Ko te mea nui...

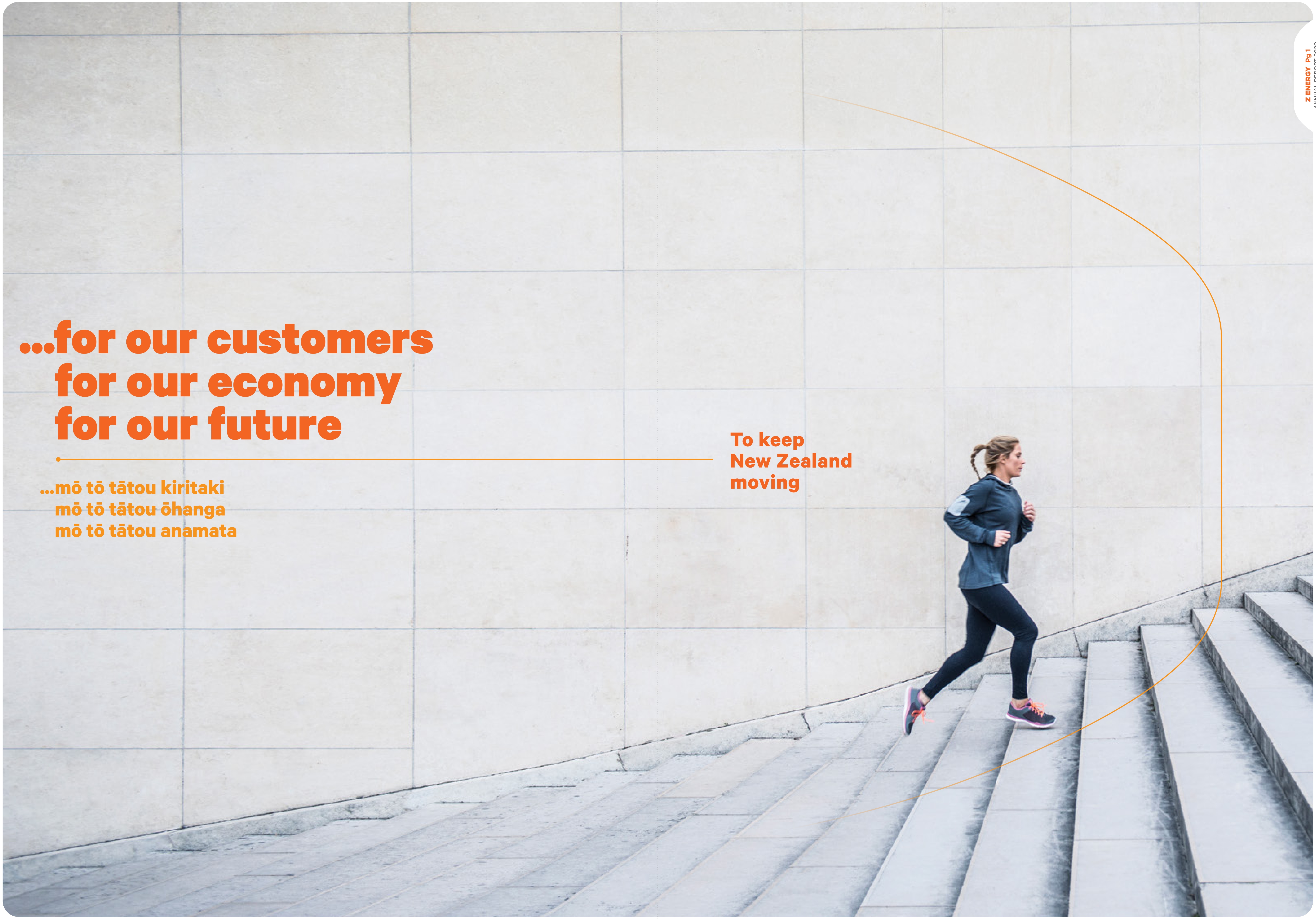
What matters most...

Z ENERGY **ANNUAL REPORT**
For the year ended 31 March 2020

...for our customers for our economy for our future

...mō tō tātou kiritaki
mō tō tātou ōhanga
mō tō tātou anamata

To keep New Zealand moving



COVID-19 AND THIS ANNUAL REPORT

While any impact on Z in FY20 is limited by the timing of the COVID-19 crisis in New Zealand, we expect there will be material impacts on fuel demand in New Zealand across at least the first half of FY21. Again, there is a high level of uncertainty on this point and we will continue to update the market as required.

The 2020 financial year was a challenging one for Z across many areas of the business. In the last week of our financial year, conditions became markedly more challenging, complex and uncertain for the whole of New Zealand, including Z, with the country entering an unprecedented lockdown and State of Emergency over the COVID-19 global pandemic.

At the point of closing the financial year and beginning to finalise this annual report and its full year results, the Z Board and management was operating the company under the highest level in its crisis management plan. Z's crisis management team had been operational since January to ensure Z was well prepared for a range of possible COVID-19 scenarios.

Our focus has been on managing the company with great care – to protect its supply chain for the benefit of the New Zealand economy, to protect people and to protect shareholders' interests.

The choices we make around where we focus our efforts and resources are now more important than ever. Given the COVID-19 lockdown started right at the end of our financial year, one of our choices was around areas of focus for the Board and management. We elected not to focus more time and effort on revisions and amendments to reflect the possible range of impacts of COVID-19 in this annual report.

Rather, we will address how we have responded to COVID-19 directly here, in this initial statement and over the following two pages, and ask stakeholders to read the remainder of the report, bearing in mind the choice we have made not to invest more time and resources rewriting the bulk of our annual report. Where we discuss strategy throughout this report, readers should assume our short- to medium-term strategic focus, including cost and resource allocations, will be driven by our response to COVID-19 and the commitment for Z to emerge strongly from this crisis.

There is much in this annual report that, regardless of COVID-19, we are duty bound to report on. While we know there will be significant impacts on the broader New Zealand and global economy, and on the Z business, there is currently a high level of uncertainty on the scale of those impacts. In the face of this uncertainty, investors and stakeholders should know that Z is focused on tight, disciplined governance and management to ensure Z comes through this crisis as strongly as it possibly can.

Coinciding with the global spread of COVID-19, over the last quarter of Z's financial year, the price of crude oil dropped by about two-thirds as Russia and Saudi Arabia entered an oil price war and began to increase production at the same time as global demand dropped. We expect significant volatility in global oil markets to continue into the first quarter of FY21.

COVID-19 represents one of the biggest challenges to the global and domestic economy that most of us have ever experienced. Z has a unique role to play in supporting the New Zealand economy and its customers through this period with safe, secure and reliable transport energy supplies.

There will be challenging times ahead and difficult decisions to make, but we will not shy away from making them. There will also be significant opportunities. We will take the appropriate decisions at the right times to support the return to growth of our company and the New Zealand economy.

This report is accurate over the relevant reporting period – the 12 months to the end of March 2020. However, due to the COVID-19 economic impacts on the domestic and global economies, and on Z's business, some material issues have shifted since that date, and we recommend reading this report together with the year end results and disclosures available on the Z Energy Investor Centre which reference these issues at https://investors.z.co.nz/financials/results

Z Energy and Covid-19: Supporting the New Zealand economy and building a stronger business

With the advent of COVID-19, Z Energy has taken a number of material steps to ensure our ongoing contribution to the recovery of the New Zealand economy and to ensure our business emerges leaner, more competitive and more resilient than it was before.

Over the first five months of the 2020 calendar year, Z has worked very differently from how we've worked in the past: We have cut our discretionary costs significantly and we have strengthened our balance sheet as a prudent step in facing an uncertain future.

Strengthening our balance sheet

With Retail fuel demand dropping by 80 percent and Commercial fuel demand by 50 percent year-on-year during the COVID-19 Alert Level 4 lockdown, earnings were significantly impacted over the month of April in particular.

During the shift to Alert Level 3 in New Zealand, volumes recovered to approximately half of normal volumes and we took the step to keep the market informed by disclosing weekly volume updates. We expect fuel volumes to continue to recover as the country moves down through the Alert Level responses. There will be an obvious impact on jet fuel volumes well into FY21 and potentially beyond, but it should be noted that jet fuel is the lowest margin product we sell.

Given the impact on the first two months of the new financial year, and the continued uncertainty facing our business and the economy, we have taken important steps to strengthen our balance sheet and protect our business for the long term.

Our debt providers have been understanding of the one-off nature of this impact, and have waived or amended the usual covenant tests for September 2020 and March 2021, providing Z with flexibility in the face of significant uncertainty.

The most material step is to complete a successful equity raise primarily from existing shareholders. In mid-May, we raised $290 million from our investor base via a placement. We also introduced a share purchase plan, seeking to raise an additional $60 million. This will enable Z to pay down $180 million of existing debt and strengthen our balance sheet. We welcomed the very strong support from across our institutional and retail investor base and thank investors for their continued support.

We have strengthened our balance sheet through the equity raise, and remain committed to continuing to pay down debt: deleveraging remains a priority. Our focus is on ensuring that in 18 months' time, we have deleveraged to a ratio of between 2.0 and 2.5x debt to earnings on a post IFRS16 basis. That coincides with the periods of the debt waivers and will enable us to resume dividends consistent with our Distribution Policy in FY22.

We also took the unprecedented step of choosing not to pay a full-year dividend for FY20, again in service of strengthening our balance sheet and ensuring our company is in the best possible shape to face an uncertain short-term future. We have agreed with our debt providers to not pay dividends until September 2021.

These were not steps the Board took lightly, acknowledging the importance of the dividend to investors.

We also provisioned $33 million of COVID-19-related expenses in FY20.

Cutting our costs

Cutting costs from our business and ensuring Z is a lean, focused organisation has been an area of focus following the sustained shift in fuel margins – particularly over the last six months of FY20. Pre COVID-19, Z was already planning cost reductions for FY21, as previous investments in some customer experience, digitisation and data capability are now complete.

The implications of COVID-19 placed even greater importance on cost management. Significant cost reductions have been identified and Z is committed to delivering them in FY21.

Given the Board has exercised its discretion and decided not to pay a full-year dividend, it was right that the same discipline was applied inside the company. Senior management salaries and director fees were frozen and $8 million in staff bonuses were cancelled for the FY20 performance year. Fixed term contracts have not been renewed, employees have been asked to take four weeks' leave before 31 December and vacancies from any resignations over the past quarter have not been filled.

Z plans to reduce employee and contractor costs by up to $14 million with only one redundancy arising from COVID-19. Retaining people in jobs will ensure Z is well-positioned to rebound from COVID-19 in terms of capability.

Z's primary distribution costs and operating expenses in FY20 were just above $450 million. In response to the material fall in revenues, Z has targeted to reduce these costs by $74–$96 million over FY21. At the bottom of the cost reduction range, the reductions come in two key areas:

- A net $48 million of structural and recurring cost reductions after allowing for inflation of $9 million. These cost reductions reflect the completion of a range of internal projects and reduced procurement and supplier spend. The annualised FY22 impact of these structural reductions is expected to be $55 million;
- $26 million of one-off cost reductions that are unlikely to continue in FY22 unless market conditions remain depressed – for example, a reduction in discretionary marketing in the first half of FY21. Included in this number is $18 million of demand-driven costs – for example, lower fuel delivery costs and pipeline fees.

There are also further options for one-off cost reductions under a scenario in which COVID-19-related impacts place greater stress on the company than is expected.

While these reductions reflect a strong commitment to operating off a much lower cost base, there is ongoing work underway to identify further structural cost reductions that do not diminish capacity or capability to effectively compete.

While we have only made one member of the Z team redundant because of COVID-19, there have been 14 jobs that have been lost through the decision to hibernate Te Kora Hou, our biodiesel production plant in Wiri. This was a step that was being considered in advance of COVID-19 as, without Government support for renewable transport fuels, the economics of local manufacturing are too challenging at this time. We will likely retain a number of the team to operate the plant as a biodiesel import terminal and are actively investigating importing cheaper biofuels for supply to ongoing customers of biofuel products.

In taking these steps we have protected our core capabilities and sources of advantage. We have also sharpened our focus and retained a balanced business with a focus on productivity and delivering for our customers.

New ways of working

Back in 2015, Z commissioned a major piece of work to understand the potential global and domestic supply chain impacts of a major pandemic. This informed our planning for a crisis such as COVID-19.

We were very mindful of the escalating COVID-19 global crisis and convened our crisis management team in January of this year. Working in this way ensured a tight, focused group of experienced and capable leaders considering both the day-to-day operational and logistical challenges as well as the longer-term strategic considerations.

We have operated in a crisis response mode for the last quarter of the financial year and have now achieved sufficient stability to transition COVID-19 workstreams back into the relevant business units. At the time of producing this report, we are focused on operating in a 'new normal' external environment with a materially reduced core crisis management team overseeing coordination.

The focus of our crisis management function is now on ensuring a strong recovery for our company.

Over the lockdown period of Alert Level 4 and 3, we have been well served by our investments in technology. We had trialled remote working in advance of the Alert Level 4 shutdown, ensuring a smooth transition to remote working while protecting productivity and interconnectedness. We will continue to maximise the use of digital technology into the future in service of cost reduction and enhanced productivity.

We worked hard on ensuring we communicated clearly and consistently with our people throughout this crisis and that we kept people connected. Our overall employee net promoter score improved from +17 in April 2019 to +36 in March 2020, despite no bonuses being paid.

We need to acknowledge that while most of our staff could work remotely, Z has also been a critically important 'essential service'. We want to take this opportunity to thank those people who worked in Z and Caltex service stations during a very unsettling period, providing an essential service to our communities and economy.

We also want to thank those people in operational roles who make our business work: the 20 percent of our employees plus our partners and contractors. These are the men and women in fuel terminals and airports, the people who refine, ship and truck our fuel to customers. These behind-the-scenes people are the definition of 'essential'. Thanks for your commitment and professionalism.

Community, communication and reputation

Over this period, in which we have focused hard on running a safe and reliable business, we have not wavered from our brand promise of 'Z is for New Zealand'. This is evidenced by a continued growth in customer net promoter score for both Z and Caltex over the January to April period. We have continued to support not only our people, but our communities and customers.

Our continued focus on the customer experience is the right one for our future; it is adaptable to whatever situation and whatever experience our customer needs. Right now, this means delivering the quality fuel that customers need and providing the assurance that we are leading the return to business-as-usual operations with constant consideration for their safety.

Within the broader business community, we have waived account fees for small to medium-sized businesses and donated a month of free fuel to our partners, St John Ambulance and Wellington Free Ambulance, as part of supporting the frontline response. We have supported the Student Volunteer Army with fuel to enable them to deliver essential supplies to elderly or vulnerable people during lockdown. We have shared our experiences of working in a crisis response mode freely and frankly and we have continued to be transparent with the financial markets and with the media.

In what has been an incredibly complex, challenging and downright hard financial year, it has been pleasing to see our efforts rewarded with a slight increase in the Colmar Brunton Reputation Index, coming in at number 14 of the country's most trusted brands, up one from the last survey.

We're committed to building on this as we continue to play our part in New Zealand's economic recovery. Our business is in good shape to lead this recovery.

Te ara tuku pūrongo

How we report

How we choose to report on our commitments

There is a growing number of different annual reporting frameworks against which companies can choose to report. It can become confusing and complicated for readers to compare the different methodologies, frameworks and reports.

How Z Energy chooses to report reflects our commitment to focusing on the issues that really matter – for our customers, our investors, our own people and our increasing universe of stakeholders with an interest in our business.

We choose to report against the Integrated Reporting <IR> Framework. We believe this framework sets the highest standards of transparency and disclosure. It also requires us to consult multiple stakeholders to ensure that what we report against are indeed the issues that matter most, and not just from our own perspective.

Both frameworks require us to clearly articulate our business model and how we create value.

Integrated reporting is a much more future-focused framework than the traditional 'year in review' approach. This is our fourth year of Integrated Reporting and, as issues such as climate change become of increasing concern to our stakeholders, our commitment to reporting on how we think about our future, including our strategy, is now critical to how we choose to report.

Integrated Reporting is our primary reporting framework. Supporting this framework, we also choose to use the Global Reporting Initiative (GRI) Standards: Core option and the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

The Financial Stability Board is an independent global organisation that makes recommendations to protect global financial security.

Given the industry Z is in, and the growing global concern around climate change, we believe that using the recommended TCFD framework is the right thing to do. We will begin this year and progressively report against all of the new recommendations over the next three years. This report provides a roadmap of what we will deliver in terms of our climate-related financial disclosures over this period.

None of these reporting frameworks are compulsory. We believe choosing to use these frameworks together enables us to produce an annual report of integrity – a report with high standards of transparency, which delivers the information that is most material to our business and to our readers.

This document constitutes Z Energy Limited's 2020 Annual Report to Shareholders. It exceeds the requirements of the NZX Corporate Governance Code and Environmental, Social and Governance Guidance Note.

Rārangi ūpoko

Contents

He reta nā Mike me Abby

A letter from Mike and Abby

On 1 April 2020, Z Energy marked its first decade as New Zealand's leading integrated transport energy company.

While the primary focus of this report is not on the past, there is much we must apply to our future and our strategy through what we have learned over the last decade.

Z's purpose is 'solving what matters for a moving world'. What matters today to our world – our customers, stakeholders, investors and staff – has changed materially from a decade ago; indeed it continues to change at a pace we have never before experienced.

This report is themed around focusing on what really matters – right now and into our future. It makes for some challenging reading because the relationship between our world's use of energy and the future of our planet is the biggest challenge we have ever collectively faced.

Z is at the centre of this challenge and it's one we will not shy away from.

Facing into paradox

The 2020 financial year (FY20) was the most challenging in Z's history for a wide range of reasons, not least for the multiple conflicting demands we faced on a daily basis.

FY20 was a year characterised by paradox: we saw school children blockading roads in protest over climate change while their parents demanded ever cheaper fuel; Z was taken to court by a climate-change activist while we actively invested in projects to cut our own and our customers' emissions; the Commerce Commission determined that historic industry profit levels had been higher than expected at the same time competition reached unprecedented levels and retail fuel margins sank to their lowest level in eight years.

Parliament unanimously passed a Zero Carbon Bill and established an independent Climate Change Commission while current policy settings saw New Zealand's fossil fuel consumption continue largely unabated.

All of this is simply an acknowledgement of how our context changed: Z must increasingly manage competing demands from all of its stakeholders. With energy and climate change now so inextricably linked, we must operate and thrive in what we call 'the world of both'.

Our strategy for the future is designed to ensure we do.

Our performance

Our financial results were disappointing. We did not meet our earnings commitments to our investors or to ourselves. We are accountable for this and have taken swift action. The Z Board and Executive Team has completed a thorough review of the company's strategy and operations, including its cost and capital bases, to ensure we start our next decade as a leaner, more agile and focused company.

We reported a Historic Net Profit after Tax (HC NPAT) loss of $88 million, compared with a profit of $186 million for the previous corresponding period (PCP). However, on a Replacement Cost basis, we delivered Replacement Cost EBITDAF of $366 million against our original guidance at the start of the year of $450–$490 million. We had previously reduced our original dividend guidance from 48-50 cents per share to 40 cents per share in December 2019. With the pressures emerging in the last week of the year associated with COVID-19 and the lockdown of the country, the Board has taken the decision to suspend the FY20 dividend in favour of preserving balance sheet strength and preparing for what promises to be a highly challenging and uncertain FY21.

Many of the reasons for Z's full-year financial performance were from significant factors outside of our control; some were from our responses to changing market conditions. Of greatest impact was the compression of retail fuel margins from July 2019 – a consequence of four years of industry investment in new service stations and a rapidly changing loyalty landscape.

The performance of Refining New Zealand negatively impacted Z. Weak global refining margins meant that Z only received limited financial benefit from using the refinery, and we had to pay the refinery to process fuel on its behalf. This resulted in $35 million less EBITDAF, relative to our original guidance.

In terms of where we have not responded effectively to changing market conditions, we mis-read the impact of Caltex's exit from the AA Smartfuel loyalty programme, which negatively impacted our fuel margin and market share.

We were not fast enough to roll out new customer offers and innovative ways for customers to receive value in new ways. Against an environment in which there have been ever greater levels of competition and consumer choice, this contributed to loss of both margin and volume.

On top of challenging and volatile market conditions, over the course of the year Z managed a complex interface with Central Government, including a full 12-month Commerce Commission inquiry and subsequent legislation, an inquiry into the 2017 Refinery-to-Auckland Pipeline (RAP) failure and consultations and legislation directly concerning our business.

We also took the decision to write down $35 million from the value of the Flick Electric business, and $61 million from some Caltex fuel supply contracts.

Retail competition and fuel margins

We have clearly entered a new phase of the margin cycle in which retail fuel margins have peaked (for Z, profitability peaked at 5.5 cents per litre in 2013). Z's profitability over FY20 was 2.3 cents per litre – down 59 percent from its peak.

There are now 21 retail fuel companies supplying Kiwi consumers and competitive retail pressure has never been higher. Over the last two years, 54 new retail service stations have been built by competitors across New Zealand and they are all competing on price for volume.

How these new sites and the estimated 300 existing lower-volume industry sites will fare under the pressures of the current retail fuel margin environment, not to mention the pressures associated with COVID-19, remains to be seen. However, we expect there to be further activity as the industry adjusts, consolidates and responds to what is now a very challenging retail fuel market – particularly for any highly leveraged new entrants, or those lower volume legacy sites.

This is a case study in structural change: A decade ago there were only about 17 companies supplying Kiwi motorists and price discounting was almost unheard of. Over FY20, almost 100 percent of Z's total fuel volume was discounted. There are now 21 companies competing for customers in the retail market.

While there has been a structural margin shift in the industry, Z has the quality and strength of assets across terminals, retail sites and commercial truck stops to offer an unparalleled customer offer.

The Commerce Commission

It's another example of both paradox and irony that this competitive dynamic was playing out so vigorously while the Commerce Commission was conducting a market study into historic levels of competition in the New Zealand fuels industry.

Unfortunately, because the Commission's work was primarily backwards-looking from 2018, in our view, it did not sufficiently account for the current market context that has emerged over the last 18–24 months. As a result, its assessment of profitability was seriously flawed.

Regardless of the findings, we do not think the subsequent legislative interventions were disproportionate. We believe they support our strategy and bring some much-needed change to embedded industry structures.

Z had been supporting calls for the Commerce Commission's work for some time. There needed to be independent and real-time analysis of the sector and the levels of competition within it to take the politics out of the industry and to give consumers and all stakeholders clarity. For Z, the regulatory uncertainty has been a major drag on the confidence of the company's investors.

While the headlines might have told another story, we're proud of the way Z engaged with this process.

While Z robustly challenged the flaws in the Commission's methodology and calculations on profitability, we also fronted up with ideas to further improve competition. We were open to providing Terminal Gate Pricing – where the industry would sell fuel to our competitors from our own bulk storage assets – and this ended up being the most material recommendation from the Commission.

Z has invested in an unrivalled network of bulk fuel storage terminals that we directly own and operate and we are committed to commercialising their operations. So long as the true costs of the terminal operation, including its capital costs, are fairly reflected in the Terminal Gate Price, we're happy to sell the fuel to whoever wants it.

3,837 million litres

Total fuel volume (litres)

4,172 million litres

So where to from here? Our strategy and capabilities

Over the year, we have, as a Board and management team, thoroughly and formally reviewed Z's strategy, our range of operations and markets in which we participate and our capabilities to deliver our strategy. While we have a range of strategic options available to us, we have satisfied ourselves that we have the right strategy for the right time and that we now have the capability to execute it.

In reviewing our strategy in the context of this year's performance and the structural shifts in the industry, we have also focused on ensuring that Z's cost and capital structures are appropriate for the next phase of our journey and that we can also continue to de-risk the business through ongoing debt reduction.

Our focus on executing strategy will be underpinned by careful cost management and reduction, and constant review of all elements of the business to ensure they are adequately contributing to our financial performance. These elements are all increasingly important as we face the significant uncertainty that will come with the global response to the COVID-19 pandemic, including how it impacts the New Zealand economy.

While we are disappointed with our financial result, the review the Board has led into FY20 sees us start our next decade with clarity and focus. We are excited about our future and the options we are generating.

FY20 was an important year in that a number of uncertainties, challenges and issues have been addressed and resolved.

There is no longer a regulatory overhang on the company and sector. The Commerce Commission review is complete and the requirements on Z are manageable.

We were given notice of the requirement to exit the AA Smartfuel loyalty programme and have fully implemented a robust loyalty programme of our own. 'Pumped' is performing well and resonating with customers. We now have an integrated loyalty offer which, through our digitisation work, will enable us to deliver highly targeted individual offers to customers and communicate directly with them. We believe Pumped can now deliver retail volume and the value that customers seek in a highly competitive and increasingly price-focused market. On top of this, we remain partnered with two of the country's leading loyalty programmes – Airpoints and FlyBuys – and offer customers unparalleled loyalty reward.

We have successfully executed a strategically important technology project which sees all Z and Caltex Commercial customers able to use a single card for access to what is now the most extensive and convenient refuelling network available to customers nationwide.

We are delivering strong performance in the commercial markets. We have completed a pricing review of the Commercial business and have an integrated customer offer which reflects our scale and delivers convenience and value for our customers. We are now also able to reduce costs through bringing the Caltex and Z networks together for Commercial customers who have demonstrated they are prepared to pay for the unrivalled benefits from accessing two networks with one fuel card.

The same is true in the Z fuel terminal network where our investments now provide us with opportunities to generate improved commercial returns from the reliable operation of the supply chain infrastructure side of the business.

We have been reliably producing biodiesel from our Wiri production facility. This has provided a valuable offer to customers in the commercial markets, which is helping us win and retain key accounts. However, producing biodiesel does not stack up financially without any form of subsidy and the economics are highly challenging. While our customers value the choices that our biodiesel gives them to reduce their own emissions, we cannot continue to lose money on producing it. This goes further to the paradox we face – we can produce high-quality biodiesel that significantly cuts emissions, but it consistently loses money. Decisions were taken on future operations of the biodiesel production facility subsequent to preparation of this annual report; see page 5 for detail. As a result, we face very tough choices around ongoing biodiesel production in New Zealand.

At the heart of the execution challenges that have been highlighted over the last year lies our commitment to building capability. We need to move faster and with greater focus. We must innovate and bring new products and offers to customers first and scale up fast.

Our strategy choices will see us using our unique capabilities to earn the loyalty of customers and to delight them with innovative experiences.

We have seen some evidence of this already occurring in the Commercial business which has delivered improved financial performance, completed a major technology transformation project and won new customers through an integrated offer and approach.

We have introduced a commitment to agile, and we are actively applying this approach in which cross-business teams rapidly develop and deploy new initiatives across Z – whether they are customer-facing or not.

We have built new digital capabilities which we are now applying across all of our operations – from using artificial intelligence (AI) to deliver more accurate and cost-effective fuel forecasting, to streamlining safety and wellbeing reporting processes, to protecting our customers' data, to delivering new customer offers through better targeting. We are also now uncovering process automation opportunities that support more efficient, effective operations and expect to see this digital capability reflected in reduced operating costs into the future.

Over the year, we have continued to invest in our capability in delivering both customer experience (CX) and innovation. Our people are increasingly well-equipped for rapidly executing new products and offers and our culture is increasingly open, innovative and receptive to change.

All of these initiatives are driven by clear strategy and we have reorganised a number of our functions over the year to ensure we deliver it. Over the last decade Z has had three distinct and deliberate phases of strategy: The launch of Z, its brand and offer; the IPO of Z; the acquisition and integration of Chevron New Zealand. We are now launching our fourth phase of strategy which is focused on optimising our core business while developing options for the future.

We are now taking the necessary steps to get our own house in order, given the structural changes that have occurred in retail fuel margins (see COVID-19-related commentary on page 4). This requires us to focus on our core assets, drive more productivity from our cost and capital bases, and then sensibly invest in the customer experience that matches changing consumer and business needs over the next decade.

Where there are opportunities for more contributions from any part of the business, expect us to move faster to seize the opportunity and advantage.

He oati ki te manaaki i te taiao

Our promise on climate change

The products that we sell and our customers use are at the heart of the climate change problem; we have choices as to our role and contribution to the solutions our planet needs.

We're committed to running a safe, reliable and increasingly efficient core business that gives customers what they want and need, while leading and supporting the transition to a low carbon economy. We will look for sensible opportunities to generate returns from the growing commitment to low carbon technologies. We will continue to innovate and look to build partnerships with our customers, with Government and with our stakeholders to find new ways to bring our country's emissions down.

Our promise is to work with anyone in the service of new ideas, products and offers that cut emissions. By way of just one example, Z has introduced a feature in the Z Application (App) that enables the carbon emissions from every litre of fuel purchased to be voluntarily offset through permanent New Zealand forests. Every customer – even those that don't buy fuel from us – now has this option to offset via our App. We will be increasingly promoting this as just one way that we can all do our bit to minimise our impact on climate change.

Over the last decade, climate change has become the issue of our time. Our promise is to deliver shareholder returns while meeting our customers' needs and moving from being a part of the climate change problem to being at the heart of the solution.

This is a highly distinctive promise in this industry that gives fuel consumers – and investors – very clear, values-based choices of their own to make.

Te anamata
Nga Pūrākau

Our future
Our stories

Over the last year, Z has been impacted by many elements that have required its response and reaction. Again, that's business, but it's been a unique year.

On reflection, we struggled to maintain focus in an environment with so many competing and conflicting demands. Our ability to execute strategy suffered and so too did our ability to maintain the leadership position we have earned over the last decade. We have, rightly or wrongly, let others tell our story as they see it, and we lost some of the confidence that has characterised Z.

With the closing of one decade and the beginning of another, you should expect to see much greater focus from Z in the coming years – both on disciplined implementation of strategy and on generating options for our future.

Expect to see more of Z leading the conversations that matter, regardless of how polarising or unpopular the topic. Expect to see us celebrating success, taking calculated risks and innovating beyond what people could expect. You should expect to see us encouraging the diversity of our people, to drive diversity of thinking. We will call ourselves out when we get things wrong as well as hold ourselves to account for delivering against our performance.

The following decades will almost certainly be characterised by continued volatility, uncertainty and ambiguity, but we have the assets, the scale, the diversity of people and thinking, and the financial resources to enable the Z of the next decade to thrive.

We aim to consistently and reliably reward our investors with reliable returns, delight our customers with new products and offers, and continue to support the New Zealand economy with safe, secure, reliable transport energy – even as we stand for a new energy future and a low carbon economy for all of us.

Thank you for your support of Z.

Abby and Mike

Ngā raraunga

Our numbers

FY20

Annual results comparison
FY19

▼ **3,837 million litres**
Total fuel volume (litres)
4,172 million litres

▼ **56.6m**
Total transactions on Z-branded retail sites
56.7m

▼ **-$88m**
Historical net profit after tax
$186m

▼ **$366m**
Replacement Cost EBITDAF
$434m

▼ **$44m**
Replacement cost net profit after tax
$178m

▼ **1.1cpl**
Replacement cost net profit after tax per litre
4.3cpl

▲ **$102m**
Capital expenditure
$86m

▼ **2,451**
Z's direct employees, contractors and retail network members
2,656

▲ **100%**
Safety and wellbeing actions complete rate
99.5%

▼ **16.5c**
Total dividend per share
43c

▼ **11c**
Replacement cost net profit after tax per share
45c

▼ **-49.71%**
Total shareholder return
-5.2%

▲ **+36**
Employee net promoter score
+17

▼ **+9**
Business net promoter score
+15

▼ **+38**
Retail net promoter score
+41

▲ **12.1 million tonnes**
Total carbon footprint – carbon dioxide equivalent (tCO2e)
11.9m tonnes
Please refer to our notes about a restatement of our annual Greenhouse gas emissions on page 59

▼ **40,000 tonnes CO2-e**
Carbon emissions offset
58,559 tonnes CO2-e

He tirohanga ki te tekau tau

A decade in review

Z's first decade saw our company achieve some remarkable milestones.

2010

Greenstone Energy purchases Shell NZ's downstream assets

2011

Z brand introduced to NZ

Z Why foundation document

Forecourt concierge

Z's first Sustainability policy is launched

2012

Our first HSSE Day

Z Espress launched

2013

Good in the Hood is launched

Z lists on NZX and ASX (ZEL)

2014

Acquisition of Card Plus

Investment in BioDiesel plant

Health, Safety, Security & Environment (HSSE) Stand introduced

2015

Introduced Pay at Pump at 120 sites

Accredited as one of Aon Hewitt's Best Employers

Started refinery optimisation project

Z Contributes to BEC2050 Kayak & Waka future Energy Scenario's

Z introduces EV Charging stations to forecourts

2016

Chevron NZ acquisition including Caltex brand

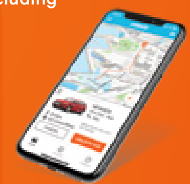
Fly Buys Pumped launched

First House View on Electric Vehicles published

Z launches Diversity & Inclusion Stand

2017

Investment in Mevo, a car share service



RAP outage management

Z achieves Rainbow Tick Certification

Founding member Biojet Consortium

International HSE Certification received

Bring terminals to in-house operations

Innovation Refinery is launched

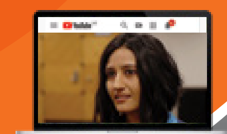
2018

Fastlane @ Z launched

Climate Leaders Coalition launched

Z purchases 70% of Flick Electric

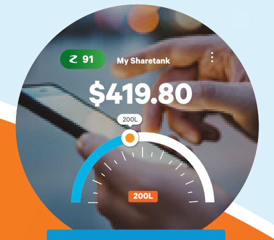
Launch of We've got your back Campaign



Z partners with Drylandcarbon

2019

Sharetank is launched



Pumped is launched

Z Business launched – our new fuel card

Pre-order Coffee available via Z App

2020

Launch of customer carbon offsetting via Z app

◆ Strategy ▲ Customer ● Stand

Z's first decade saw our company achieve some remarkable milestones. From market listings, the launch of a distinctive Kiwi brand, capital raisings, major corporate acquisitions, the building of a network of advantaged strategic assets and years of very strong and consistent financial performance... the list of traditional measures of our company's success over a decade is strong.

