Z Energy Half-Year Report FY2020

Financial Highlights

1HFY20	▼ $28m	▼ $22m
Half-Year results comparison	Historical cost net profit after tax	Replacement cost net profit after tax
1HFY19	$139m	$72m

▲ $182m	▲ 16.5 cents
Replacement cost EBITDAF	Interim dividend per share declared
$175m	12.5 cents

Operational Highlights

1HFY20

Half-Year Results comparison

1HFY19

▼ **1,921 million litres**

Total marketing volume

1,969 million litres

▼ **27.5m**

Transactions at Z-branded retail stores

27.8m transactions

▼ **6**

Robberies

11

▼ **0.99**

Total recordable case frequency

Z employees: 0.00 (0.47)
Retailers and Mini-Tankers franchisees: 1.25 (2.74)

1.87

▲ **3**

Spills (loss of contaminant to ground or water)

0

▲ **1**

Tier 1 or Tier 2 process safety incidents

0

CEO and CFO Review

Kia ora te whānau o Z Energy.

Mike Bennetts
Chief Executive

Lindis Jones
Chief Financial Officer

The first six months of the financial year have been a challenge. Operationally we have been safe and reliable, our customer metrics are solid, we have delivered our strategic projects and benefits are flowing, but our profit performance in Retail has been very poor.

Our purpose as a company is to solve what matters for a moving world. Our strategy is to optimise our core business so we can sensibly experiment in the future of the energy as we transition from fossil fuels.

Z has pursued reasonable margins to ensure the long-term viability of the industry in New Zealand. We believe that the margin we earn is fair given the scale and complexity of our industry, our operational risks and the long-term future we face.

Earning a reasonable profit is important, especially for our industry given the heavy reliance that all New Zealanders place on it to get to work, take their kids to school and ship their products to international and domestic markets.

Z uses its profit to invest in new technologies that move the country towards a more sustainable future. We invest in customer experiences to save customers' time. We invest our profits to explore alternatives to fossil fuels. We invest in our people and the communities that we operate in.

Rising retail margins in the last 10 years have led to new to industry (NTI) investment that has increased competition with the effect that retail margins have steadily declined in the past two years, and materially reduced in the past six months.

Interim Result and Half-Year dividend

Z reports its earnings on an historic cost as well as a replacement cost basis. Statutory financial statements are reported on an historic cost basis in accordance with NZIFRS. Earnings prepared on this basis are subject to volatility due to changes in oil prices and exchange rates and is therefore not a dependable measure of business performance or profitability.

Historical cost net profit after tax (HC NPAT) was $28m for the first half of the year, down 80 percent from $139m in the prior corresponding period. This result was driven by a reduction in global commodity prices, lower retail fuel margins and a weaker NZD compared to prior corresponding period partially offset by increased refining margins.

Replacement cost earnings do not reflect this volatility to the same extent as the cost of the stock sold is accounted for as its replacement cost at the time of its sale. Replacement cost accounting is the globally used non-GAAP industry standard to measure financial performance.

Replacement cost accounting is how Z is valued by the share market, how debt covenants are calculated and how Z's management is incentivised. Therefore, Z's management focuses on the industry standard replacement cost operating metrics, which it considers a better reflection of the underlying performance of the company.

Z reported replacement cost earnings before interest, depreciation and amortisation (RC EBITDAF) of $182m. This was up 4 percent from $175m in the prior corresponding period. Z's replacement cost net profit after tax (RC NPAT) was $22m, down 69 percent from $72m in the prior corresponding period.

Total marketing volume for the first half was 1,922 million litres, down 2.4 percent compared to the prior corresponding period, reflecting industry volume decline as well as market share losses, primarily in the Caltex network.

Z's RC NPAT (excluding the negative impact of Flick) profit per litre was down 15 percent to 3.5 cents per litre in the first half of this financial year. This compares to 4.1 cents per litre for all of the last financial year. These figures reflect the reduction in retail margin and the highly competitive nature of our industry.

Z's replacement cost fuel unit margin for the first half of the year was 16.5 cents per litre. This represents a small increase on the first half of last year when we reported 15.5 cents per litre. As a reminder, fuel unit margin is the margin on fuel sold before operating costs and corporate tax are accounted for. The increase in fuel unit margin reflects the better product mix between the two retail networks as well as some of the one-off costs associated with last year's refinery shutdown not repeating.

CEO and CFO Review (continued)

"Z has pursued reasonable margins to ensure the long-term viability of the industry in New Zealand."

