclusion at Z. This includes making sure best-practice principles and practices of diversity and inclusion and equal-employment opportunities are followed.

Back to contents

Health, Safety, Security, and Environment Committee

Paul Fowler (chair), Abby Foote, Alan Dunn, Justine Munro, Julia Raue

The board has ultimate responsibility for the health, safety, security, and environment (HSSE) outcomes of Z's operational activities. The HSSE Committee's role is to provide a specific governance focus on HSSE risks, including all risks that could cause harm to people or the environment arising out of Z's operations and activities, as set out in the HSSE Charter.

The HSSE Committee is responsible for assisting the board to meet its due-diligence obligations. These include taking reasonable steps to acquire and maintain up-to-date knowledge of HSSE matters relevant to Z; understanding Z's operations, hazards, and risks; and ensuring Z has sufficient resources and processes to eliminate or minimise HSSE operational risk.

The HSSE Committee was provided with an extensive director-development programme that is part of all director induction. A continuous-development programme is also in place. Given the specialist nature of the HSSE Committee's role, the Committee has authority to engage external expert consultants to give objective advice to the board.

Attendance at board meetings

Directors attended the following board and committee meetings during the year.

Director	Board meetings	ARC	PCC	HSSE
Total number of meetings held				
Peter Griffiths	7/7	4/4	-	-
Alan Dunn	7/7	-	4/4	6/6
Abby Foote	7/7	4/4	-	6/6
Paul Fowler	7/7	4/4	-	6/6
Justine Munro	7/7	-	3/4	5/6
Mark Cross	7/7	3/4	4/4	-
Julia Raue	7/7	-	2/2	5/5
Marko Bogoievski*	2/2	1/1	0/1	-

If a director was not a member of a particular committee at the time of the relevant meetings, "-" has been recorded.

* Marko Bogoievski left Z's board on 6 July 2016.

Principle 4:

Reporting and disclosure

"The board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosure."

Continuous disclosure

Consistent with Z's values to 'share everything' and 'be straight up', the board is committed to providing timely, orderly, consistent, accurate, and credible information to the market. We recognise the need to enable orderly behaviour in the market and to promote investor confidence. Relevant policies include the Market Disclosure Policy, the Investor Communications Policy, and the Insider Trading Policy, all of which are on Z's external Investor Centre website.

The Market Disclosure Policy helps the board keep Z's investors and markets informed through a clear and balanced approach that communicates both positive and negative news.

Z has a standing Disclosure Committee that is ultimately responsible for Z complying with its disclosure obligations. The Committee consists of the Chair, ARC chair, CEO, CFO, Corporate Communications and Investor Relations Manager, General Counsel, and Chief Governance Officer.

The CEO and executive team are required to provide all material information to the Disclosure Officers. The Disclosure Committee also monitors external markets to issue any corrections if a false market appears to develop.

The Investor Communications Policy sets out Z's commitment to building constructive and trusted relationships with shareholders, including effective communication, ready access to balanced and understandable information, multiple channels of information including an up-to-date investor website that contains Z's Board Charter, Committee Charters, Code of Conduct, and other core corporate governance documents.

Financial reporting

The ARC plays a central role in Z's commitment to transparent reporting of its financial and non-financial performance. The ARC Charter clearly defines the roles of the board, the ARC, executive, and external auditors.

The executive is responsible for implementing and maintaining appropriate accounting and financial reporting principles, policies, and internal controls designed to ensure compliance with accounting standards and applicable laws and regulations.

Z's external auditor, KPMG, is responsible for planning and carrying out each external audit and review in line with applicable auditing and review standards. They are accountable to shareholders through the ARC and the board respectively. The board retains overall responsibility for financial reporting.

The ARC makes sure that it and the full board are sufficiently informed about good-practice financial reporting and Z's operations to know whether financial reporting is fit for purpose. This means it represents a balanced viewpoint, is factual and complete, and is effectively implemented.

The ARC is provided with a Director Development Programme for inducting new members and the continuous development of existing members. The ARC may also obtain more information from external specialists.

As part of half-yearly CEO and CFO certifications, the ARC reviews Z's risk-management systems and receives quarterly reports relating to risk management from Z's risk and assurance function and management. The certifications provide assurance to the board that Z's financial records have been properly maintained, and that the financial statements comply with GAAP and give a true and fair view of Z's financial position and performance.

Non-financial reporting

Z is committed to transparency at all levels of the organisation, which includes sustainability reporting against the Global Reporting Initiative (GRI) and the International Integrated Reporting Council Guidelines. Both frameworks are recognised by the Sustainable Stock Exchanges Initiative.

Principle 5:

Remuneration

"The remuneration of directors and executives should be transparent, fair and reasonable."

The numbers reported under Principle 5 relate to Z permanent employees only and do not include contractors, consultants, or employees of Z- or Caltex-branded retail sites, who are employed directly by retail operators.

Director remuneration

Z conducts an annual review of its non-executive director fees, to ensure that the level of fees paid to its Chair and other non-executive directors is aligned with other organisations of similar scale and scope.

People and Culture Committee

Z's remuneration framework and policies are managed by the People and Culture Committee in line with the People and Culture Committee's charter.

Remuneration

Z's success in meeting its ambitious growth strategy relies on the success of our people: how we attract the best talent, grow our people, and reward and remunerate them to fairly recognise their contribution to our success. Z has created a performance culture that celebrates and rewards achievement.