But reflecting on these traditional measures of past success doesn't help us to win in what is a highly uncertain future. We're only as good as our last result and the options we're generating for our future.

So we have chosen to take a look back at the last decade – what we have delivered that makes us distinctive and that will directly contribute to our future success – and we've decided to focus on elements of our strategy, our stands and our customers.

Ō tātou uara

Our values

Z is a values-based business. Before we even get to our business model or our strategy, our bedrock foundations have always been our values.

Our values are what we believe in. They are reflected in how we do business, the decisions we make and the way we behave. They are woven tightly together and are deeply interconnected. They are also non-negotiable. If people can't stand for or share our values, then Z isn't the right place for them.

Z's first set of organisational values served us well as we transitioned from a globally-owned, integrated oil company to a stand-alone, independent transport energy company.

As we draw a line under our first decade and prepare to thrive in a future with new opportunities and significant challenges, the time has been right to review and reset the foundations of our company.

In choosing to state what we stand for so publicly, we are inviting people to hold us to account for living these values. For our staff, our customers and our stakeholders, this is how you will see us behave, act and make decisions.

Z's ambition is simply 'to be a world-class Kiwi company'. Our purpose is to 'solve what matters for a moving world' and we choose to be distinctive in standing for four critically important areas for our company: Safety and Wellbeing, Environmental Sustainability, Community, and Diversity and Inclusion.

This report is focused around the theme of 'what really matters' and material from each of our four 'stands' will be covered in depth in this report.

In an increasingly complex and uncertain world, we have chosen to simplify what we stand for. We start our next decade standing for the following three things:

Tū kaha
Stand out

We believe we can build a better business and a better world

We are distinctive where it really matters. We challenge the status quo by being bold, innovative and passionate. We work relentlessly to be a force for good for our communities, our economy, and our planet.

Tū māia
Speak up

We believe extraordinary outcomes are fuelled by active participation and dialogue

We speak up with courage around what's important to us and encourage others to do the same. In doing so, we will create new possibilities together.

Tū kotahi
Side by side

We believe learning and growing together delivers unlimited potential.

We're better together – holding each other up as well as challenging ourselves to grow and develop. Side by side with our people, our customers and our communities.

Tō tātou anga pakihi

Our business model

The Integrated Reporting <IR> framework adds particular value by requiring an organisation to explain its business model in terms of its inputs, the outputs it generates and how the organisation creates value.

This report will expand on a number of the following points in more detail, but here is a short summary of our outcomes over FY20

1. Our assets

We now have an unparalleled network of high-quality retail service stations, commercial truck stop facilities and bulk fuel storage terminals across New Zealand. These assets provide unrivalled convenience of access and are a source of enduring value and advantage for both Z and our Commercial and Retail customers.

Z derives value from operations across its entire supply chain, particularly from the refinery through primary distribution, bulk storage and then secondary distribution of fuel products to customers.

The strength of our refuelling network, particularly for Commercial customers who can now use a single card to access both Z and Caltex-branded networks, provides us with an advantaged position with which to compete for commercial fuel accounts.

Z directly owns and operates its own bulk fuel terminals and is committed to commercialising access to them. In this context, the Commerce Commission's recommendation that bulk fuel terminals should provide Terminal Gate Pricing of fuel to competitors provides Z with opportunity to generate more commercial returns from these terminals.

2. Our finances

Z did not deliver against the financial guidance we provided to the market in May 2019. We have reviewed our cost and capital bases, as well as the company's operations and begin the 2020 calendar year with a commitment to a leaner, focused and more efficient Z.

Over the year we have taken steps to protect and begin to grow our retail and commercial fuel market positions in an increasingly competitive market – such as the successful implementation of the Pumped retail loyalty offer and the streamlining of single card access to both the Caltex and Z-branded commercial refuelling network.

Given Z's scale and strength of balance sheet, we are committed to a reliable level of returns to investors.

3. Our capabilities

Our strategy – the way we will win in the future – will be delivered through bringing unique capabilities to focus on optimising the operation of our core business. In service of this, we are deliberately building capabilities across the business in three key areas: The customer experience, digital technology and innovation. We will deliver a leaner, more efficient and more agile Z to deliver this strategy.

During 2020, we intend to launch a new leadership framework based on the principles of 'connecting, taking action and learning'. The leadership and the culture we seek to foster inside Z enable us to thrive in an increasingly volatile, uncertain and ambiguous future. We continue to evolve how we are working through the adoption of Agile and design-thinking methods in service of increasing our execution capability.

Our commitments to building new capabilities are in service of efficiency, delighting our customers, optimising costs, and delivering with speed. These capabilities set us up to deliver our strategy and are already resulting in a more open and inquisitive culture. They help us generate options and enable us to run a more productive core business at the same time as preparing us for what comes next.

Z prioritises the following six inputs and outcomes we call them our 'capitals'

Our inputs

Our assets
Our finances
Our capabilities
Our people and culture
Our environment
Our place in New Zealand

Te pūtake
Our purpose

Solving what matters in a moving world.

Te whiriwhiri he aha ngā āhuatanga matua ki te ao nekeneke

Our outcomes

Our assets
Our finances
Our capabilities
Our people and culture
Our environment
Our place in New Zealand

4. Our people and culture

A challenging financial year, in which targets were not hit and bonus payments reflected this, was a meaningful test for an organisation's engagement levels and culture. Z's staff engagement remains high and its employment brand strong, with the ability to attract leading talent.

Z's workforce diversity is fostered through a commitment to integrating diversity into all organisational processes and decisions, rather than via one-off programmes. There is a strong alignment between the personal values of the people that make up Z and the organisational values that have just been reset.

5. Our environment

The state of the world's natural environment as a result of climate change is of huge concern to all of our stakeholders – and to Z.

Z seeks to be distinctive in working relentlessly to reduce and offset its own emissions and to provide our customers with opportunities to reduce and offset their own.

Z has been selling biodiesel into commercial markets, has just launched a customer emissions offsetting option, and has contracted the use of energy-efficient, refined-fuel import vessels to further cut business emissions.

Z currently offsets all of its operational emissions and, in 2017, committed to reducing its operational emissions by 30 percent between the end of FY17 and FY21. At the end of FY20, Z has reduced its operational emissions by 12 percent off baseline in three years. We recognise the challenge ahead to reduce a significant portion of emissions over a short time frame. What is not reduced will continue to be offset in permanent forests.

Z has formed a partnership with Permanent Forests New Zealand and in March 2019 was confirmed as a foundation joint venture partner in the forest offsetting company, Drylandcarbon Limited.

6. Our place in New Zealand

Z is a proudly Kiwi company that has, for the last decade, sought to contribute not only to the communities of which we are a part, but to start a discussion and debate around the things that matter most.

On top of a range of other community investment initiatives, over the last decade Z has contributed $7 million to community organisations that our customers and neighbourhoods tell us are doing the work that matters most via our Good In The Hood programme.

We never lose sight of the fact that what we do underpins the entire New Zealand economy. As such, we are committed to the highest standards of operational safety, transparency and care, not only for people, but for our natural environment.

We believe there are few other companies that play such a critical role in the day-to-day running of the New Zealand economy that are so committed to playing their part in transitioning this economy to one with low carbon emissions. Our commitment to both of these outcomes is stronger than ever.

Te whakatau
i ngā aronga matua...

Determining what really matters...

Integrated Reporting requires us to report on 'material' matters. To us, that means the things that really matter to our stakeholders.

Some things that matter to certain stakeholders – politicians, for example – are blindingly obvious to everyone because their comments are reported publicly. As a high-profile public company that values engagement, by the end of a year we generally have a pretty good feel for what's on people's minds, but we also take the time to ask via regular electronic engagement surveys.

The following are the main external stakeholder groups Z engaged with over the year:

Central Government

It was a very big year for engagement with Central Government. The government requested the Commerce Commission undertake a market study of the fuels industry, which Z supported. This was an intensive, 12-month process that required public hearings, multiple submissions and continued engagement with the Commission. It culminated in the commitment to passing legislation before the end of the 2020 calendar year.

At the same time, the Ministry of Business, Innovation and Employment (MBIE) conducted an inquiry into the 2017 Refinery-to-Auckland Pipeline (RAP) failure which also required intensive engagement.

Alongside ongoing political conversations around fuel prices, retail competition and security of supply, Z also engaged consistently on a wide range of issues around climate change policy, most significantly in support of the Zero Carbon Bill. Z also engaged in the Government's Electricity Price Review in service of trying to secure changes to deliver a fairer wholesale electricity market.

While we have had different perspectives on matters of fuel pricing and retail competition, these issues are largely resolved. This leaves Z to focus on continuing to support areas of common interest – namely how to meet the commitment to New Zealand's international climate change obligations and build a low carbon economy.

At the very back end of the financial year, Z was actively engaged in workstreams to support the Government's response to the COVID-19 pandemic.

The business community

Z's Chief Executive has also chaired the Climate Leaders Coalition – a group of what has become over 120 leading businesses all committed to measuring and publicly reporting their greenhouse gas emissions, setting a public emissions reduction target, and working with suppliers to reduce their emissions.

Through this role, Z has, indirectly, been in constant conversations with New Zealand's broader business community and political stakeholders around mitigating the risks of climate change. The Coalition committed to limiting global climate change to 1.5 degrees Celsius – more ambitious than the 2 degrees Celsius in the Paris Agreement – and to actively expressing support for the Zero Carbon Bill which was passed in November 2019.

Investors

Z's Board and management engages with its investors on an ongoing – sometimes daily – basis. Z holds multiple investor roadshows and typically holds an annual investor day focused on strategy, as well as an Annual Shareholders Meeting (ASM). Z is always mindful that its shareholders are the owners of the company and seeks to engage openly and transparently at all times.

Key issues on the minds of investors over the year have been company strategy, fuel demand and margins, capital management decisions, dividend policy, regulatory issues and Z's approach to environmental sustainability in the face of growing concern about climate change.

The media

Z is committed to fronting up and responding to issues of public concern. The media, in all of its increasingly diverse forms, is an important stakeholder to Z, enabling us to tell our stories and lead conversation and debate. Over the course of the year, Z engaged widely with all types of media – often when nobody else in this industry would.

Issues which dominated Z's media engagement over the year, including its own social media channels, tended to follow the political processes and inquiries over fuel pricing, security of supply and climate change.

Our customers and communities

Z serves a diverse range of customers across equally diverse communities, right across New Zealand. We're constantly seeking feedback around what our customers want and building that into new offers and experiences.

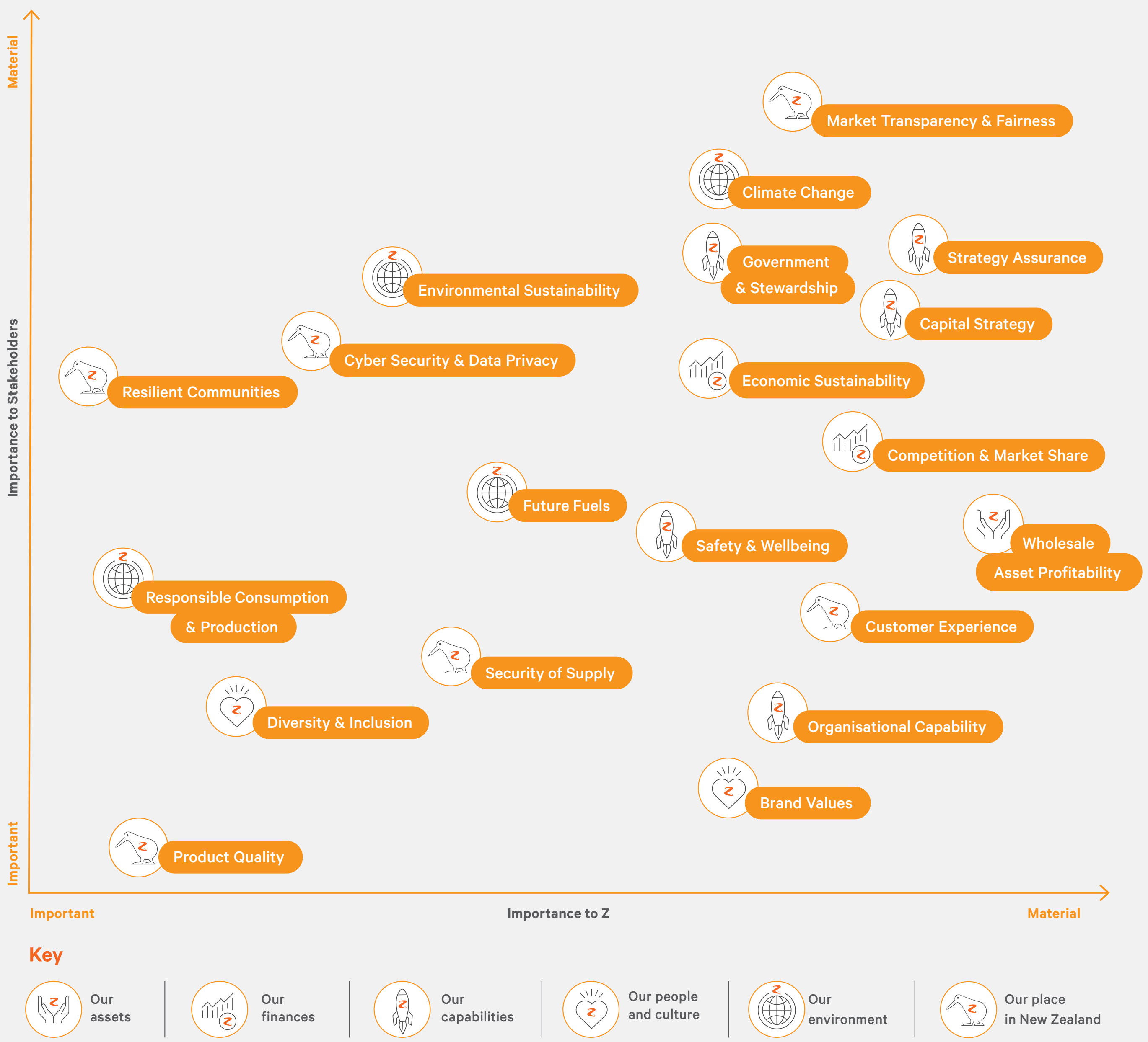
Z's Good In The Hood community investment programme seeks input from customers and communities as to the kinds of services they value the most and then helps support them. Over the year, as part of our commitment to making sure we're acting as a force for good, we reviewed Good In The Hood, asking the Ākina Foundation to undertake a Social Community Impact Assessment of the programme.

In response to the tragic Christchurch mosque shootings in which 51 people were killed, a national discussion kicked off around racism in New Zealand. Z's Retail operations is staffed by an incredibly diverse team which are all too frequently the subject of racial comments and abuse.

As part of making a small contribution to the national discussion, we launched our 'We've got your back' internal campaign in which our people shared their own stories of racism and discrimination – all in service of ending racism in New Zealand and building healthy, resilient communities and workplaces.

Our material topics

Summary of material topics discussed in stakeholder engagement, grouped by value outcome areas



Kia puta he hua ki ngā kaiwhakangao

How we create value for our shareholders

Z's strategy is focused on delivering strong, reliable returns for shareholders.

We will create value for shareholders by focusing on our core business and operating a safe, reliable fuels business. We will ensure we generate fair commercial returns for our scale, network strength and the essential infrastructure we own and operate. We will manage our capital and balance sheet with discipline at the same time as we deliver returns to shareholders, generate options for our future, and ensure we are advantaged under a range of future scenarios.

Z has a strong, long-term future ahead of it. Shareholders should expect Z to...

Optimise our market-leading position

- Z's unrivalled supply chain infrastructure provides competitive advantage through scale and reach
- Z is one of New Zealand's most recognised and trusted brands capable of extending to adjacent markets
- Z's scale provides options that allow us to adapt and innovate in a market that will be slowly disrupted by long-term trends

Pursue a differentiated strategy that generates long-term customer loyalty

- Focus on Z's capabilities in customer experience, productivity, innovation, digitisation and brand
- Deliver distinctive customer experiences that drive loyalty
- Reduce time to market and lower investment risk through human centred design, innovation and experimentation

Allocate capital with discipline to maximise shareholder value

- Manage cashflows and capital to deliver a sustainable dividend in line with earnings growth
- Limit capital employed in our core business to $2 billion by selling the least productive assets to fund growth
- Maintain a strong balance sheet with the capacity to leverage debt to fund non-organic investments

Remain a people and values-based company

- Committed to our purpose 'to solve what matters for a moving world' and our ambition to be 'a world class Kiwi company'
- Maintain high levels of employee engagement and customer satisfaction
- Develop organisational capabilities and individual talent for an uncertain future

Do good in Aotearoa New Zealand by recognising our heritage and being committed to future generations

- Contribute to a sustainable future at a scale that few other companies can by supporting the transition to a lower carbon future
- Provide thought leadership where we have a track record, especially in areas like HSSE, Diversity and Inclusion, and Customer Experience
- Actively support the communities in which we operate on what really matters to them

Titiro ki muri kia tika ai a mua

How past and present strategy drives our future

The first decade of Z's strategy – delivered over three deliberate and distinctive phases – not only delivered very strong shareholder returns, but also steadily built the asset and offer base from which we will grow and serve customers for the coming decades.

Throughout our last strategy phase we consolidated the industry, realising the synergy value of the acquisition of Caltex New Zealand. In bringing Caltex's commercial truck stop and retail service station network together with Z's, we have created the most accessible, convenient and comprehensive refuelling network in the country. Similarly, we have invested in building and integrating an unrivalled bulk fuel terminal network of quality, scale and geographic reach from which to serve our customers.

We have invested in establishing a leadership position in convenience food and coffee across our retail operations, built our own loyalty programme, partnered with our preferred supermarket chain and delivered the ultimate ease of access for Commercial customers to the integrated Z and Caltex networks with a single fuel card.

All of these initiatives have been borne from the three previous iterations of strategy over the last decade. Our new, fourth phase of strategy will drive results from a highly distinctive customer experience (CX), supported by efficient, agile operations. We are building new capability in innovation, CX and digitisation and have carefully built the diversity and culture we need to succeed.

Over FY20, our strategy was comprehensively reviewed and challenged by both the Board and management. The Board's review covered strategy and Z's capability to execute it, as well as reviewing Z's costs and capital structures. The Board concluded that Z has the right current strategy and that a leaner, more focused Z will be required to deliver it with rigorous and competitive processes for resources internally.

Management used Z's Assurance function to thoroughly review our approach to strategy. The review focused on the development, execution, monitoring and measurement of our current strategy.

This was an important, insightful exercise that taught us valuable and timely lessons. We learned that our strategy execution could be enhanced by consistency in the way we articulated and understood exactly what our strategy was and wasn't. We learned that we could be more efficient both in terms of how we prioritise and allocate resources, and in how we monitor and measure execution against strategy.

At the end of this year, the review has identified the gaps and plans are in place to ensure they are remedied. One example of this in action is through the introduction of a 90-day competitive resource allocation process to ensure resources strictly line up against strategic priorities and mirror the Agile way we now work.

We have articulated our strategy internally in fewer than 100 words:

"Our ultimate goal is to solve what matters for a moving world by optimising our core business so we can transition to a low carbon future. Our strategic priorities are to: always be safe and reliable, deliver awesome customer experiences, generate heaps of free cash flow, and grow our non-fossil fuels income."

Ko te mea nui mō ō tātou kiritaki

What matters for our customers

Kia harikoa ō tātou kiritaki

Delighting our Retail customers

There's now a full range of choices for customers in terms of what they want from a refuelling experience. Over the last few years there's been a boom of unstaffed retail service stations on out-of-the-way or difficult-to-access sites ,selling basic fuels – such as without engine cleaning additives. This offer suits some customers and we welcome this choice.

Over the year, Z developed two unstaffed retail sites (one Z and one Caltex), acknowledging the importance of a diverse offer. We will experiment with more in terms of providing offers across the market, but Z will continue to deliver a value-added offer, while competing on price. We have the most comprehensive network of high-quality retail sites in the country. Our sites are typically covered, staffed, well-lit, in convenient locations and they are generally easy to get in and out of safely.

We offer a wide range of high-quality food and beverages, bathrooms and a wide and growing range of convenience products, food and beverages. The vast majority of customers prefer this offer and this experience which we are unrivalled in our ability to provide.

With our investment in capability in CX, we are now set to continue to innovate and provide more of what our customers want.

Price

A lot of things matter for retail fuel customers, and price is definitely one of them.

One of the challenges that come with the boom in levels of competition across the industry over the last five years has been that with very different offers has come very different prices. It's not uncommon for there to a price spread per litre between towns and cities, and even within the same region.

While this is a very healthy competitive dynamic, it's also confusing and at times frustrating for customers. With the efficiency that comes with our reach, scale and diversity of assets and operations, we can and will meet the market and compete hard on price, while also innovating to help our customers better control their fuel spend.

Sharetank

The best evidence of our commitment to competition and helping our customers get the best price is in our new Sharetank App.

This is an offer that's never been seen before – in New Zealand or, as far as we can tell, anywhere else in the world. Sharetank is the best example of a product involving all of our innovation, digitisation and customer experience capabilities.

Sharetank lets customers pre-purchase fuel when they think the price is right. Find a price you really like or, if you are concerned that prices might rise, you can lock in the current price for up to 1,000 litres at a time. Furthermore, given the current price spreads, the App scans every Z service station within 30 kilometres of your location and tells you the very best price.

With the price you like locked in, you can now get that price at any Z service station anywhere in the country, simply by using the App. You can also share your pre-purchased fuel with friends and family, and, for small business owners, with staff. It's the ultimate in choice, convenience and ensuring the very best competitive price.

Delighting our Retail customers (continued)

The ultimate in refuelling convenience

Imagine driving into a retail service station with a priority lane, so you don't have to wait. A friendly attendant is there to help refuel your car – you don't even have to get out. You don't even have to pay – the fuel purchase is automatically deducted from your account via technology that recognises your number plate. Before you know it you're on your way.

Dreamed up by Z's Innovation team and delivered harnessing Z's digital and customer experience capabilities, Fastlane delivers exactly that offer. It's the ultimate in speed and convenience for customers that really value it.

We now have 41 sites with Fastlane operating, with four of these sites allowing customers to experience Fastlane at every lane. We've already seen nearly 125,000 transactions through Fastlane, pointing at a distinctive offer that is catching on with busy customers.

The evolution of fresh food and coffee

The way customers think about and make food choices is starting to change. In the past, what our customers have told us they wanted and what they bought were different. We've come to call it 'think thin, buy fat' – and we can all relate to it at some time or another!

We're noticing this is now starting to change, with increased buying preferences for healthier, fresh food from across our customer segments. Over the last couple of years we have been actively experimenting with fresh, healthier food options, including two Habitual Fix sites in our flagship Z sites at Bombay and Royal Oak.

We've been preparing and building the capability to roll out a fresh food offer – one in which salads, sandwiches and smoothies are made with the highest quality ingredients directly in front of the customer. This, in turn, will provide the base for Z to experiment with high-quality to-go dinner options.

Customers in certain Z sites can already see innovative new options like this and over the coming two years, expect to see these offers rapidly deployed and well promoted. We'll still offer the classic Kiwi pies for which we're famous but our customers are now telling us they want more choice and more balance, and we're responding.

Coffee remains core to our offer and is a part of the Z habit. This year we sold 4.4 million cups of coffee which is not bad given that a decade ago we sold almost none. We are now one of New Zealand's largest coffee retailers and we're committed to continuing to evolve the offer.

As another example of our developing CX, innovation and digitisation capabilities, this year more than 354,000 cups of coffee were ordered over a new function on the Z App, and we're not yet scratching the surface. Without giving too much away, we're seeing high and steadily increasing levels of repeat use, telling us that pre-order coffee is driving loyalty; the product is scaleable, meaning we can roll this out to more sites for more products; and reviews on the app store are overwhelmingly positive.

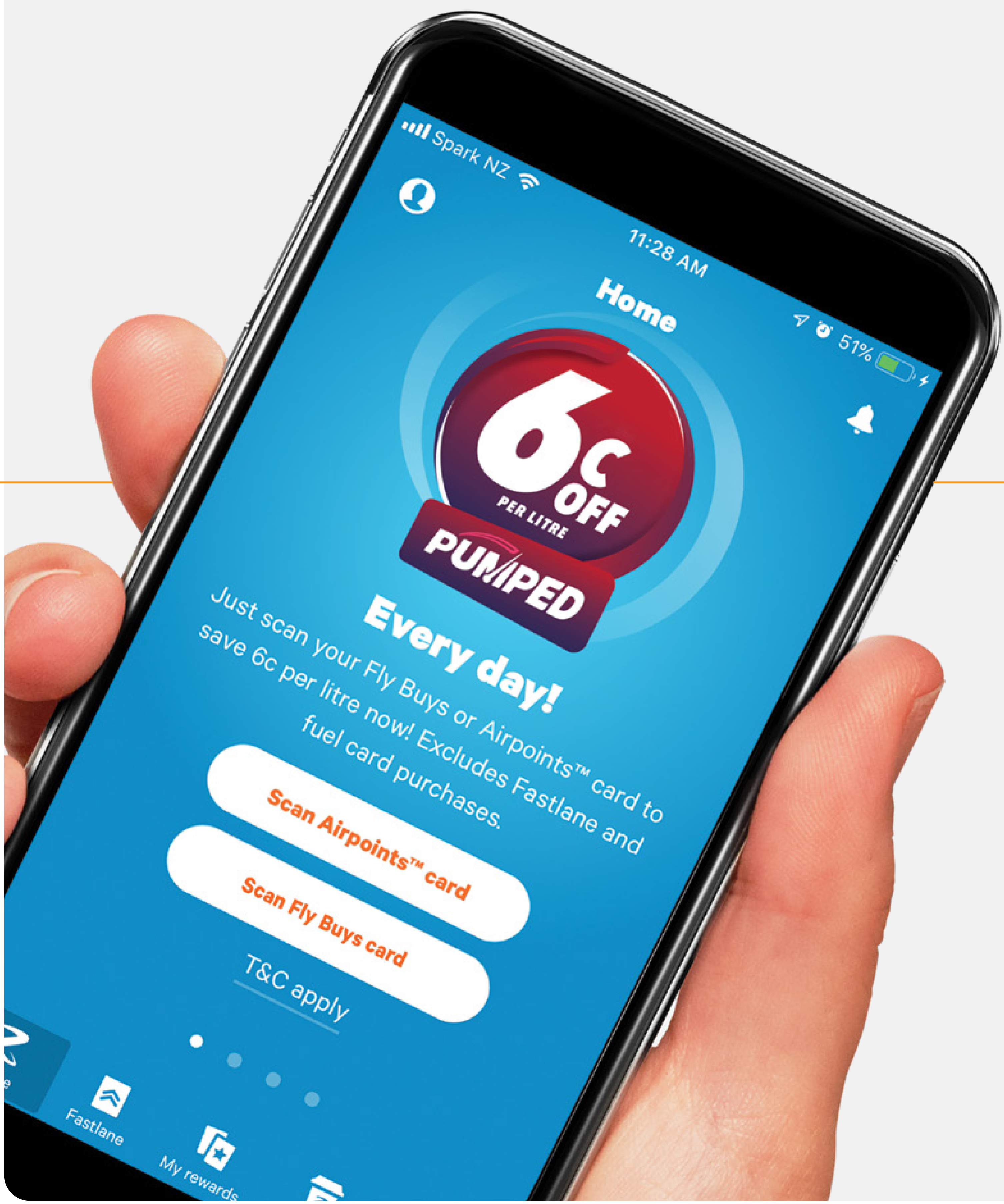
Expect to see our coffee offer continue to evolve over the coming years, in line with our commitment to a fresh, healthy food offer. We're looking at introducing less automated and more manually-driven espresso machines as part of our commitment to continually refining the offer and experience. Z was one of the first to introduce compostable coffee cups and site recycling in 2016 and the environmental commitment around our food and coffee offer remains a core element of the offer.

As we enter a new decade, we expect the customer focus on healthy, high-quality food and beverage options to increase. We've done the work and are prepared to capture the benefits of this shift in consumer attitude at scale. Continuing to evolve and grow what we can offer customers through our retail stores is a critical part of building and holding overall retail margins, particularly in an environment of significantly reduced retail fuel margins.

4.4 million

Cups of coffee sold at Z stations

FY20



Loyalty – choosing to own it

Z spent its first decade in a range of loyalty products and offers. We've been in the AA Smartfuel partnership with the Caltex brand, FlyBuys and Airpoints with the Z brand, a partnership with Progressive Enterprises (of the supermarket chains, Woolworths and Countdown) and increasingly various discount offers.

We start our next decade having developed our own proprietary loyalty offer – Pumped. This offer brings together the best of what we've had in the past and we own it; we are not dependent on others for our offer. It allows our FlyBuys and Airpoints customers to receive fuel discounts and earn a range of other rewards simply by scanning their card – across both the Z and Caltex networks. It's integrated, easy, delivered at scale, and is resonating with customers tired of overly complex loyalty schemes.

With increasingly sophisticated treatment of digital data, we are now beginning to develop highly-targeted individual customer offers based on what we can tell matters to them.

Currently more than 580,000 customers have downloaded either the Z or Caltex Apps. As we continue to add more innovative products and experiences through these apps, we expect our apps to become drivers of increased loyalty. This is another example of why building digital and customer experience capabilities across Z is so integral to our future success.

Giving customers climate change choices

We know that many customers find it really hard to know where to start in reducing their own carbon footprints. For many small businesses, individuals and families, this is really hard.

We don't profess to have all the answers, but we're committed to working with our customers and giving them their own choices to make.

We've taken the choice to offset all of our operational emissions via permanent forests and to target emissions reductions by 30 percent off 2017 levels by 2021. We have the resources and the expertise to make these choices, but for individuals worried about their own impact on our climate, in the area of mobility there are limited choices to be made.

In our Environmental Sustainability stand, we commit to "provide leadership and a range of solutions to enable our customers... to join us on the journey to a low carbon future".

In February 2020, we gave our customers some very distinctive choices on how they might like to respond to climate change in a personal capacity. Our customers can now choose to offset their own carbon emissions generated by fuel they purchase from us – or indeed any other fuel provider.

Through the Z App, customers can view their fuel purchases and associated carbon emissions. They can then choose whether to offset their impact, in part or in full, via permanent forestry offsets. This enables all drivers, regardless of where they purchased their fuel, to understand their carbon contribution and make informed decisions on how they might reduce that impact.

580,000

Customers have downloaded either the Z or Caltex apps

FY20

We don't know how many customers will choose to take up this option and we're not going to push it, but it's a new, highly distinctive choice. It's just another way we're preparing for our future, leading on what matters and taking our customers on the journey with us.

We've also extended this choice to our Commercial customers, recognising that particularly in trucking and logistics industries, there are precious few levers to pull to reduce current emissions. For a Commercial customer wishing to offset their carbon emissions, we're providing choices and simple solutions.

Kia whai hua
ki ngā kiritaki ūmanga

Delivering for Commercial customers

It's a privilege to serve the engine of the New Zealand economy – our Commercial customers. From road builders to airlines, trucking companies to fishing fleets, our dairy and agriculture sectors to the small businesses which alone make up nearly a third of national GDP.

We refuel helicopters and small planes, directly refuel cruise liners with ship-to-ship fuel transfers and take fuel into the heart of New Zealand's massive forestry estate. We supply major airlines and provide the bitumen that builds our roads.

Chances are, if it moves, we're behind it. Half of our total fuel volume goes to keeping our Commercial customers moving and it's a market we're serious about serving and growing.

Opening up the most comprehensive fuel network in New Zealand

For our Commercial customers, time is literally money. You see couriers running? There's a reason why.

Much of the transport, freight and logistics industries are ultra-efficient, low-margin businesses in which fuel is a major cost and time really matters. The time taken to detour a truck and trailer unit well off a major route for refuelling can set a whole schedule back, compromise service to clients and ultimately cost money.

Our vision has always been to bring together the most comprehensive nationwide commercial truck stop network and, combined with our retail operations, make this easy and convenient for our customers to access. This was part of the strategy promise behind the acquisition of the Caltex business in 2017 and over this year we made it a reality.

Until this year, customers had to use either a Z fuel card or a Caltex fuel card to access our networks. Now, from a customer perspective, there's only the brand difference – all Z, Caltex and Challenge-branded sites can be accessed by one integrated fuel card. It sounds simple, and in many ways, it is. But behind this simple commitment to our customers was a complex technology and data project that required and received the best from our team. We shut down two digital card purchasing platforms at the same time as seamlessly moving 34,685 customers to a new single card and platform.

This required massive data transfers, efficient and effective customer communication and the use of automated data processes to make this streamlined and efficient. While the work behind the offer quite rightly makes no difference to our customers, our new offer really does.

Our customers now enjoy easy access to by far the largest national refueling network across New Zealand. They can use one card for all purchases at any Z or Caltex truck stop (151) or retail site (334) and receive the one invoice. It is an offer that saves our customers time and money, and it cannot be replicated.

Opening up the most comprehensive fuel network in New Zealand.

DRIVE YOUR BUSINESS FURTHER

With Z Business Plus

Adding real commercial value

The use of a single card to access the entire Z/Caltex network is also one that Commercial customers value. In the very early days of an integrated card and network offer, 10 percent of customers were accessing both networks. Customers are prepared to recognise the increasing efficiency gains open to them via the price they pay. We have seen record-level acquisitions through our new Online Application system and are forecasting value uplift in our Commercial Fuels business as customers recognise the productivity gains of the new network.

Over the year, Z has used its scale, security of supply, flexibility and unique offers to win and retain key commercial accounts right across the commercial portfolio; one account in particular is the largest Z has won in a decade. For some accounts, Z has been able to integrate a staff offer, enabling staff of Commercial customers favourable terms to access the Z and Caltex networks.