Last financial year Z invested $46m to acquire a 70 percent stake in Flick Electric. Flick is an electricity retailer and disruptor that allows its customers the choice between accessing the wholesale electricity spot market or a low, fixed-price product.

Due to unseasonably high spot prices in October 2018 Flick lost customers on its core spot market product. The team did an excellent job in standing up a fixed-price product, but Flick did incur customer losses. The Board of Z has therefore decided it is prudent that it write down the value of the Flick investment by $35m to more accurately reflect the current valuation of the Flick business.

The Board of Z has declared a fully imputed interim dividend of 16.5 cents per share, up 32 percent from 12.5 cents per share compared to the first half of last financial year. The interim dividend record date is 22 November and will be paid on 10 December 2019.

Retail competition and changes in loyalty schemes

Retail competition in the first half of the financial year was intense.

As previously stated, this was the confluence of several factors; some of these factors will be transitory and some will take longer for the industry to shake out.

The increase in NTI investment has led to greater capacity and competition. This has happened even though the demand for fuel in New Zealand is flat to slightly decreasing. As more fuel retailers are competing for a smaller market, we have seen intense retail fuel competition spread to new areas around New Zealand. We now see significant discounting in urban areas of the South Island, specifically Christchurch, and the lower North Island into Wellington.

With the increase in competition and price discounting the volume of fuel sold on discount to the notional main port price has moved from around 70 percent of total volume to above 95 percent at the end of the first half of the year.

On 1 August this year Z ended its participation in the AA Smartfuel loyalty program. Z had previously participated in this loyalty program via the Caltex brand. From 1 August the Z owned and operated Pumped loyalty scheme was extended to the Caltex network.

Our competitors viewed Caltex's exit from the Smartfuel program as an opportunity to increase market share and they typically offered greater levels of discount to attract Caltex customers or increased marketing promotion in an attempt to capture market share.

Z's response was to launch Pumped in both the Caltex and Z networks. Pumped is available in over 300 conveniently located retail service stations and with our partners, Air New Zealand with Airpoints and Loyalty New Zealand with Fly Buys, we've got two of the largest and most popular loyalty schemes in the country. Pumped gives consumers choice across loyalty schemes and gives customers the ability to stack their discounts with no minimum spend. We think that Pumped is a compelling offer and customers are growing awareness to the benefits. In the second half of the year we will be able to use the data and marketing capability we have developed to have targeted offers for customers depending on their preferences and buying behaviours.

Commerce Commission and external relations

In the middle of August, the Commerce Commission published its draft report into the retail fuel market.

During the Commerce Commission enquiry Z suggested several remedies to their draft findings, including how to create greater competition in the wholesale market by encouraging a spot price at the terminal gate – something called Terminal Gate Pricing. We also proposed greater price disclosure on price boards across all grades in the retail market.

Given the level of investment we make, the risks Z incurs across our operations and the cost and complexity to deliver over four billion litres of fuel to New Zealand every year, we don't believe our returns are unreasonable.

Z's profit per litre has in fact been going down in the past few years.

CEO and CFO Review
(continued)

After tax profits per litre, which includes the profit we make from convenience store sales, has declined from a high in FY18 of 4.7 cents per litre to 3.5 cents per litre[1] for the first half of this financial year.

Returns on Z's capital base, as measured by return on average capital employed (ROACE), have declined from a high of 12 percent in FY17 to 8 percent in the first half of FY20.

We think it is very important that the Commission gets its profitability analysis right and that Kiwis know that they are getting a fair deal at the pump. Over half of our shareholders are based here in New Zealand. This is either through KiwiSaver funds or through the approximately 8,000 Mum and Dad shareholders we have.

There are over 2,000 people employed across our network and we invest in their development and their wellbeing at work. We invest in local communities through programs like Good in The Hood and we're also investing in the future of energy.

The final report into the retail fuel market is due out on December 5, 2019.

In August Z was also named in a climate change lawsuit, a first for New Zealand. Z was one of seven co-defendants with the suit claiming negligence by the defendants for emitting greenhouse gasses and not doing enough to reduce emissions. Z was being sued as a supplier of fossil fuels by the plaintiff, Mike Smith of the Iwi Chairs Forum's Climate Change Iwi Leaders Group.

We agree with the concerns raised by the Plaintiff. We agree that the burning of fossil fuels results in emissions. And we agree that action needs to be taken.