Z's remuneration strategy is to pay top dollar for stellar performance so that we can attract, retain, and grow the best people to help deliver an extraordinary future for Z. Our remuneration position is to benchmark Total Fixed Remuneration to the upper quartile of the external market. This means that with our Short-Term Incentive (STI) the total rewards we offer are in the top 10% of the New Zealand market when people deliver results above plan.

Every permanent Z employee has a base salary, an STI component, and health insurance (with Southern Cross) for themselves and their immediate family in their remuneration package. Z also makes a 5% employer contribution to KiwiSaver. A limited number of senior employees are also invited to participate in a Restricted Share Long-Term Incentive Plan (RSLTIP). All remuneration packages are reviewed annually.

Back to contents

Base salary

The base-salary model is informed and adjusted each year based on data from independent remuneration specialists. An employee's base salary is determined from a matrix of their own performance and their current position in the market and reviewed annually.

Short-Term Incentive

Our Short-Term Incentive (STI) model is focused on articulating performance goals, driving for outcomes, differentiating high performance, and rewarding delivery.

STI values are calculated as a percentage of base salary and determined based on the complexity of the roles. Employees' STI payments are determined following a review of the individual's performance, and may be paid out at a multiplier of zero to three times an individual's STI target depending on the company's performance.

Restricted Share Long-Term Incentive Plan

The Restricted Share Long-Term Incentive Plan (RSLTIP) is for the executive and selected senior employees.

The RSLTIP is intended to incentivise selected employees to achieve long-term shareholder returns by ensuring that their incentives are aligned with the interests of shareholders. The RSLTIP does this by providing a proportion of the employee's remuneration on an at-risk basis aligned with the achievement of defined performance targets.

An amount in shares is held on trust for the employee for three years. After that time, the shares will be transferred to the employee if they have achieved their defined performance targets and the company achieves its Total Shareholder Return (TSR) targets.

The amount of shares granted is calculated as a percentage of the employee's base salary and, depending on the performance of the company, may be multiplied by zero to two times that percentage. The first time this scheme vested was in April 2016.

Employee Share Purchase Plan

Z also has an Employee Share Purchase Plan (ESPP) that it has invited eligible employees to participate in on two occasions (in 2013 and in 2016). Under the ESPP, eligible employees are invited to buy shares in Z at a discount to the market price. Those shares are then held on trust by **Z Energy ESPP Trustee Limited (ESPP Trustee)** for employees until they vest at the end of a three-year period. The ESPP is an IRD-approved DC12 plan.

For the 2013 grant of the ESPP, employees could purchase up to the amount of 786 shares for a price below the listing value. Payment for these shares comes out of those employees' wages over the three-year period, after which the shares were transferred to the participating employees in November 2016. There were 123 participants in the 2013 grant of the ESPP.

Following the success of the initial ESPP grant, Z invited eligible employees to participate in a new grant under the ESPP on 15 December 2016. Under the 2016 grant, eligible employees could purchase up to 413 shares for a discounted price of 22% below the market price. Currently, 273 employees are participating in the 2016 grant of the ESPP.

Transactions in associated products

Z's Insider Trading Policy prohibits directors, officers, employees, or contractors of Z or any of its subsidiaries, where they are entitled to participate in any equity-based remuneration scheme, from entering into any transaction that would limit the economic risk of participating in any unvested entitlement that they are eligible for under that remuneration scheme.

Remunerating executives

Our approach is to pay executives a base salary and a performance-based bonus that includes a short-term and a long-term incentive. This ensures executive motivation is aligned with the goals of the company in the short and long term.

In determining executive base salary, Z partners with EY to conduct market research on the specific role so that we offer our executives a competitive salary. Final decisions on executive base salary are agreed by Sharlene Taylor, our GM of People and Culture, and Mike Bennetts, our CEO. Executives are entitled to the same health insurance for themselves and their immediate families as all employees, as well as a 5% KiwiSaver employer contribution.

The STI component is the same model used for permanent employees. Depending on the role, executive STI is calculated at 30% or 40% of a base salary. That figure can be multiplied zero to three times depending on company and executives' individual performance. Our executives participate in the RSLTIP. The Executive RSLTIP is calculated at 30% of their base salary and can go up to double that percentage, depending on company performance.

CEO remuneration

Mike Bennetts' employment agreement for his role as CEO began on 1 April 2010. The key terms of Mike's employment are set out below.

In FY17, Mike had a base salary of $780,000.00 per annum. The base salary is reviewed annually with effect from 1 April each year.

In addition to his base salary, Mike may also be paid an annual Short-Term Incentive (STI) payment with an on-target value of 50% of his base salary and a maximum payment of 150% of his base salary.

Payment of a Short-Term Incentive is at the board's discretion and is assessed in the first quarter of each financial year, based on business performance in the previous financial year. If Mike is made redundant, he will be entitled to a proportional STI-based performance payment up to his departure.

Mike may also be entitled to Long-Term Incentive (LTI) payments calculated against his base salary. Mike's potential entitlements under the 2014 RSLTIP will be paid in 2017, based on the company performance against specific financial objectives for each year, relative to the performance of other NZX-listed companies. The maximum payment to which Mike may be entitled under the RSLTIP is 100% of his salary.