For other major customers, namely Fonterra and Fletcher Building, Z's BioD offer has proved distinctive and highly valued as a way to demonstrate the commitment of these leading Kiwi companies to lower carbon operations. We're proud to be in partnership with these two companies on something so important for New Zealand and thank them for their support and leadership.

For others, Z's Mini-Tankers machinery refuelling offer is essential to continued operation, efficiency and cost management. We also continued to compete in delivering profitable and safe operations in the bitumen market. We acquired a major new account in the general aviation market and retained key clients and improved our efficiency in the marine fuel market.

The Lubricants team won a record amount of new business, often in collaboration with the Commercial Fuels team.

The year ahead

Z is committed to vigorously defending and building its market position, particularly in commercial diesel and jet fuel, to ensure its scale is protected. Z's Commercial business has performed strongly over the last year and, through harnessing digital and CX capabilities, is advantaged in creating continued value for both current and future customers.

The commercial markets always, to some extent, reflect the general performance of the economy. While there appeared to be a slowdown in economic activity in the second quarter of FY20, economic conditions improved in the third quarter and into the fourth. We have seen jet fuel demand decrease this year by 5.6 percent on a year-on-year basis as a result of route consolidation and the impact of Coronavirus reducing air travel, but we also expect economic stimulation from the Government's infrastructure construction policy commitments.

The advent of Terminal Gate Pricing promises further change in commercial markets but it is one we welcome. Terminal Gate Pricing (see page 51) will bring greater equity and fairness to the fuel markets and reward those who invest. As a company that, through previous phases of strategy, has invested in unrivalled assets, Z is well positioned for this change and will continue to actively promote its offer, its network and the value that Z can add to the commercial markets.

Ko te mea nui
i te ara tuku

What matters in our supply chain

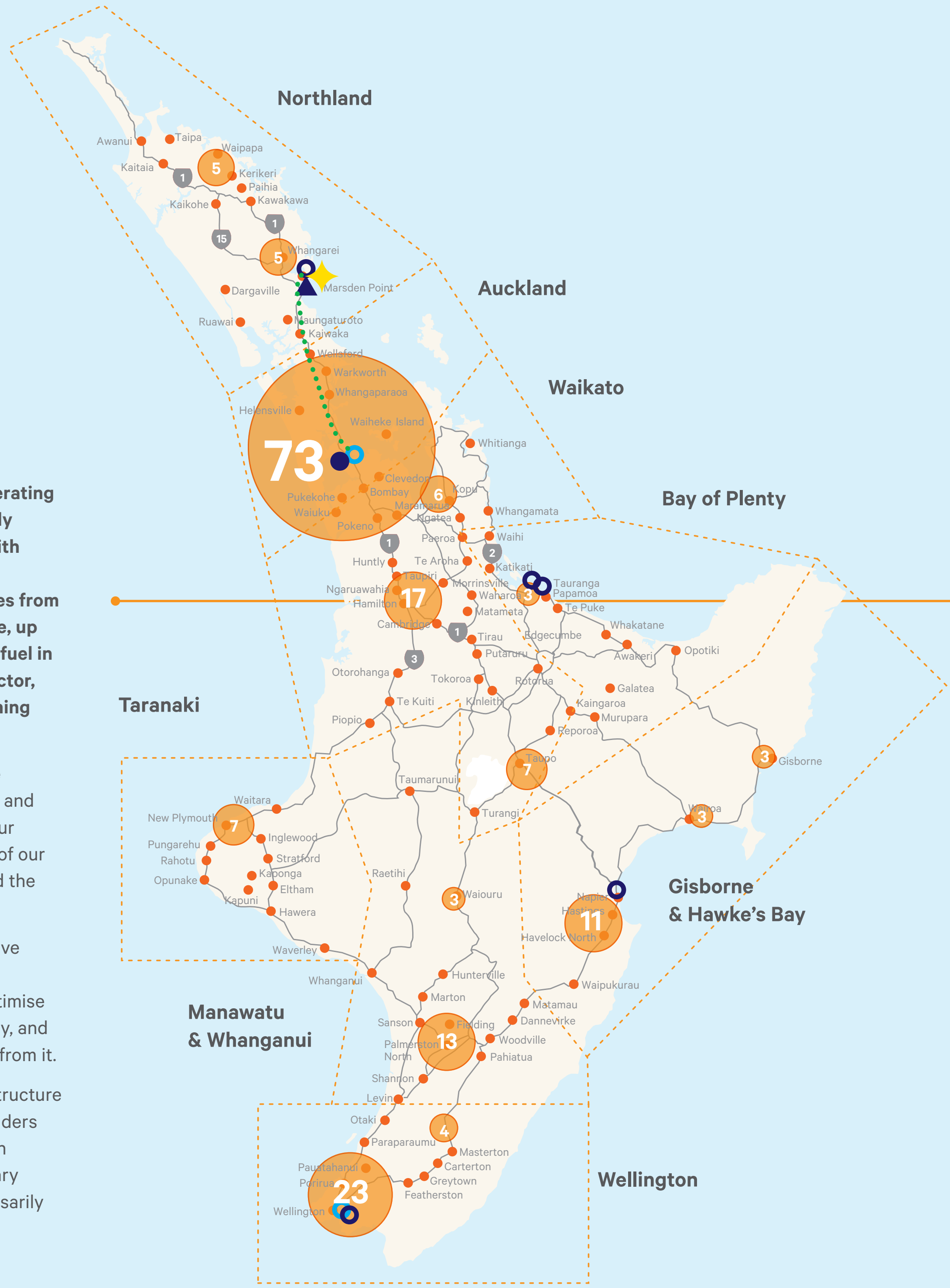
Domestic supply chain

Everything we do starts with operating a safe, secure and efficient supply chain. The supply chain starts with shipments of crude oil from the Middle East – although sometimes from Asia and the USA as well – before, up to 90 days later, ending with the fuel in a customer's car, plane, ship, tractor, truck, train... again, almost anything that moves.

Z's supply chain is comprehensive and supported by the best people and the best assets. The strength of our supply chain is a direct reflection of our commitment to our customers and the New Zealand economy.

Our supply chain is also a distinctive source of enduring competitive advantage. We will continue to optimise it, using our people and technology, and drive greater efficiency and value from it.

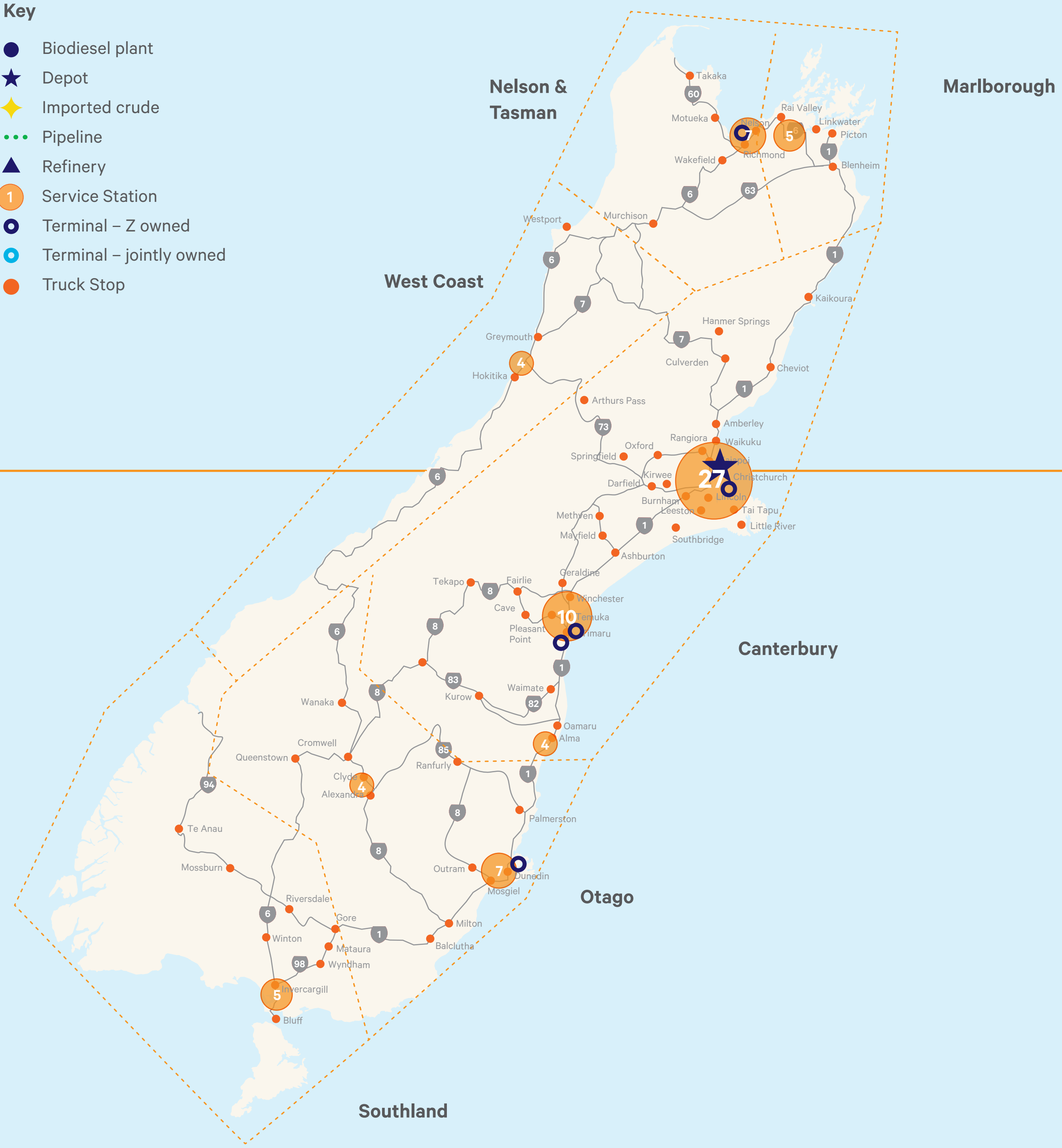
Given the critical role of Z's infrastructure and assets to our various stakeholders and our economy, our supply chain features in much of the commentary within this report and is not necessarily contained in this section.



We have never drilled or explored for oil. Rather, we source, buy and sell the fuel products our customers need.

Key

- Biodiesel plant
- Depot
- Imported crude
- Pipeline
- Refinery
- Service Station
- Terminal – Z owned
- Terminal – jointly owned
- Truck Stop



Faster, more accurate fuel forecasting

For a company that, through its long heritage, has been selling fuel in New Zealand for well over 100 years, we thought we were pretty good at forecasting fuel demand. We were good at comparing days, weeks and months of fuel demand against previous years, but what our commitment to digital capability taught us this year is that there is a much better way.

We're a company of people and believe it is human relationships and our ability to collaborate and share that makes us successful. But in the case of forecasting fuel demand, machines simply do a better job.

This year we introduced artificial intelligence into our system-wide fuel forecasting. We now use artificial intelligence (AI) to forecast our fuel demand and the increases in accuracy have surprised us. Given the length of our supply chain, small efficiencies make a big difference across it. With AI we now run a more efficient, cost-effective and reliable fuel supply chain that costs us less to run and is less prone to human error.

Our fuel supply chain has been ripe for digitisation. Over the year we have also optimised our scheduling and logistics operations, again delivering significant gains in efficiency, accuracy and customer reliability. We have further ground to take in realising the benefits of digital technology across our supply chain and doing so remains a priority.

By way of a snapshot, for FY20, Z:

18.7m

Imported 18.7 million barrels of crude oil into Refining NZ, producing 2,864 million litres of finished petrol, diesel, aviation fuel and marine fuel oil

FY20

2,294m

Provided 2,294 million litres of fuel to Commercial customers

FY20

843m

Provided 843 million litres of aviation fuel

FY20

6.3m

Imported 6.3 million barrels of refined fuel

FY20

1,543m

Provided 1,543 million litres of fuel to Retail customers via 199 Z-branded and 135 Caltex-branded service stations

FY20

131m

Provided 131 million litres of bitumen

FY20

192.9m

Directly owns and operates 10 bulk fuel storage terminals with total storage of 192,918 million litres representing just over 50% of New Zealand tankage

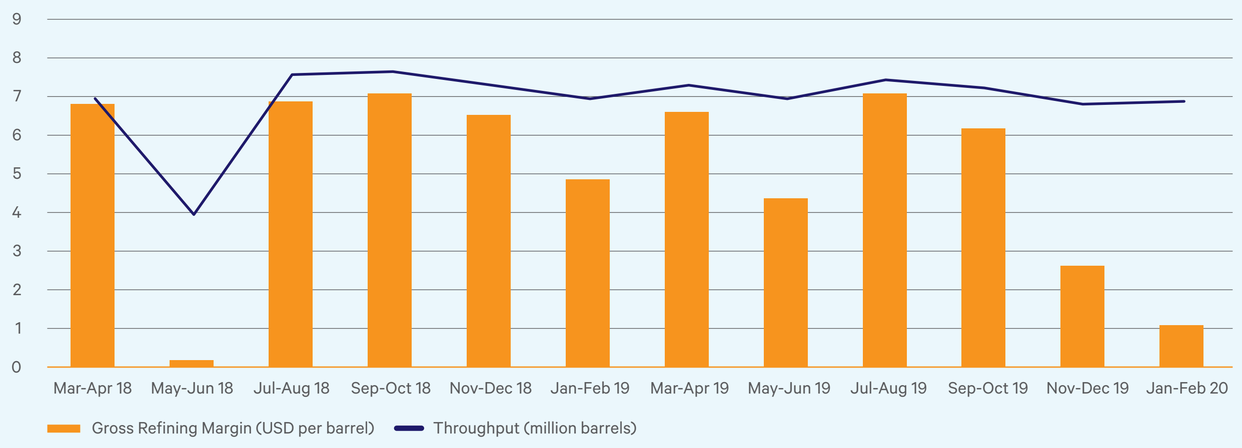
FY20

151

Sold fuel through a network of 151 truck stops across New Zealand

FY20

Refining NZ Operational Data



Note:
Data for this graph is from Refining NZ Operational Updates available on the Refining NZ website Investors centre.
Each data point spans two months, and are not aligned with Z's financial year.

Refining a double hit on earnings

In choosing to process fuel at Northland's biggest employer and New Zealand's only refinery, Refining NZ, Z shares in the margin created between the price of crude oil and the price of refined fuel that the refinery produces.

This margin is designed to cover the costs of fuel distribution from the refinery and to allow users of the refinery to match prices from choosing to only import refined fuel, which some of Z's competitors do.

While AI is helping us forecast fuel demand in the supply chain, unfortunately it can't help us predict global refining margins which are set by global benchmarks. Refining margins have been highly volatile over FY20 and have contributed to 21 percent of Z's earnings shortfall against its original guidance.

By way of example, Refining NZ processed record volume levels over some parts of the year, and very low levels over other parts. The margin it earned dropped by 19 percent on average over the year and negatively impacted Z's results by $18 million.

In November/December 2019, refining margins dropped from US$6.16 per barrel in the previous two months to US$2.62 per barrel. At times the actual margin dropped below this level.

This severe volatility has been driven by a range of factors: Most materially, the pending changes to global fuel specifications for marine fuel oil, which have been disruptive across the global fuel industry and have driven margin volatility, but also power cuts at the refinery impacting production and high fuel shipping rates as a result of the US – China trade war.

As a user of the refinery, Z earns a margin when margins exceed the refinery's fixed operating costs – called 'the floor'. However, we also effectively underwrite the refinery when margins are below this level, effectively paying for the refinery to produce fuel for us. This has only happened three times in the last 20 years, but this year was one of those times.

While clearly beyond Z's ability to control, the impact of oil refining on Z's earnings has been frustrating, particularly given the decline in retail fuel margins at exactly the same time (see above graph) and the significant advantage enjoyed by some competitors who do not use the New Zealand refinery.

Refining NZ is making decisions to request a broader range of crude oils for processing to minimise the impact of marine fuel oil specification changes.

Refining NZ is a small, geographically isolated refinery operating in a small market. Z is committed to working with the refinery and the industry to ensure any opportunity to further optimise its operations are realised.

Fuel efficient tanker, the Silver Philippa
(image used with permission)

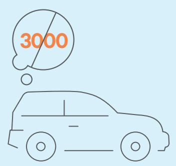
Cutting the carbon out of getting fuel here

The Supply team considers our carbon intensity in all of the decisions we take.

By way of a good example, in January 2020, we re-signed our contract with our Korean supplier of refined fuel for import to New Zealand. This time we broadened the negotiations beyond the obvious elements of price, product quality and reliability to include carbon.

Globally, shipping is estimated to contribute up to four percent of all carbon emissions. In our contract negotiations, we secured agreement to use a new shipping berth which allows us to request new, fuel-efficient ships to deliver our fuel to New Zealand ports.

This will cut 7,500 tonnes of carbon dioxide per annum from our supply chain on an ongoing basis. That reduction is in addition to a reduction of 12 percent in average daily fuel consumption from shipping refined product since 2017. It's also roughly the equivalent of taking approximately 3,000 petrol or diesel cars off our roads – permanently. It's an example of being distinctive where it matters and our commitment to operating the most efficient supply chain we can.



7,500t

7,500 tonnes of carbon dioxide cut from our supply chain on an ongoing basis, or the equivalent of 3,000 passenger vehicles

FY20

Ko te mea nui mō tō tātou ōhanga

What matters for our economy

Over the course of this year, Z continued to lead and participate in conversations around the importance of secure, reliable supplies of transport fuels to the economy, the importance of fair pricing and competition, and the need for continued investment in critical infrastructure.

Z's operations are critically important to the continued operation of the national economy. Without the supply chain and assets we operate and the fuels and services we safely provide every minute of every day and night, our economy would very quickly grind to a halt. Planes wouldn't fly, ships wouldn't sail, trucks wouldn't travel. Industry, commerce, construction, agriculture and tourism would not be able to function. And you'd find it hard to get to work.

Most people don't think about any of this, and that's fine – that's our job. But we never forget the responsibility to our country and economy that comes with supplying half of all the transport energy that New Zealand is currently completely dependent on.

We're also committed to the role of our strategy in assisting and enabling the transition to a low carbon economy.

When it comes to our economy, infrastructure is critical. One of the first conversations Z ever had with Government, back in 2010 was to remind politicians of the very high levels of economic reliance upon certain pieces of infrastructure – particularly the Refinery-to-Auckland-Pipeline (RAP). It would be fair to say there was little interest in these topics at the time, but that has now changed.

Inquiry into Refinery-to-Auckland-Pipeline (RAP) failure

Infrastructure is one of those paradoxical things: Nobody thinks about it when it's working, everyone wants it fixed immediately when it's not, and nobody ever wants to pay for it.

New Zealand is a long country with a very low population density, meaning we often rely on single pieces of infrastructure for running essential industries and services – electricity, gas, fuel, roads etc.

Like most pieces of critical national infrastructure, very few people ever really thought about the fact that all of Auckland International Airport's jet fuel – some 1,500 million litres per year – is produced at the Whangarei refinery and then pumped down one 10-inch thick, 170-kilometre-long pipe to a single fuel terminal, and from there to the Airport.

That is, until the pipe was broken by a digger in September 2017, grounding a number of flights in and out of Auckland for several days. The country's economic reliance on this single piece of infrastructure is one of the issues that has mattered most to Z since the day the company was formed. In just one example, in 2012, the company wrote to the Government about the need for fuel infrastructure investment, including around the pipeline:

"... there is a role for Government in the management of intergenerational resilience issues where infrastructure failure can so profoundly impact the national economy. Z believes there is an opportunity, and indeed a need, for government and industry to work in partnership to build greater resilience into the supply chain through a model which works for all parties and which affords greater protection to New Zealand customers, industry and the national economy.

Z believes that the consequential costs of a major disruption will be severe and that industry and Government need to also work together to have an agreed and regularly refreshed back-up plan for major scenarios, such as an extended RAP failure".

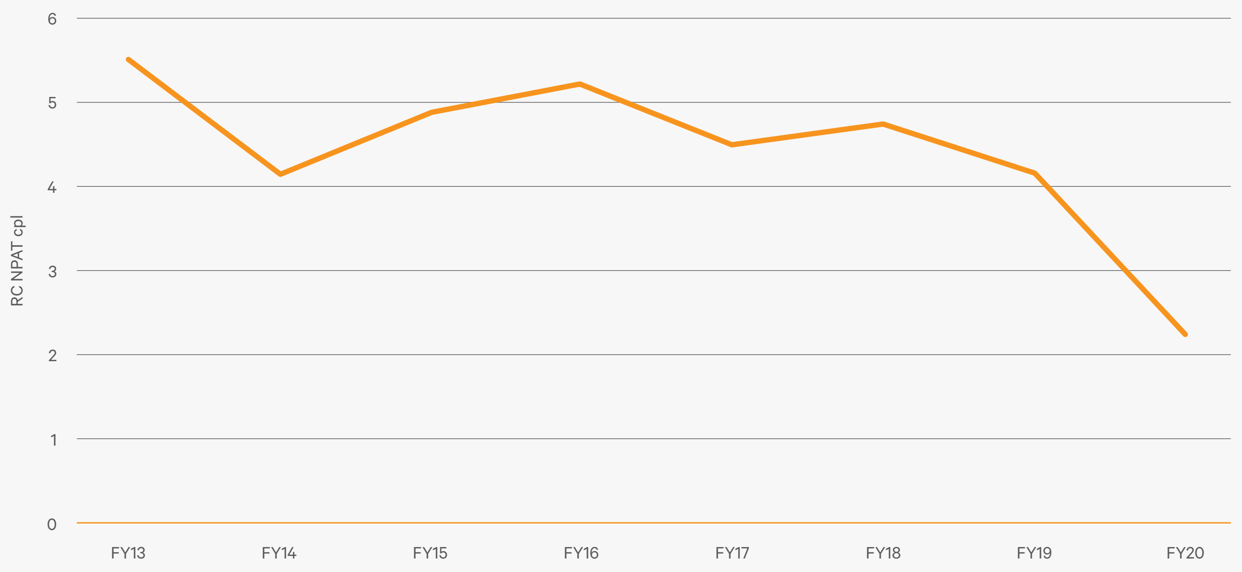
From the start of the company, Z warned the Government that the risk of a failure of this asset was higher than estimated by officials, but that the likelihood of anybody choosing to invest hundreds of millions of dollars in a hypothetical insurance policy was nil – hence the recommendation for a partnership approach to ensuring investment in 'socially optimal' infrastructure.

Nearly two years after the September 2017 rupture of the RAP, a Government inquiry was held into the event. Its final report found that urgent investment was needed in jet fuel infrastructure and that government and the industry must work together to ensure Auckland was better served in any future disruption.

Consistent with our commitment to New Zealand's economy, Z is already in action on preparing to invest in enabling more jet fuel to be delivered at the Airport. However, this investment will not guarantee fuel supplies to the Airport. Jet fuel margins are razor thin and while the suppliers of jet fuel to the Airport all support the initial investments, there will be challenges in ensuring subsequent investments deliver value to the economy, airlines and shareholders.

We're committed to working with our airline customers to ensure appropriate investments are made in the jet fuel supply chain.

Replacement cost net profit after tax in cents per litre



Profits, competition and the Commerce Commission

In both an economic and customer context, no review of FY20 would be complete without discussing the first Market Study run by the New Zealand Commerce Commission into levels of profitability and competition within the fuels industry.

Quite rightly, political interest in all forms of energy is always high. We acknowledge that access to energy, the price of energy and the environmental impact of energy choices affect almost every element of society: our natural environment, our economy, our individual health and wellbeing.

We have always acknowledged that fuel margins increased over much of the last decade, from the point in 2010 at which industry returns were lower than the cost of capital, leading to major international companies progressively exiting, or attempting to exit, New Zealand.

With the recovery of fuel margins over 2010–2018, investment again began to be made in the fuels sector. Since 2012, the number of competitors in the retail market increased from 17 to 21 and the number of service stations across New Zealand increased by 169. Three bulk fuel terminals were built and multiple pricing offers and levels of discounting began to be introduced into the market as competition for fuel volumes increased.

Z welcomed the decision to hold a 12-month inquiry into the levels of profitability and competition within the fuels industry and participated thoroughly and constructively in it over the 2019 calendar year.

Disappointingly, the inquiry focused only on fuel margins and profitability up to 2018, and did not factor in market and competitive changes over much of the last two years.

On top of the inquiry's failure to reflect relevant current context, it also failed to reflect capital investments in profitability calculations. For example, of the $785 million of cash Z paid for the Chevron business, the Commerce Commission's analysis deemed that $591 million was not relevant to Z's capital base for the purposes of profitability analysis on Z's returns.

Z has always been the only company to disclose precisely how much profit it makes for every litre of fuel it sells. The above graph shows why effectively ignoring the 2019 and 2020 years resulted in a finding inconsistent with the current state of profitability and competition in the market.

This graph also highlights the role that declining retail fuel margins have had on Z's profitability and financial performance over this year. Approximately 60 percent of our financial performance shortfall against our original earnings guidance was due to declining retail margins driven by one thing: intense competition.

Profits, competition and the Commerce Commission (continued)

So while the Commerce Commission missed the opportunity to reflect the full, current context around profitability and competition, we nonetheless welcome and fully support its recommendations, which were:

- For the owners of bulk fuel terminals to sell fuel from those terminals to all competitors at a commercial price (known as Terminal Gate Pricing)
- To publish the price of all grades of fuel on the prime signs outside every service station
- To ensure wholesale supply contracts allow resellers of fuel the opportunity to compare prices from different suppliers and to limit the use of long-term exclusive supply contracts.

These were outcomes Z advocated for and were consistent with our previous strategic decisions. Z had already ordered the new prime signs to display all fuel grades before the Commerce Commission had reported back. The rollout started prior to Christmas and will continue for the first six months of 2020.

Commercialising our terminal network – the advent of Terminal Gate Pricing

Since acquiring the Caltex business in 2016, Z has owned the most comprehensive and strategically important bulk fuel storage assets in New Zealand. Z operates a network of these terminals across New Zealand, with total fuel storage of over 192 million litres.

It is from these terminals that imported fuel is received via international import shipments and via domestic production from Refining NZ at Whangarei. It is from these terminals that the New Zealand economy receives its lifeblood.

In 2017, Z made the strategic decision to exit joint venture arrangements with competitors in the operation of our fuel terminals. We decided that we had invested in them, we owned and maintained them and we should operate them ourselves, with our own people and capabilities. In 2018, this move was completed and terminals are now an integrated part of our business.

It has always been Z's view that the traditional model of operating terminals was failing to reward investment in them. Choosing to share access to terminals with our competitors has led to the situation in which competitors who choose not to invest in these assets are advantaged, in that they can continue to use assets owned by another company. We've effectively been rewarding our competitors – and international oil companies at that – for failing to invest in New Zealand.

That's changing. Z is committed to commercialising its fuel terminal network, being fairly rewarded for its investments and ending the 'free ride' some competitors have enjoyed for many decades.

The core recommendation of the Commerce Commission Market Study into the fuels industry was to establish Terminal Gate Pricing by which terminal operators like Z will sell fuel via their terminals to any buyers at an advertised wholesale price. This is an outcome we have been preparing for and which is an important element of our strategy.

Z has just over 45 percent fuel market share in New Zealand, but just over 50 percent of terminal storage. We're more than pulling our weight. Progressively, expect Z to continue to step back from the established fuel industry sharing arrangements in which fuel and terminals were shared and move much more onto a solid commercial footing.

We've already started. We have exited the industry sharing arrangements at Nelson, as a starting point. If fuel companies, including new wholesale fuel suppliers, want fuel at Nelson, we will sell it to them on commercial terms at a price that reflects the capital costs of the terminals. That's fair and reasonable.

What we don't want to do anymore is provide fuel to competitors with no assets in an area at zero margin for them, to then on-sell to distributors at a cost we can't even provide to our own retail/commercial networks. That's distorting the operation of a proper market, rewarding a lack of investment and failing to see investments adequately rewarded.

We are increasingly reconsidering how we treat our assets and provide access to them in order to ensure they are fairly rewarded by those that benefit from them.

50%

Z has just over 45 percent fuel market share in New Zealand, but just over 50 percent of terminal storage.

FY20

Te pūtake
o tō tātou tū

Why what we stand for matters

Z's people stand for extraordinary things.

Standing for extraordinary results, focusing on what really matters and being prepared to deliver customer and shareholder value while transitioning to a lower carbon energy future is what it means to a be a part of Z. But discipline and focus also matters. Z is a company of innovative, creative and committed people, but we're also a company of scale that keeps New Zealanders and our economy moving.

So we choose to focus on four key areas that we think really matter – areas where we look to maximise our contribution, change the game and be distinctive.

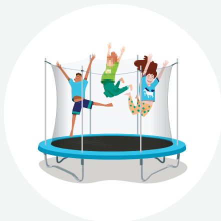
These four areas are what we stand for so, somewhat creatively, we call them 'our stands'.

Environmental Sustainability

Z will move from being a part of the climate change problem to the heart of the solution.

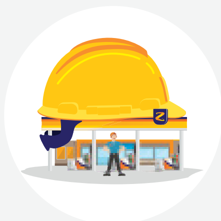
Community

A resilient and healthy Aotearoa New Zealand that empowers our youth, neighbourhoods, and Z whanau.



Diversity and inclusion

Being successful being ourselves and reflecting Aotearoa New Zealand.



Safety and wellbeing

Enhancing our people's wellbeing and enabling their success.

Our aspirations in these four areas can have the greatest impact on the following 10 UN Sustainable Development Goals:

Our commitments within these stands and the progress we make on them are constantly evolving. This section of the report looks at each of the four stands and provides a snapshot as to what we're doing and how we're going.

Te tiaki taiao

Environmental Sustainability

“We stand for an environmentally sustainable New Zealand that is an example to the rest of the world and an inspiration to Kiwis. Z will move from being a part of the climate change problem to the heart of the solution.”

Energy and climate change are different sides of the same coin: you cannot discuss one without discussing the other. The choices we all make every day around how we use energy is directly contributing to the world we live in and which future generations will inherit.

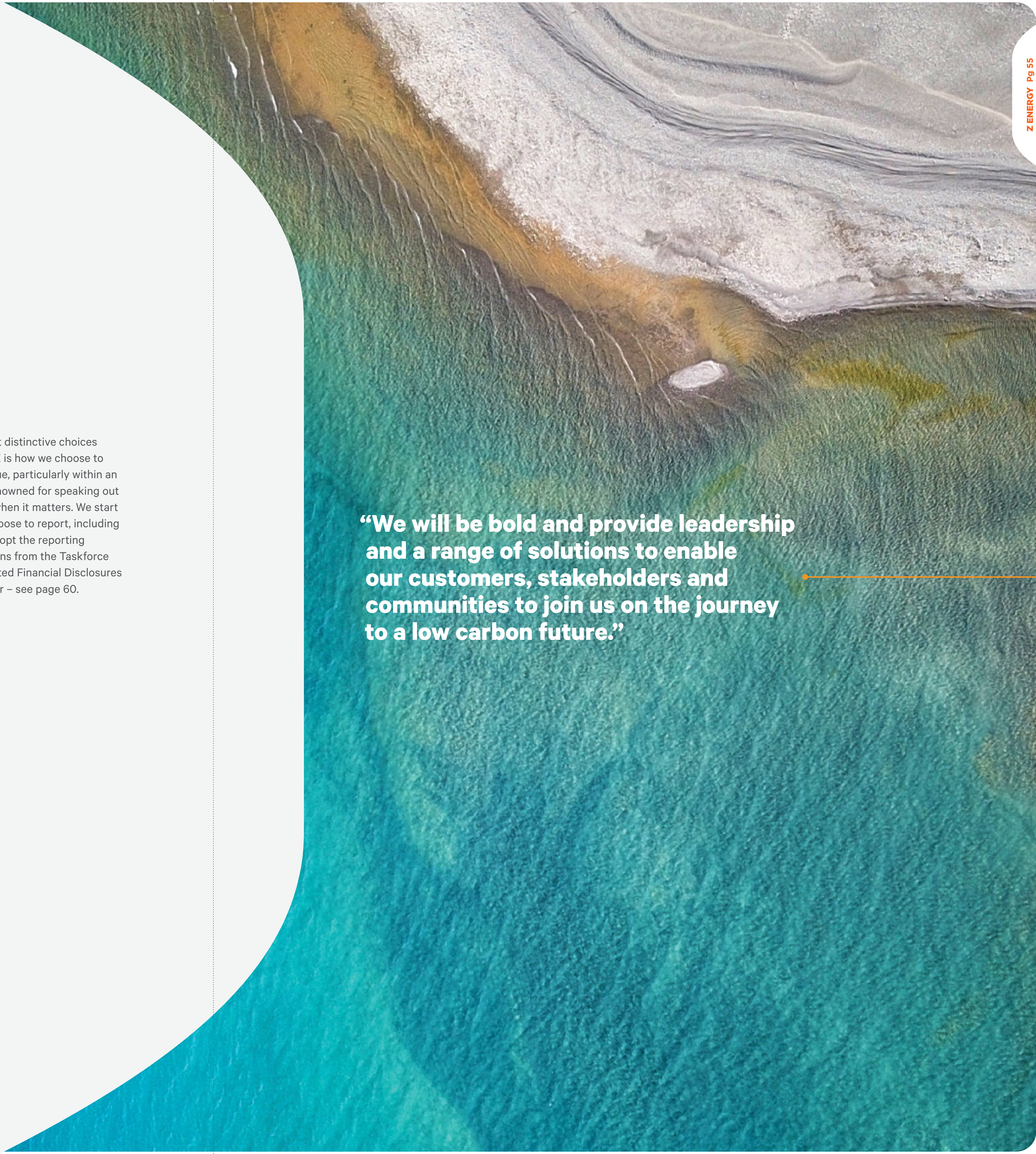
In terms of scale and consequence, there is no more material issue for Z than the impact on our climate of the use of the fuel we sell.

How we think about carbon and climate change directly impacts our strategy, the decisions we make every day and the choices we make around our own activities and what we offer customers.