What we do not agree with is that the courts through civil lawsuits are the right jurisdiction to create good policy. For this reason, we believe the lawsuit should be dismissed.

We think it is the role of the Government to develop, debate and legislate long-term policy frameworks that create certainty for businesses to invest in alternatives to carbon.

Outlook for FY20

For the rest of the financial year the executive team is focussed on three company-wide concerns; be more productive, engage our customers and deliver our future.

Over 90 percent of the gap to the original EBITDAF forecast given at our full year results has been in retail. This is the focus of the executive team for the rest of this year. We will continue to evolve our two retail brands and clearly differentiate their market position. In the second half of this year we will deliver the first roll-out of Sharetank on the Z App, scale up Fastlane, continue with the development of the Caltex App, increase our capability in marketing automation and reduce our operating expenses in line with our strategy of optimising our core business.

We appreciate the continued support from you, our shareholders; it is never assumed or taken for granted.

Nō reira, tēnā koutou katoa.

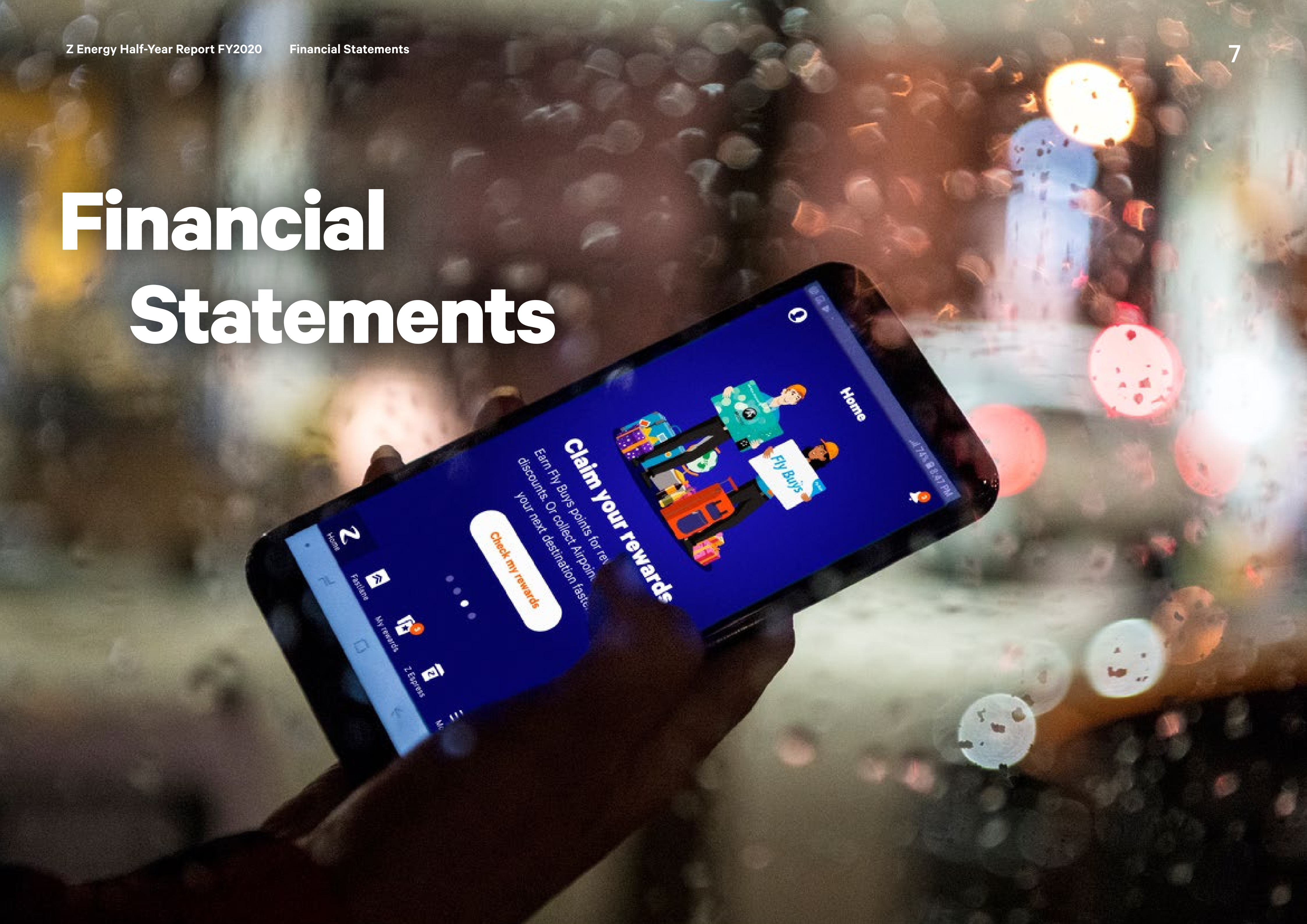
Mike Bennetts
CEO

Lindis Jones
CFO

Click here to watch Mike Bennetts answer the top shareholder questions on our first half results: https://youtu.be/x0KNnLY0K4k

