



**Annual
Report**
2014

Welcome
to Z's
Annual report
for the year ended 31 March 2014

As part of our commitment to being straight up and sharing everything, each year we've released an annual review so that everyone can see what we've been up to.

Now that we're a listed company, our focus has moved from this being an annual review to an annual report. So what's in a word? All it means is that there've been a few tweaks to ensure we meet our reporting obligations to our 10,000 new shareholders.





An introduction with CEO

Mike Bennetts

And a quick summary of what you can expect in this year's annual report.

Hi, I'm Mike Bennetts, Z's¹ chief executive. Welcome to our 2014 annual report. This year, we've structured the report around our leadership framework. This is how we describe what great leadership looks like inside Z.

That's the sort of leadership that I or anyone in Z brings to our daily jobs, in what we do personally, or the sort of leadership we bring to the industry. So, it's really important to reinforce that we believe extraordinary results flow from extraordinary leadership – that's why we've restructured the report this year, in that way.



... we believe extraordinary results flow from extraordinary leadership ...



We also continue to talk about our evolution as a brand; a uniquely Kiwi brand that is very much at the heart of what we do here in New Zealand.

We talk about our commitment to sustainability, we update you on our progress, we talk about our customer offers, and we talk about how we continue to be listening to what customers have to say about us, our brand, our offers and all the things we do inside New Zealand.

And finally, I'd just like to thank you for showing interest. I deeply appreciate, as does everybody in Z, the interest you show in our company and the support we get from you, whether you're a shareholder or some other form of stakeholder.

Thank you very much for that ongoing support, and I wish you well on the journey through our 2014 annual report.



This is a transcript.
You can watch the video at z.co.nz/annual-report-2014

This report is dated 23 May 2014 and is signed on behalf of the Board of Z Energy Limited:

Peter Ward Griffiths

Abigail Kate Foote

¹ This annual report relates to the consolidated group of which Z Energy Limited ARBN 164 438 448 is parent. Z Energy is incorporated in New Zealand under the Companies Act 1993 (NZ).



When Z started as a stand-alone company in 2010, one of our most important and urgent jobs was setting up an effective local leadership model. We agreed on six differentiating leadership competencies to guide the way the company behaves and operates.

This year, we've structured our annual report according to those leadership competencies, so you can learn more about how they drive our company to achieve the results we strive for.

Our six leadership competencies are:

1

Create what matters

Generate new ideas, take risks and solve problems.

2

Make things happen

Plan for and deliver results, communicate clear expectations, hold others to account.

3

Grow capability

Challenge, support and develop team members.

4

Act as one team

Work collaboratively and challenge during debates, speak with one voice once decisions have been made.

5

Inspire people

Set goals, empower others to make decisions, communicate constantly.

6

Think commercially

Focus on growing returns, think like an entrepreneur, identify opportunities.

What's in the report?



Creating what matters

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Z Brand Manager, Rhys Musson, and Z Sustainability Manager, Gerri Ward, out for a run on the Wellington waterfront.

Creating what matters

A snapshot of our performance and
other highlights from 2013/14.



Z performance snapshot

for the year ended 31 March 2014 (NZ\$)³

\$219m

Replacement Cost¹ Operating EBITDAF²

\$95m

Historical Cost Net Profit After Tax

\$101m

Replacement Cost Net Profit After Tax

22¢

Dividends per share

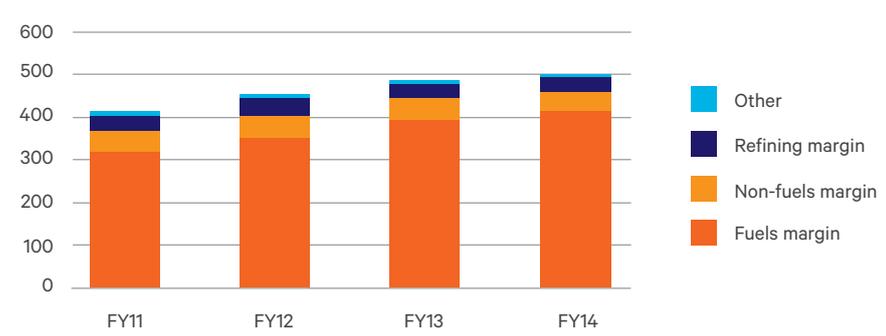
25¢

Replacement Cost earnings per share

\$73m

Capital expenditure

Z Energy replacement cost gross margin through time (\$m)



Replacement cost fuels margin through time



Fuels margin (\$m)

Non-fuels margin through time



Non-fuels margin (\$m)

¹ Z's replacement cost earnings adjust the cost of sales as if inputs had been procured at the time of sale. For FY14 the replacement cost approach to valuing stock sold has resulted in a reduction in cost of goods sold of \$8 million. This is not reflected in Z's statutory earnings. Z's management focuses on (and Z provides guidance on) replacement cost operating earnings, which Z considers better reflect the underlying trading performance of the business.