Either directly or indirectly, climate change is the most common thread that underpins the bulk of our conversations with stakeholders. The products we sell contribute roughly 10 percent of New Zealand’s total carbon emissions and we expect the focus on climate change to continue to grow as we increasingly experience the impact of a warming planet and as the world struggles to transition its economies and energy systems.

We’re committed to reporting fully, honestly and transparently on issues around climate change. We’re going to set ambitious targets, and we will continue to work with our customers in finding new solutions. We will not back away from our commitment to moving from being part of the climate change problem to the heart of the solution.

One of the most distinctive choices that makes us Z is how we choose to lead on this issue, particularly within an industry not renowned for speaking out or fronting up when it matters. We start with how we choose to report, including beginning to adopt the reporting recommendations from the Taskforce on Climate-related Financial Disclosures (TCFD) this year – see page 60.



“We will be bold and provide leadership and a range of solutions to enable our customers, stakeholders and communities to join us on the journey to a low carbon future.”

Our own backyard

We can't invite our customers to consider offsetting their carbon emissions if our own house isn't in order.

We've committed to reducing our operational emissions – excluding the fuel our customers use – by 30 percent from 2017 levels by the end of the 2021 financial year, and we're the first to admit that this is tough. We made good initial progress, cutting emissions by 12 percent, but we're not currently on track to hit our target.

What we have not reduced, we offset. We choose to offset all of our own operational emissions via permanent forest planting and last year we spent $1.16 million doing so.

32%

Mevo shareholding

Now cleared to enter the Auckland Market

We have also elected to join a forestry carbon joint venture in New Zealand – Drylandcarbon Limited – that this year started to acquire marginal farmland to plant in both permanent and rotation forestry to generate carbon credits. The potential for this partnership to deliver positive outcomes for our climate, for our broader natural environment and for our economy are very real and we welcome the way this joint venture has committed to working constructively to protect the interests of rural communities.

The future of mobility

While we focus on cutting our own impacts, we also actively investigate the future of transport energy. We have a 32 percent shareholding in the Wellington-based ride-sharing company, Mevo, which, prior to COVID-19 Alert Level 4 restrictions, had its best year in terms of growth in demand for its services.

Mevo was also cleared to enter the much bigger Auckland market in December 2019, paving the way for the offer to be more appealing to a wider range of customers and investors.

Kea	Tūī
a future where climate change is recognised by society as the most important priority. New Zealand aggressively transforms itself into a low-emissions economy, faster than its global trading partners, competitors and peers.	a future where climate change is recognised as one of many competing priorities. New Zealand leverages off its traditional comparative advantage to generate wealth. A 'follower' approach is taken to climate policies and solutions made possible by the actions of trading partners and competitors.
The key differences of the two stories	
Early adopter of technology to reduce emissions	**Follow global technology** trends to reduce emissions
Domestic **carbon price is higher** than global price, New Zealand a world leader in carbon pricing.	Domestic **carbon price is lower** than the global price
Mass public transport increasingly a preferred method of travel in New Zealand cities	Passenger fleet is **dominated by private car ownership**
Consumers and businesses **favor non-fossil fuel sources**	Consumers and businesses **favour lowest cost energy sources**
Government encourages a **fast transition** to non-fossil fuel sources	Government doesn't push a switch from fossil fuels instead relying on incremental **market-led change**
Higher road pricing and environmental charges used to support carbon pricing	**Limited road pricing** is used to fund expansion of road infrastructure to ease congestion

Understanding our energy futures

One of the ways we seek to contribute to informed discussion and debate around what our energy future might look like is to actively support the BusinessNZ Energy Council's scenario planning work, which plots two different energy directions out to 2060 as captured here, for more detail refer: https://www.bec2060.org.nz

Kea Scenario

Under the 'Kea' scenario – named after the social, collaborative and innovative native parrot – New Zealanders work together in a concerted way to respond to the threat of climate change. Carbon prices are significantly higher than the global average, governments are active in facilitating new energy technologies, public transport is widely adopted and our economy is transformed by Kiwis' willingness to be a global leader. There is risk to economic stability as the economy restructures.

Tūī Scenario

Under the 'Tūī' scenario – reflecting the territorial and competitive nature of the bird – climate change is not such a pressing issue; rather it is just one of several priorities. Economic growth is prioritised over decarbonisation, New Zealand opts to follow the rest of the world and the overall approach is based around the individual rather than the community. The economy and the overall population grow faster than under the Kea scenario.

This modelling is based on highly sophisticated global technology and methodologies. We choose to partner in the development of these scenarios to inform our own strategic thinking around transitioning the New Zealand energy mix, managing risk from climate change, realising opportunities and stimulating valuable discussion with stakeholders on how we can work together in service of New Zealand's successful energy transition.

Progress against our sustainability targets

To make good on what we stand for means we must act. Our sustainability goals and targets were developed using the UN Sustainable Development Goals as a framework.

Three outcomes were set, leading us on a pathway to contribute authentically to the welfare of New Zealand's natural environment and its people. In addition, recognising our size and scale in New Zealand, our goals and targets cover Z's operations and those of our key suppliers. The table below outlines our progress against these goals.

Key

- ● We're on track and doing well
- ◐ We've made some good progress, but we need to do more
- ○ We are not on track and need to do more

Outcome	Progress	Status
Use less and waste less in our operations		
Reduce carbon emissions	We have reduced our carbon emissions by 12% since FY17 against a target of 30% by 2020. We voluntarily offset those emissions we cannot avoid through planting local permanent forests (see below).	○
Reduce waste to landfill	Waste to landfill is 25% below last year. Nationwide waste, recycling and composting infrastructure challenges, coupled with our own data integrity issues, have contributed towards fluctuating waste data since FY17. Our commitment to reduce waste continues, in addition to working closely with our suppliers and waste management companies. We have signed the NZ Plastics Packaging Declaration, committing to having 100% of our Z Espress branded food and drink in re-usable, recyclable or compostable packaging by 2025 or earlier.	◐
Reduce retail electricity	We are currently 1% below our 2012 baseline, and have reduced retail electricity 5% year on year since FY18 with a focus on efficiency.	○
Making purchasing decisions that support sustainability		
Supply Chain	Our Supplier Code of Conduct is embedded in all of Z's Standard Supplier Agreements. This year contracts for Print and Logistics, Z Espress Packaging and Shipping of Refined Product specifically focused on waste and carbon reduction, with 7,500 tonnes of CO2 annual savings from contracted shipping services.	●
Customers reduce fossil fuel use	Annual biodiesel production reached 1.9 million litres of 100 percent biodiesel and was sold at a B5 blend to our supply chain partners.	●
Lower-carbon products and services	Our investment in climate positive car-sharing company Mevo continues. Our staff increasingly use Mevo in Wellington with 3.3 tonnes CO2-e offset from Z business trips.	●
Enable others to reduce their impact		
Customers experience emerging transport technologies	Z's EV chargers continue to grow in popularity with 15,921 charges in the past year – an 11% increase on FY18.	●
Carbon offsets	Our customers can now choose to offset their emissions from their fuel use through the Z App. Launched in 2020, App use and offsets will be continuously monitored.	●
Partnerships for a low emission economy	Z's continued relationship with Trees That Count has led to 52,865 native trees being planted, supporting 58 planting communities, removing CO2 from the atmosphere and enhancing local biodiversity.	●
Local permanent forests	In addition to our ETS obligations (see p 140) Z is committed to offsetting our operational emissions with Permanent Forests NZ at a cost of over $1 million per year.	●
Policy and Leadership	We continue to advocate and lead for the development of policy, such as the Zero Carbon Act, to move New Zealand to a low emissions economy. Through our membership with the Climate Leaders Coalition, Sustainable Business Council and Sustainable Business Network, we take a leadership position to inspire and enable Kiwis to take action and reduce their environmental impact.	●

Full details can be found at https://z.co.nz/about-z/what-matters/sustainability

Greenhouse gas emissions

Scope	Base Year (FY17)	FY18	FY19	FY20
Scope 1 – Z Offices & Retail	3,907	3,853	3,837	4,127
Scope 2 – Z Offices & Retail	4,045	4,223	4,195	3,371
Scope 3 – Z Offices & Retail	3,339	3,875	4,495	3,506
Scope 3 – NZ Supply Chain	34,247	31,041	28,530	29,785
Total operational emissions*	**45,250**	**42,992**	**29,303**	**39,742**
% change from FY17	**–**	**-6%**	**-10%**	**-12%**
Scope 3 – Share of refinery	634,848	618,483	555,892	520,708
Scope 3 – Rest of supply	807,542	983,939	902,215	1,031,309
Scope 3 – Z product emissions from our customers	9,488,277.00	10,330,585.00	10,459,103.70	10,531,782
Total emissions**	**10,976,205**	**11,975,999**	**11,958,268**	**12,124,589**

* Total operational emissions exclude emissions from line losses and upstream electricity which are included in the sum totals above for Scope 3 – Z Offices & Retail and NZ Supply Chain. Total operational emissions intensity has decreased by 17 percent from FY17 per litre of fuel sold.

** There has been a restatement to annual total emissions due to a significant data set error; for Scope 3 – NZ Supply Chain emissions from FY17, and FY19 Scope 3 – Z product emissions from our customers. This has been resolved and progress against the baseline re-calculated as identified above.

Emissions are reported in line with the GHG Protocol Corporate Standard. MfE Emissions Factors are used in all cases where available for data sets.

Retail waste data

▼ 35%
1,651 tonnes
Recycling – cardboard and paper
FY19: 2,523 tonnes

▲ 5%
404 tonnes
Composting and organics
FY19: 385 tonnes

▼ 24%
4,830 tonnes
Total Waste
FY19: 6,343 tonnes

▼ 25%
1,893 tonnes
Waste to landfill
FY19: 2,523 tonnes

▼ 3%
882 tonnes
Recycling – plastics, can and glass
FY19: 912 tonnes

Waste figures are based on a combination of actual and estimated waste data from waste management companies on 90 percent of retail sites. Where no data is available an uplift is applied.

1.9 million litres
B100 produced (biofuels)
FY19: 50,000 litres B100 produced

The Task Force on Climate-related Financial Disclosures (TCFD)

Reporting against the TCFD recommendations is a natural progression from the integrated sustainability reporting approach we have taken since 2017. As such, this report includes full disclosures against five of the recommended 11 disclosures in the four key areas: Governance, Strategy, Risk, and Metrics and Targets (see TCFD Index on page 158).

We have developed a staged approach for integrating and enhancing our assessment of climate-related risks and opportunities across the business. Our TCFD roadmap to FY23 outlines the key steps we will take to manage the physical and transitional risks and opportunities and effectively disclose the most material information.

Z Energy TCFD Roadmap

FY2020	FY2021	FY2022	FY2023
Conducted a gap analysis of the 11 TCFD disclosures. This gap analysis was used to inform the TCFD Index table on page 158	Identify, assess and manage physical risks using the findings of the natural hazard exposure review	Review performance against revised climate-related metrics and targets	Review results of scenario analysis and management of related risks and opportunities to fully integrate into strategic and financial plans
Achieved Executive alignment. Established a team across Governance, Finance, Risk & Sustainability to define scope, approach and roadmap for TCFD	Review climate-metrics and targets	Integrated the 2-degrees scenario analysis into business decision-making process	
Documented current approach to identify, assess and manage climate-related risk management into governance and risk processes, at Board and management level	Conduct and document a robust risk assessment of transitional risks	Carry out risk review of how climate-related risks and opportunities are integrated into overall risk management	
Formalised the impact of carbon on business decisions through making this an explicit consideration when planning initiatives	Provide guidance to the organisation on how to integrate climate risks and opportunities into the overall risk management process	Carry out quality assurance	
Used BEC Kea and Tūī Scenarios as proxy to inform decisions and Z's capital strategy	Expand scenario analysis to include at least a 2-Degree scenario and one other comparison		
Achieved Board approval of TCFD approach	Prepared for quality assurance		

Key

- Complete
- In Progress
- Planned

Backing change...

Z's position is that policy makers must set and drive the agenda in order for the New Zealand energy sector and the economy to transition in such a way that New Zealand's international climate change commitments are met.

We have seen some particularly promising developments over the last year, particularly in the bipartisan political support for the Zero Carbon Bill which sets up the frameworks for reducing New Zealand's carbon emissions. We welcomed this Bill and our submission in support of it is here: https://z.co.nz/assets/Uploads/Z-Energy-Submission-on-the-Climate-Change-Response-Act-2019-FINAL.pdf

We also welcomed the appointment of the independent Climate Change Commission and supported a consultation process around amendments to the Emissions Trading Scheme which will likely result in increasing carbon prices across the economy.

While we support strong regulatory and policy frameworks to drive action on climate change, we also use our experience and resources to drive discussion and debate.

In the past, we have issued Z 'house views', or white papers, on emerging technologies such as electric vehicles. This year we published a paper exploring the potential for hydrogen to be widely harnessed in our transport energy mix: https://z.co.nz/assets/Uploads/Z-House-View-Hydrogen2.pdf

The paper found that while there are no technology barriers to the use of hydrogen in transport energy, it currently has significant economic and affordability challenges.

We also hosted international energy and climate change expert Michael Liebreich, and international climate scientist Professor Will Steffen to New Zealand for a series of public talks on climate change in June and October 2019 respectively.

Bringing business on board on climate change

Since 2017, Z's Chief Executive, Mike Bennetts, has been the foundation chair of the Climate Leaders Coalition – now consisting of over 120 businesses from across New Zealand united in their commitment to cut carbon emissions.

This is a world-first collaboration, bringing together the companies that, directly or indirectly, are associated with 60 percent of New Zealand's carbon emissions. It is also a clear demonstration of living our values: standing for something, speaking up and encouraging others to join us.

In this capacity Mike has led this group of leading businesses in service of the following pledge that chief executives from all organisations have signed...

2019 Statement

As signatories to the Climate Leaders Coalition, we are acting on climate change now, to create a future that is low-emissions, positive for our businesses and the economy, and inclusive for all New Zealanders.

We are committed to the Paris Agreement target to keep warming below 2 degrees and to further pursue efforts to limit the temperature increase to 1.5 degrees

By being a signatory to the Coalition, our organisations are actively:

- Measuring our greenhouse gas footprint, having the data independently verified by a third party and making the information publicly available;
- Adopting targets grounded in science that will deliver substantial emissions reductions so our organisations contribute to New Zealand being carbon neutral by 2050. These targets will be considered in current planning cycles;
- Assessing our climate change risks and publicly disclosing them;
- Proactively supporting our people to reduce their emissions, and
- Proactively supporting our suppliers to reduce their emissions.

As indeed we are, many of these businesses are finding it highly challenging to cut emissions. But that doesn't detract from the strength and resolve of our commitment.

Taking climate change to court

Being taken to court is no fun, but sometimes it can help to have the conversations that really matter.

In August 2019, Mike Smith, Climate Change spokesperson for the Iwi Chairs Forum, issued legal proceedings against seven New Zealand companies, including Z. The claim states that the courts should impose orders for Z and the six other named defendants to cease emissions activities under a court-imposed timeline and supervision.

Given our shared concerns, we had engaged constructively with Mike Smith prior to his legal action. While we believe the case is not an appropriate issue for the courts to determine or supervise, we nonetheless welcome the conversation. Yes, the products we sell cause emissions. Yes, we'd like them to be lower. We've taken the decision to offset all of our own operational emissions and we're now offering our customers – including those that buy from competitors – the choice to offset their emissions from the fuel they buy.

However, if the orders were granted, demand would simply shift to our competitors who do not have the investment in, or commitment to, New Zealand's energy transition that Z does. We believe it is a matter of public policy to determine the right balance between New Zealand's current and future energy requirements, and we're active in this conversation.

We've invested in a biodiesel production plant, bought an electricity retailer and contributed time, effort and resources to leading the conversations in service of building a low carbon economy.

We accept that none of this is enough, but it's a start and we want to work with other interested parties to collaborate in bringing emissions down. We acknowledge tangata whenua as important stakeholders in the climate change issue as kaitiakitanga of our land and water, and will work to deepen partnership opportunities to drive carbon emissions down with iwi.

While the Court case is another opportunity to discuss climate change and our various responsibilities in a public forum, we don't think it's the right way to drive change.

A Court case is adversarial and seeks to make somebody wrong when, in this case, we almost certainly have much in common with the complainant and his aspirations. The key to unlocking our climate change challenge is in finding common ground and working together. Our standing invitation to Mike Smith is to come and talk to us any time and discuss how we can drive change together.

Hapori

Community

We stand for a resilient and healthy Aotearoa that empowers our youth, neighbourhoods, and Z whānau.

As a distinctively Kiwi company, Z has always recognised that we are a part of diverse communities right across our country. We seek to be a force for good in these communities, with a focus on empowering young people and a commitment to speaking up when it really matters.

There are multiple ways in which every one of Z's 199 retail sites engages in its own community, including through discretionary funding support. Here we look at two of the higher profile and more topical national programmes run by Z this year.

The Z whanau that delivers our retail offer is an incredibly diverse group of people – from many countries, backgrounds and religious beliefs.

The 15 March 2019 Christchurch mosque attacks left 51 people dead in a tragic case of race-based terrorism. It impacted every New Zealander and was deeply felt by the Z team, particularly many in our retail operations, our team in Christchurch and those of the Muslim faith.

This tragedy kicked off a national conversation around racism and what we stand for as a country. We also took the time to reflect deeply on this as, unfortunately, our Retail site staff are all too frequently the subject of racial insults and abuse.

We're committed to creating a culture that does not discriminate, respects human rights, and is inclusive of all New Zealanders. So we asked our Retail team how we are going about delivering that. Sixty-two percent of our Retail team reported that verbal abuse (including racial, religious, or sexual references) on site is treated seriously "to a great extent" by Z and our Retailers, and 22 percent "to a moderate extent".

This is both encouraging and disappointing. It means some 16 percent of our Retail team – approximately 320 individual people – think we need to do better. We agree. We must do better to more actively and effectively support our people against unacceptable behaviour, and we will. We will report again on this measure in next year's report.

We are committed to more effectively having each other's backs.

In response to the tragedy in Christchurch, we wanted to contribute to the conversation against racism in Aotearoa. Weaving our commitments to Safety and Wellbeing, Community, and Diversity and Inclusion together under one umbrella, we ran an internal campaign simply featuring a sample of our Retail people talking openly and honestly about their experiences of racism on a Z forecourt, how it made them feel and the impact it has.

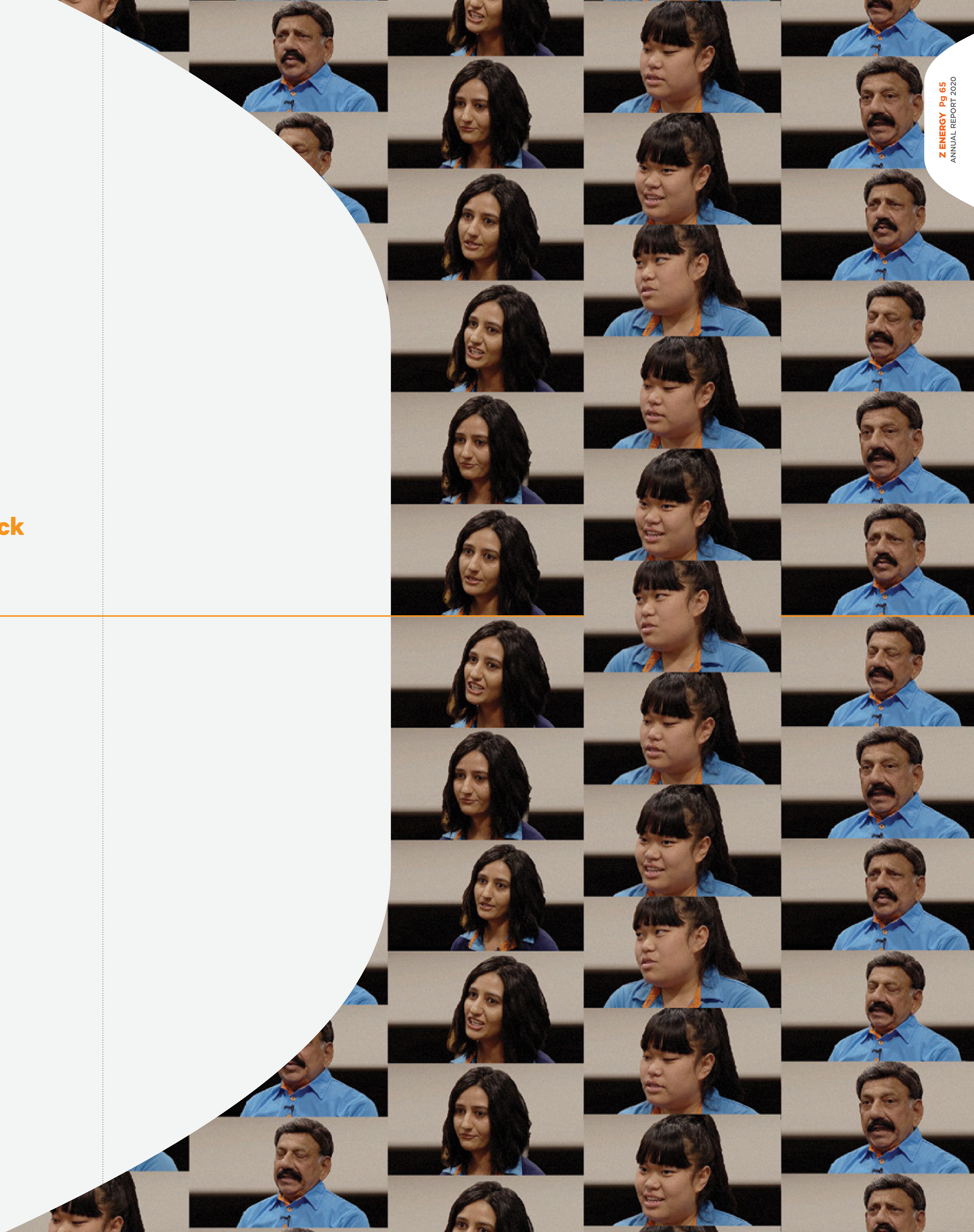
These stories are a moving reminder to all New Zealanders as to what we must stand against. We have shared our people's experiences within the broader retail industry on effective ways to deal with verbal racial abuse and our retailers have trespassed verbally abusive customers.

#wevegotyourback

View clips on the Z YouTube channel

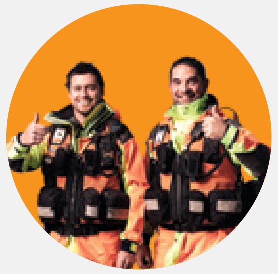
Watch the clips

https://www.youtube.com/zenergynz

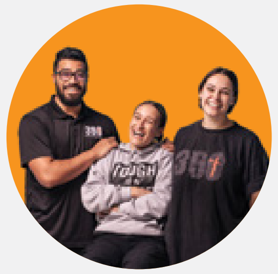
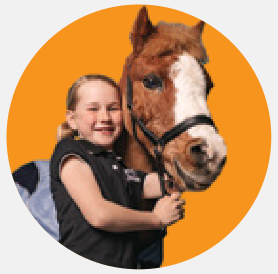


Good In The Hood reviewed

For seven years now, Z has run its pioneering 'Good In The Hood' community investment programme in which staff and customers at every Z retail site choose which organisations working in the heart of their local communities should receive funding support from Z.



Over the last seven years, Z has contributed over $7 million to a wide range of community organisations that traditionally struggle for funding, yet make the most profound differences to people in their communities. This year we donated $1 million to 539 groups across 199 Z service stations. Victim Support was the most widely supported by our customers, followed by Bellyful – the organisation providing free meals to parents of newborn babies. Groups that participated in Good In The Hood this year rated their experience as 4.7 out of five stars.

The feedback we receive on Good In The Hood is always positive and moving, but it was time for a proper independent review of the programme and its impact. So we commissioned the Ākina Foundation to conduct a social impact assessment of Good In The Hood. The summary findings were that Good In The Hood is successful in building community connections, increasing the profiles and opening doors for many charitable organisations. The money makes a real difference.

The Ākina Foundation recommended that Good In The Hood could be improved by investing more money to the same number of recipients, being more targeted to improve the impact of donations on certain sectors and providing more guidance to site retailers in allocating funding and enabling community connection.

This feedback will be factored into the design of next year's programme.

Powering up future generations

Z chooses to partner with the Graeme Dingle Foundation on its commitment to "powering up future generations".

For 25 years the Foundation has been working with young people to ensure their potential is realised. Unfortunately, due to a lack of resources and opportunity, many young people never really think about their futures, let alone careers.

Z provides financial support to the programme and its people work with the Foundation on the ground to support young people realise their potential through building self-belief and life skills.

With almost 30,000 children in its programmes, this partnership is making a difference where it really matters.

Ngā rerekētanga
me te whakaurutanga

Diversity and inclusion

We are committed to reflecting the diversity of New Zealand with an inclusive culture so that diversity can be fully expressed and manifest in tangible benefits. We will lead the way in developing a Kiwi firm that has our people being successful, being ourselves.

The last two words of this stand are its essence: 'Being ourselves'. This is the ultimate goal behind our commitment to a diverse and inclusive workplace and culture. We are committed to this not just because it is the right thing to do, but because achieving this workplace and culture will drive our future success.

Perhaps never before has there been an industry in which genuine diversity and creative thinking has been more urgently needed. Z will lead in this space and, in doing so, create the options, the partnerships, the experiences and the solutions our customers expect, our shareholders deserve and our world so desperately needs.

This year we've taken a 'kaituitui' approach to diversity and inclusion – weaving our diversity and inclusion work into our business rather than having a large number of stand-alone initiatives. Our commitment to diversity and inclusion is simply the way we do things at Z.

We have retained three key focus areas:

1. Te Ao Māori
2. Women in leadership and operational roles
3. Rainbow community

Let's start by looking at Z as if we were a village of 100 people:

5 ▲
Maori
FY19: 3

2 ▲
Pacific Islander
FY19: 1

13 ▲
European
FY19: 12

3 ▲
Other
FY19: 2

60 ▼
NZ European
FY19: 66

1 ▼
Prefer not to say

14
Asian
FY19: 14

2
Middle Eastern, Latin American or African
FY19: 2

79 ▲
Have a Tertiary Education
FY19: 69

1
Rainbow Community
FY19: 1

63 ▲
Male
FY19: 60

37 ▼
Female
FY19: 37

52 ▲
Have dependants
FY19: 51

1
Has a disability
FY19: 1

3
Gen Z
FY19: 5

22
Millennials
FY19: 22

34
Xennials
FY19: 31

25
Gen X
FY19: 26

15
Baby Boomers
FY19: 26

23 ▲
Auckland
FY19: 19

59 ▲
Wellington
FY19:58

18 ▼
Rest of NZ
FY19:58

Z is committed to building a culture in which people are comfortable to express their true selves.

Currently, one person in 100 prefers not to state an ethnic identity. This is neither a good nor a bad thing, however, we know that many Kiwis are from multiple ethnicities and the current categorisation tools are outdated and overly prescriptive. We will shortly look at this in more detail with a view to ensuring we understand our workforce more accurately through the way we ask people about themselves.

One person in 100 at Z now chooses a non-binary gender identity which we see as evidence of removing barriers to our people expressing their true selves.

Another shift we have noticed at Z is the increasing willingness of men to take parental leave, with four men in the Z team choosing to do so over FY20. We believe this reflects Z's commitment to a gender-balanced approach to parental leave and has removed any female bias that used to exist with parental leave.

Gender, age and ethnic diversity

We're not on track to reach our ideal target of balanced gender diversity, primarily because of the increase in operational roles – such as in terminals – and also in digital roles in which men have traditionally dominated. Women in operational roles at Z is seven percent. At the other end of the spectrum, Z is now one of a relatively small number of NZX companies with a female chair and 40 percent of the Z executive team are women.

Our focus on building digital capability across the company has contributed to 60 percent of new hires being men in FY20 but also to increasing ethnic diversity. Similarly, we are starting to see more employees on working visas filling operational roles to fill persistent skills gaps in the labour market.

The average age of a Z employee is 42. Unsurprisingly, we are seeing growth in Generation Z, Millennials and Xennials (born between 1977–1983) and declines in Generation Xers and Baby Boomers across the Z workforce.

The gender pay gap

Across the Z team there is currently a 4.6 percent pay gap in favour of men over women. While of course we pay women well, this gap exists due to most of our larger roles currently being filled by men.

Job for job and career level to career level, Z's people are paid at parity regardless of gender. We publish this information internally every year so our people can be confident of this.

We are highly mindful of gender and pay during our recruitment, talent and performance review processes. We have received the Gender tick, which replaces the Pay Compaq accreditation, in 2021.

Honouring our Māori heritage and building capability

We have continued our journey to better reflect Māori heritage, culture and identity at Z. Z believes we cannot respect and be genuinely inclusive of all cultures and heritages if we don't cherish and reflect our own distinct Māori heritage first.

Our Te Ao Māori plan is centred around embracing Te Ao Māori as part of strengthening the diversity, inclusion and capability of every person at Z. We have focused on weaving Māori tikanga into our formal rituals in a way that is authentic and respectful and are seeing increasing levels of comfort at using Te Reo across our company for all kinds of occasions and circumstances.

We piloted Te Reo night classes and held Te Kaa workshops in which participants learned about Māori culture with the intention of helping bring Te Ao Māori to life at Z. We continued our partnership with TupuToa in which pathways into working careers are provided through internships for Māori and Pasifika youth.

Five percent of the Z team in our offices identify as Māori. We are committed to increasing this representation and welcome particularly high levels of engagement from Māori, particularly in relation to inclusion.

We also foster diversity through being genuinely inclusive of other cultures in our day-to-day routines, including celebrating major cultural events including Lunar New Year and Diwali.

Leadership and capability

Diversity of capability is also a focus for how we start our next phase of strategy at Z. Almost every person in Z has now experienced training in the philosophy and application of CX, and we continue to invest in building our capability to innovate and change quickly, and digital capability is now rapidly growing across the business.

At Z, we view everyone as a leader. We have recently launched a new leadership framework setting out the expectations we have for our people, which is focused on three core principles: connect, take action, and learn. Leadership matters for our people, customers and our investors and using these simple principles are critical to harnessing and developing our emerging capabilities.

We are also reviewing our approach to remuneration to more tightly focus reward on company performance and the creation of shareholder value.

We will report on this process in next year's report.

As Simon Sinek says, customers will never love a company until the employees love it first. We agree.

Engagement

A tough year in which we haven't hit our financial targets and in which we transition to a new phase of strategy and way of working is a test for engagement and culture.

Using the Peakon engagement measuring tool, we now monitor staff engagement via online monthly surveys as opposed to an annual survey. We are now able to act on real-time staff feedback in the same way as we monitor our customer experience. Bringing together the way we measure both of these measures will ultimately enhance our customers' experience.

Participation in these surveys sits at a solid 79 percent. Our current employee net promoter (eNPS) scores are consistently meeting or exceeding our overall targets. Currently we are delivering an eNPS of +36 – an all-time high – against a target of +21 and the prior year of 17.

Celebrating Z's Rainbow community

One of the things we perhaps wish we'd done earlier, is achieve the Rainbow Tick, which we received in 2018. This accreditation is a source of huge pride across the Z team and is a key part of building a culture in which all people are safe, included and free to express themselves.

We are currently developing a gender transitioning policy to support our commitment to the diverse Rainbow community. We will report on this next year. We welcome the increasing trust placed in Z as an employer by the Rainbow community and pledge to continue to earn it.

Haumarutanga me te hauora

Safety and wellbeing

Reviewing our safety stand

Z has talked about Health, Safety, Security and the Environment (HSSE) since the company was formed in 2010, when it was a brand new offspring of a global oil company.

When engaging people on matters as critical to Z's business as safety, language matters: 'Health, Safety, Security and the Environment' was a mouthful. People didn't fully understand what it meant and the term had become a barrier to the emotional connection essential to building a generative safety culture.

As Z has changed and made steady progress towards a generative safety culture, we needed to find a new way to reconnect the principles and commitments behind our HSSE stand with a more diverse workforce – age, gender, backgrounds, experiences and personal priorities.

We needed to overhaul this foundational stand upon which everything we do is anchored.

The word 'safety' was non-negotiable. As the country's largest fuel company, we must continue to explicitly, directly and consistently focus on safety and our performance and measurement of it. But we needed to better acknowledge the relationship between personal wellbeing, including mental health, and safety outcomes.

So we chose to drop the terms 'security' and 'environment' from our stand: 'security' was poorly understood and our environmental aspirations are well covered in a separate stand. We now stand for Safety and Wellbeing. It's simple, and easy to understand with more room for personal connection. It's more inclusive and more real for our team and enables us to start to measure more, not less.

Integrating safety, risk and strategy

Over the year, we reorganised Z's Safety and Wellbeing, Risk and Assurance, Environmental Sustainability, and Strategy functions, bringing them together in a new integrated team. These functions are all inter-related and having them work tightly together is important in ensuring greater integration and focus across them.

In the third quarter, we also reorganised the new Safety and Wellbeing function to ensure it is fit for purpose as the organisational capability in this area continues to increase. Z continues to make solid progress towards our goal of building a generative safety culture in which accountability for safety is devolved across every person in the organisation.

Ongoing investment in safety systems, processes, capabilities

As Z transitions in terms of who we are and how we operate, we're continuing to invest in our safety systems and processes. Things are always going to go wrong from time to time, because humans are fallible. But when we do fail, we're failing 'safer'.

Our systems are delivering levels of redundancy in operational safety or, put another way, we have more slices of cheese in the Swiss cheese model making it harder and harder for all the holes to line up. By way of example, we introduced an industry-first 'ship-to-shore' valve shutoff programme at port terminals to further reduce the risk of bulk tanks being overfilled during ship discharges. This initiative has already proved its value.

Over the year, we've introduced telemetric monitoring in all company vehicles, introduced a new driver training programme, introduced new fatigue management plans for all bulk fuel storage terminals and implemented new Environmental Risk Management and Emergency Management plans for our bulk fuel terminals. We've adopted a new 'permit to work' system covering all high-risk work on Z sites.