[1] After the removal of one-off costs associated to Flick

Financial Statements



Statement of comprehensive income for the six months ended 30 September 2019

	Unaudited 6 months ended 30 September 2019 – $m	Unaudited 6 months ended 30 September 2018 – $m	Audited 12 months ended 31 March 2019 – $m
Revenue	**2,461**	2,674	5,450
Expenses			
Purchases of crude, product and electricity	**1,474**	1,651	3,450
Excise, carbon and other taxes	**562**	502	1,091
Primary distribution	**22**	19	48
Operating expenses	**209**	222	413
Share of loss of associate companies (net of tax)	**1**	–	1
Depreciation and amortisation	**65**	57	122
Net financing expense	**24**	26	51
Impairment	**35**	–	–
Lease depreciation	**9**	–	–
Lease interest expense	**8**	–	–
Fair value movements in interest rate derivatives	**5**	5	4
Gain on sale of property, plant and equipment	**(2)**	(2)	–
(Decrease)/Increase in decommissioning and restoration provision	**(3)**	–	18
Total Expenses	**2,409**	2,480	5,198
Net profit before taxation	**52**	194	252
Taxation expense	**24**	55	66
Net profit for the period	**28**	139	186
Net profit attributable to the owners of the company	**42**	139	188
Net loss attributable to non-controlling interest	**(14)**	–	(2)
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Valuation adjustment of land and buildings	**–**	–	13
Revaluation of investments	**–**	13	(9)
Disposal of revalued assets	**(2)**	–	(1)
Decommissioning and restoration provision increase	**3**	–	(4)
Total items that will not be reclassified to profit or loss	**1**	13	(1)
Items that are or may be reclassified subsequently to profit or loss			
Cash flow hedge and cost of hedging	**4**	2	(3)
Other comprehensive (loss)/income net of tax	**5**	15	(4)
Total comprehensive income for the period	**33**	154	182
Total comprehensive income attributable to owners of the company	**47**	154	184
Total comprehensive loss attributable to non-controlling interest	**(14)**	–	(2)
Basic and diluted earnings per share (cents)	**7**	35	47

The accompanying notes form part of these financial statements.

Statement of changes in equity for the six months ended 30 September 2019

	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 2019	**429**	**238**	**(13)**	**(5)**	**(5)**	**258**	**18**	**920**
Adjustment on initial application of IFRS 16	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**1**
Adjusted balance at 1 April	**429**	**239**	**(13)**	**(5)**	**(5)**	**258**	**18**	**921**
Net profit/(loss) for the period	**–**	**42**	**–**	**–**	**–**	**–**	**(14)**	**28**
Other comprehensive income	**–**	**–**	**–**	**–**	**4**	**–**	**–**	**4**
Disposal of revalued assets	**–**	**–**	**(2)**	**–**	**–**	**–**	**–**	**(2)**
D&R tank provision increase	**–**	**3**	**–**	**–**	**–**	**–**	**–**	**3**
Total comprehensive income for the period	**–**	**45**	**(2)**	**–**	**4**	**–**	**(14)**	**33**
Transactions with owners recorded directly in equity:								
Share based payments and own shares acquired	**1**	**–**	**–**	**(1)**	**–**	**–**	**–**	**–**
Dividends to equity holders	**–**	**(122)**	**–**	**–**	**–**	**–**	**–**	**(122)**
Supplementary dividends to equity holders	**–**	**(10)**	**–**	**–**	**–**	**–**	**–**	**(10)**
Tax credit on supplementary dividends	**–**	**10**	**–**	**–**	**–**	**–**	**–**	**10**
Total transactions with owners recorded directly in equity	**1**	**(122)**	**–**	**(1)**	**–**	**–**	**–**	**(122)**
Unaudited closing balance at 30 September 2019	**430**	**162**	**(15)**	**(6)**	**(1)**	**258**	**4**	**832**
Balance at 1 April 2018	429	188	(4)	(4)	(2)	250	–	857
Net profit for the period	–	139	–	–	–	–	–	139
Other comprehensive income	–	13	–	–	2	–	–	15
Revaluation of investment	–	(13)	13	–	–	–	–	–
Disposal of revalued assets	–	1	–	–	–	(1)	–	–
Total comprehensive income for the period	–	140	13	–	2	(1)	–	154
Transactions with owners recorded directly in equity:								
Own shares acquired	–	–	–	(1)	–	–	–	(1)
Flick non-controlling interest	–	–	–	–	–	–	19	19
Dividends to equity holders	–	(88)	–	–	–	–	–	(88)
Supplementary dividends to equity holders	–	(9)	–	–	–	–	–	(9)
Tax credit on supplementary dividends	–	9	–	–	–	–	–	9
Total transactions with owners recorded directly in equity	–	(88)	–	(1)	–	–	19	(70)
Unaudited closing balance at 30 September 2018	429	240	9	(5)	–	249	19	941