The values of Mike's STI and LTI payments are determined by the People and Culture Committee. The committee assesses Mike's performance against a range of key performance indicators. For FY 17, these included a balanced scorecard that includes health and safety metrics (such as leading and lagging indicators), operational performance (such as customer satisfaction), financial results, and delivery of strategic projects (such as the Caltex acquisition).

Mike's base salary is 19 times the lowest-paid employee in Z and 7 times the average Z base salary. When including performance-related bonuses, Mike's total remuneration is 51 times the lowest-paid employee total remuneration and 15 times the average employee's total remuneration. This reflects the strong bias of Mike's remuneration to performance-related pay relative to other employees who also receive remuneration.

During the 4-year period of FY14 (when Z listed) to FY17, Mike's total remuneration increased 14% while the company's replacement cost NPAT increased 83%.

Z has also agreed to pay Mike's reasonable accommodation and living expenses in Wellington, and the reasonable travel expenses for national travel (particularly between Wellington and Auckland).

Either Z or Mike can terminate his employment on 3 months' notice. Z can also terminate his employment for redundancy or for ill health (in both cases, also on 3 months' notice).

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

Remuneration of directors

None of the directors is entitled to any remuneration from Z other than from directors' fees and reasonable travel, accommodation, and other expenses incurred in the course of performing duties or exercising powers as directors. No directors are entitled to any retirement benefits.

In addition to directors' fees, additional fees are paid to the Chair and members for work carried out by directors on various board committees to reflect the additional time involved and responsibilities of these positions.

The current total remuneration pool for Z's non-executive directors at 31 March 2017 is $1,000,000 per annum. Z's shareholders voted to increase the total remuneration pool to the current amount from $900,000 per annum at Z's 2016 Annual Shareholders' Meeting.

Back to contents

Approved director remuneration for FY17

	Position	Fees (per annum)
Board of Directors	Chair	$179,200
	Non executive director	$88,000
Audit and Risk Committee (ARC)	Chair	$20,000
	Member	$10,000
People and Culture Committee (PCC)	Chair	$20,000
	Member	$10,000
Health, Safety, Security, Environment (HSSE) Committee	Chair	$20,000
	Member	$10,000

Z commissioned EY as part of that review process to undertake a comprehensive market review of Z's remuneration against its peers (being organisations of a similar scale and scope to Z) and to take a view on setting director fees for FY18.

EY's review showed that:

- each of Z's non-executive director base fees, Chair base fees, and board committee chair fees is currently set below the market median
- Z's committee membership fees are currently set at a level consistent with the market median.

Given the importance of Z continuing to attract directors with the necessary skills and experience to govern a company of Z's scale and scope, the board considers that Z's director remuneration should be aligned with that of other organisations of similar scale and scope.

As a result of the annual director-remuneration review process that Z conducted during FY17, Z's board will recommend that shareholders approve an increase in director remuneration of $100,000 to take the maximum aggregate remuneration pool available to Z's non-executive directors to $1,100,000 per annum.

Director remuneration received in FY17

	Board fees	ARC fees	PCC fees	HSSE fees	Total remuneration
Peter Griffiths Chair, Board of Directors; Member, ARC	$172,800	$10,000			**$182,800**
Alan Dunn Chair, PCC; Member, HSSE Committee	$85,333		$20,000	$10,000	**$115,333**
Abby Foote Chair, ARC; Member, HSSE Committee	$85,333	$20,000		$10,000	**$115,333**
Paul Fowler Chair, HSSE Committee; Member, ARC	$85,333	$10,000		$20,000	**$115,333**
Justine Munro Member, HSSE Committee; Member, PCC	$85,333		$10,000	$10,000	**$105,333**
Mark Cross Member, ARC Committee; Member, PCC	$85,333	$10,000	$9,478		**$104,811**
Julia Raue Member, HSSE Committee; Member, PCC	$85,333		$5,000	$9,478	**$99,811**
Marko Bogoievski * Member, ARC Committee; Member, PCC	$13,626	$1,703	$1,703		**$17,032**
Total	**$698,424**	**$51,703**	**$46,181**	**$59,478**	**$855,786**

Note: Mark Cross joined the PCC from 19 April 2016. Julia Raue joined the HSSE Committee from 19 April 2016 and PCC from 1 October 2016. Marko Bogoievski resigned from the board on 2 June 2016 so fees do not represent a full year.

Employee remuneration

The data in this section relates to Z and Z Energy 2015 Limited permanent employees only. The total number of corporate employees is 447 (of which 429 are permanent).

283 Z and Z Energy 2015 Limited employees (or former employees) received remuneration and other benefits over $100,000 in their capacity as employees during FY17, as set out in the table below. This includes salary, short- and long-term performance bonuses, settlement payments, and redundancy payments for all permanent employees.