Z's Operational Risk Management System

Z's Operational Risk Management System (ZORM) is fully implemented and embedded across the business to manage safety and wellbeing risks. This system is vitally important in enabling Z to meet its responsibilities as a Person Conducting a Business or Undertaking (PCBU) under New Zealand Law.

ZORM is certified to ISO45001 and is confirmed by independent audit.

4.1 million
Number of hours worked (Z employees, retail sites, Mini Tankers)
FY19: 4.1 million

Zero
Work-related fatalities
FY19: Zero

3,255 tonnes
Hazardous waste disposal

▲ 600%
6
Number of spills (loss of containment)
FY19: Zero

We now stand for Safety and Wellbeing. It's simple and easy to understand with more room for personal connection.

▲ 100%
2
Motor vehicle incidents
FY19: 1

▲ 100%
1
Tier 1 and Tier 2 process safety incidents
FY19: Zero

Main types of work-related injury: slips and trips
FY19: Manual handling, slips and trips

▼ 70%
1.33

Total recordable case frequency	FY19: 1.84	
Z employees:	FY19: 0.48	FY20: 0.48
Retailers and Mini-Tankers franchisees:	FY19: 1.56	FY20: 1.56

▼ 80%
1.18

Lost time injury frequency*	FY19: 1.44	
Z employees:	FY19: 0.24	FY20: 0.24
Retailers and Mini-Tankers franchisees:	FY19: 1.43	FY20: 1.43

* TCRF and LTIF are based on 200,000 hours worked.

Z has committed to providing leadership and a high level of health and wellbeing support for its people as New Zealand entered the COVID-19 lockdown and State of Emergency in the last week of Z's financial year.

Protecting the health of the Z team

Protecting physical safety and avoiding harm to our people and communities through robust risk management processes is critically important at Z. So too is ensuring our people's access to a range of other broader medical and wellbeing support services and processes – including outside of the workplace.

These initiatives include free influenza vaccines, anonymous Employee Assistance Programme counselling support for staff and their families, free mole map skin cancer checks and the ability to anonymously report wellbeing concerns through frequent staff surveys via the Peakon engagement tool. Additionally, Z has a range of policies, processes and reporting tools to protect staff from bullying, harassment, workplace stress and fatigue.

Z acknowledges that running a safe, secure operation requires employees to be at their best and has built its ZORM system and its policies and procedures to support the overall wellbeing of its team.

Z staff participate in the New Zealand Workplace Barometer survey to provide broader benchmarking and external reference points on workplace safety and wellbeing performance.

Wellbeing through COVID-19

Z has committed to providing leadership and a high level of health and wellbeing support for its people as New Zealand entered the COVID-19 lockdown and State of Emergency in the last week of Z's financial year.

While protecting the health and wellbeing of its people, Z seeks to come out of the pandemic having learned more about effectively managing health, wellbeing and organisational resilience.

Z has made a huge amount of information and resources available to its people during the early stages of the COVID-19 outbreak in New Zealand, including subject matter experts. Materials and staff sessions have focused on stress management, mental wellbeing, why isolation matters, safe working practices and the use of PPE.

We have also worked to ensure the sense of connection that is important to Z's people is protected through the ways we work while working remotely.

Managing psychosocial risks

Over FY20, Z trialled a new wellness reporting tool as part of an experiment to assess whether a confidential/anonymous approach would promote better psychosocial risk reporting.

A Mini-Tankers programme has started in two areas: addressing fatigue work-risk factors directly, such as shift scheduling and workload; and improving leadership and worker engagement practices. Fatigue management improvements have been made within the Bulk Fuels team. The anonymous reporting of fatigue related incidents and events is being trialled at our Terminals with some early success.

1.92%

Absenteeism rate

FY19: 1.36%

Bringing safety into the digital age

As we build our strategy around new capabilities, we are using new skills to make some of our core safety processes more effective and efficient.

The bulk of safety incidents occur in retail service stations: Minor spills, near misses, trips and falls, and threatening and abusive behaviour from customers. Logging each incident has been a constant pain point for our Retail team, requiring them to log on to a computer system and manually input data and detail or, even worse, to manually record incidents on paper and fax them. It's slow, inefficient, and acts as a deterrent to accurate safety reporting. Any deterrent to accurate reporting must be addressed because if we don't have data, we can't act on it.

So we found a better way. Using the Agile approach and our digital capabilities, we built a new incident reporting app for our frontline Retail teams. It's immediate, intuitive and easy and our teams love it. It stops staff from having to 'save up' incidents and dedicate time at the end of the day to record them. Using the app enables fresh insights to be immediately recorded and shared, including between sites. It uses simple images where possible and is transforming the safety data we receive from sites.

As a result of the introduction of digital technology to incident reporting, we have noticed the following things: Productivity at sites is up as a result of an eight-minute time saving per incident report, the CX is up, site staff are happier and incident reporting is up by 50 percent.

We are now fully digitising Z's Operational and Enterprise Risk Management Frameworks and integrating all risk management practices into a single piece of software. We expect significant improvements in efficiency and risk management outcomes and will report on this next year.

Bringing robberies down

The biggest direct safety risk our Retail site teams face is that of robbery. This has been a massive challenge for Z over the last five years and we have invested heavily in training, technology and infrastructure to deter robberies and keep our staff safe.

While there is no place whatsoever for complacency, and zero robberies being the only target, we've made progress towards that goal. From a peak of 23 robberies per year in FY17 and FY18, we closed FY20 with 14, and in all but two of these robberies, staff were able to make it safely to a secure room.

In an environment where the steadily increasing price of tobacco products continues to generate risk. We are committed to continuing to invest in and develop innovative solutions to keep our people safe.

14

Robberies

FY19: 14

Te Poari Whakahaere

Corporate governance statement

Introduction

As an organisation with inherent risks across all of its operations, and that makes such a material contribution to the national economy, we set high standards of corporate governance at Z. Our customers, shareholders and our investors deserve this. We take this really seriously.

It is a privilege to represent Z as its directors – particularly at this stage in our evolution when our operating context is changing rapidly. We stand for ensuring safe, reliable operations, reliable returns for shareholders and for positioning our company to succeed under a range of future scenarios.

We are committed to reporting to high standards, particularly against those issues that are most material. Our adoption of the Task Force on Climate-related Financial Disclosures (TCFD) framework reflects not only this commitment, but our commitment to responding to the challenge of climate change in an integrated way at the Board table. As a core function of the Board, we now actively and deliberately consider the risks of a changing climate to our operations, our assets, the national economy and the communities of which we are all a part.

This part of the report seeks to go well beyond a compliance exercise, which is why we are publishing it in its entirety in this annual report. How our company is governed, how decisions are made and how risks are managed is a critical part of the Z story.

This corporate governance statement seeks to illustrate how, as a Board, we engage with challenging issues and seek a diverse range of perspectives to inform our thinking, decision making and risk management. It provides insight into what, as directors, we actually do and why.

It also seeks to establish a dialogue. Z's management is highly accessible and our Board is too. If any readers of this report want to engage with the Z Board on any matters, including to provide feedback or suggestions on this report, we welcome you getting in touch.

Our Board

1 2 3 4 5 6 7

The Z Board and how we recruit

In order to build a sustainable company, particularly during a period of structural industry change, we must be disciplined around identifying the diversity of specific skills and experience the Board needs and taking action to ensure we have them.

Over the year, we welcomed Mark Malpass to the Z Board. Mark's appointment demonstrates the Board's approach to seeking the right combination of skills to build a balanced Board.

Mark brings extensive experience in the fuels industry to Z. He has previously been a director of Waitomo Fuels and Refining NZ and was a former Managing Director at Mobil Oil NZ. He also brings extensive experience in the construction and infrastructure fields to Z, with a background in roles at Steel and Tube, Fletcher Building and Fulton Hogan.

Mark has no conflicts of interest and will seek shareholder confirmation of the appointment by election at Z's Annual Shareholder Meeting in June 2020.

Z Directors (as pictured above)

1. **Steve Reindler** joined 1 May 2017
2. **Mark Malpass** joined 30 October 2019
3. **Abby Foote** joined 15 May 2013
4. **Blair O'Keeffe** joined 1 August 2018
5. **Mark Cross** joined 28 August 2015
6. **Alan Dunn** joined 2 April 2010, leaves 30 April 2020
7. **Julia Raue** joined 15 February 2016

Flick Directors

- **Marcel van den Assum** (Chair)
- **Matthew Todd**
- **Lindis Jones**
- **Amelia ("Aimee") McCammon**
- **Scott Bishop**
- **Aaron Snodgrass** (alternate for Matthew Todd)

How we appoint the board

"Boards are basically a black box, and it would be great to know what they actually do".

Taking into account our operating context, market dynamics and our strategy, we then identify the skills we need. Where there is a gap, we seek to fill those gaps either through appointment of the right skills or gaining those skills through learning and personal development.

Over the last two years, the Board focused on ensuring it had the right skills around effective capital management, including dividend policy and the company's commitments to deleveraging its balance sheet and filling the skills gaps around the fuels industry and infrastructure management that were created following the departure of former Chair Peter Griffiths.

The commitment to ensuring core industry experience led to the appointment of both Mark Malpass and Blair O'Keeffe. The Board acknowledges that ensuring continued industry experience meant the Board was unable to advance further towards its goal of gender balance in FY20. The Board, however, remains committed to ensuring a balanced and diverse Board.

Over FY21, the Board will continue to focus on closing the skills gap in data and customer experience, as per the following skills matrix.

As you can see in the matrix, the areas of Customer Insight, Data and Brand as well as Digitisation are areas of focus for future Board succession as well as areas of ongoing Board learning and development.

Sustainability and Clean Energy remains an area of focus in which the Board would like greater capabilities.

It's worth noting that Z has been seeking an appropriately skilled and qualified new director with skills in digital technology, data and customer experience since June 2019. The market is incredibly tight for people with these skills and experience, and we continue the search.

The Z Board also measures itself on how diverse we are as a group, using a 'Diversity of Thought' measurement tool. Using this tool, we map the diversity of both the Board and Z Executive team so we fully understand how we think and work together and so we can be highly strategic in the recruitment processes for each group.

Board Committee membership

The Z Board makes use of a number of Committees to ensure a clear focus on particular areas of the business. The following section references these Committees at various points and the table under Principle 2, requirement 2.4 outlines membership of Z's Board Committees as at the end of FY20.

So, what have we been doing?

A few years ago, one of Z's biggest institutional shareholders shared their observation with us that generally, "Boards are basically a black box, and it would be great to know what they actually do".

It's a simple statement, but if one of New Zealand's biggest investors finds it hard to work out what boards actually do, then chances are companies can do a better job of telling people.

We've taken this feedback on board and, every year, we try to provide our investors and stakeholders with more colour and context around what we actually do and why we do it. Over the course of FY20, we broke the Board's programme of activity into three groupings: Business performance; staying one step ahead/looking for external views; and testing existing structures and approaches. These three groupings highlight where our focus and our work has been, what we've been doing beyond the traditional Board meetings and, perhaps most importantly, they provide insight into what the Board and management focus on and think hard about.

Directors' skills matrix as at 31 March 2020

Strategic context aligned to Director capability		Number of Directors with high and moderate capability	Sufficient capability	Focus for future succession	Area of ongoing Board learning
Creating value for investors by focusing on a safe and profitable core fuel business	**Strategic knowledge for scale oil** Brings extensive experience in the fuels industry with an emphasis on integrated downstream oil.	●●○	✓		
	Operating model transformation – balancing legacy and growth Former CEO, ideally brings large scale turnaround experience in an entity that has gone through significant change.	●●○○○○	✓		
	Heavy industry business (or similar) Extensive experience in engineering, construction and infrastructure and/or transport and logistics.	●●●○	✓		
	Finance and capital markets Former CFO or senior executive with extensive knowledge of financial strategy, cost optimisation and commercial acumen.	●●○○○	✓		
Delivering outstanding customer experiences while positioning ourselves for future disruption	**Retail transformation** Deep understanding of the retail business including value chain, customer experience transformation, supply and distribution.	●●○○	✓		✓
	Customer insight, data, and brand Brings extensive capability in customer innovation, brand and systems including data driven marketing.	●○○		✓	✓
	Digitisation – back office and field Application of digital technology in physical retail. Expertise in customer-based app development and internet of things.	●○○		✓	✓
Remaining a people and values-based company committed to future generations	**Listed company governance** Experience driving best practice in corporate governance, regulation, risk and compliance, and ESG.	●●●●○○	✓		
	HSE (Health and safety) Experience in workplace health and safety including knowledge of legal obligations and regulations.	●●●○○	✓		
	Sustainability and clean green energy Sustainability strategies to limit environmental impact including experience with alternative energy sources.	●○			✓

Key

● High Capability ○ Moderate Capability

Over the year, Z's Board and management came together to conduct a broad-ranging review of Z's operations, business activities, financial performance by business units, and the company's capital and cost bases.

Business performance

Missing initial earnings guidance by $104 million from the original mid-point of guidance for FY20 has caused the Board's focus over the year to be squarely on assuring itself as to Z's strategy and ability to execute it.

It has become clear that changes in the industry – particularly strong increases in competitive pressures from multiple new entrants and reduced fuel margins – are structural and will be here for some time.

In response to a changing context, Z has significant strategic choices available to it. We have developed these choices over time and we review them periodically. Over the year, Z's Board and management came together to conduct a broad-ranging review of Z's operations, business activities, financial performance by business units, and the company's capital and cost bases.

In October 2019, the Z Board and its committees conducted a two-day 'deep dive' session to test Z's strategy against performance and capability. This review was supplemented by a management review from the Z Assurance function on the development, execution and measurement of Z's strategy.

As a result of all of this work, a 'management strategy action plan' was developed that focused on prioritising the allocation of resources and accurate measurement of strategy initiatives. One of the outcomes of this work was the introduction of competitive resource allocation inside Z to ensure resources directly support strategy.

The Board has now completed its review and has made decisions based on it. We have satisfied ourselves that Z's strategy is appropriate for our current context and that gaps in capability and execution have either been closed or have clear action plans in place to quickly close those gaps.

In particular, the Board acknowledges that investments into new activities, such as the Flick business, have not been executed effectively. The Board has agreed to significantly tighten its approach to any future investments in adjacent businesses, operations or industries.

The focus areas requiring Board decisions are around ensuring Z's cost base reduces appropriately for a markedly different operating environment, that Z's capital structure continues to reduce risk and reward investors, and whether or not discreet business units within the Z business are performing adequately.

The Board and management are aligned on the requirement for each part of Z's business to be performing financially. Where we are not satisfied on such performance, we will look to divest certain operations and we will be monitoring performance against this standard.

Staying one step ahead/looking for external views

One of the Board's skills gaps highlighted in the FY19 annual report was in the area of clean energy and sustainability. Over FY20, we were active in building our capability in this area, and for very good reason.

In our industry, we must continue to evolve and innovate as the world around us moves ever more rapidly around issues of carbon emissions and climate change. Over the year, not only did the New Zealand Government pass a Zero Carbon Bill and introduce an independent Climate Change Commission but it also announced a ban on default KiwiSaver providers from investing in fossil fuel producers. At the time of preparing this report, we're not yet clear on how this will be applied but, regardless, the capital markets have also started to move to limit investment in fossil fuel producers.

In January 2020, BlackRock, the world's largest asset manager with approximately US$7.4 trillion of assets under management, wrote to CEOs linking climate risk with the way fund managers think about investment risk and noting that BlackRock would:

"... place sustainability at the center of our investment approach, including: making sustainability integral to portfolio construction and risk management; exiting investments that present a high sustainability-related risk, such as thermal coal producers; launching new investment products that screen fossil fuels; and strengthening our commitment to sustainability and transparency in our investment stewardship activities".

This is a perspective the Z Board is highly cognisant of. We share the view that investor concern around climate change is a structural change in the capital markets that is not going away. It is now a critical part of our operating context which we must reflect in the Board's decision making and capabilities.

In service of building our own capabilities and generating conversation and debate around climate issues, over FY20, the Z Board sponsored two significant international climate change experts to New Zealand: Michael Liebreich, a clean energy and automation expert and advocate, and Professor Will Steffen, scientist and Climate Councillor at the Climate Council of Australia.

The Board used these visits to learn a great deal about international climate change and climate policy, as well as the future of clean energy and the possibility of developing a low carbon global economy.

These guests not only spent time with the Z Board, but spoke with Z staff, held public talks and engaged with a range of Z's external stakeholders, including with Government.

The global perspective these guests provided, particularly around the transition to a low carbon economy, was particularly helpful to the Board. These visits ensured all of the Board have a very clear, consistent understanding of global climate and energy-related challenges and opportunities.

More detail on these visits is contained in Principle 2.6 below.

As part of ensuring the Z Board is a step ahead and actively engaged with the latest thinking and developments, the Board also invited Rob Everett, the Chief Executive of the Financial Markets Authority, to speak with the Board around corporate governance.

Rob's presentation was based around an article he has previously published titled 'the Death of the Milton Friedman model'. You can find copies of speeches Rob has made on this subject on the FMA website, but the essence of the presentation and the ensuing conversation was around the evolving roles of Boards and the changing nature of corporate governance, away from a singular focus on maximising shareholder returns at all costs to a broader focus on stakeholder engagement and providing leadership on issues such as climate change and social issues.

The most consistent and frequent engagement the Z Board and management has is with the owners of the company – our shareholders.

Z's directors are the shareholders' representatives and both the Board and management seek to engage frequently and constructively with shareholders. From daily phone conversations with institutional investors, to streaming results presentations, to international investor roadshows, to annual meetings that encourage retail investor participation, to face-to-face meetings, Z actively encourages engagement with shareholders.

Typically our retail and institutional shareholders hold shares in other companies and the conversations we have with them almost always give us cause to consider and to learn.

It is important, particularly for institutional investors, that they can speak directly with a company's directors, separate from management, and we facilitate this on an annual basis with the Z Chair and institutional investors.

Testing existing structures and approaches

One of the areas of focus for the Z Board over FY20 was to challenge ourselves against best practice governance, examining what we do as a Board and how we are preparing for the future.

There was no shortage of external material to prompt the right conversations and challenges around governance best practice over the FY20 year. The Z Board took the opportunities to dive deeply into the issues raised in these reports and to reflect on how and where it can continue to improve its governance of Z and management of risk.

We held structured 'deep dive' Board conversations around the changing role of governance and used current developments in the broader markets to challenge our own thinking and approaches. In particular, the Z Board used the Australian 'Hayne' Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry alongside the Australian Securities and Investment Commission's October 2019 Corporate Governance Taskforce's report into governance oversight of non-financial risk, and the New Zealand Institute of Directors' Report *'Always on duty – the Future Board'* to drive conversations around best practice governance at Z, particularly around risk management.

The corporate governance and management failings identified in the Hayne Royal Commission have been extensively covered in the media. However, so clear were these failings that they provided the Z Board with important opportunities to reflect on our own performance, including the rigour with which we interact with management and our approach to risk management.

The Institute of Directors' *'Always on duty'* report also provided significant opportunity to reflect not only on the current Z governance function, but how it will need to evolve.

It makes the following comment, which gives some indication as to the conversations the report generated around the Z Board table and some of the activities that have already been covered in this section:

Boards should "embrace an activist mindset and seek third-party data about future business, talent, revenue models and transformation opportunities. This data will help the board constructively challenge biases, identify blind spots and unknown unknowns, and bring an objective perspective and new ideas to the strategic planning process" [source: EY – Top priorities for Boards 2019).

The report noted that the top five risks in the World Economic Forum's 2019 Global Risks Report are now completely different than from a decade ago, highlighting the need for continuous director learning, education and succession.

The report also covered the importance of trust and transparency, the importance of a clear purpose, rapidly evolving technology and increasing levels of Board accountability and responsibility. It noted that the traditional model of Board meetings has not evolved significantly over the last 50 years, and made a number of recommendations which Z is actively working to implement, particularly around management's reporting to the Board.

The following section steps through how Z is complying with the principles set out in the NZX Corporate Governance Code.

Our Executive Team

Mandy Simpson
Chief Digital Officer
Joined 19 February 2019

Nicolas Williams
General Manager, Commercial
Joined 7 June 2011

David Binnie
General Manager, Supply
Joined 8 September 2014

Helen Sedcole
Chief People Officer
Joined 29 January 2018

Lindis Jones
Chief Financial Officer
Joined 10 May 2010

Mike Bennetts
Chief Executive Officer
Joined 1 April 2010

Debra Blackett
General Counsel and Chief Governance Officer
Joined 2 June 2015

Julian Hughes
General Manager, Strategy and Risk
Joined 16 February 2015

Jane Anthony
Chief Customer Officer
Joined 1 April 2010

Andy Baird
General Manager Retail
Joined 1 April 2019

The NZX Corporate Governance Principles

The NZX Corporate Governance Code was launched in 2017 and covers eight principles that issuers are 'encouraged' to adopt. According to the NZX, these principles seek to "reflect internationally accepted corporate governance practices, which are intended to protect the interests of and provide long-term value to shareholders while also seeking to reduce the cost of capital for issuers".

The Z Board seeks to go well beyond these eight principles in its disclosure and reporting to shareholders and stakeholders. While much of this content has been covered elsewhere in this report, we also report briefly against each principle for completeness and to provide summary compliance information for those that seek it.

How we meet these conditions

Over FY20, Z has complied with the NZX Corporate Governance Code.

During the period, no significant fine or monetary sanction has been imposed against Z by any government authority. Nor has Z been made aware that it had broken any material law.

Z is not aware of any non-compliance with environmental laws and/or regulations.

Over the period, Z's Board approved changes to Z's Market Disclosure Policy and Constitution in April 2019, effective 1 July 2019, following endorsement by shareholders at the 20 June 2019 ASM. These changes were made to ensure full compliance with changes to the NZX Listing Rules. The Listing Rule changes relevant to Z include ensuring that directors stand for re-election every three years, changing the name of the updated NZX Rules and minor wording and numbering changes.

Effective 30 October 2019, Mark Malpass was appointed as a new independent director. Mark has no conflicts of interest and will seek shareholder confirmation of the appointment by election at Z's ASM in June 2020. More information on the skills Mark brings to Z is contained on page 81.

No NZX Board waivers were sought over the period.

The following section refers frequently to Z Board Charters and the charters for Board Committees, as well as codes, policies and other core corporate documents. All of these documents can be found in the Corporate Governance section of the Z Energy Investor Centre at https://investors.z.co.nz/corporate-governance/governance-overview

The following section steps through how Z is complying with the principles set out in the NZX Corporate Governance Code.

PRINCIPLE 1 CODE OF ETHICAL BEHAVIOUR:

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

Z has a clearly articulated Code of Conduct, which is one of Z's foundation documents. This is our code of ethical behaviour, but it goes well beyond ethics.

It sets clear standards of ethical and appropriate behaviour. All staff, including directors and the leadership of Z, are expected to hold each other to account for the standards set in this document.

Our Code of Conduct can be found in the Corporate Governance section of the Z Energy Investor Centre at https://investors.z.co.nz/corporate-governance/governance-overview

1.1 – The board should document minimum standards of ethical behaviour to which the issuer's directors and employees should adhere to (a code of ethics).

The Code of Conduct also applies to secondees, contractors, consultants, 100 percent-owned subsidiaries and all directors, which we define as "Z People".

The Code outlines Z's values, our policies, the responsibilities of Z as the employer and those of all individual line managers of people.

The Code also sets out Z's obligations to our neighbourhoods; stakeholders and Government; and contractors and suppliers. Additionally, the Code outlines some of our obligations related to financial reporting, commercial conduct, and company assets, information and equipment.

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

It indicates the expectations of all Z people in relation to conflicts of interest, acceptance of gifts, bribery and corruption, and confidentiality. All Z people are provided with training and become familiar with the Code when starting at Z. All Z people are expected to adhere to the Code of Conduct. It is a condition of entering Z's employment.

In April 2019, partially in response to the issues raised by the #metoo movement, the Board approved and adopted an updated Discrimination, Bullying and Harassment Policy. This policy adds informal processes to existing formal processes, allowing issues to be raised by third parties rather than just the complainant. The policy clarifies what bullying and harassment is and is not (ensuring no unintended consequences where legitimate performance processes are followed). The use of social media and any other form of cyber bullying discrimination or harassment is clearly covered, and prevention is emphasised.

1.2 – An issuer should have a financial product dealing policy which applies to all employees and directors.

Z's Board and management are committed to the integrity of financial markets and to ensuring compliance with all the regulatory market requirements upon it.

Z's Insider Trading Policy is a critical part of this commitment. The Policy aims to ensure that every member of the Z team is aware of their obligations and legal requirements in relation to the trading in Z securities. The Policy applies to all directors, officers, employees and contractors to Z who intend to deal in Z Restricted Securities.

The Insider Trading Policy can be found in the Corporate Governance section of the Z Energy Investor Centre at https://investors.z.co.nz/corporate-governance/governance-overview

How we appoint the board

PRINCIPLE 2 BOARD COMPOSITION AND PERFORMANCE:

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

The Z Board seeks to ensure it is balanced with a diverse and complementary set of skills, backgrounds, experience and thinking, The Board makes appointments using a rigorous process, and partners in international director recruitment, to ensure the right skills are on the Z Board and that it actively manages Board succession.

The Board seeks to provide high-quality governance on behalf of shareholders and stakeholders and places a high value on its performance. It reviews and assesses its own performance thoroughly and regularly using independent processes and personnel.

2.1 – The board of an issuer should operate under a written charter which sets out the roles and responsibilities of the board. The board charter should clearly distinguish and disclose the respective roles and responsibilities of the board and management.

Z's Board operates under a written Charter. Z's Board Charter sets out how the Board exercises and discharge its powers and responsibilities in relation to Z's business and affairs. The Charter sets out the role, composition, responsibilities and duties, procedures, powers and authority, and review and accountability of the Board, the Chief Executive Officer and the Executive team.

This Charter is important in clarifying the functions of governance and management. It enables general Board oversight, including of management's implementation of Z's strategic objectives and performance.

The Charter can be found in the Corporate Governance section of the Z Energy Investor Centre at https://investors.z.co.nz/corporate-governance/governance-overview

2.2 – Every issuer should have a procedure for the nomination and appointment of directors to the board.

Z's Board Charter describes the procedure for nomination of potential candidates for appointment as directors.

Potential candidates are recommended by Z's People and Culture Committee following consultation with external recruiters and are then considered by the Board.

A candidate must demonstrate appropriate qualities and experience, be able to commit the time needed to their role and meet certification requirements of the NZX and ASX. They must be free of conflicts of interest.

Assessments of overall Board diversity and thinking styles, including the fit of potential new directors is an integral part of this process.

The Board maintains a live skills matrix which records the mix of experience and expertise of the current Board and the future strategy and business needs to be considered for future appointments. For more information on this skills matrix, see page 83.

Directors are appointed depending on the specific needs of the Board at the time of appointment. Their independence, qualifications, skills and experience are all actively considered and reviewed.

All new directors must undergo induction, familiarise themselves with the Z Board Charter, charters of the Z Board Committees and other key governance policies and documents. Directors are also expected to continuously educate themselves to effectively perform their role.

The Charter can be found in the Corporate Governance section of the Z Energy Investor Centre at https://investors.z.co.nz/corporate-governance/governance-overview

2.3 – An issuer should enter into written agreements with each newly appointed director establishing the terms of their appointment.

Z enters into written agreements with all new directors. These agreements establish the terms and conditions of their appointment, including compliance with the Z Constitution, the Board and Committee Charters, and Board policies.

2.3 – (continued)

Directors also undergo a structured induction and training process which includes an introduction to Z's foundation document, the "Z Why", and one-to-one engagement with each of the CEO and executive team.

Z currently has seven directors and typically manages the number of directors between six and eight. While eight is a maximum under the constitution, Z's Board will occasionally stretch to eight for short periods of time to ensure a handover period at times between experienced directors who are leaving the Board, and new directors coming on.

While there is no formal requirement around maximum director tenure, Z actively monitors this and plans for succession. Z is very mindful around directors 'staying for too long' and seeks a mix of levels of experience across the Board to ensure the right balance between fresh thinking and strong industry knowledge and experience.

2.4 – Every issuer should disclose information about each director in its annual report or on its website, including a profile of experience, length of service, independence and ownership interests and director attendance at board meetings.

There are currently seven directors that serve on the Z Board. There are no non-executive directors on the board. Z has never had any non-executive directors.

There are currently two women on the Board, one of whom is Chair of the Board, the other is Chair of the People and Culture Committee.

Board profiles can be found in the Corporate Governance section of the Z Energy Investor Centre https://investors.z.co.nz/corporate-governance/board-of-directors

For details on directors' interests in shares and bonds, see page 118.

Attendance at board meetings

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

Director	Board meetings	ARC	PCC	HSSEC
Total number of meetings held	**7**	**4**	**4**	**6**
Peter Griffiths*	2/2	-	-	1/1
Alan Dunn	7/7	-	4/4	6/6
Abby Foote	7/7	3/3**	-	6/6
Mark Cross	7/7	4/4	-	6/6
Julia Raue***	6/7	-	3/4	4/6
Stephen Reindler	7/7	4/4	-	6/6
Blair O'Keeffe	7/7	-	4/4	5/6
Mark Malpass****	3/3	1/1	-	2/2

* Peter Griffiths retired from Z's board on 2 May 2019.
** Abby retired from ARC on appointment of Mark Malpass on 30 October 2019.
*** Julia had an approved absence from three meetings (Board and two Committees) due to the death of her mother. The other committee absence was a clash with another board the Chair was aware of in advance.
**** Mark Malpass joined Z's board on 30 October 2019.

Please refer to the Director remuneration table on page 104 for more information on Board and Board Committee membership.

The standard deviation of director age is 7.26 years.

PRINCIPLE 2 BOARD COMPOSITION AND PERFORMANCE: (continued)

2.4 – (continued)

Other Z subsidiary directors

Z Subsidiary	Names of Directors
Z Energy LTI Trustee Limited	Ben Rodgers
	Julia Raue
	Alan Dunn (retired 29 October 2019)
Z Energy ESPP Limited	Ben Rodgers
	Julia Raue
	Alan Dunn (retired 29 October 2019)
Z Energy 2015 Limited	Abby Foote
	Mark Cross
	Mark Malpass
	Julia Raue
	Stephen Reindler
	Blair O'Keeffe
	Peter Griffiths (retired 2 May 2019)

2.5 – An issuer should have a written diversity policy which includes requirements for the board or relevant committee of the board to set measurable objectives for achieving diversity (which, at a minimum, should address gender diversity) and to assess annually both the objectives and the entity's progress in achieving them. The issuer should disclose the policy or a summary of it.

Z is committed to a culture that promotes and values diversity and inclusiveness within a meritocracy. This is reflected in our Diversity policy which applies to all Z people and sets out processes for annual review of the organisation's performance against the policy and how it will be measured. Please refer to pages 68-73 for more information on Z's commitments in the Diversity and Inclusion space. Z's Diversity and Inclusion policy can be read here: https://investors.z.co.nz/corporate-governance/governance-overview

Total number of employees by employment contract (permanent and temporary) by gender.

Employee Type	Female	Male	Non Binary/ Not Disclosed	Total
Permanent	181	314	2	486
Fixed Term	10	13	1	35

Total number of employees by employment contract (permanent and temporary), by region.

Region	Female	Male	Non Binary/ Not Disclosed	Total
Auckland	40	79	0	119
Canterbury	2	45	0	47
Otago	1	3	0	4
Mini-Tankers Driver	0	10	1	11
Bay of Plenty	2	9	0	11
Hawkes Bay	0	3	0	3
Nelson	1	9	0	10
Wellington	144	162	2	308
Home Office	1	7	0	8

Total number of employees by employment type (full-time and part-time), by gender.

Employee Type	Female	Male	Non Binary/ Not Disclosed	Total
Full Time	157	323	3	483
Part Time	24	3	0	27
On Parental Leave	10	1	0	11

2.5 – (continued)

Gender pay ratios

The ratios of female to male average pay for Z's permanent employees at 31 March 2020 are set out below.

Significant locations of operation are those regions where at least 20 males and females are employed.

Ratio of basic salary and remuneration of women to men.

By significant location of operation	Wellington	Auckland
Average base salary woman to man	0.86:1	0.92:1
Pay gap	14%	8%

Ratio of basic salary and remuneration of women to men for each employee category

By role	Wellington	Auckland
Leader of Self	0.92:1	0.99:1
Senior Leader	0.9:1	0.79:1
People Leader	0.91:1	1.12:1
Exec	0.65:1	n/a

The age groups of Z's permanent employees and Board at 31 March 2020.

Age	% Employees	% Board
Under 30 years	15%	0%
30–50 years	62%	29%
Above 50 years	23%	71%

The ethnicities of Z's permanent employees and Board at 31 March 2020.

Ethnicity	% Employees	% Board
NZ European/Pakeha	60%	100%
European	13%	0%
Asian (including Indian and Pakistan)	14%	0%
Other Ethnicity	3%	0%
Information Not Provided	1%	0%
Middle Eastern/Latin American/African	2%	0%
Maori	5%	0%
Pacific Islander	2%	0%

The percentage of Z's permanent employees and Board at 31 March 2020.

Dependents	Number
No	194
Yes	272
Not disclosed	55

PRINCIPLE 2 BOARD COMPOSITION AND PERFORMANCE: (continued)

2.5 – (continued)

Parental Leave

Total number of employees that were entitled to parental leave, by gender.

Female	Male	Non Binary/ Not Disclosed	Total
191	327	3	521

Total number of employees that took parental leave, by gender.

Female	Male	Non Binary/ Not Disclosed	Total
10	4	0	14

Total number of employees that returned to work in the reporting period after parental leave ended, by gender.

Female	Male	Non Binary/ Not Disclosed	Total
11	4	0	15

Total number of employees that returned to work after parental leave ended that were still employed 12 months after their return to work, by gender.