The accompanying notes form part of these financial statements.

Statement of changes in equity (continued) for the 12 months ended 31 March 2019

	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)
Audited closing balance as at 31 March 2019	429	238	(13)	(5)	(5)	258	18	920

The accompanying notes form part of these financial statements.

Statement of financial position at 30 September 2019

	Notes	Unaudited 30 September 2019 $m	Unaudited 30 September 2018 $m	Audited 31 March 2019 $m
Shareholders' equity				
Equity attributable to owners of the Company		**828**	922	902
Non-controlling interest		**4**	19	18
Total equity		**832**	941	920
Represented by:				
Current assets				
Cash and cash equivalents		**33**	61	111
Accounts receivable and prepayments		**293**	381	499
Income tax receivable		**4**	(28)	(19)
Inventories		**680**	846	578
Derivative financial instruments		**15**	38	9
Assets held for sale	5	**–**	33	27
Total current assets		**1,025**	1,331	1,205
Non-current assets				
Property, plant and equipment	4	**817**	847	830
Right of use assets	1	**286**	–	–
Goodwill		**158**	206	193
Intangible assets		**649**	523	475
Investments	6	**105**	127	105
Derivative financial instruments		**85**	8	17
Other non-current assets		**14**	3	3
Total non-current assets		**2,114**	1,714	1,623
Total assets		**3,139**	3,045	2,828

The accompanying notes form part of these financial statements.

Statement of financial position at 30 September 2019 (continued)

	Notes	Unaudited 30 September 2019 $m	Unaudited 30 September 2018 $m	Audited 31 March 2019 $m
Current liabilities				
Accounts payable, accruals and other liabilities		**621**	853	677
Provisions		**19**	25	23
Short-term borrowings	7	**269**	88	135
Derivative financial instruments		**15**	24	13
Lease liability	1	**13**	–	–
Total current liabilities		**937**	990	848
Non-current liabilities				
Other liabilities		**11**	18	20
Provisions		**62**	46	68
Derivative financial instruments		**31**	48	26
Deferred tax		**134**	146	143
Long-term borrowing	7	**846**	856	803
Lease liability	1	**286**	–	–
Total non-current liabilities		**1,370**	1,114	1,060
Total liabilities		**2,307**	2,104	1,908
Net assets		**832**	941	920

Approved on behalf of the board on 31 October 2019

Abigail Kate Foote
Chair

Andrew Mark Cross
Chair, Audit and Risk Committee

The accompanying notes form part of these financial statements.

Statement of cash flows for the six months ended 30 September 2019

	Unaudited 30 September 2019 $m	Unaudited 30 September 2018 $m	Audited 31 March 2019 $m
Cash flows from operating activities			
Receipts from customers	**2,662**	2,641	5,431
Dividends received	**1**	1	4
Interest received	**25**	27	53
Payments to suppliers and employees	**(2,101)**	(1,957)	(4,075)
Excise, carbon and other taxes paid	**(515)**	(462)	(930)
Interest paid	**(57)**	(51)	(101)
Taxation paid	**(46)**	(88)	(113)
Net cash (outflow)/inflow from operating activities	**(31)**	111	269
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**27**	6	19
Lease payments received from finance leases	**1**	–	–
Purchase of intangibles assets	**(30)**	(17)	(37)
Purchase of investment	**(1)**	(28)	(30)
Purchase of property, plant and equipment	**(19)**	(12)	(35)
Net cash (outflow) from investing activities	**(22)**	(51)	(83)
Cash flows from financing activities			
Net proceeds from bank facility	**114**	51	31
Issue of bonds and USPP notes	**–**	125	125
Purchase of shares	**–**	–	(1)
Dividends paid to owners of the company	**(132)**	(97)	(152)
Repayment of bonds	**–**	(150)	(150)
Payment of lease liabilities	**(7)**	–	–
Net cash (outflow) from financing activities	**(25)**	(71)	(147)
Net (decrease)/increase in cash	**(78)**	(11)	39
Cash balances at beginning of period	**111**	72	72
Cash at end of period	**33**	61	111

