22 July 2020

Z Energy quarterly operating data

Financial Results for 1QFY21 and guidance for 1HFY21

During the first quarter Z delivered RC EBITDAF of $38m, which includes $11m RC EBITDAF loss for April when New Zealand was in alert level 4 (AL4) and alert level 3 (AL3) lockdown. This compares to RC EBITDAF of $95m for the PCP.

Z Group total marketing volume was 595 million litres (ml), down 39% versus PCP highlighting the substantial effect that Covid-19 has had on volumes.

Total marketing volume (ml)	1QFY20	1QFY21	%
Petrol	287	170	- 40.8
Diesel	302	243	- 19.5
Other (inc. Jet)	387	182	- 53.0
Total	976	595	- 39.0

Convenience store average weekly sales, on a like for like basis, declined 2.5% versus PCP, a positive result given reduced forecourt traffic, albeit sales were biased towards lower margin products.

In the absence of full year guidance for FY21 Z has provided the unaudited 1QFY21 P&L statement and operating expense tables. This will be a one-time-only disclosure of unaudited quarterly P&L and operating expense tables.

Assuming New Zealand remains at AL1, refining margins remain at historic lows with reduced Refining NZ production, Z forecasts RC EBITDAF for 1HFY21 to be in the range of $85m – $100m.

Z aims to provide full year FY21 guidance at the first half results, given an expected reduction in uncertainty for some forecast variables around alert levels, refining production, and refining margins.

Commenting on the quarter, Z Chief Executive Mike Bennetts said, "The current strategy is working. Z is increasing retail volume in a competitive market while reducing operating expenses. Z is reducing exposure to volatile refining margins, putting our terminal assets onto a more commercial footing and monetising investments made over the past three years in customer experience and digital platforms.

Z has responded to the significant drop in volume due to the Covid-related lockdown and is executing well as the domestic economy gets back to normal. Assuming no reversion to more restrictive lockdown levels, the better than expected start to the year provides confidence around Z's performance for the rest of the financial year," Mike added.

Cost-out program on track to deliver estimated savings

For FY21 Z is targeting $48m of structural operating cost reductions. Z is targeting an additional $26m of one-off cost reductions in FY21 split between COGS and opex. The cost-out program is on track to deliver the expected cost reductions.

Z's operating expenses for 1QFY21 were $82m. Operating expenses were $18m (18%) lower than the PCP and compared favourably to the $14m target. In addition to the $18m opex reduction there was $3m COGS related reductions, lower than forecast due to the country going into AL1 quicker than expected.

$m	1QFY21 Actual	1QFY21 Forecast	FY21 Forecast
Structural opex	9.5	9.5	47.5
One off opex	10.0	6.0	15.4
Contractual cost inflation	(1.2)	(1.2)	(9.0)
Subtotal	**18.3**	**14.3**	**53.9**
Demand related (COGS)	2.9	4.0	10.5
Cash from cost reductions	**21.2**	**18.3**	**64.4**

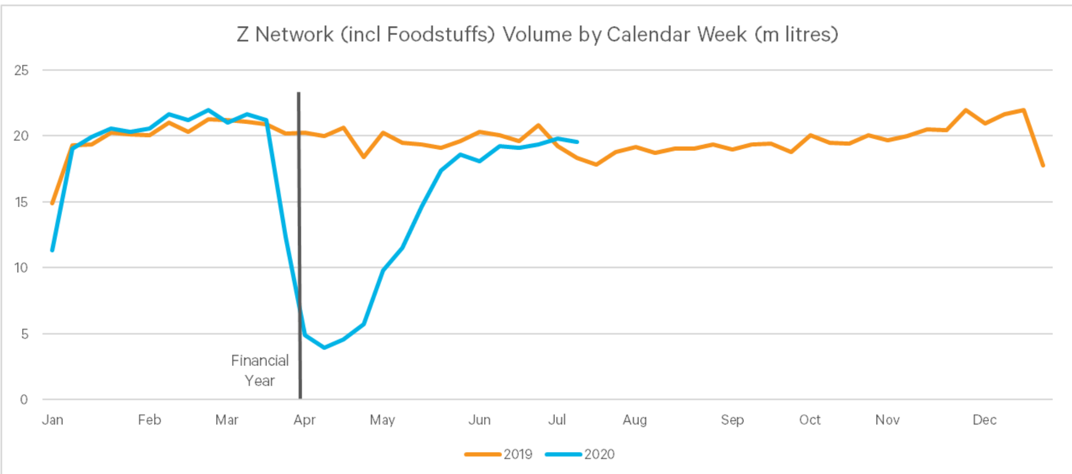
Balance sheet flexibility

The $347m of capital raised during May enabled the repayment of $180m of term debt during June.