Female	Male	Non Binary/ Not Disclosed	Total
14	1	0	15

Return to work and retention rates of employees that took parental leave, by gender.

	Female	Male	Non Binary/Not Disclosed
Return to work rate	79%	100%	NA
Retention rate	63%	100%	NA

Number of employees by education level

Education Level	Number
Tertiary	301
Post Graduate	112
Secondary	58
None or Unknown	50

Z's capability-led strategy relies on all people developing their capability in Customer Experience (CX), innovation and digitisation. A CX-blended learning pathway is available for all staff, and over 80 percent have completed it so far. We have partnered with Microsoft to imbed Windows 365 and upskill our people in digital capabilities via a scenario-based learning programme.

Z built an Innovation Masterclass which has been completed by over 40 percent of the company, including eight of the executive team. The Masterclass alumni rate is 4.78/5 in terms of satisfaction. Our Masterclass work was recognised with a Silver Pin at the Best Awards (the most recognised design awards in Australasia) in the Value of Design category.

2.5 – (continued)

Z delivers multiple "immersion days" and coaching sessions across the business each quarter to reinforce and build confidence in the new way of work and to accelerate business impact. This includes internal teams and external retail partners.

Z created a Manager of Organisational Learning role in March 2019 with a focus on building the workforce of the future by developing our people. In addition, a Capability Manager role in the Customer Team is focused on CX capability.

Ways of Working (WOW) principles have been developed and implemented, with Z WOW coaches building agile, lean and human capital development capability, alongside 18 employees trained in leading Scaled Agile Framework (SAFe), eight Scrum Masters, eight SAFe Product Owners and 11 employees trained in SAFe for Teams.

Z's delivers training and programmes through online learning modules using SAP's Litmos learning management system.

Z's Leadership Framework has been revised and updated to reflect changing expectations of leadership. Everyone at Z is a Leader, and a Learning and Development programme which supports all employees to develop these skills will be rolled out in FY21.

Blended learning programmes have been tailored for frontline operations staff at Terminals and the Biodiesel plant. Z has partnered with Otago Polytech Edubits to add micro credentials to Terminals training for the Wharf Attendant role, and intends to expand the programme if this is successful.

EAP Services Limited provides career coaching and is available to all staff and their immediate families.

Outplacement and career coaching services are provided by CDL Insight Consulting.

Diversity of governance bodies and employees

Percentage of individuals by gender, age and ethnicity.

	% Employees	% Exec	% Board
Gender			
Female	37%	40%	29%
Male	63%	60%	71%
Non Binary/Not Disclosed	1%	0%	0%
Age Group			
Under 30 years	15%	0%	43%
30–50 Years	62%	50%	57%
Above 50 years	23%	50%	0%
Ethnicity			
NZ European/Pakeha	60%	80%	100%
European	13%	20%	0%
Asian (including Indian and Pakistan)	14%	0%	0%
Other Ethnicity	3%	0%	0%
Information Not Provided	1%	0%	0%
Middle Eastern/Latin American/African	2%	0%	0%
Maori	5%	0%	0%
Pacific Islander	2%	0%	0%

PRINCIPLE 2 BOARD COMPOSITION AND PERFORMANCE: (continued)

2.5 – (continued)

New Employee hires and employee turnover

Total number and rate of new employee hires during the reporting period, by age group, gender and region.

	Number	Rate
Gender		
Female	49	39%
Male	75	60%
Non Binary/Not Disclosed	2	2%
Region		
Auckland	23	18%
Canterbury	3	2%
Otago	1	1%
Mini-Tankers Driver	7	6%
Bay of Plenty	0	0%
Hawkes Bay	1	1%
Nelson	2	2%
Wellington	89	71%
Home Office	0	0%
Age Groups		
Under 30 years	42	33%
30–50 Years	76	60%
Above 50 years	8	6%

Total number and rate of employee turnover during the reporting period, by age group, gender and region.

	Number	Rate
Gender		
Female	43	51%
Male	41	48%
Non Binary/Not Disclosed	1	1%
Region		
Auckland	21	25%
Canterbury	1	1%
Otago	0	0%
Mini-Tankers Driver	2	2%
Bay of Plenty	0	0%
Hawkes Bay	1	1%
Nelson	0	0%
Wellington	60	71%
Home Office	0	0%
Age Groups		
Under 30 years	10	12%
30–50 Years	56	66%
Above 50 years	19	22%

2.5 – (continued)

Information on employees and other workers*

Total number of employees by employment contract (permanent and temporary), by gender.

Employee Type	Female	Male	Non Binary/Not Disclosed	Total
Permanent	181	314	2	486
Fixed Term	10	13	1	35

Total number of employees by employment contract (permanent and temporary), by region.

Region	Female	Male	Non Binary/Not Disclosed	Total
Auckland	40	79	0	119
Canterbury	2	45	0	47
Otago	1	3	0	4
Mini-Tankers Driver	0	10	1	11
Bay of Plenty	2	9	0	11
Hawkes Bay	0	3	0	3
Nelson	1	9	0	10
Wellington	144	162	2	308
Home Office	1	7	0	8

Total number of employees by employment type (full-time and part-time), by gender.

Employee Type	Female	Male	Non Binary/Not Disclosed	Total
Full Time	157	323	3	483
Part Time	24	3	0	27
On Parental Leave	10	1	0	11

***Notes**

1. Seventy nine contractors were engaged in the year, predominantly to provide additional digital capabilities.
2. Variations across the numbers above are due to the operational side of the business, with more males employed in those roles which are predominantly based in regions outside of the main centres.
3. This data has been extracted from Z's payroll system.

PRINCIPLE 2 BOARD COMPOSITION AND PERFORMANCE: (continued)

2.6 – Directors should undertake appropriate training to remain current on how to best perform their duties as directors of an issuer.

Z is committed to the continuous education of the Board. According to the Z Board Charter, all Directors are expected to continuously educate themselves to ensure they have the appropriate expertise to perform their duties effectively. Meetings and briefings are arranged for the Board, involving key management and industry/safety experts and advisers. Educational and stakeholder visits are routinely held in service of this commitment.

Over the period, the Z Board engaged in a range of professional development activities including: a 'deep dive' session discussing modern governance and in particular the NZ Institute of Directors report, 'Always on Duty – the Future Board', and a range of governance reviews coming out of the Australian banking royal commission, including the ASIC report by the Corporate Governance Taskforce on director and officer oversight of non-financial risk. For more information see page 86.

The Board also hosted two international climate change and clean energy experts to New Zealand over the year for Board discussions, staff presentations and a range of public and stakeholder engagements. For more information see page 85.

2.7 – The board should have a procedure to regularly assess director, board and committee performance.

The Z Board's People and Culture Committee is responsible for overseeing the annual evaluation process of the Z Board and Board Committees. As a condition of the Z Board Charter, the Board annually reviews and evaluates the performance of the Board, Committees and individual Directors.

The Z Board seeks to assess its own performance in line with best practice and to assess real time board dynamics to ensure the Board is working optimally. The Board is planning its next review during the 2020 calendar year including with independent experts.

2.8 – A majority of the board should be independent directors.

One hundred percent of the Board is independent.

In accordance with Z's Board Charter and Constitution, the Board must be formed by between three to eight Directors. The Board has agreed that a majority of Directors, including the Chair, must meet independence requirements.

In order for a Director to be considered independent, the Board must affirmatively determine that the Director does not have a disqualifying relationship or material relationship with Z Energy. Additionally, the Chair's other commitments must not be such that they are likely to hinder the Chair's effective performance of the role.

2.9 – An issuer should have an independent chair of the board. If the chair is not independent, the chair and the CEO should be different people.

Abby Foote is Z's independent Chair of the Board. Z's Chair and the CEO are two different people. On 22 February 2019, it was announced that Abby would be Peter Griffiths' successor as Chair. Abby started her role as Chair in May 2019.

Abby is a professional director with over 12 years' governance experience in publicly-listed and Crown-owned companies. Abby holds qualifications in both law and accounting and her career has covered both disciplines, focusing on corporate finance, treasury and commercial transactions.

Z's Board used an external consultancy to provide independent advice and review of this internal appointment to ensure that the Chair had the requisite skills, leadership capabilities, competencies and industry knowledge to support the future strategic requirements of Z as outlined in the Superdiversity Institute's Diverse Thinking Criteria.

PRINCIPLE 3 BOARD COMMITTEES:

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

The Z Board has a number of committees, providing specialist areas of focus on core parts of the business, such as safety and wellbeing, people and culture, and risk.

3.1 – An issuer's audit committee should operate under a written charter. Membership on the audit committee should be majority independent and comprise solely of non-executive directors of the issuer. The chair of the audit committee should be an independent director and not the chair of the board.

Z's Audit and Risk Committee (ARC) operates under a written charter. All members (100 percent) of the ARC are independent directors and the Chair of the ARC is not the Chair of the Board.

The ARC Charter can be found in the Corporate Governance section of the Z Energy Investor Centre at https://investors.z.co.nz/corporate-governance/governance-overview

3.2 – Employees should only attend audit committee meetings at the invitation of the audit committee.

Z's employees only attend ARC meetings at the invitation of the Committee. Committee meeting procedure is outlined in the ARC Charter.

3.3 – An issuer should have a renumeration committee which operates under a written charter (unless this is carried out by the whole board). At least a majority of the remuneration committee should be independent directors. Management should only attend remuneration committee meetings at the invitation of the remuneration committee.

Z's People and Culture Committee (PCC) performs the duties of a remuneration committee and it operates under a written charter.

The PCC guides and reviews Z's People and Culture and Remuneration strategies. This involves reviewing short- and long-term incentive offers, and Z's structures and policies to ensure they support the delivery of Z's strategy and business plans.

The PCC subsequently makes recommendations to the Board. The PCC also approves Z's annual remuneration budget.

The PCC agrees on remuneration of the CEO, the Board and the Executive. This element of the PCC's role involves approving performance criteria for the CEO. The Board Chair is responsible for the CEO's performance review.

The PCC approves CEO remuneration and recommends incentive payments or other adjustments to CEO remuneration to the Board, considering the CEO's performance review with the Board Chair.

The PCC establishes, develops and oversees a formal and transparent process for the Board to review and evaluate the performance of the overall Board, the Board Committees, and individual Directors, and to determine appropriate Board remuneration subject to approval by shareholders as required by the NZX Main Board and Debt Market Listing Rules.

Management only attend PCC meetings if invited by the Committee.

The PCC Charter can be found in the Corporate Governance section of the Z Energy Investor Centre at https://investors.z.co.nz/corporate-governance/governance-overview

3.4 – An issuer should establish a nomination committee to recommend director appointments to the board (unless this is carried out by the whole board), which should operate under a written charter. At least a majority of the nomination committee should be independent directors.

The People and Culture Committee (PCC) assists the Board with succession planning and recruitment for the Board, CEO, Executive and other agreed key people.

The PCC directly designs and implements Z's succession planning for the Board, including the Chair of the Board, and the CEO. The succession planning strategy addresses: continued effective composition, necessary and desirable skills, experience, knowledge, diversity and judgment and appropriate size of the Board.

The PCC identifies and recommends individuals for nomination to be members of the Board and Board Committees to ensure the effective composition of both. The PCC considers factors such as skills, experience, qualification, tenure (if applicable), diversity, judgement', the ability to work with other directors, fit with the culture of Z, and current and future ability to lead and support Z's strategy.

PRINCIPLE 3
BOARD COMMITTEES: (continued)

3.4 –Continued

The PCC consults as required with the CEO over appointments to the Executive. Over FY20 the following changes were made to the Executive: Z appointed Mandy Simpson into a new Executive role as Chief Digital Officer. Within existing members of the Executive Team, Lindis Jones was appointed as CFO following the resignation of Chris Day; Andy Baird was appointed as the General Manager for Retail following the resignation of Mark Forsyth; Julian Hughes was appointed as the General Manager for Strategy and Risk; and Jane Anthony's position as the General Manager of Marketing was redeveloped as the General Manager, Customer.

These Executive team changes reflect Z's strategic focus, without making the Executive team larger. In particular, Mandy Simpson brings depth in digital experience and governance to Z; Andy Baird brings extensive retail and brand building experience to Z, including in the fuels marketing space; Jane Anthony's role has been changed to reflect the strong strategic focus on customer experience; and Lindis Jones brings strong operational and corporate experience from across Z's business to the CFO role.

The PCC Charter can be found in the Corporate Governance section of the Z Energy Investor Centre at https://investors.z.co.nz/corporate-governance/governance-overview

3.5 – An issuer should consider whether it is appropriate to have any other board committee as standing board committees. All committees should operate under written charters. An issuer should identity the members of each of its committees, and periodically report member attendance.

The Board has appointed three standing Board Committees to assist in carrying out its responsibilities and has accordingly delegated responsibilities, powers and authority to those Committees.

These Committees assist the Board by focusing on specific responsibilities in greater detail than is possible for the Board as a whole. The Board ensures that each Committee has access to adequate resources to perform its functions effectively and efficiently.

The **Audit and Risk Committee (ARC)** has the responsibility of assisting the Board in ensuring oversight of all matters relating to risk management, including verification that there are appropriate processes to identify and manage risk, financial management and controls, and the financial accounting, audit and reporting of Z.

The **People and Culture Committee (PCC)** guides and reviews the People and Culture Strategy and policies. It provides assurance to the Board that the strategy and policies are designed and implemented effectively and are fully compliant with all legislative and listing requirements. The PCC also oversees all people policies including remuneration frameworks.

The **Health, Safety, Security and Environment Committee (HSSEC)** assists the Board to ensure it provides direction, assurance, and tightly monitors and reports on performance on health, safety, security and environment matters.

The Board Committee charters can be found in the Corporate Governance section of the Z Energy Investor Centre at:
https://investors.z.co.nz/corporate-governance/governance-overview

3.6 – The board should establish appropriate protocols that set out the procedure to be followed if there is as takeover offer for the issuer including any communication between insiders and the bidder. The board should disclose the scope of independent advisory reports to shareholders. These protocols should include the option of establishing an independent takeover committee, and the likely composition and implementation of an independent takeover committee.

Z adopted its Takeovers Response Policy in 2019 to assist the Board and management if Z receives an offer or an approach by a potential acquirer for a controlling stake in Z.

The purpose of the Policy is to ensure that Z is well prepared for any approach and therefore will be better able to control the takeover response process, and respond to any approach in a professional, timely and co-ordinated manner. Such a response will ensure that any approach is properly managed in the best interests of Z and its shareholders.

The Policy sets out specific obligations that apply to directors, the CEO and the CFO, as well as certain other employees who may be involved in the response process.

In the event of an offer or approach occurring, the material contained in the Policy would be supplemented by Z's management and external advisers at the time.

The Takeovers Response Policy can be found in the Corporate Governance section of the Z Energy Investor Centre at:
https://investors.z.co.nz/corporate-governance/governance-overview

PRINCIPLE 4
REPORTING AND DISCLOSURE:

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

This report seeks to demonstrate the Z Board's commitment to high quality disclosure and reporting to shareholders and stakeholders. Z places a high value on transparency and seeks to make appropriate market disclosures in a timely fashion.

4.1 – An issuer's board should have a written continuous disclosure policy.

Z's Market Disclosure Policy ensures the company keeps Z's investors and markets informed through a clear and balanced approach that communicates both positive and negative developments. The Board is committed to providing timely, consistent, accurate, and credible information to the market.

Z's standing Disclosure Committee is ultimately responsible for ensuring Z's compliance with its disclosure obligations. The Committee consists of: the Board Chair, the ARC Chair, the CEO, the CFO, Z's Corporate Communications and Investor Relations Manager, the General Counsel and Chief Governance Officer.

The CEO and the Executive team are required to provide all material information to the Disclosure Officers. The Disclosure Committee also monitors external markets to ensure it is complying with external requirements.

The Market Disclosure Policy can be found in the Corporate Governance section of the Z Energy Investor Centre at:
https://investors.z.co.nz/corporate-governance/governance-overview

4.2 – An issuer should make its code of ethics, boards and committee charters and the policies recommended in the NZX Code, together with any other key governance documents, available on its website.

Z's Investor Centre on its website (www.z.co.nz/investor) contains a Corporate Governance section which holds the Z Board Charter and the Charters for Z's Sub-Committees. This section also includes Z's Code of Conduct and other Z policies for public consumption. All key governance documents and disclosures are available on the Z Investor Centre website.

4.3 – Financial reporting should be balanced, clear and objective. An issuer should provide non-financial disclosure at least annually, including considering environmental, economic and social sustainability factors and practices. It should explain how operational or non-financial targets are measured. Non-financial reporting should be informative, include forward looking assessments, and align with key strategies and metrics monitored by the board.

The executive team 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 is KPMG. 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 Z Board retains overall responsibility for financial reporting.

The ARC makes sure that it and the full Board are sufficiently informed about best-practice financial reporting and Z's operations to know whether financial reporting is fit for purpose.

The ARC reviews Z's risk-management systems and receives quarterly reports relating to risk management from Z's risk and assurance function and from management. Additionally, two certifications from Z's risk and assurance function are generated every year, providing assurance to the Board that Z's financial records have been properly maintained, and that the financial statements comply with generally accepted accounting principles and give a true and fair view of Z's financial position and performance.

Non-financial reporting

Z is committed to best practice reporting and transparency at all levels of the organisation. This currently includes sustainability reporting against the Global Reporting Initiative (GRI) and Integrated Reporting <IR> guidelines. Both frameworks are recognised by the Sustainable Stock Exchanges Initiative and they form the basis for this annual report. Z also complies with NZX's Environmental, Social and Governance guidance and reports against the United Nations Sustainable Development Goals.

The Audit and Risk Committee makes sure that it and the full Board are sufficiently informed about good practice financial and non-financial reporting.'

This is the first year that Z is reporting against the TCFD framework.

For more information on how Z chooses to report, please see page 6.

PRINCIPLE 5 REMUNERATION:

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

5.1 – An issuer should recommend director remuneration to shareholders for approval in transparent manner. Actual director remuneration should be clearly disclosed in the issuer’s annual report.

Directors’ fees

In response to shareholder feedback, Z no longer participates in market benchmarking surveys as a prime means of setting its directors’ fees. We are continuing to take advice on alternative options for assessing director fees. In the interim, this year there was no increase to the approved directors’ fees pool, and directors chose not to seek a bonus for FY20.

None of the directors is entitled to any remuneration from Z other than 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 2020 is $1,100,000 per annum.

	Board fees	ARC fees	PCC fees	HSSEC fees	Total remuneration
Peter Griffiths* Chair, Board of Directors Member, HSSEC	$16,411			$887	$17,298
Abby Foote** Chair, Board of Directors Member, ARC Member, HSSEC	$177,430	$5,806.45		$10,860	$194,096
Alan Dunn Board of Directors Member, PCC Member, HSSEC	$97,000		$13,521	$10,000	$120,521
Mark Cross Board of Directors Chair, ARC Member, HSSEC	$97,000	$20,000		$10,000	$127,000
Julia Raue Board of Directors Chair, PCC Member, HSSEC	$97,000		$18,521	$10,000	$125,521
Stephen Reindler Board of Directors Member, ARC Chair, HSSEC	$97,000	$10,000		$19,140	$126,140
Blair O’Keeffe Board of Directors Member, PCC Member, HSSEC	$97,000		$10,000	$10,000	$117,000
Mark Malpass*** Board of Directors Member, ARC Member, HSSEC	$40,677	$4,194		$4,194	$49,065

* Peter Griffiths retired from Z’s Board on 2 May 2019.
** Abby became chair of Z’s Board on 2 May 2019, subsequently her HSSEC chair membership transferred to Steven Reindler, and her ARC membership transferred to Mark Malpass on 30 October 2019.
*** Mark Malpass joined Z’s Board on 30 October 2019.

Flick Energy Limited director remuneration received in FY20

	Board Fees
Marcel van den Assum	$81,000
Scott Bishop	$-
Matt Todd	$54,000
Aimee McCammon	$45,000
Lindis Jones	$-
Total	**$180,000**

5.2 – An issuer should have a remuneration policy for remuneration of directors and officers, which outlines the relative weightings of remuneration components and relevant performance criteria.

Approved director remuneration for FY20

	Position	Fees (per annum)
Board of Directors	Chair	$185,000
	Non-executive director	$97,000
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

CEO and senior officer total remuneration for FY20

We believe in creating a clear link between performance and reward. We report on remuneration earned for the respective year of performance rather than remuneration paid as a more appropriate way of illustrating how pay relates to performance. While this reporting would normally include cash bonuses earned over the course of the year but paid in the next financial year, no bonuses were awarded for any member of staff for FY20.

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

This is our second year of reporting in this way, and we welcome feedback on the changes we’ve made.

CEO and senior officer remuneration

				Pay for performance			
Position	Salary and fees	Fixed taxable benefits	Subtotal	STI paid FY21 for FY20 Performance	Gross LTI paid in FY21 for 2017-20 period	Subtotal	Total remuneration
Chief Executive Officer	$1,180,000	$60,908	$1,240,908	$ –	$ –	$ –	$1,240,908
GM Retail	$440,000	$23,908	$463,908	$ –	$ –	$ –	$463,908
GM Supply	$420,000	$22,908	$442,908	$ –	$ –	$ –	$442,908
GM Commercial	$420,000	$22,908	$442,908	$ –	$ –	$ –	$442,908
Chief Financial Officer	$510,000	$25,500	$535,500	$ –	$ –	$ –	$535,500

Notes

1. Gross LTI – no payment as performance hurdles were not met.
2. Gross STI – excludes any KiwiSaver contribution.
3. Total remuneration excludes variances based on previous 12 months accumulative annual leave hourly rates, and loan repayment and tax deduction for LTI.
4. Fixed benefits are 5% employer KiwiSaver contribution and medical insurance.

PRINCIPLE 5
REMUNERATION: (continued)

5.2 – (continued)

Breakdown of pay for performance

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

Every permanent Z employee's remuneration package comprises a base salary, an STI component, and health insurance (with Southern Cross) for themselves and their immediate family. Z also makes a five percent employer contribution to KiwiSaver.

One hundred percent of Z employees had regular performance and career development reviews during the reporting period.

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.

Our 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.

The executive team and selected senior employees are also eligible for participation in a Performance Rights Long-Term Incentive Plan (PRLTIP). This is a share-based incentive scheme which focuses on alignment with long-term shareholder interests by using a share-based incentive over a three-year vesting period on an at-risk basis aligned with the achievement of defined performance targets. Again, there are both individual and company targets.

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

Thirty percent of executives' salary (excluding the CEO) is subject to stock ownership requirements or guidelines. There are no stock ownership requirements or guidelines for the CEO.

Loans are not provided to executives.

Performance measures for long-term equity and cash awards granted in the last fiscal year are published in our annual report each year.

5.2 – (continued)

Short-term Incentive (STI) scheme at Z FY20

The CEO Target bonus amounts for Z Energy meeting expectations for both company and individual performance is 50% of base salary. If the individual and/or the company's overall performance is below or exceeds expectations a multiplier is applied.

STI multiplier matrix based on individual and company performance.

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

Notes

Performance evaluation descriptors are as follows.

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

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

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

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

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

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

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

The STI bonus is paid only if both the company and the individual achieve these threshold levels of performance. The Board retains complete discretion over payment of STI bonuses and may determine that no bonus will be paid in a given year. The Board exercised this discretion not to pay a staff bonus in FY20.

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

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

PRINCIPLE 5
REMUNERATION: (continued)

5.2 – (continued)

Restricted Share Long-Term Incentive Plan

The executive team and selected senior employees were eligible for the Restricted Share Long-Term Incentive Plan (RSLTIP) that ran from April 2017 to March 2020. The RSLTIP was a share-based incentive scheme, not a cash bonus payment. The RSLTIP focused on alignment with long-term shareholder interests by using a share-based incentive over a three-year vesting period on an at-risk basis aligned with the achievement of defined performance targets. Again, these are both individual and company targets.

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

For the 2017 RSLTIP, the total shareholder returns over a three-year period have not met the required entry level benchmark of #25 within the NZX50. Z actually ranked #37, and the Board have determined that no pay-out will be made. This is consistent with the principle that there should be strong alignment between shareholder interests and those of Z's senior managers.

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

RSLTI 2017–2020

Key criteria

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

RSLTI leadership percentage

- CEO — maximum of 2 × 50 percent of salary
- All senior officers — maximum of 2 × 30 percent of salary

CEO STI FY20 — 50 percent of salary if Z meets company targets and CEO meets individual targets

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

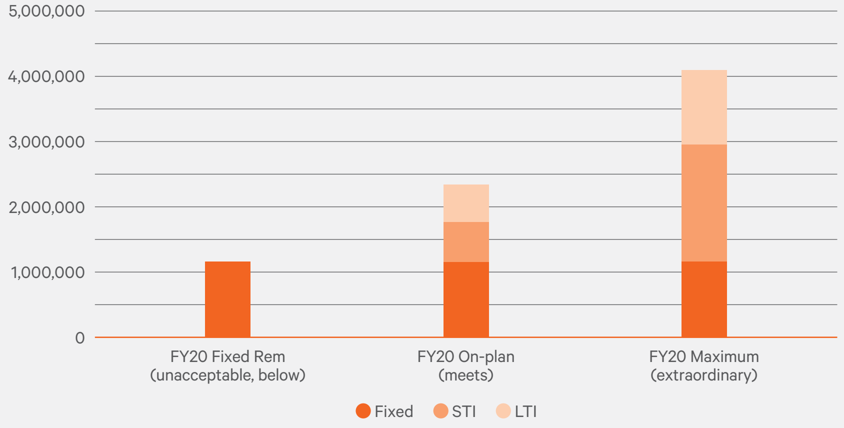
- CEO's annual bonus cap – 3 × target percent of bonus
- None of the annual bonus for the CEO is or can be deferred
- Our senior officers must meet individual performance targets that are direct subsets of the above-listed company STI FY20 measures
- Executives annual bonus (excluding CEO) cap – 3 × target percent of bonus
- None of the annual bonus for executives can be deferred
- No part of the bonus is granted or will be granted guaranteed

5.2 – (continued)

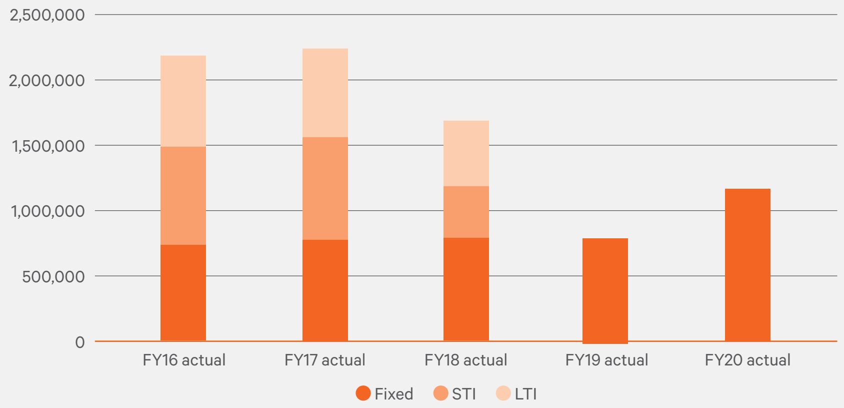
CEO pay for performance scenario FY20

Remuneration policy and disclosures

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



Five-year summary CEO remuneration



PRINCIPLE 5
REMUNERATION: (continued)

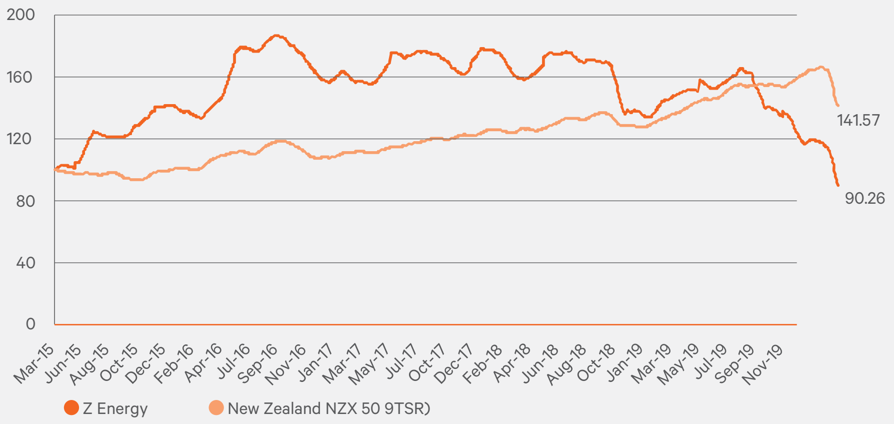
5.2 – (continued)

Five-year summary — TSR performance

For measuring total company performance, TSR is the metric for RSLTI. This determines what proportion of shares vest.

Z's relative TSR ranking is determined based on where Z ranks against other companies in the NZX 50 at the end of the three-year term of the scheme.

Total Shareholder Return (TSR)



Explanation of remuneration policy and items in scenario charts

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

The numbers in the table above indicate the multiplier applied to an employee's bonus depending on company and individual performance.

Required disclosures

- Pay gap: CEO fixed remuneration ratio to Z permanent employee median fixed remuneration is 8.1:1 (excludes STI and LTI)
- Explanation of key elements of TSR methodology: as explained above
- Any information that has been omitted: no material information is omitted
- Any benefits not included: none
- Key terms of any CEO benefits: Z has agreed to pay Mike Bennetts' reasonable accommodation and living expenses in Wellington, and reasonable travel expenses for national travel (particularly between Wellington and Auckland). Mike has agreed to non-solicitation commitments (applying to Z's suppliers and employees) and a restraint of trade (restricting him from involvement in the downstream oil industry in New Zealand). Both of these generally apply for 12 months after the end of his employment as CEO. The restraint of trade does not apply if Mike is made redundant
- Any amounts withheld/clawed back: none
- Summary of any estimates used: none
- Remuneration that uses related parties: none

Z granted one payment to an executive member to be made in April 2020, rewarding for additional governance work in FY20.

The notice period for the CEO if the Z Board was to terminate the employment contract is four weeks.

5.2 – (continued)

Z employees remuneration

The total number of corporate employees is 521, of which 497 are permanent. 310 Z employees (or former employees) received remuneration and other benefits over $100,000 in their capacity as employees during FY20, as set out in the table below. This includes salary, settlement payments and redundancy payments for all permanent employees. It also includes short- and long-term performance bonuses which were awarded at the end of FY19 and paid at the commencement of FY20. This disclosure is based on actual amounts received in the year and differs from the disclosure on Executive Remuneration that reflects performance in FY20, not all of which is received during the current year. Z notes the high proportion of employees (60%) earning above $100,000 reflects Z's business model decisions. For example, traditionally lower earning employee roles (like call centre staff) are presently outsourced.

Amount of remuneration	Employees
$100,000 to $110,000	38
$110,000 to $120,000	33
$120,000 to $130,000	35
$130,000 to $140,000	26
$140,000 to $150,000	30
$150,000 to $160,000	30
$160,000 to $170,000	25
$170,000 to $180,000	12
$180,000 to $190,000	11
$190,000 to $200,000	17
$200,000 to $210,000	8
$210,000 to $220,000	8
$220,000 to $230,000	4
$230,000 to $240,000	5
$240,000 to $250,000	4
$250,000 to $260,000	1
$260,000 to $270,000	1
$270,000 to $280,000	3
$280,000 to $290,000	1
$290,000 to $300,000	2
$300,000 to $310,000	1
$330,000 to $340,000	1
$350,000 to $360,000	1
$360,000 to $370,000	1
$390,000 to $400,000	2
$400,000 to $410,000	1
$410,000 to $420,000	1
$450,000 to $460,000	1
$460,000 to $470,000	1
$490,000 to $500,000	1
$500,000 to $510,000	1
$510,000 to $520,000	1
$520,000 to $530,000	1
$600,000 to $610,000	1
$1,230,000 to $1,240,000	1
Total	**310**

PRINCIPLE 5
REMUNERATION: (continued)

5.2 – (continued)

Flick employee remuneration

The data in this table relates to Flick Energy permanent employees only and the figures include all remuneration and benefits.

Amount of remuneration	Employees
$100,001 to $110,000	2
$110,001 to $120,000	3
$120,001 to $130,000	1
$130,001 to $140,000	2
$150,001 to $160,000	1
$180,001 to $190,000	1
$190,001 to $200,000	3
$320,001 to $330,000	1
Total	**14**

5.3 – An issuer should disclose the remuneration arrangements in place for the CEO in its annual report. This should include disclosure of the base salary, short term incentives and long-term incentives and the performance criteria used to determine performance-based payments.

We report on the CEO's income for the year of performance, as opposed to the date of payment. For the year ending March 2020, the CEO did not receive an incentive payment. This aligns with the overall company performance scorecard, and value delivered to shareholders.

The Board completed a review of the CEO's base remuneration in April 2019 and approved a market-related adjustment to ensure his base salary remained appropriate for the role and skills required.

Further details about CEO remuneration and benefits are available under Principle 5, requirement 5.2.

PRINCIPLE 6
RISK MANAGEMENT:

"Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks."

Given the nature of Z's business, there are a range of risks that require proactive and vigilant management. One of the principal functions of the Z Board is to assure itself that risk is being appropriately managed inside Z. A range of functions and processes are in place to manage risks effectively at Z and to provide the Board with assurance on these.

6.1 – An issuer should have a risk management framework for its business and the issuer's board should receive and review regular reports. An issuer should report the material risks facing the business and how these are being managed.

Z considers that it has undertaken a robust risk assessment programme during the reporting period.

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

Z's Risk and Assurance system recognises two principal functions: Risk and Assurance, and Safety and Wellbeing. Risk and Assurance has a primary focus on enterprise risk (strategic, reputational, people, culture and climate-related) and business risk (insurance and financial risk, including core financial controls, treasury, delegated authorities, and suspicious transactions). Safety and Wellbeing has a primary focus on operational and infrastructure risk.

6.1 – (continued)

In identifying climate-related risks, Z assesses common risks across multiple areas of the business, including at the business unit and enterprise levels, to determine the likelihood and severity of those risks and, subsequently, whether they are a concern for the whole of Z.