The accompanying notes form part of these financial statements.

Notes to the financial statements for the six months ended 30 September 2019

1. Basis of accounting

Reporting entity

Z Energy Limited is a profit-orientated company registered in New Zealand under the Companies Act 1993 and a FMC Reporting Entity for the purposes of the Financial Markets Conduct Act 2013. Z Energy Limited is listed and its ordinary shares are 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 interim Group financial statements for the 6 months ended 30 September 2019 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.

The financial statements comply with New Zealand International Accounting Standards ('NZ IAS') 34: Interim Financial Reporting and International Accounting Standards ('IAS') 34: Interim Financial Reporting. They do not include all the information required in annual financial statements and should be read in conjunction with the Group financial statements for the year ended 31 March 2019. Z has reported as a Tier 1 entity under the External Reporting Board ('XRB') Accounting Standards Framework. Z meets the definition of a Tier 1 entity because it is 'publicly accountable' and 'large' as defined by the XRB.

The functional and reporting currency used in the preparation of the financial statements is New Zealand dollars (NZD), rounded to the nearest million ($m).

Accounting policies and standards

The accounting policies set out in the 31 March 2019 financial statements have been applied consistently to all periods presented in these Group financial statements, with the exception of NZ IFRS 16 Leases ('NZ IFRS 16'). NZ IFRS 16 has been adopted from 1 April 2019. Z has applied NZ IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 April 2019.

Changes as a lessee

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, discounted using Z's incremental borrowing rate. The right of use assets were measured at an amount equal to the lease liability, 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.

Notes to the financial statements for the six months ended 30 September 2019 (continued)

1. Basis of accounting (continued)

Changes as a lessor

Z has assessed leases where it is a lessor and determined that no adjustments were required for these.

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.

Financial impact for transition to NZ IFRS16

On transition to NZ IFRS 16 the opening balances were measured using the 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 periods presented the following profit and loss impact would have occurred:

Increase/(decrease)	30 September 2018 $m	31 March 2019 $m
Revenue	(1)	(1)
Operating expenses	(14)	(28)
Lease depreciation expense	6	11
Lease interest income	–	1
Lease interest expense	9	17

Critical accounting estimates and judgements

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

The Group's significant areas of estimation and critical judgements in these Group financial statements are the same as those contained in the Group financial statements for the year ended 31 March 2019.

Notes to the financial statements for the six months ended 30 September 2019 (continued)

2. 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 and commodity gains and losses and the associated tax impact.

Income statement on RC basis

	Unaudited 6 months ended 30 September 2019 $m	Unaudited 6 months ended 30 September 2018 $m	Audited 12 months ended 31 March 2019 $m
Revenue	**2,461**	2,674	5,450
Expenses			
Purchases of crude, product and electricity	**1,492**	1,787	3,471
Excise, carbon and other taxes	**562**	502	1,091
Primary distribution	**22**	19	48
Operating expenses (net of gains/losses on fuel purchases)	**202**	191	405
Total expenses	**2,278**	2,499	5,015
RC operating EBITDAF*	**183**	175	435
Share of loss of associate companies (net of tax)	**(1)**	–	(1)
RC EBITDAF	**182**	175	434
Below RC EBITDAF expenses			
Depreciation and amortisation	**65**	57	122
Net financing expense	**24**	26	51
Impairment	**35**	–	–
Lease depreciation	**9**	–	–
Lease interest expense	**8**	–	–
Fair value movements in interest rate derivatives	**5**	5	4
(Gain) on sale of property, plant and equipment	**(2)**	(2)	–
Increase in decommissioning and restoration provision	**(3)**	–	18
Total below RC EBITDAF expenses	**141**	86	195
RC net profit before taxation	**41**	89	239
Taxation expense	**19**	17	61
RC net profit for the period	**22**	72	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').