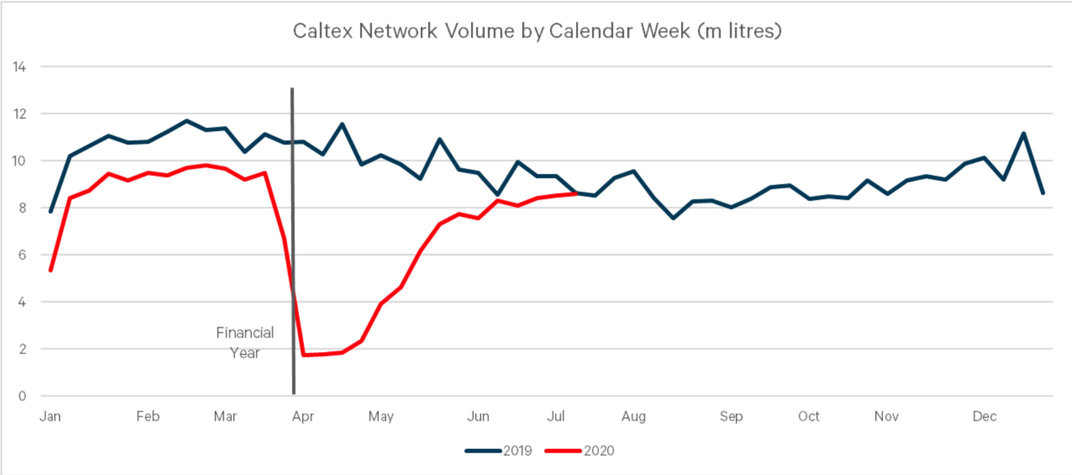
The peak draw on Z's working capital during the quarter was $255m in the month of April. As a result of trading conditions and active management of working capital the facility was undrawn at the end of the quarter with total cash on hand of $169m.

Current Trading Conditions

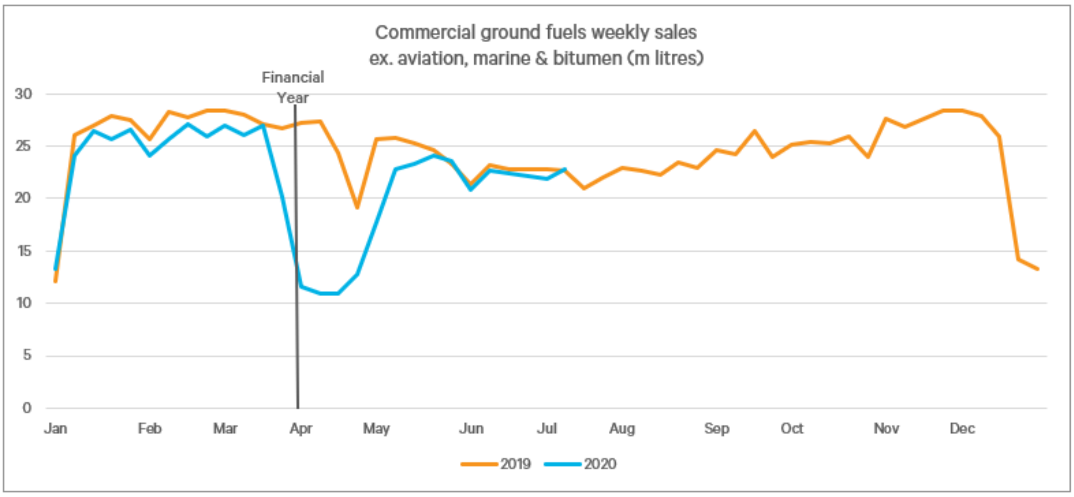
During the first quarter the Z retail network, including Foodstuffs, reported a YoY decline of 33.6%. The Caltex network has seen volumes decline 45.6% over the same period. Z believes that the renewed focus on balancing volume and margin has benefited both the Z and Caltex networks volume performance[1] and likely gained market share across both brands.



[1] Z and Caltex volume data prepared on a like for like basis including three Caltex sites that were rebranded to Z in 2019/20 being Rangiora, Bombay and Russley. Average weekly volume for three combined sites is 382,000 litres.