Amount of remuneration	Employees	Amount of remuneration	Employees
$100,001 to $110,000	37	$280,001 to $290,000	3
$110,001 to $120,000	19	$290,001 to $300,000	1
$120,001 to $130,000	27	$310,001 to $320,000	2
$130,001 to $140,000	31	$330,001 to $340,000	3
$140,001 to $150,000	27	$340,001 to $350,000	1
$150,001 to $160,000	19	$350,001 to $360,000	1
$160,001 to $170,000	20	$380,001 to $390,000	2
$170,001 to $180,000	11	$390,001 to $400,000	3
$180,001 to $190,000	8	$400,001 to $410,000	1
$190,001 to $200,000	16	$410,001 to $420,000	1
$200,001 to $210,000	7	$430,001 to $440,000	3
$210,001 to $220,000	9	$480,001 to $490,000	1
$220,001 to $230,000	6	$490,001 to $500,000	1
$230,001 to $240,000	1	$560,001 to $570,000	1
$240,001 to $250,000	4	$590,001 to $600,000	1
$250,001 to $260,000	2	$920,001 to $930,000	2
$260,001 to $270,000	2	$1,140,001 to $1,150,000	1
$270,001 to $280,000	8	$2,460,001 to $2,470,000	1

Principle 6:

Risk management

"Directors should have a sound understanding of the key risks faced by the business, and should regularly verify there are appropriate processes to identify and manage these."

Z has developed an overall enterprise Risk and Assurance system, designed to ensure a proactive, consistent, and systematic approach to managing risk, and ensuring independent and objective views on the design and operational effectiveness of internal controls.

The Risk and Assurance system recognises two principal functions: risk and assurance, and HSSE. Risk and assurance has a primary focus on enterprise and business risk (insurance, and financial risk including core financial controls, treasury, delegated authorities, and suspicious transactions). HSSE has a primary focus on operational and infrastructure risk.

Z's Risk Management Policy provides clarity on roles and responsibilities for risk and assurance. The board is responsible for the overall effectiveness of the risk management and internal control system, setting enterprise-risk appetite, and annually reviewing enterprise risk.

The Audit and Risk Committee (ARC) is responsible for oversight, monitoring, and reviews. Twice a year, it approves and monitors the annual risk and assurance plan on behalf of the board. The review is designed to establish an integrated and forward-looking perspective on the entire risk landscape. It takes in the internal and external environment, changes in the likelihood and consequence ratings of existing risks, and the business-unit risk profiles.

The CEO is responsible for promoting a culture of proactively managing risks, reporting to the ARC and managing any changes to the rating of enterprise-wide risks. The CFO is responsible for providing a single framework for risk management at Z, consistent with the Risk Management Policy and the board's risk appetite, including facilitating regular reviews and updates to the CEO and the ARC.

Because of the nature of Z's business, HSSE risks are an area of continuous focus. The HSSE Committee oversees HSSE risk and is responsible for all risks that could cause harm to people or the environment arising out of Z's operations and activities.

The committee approves an annual HSSE enterprise plan, receives assurance and performance reports, monitors implementation of ZORM (Z Operating Management System), and oversees the management of major hazard facilities.

Back to contents

Principle 7:

Auditors

"The board should ensure the quality and independence of the external audit process."

Oversight of Z's external audit arrangements is the responsibility of the ARC (Z's Audit and Risk Committee). The ARC is committed to ensuring that Z's external auditor is able to carry out its function independently and without impairment such that Z's external financial reporting is viewed as being highly reliable and credible.

Z's formal External Auditor Independence Policy is one of the key aspects in discharging this obligation. The policy sets out the work that the external auditor is required to do and specifies the services that the external auditor is not permitted to do, so that the ability of the auditor to carry out their role is not impaired and could not be reasonably perceived to be impaired.

All non-audit work that the external auditor performs must be approved by the Chair of the ARC. The approval details what work is to be performed and how auditor independence and objectivity are maintained. The policy requires that the development of local and overseas practice for other related assurance services be continuously monitored so that Z's policies comply with best practice.

KPMG has been the external auditor of Z and its subsidiaries for six years. The tenure and reappointment procedure of the external auditor is detailed in the External Auditor Independence Policy. In line with the external-auditor rotation policy and KPMG's policy, Graeme Edwards of KPMG is the engagement partner for Z, and has been since the start of FY17.

The KPMG audit report is based on the audited Group financial statements. Total fees paid to KPMG in its capacity as auditor for FY17 were $383,026 (2016: $256,280). Total fees paid to KPMG for other professional services for FY17 were $94,100 (2016: nil).

Other service fees comprise IRD risk review $6,500 (2016: nil); Global Reporting Initiative reporting review $13,000 (2016: nil); pro forma financial statements for retail bond issue $34,600 (2016: nil); Z Retailer reporting advisory $30,000 (2016: nil); and cost of sales adjustment review $10,000 (2016: nil). To safeguard auditor independence, Z has an External Auditor Independence Policy, which has been complied with. The policy requires the Audit and Risk Committee Chair to give pre-approval of non-audit services undertaken by the auditor.

We are committed to having our financial reports externally audited to meet international accounting standards. We have not sought external assurance over our environmental, social, and governance (ESG) reporting.

In the past, Z's external auditors have attended the Annual Shareholders' Meeting (ASM), where they have been available to answer shareholders' questions relevant to the audit. Z expects the auditor to attend the 2017 ASM.

Principle 8:

Shareholder relations

"The board should foster constructive relationships with shareholders that encourage them to engage with the entity."

Z is committed to an open and transparent relationship with shareholders. We are proud of a comprehensive and evolving programme of shareholder communications that addresses the needs of institutional, retail, international, and local shareholders.

We communicate with shareholders through multiple channels throughout the year: continuous market disclosure, half- and full-year reporting, and an Annual Shareholders' Meeting (the 2017 ASM will be held on Thursday 15 June 2017 at the Z Shed, 3 Queens Wharf, Wellington, 6140, New Zealand).