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

The Risk Management Policy can be found in the Corporate Governance section of the Z Energy Investor Centre at https://investors.z.co.nz/corporate-governance/governance-overview

The Audit and Risk Committee (ARC) is responsible for oversight, monitoring, and reviews. In February each year, it approves and monitors the annual risk and assurance plan on behalf of the Board. The review is designed to establish an integrated perspective on the entire risk landscape for the short, medium and long-term. It takes into account the internal and external environment, changes in the likelihood and consequence ratings of existing enterprise risks, and the individual business-unit risk profiles. The review considers both specific risks and broader linkages between those specific risks. If a risk is not deemed to have the right level of control in place, a treatment plan is enforced to manage the risk, as is the case for climate-related risks.

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. Z's General Manager, Strategy and Risk is responsible for providing a single framework for risk management at Z, consistent with Z's Risk Management Policy and the Board's risk appetite, including facilitating regular reviews and updates to the CEO and the ARC.

6.2 – An issuer should disclose how it manages its health and safety risks and should report on its health and safety risks, performance and management.

Because of the nature of Z's business, safety and wellbeing 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 from Z's operations and activities. More information on Z's approach to Safety and Wellbeing is available on page 74.

The committee approves an annual HSSE enterprise plan, receives assurance and performance reports, monitors implementation of Z's Operational Risk Management system, and oversees the management of major hazard facilities.

Z discloses its HSSE indicators quarterly to the market in its quarterly operational data, which is available on Z's Investor Centre. These indicators are: lost time injuries; spills to ground; robberies; fuel quality incidents; process safety incidents; food safety incidents; Z's total recordable case frequency; and motor vehicle incident frequency.

PRINCIPLE 7 AUDITORS:

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

7.1 – The board should establish a framework for the issuer's relationship with its external auditors. This should include procedures:

a. for sustaining communication with the issuer's external auditors;
b. to ensure that the ability of the external auditors to carry out their statutory audit role is not impaired or could reasonably be perceived to be impaired.;
c. to address what, if any, services (whether by type or level) other than their statutory audit roles may be provided by the auditors to the issuer; and
d. to provide for the monitoring and approval by the issuer's audit committee of any service provided by the external auditors to the issuer other than in their statutory audit role.

The oversight of Z's external audit arrangements is the responsibility of the ARC. The key roles of the ARC are ensuring that the independence of the external auditors is maintained, and that Z's external financial reporting is highly reliable and credible.

The ARC Charter states that one of the responsibilities of the ARC is to sustain communication with Z's external auditors by providing a formal forum for free and open communication between the Board, Z's Risk and Assurance function, the external auditors and management. The ARC Charter indicates the different ways in which communication occurs with Z's external auditors.

Z's External Auditor Independence Policy outlines the framework for the relationship with its external auditors. The policy will undergo review in FY21.

The Policy outlines the requirements for approval of external auditors.

A firm may only be approved if it is considered to have full knowledge of the relevant facts and has impartial judgment on issues related to the engagement.

The external auditor must not have held a management position at Z within two years prior to the engagement that involved financial oversight. The firm must not allow the direct compensation of its audit partners for selling other services to Z.

The Policy also outlines the guidelines for ensuring that any other assurance services provided by Z's external auditor do not conflict with the independence element of the role. A general set of principles to be applied is provided.

ARC must pre-approve all statutory and regulatory audit and related assurance services provides by the external auditor.

Aside from core audit services relating to the statutory and regulatory audit, there are other assurance services by the external auditor that are permitted as long as these are pre-approved. The Policy also clarifies other services that are not appropriate or permitted for the external auditor to carry out.

Z trusts and relies on KPMG's internal processes and declarations.

The External Auditor Independence Policy can be found in the Corporate Governance section of the Z Energy Investor Centre at https://investors.z.co.nz/corporate-governance/governance-overview

7.2 – The external auditor should attend the issuer's Annual Meeting to answer questions from shareholders in relation to the audit.

In the past, Z's external auditors have attended the Annual Shareholders' Meeting (ASM), where they have been available to answer shareholders' questions about the audit. Z expects the auditor to attend the 2020 ASM

7.3 – Internal audit functions should be disclosed.

The Enterprise Risk and Control Committee is a management committee chaired by the Chief Financial Officer (CFO). This committee has oversight of the implementation and operation of Z's enterprise risk management system, and considers general risk and control matters consistent with the Board's risk appetite.

Z's Enterprise Risk and Assurance function reviews and reports on the effectiveness of internal control systems and procedures. It has full access to the Audit and Risk Committee. Each year, the Audit and Risk Committee determines the scope and activities of Z's Risk and Assurance function.

The Head of Risk and Assurance reports to the Audit and Risk Committee, the executive, and the CEO for functional risk and assurance purposes, and the CFO for other purposes.

PRINCIPLE 8 SHAREHOLDER RIGHTS AND RELATIONS:

"The board should respect the rights of shareholders and foster constructive relationships with stakeholders that encourage them to engage with the issuer."

Z's starting position is that shareholders are the owners of the company. Z respects its shareholders and is committed to communicating with them openly and transparently. With that commitment comes a commitment to listening, and Z seeks to understand shareholders' views, perspectives and ideas on a continuous basis.

8.1 – Issuer should have a website where investors and interested stakeholders can access financial and operational information and key corporate governance information about the issuer.

Z has a comprehensive Investor Centre at www.z.co.nz/investor via which shareholders and stakeholders can access a wide range of disclosures, reports, policies and charters as have been referenced throughout this Corporate Governance section.

Z seeks to be open and accessible to shareholders, and travels domestically and internationally every year to ensure face-to-face engagement with institutional investors. Z's annual meeting provides a form for retail investors to engage with both management and the Board.

8.2 – An issuer should allow investors the ability to easily communicate with the issuer, including providing the option to receive communications from the issuer electronically.

Z provides multiple channels through which shareholders can easily contact the company. All of Z's reporting and corporate information is available electronically through its website but Z will also provide information in other ways when that better suits an investor.

We're always happy to talk to shareholders. Z's Investor Centre website contains contact information for direct access to our Corporate Communications and Investor Relations Manager, Z's Board of Directors and Z's General Counsel and Chief Governance Officer.

Contact information, frequently asked questions, and options to receive alerts and request information from Z can be found under the Shareholder Services section of Z's Investor Centre at investors.z.co.nz/shareholder-services/investor-faqs

8.3 – Quoted equity security holders should have the right to vote on major decisions which may change the nature of the issuer in which they are invested.

Major decisions that may change the nature of Z's business would be presented as resolutions at the ASM and voted on by shareholders.

8.4 – If seeking additional equity capital, issuers of Quoted Equity Securities should offer further equity security holders to existing equity security holders of the same class on a pro rata basis, and on no less favourable terms, before further equity securities are offered to investors.

Z has not sought any additional capital in the reporting period. However, in May 2020, as a consequence of the impacts of COVID-19, Z Energy raised an additional $350 million of capital to strengthen its balance sheet. $290 million was generated via a capital raise and $60 million via a share purchase plan. The offer was made to existing equity holders, who exercised rights to the bulk of these offers.

8.5 – The board should ensure that the notices of annual or special meetings of quoted equity security holders is posted on the issuer's website as soon as possible and at least 20 working days prior to the meeting.

Each year, the Annual Shareholders Notice of Meeting is sent to shareholders by mail and email at least 28 days before the meeting. Notices are also made available in the Announcements section of the Z Investor Centre website at https://investors.z.co.nz/announcements/annual-shareholder-meeting

Additional disclosures:

Disclosure of directors' interests

Z directors:

Director	Positions	Company
Abby Foote	Director	Z Energy 2015 Limited Television New Zealand Limited Sanford Limited Freightways Limited
Alan Dunn	Director	Z Energy 2015 Limited Burger Fuel Worldwide Limited Nelson Regional Development Agency Limited
Blair O'Keeffe	Director	Z Energy 2015 Limited Endzone Commercial Limited Central Economic Development Agency Napier Port Holdings Limited Port of Napier Limited Central Air Ambulance Rescue Limited
	Chair	Hawke's Bay Rescue Helicopter Trust
	Shareholder	BP Plc
Julia Raue	Director	Z Energy 2015 Limited Z Energy ESPP Trustee Limited Z Energy LTI Trustee Limited Jade Software Corporation Limited Television New Zealand Limited The Warehouse Group Limited Southern Cross Health Society Southern Cross Pet Insurance Limited
	Shareholder	Air New Zealand
Mark Cross	Director	Z Energy 2015 Limited MFL Mutual Fund Limited Milford Asset Management Limited Milford Funds Limited Superannuation Investments Limited Chorus Limited Xero Limited
	Member	Investment Committee of Te Puia Tapapa Private Equity Fund
	Shareholder	Milford Asset Management Limited
Mark Malpass	Director	Z Energy 2015 Limited Candesco Limited Steel & Tube New Zealand Limited Steel & Tube subsidiaries
	Member	Auckland Grammar School Board of Trustees
	Power of Attorney	Steel & Tube Holdings Limited
Stephen Reindler	Director	Z Energy 2015 Limited Yachting New Zealand Pearl Coast Properties Pty Limited Broome International Airport Pty Limited Broome Shared Services Pty Limited Steel and Tube Limited
	Chair	Waste Disposal Services (unincorporated joint venture) D & H Steel Construction Limited Clearwater Construction Limited
	Independent Advisor	Massey University/AgResearch Joint Food Science Centre Steering Committee Air New Zealand development at Auckland Airport
	Shareholder	Auckland International Airport Limited Air New Zealand Meridian Energy Limited Contact Energy Limited Vector Limited

Z's subsidiary directors i.e. Flick:

Director	Positions	Company
Matthew Peter Todd	Group Chief Executive	Eastland Group
	Director	Eastland Energy Solutions Limited Eastland Debarking Limited Eastland Generation Limited Eastland Port Debarking Limited Geothermal Developments Limited Northland Debarking Limited Eastech Limited Inner Harbour Marina Limited Te Ahi O Maui GP Limited Plus Business Limited (former Matt Todd Holdings Limited) Gisvin Limited
	Beneficiary of a Deed of Indemnity provided by	Flick Energy Limited
Marcel Peter van den Assum	Shareholder	Flick Energy Limited
	Director and shareholder	Guam Nominee Limited Regen Limited Merlot.Aero Limited
	Director	Education Payroll Limited Wipster Independent Shareholders Limited Wip App Limited CropX (NZ) Limited Sprout Agritech Limited
	Shareholder	Yonix Limited Cogo Connecting Good Limited
	Member	Angel Association
	Beneficiary of a Deed of Indemnity provided by	Flick Energy Limited
Nigel Lindis Jones	Chief Financial Officer	Z Energy Limited
	Director	The New Zealand Refining Company Limited
	Beneficiary of a Deed of Indemnity provided by	Flick Energy Limited
Amelia Jane ("Aimee") McCammon	Managing Director	Augusto Group (Augusto, Augusto Entertainment, Corner Store, New Ventures)
	Advisory board member	Pic's Peanut Butter
	Beneficiary of a Deed of Indemnity provided by	Flick Energy Limited
Scott Kenneth Bishop	Chief Innovation Officer	Z Energy Limited
	Beneficiary of a Deed of Indemnity provided by	Flick Energy Limited
Aaron Peter Snodgrass (Alternate for Matthew Peter Todd)	Chief Financial Officer	Eastland Group Limited
	Director	Eastland Energy Solutions Limited Eastland Debarking Limited Eastland Generation Limited Eastland Port Debarking Limited Geothermal Developments Limited Northland Debarking Limited Eastech Limited Eastland Investment Properties Limited Inner Harbour Marina Limited AP Snodgrass Limited Te Ahi O Maui General Partnership Limited Te Ahi O Maui Limited Partnership
	Trustee and Chairman	Dilworth Trust
	Board Trustee and Chairman	The Dilworth Foundation
	Beneficiary of a Deed of Indemnity provided by	Flick Energy Limited

Directors' interests in share transactions

The following directors disclosed an acquisition or disposal of relevant interest in Z shares or bonds during the year to 31 March 2020:

Director	Number of shares or bonds in which a relevant interest is held	Acquired shares for the year to March 2020
Abby Foote	Z Energy Limited - 37,785 shares	11,500 shares
Julia Raue	Z Energy Limited - 42,500 shares	
Mark Cross	Z Energy Limited - 8,000 shares	10,000 shares
Stephen Reindler	Z Energy Limited - 7,500 shares	

Senior officers' interests in shares and bonds

The senior officers disclosed the following relevant interests in shares at 31 March 2020:

Executive Team Member	Interest as registered holder of shares	Z RSL TIP interests	Z PRLTIP interests	Z ESPP interests
Mike Bennetts	Z Energy Limited - 350,457 shares (of which 349,259 shares are held by Kammjam Trust)	69,351 shares for the period ended 31 March 2021	185,535 shares for the period ended 31 March 2022	Nil
Lindis Jones	102,597 shares	19,401 shares for the period ended 31 March 2021	48,113 shares for the period ended 31 March 2022	Nil
Nicolas Williams	34,984 shares	17,143 shares for the period ended 31 March 2021	39,623 shares for the period ended 31 March 2022	Nil
Andrew Baird		Nil	41,509 shares for the period ended 31 March 2022	Nil
David Binnie		17,946 shares for the period ended 31 March 2021	39,623 shares for the period ended 31 March 2022	Nil

Note: the Performance Rights Long Term Incentive Plan (PRLTIP) is a new long term incentive plan

Donations

For the year ended 31 March 2020, Z made donations of $874,551 (2019: $1,315,075.30). Other than donations made by Flick Energy Limited of $1,496 (2019: $1,055.62), 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. The directors have disclosed entry into the deed of indemnity and the directors' and officers' liability insurance in its interests register.

As permitted by its constitution, Flick has entered into a deed to indemnify its directors for potential liabilities or costs they may incur for acts or omissions in their capacity as directors of Flick. Z has a Directors' and Officers' Liability Insurance Policy in place that covers Flick's directors. This provides insurance for the liabilities of the directors of Flick for acts or omissions in their capacity as directors. The insurance policies do not cover dishonest, fraudulent, malicious, or wilful acts and omissions. The directors have disclosed entry into the deed of indemnity and the directors and officers liability insurance in its interests register.

Payments to an auditor

Z audit fees are set out in note 7 of the Financial statements.

None of Z Energy 2015 Limited, Z Energy ESPP Trustee Limited, or Z Energy LTI Trustee Limited paid any amounts to an auditor, for audit fees or otherwise, during the period.

Flick Energy Limited paid its auditors (KPMG) a fee of $35,000 plus disbursements.

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 2020.

Substantial product holders	Number of voting products in substantial holding (ordinary Z shares)	Percentage of shares held at date of notice	Date of notice
Investment Services Group Limited (formerly Devon Funds Management Limited)	20,397,957	5.100%	6/11/19
Accident Compensation Corporation	24,410,626	6.103%	11/09/19
Lazard Asset Management LLC	26,797,767	6.699%	7/05/19
Commonwealth Bank of Australia	24,296,540	6.074%	18/01/18

The total number of Z ordinary shares on issue at 31 March 2019 was 400,000,000.

Distribution of ordinary shares and shareholders

At 31 March1 2020

Size of holding	Number of shareholders	%	Number of shares	%
1–1000	3,581	25.49	2,126,222	0.53
1001–5000	6,964	49.57	18,537,910	4.63
5001–10000	2,008	14.29	14,780,197	3.70
10001–50000	1,329	9.46	25,772,942	6.44
50001–100000	99	0.70	7,007,905	1.75
100001 and over	68	0.48	331,774,824	82.94
Totals	**14,049**	**100**	**400,000,000**	**100**

Distribution of ordinary bonds and bondholders

At 31 March 2020

ZEL 040

Size of holding	Number of bondholders	%	Number of bonds
1–1000	0	0	0
1001–5000	107	9.45	535,000
5001–10000	270	23.85	2,618,000
10001-50000	604	53.36	16,774,000
50001–100000	88	7.77	7,265,000
100001 and over	63	5.57	122,808,000
Totals	**1,132**	**100**	**150,000,000**

ZEL 050

Size of holding	Number of bondholders	%	Number of bonds
1–1000	0	0	0
1001–5000	86	8.62	430,000
5001–10000	223	22.34	2,162,000
10001–50000	569	57.01	16,119,000
50001–100000	79	7.92	6,490,000
100001 and over	41	4.11	44,799,000
Totals	**998**	**100**	**70,000,000**

ZEL 060

Size of holding	Number of bondholders	%	Number of bonds
1–1000	0	0	0
1001–5000	134	16.67	670,000
5001–10000	193	24.00	1,830,000
10001–50000	386	48.01	9,954,000
50001–100000	41	5.10	3,320,000
100001 and over	50	6.22	109,226,000
Totals	**804**	**100**	**125,000,000**

Our 20 largest shareholders

At 31 March 2020

Rank	Holder Name	Holding	%
1	HSBC Custody Nominees (Australia) Limited	38,710,055	9.68
2	HSBC Nominees (New Zealand) Limited	31,198,507	7.8
3	Accident Compensation Corporation	29,535,166	7.38
4	Citibank Nominees (Nz) Ltd	26,917,649	6.73
5	JPMORGAN Chase Bank	22,624,088	5.66
6	HSBC Nominees (New Zealand) Limited	19,060,389	4.77
7	J P Morgan Nominees Australia Pty Limited	16,788,126	4.2
8	Cogent Nominees Limited	13,548,261	3.39
9	New Zealand Superannuation Fund Nominees Limited	9,320,247	2.33
10	JBWERE (Nz) Nominees Limited	8,965,650	2.24
11	FNZ Custodians Limited	8,742,557	2.19
12	National Nominees Limited	7,97v,856	1.99
13	Bnp Paribas Nominees NZ Limited Bpss40	7,567,152	1.89
14	Citicorp Nominees Pty Limited	7,371,761	1.84
15	Forsyth Barr Custodians Limited	7,199,962	1.8
16	New Zealand Depository Nominee	6,586,076	1.65
17	New Zealand Permanent Trustees Limited	5,978,636	1.49
18	Tea Custodians Limited	5,392,107	1.35
19	Bnp Paribas Nominees Pty Ltd	4,831,335	1.21
20	Bnp Paribas Nominees NZ Limited	4,269,621	1.07

Our 20 largest bondholders

At 31 March 2020

Rank	Holder Name	Account	Total Units	% Issued Capital
1	Forsyth Barr Custodians Limited	1-CUSTODY	44620000	12.93%
2	FNZ Custodians Limited		32709000	9.48%
3	Custodial Services Limited	4	22666000	6.57%
4	Citibank Nominees (Nz) Ltd		19068000	5.53%
5	Investment Custodial Services Limited	C	18193000	5.27%
6	Custodial Services Limited	3	16321000	4.73%
7	Custodial Services Limited	2	13347000	3.87%
8	JBWERE (Nz) Nominees Limited	NZ RESIDENT	11179000	3.24%
9	HSBC Nominees (New Zealand) Limited		9006000	2.61%
10	Bnp Paribas Nominees NZ Limited Bpss40		8915000	2.58%
11	New Zealand Permanent Trustees Limited		8881000	2.57%
12	Custodial Services Limited	18	6450000	1.87%
13	Custodial Services Limited	1	6057000	1.76%
14	Pt (Booster Investments) Nominees Limited		5242000	1.52%
15	Tea Custodians Limited		4919000	1.43%
16	Mmc Limited		3818000	1.11%
17	Private Nominees Limited		3595000	1.04%
18	Forsyth Barr Custodians Limited	1 E	3549000	1.03%
19	FNZ Custodians Limited	DTA NON RESIDENT	3251000	0.94%
20	Custodial Services Limited	16	2215000	0.64%

Z Energy Limited and Subsidiaries

Financial Statements
For the year ended 31 March 2020

Statement of comprehensive income for the year ended 31 March 2020

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

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

	Capital $m	Retained earnings $m	Investment revaluation reserve $m	Employee share reserve $m	Hedging reserve $m	Asset revaluation reserve $m	Non-controlling interest $m	Total equity $m
Balance at 1 April 2018	429	188	(4)	(4)	(2)	250	-	857
Net profit/(loss) for the year	-	188	-	-	-	-	(2)	186
Other comprehensive income	-	(1)	-	-	(3)	-	-	(4)
Revaluation of investment	-	9	(9)	-	-	-	-	-
Disposal of revalued assets	-	1	-	-	-	(1)	-	-
D&R tank provision increases	-	4	-	-	-	(4)	-	-
Revaluation of assets	-	(13)	-	-	-	13	-	-
Total comprehensive income for the year	**-**	**188**	**(9)**	**-**	**(3)**	**8**	**(2)**	**182**
Transactions with owners recorded directly in equity:								
Own shares acquired	-	-	-	(1)	-	-	-	(1)
Flick non-controlling interest	-	-	-	-	-	-	20	20
Dividends to equity holders	-	(138)	-	-	-	-	-	(138)
Supplementary dividends to equity holders	-	(14)	-	-	-	-	-	(14)
Tax credit on supplementary dividends	-	14	-	-	-	-	-	14
Total transactions with owners recorded directly in equity	**-**	**(138)**	**-**	**(1)**	**-**	**-**	**20**	**(119)**
Balance at 31 March 2019	**429**	**238**	**(13)**	**(5)**	**(5)**	**258**	**18**	**920**
Balance at 1 April 2019	**429**	**238**	**(13)**	**(5)**	**(5)**	**258**	**18**	**920**
Adjustment on initial application of NZ IFRS 16	-	1	-	-	-	-	-	1
Adjusted balance at 1 April	**429**	**239**	**(13)**	**(5)**	**(5)**	**258**	**18**	**921**
Net profit/(loss) for the year	-	(72)	-	-	-	-	(16)	(88)
Other comprehensive income	-	-	-	-	4	-	-	4
Revaluation of investment	-	-	(63)	-	-	-	-	(63)
Disposal of revalued assets	-	4	-	-	-	(2)	-	2
D&R tank provision increases	-	-	-	-	-	-	-	-
Revaluation of assets	-	-	-	-	-	14	-	14
Total comprehensive income for the year	**-**	**(68)**	**(63)**	**-**	**4**	**12**	**(16)**	**(131)**
Transactions with owners recorded directly in equity:								
Share based payments and own shares acquired	1	-	-	(1)	-	-	-	-
Dividends to equity holders	-	(188)	-	-	-	-	-	(188)
Supplementary dividends to equity holders	-	(15)	-	-	-	-	-	(15)
Tax credit on supplementary dividends	-	15	-	-	-	-	-	15
Total transactions with owners recorded directly in equity	**1**	**(188)**	**-**	**(1)**	**-**	**-**	**-**	**(188)**
Balance at 31 March 2020	**430**	**(17)**	**(76)**	**(6)**	**(1)**	**270**	**2**	**602**

Statement of financial position at 31 March 2020

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

Approved on behalf of the board on 10 May 2020

Abigail Kate Foote
Chair

Andrew Mark Cross
Chair, Audit and Risk Committee

Statement of cash flows for the year ended 31 March 2020

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

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

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

Notes to the financial statements for the year ended 31 March 2020

(1) Basis of accounting

Reporting entity

Z Energy Limited is a profit-oriented company registered in New Zealand under the Companies Act 1993 and an FMC Reporting Entity for the purposes of the Financial Markets Conduct Act 2013. Z Energy Limited is listed, its ordinary shares quoted on the NZX main board equity security market ('NZX Main Board'), on the Australian Stock Exchange ('ASX') and has bonds quoted on the NZX debt market.

The financial statements presented are those of Z Energy Limited (the Company, Parent) together with its subsidiaries, interests in associates and jointly controlled operations ('Z' or 'the Group').

Basis of preparation

These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand ('NZ GAAP') and part 7 of the Financial Markets Conduct Act 2013. They comply with the New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') as appropriate for profit-oriented entities and with International Financial Reporting Standards ('IFRS'). Z has reported as a Tier 1 entity under the External Reporting Board ('XRB') Accounting Standards Framework, as a listed entity.

The measurement basis adopted in the preparation of these financial statements is historical cost, modified by the revaluation of certain assets, investments and financial instruments as identified in the accompanying notes. The functional and reporting currency used to prepare the financial statements is New Zealand dollars, rounded to the nearest million ($m), unless otherwise stated. The financial statements have been prepared on a GST-exclusive basis except billed receivables and payables, which include GST.

Basis of consolidation

Consistent accounting policies are employed in preparing and presenting the Group financial statements. Intra-group balances and any unrealised income or expenses arising from intra-group transactions are eliminated in preparing the Group financial statements.

(2) Changes in accounting policies

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

Adoption status of relevant new financial reporting standards and interpretations

Leases (Note 10)

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

(3) Critical accounting estimates and judgements

The preparation of financial statements requires management to make the following judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

Provisions (note 17)

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

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

Some of the Group's accounting policies and disclosures require the measurement of fair values. Land and land improvements are now adjusted based on a land inflation index marker, see note 12.

Goodwill (note 13)

Goodwill is an indefinite-life intangible asset and is tested annually for impairment by estimating the future cash flows that the Group is expected to generate. Estimating future cash flows requires key judgements including expected fuel volume growth or decline, expected future margins, and the discount rate for valuing future cash flows.

COVID-19 Pandemic

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

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

(3) Critical accounting estimates and judgements (continued)

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

Balance Sheet Item	COVID-19 Assessment	Note
Cash	No impact to the carrying value of cash on hand.	
Accounts receivable and Prepayments	Z has updated the provisions for doubtful debts for the increase in expected credit losses.	3
Income Tax	The decrease in commodity prices driven by COVID-19 has resulted in Z overpaying provisional tax. Refund recorded at amount to be received.	9
Inventories	The decrease in commodity prices driven by COVID-19 has resulted in a net realisable value write down to Z's inventory on hand at balance date.	11
Derivatives financial instruments	COVID-19 has impacted commodity markets. Derivatives are recorded at fair value, the carrying value reflects quoted prices at balance date.	19
Assets held for sale & Property plant and equipment	Z's land and buildings are held at fair value. Given the alert level 4 restrictions have not been in place long enough at report date, there is insufficient property transactions to draw any conclusions on the impact of COVID-19 on the market at balance date. Terminals and plant & machinery are held at depreciated replacement cost. Z has no evidence that there has been a decline in the value of these assets post COVID-19 as they remain critical infrastructure to provide an essential service.	12
Right of use assets	Z is not currently seeking any rent relief from landlords or considered any changes to extension of leases within the lease portfolio resulting from COVID-19.	10
Goodwill	Z has reconsidered the carrying value of the goodwill based on the expected COVID-19 impacts.	13
Intangibles	Z has reconsidered the carrying values of intangibles as a result of COVID-19 including recognising a provision for the carrying value of the Caltex customer contracts.	13
Investments	Investments are equity or fair value accounted for. The carrying value of RNZ represents the share price at balance date.	15
Accounts payable, accruals and other liabilities	Z has accrued for costs related to the expected impact of COVID-19.	3
Provisions	The material provision is the decommissioning and restoration provision which is driven by the expected cost to exit a site, the remaining life of the site/asset and the risk-free rate used to discount future cashflows. Z does not anticipate any change to these key assumptions as a result of COVID-19.	17
Leases	Lease recorded as per lease contract (refer to right of use assets above).	10
Borrowings	Borrowings are held at amortised cost and the Group's USPP is exchanged to NZD using the exchange rate at balance date. The impact on the NZD v USD exchange rate driven by COVID-19 is incorporated in the USPP carrying value.	18

COVID-19 Provisions

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

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

Doubtful debts

Commercial customers

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

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

Retail customers and sub-tenants

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

Convenience stores

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

Finished product costs

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

(4) Replacement cost reconciliation

Replacement cost ('RC') is a non-GAAP measure used by the downstream fuel industry to report earnings. RC removes the impact of changes in crude oil and refined product prices on the value of inventory held by Z. Z manages the Group's performance based on RC. The difference between HC earnings and RC earnings is a cost of sales adjustment ('COSA'), foreign exchange, commodity gains and losses and the associated tax impact.

Income statement on RC basis

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

* Earnings, before interest, taxation, depreciation (including gains and (losses) on sale of fixed assets), amortisation, impairment, fair value movements in interest-rate derivatives and movements in decommissioning and restoration provision ('EBITDAF').

(4) Replacement cost reconciliation (continued)

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

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

(5) Non-controlling interest

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

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

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

(6) Revenue

Revenue from major business activities – fuel and convenience retail

Revenue comprises of the fair value consideration received or receivable for the sale of fuel, convenience retail or other, which contains electricity income, in the ordinary course of the Group's activities. The Group's performance obligations are typically satisfied when the Group has supplied the product to the customer, the customer has accepted the product and the collectability of the related receivable is reasonably assured.

Fuel invoices are raised following delivery and settled in accordance with agreed payment terms. Some international customers are required to pay prior to delivery. Transaction price is based on agreed contract rates and delivered volumes and is allocated on delivery. Convenience revenue is recognised at the time of sale. Transaction price is based on the ticketed or contract price.

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

(7) Audit fees

Included in operating expenses are fees paid to the auditors:

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

(8) Net financing expenses

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

(9) Taxation

Taxation expense or benefit is determined as follows:

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

Deferred tax

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

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

	Property, plant and equipment $m	Intangible assets $m	Employee benefits $m	Finance lease $m	Other provisions $m	Derivative financial instruments $m	Other items $m	Total $m
Balance at 1 April 2018	(54)	(116)	1	4	2	4	3	(156)
Recognised in the Statement of comprehensive income	14	6	(1)	-	-	2	(2)	19
Recognised in other comprehensive income	(1)	-	-	-	-	-	-	(1)
Over-provision in prior periods in the Statement of comprehensive income	-	(5)	-	-	-	-	-	(5)
Balance at 31 March 2019	(41)	(115)	-	4	2	6	1	(143)
Balance at 1 April 2019	(41)	(115)	-	4	2	6	1	(143)
Recognised in the Statement of comprehensive income	12	28	1	(1)	5	11	4	60
Over-provision in prior periods in the Statement of comprehensive income	(2)	-	-	-	-	-	(1)	(3)
Reinstatement of depreciation on Buildings	12	-	-	-	-	-	-	12
Balance at 31 March 2020	(19)	(87)	1	3	7	17	4	(74)

	2020 $m	2019 $m
Deferred tax expected to be settled within 12 months	(12)	(1)
Deferred tax expected to be settled after 12 months	(62)	(142)
Deferred tax	(74)	(143)

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

(10) Leases

Leases as a Lessee – Modified retrospective approach

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

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

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

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

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

Financial impact for transition to NZ IFRS 16

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

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

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

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

(10) Leases (continued)

Nature of lease payments as a lessee

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

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

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

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

Amounts recognised in profit or loss	$m
2020 – Leases under NZ IFRS 16	
Lease depreciation	19
Interest expense on lease liabilities	17
Lease expense on short-term leases	3
2019 – Operating leases under NZ IAS 17	
Operating lease payables as lessee	36

Maturity analysis	2020 $m
Lease liabilities as lessee	
Between 0 to 1 year	13
Between 1 to 5 years	74
More than 5 years	212
Lease liabilities as lessee	**299**

Leases as a Lessor

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

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

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

Operating lease income as a lessor	31 March 2020 $m
Income from subleasing right-of-use assets	1

Total lease expenses/(income) as lessor and lessee	31 March 2020 $m
Lease interest income	(1)
Lease depreciation	19
Lease interest expense	17
Net lease expenses	**35**

(11) Inventories

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

(12) Property, plant and equipment

Property, plant and equipment ('PPE') is measured at fair value based on periodic valuations, less accumulated depreciation and any impairment after the date of revaluation.

An independent revaluation of all land and buildings (including terminal plants) is undertaken by an independent valuer every five years using a Level 3 fair value movement in line with the fair value hierarchy. In the years between independent valuations, the carrying value of land is adjusted annually by a land inflation index provided by an independent valuer based on recent sales as considered by the Directors, as underlying land values are considered the significant determinant of fair value changes for Z. An assessment of other PPE fair values is also performed annually by Z to assess the underlying assumptions for each asset class and determine whether any revaluation is required. Additions to PPE after the most recent valuation are recorded at cost.

The last independent revaluation was recorded at 31 March 2017, with the next revaluation scheduled for 31 March 2022.

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

Buildings	9 - 35
Plant and machinery	2 - 35
Land improvements	14 - 35
Terminal plant	5 - 35

Year ended 31 March 2020

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

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

(12) Property, plant and equipment (continued)

For each revalued class, the carrying amount that would have been recognised had the assets been carried on a historical cost basis are: buildings $48m (2019: $50m); land and improvements $132m (2019: $138m); terminals $145m (2019: $143m); plant and machinery $191m (2019: $201m).

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

Asset class	Valuation techniques during full revaluation	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement	Valuation adjustments between full revaluation
Land and Buildings	Direct capitalisation approach based on a sustainable market rental is capitalised at an appropriate rate of return or yield derived from comparable asset sales. The market rental is built up from: - fuel throughput margin - estimated shop rental (for non-fuel sales) The value ascribed to the land is allocated using a value estimated based on recent comparable land sales with the residual value being allocated to buildings.	Throughput rental rate (cents/litre) 1.15-2.35 (Retail) Throughput rental rate (cents/litre) 1.00 (Truck stop) Shop rental $125 - $450 per square metre Capitalisation rate 5% - 10%	The estimated fair value would increase (decrease) if: - throughput margins were higher (lower); - shop rental rates were higher (lower); - capitalisation rates were lower (higher).	Land and land improvements are adjusted based on a land inflation index marker. Land and buildings are assessed for impairment annually.
Terminal plant, and plant and machinery	Depreciated replacement cost approach is based on the gross current replacement cost, reduced by factors providing for age, physical depreciation, and technical and functional obsolescence considering an asset's total estimated useful life and anticipated residual value (if any).	Cost estimates sourced from contracting machinery suppliers and cost analysis of recent projects.	The estimated fair value would increase (decrease) if: - cost was higher (lower); - remaining useful life was higher (lower); - technical and functional obsolescence was lower (higher).	Assessed for impairment.
Finance Leases (Buildings)	Net present value of contracted rental cash flow at lease commencement over the remaining term of the lease.	Discount rate 6.5%. Rental payments are sourced from lease agreements.	The estimated fair value would increase (decrease) if: - discount rate was lower (higher); - net rental of the lease was higher (lower); - remaining term of the lease was longer (shorter).	Assessed for impairment.