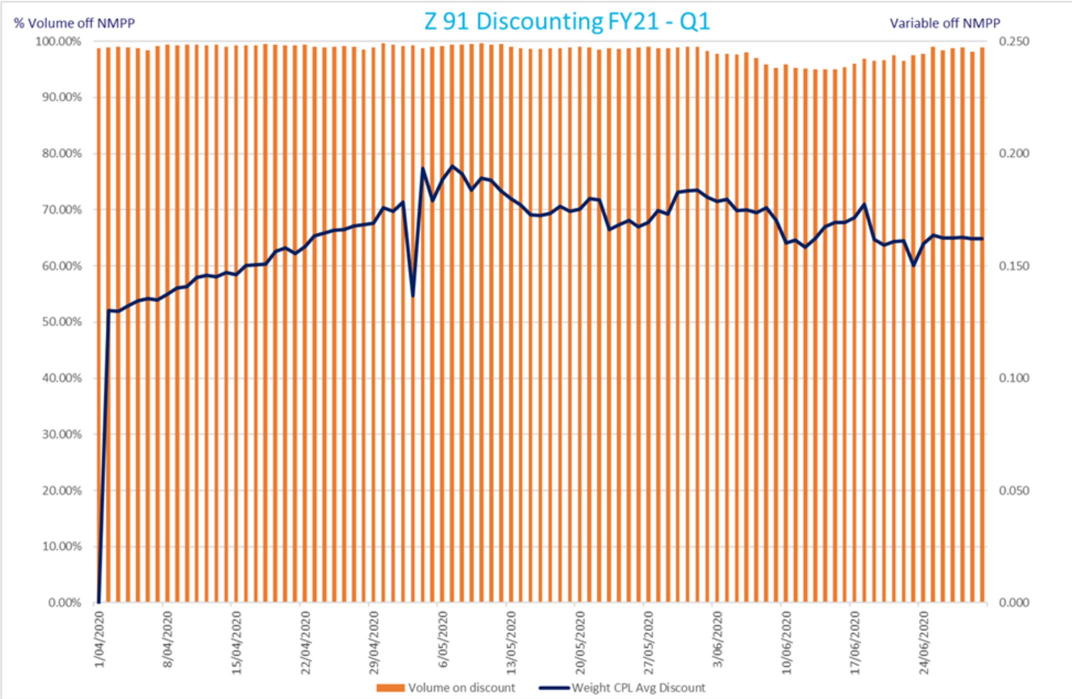


Commercial volume has been negatively affected by the Covid-19 related lockdown of New Zealand from international travel, with Jet volumes most impacted. Excluding aviation, marine and bitumen commercial volumes are recovering back to PCP levels.



Discounting

Discounting continues to be a significant factor in retail trading with well-over 90% of 91 Octane retail fuel volume, the most popular retail fuel by volume in New Zealand, being sold on a discount to Notional Main Port Price (NMPP). The weighted cents per litre discount to NMPP during the quarter ranged between 15cpl and 20cpl.



Retail capacity build out slows

Z tracks capacity in the Retail fuel industry by calculating the ratio of new to industry (NTI) sites compared to site closures, what Z refers to as the turnover ratio. The table indicates a slowing of NTI's opening and an increase in site closures during the past six months.

	2017 (1)	**2018**	**2019**	**YTD 2020 (1)**
Site closures (2)	8	19	16	9
NTI sites (2)	29	39	32	13
Turnover ratio	**3.63**	**2.05**	**2.00**	**1.44**
% site closures unmanned	0%	~5%	~25%	~11%
% NTIs unmanned	~52%	~64%	~56%	~85%

(1) Based on calendar year; year to date figures up to 30 June 2020
(2) Data Source: Informed Sources www.informedsources.com

Terminals strategy and Retail Fuel Bill legislation

During the fourth quarter FY20 Z executed on its decision to maintain its own private stocks of product in Whakatū / Nelson outside of the 'Declared Shared Storage' system (more commonly referred to as 'Borrow and Loan') under the National Inventory Agreement. In 1QFY21 Z negotiated ex-terminal bilateral agreements with other major industry participants and these new contractual terms are now in effect. Z will plan its activities at other terminal locations in 2QFY21 prior to determining next steps.

Z wishes to ensure further operating decisions around our terminals are consistent with the Fuel Industry Bill legislation currently before Parliament. Z expects current legislation to be passed before the end of 1HFY21 which will enable further steps to be taken after a three-year period of delays leading into, during and post the Commerce Commission's Fuel Market Study.

Financial Results

Basis of preparation

Non-GAAP Accounting Measure - Replacement Cost (RC) earnings:

- Is a non-GAAP measure used by the downstream fuel industry to measure and report business performance
- RC earnings adjusts purchases of crude and product as if the product sold in a month had been purchased in that month, rather than the Historical Cost (HC) which reflects the prices actually paid
- RC earnings exclude the impact of changes in crude oil and refined product prices on the value of inventory held by Z, thus it is a better measure of underlying performance
- The difference between HC earnings and RC earnings is the Cost of Sales Adjustment (COSA), commercial price lead/lag and the foreign exchange and commodity gains and losses. Refer to the reconciliation between HC NPAT and RC NPAT in these appendices
- From FY20 onwards commercial pricing lead/lags on product sales will be removed from RC results. Pricing lead/lags occur on product sales when product cost movements are not correlated with contracted customer contracts