Shareholders can directly access the board at any time through our dedicated email address governance@z.co.nz. Our CEO and CFO also respond directly to shareholder phone calls and emails.

Z held its second investor day in October 2016, delivered roadshows for institutional and retail investors, and released monthly updates on the progress of system-cutover and synergy realisation following the acquisition of Chevron NZ.

We provide information about who we are, including our governance policies, on our website for investors to access at any time.

Our key governance documents are publicly disclosed on our website at z.co.nz/gov.

- Z Board Charter
- Constitution of Z Energy Limited
- Code of Conduct
- Audit and Risk Committee Charter
- People and Culture Committee Charter
- Health, Safety, Security, and Environment Committee Charter
- Diversity Policy
- Sustainability Policy
- Insider Trading Policy
- Market Disclosure Policy
- Investor Communications Policy
- Risk Management Policy
- External Auditor Independence Policy
- HSSE Stand
- Sustainability Stand
- Community Stand

Principle 9:

Stakeholder interests

"The board should respect the interests of stakeholders taking into account the entity's ownership type and its fundamental purpose."

The purpose of our corporate governance policies is to protect long-term stakeholder interests. It's something we take very seriously and that the board is mindful of. In keeping with our values, Z looks to speak freely and openly about matters that influence and affect the company directly, and about matters where we have an opinion to share.

Our active engagement in the NZX's Review of Corporate Governance Reporting Requirements demonstrates our commitment to our stakeholders. We are committed to increasing disclosure requirements to allow investors to better understand the businesses they are dealing with and ensure that all aspects of a business can be measured. We have taken a voluntary step in that direction through the disclosures that we have made in this annual report.

The methods by which we manage our stakeholder relationships and try to better understand the issues that are important to our stakeholders include:

- keeping in constant contact with a variety of our stakeholders throughout the year to maintain a good understanding of what matters to them
- holding quarterly meetings involving key Z employees to review stakeholder interactions from the previous quarter
- preparing and publishing quarterly updates outlining what investors care about
- collecting feedback from a sample of key external stakeholders asking them to rate the relative importance of GRI indicators previously used for reporting.

Back to contents

Other disclosures required under the Companies Act 1993

Disclosure of directors' interests

Directors disclosed, under section 140(2) of the New Zealand Companies Act 1993, the following interests at 31 March 2017.

Director	Position	Company
Peter Griffiths	Director	Z Energy Limited Z Energy 2015 Limited Challenge Petroleum Limited
	Shareholder	The New Zealand Refining Company Limited – 8,744 shares
Alan Dunn	Director	Burger Fuel Worldwide Limited Nelson Regional Development Agency Limited New Zealand Post Limited Z Energy Limited Z Energy 2015 Limited Challenge Petroleum Limited Z Energy ESPP Trustee Limited Z Energy LTI Trustee Limited
Abby Foote	Director	New Zealand Local Government Funding Agency Limited BNZ Life Insurance Limited BNZ Insurance Services Limited Livestock Improvement Corporation Limited Z Energy Limited Z Energy 2015 Limited Challenge Petroleum Limited Television New Zealand Limited
	Member	Museum of New Zealand Te Papa Tongarewa Board
Paul Fowler	Director	Z Energy Limited Z Energy 2015 Limited Challenge Petroleum Limited
	Noteholder	Caltex Australia Limited – 500 subordinated notes
Justine Munro	Director	Z Energy ESPP Trustee Limited Z Energy LTI Trustee Limited Z Energy Limited Z Energy 2015 Limited Challenge Petroleum Limited
Mark Cross	Director	Emcee Squared Limited Argosy Property Limited Genesis Energy Limited Superannuation Investments Limited Milford Asset Management Limited Milford Funds Limited Z Energy Limited Z Energy 2015 Limited Challenge Petroleum Limited Chorus Limited
	Shareholder	Emcee Squared Limited – 1 share
Julia Raue	Director	Television New Zealand Southern Cross Health Society Z Energy Limited Z Energy 2015 Limited Challenge Petroleum Limited The Warehouse Group Limited Jade Software Corporation Limited
	Member	Risk and Audit Committee of the Treasury

Directors' interests in share transactions

None of the directors disclosed an acquisition or disposal of relevant interest in Z's shares or bonds during the year to 31 March 2017.

Directors' interests in shares and bonds

Directors disclosed the following relevant interests in shares and bonds at 31 March 2017.

Director	Number of shares or bonds in which a relevant interest is held
Abby Foote	Z Energy Limited – 14,285 shares
Peter Griffiths	Z Energy Limited – 42,857 shares
Paul Fowler	Z Energy Limited – 10,000 shares

Executive team's interests in shares and bonds

The executive team disclosed the following relevant interests in shares at 31 March 2017.