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

Highest and best use

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

Assets held for sale

During the year, Z has committed to a plan to sell four land bank sites. The sites were classified as PPE with a carrying value of $4m (land). $1m is held in the revaluation reserve for the sites held for sale. Fair value is $4m.

(13) Intangible assets

Goodwill

Goodwill is the excess of purchase consideration and net identifiable assets acquired. Goodwill is not amortised, but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, by estimating future cashflow considering expected fuel volumes, margin and discount rates.

Chevron acquisition goodwill

On 1 June 2016, Z acquired 100% of the share capital of Chevron New Zealand (renamed Z Energy 2015 Limited), an importer, distributor and seller of transport fuel and related products. The acquisition has strengthened the Group's fuel network within New Zealand. Z recognised $158m of goodwill as part of the purchase price allocation. As at 31 March 2020 an annual impairment test of the goodwill was undertaken. The impairment test considered the expected impacts of COVID-19 on the carrying amount of the goodwill.

The recoverable amount of the cash generating unit ('CGU') containing the goodwill has been calculated based on the present value of future cash flows expected to be derived from the CGU (value in use). This was calculated using a Z Board approved 20 year discounted cash flow valuation ('DCF'). Significant assumptions within the DCF include:

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

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

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

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

Flick acquisition goodwill

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

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

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

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

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

(13) Intangible assets (continued)

Flick acquisition goodwill (continued)

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

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

Brands

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

Contracts and customers acquired

Contracts acquired include customer contracts, supply agreements and leases acquired as part of the Chevron acquisition and Flick customers as part of the Flick acquisition. These contracts are amortised over 3 to 21 years on a straight-line basis.

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

Chevron customer contracts

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

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

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

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

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

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

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

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

Emissions trading scheme

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

Other intangibles

Other intangibles include software, franchise rights, domain name, and occupation rights. Acquired computer software licences are capitalised based on the costs incurred to acquire and bring to use the specific software. These costs are amortised over 3 years on a straight-line basis. Intangible assets with indefinite lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Year ended 31 March 2020

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

(14) Emissions trading scheme

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

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

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

The Emissions Trading Scheme obligation of $246m (2019: $209m) is included within accounts payable, accruals and other liabilities.

During the year Z entered into a contract to lease its Emissions Trading Scheme units to reduce its working capital funding cost. The units will be returned in May 2020 prior to Z's obligation falling due.

(15) Investments

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

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

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

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

(16) Investment in joint operations

The Group has participating interests in five unincorporated jointly controlled operations relating to the storage and distribution of petroleum products. The revenues and expenses are allocated in the financial statements of a proportionate share on a performance/usage basis rather than the share of the joint arrangement.

The Group has rights to the assets and obligations for the liabilities relating to the jointly controlled operations. At 31 March 2020, there were no contingent liabilities for the jointly controlled operations (2019: nil). The value of assets in these interests is $13m (2019: $14m).

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

(17) Provisions

Decommissioning and restoration (D&R) costs are recognised at the estimated future cost. The estimated future cost is calculated using amounts discounted over the estimated useful economic life of the assets. For the majority of assets, the discount rate applied is the Treasury 30 year risk free rate (currently 2.12%) and the inflation rate is the Treasury 30 year CPI rate (currently 1.72%). Exceptions to this are the Caltex Retailer-owned Retailer-operated ('RORO') sites which use the 6 year risk free rate and the 6 year CPI rate, and Caltex Truckstops which use the 12 year risk free rate and the 12 year CPI rate. These rates are revised annually in February each year.

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

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

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

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

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

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

(18) Borrowings

Financing arrangements

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

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

Bank facilities and bonds are recorded initially at fair value, net of transaction costs. After initial recognition, bank facilities and bonds are measured at amortised cost. Any difference between the initial recognised amount and the redemption value is recognised in the Statement of comprehensive income over the period of the borrowing. USPP notes are recorded initially at fair value, net of transaction costs and are revalued monthly for spot risk.

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

Banking facilities

Interest rates are determined by reference to prevailing money market rates at the time of draw-down, plus a margin. Interest rates paid during the year ranged from 1.5% to 3.0% (2019: 2.8% to 3.2 %).

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

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

Bonds

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

USPP notes

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

(19) Financial risk management

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

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

Financial risk	Exposure	Product	Management of risk
Market risk			
Foreign exchange risk	Movement in foreign exchange rates	Bills Libor (Basis swap)	Quarterly resetting notional (based on the actual FX spot rate of the NZD/USD) on the 8,10 and 12-year basis swaps offset with the 1-year basis swap, reviewed annually for renewal.
		Forward exchange contract	Reduce price fluctuations risk of foreign currency commitments, mainly associated with purchasing hydrocarbons.
		Cross currency interest rate swaps (CCIRS)	Hedge variability risk in cash flows arising from price fluctuations of foreign currency of the USD USPP notes. To mitigate profit or loss volatility, the CCIRS is designated into a fair value hedge and cash flow hedge relationship.
Sensitivity to FX	Foreign-currency – At 31 March 2020, if the New Zealand dollar had strengthened/weakened by 10% against the currencies with which the Group has foreign-currency risk (with all other variables held constant), after-tax profit would change by $16m higher/$20m lower (2019: $1m higher/$3m lower) and the change in other comprehensive income for the year would be $2m higher/$1m lower (2019: $5m higher/lower).		
Interest rate risk	Movement in interest rates	Interest rate swaps (IRS)	Minimise the cost of debt (interest) and manage the volatility to the Groups earnings.
		Cross currency interest rate swaps	The CCIRS is designated into a fair value hedge and cash flow hedge relationship to mitigate profit or loss volatility.
		Bills Libor (Basis swap)	Reduce exposure on the basis cost of the CCIRS.
Sensitivity to interest rate	At 31 March 2020, if bank interest rates at that date had been 100 basis points higher/lower (with all other variables held constant), after-tax profit would change by $4m higher/$3m lower (2019: $8m higher/$5m lower) and the change in other comprehensive income for the year would be $2m higher/$3m lower (2019: $1m higher/lower).		
Commodity price and timing risk	Changes in crude and product prices	Commodity swaps	Match commodity purchase and sales.
Liquidity risk			
	Risk that the Group will not be able to meet its financial obligations as they fall due		Active management of cash flow, access to committed funds and lines of credit and the maturity profile of its financial obligations.
Credit risk			
	Risk of loss to the Group due to customer or counterparty default		Limited exposure due to credit checks carried out on new customers, credit terms and standard payment terms. Less than 7% of the Groups receivables are overdue (2019: 2%).
	Risk of derivative counterparties and cash deposits being lost		Bank facilities are maintained with A or above rated financial institutions, with a syndicate of five bank counterparties to ensure diversification.

The CCIRS is classified as level 2 in fair value hierarchy and are hedge accounted. All other products are level 2 and accounted for as fair value through the Statement of comprehensive income.

The fair value of the CCIRS and IRS's excludes accrued interest. All other derivatives do not contain interest components.

Recognition and measurement of derivatives

Derivative financial instruments are recognised initially at fair value at the date they are entered into (trade date). After initial recognition, derivative financial instruments are stated at fair value at each Statement of Financial Position date. The resulting gain or loss is recognised in the Statement of comprehensive income immediately, unless the instruments are designated in an effective hedge accounting relationship.

Liquidity risk

The following tables analyse the Group's financial liabilities into relevant maturity groupings based on the earliest possible contractual maturity date at year end. The amounts in the tables are contractual undiscounted cash flows, which include interest through to maturity.

At 31 March 2020	6 months or less $m	6 to 12 months $m	1 to 2 years $m	2 to 5 years $m	5+ years $m	Contractual cash flows $m	Statement of financial position $m
Non-derivative financial liabilities							
Working capital loan	70	-	-	-	-	**70**	**70**
Accounts payable	304	-	-	-	-	**304**	**304**
Lease liabilities	15	15	29	86	336	**481**	**299**
Long-term loan	1	1	182	-	-	**184**	**180**
Bonds	7	7	163	213	-	**390**	**343**
USPP notes	9	9	18	54	503	**593**	**509**
Non-derivative financial liabilities	**406**	**32**	**392**	**353**	**839**	**2,022**	**1,705**
Derivative financial instruments							
IRS	(3)	(4)	(7)	(12)	-	**(26)**	**(25)**
Commodity hedges	37	-	-	-	-	**37**	**(37)**
CCIRS	4	4	7	21	43	**79**	**130**
Basis swap	-	(17)	2	6	27	**18**	**-**
Derivative financial instruments	**38**	**(17)**	**2**	**15**	**70**	**108**	**68**

At 31 March 2019	6 months or less $m	6 to 12 months $m	1 to 2 years $m	2 to 5 years $m	5+ years $m	Contractual cash flows $m	Statement of financial position $m
Non-derivative financial liabilities							
Accounts payable	272	-	-	-	-	272	272
Finance leases	1	1	2	11	15	30	18
Long-term loan	1	1	2	71	1	76	68
Bonds	11	144	14	248	128	545	477
USPP notes	8	8	16	48	461	541	393
Non-derivative financial liabilities	293	154	34	378	605	1,464	1,228
Derivative financial instruments							
IRS	(2)	(2)	(6)	(14)	(2)	(26)	(25)
Commodity hedges	-	-	-	-	-	-	(1)
CCIRS	-	1	1	-	13	15	13
Basis swap	-	12	(1)	-	(2)	9	-
Derivative financial instruments	(2)	11	(6)	(14)	9	(2)	(13)

Discussions on refinancing bank-debt facilities will normally begin at least 6 months before maturity with facility terms agreed at least 3 months before maturity.

(19) Financial risk management (continued)

Interest rate risk analysis

At 31 March 2020	Less than 1 year $m	1 to 2 years $m	2 to 5 years $m	5+ years $m	Total Notional $m
Interest-rate exposure borrowing	-	330	195	378	903
Cross-currency swaps	378	-	-	(378)	-
Interest-rate swaps	(130)	-	5	125	-
Net interest-rate exposure	**248**	**330**	**200**	**125**	**903**

At 31 March 2019	Less than 1 year $m	1 to 2 years $m	2 to 5 years $m	5+ years $m	Total Notional $m
Interest-rate exposure borrowing	135	-	288	503	926
Cross-currency swaps	378	-	-	(378)	-
Interest-rate swaps	(130)	-	75	55	-
Net interest-rate exposure	383	-	363	180	926

Offsetting of financial instruments

Z enters into derivative transactions under International Swaps Derivatives Association (ISDA) master agreements. The ISDA agreements do not meet the criteria for offsetting in the balance sheet for accounting purposes. This is because Z does not have any current legally enforceable right to offset recognised amounts. Under the ISDA agreements the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events. The potential net impact of this offsetting is disclosed in 'Amount after applying rights of offset under ISDA agreements. Z does not hold and is not required to post collateral against its derivative positions.

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

Hedge accounting

The nature and the effectiveness of the hedge accounting relationship will derive where the gains and losses on re-measurement are recognised. The CCIRS derivatives are designated as either:

- **Fair value hedges** the derivative is used to manage the variability in the fair value of recognised liabilities, to hedge the interest-rate risk (the hedged risk) arising from the USD USPP notes (the hedged items).

  The following changes are recognised in profit or loss:
- The change in fair value of the hedging instruments;
- The change in fair value of the underlying hedged items attributable to the hedged risk.

  Once hedging is discontinued, the fair value adjustments to the carrying amount of the hedged item arising from the hedged risk is amortised through profit or loss from that date through to maturity of the hedged item.
- **Cash flow hedges** derivatives are used to manage the variability in cash flows of highly probable forecast transactions, to hedge the variability in cash flows arising from interest rate and foreign currency exchange rate movements of the USD USPP notes (the hedged items).

  The following changes are recognised in profit or loss (interest costs):
- any gain or loss in relation to the ineffective portion of the hedging instrument,
- fair value changes in the hedging instrument previously accumulated in other comprehensive income, transfer to profit or loss when the underlying transactions are recognised in the Statement of comprehensive income.

Once hedging is discontinued, any cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss (interest costs) either:
- at the same time as the forecast transaction, or
- immediately if the transaction no longer expected to occur.

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

Z designates the entire CCIRS to hedge its foreign-currency risk and interest rate risk and applies a hedge ratio of 1:1, except for the cross-currency basis elements of the CCIRS that are excluded from the designation and are separately accounted for as a cost of hedging. This cost is recognised in other comprehensive income in a cost of hedging reserve. The Group's Treasury Policy is for the critical terms of the CCIRS contracts to align with the hedged item.

Z determines the existence of an economic relationship between the hedging instrument and the hedged item based on the currency, amount and timing of the respective cash flows, reference interest rates, tenors, repricing dates, maturities and notional amounts. Z assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting the changes in cash flows of the hedged item using the hypothetical derivative method.

In these hedge relationships, the main source of ineffectiveness is the effect of the counterparty and Z's own credit risk on the fair value of the CCIRS.

The effect of Z's hedge accounting policies in managing both its foreign-exchange risk and its interest-rate risk related to borrowings denominated in foreign currency is presented in the tables below. The details of the CCIRS hedging instruments and items at 31 March 2020 are recognised in the balance sheet within derivative financial instruments and borrowings as follows:

At 31 March 2020	Nominal amount of the CCIRS (hedging instrument) USDm	Carrying amount of the USPP (hedged item) $m	Accumulated fair value hedge adjustment to USPP carrying amount (hedge item) $m	Carrying value of CCIRS (hedging instrument) $m	Life to date change in value used for calculating hedge ineffectiveness $m	Accumulated cost of hedging reserve $m
Cash flow hedge and fair value hedge						
Interest-rate risk and foreign-currency risk						
8 years, rate 3.83%	90	(165)	(14)	39	39	-
10 years, rate 4.04%	90	(170)	(19)	44	44	-
12 years, rate 4.14%	90	(174)	(24)	47	48	(1)
Total	**270**	**(509)**	**(57)**	**130**	**131**	**(1)**

The hedged item is recognised in Borrowings and the hedging instrument is recognised in Derivative financial instruments.

Hedge ineffectiveness for the year ended 31 March 2020 was $0m (2019: $2m).

At 31 March 2019	Nominal amount of the CCIRS (hedging instrument) USDm	Carrying amount of the USPP (hedged item) $m	Accumulated fair value hedge adjustment to USPP carrying amount (hedge item) $m	Carrying value of CCIRS (hedging instrument) $m	Life to date change in value used for calculating hedge ineffectiveness $m	Accumulated cost of hedging reserve $m
Cash flow hedge and fair value hedge						
Interest-rate risk and foreign-currency risk						
8 years, rate 3.83%	90	(131)	-	5	5	-
10 years, rate 4.04%	90	(131)	1	4	5	(1)
12 years, rate 4.14%	90	(131)	1	4	5	(1)
Total	**270**	**(393)**	**2**	**13**	**15**	**(2)**

(20) Share capital and distributions

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

Issued capital	2020 Shares millions	2019 Shares millions
Total issued capital at end of year	400	400

The par value of one share is $1.

Z Energy LTI Trustee Limited holds 811,823 shares at a cost of $4m for Z's restricted share long-term incentive plan (2019: 762,263, $6m). Z holds Treasury stock of 339,884 shares.

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

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

(21) Share-based payments

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

Z provides the RSLTIP for selected senior employees. Under the RSLTIP, ordinary shares in the Parent are purchased on-market by Z Energy LTI Trustee Limited ('the Trustee'). Participants purchase shares from the Trustee with funds lent to them by the Parent. Z stopped making new offers under the RSLTIP after the year ended 31 March 2019. In the year ended 31 March 2020 the Group has moved to a new stock settled share rights scheme for selected senior employees (PRLTIP). Under the scheme performance rights have been granted at no cost to the holder. For each performance share right that vests, one share will be issued.

Under the RSLTIP the number of shares that vest will depend on Z's total shareholder return ranking within a peer group of the NZX50 over a 3-year period, although a reduced period may be used in some cases. If the individual is still employed at the end of the vesting period, the employee is provided a cash bonus which must be used to repay the loan and the shares are then transferred to the employee. Under the PRLTIP the number of shares that vest will depend on Z's total shareholder return ranking within a peer group of the NZX50 over a 3-year period, although a reduced period may be used in some cases. If the individual is still employed at the end of the vesting period, the shares are then transferred to the employee.

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

Measurement of fair values

The fair value of the RSLTIP has been determined using the framework of the Black-Scholes and Margrabe option pricing models for the schemes vesting 2017 – 2020. For the RSLTIP and PRLTIP schemes vesting after 2020 a Monte Carlo Simulation has been used.

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

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

The fair value of the share-based payments is recognised as an expense, with a corresponding increase in equity, over the vesting period of the plan. The expense relating to the RSLTIP in the year ended 31 March 2020 was $11,000 (2019: $0.2m). The expense relating to the PRLTIP in the year ended 31 March 2020 was $0.5m (2019: nil).

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

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

(22) Related parties

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

Key management personnel have been defined as the Directors, the CEO and the executive team for the Group. Executive members also participate in the Group's Restricted Share Long-Term Incentive Plan, refer to note 21.

Included in operating expenses are directors' fees of $1m (2019: $1m).

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

(23) Commitments

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

(24) Contingent liabilities

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

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

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

(25) Events after balance date

Dividend

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

COVID-19 – Equity raise and covenant relief

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

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

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

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Independent Auditor's Report

To the shareholders of Z Energy Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Z Energy Limited (the 'company') and its subsidiaries (the 'group') on pages 122 to 151:

i. present fairly in all material respects the Group's financial position as at 31 March 2020 and its financial performance and cash flows for the year ended on that date; and

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

We have audited the accompanying consolidated financial statements which comprise:

— the consolidated statement of financial position as at 31 March 2020;

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

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

Basis for opinion

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

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

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

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

Scoping

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

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

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

Materiality

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

Key audit matters

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

The key audit matter	How the matter was addressed in our audit
Impairment of the carrying value of retail customer contracts recognised on acquisition of Chevron New Zealand	
Refer to Note 3 and Note 13 of the consolidated financial statements. The impairment of the group's retail customer contracts is a Key Audit Matter due to the complexity of auditing the judgements used by the group to determine the recoverable amount of these assets. Our consideration of the group's assessment of the carrying value of the retail customer contracts has focussed on the significant assumptions and judgements the group applied in determining the recoverable amounts of these assets. These assumptions and judgements relate to short-term forecasted sales volumes, long-term retail demand for fuel in New Zealand, retail gross margin per litre, and a relevant discount rate. Such judgements and assumptions carry a	Our audit procedures included: — We assessed the integrity of the value in use calculation model, including the accuracy of the underlying calculation formulae. — We checked the consistency of short-term forecasted sales to past performance of the group, and our experience regarding the feasibility of these in the industry in which they operate. This also included an adjustment for the impact of COVID-19 and the associated Level 4 lockdown enforced by the New Zealand Government. — We challenged the assumptions around long-term retail demand for fuel in New Zealand by comparing to published information on industry trends and the historical accuracy of relevant forecasts. We used our knowledge of the group, their past performance, business and customers, and our industry experience. — We worked with our valuation specialists to analyse the group's discount rate by comparing to an independently developed discount rate using publicly available market data for comparable entities, adjusted by risk factors specific to the group and the industry it operates in. — We considered the sensitivity of the model by varying key assumptions, such as long-term retail demand for fuel in New

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The key audit matter	How the matter was addressed in our audit
higher risk of bias and error which required additional scrutiny by us.	Zealand and retail gross margin per litre. We did this to identify those assumptions at higher risk of bias or inconsistency in application and to focus additional procedures. *We found the valuation methodology and inputs used in the calculation of the recoverable amount of the retail customer contracts to be appropriate. We consider the group has appropriately considered those key assumptions that support the impairment charge recognised.*
Assessment of goodwill	
Refer to Note 3 and Note 13 of the consolidated financial statements. The group's testing of goodwill for impairment is a Key Audit Matter due to the complexity of auditing the judgements used by the group to determine the recoverable amount of the relevant cash generating units (CGU's). The relevant CGU's are Flick Energy and the Z Energy group. The group used complex models to perform their assessment of the recoverable amount. The models used a range of external and internal inputs, including assumptions made by the group. Complex modelling using forward-looking assumptions are prone to greater risk for potential bias, error, and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and consistent application. In addition to the above, the group recorded an impairment charge of $35 million against goodwill relating to Flick Energy, resulting from a sustained downward trend in customer acquisition numbers. This further increased our audit effort in this key audit area.	Our audit procedures included: — We considered the appropriateness of the valuation methods applied by the group to each CGU to perform the test of goodwill for impairment against the requirements of the accounting standards. — We assessed the accuracy of previous group forecasts to inform our evaluation of forecasts incorporated in the models. — We checked the consistency of forward-looking assumptions to the group's stated plan and strategy, past performance of the group, published information on industry trends, and our experience regarding the feasibility of these in the industry in which they operate. The key forward-looking assumptions we checked for each CGU are as follows: Flick Energy CGU: - Customer acquisition numbers and growth rates - Terminal growth rate Z Energy Group CGU: - Retail fuel market share - Retail fuel market demand - Retail gross margin per litre — We worked with our valuation specialists to analyse the group's discount rates used in the valuation models by comparing to independently developed discount rates using publicly available market data for comparable entities, adjusted by risk factors specific to the group and the industry in which they operate. — We considered the sensitivity of the model by varying key assumptions, such those listed above. We did this to identify those assumptions at higher risk of bias or inconsistency in application and to focus additional procedures, particularly in the context of the COVID-19 pandemic. — We assessed the disclosures in the consolidated financial statements using our understanding of the issue obtained from our testing and against the requirements of the accounting standards. *We found the valuation methodology and inputs used in the calculation of the recoverable amount of the CGU's to be appropriate. We consider the group has appropriately considered those key assumptions that support both the carrying value for goodwill relating to the Chevron*

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The key audit matter	How the matter was addressed in our audit
	New Zealand acquisition, and the impairment charge recognised for goodwill relating to Flick Energy.
Financing – basis of preparation	
Refer to Note 18 and Note 25 of the consolidated financial statements. The Directors have determined that the use of the going concern basis of accounting is appropriate in preparing the consolidated financial statements. Their assessment of going concern was based on debt covenant compliance forecasts. The preparation of these forecasts incorporated a number of assumptions and actions undertaken subsequent to balance date. In assessing this Key Audit Matter, we involved senior audit team members who understand the group's business, industry, and the economic environment in which it operates.	Our audit procedures included: — We reviewed agreements with financiers to understand the actions the group had taken subsequent to balance date including renegotiation of existing debt facilities and agreeing waivers in meeting financial loan covenants in future periods. — We read minutes of meetings of Directors and relevant correspondence with the group's advisors to understand the group's ability to raise additional shareholder funds. — We reviewed documentation relating to the underwritten equity placement which occurred subsequent to balance date. — We evaluated the group's going concern disclosures in the consolidated financial statements by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the group's plans to address those events or conditions, and accounting standard requirements. *We found the group has appropriately considered the impacts of current and future financial performance on the going concern assumption, and disclosures made appropriately describe actions undertaken to support the use of the going concern assumption.*
Transition to NZ IFRS 16 *Leases*	
Refer to Note 2 of the consolidated financial statements. The group has adopted NZ IFRS 16 effective from 1 April 2019, using the modified retrospective approach. The new standard requires the group to recognise its lease commitments as a liability in the consolidated statement of financial position, along with an associated right of use asset. The group's adoption of NZ IFRS 16 is a Key Audit Matter due to the complexity of auditing the judgements and assumptions involved in the calculation of the right of use assets and associated lease liabilities.	Our audit procedures included: — We assessed the group's process relating to the recording, recognition, and measurement of leases. — We assessed the group's judgements made in applying practical expedients against the requirements of NZ IFRS 16. — We worked with our valuation specialist to analyse the incremental borrowing rate (IBR) applied by the group to the lease portfolio by comparing to an independently developed IBR using publicly available market data for comparable entities, adjusted by risk factors specific to the group and the industry in which they operate. — We selected a sample of leases and examined the calculation of the associated lease liability and right of use asset. For each lease selected we performed the following: - Agreed key inputs such as commencement date, expiry date, rent amount, and rent payment frequency to the underlying lease agreement. - Recalculated the lease liability and right of use asset based on the key inputs noted above and the IBR as assessed by our

The key audit matter	How the matter was addressed in our audit
	valuation specialist, and compared our recalculation to the balances recorded by the group. - Checked the appropriateness of the classification of the lease liability between current and non-current based on the remaining term of the lease. — We assessed the disclosures in the consolidated financial statements against the requirements of NZ IFRS 16. *We found the methodology used by the group in transitioning to NZ IFRS 16 to be appropriate. We consider the group has appropriately considered those key assumptions that underly the calculation of the associated balances.*

Other information

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

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

Use of this independent auditor's report

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

Responsibilities of the Directors for the consolidated financial statements

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

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

— to issue an independent auditor's report that includes our opinion.

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

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

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

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG

KPMG
Wellington

10 May 2020

Te Kuputohu TCFD

Task Force on Climate-related Financial Disclosures (TCFD) Index

Disclosure	Page	Information
Governance		**Disclose the organisation's governance around climate-related risks and opportunities**
Describe the Board's oversight of climate-related risks and opportunities (Complete disclosure)	79, 82-83, 84-85	The Z Board has committed to responding to the challenge of climate change in an integrated way and approved Z's Sustainability Stand in 2017. A core function of the Board is oversight of Z's Enterprise Risk Management System (ERMS), including monitoring all of Z's enterprise risks, including climate change, and systems of internal control. Monitoring of risks, controls and opportunities is performed through Board sub-committees, specifically the Audit and Risk Committee; the Health, Safety, Security and Environment Committee; and the People and Culture Committee.
Describe management's role in assessing and managing climate-related risks and opportunities (Complete disclosure)	13, 26, 62, 112-113	Climate change is identified as a material topic that is important to internal and external Z stakeholders. The Chief Executive has overall responsibility for the management of Z. Day-to-day management of Z's operations are delegated to the respective General Managers who make up the Executive Leadership Team (ELT). The ELT is responsible for directing and assuring on Z's ERMS, with each principal risk assigned to an ELT member. Z's General Manager, Strategy and Risk, is the responsible Business Owner for managing climate-related risks and opportunities identified within the ERMS. The ELT as a whole approves climate-related risks and opportunities identified within Z's business strategy.

Key

- Complete disclosure
- Partial dislosure
- On Road Map

Disclosure	Page	Information
Strategy		**Disclose the actual and potential impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning where such information is material**
Describe the climate-related risks and opportunities the organisation has identified over the short-medium- and long-term (Partial disclosure, On Road Map)	23, 27-29, 54-63	Z's climate-related risks and opportunities are outlined under its Sustainability Stand – specifically in its commitment to 'move from being part of the climate change problem to the heart of the solution'. Further, to help identify risks and opportunities across the energy sector, Z joined a cross-sector group alongside the Business NZ Energy Council (BEC) to map out scenarios for the future of energy in New Zealand. The resulting 'Tūī' & 'Kea' energy demand scenarios are used as a proxy from which to understand climate change risks (increasing carbon prices and declining demand for hydrocarbons) and opportunities (increasing demand for biofuels and EVs). The scenarios feed into Z's capital strategy analysis from 2020, 2040 and through to 2060 alongside its strategic objective to transition to a low carbon future.
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning (Partial disclosure, On Road Map)	45, 54-63, 125, 140	The overarching impact of climate-related risks and opportunities are encapsulated in Z's Strategy. The forecast increasing price of carbon is included in financial planning on an annual basis through our Emissions Trading Scheme (ETS) obligations in addition to our voluntary offsetting commitments. Partnerships with the Dryland Carbon Group and Permanent Forests NZ ensure our carbon exposure needs are planned for and met. The impact of increased extreme weather events resulting from climate change will be reviewed in FY21 under a Natural Perils Assessment to be carried out by Marsh Risk Consulting, a practice of Marsh Pty Ltd. The resulting information will assist in assessing the suitability of our current insurance limits, and will assist Z and Marsh with stability of access to Natural Hazard insurance cover.
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2-degrees or lower scenario (On Road Map)	60	Z uses the BEC scenarios to inform the organisation's strategies, which takes into account the impacts of climate change on the price of carbon and demand for various energy sources. Z's strategy does not specifically include a 2-Degree or lower scenario, which is planned for completion in FY21.
Risk Management		**Disclose how the organisation identifies, assesses and manages climate related risks**
Describe the organisation's processes for identifying and assessing climate-related risks (Complete disclosure)	112-113	Z carries out the risk assessment process by identifying risks from a 'top-down' or enterprise risk perspective and from a 'bottom-up' perspective. For example, an enterprise risk assessment, in this case an 'Ineffective Response to Climate Change', would assess common risks across multiple business units, but also considers those material risks identified at a business unit or operational level to determine if, given their severity, they are an enterprise level concern. Z uses standardised risk terminology and categories to ensure emerging and currents risks are identified and assessed consistently across operational activities, business units and the enterprise. Risk terminology and categories are detailed within Z's Enterprise Risk Analysis Matrix (RAM) which is the tool for evaluating the severity of individual risks in terms of the consequences of the risk and likelihood of the consequences occurring. The identified climate-related enterprise risk has a residual risk rating of 'Likely' with a 'Major' severity and 'High' impact rating.

Te Kuputohu TCFD
TCFD Index (continued)

Disclosure	Page	Information
Risk Management (continued)		
Describe the organisation's processes for managing climate-related risks	26, 54, 57, 61, 112-113	The Chief Executive is responsible for promoting a culture of proactively managing risks. The principle underpinning Z's ERMS model is that risk management is an integral part of the management function across Z and, as such, is the clear responsibility of management. Management at each level have the responsibility to evaluate their risk environment, including their response to climate change, to put in place appropriate controls and to monitor the effectiveness of these controls. Approval pathways have been defined for the six different risk categories defined as part of Z's ERMS: • Strategic, Innovation and Beyond the Core; • Stakeholder and Customer Confidence/Reputation; • Financial/Commercial; • Operational/Performance of the core business; • Regulatory and Compliance; • Health, Safety, Security and Environment. These pathways are used in conjunction with Z's defined risk appetite and tolerance when a potential risk is being assessed. The pathway sets out the relevant key decision makers who needs to either accept or reject a risk or recommend further controls or treatments. Z's Risk and Assurance function also conducts a risk-based assurance programme to provide assurance that controls are well-designed and working effectively. The function reports independently to the Board's Audit and Risk Committee on the effectiveness of controls and any recommendations that are made for improvement.
Describe how processes for identifying, assessing and managing climate-related risk are integrated into the organisation's overall risk management	60	The integration of climate-related risks and opportunities into the ERMS process has been identified on Z's TCFD Road Map for FY21. This will be in the form of Risk and Assurance providing guidance to the organisation on how to consider climate risks and opportunities when making decisions.
Metrics and Target		**Disclose the metrics and targets used to assess climate-related risks and opportunities where such information is material**
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	17, 59, 140	Metrics highlighted in this report include a combination of quantitative data including greenhouse gas emissions, carbon intensity, litres of biodiesel produced and the cost of carbon for Z's obligatory and voluntary offsets; and qualitative data, including an assessment of Z's 'What is Next' strategy and risk management reviews. These are due for review in FY21 to more closely align with the risk management process.
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks	17, 59	Scope 1, Scope 2, and Scope 3 greenhouse gas emissions are disclosed.
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	23, 56, 58-59	Z is targeting a 30 percent reduction in operational greenhouse gas emissions from FY17–FY21.

Te Kuputohu GRI
Global Reporting Initiative (GRI) Index

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102 - 3 Location of headquarters	Inside back cover	
102 - 4 Location of operations	36-39, 40-41	Operates in New Zealand only
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102 - 16 Values, principles, standards, and norms of behaviour	20-21	
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102 - 18 Governance structures	78-120	
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102 - 40 List of stakeholder groups	24-25	
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102 - 42 Identifying and selecting stakeholders	24-25	
102 - 43 Approach to stakeholder engagement	24-25	
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Te Kuputohu GRI
GRI Index (continued)

GRI Disclosures: Description	Page	Supporting Details
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GRI G4-DG14	58-59	Volume of biofuels produced and meeting Sustainability Criteria
Environmental Sustainability: 103 - Management Approach	22-26	
306 - 2 Waste by type and disposal method	58-59, 75	
306 - 2 Significant Spills	75	
Responsible consumption & production: 103 - Management Approach	22-26	
308 - 1 New suppliers that were screened using environmental criteria	58	
308 - 2 Negative environmental impacts in the supply chain and actions taken	45, 58	No supplier relationships were terminated due to negative environmental impacts
People & Culture: 103 - Management Approach	22-26	Z corporate employees. This excludes retail site staff
401 - 1 New Employee hires and employee turnover	98	
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G4 - OG13: Process Safety Events	75	Number of process safety events by business activity
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404 - 3 Percentage of employees receiving regular performance and career development reviews	106	
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405 - 1 Diversity of governance bodies and employees	97	
405 - 2 Ratio of basic salary and remuneration of women to men	95	
Resilient Communities: 103 - Management Approach	22-26	
413 - 1 Operations with local community engagement, impact assessments, and development programmes	66	All (100%) retail sites take part in 'Good In The Hood'
Cyber Security & Data Privacy: 103 - Management Approach	22-26	
418 - 1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	13	No substantiated complaints or data breaches
Market Transparency & Fairness: 103 - Management Approach	22-26	
419 - 1 Non-compliance with laws and regulations in the social and economic area	90	See also p10 Commerce Commission review & p63 for our response to climate change legal proceedings
Customer Experience: 103 - Management Approach	22-26	
Own measure – Customer NPS Score	17	Business & Retail net promoter scores

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Julia Margaret Raue

Mark Roy Malpass
(Appointed 30 October 2019)

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