Unaudited Profit and Loss

$(m)	1Q FY21 Actual	1Q FY20 Actual	Change
Revenue	594	1,257	(53%)
- Fuel margin	112	164	(32%)
- Non Fuel margin	14	17	(18%)
- Refining margin	(7)	14	(150%)
- RNZ Dividend and other	1	-	<>
RC gross margin	**120**	**195**	**(38%)**
Operating expenses	(82)	(100)	18%
RC Operating EBITDAF	**38**	**95**	**(60%)**
Share of (loss)/earnings of associate companies (net of tax)	-	-	<>
RC EBITDAF	**38**	**95**	**(60%)**
Depreciation and amortisation	33	30	(10%)
Impairment	-	-	<>
Net financing expense	10	12	17%
Other	7	4	(75%)
Taxation	3	15	80%
RC NPAT	**(15)**	**34**	**(144%)**
Reconciliation from RC NPAT to statutory NPAT			
Tax on COSA	22	(11)	<>
COSA (difference between RC and HC Gross Margin and EBITDAF)	(77)	40	<>
Foreign exchange and commodity gains	21	6	<>
Net profit per the statutory financial statements	**(49)**	**69**	(171%)
HC gross margin	**43**	**235**	**(82%)**
HC EBITDAF	**(18)**	**141**	**(113%)**

Operating expenses

$(m)	1Q FY21 Actual	1Q FY20 Actual	Change
Employee benefits	22	21	(5%)
Secondary distribution	15	18	17%
Selling commissions	14	16	13%
On-site	9	9	<>
Professional fees	3	6	50%
Terminal and plant costs	2	4	50%
Technology and Communication	5	6	17%
Administration and other	3	7	57%
Marketing costs	3	6	50%
Storage and handling	4	5	20%
Insurance	2	2	<>
Total operating expenses (excluding FX on fuel purchases)	82	100	18%

Operational Data

For the quarter ended 30 June 2020

Safety & Wellbeing (S&W)	June 2020	June 2019	March 2020
Lost time injuries	2	6	8
Spills to ground	0	2	1
Robberies[1]	0	4	5
Fuel quality incidents	0	0	0
Tier 1 / 2 Process safety incidents	0	1	0
Food safety incidents	1	1	0
Total recordable case frequency	0.59	1.4	1.58
Motor vehicle incidents frequency	0	1.24	1.18

Refining	June 2020	June 2019	March 2020
USD GRM per barrel	0.67[2]	6.63	1.04
NZD GRM per barrel[3]	1.11	9.78	1.62

1 Robberies reported only relates to Z Retail sites. Caltex sites are owned and operated by independent retailers
2 This number is from Refining NZ published data for the March/April period
3 The NZD conversion is calculated by Z

Operational Data

For the quarter ended 30 June 2020

Fuels - All fuels in millions of litres	June 2020	June 2019	March 2020
Total NZ Fuel consumption[5]	-	-	2,334
Z Group total fuel volumes	602	978	997
Petrol - Z Retail[6]	120	188	184
- Caltex Retail	50	99	81
Diesel - Z Retail	54	74	75
- Caltex Retail	24	37	36
- Commercial	165	191	198
Other fuels	80	259	284
Supply - Domestic	102	128	137
- Industry & Export	7	2	2

5 Based on MBIE Oil supply, transformation and consumption data tables excluding LPG. Data in not yet available for June 2020 quarter. This replaces Industry volumes previously reported as this is no longer available due to the Commerce Commission inquiry. Total NZ Fuel consumption does not include Bitumen and Lubricants

6 Z Retail volumes include volumes from 53 Foodstuffs sites

Operational Data

For the quarter ended 30 June 2020

Customer Experience	June 2020	June 2019	March 2020
Z Retail customer satisfaction[7]	92%	92%	92%
Total Z Retail transaction count	9.4 million	13.9 million	14.3 million
Z Retail: fuel-only transactions	4.3 million	7.2 million	7.2 million
Z Retail: fuel and store transactions	0.9 million	1.5 million	1.5 million
Z Retail: store only transactions	4.2 million	5.2 million	5.6 million
Z Average weekly store sales	$35,590	$36,679	$40,212
Z Average weekly store sales like-for-like	$36,236	$37,173	$40,882
Number of Z branded service stations	198	201	199
Number of EV charging stations	7	8	7
Caltex Retail customer satisfaction[7]	82%	79%	81%
Number of Caltex branded service stations	135	139	135
Number of truck stops[8]	153	155	154

7 Customer satisfaction determined using ongoing internal customer measurement
8 This figure represents the combined Z and Caltex branded truck stops