Executive team members	Interests as registered holder of shares	Z RSLTIP interests	Z ESPP interest
Mike Bennetts	Z Energy Limited – 151,794 (of which 151,008 shares are held by Kammjam Trust)	126,421 shares for the period ending 31 March 2017 83,970 shares for the period ending 31 March 2018 59,934 shares for the period ending 31 March 2019	413 shares
Chris Day	Z Energy Limited – 41,528 shares held by CW & CR Day Trust	39,324 shares for the period ending 31 March 2017 25,930 shares for the period ending 31 March 2018 18,441 shares for the period ending 31 March 2019	413 shares
Lindis Jones	Z Energy Limited – 45,836 shares	30,078 shares for the period ending 31 March 2017 20,152 shares for the period ending 31 March 2018 16,136 shares for the period ending 31 March 2019	413 shares
Mark Forsyth	Z Energy Limited – 44,994 shares (of which 44,208 shares are held by Forsyth Family Trust)	32,618 shares for the period ending 31 March 2017 21,630 shares for the period ending 31 March 2018 15,675 shares for the period ending 31 March 2019	413 shares
David Binnie		13,881 shares for the period ending 31 March 2017 19,817 shares for the period ending 31 March 2018 13,816 shares for the period ending 31 March 2019	
Nicolas Williams	Z Energy Limited – 11,646	10,288 shares for the period ending 31 March 2017 16,794 shares for the period ending 31 March 2018 14,753 shares for the period ending 31 March 2019	413 shares

Donations

For the year ended 31 March 2017, Z made donations of $1,135,251 (2016: $1,255,849). Z's subsidiaries made no donations during the period.

Indemnity and insurance disclosure

As permitted by its constitution, Z has entered into a deed to indemnify its directors and its personnel who serve as directors of related companies for potential liabilities or costs they may incur for acts or omissions in their capacity as directors of Z or its related companies. Z has a Directors' and Officers' Liability Insurance Policy in place. This provides insurance for the liabilities of the directors and employees of Z for acts or omissions in their capacity as directors or employees. Neither the indemnity nor the insurance policies cover dishonest, fraudulent, malicious, or wilful acts or omissions.

Back to contents

Results disclosure

The reporting period for this annual report relates to the 12 months prior to 31 March 2017. The previous reporting period relates to the 12 months prior to 31 March 2016.

Dividend disclosure

	Amount per security (cents)	Imputed amounts per security (cents)
FY17 Interim dividend	**9.4 cents**	**3.6556 cents**
Record date	25 November 2016	
Payment date	12 December 2016	
FY16 Final dividend	**18.1 cents**	**7.0389 cents**
Record date	27 May 2016	
Payment date	8 June 2016	

Net tangible assets per security

Net tangible assets per security at 31 March 2017: 1 cent (31 March 2016: 63 cents).

Group disclosures – subsidiaries

Subsidiary directors at 31 March 2017

Person	Subsidiary directorships	Interests
Mike Bennetts	Harbour City Property Investments Limited	Punakaiki Fund Limited (director)
		The New Zealand Refining Company Limited (director)
Mark Forsyth	Harbour City Property Investments Limited	Loyalty New Zealand Limited (director)
Justine Munro	Z Energy LTI Trustee Limited	As listed on page 116
	Z Energy ESPP Trustee Limited	As listed on page 116
	Z Energy 2015 Limited	As listed on page 116
	Challenge Petroleum Limited	As listed on page 116
Alan Dunn	Z Energy ESPP Trustee Limited	As listed on page 116
	Z Energy LTI Trustee Limited	As listed on page 116
	Challenge Petroleum Limited	As listed on page 116
	Z Energy 2015 Limited	As listed on page 116
Peter Griffiths	Z Energy 2015 Limited	As listed on page 116
	Challenge Petroleum Limited	As listed on page 116
Paul Fowler	Z Energy 2015 Limited	As listed on page 116
	Challenge Petroleum Limited	As listed on page 116
Abby Foote	Z Energy 2015 Limited	As listed on page 116
	Challenge Petroleum Limited	As listed on page 116
Mark Cross	Z Energy 2015 Limited	As listed on page 116
	Challenge Petroleum Limited	As listed on page 116
Julia Raue	Z Energy 2015 Limited	As listed on page 116
	Challenge Petroleum Limited	As listed on page 116

Other disclosures

Director remuneration

The directors of Harbour City Property Investments Limited are employees of Z and do not receive any remuneration in their capacity as directors.

The directors of Z Energy 2015 Limited, Challenge Petroleum Limited, Z Energy ESPP Trustee Limited, and Z Energy LTI Trustee Limited are also directors of Z and do not receive any remuneration in their capacity as directors of those subsidiary companies.

Subsidiary employees

Neither Harbour City Property Investments Limited, Challenge Petroleum Limited, Z Energy ESPP Trustee Limited, and Z Energy LTI Trustee Limited has any employees.

Details of the employees (or former employees) of Z Energy 2015 Limited who received remuneration and other benefits over $100,000 in their capacity as employees during FY17 are included in the "Employee remuneration" on page 113.

Payments made to an auditor

None of Z Energy 2015 Limited, Challenge Petroleum Limited, Harbour City Property Investments Limited, Z Energy ESPP Trustee Limited, or Z Energy LTI Trustee Limited paid any amounts to an auditor, whether for audit fees or otherwise, during the period.