Notes to the financial statements for the six months ended 30 September 2019 (continued)

2. Replacement cost reconciliation (continued)

Reconciliation from statutory net profit after tax to RC net profit after tax

	Unaudited 6 months ended 30 September 2019 $m	Unaudited 6 months ended 30 September 2018 $m	Audited 12 months ended 31 March 2019 $m
Statutory net profit after tax	**28**	139	186
COSA	**(18)**	(136)	(21)
Net foreign exchange and commodity losses/(gains) on fuel purchases	**7**	31	8
Tax benefit on COSA	**5**	38	5
Replacement cost net profit after tax	**22**	72	178

3. 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 forecast, therefore no impairment was recorded.

As at 30 September 2019, the market has not returned to normal operating conditions pre-October 2018 which has made customer acquisition challenging and as a result customer growth has stagnated since March 2019. Flick's Fixie product has not seen customer growth return to levels experienced prior to October 2018. Further there are increased signs of structural supply/demand change in the market.

Given expected customer growth has not materialised, Z has undertaken an impairment test of goodwill at 30 September 2019. An updated DCF has been prepared to estimate the recoverable amount of the CGU, with a resulting valuation range of $19m - $38m. The DCF supports the $35m goodwill impairment.

Notes to the financial statements for the six months ended 30 September 2019 (continued)

3. 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 (BusinessNZ Energy Council – BEC2060). 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 have 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.

4. Property, plant and equipment

During the period the Group recognised additions of $11m to buildings, land & improvements, and plant & equipment.

5. Assets held for sale

During the period, Z settled the sale of land and buildings at the two retail sites that were held for sale at 31 March 2019. The sites had a carrying value of $27m (land $26m and buildings $1m). $1m was held in the revaluation reserve for the sites held for sale. There are no assets held for sale as at 30 September 2019.

6. Investments

Z's investment in Refining NZ is recognised at the NZX-listed share price as at 30 September 2019 of $2.09. During the year Z paid processing fees, customs and excise duties of $423m to Refining NZ and payables due to Refining NZ at the end of the period were $56m.

Notes to the financial statements for the six months ended 30 September 2019 (continued)

7. Financing arrangements

Z's debt includes bank facilities, bonds and USPP notes secured against certain assets. The facilities require Z to operate within defined performance and gearing ratios and includes restrictions over the sale or disposal of certain assets without bank agreement. Throughout the period, Z has complied with all debt covenant requirements as imposed by lenders.

Banking facilities

The bank debt facilities can be drawn down as required, provided Z is compliant with debt covenants. All loans must be repaid on the relevant due dates. Interest rates are determined by reference to prevailing money market rates at the time of draw down plus a margin. Interest rates paid during the 6 months ended 30 September 2019 ranged from 2.2% to 3.0% (30 September 2018: 2.8% to 3.2%, 31 March 2019: 2.8% to 3.2%).

	Unaudited 6 months ended 30 September 2019 $m	Unaudited 6 months ended 30 September 2018 $m	Audited 12 months ended 31 March 2019 $m
Secured bank facilities available	**530**	530	530
Balance at end of period (facilities drawn down)	**182**	88	68

The facilities comprise a $180m revolving-term debt facility drawn to $48m plus a $350m working capital facility drawn to $134m, both maturing in December 2021.

USPP notes

	Unaudited 6 months ended 30 September 2019 $m	Unaudited 6 months ended 30 September 2018 $m	Audited 12 months ended 31 March 2019 $m
Balance at beginning of period	**393**	357	357
Movements in fair value hedge	**28**	(11)	12
Movement in foreign-exchange revaluation	**34**	34	24
Balance at end of period	**455**	380	393

The Cross-currency interest rate swap ('CCIRS') is classified as level 2 in fair value hierarchy and is 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 Interest rate swaps ('IRS') excluded accrued interest. All other derivatives do not contain interest components.

Notes to the financial statements for the six months ended 30 September 2019 (continued)

8. Share capital and distributions

	Cents per share	Unaudited 6 months ended 30 September 2019 $m	Unaudited 6 months ended 30 September 2018 $m	Audited 12 months ended 31 March 2019 $m
Dividend				
2018 Final dividend (paid May 2018)	21.9	–	88	88
2019 Interim dividend (paid December 2018)	12.5	–	–	50
2019 Final dividend (paid May 2019)	**30.5**	**122**	–	–

During the period the Group has undertaken a new stock settled share rights scheme. 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.