Distribution of ordinary shares and shareholders

At 31 March 2017

Size of holding	Number of shareholders	%	Number of shares	%
1–1,000	1,884	21	1,314,529	0
1,001–5,000	4,999	56	12,749,623	3
5,001–10,000	1,282	14	9,115,103	2
10,001–100,000	688	8	14,254,106	4
100,001 and over	53	1	362,566,639	91
Totals	**8,906**	**100**	**400,000,000**	**100**

Distribution of ordinary bonds and bondholders

At 31 March 2017

ZEL 020

Size of holding	Number of bondholders	%	Number of bonds
1–1,000	0	0	0
1,001–5,000	439	14	2,195,000
5,001–10,000	840	27	8,090,000
10,001–100,000	1,698	55	55,558,000
100,001 and over	105	3	84,157,000
Totals	**3,082**	**100**	**150,000,000**

ZEL 030

Size of holding	Number of bondholders	%	Number of bonds
1–1,000	0	0	0
1,001–5,000	263	11	1,315,000
5,001–10,000	648	28	6,340,000
10,001–100,000	1,328	57	43,603,000
100,001 and over	77	3	83,742,000
Totals	**2,316**	**100**	**135,000,000**

Back to contents

ZEL 040

Size of holding	Number of bondholders	%	Number of bonds
1–1,000	0	0	0
1,001–5,000	122	10	610,000
5,001–10,000	306	24	2,960,000
10,001–100,000	766	61	26,652,000
100,001 and over	70	5	119,778,000
Totals	**1,264**	**100**	**150,000,000**

ZEL 050

Size of holding	Number of bondholders	%	Number of bonds
1–1,000	0	0	0
1,001–5,000	88	8	440,000
5,001–10,000	247	23	2,394,000
10,001–100,000	718	66	25,232,000
100,001 and over	33	3	41,934,000
Totals	**1,086**	**100**	**70,000,000**

Substantial product holders

According to notices given under the Financial Markets Conduct Act 2013, the following were substantial product holders of the company at 31 March 2017.

Substantial product holders	Number of voting products in substantial holding (ordinary Z shares)	Percentage of shares held at date of notice	Date of notice
Investors Mutual Limited	20,581,414	5.2	29/03/2017
Perpetual Limited and subsidiaries	43,567,496	10.9	30/01/2017
Airlie Funds Management Pty Ltd	26,345,102	6.6	15/12/2016
Commonwealth Bank of Australia	20,029,420	5.0	25/11/2016
New Zealand Superannuation Fund Nominees Limited	42,248,538	10.6	2/06/2016
Lazard Asset Management LLC	36,462,849	9.1	25/01/2016

The total number of Z ordinary shares on issue at 31 March 2017 was 400,000,000.

Our 20 largest shareholders

In the table below, the shareholding of New Zealand Central Securities Depository Limited (NZCSD) has been reallocated to the underlying beneficial owners.

At 31 March 2017

Rank	Holder name	Holding	%
1	HSBC Custody Nominees (Australia) Limited	38,493,099	9.6
2	HSBC Nominees (New Zealand) Limited	37,833,084	9.5
3	J P Morgan Nominees Australia Limited	34,638,797	8.7
4	National Nominees New Zealand Limited	22,431,606	5.6
5	Accident Compensation Corporation	18,296,580	4.6
6	HSBC Nominees (New Zealand) Limited	18,097,343	4.5
7	Citibank Nominees (NZ) Ltd	15,307,794	3.8
8	JPMorgan Chase Bank	15,304,511	3.8
9	RBC Investor Services Australia Nominees Pty Limited	13,565,143	3.4
10	National Nominees Limited	12,557,860	3.1
11	Citicorp Nominees Pty Limited	11,988,111	3.0
12	Forsyth Barr Custodians Ltd	11,167,371	2.8
13	HSBC Custody Nominees (Australia) Limited	10,394,728	2.6
14	BNP Paribas Nominees (NZ) Limited	8,826,494	2.2
15	New Zealand Superannuation Fund Nominees Limited	8,036,092	2.0
16	Cogent Nominees Limited	7,617,655	1.9
17	Premier Nominees Limited	6,465,317	1.6
18	Custodial Services Limited	6,010,891	1.5
19	UBS Nominees Pty Ltd	5,248,347	1.3
20	FNZ Custodians Limited	4,953,936	1.2

NZX Main Board waivers

Z does not have any waivers from the requirements of the NZX Main Board/Debt Market Listing Rules.


FRANKE
New cool treats
Mixed berry or mango smoothie
$5.30
Iced coffee
$5.00
$5.30

Back to contents

GRI Index

GRI standard	Page number(s)
General disclosures	
GRI 102: General disclosures 2016	
Organisational profile	
102–1 Name of the organisation	65
102–2 Activities, brands, products, and services	9-11, 20-21
102–3 Location of headquarters	126
102–4 Location of operations	9
102–5 Ownership and legal form	65
102–6 Markets served	20-21
102–7 Scale of the organisation	9-11
102–8 Information on employees and other workers	26-31
102–9 Supply chain	20-21
102–10 Significant changes to the organisation and its supply chain	Caltex acquistion throughout report
102–11 Precautionary principle or approach	113
102–12 External initiatives	31, (a)
102–13 Membership of associations	(b)
Strategy	
102–14 Statement from senior decision-maker	4-5, 12-13
Ethics and integrity	
102–16 Values, principles, standards, and norms of behaviour	18-19, 101
Governance	
102–18 Governance structure	100-108
Stakeholder engagement	
102–40 List of stakeholder groups	22-23
102–41 Collective bargaining agreements	none
102–42 Identifying and selecting stakeholders	22-23
102–43 Approach to stakeholder engagement	22-23
102–44 Key topics and concerns raised	22-23

GRI standard	Page number(s)
Reporting practice	
102–45 Entities included in the consolidated financial statements	65
102–46 Defining report content and topic boundaries	65
102–47 List of material topics	22-23
102–48 Restatements of information	No restatements
102–49 Changes in reporting	No changes
102–50 Reporting period	5
102–51 Date of most recent report	5
102–52 Reporting cycle	5
102–53 Contact point for questions regarding the report	126
102-54 Claims of reporting in accordance with the GRI Standards	22
102-55 GRI content index	124-125
102-56 External assurance	114
Material topics	
GRI 200 Economic standard series	
Economic performance	
GRI 103: Management approach 2016	54-97
GRI 201: Economic performance 2016	
201–1 Direct economic value generated and distributed	10-11, 58-97
201–2 Financial implications and other risks and opportunities due to climate change	12, 36-41
GRI 300 Environmental standards series	
Emissions	
GRI 103: Management approach 2016	
GRI 305: Emissions 2016	
305–1 Direct (Scope 1) GHG emissions	36-41
305–2 Energy indirect (Scope 2) GHG emissions	39
305–3 Other indirect (Scope 3) GHG emissions	39
305–4 GHG emissions intensity	39
Effluents and waste	
GRI 103: Management approach 2016	29
GRI 306: Effluents and waste 2016	
306–2 Waste by type and disposal method	41
306–3 Significant spills	29

GRI standard	Page number(s)
Environmental compliance	
GRI 103: Management approach 2016	29
GRI 307: Environmental compliance 2016	
307–1 Non-compliance with environmental laws and regulations	101
Supplier environmental assessment	
GRI 103: Management approach 2016	20
GRI 308: Supplier environmental assessment 2016	
308–2 Negative environmental impacts in the supply chain and actions taken	20-21, 45
GRI 400 Social standards series	
Employment	
GRI 103: Management approach 2016	26-31, 32-35
GRI 401: Employment 2016	
401–1 New employee hires and employee turnover	103
401–2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	109-110
401–3 Parental leave	104
Occupational health and safety	
GRI 103: Management approach 2016	29
GRI 403: Occupational health and safety 2016	
403–1 Workers representation in formal joint management-worker health and safety committees	30
403–2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	30
Training and education	
GRI 103: Management approach 2016	26
GRI 404: Training and education 2016	
404–2 Programs for upgrading employee skills and transition assistance programs	31
404–3 Percentage of employees receiving regular performance and career development reviews	106

GRI standard	Page number(s)
Diversity and equal opportunity	
GRI 103: Management approach 2016	31, 101
GRI 405: Diversity and equal opportunity 2016	
405–1 Diversity of governance bodies and employees	102-104
405–2 Ratio of basic salary and remuneration of women to men	103
Local communities	
GRI 103: Management approach 2016	48
GRI 413: Local communities 2016	
413–1 Operations with local community engagement, impact assessments, and development programs	50
Socioeconomic compliance	
GRI 103: Management approach 2016	100
GRI 419: Socioeconomic compliance 2016	
419–1 Non-compliance with laws and regulations in the social and economic area	101
Oil and gas sector disclosures	
Asset integrity and process safety	
GRI 103: Management approach 2016	29
GRI G4-OG13 Process safety events	
Number of process safety events, by business activity	30
Fossil fuel substitutes	
GRI 103: Management approach 2016	38-39
GRI G4-OG14 Biofuels produced and purchased	
Volume of biofuels produced and purchased meeting sustainability criteria	No sales

(a) Zero Harm workplace, NZX Corporate Governance Best Practice Code, ASX Principles, Women's Empowerment Principles.

(b) Sustainable Business Council, Sustainable Business Network.

Back to contents

Company Directory

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

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

Facebook: Z Energy

LinkedIn: Z Energy

Directors
Peter Ward Griffiths (Chair)

Andrew Mark Cross

Alan Michael Dunn

Abigail Kate Foote

Paul Lightle Fowler

Justine Mary Munro

Julia Margaret Raue

Marko Bogoievski
(Resigned 2 June 2016)

Stephen Reindler
(Appointed 1 May 2017)

Executive team

Michael Bennetts
Chief Executive

Christopher Day
Chief Financial Officer

Jane Anthony
General Manager, Marketing

David Binnie
General Manager, Supply and Distribution

Debra Blackett
Chief Governance Officer

Mark Forsyth
General Manager, Retail

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

Lindis Jones
General Manager, Corporate

Sharlene Taylor
General Manager, People and Culture

Meredith Ussher
General Counsel

Nicolas Williams
General Manager, Commercial

Share Registrar

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

Link Market Services – Australia
Locked Bag A14
Sydney South NSW 1235
Australia
+61 2 8280 7100

Auditor

KPMG
Maritime Tower
10 Customhouse Quay
PO Box 996
Wellington 6140

Lawyers

Chapman Tripp
10 Customhouse Quay
Wellington 6140

Minter Ellison Rudd Watts
18 / 125 The Terrace
Wellington 6011

Bankers

ANZ Bank New Zealand Limited
215–229 Lambton Quay
Wellington

Bank of New Zealand
80 Queen Street
Auckland

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

Westpac Banking Corporation
188 Quay Street
Auckland

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

Australia Registered Business Number
164 438 448

Do you have feedback?

We are committed to communicating clearly about our business and our activities through our reporting. We welcome your comments and feedback on this report.
Please email us at yourviews@z.co.nz.

Visit **z.co.nz/AR17** to download an interactive PDF where you can click on bold text to view additional content.


z.co.nz
IS FOR NEW ZEALAND