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.

590,644 performance rights were issued at an exercise price of $6.36.

During the year ended 31 March 2019 the Z Energy LTI Trustee Limited purchased and held 266,384 shares at a cost of $2m for Z's restricted share long-term incentive plan. This plan has been replaced by the Performance rights scheme mentioned above.

9. Related parties

Transactions with related parties Received/paid	Unaudited 6 months ended 30 September 2019 $m	Unaudited 6 months ended 30 September 2018 $m	Audited 12 months ended 31 March 2019 $m
Key management personnel			
– Short-term employee benefits	**7**	4	5
– Other long-term benefits	**2**	1	–
– Termination benefits	**–**	–	1

Notes to the financial statements for the six months ended 30 September 2019 (continued)

10. Contingent liabilities

Z has guaranteed an exposure up to USD1m ($1.6m) to a financier of one of Z's associate companies (30 September 2018: USD2m ($3m), 31 March 2019 USD2m ($3m)). This guarantee reduces by USD1m annually.

11. Events after balance date

On 31 October 2019, the directors approved a fully imputed dividend of 16.5 cents per share, which is equal to $66m, to be paid on 10 December 2019 (30 September 2018: $50m, 12.5 cents per share, 31 March 2019: $122m, 30.5 cents per share).

KPMG

Independent Review Report

To the shareholders of Z Energy Limited

Report on the interim consolidated financial statements

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements on pages 8 to 21 do not:

i. present fairly in all material respects the Group's financial position as at 30 September 2019 and its financial performance and cash flows for the 6 month period ended on that date; and

ii. comply with NZ IAS 34 Interim Financial Reporting.

We have completed a review of the accompanying interim consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 September 2019;
- the consolidated statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for conclusion

A review of interim consolidated financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of Z Energy Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Our firm has also provided other services to the group in relation to the review of the cost of sales adjustment. Subject to certain restrictions, partners and employees of our firm may also deal with 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 reviewer of the group. The firm has no other relationship with, or interest in, the group.

KPMG

Use of this Independent Review Report

This report is made solely to the shareholders as a body. Our review work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the Independent Review 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 review work, this report, or any of the opinions we have formed.

Responsibilities of the Directors for the interim consolidated financial statements

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

— the preparation and fair presentation of the interim consolidated financial statements in accordance with NZ IAS 34 Interim Financial Reporting;

— implementing necessary internal control to enable the preparation of a interim consolidated 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 review of the interim consolidated financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these interim consolidated financial statements.

This description forms part of our Independent Review Report.

KPMG

KPMG
Wellington

31 October 2019

Company directory

Registered and head office — New Zealand

3 Queens Wharf
Wellington 6011
z.co.nz

Contact us

For general enquiries
phone: 0800 474 355
and select '0' or
email: general@z.co.nz
Facebook: Z Energy
LinkedIn: Z Energy

Directors

Abigail Kate Foote (Chair)
(Appointed as Chair 2 May 2019)

Peter Ward Griffiths
(Resigned 2 May 2019)

Andrew Mark Cross

Alan Michael Dunn

Blair Albert O'Keeffe

Julia Margaret Raue

Stephen Reindler

Executive team

Mike Bennetts
Chief Executive Officer

Lindis Jones
Chief Financial Officer

Jane Anthony
Chief Customer Officer

Andy Baird
General Manager, Retail

David Binnie
General Manager, Supply

Debra Blackett
General Counsel and Chief Governance Officer

Julian Hughes
General Manager, Strategy and Risk

Helen Sedcole
General Manager, People and Culture

Mandy Simpson
Chief Digital Officer

Nicolas Williams
General Manager, Commercial

Share Registrar

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

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

Auditor

KPMG
Maritime Tower
10 Customhouse Quay
PO Box 996
Wellington 6140

Lawyers

Chapman Tripp
10 Customhouse Quay
Wellington 6140

Minter Ellison Rudd Watts
18/125 The Terrace
Wellington 6011

Bankers

ANZ Bank New Zealand Limited
215–229 Lambton Quay
Wellington

Bank of New Zealand
80 Queen Street
Auckland

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

MUFG Bank
Level 22, 151 Queen Street
Auckland

Westpac Banking Corporation
188 Quay Street
Auckland

Registered office — Australia

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

Australia registered business number

164 438 448


ENERGY
z.co.nz