² Replacement Cost Operating Earnings Before Interest, Taxation, Depreciation (including gains and losses on the disposal of fixed assets), Amortisation and Fair Value movements on interest rate derivatives (RC Operating EBITDAF).

³ All amounts are New Zealand dollars (NZ\$) unless stated otherwise.

Key financial results

	FY14	FY13	
	Pro forma actual	Pro forma actual	Var
	\$m	\$m	%
Revenue	3,371	3,558	(5)
Replacement Cost gross margin	500	485	3
Operating Cost (excluding primary distribution costs)	(281)	(289)	3
Replacement Cost Operating EBITDAF	219	196	12
Share of earnings in associates	(1)	6	<>
Replacement Cost EBITDAF	218	202	8
Depreciation and amortisation	(39)	(39)	-
Net financing income/expense	(33)	(39)	15
Profit and loss on sale of assets	(4)	41	<>
Other	(1)	4	<>
Taxation (including tax on COSA)	(40)	(31)	(29)
Replacement Cost Net Profit After Tax	101	138	(27)

Z Energy, in delivering its first full year result as a listed company, earned a statutory Historical Cost Net Profit After Tax for the year ended 31 March 2014 of \$95 million. These financial results have been delivered in a year of significant accomplishment for Z, including our successful Initial Public Offering (IPO) listing on the NZX and ASX in August 2013.

Z Energy's financial performance was in line with the forecasts we made to prospective investors at the time of our IPO. We have delivered a Replacement Cost Operating EBITDAF of \$219 million which has exceeded our IPO forecast of \$207 million.

Z Energy's Replacement Cost EBITDAF of \$218 million has been impacted by the performance of our equity stake in New Zealand Refining Company Limited (Refining NZ). Gross Refining Margin continues to be volatile over the period as it is driven by global oil prices and regional supply and demand variables across the Asia-Pacific region. The resurgence in refining activity in the United States due to shale oil production has impacted refining margins on a global basis.

Z Energy's FY14 financial results show our ability to continue momentum in earnings growth, as well as the ability of the company to manage volatility in different parts of the business.

Highlights of our 2014 financial performance include:

- We continued to grow both fuel and non-fuel gross margin contributions.
- Our replacement cost fuel gross margin increased by 5% on the FY13 year and reflects the benefits of our volume/margin trade off across the marketing businesses. This meant lower

volumes than in the previous corresponding period. However, this was a conscious choice by the business.

- Our food and coffee offer continues to deliver strong results, with revenue growth of 45% against the 2013 financial year.
- The business invested in five new to industry sites (NTIs) during this financial year, which are delivering new earnings and fuel volume.
- We have generated further momentum in our supply chain through both our improved procurement of refined product and increased value to be generated through our supply optimisation with BP and Refining NZ.

Z Energy also invested \$73 million in capital expenditure during the period. Capital expenditure was less than what we forecast at the time of our IPO of \$99 million, which is a result of our decision to defer some supply chain investments as well as delays completing our FY14 retail build programme.

FY14 was the final year of the current three-year program with benefits delivered in line with plan. In addition, during FY14 the business completed its second iteration of the company's strategy. This outlines the future direction and growth initiatives for the business over the next five years and builds on our successes to date. Our strategy remains focussed on our core business with \$40-\$50m of EBITDAF uplift targeted over this period.

The best of Z 2013/14



Z Energy goes public

One of the most significant undertakings in Z's four-year history was our initial public offering (IPO) and listing of our shares on the New Zealand and Australian stock exchanges (NZX and ASX) in August 2013.

Through having a listed shareholder and listed bond debt on the NZX Debt Market, we've always endeavoured to operate like a public company, especially when it comes to sharing our results and being held accountable for our actions.

So while it was a significant amount of work to go through the IPO, it wasn't a dramatic change in how we do business – rather than two shareholders, we're now privileged to have approximately 10,000. And that includes our own people: around 50% of our employees now own shares in Z.



Earnings continue to grow

On an operating replacement cost basis EBITDAF lifted from \$196 million in 2013 to \$219 million in 2014. This was achieved in an increasingly competitive market. Since 2010, we've increased earnings by 39% and replacement cost net profit after taxation (NPAT) by 51%.



\$88 million declared to shareholders

From the date of our listing to the year ended 31 March 2014, Z has declared to its shareholders \$88 million in dividends.



Bringing you more places to fill up with Z

We continue to lead the way when it comes to investing in our industry – this year another five Z stations arrived on the scene. At a cost of up to \$3.5 million each, this is a significant investment in our future growth.



Z fever is spreading

More than 35% of Z's retail customers are now what we call 'raving fans' – up from 31% last year. This means they rate Z higher than any other company across all areas that we measure.





We've struck a new deal on imported refined fuel

Now that we've been around for a good few years, we've got the skills and experience to directly negotiate our imported refined fuel contracts. This year we cut out the middle man and signed a very competitive 12-month deal with a South Korean refiner for the supply of around 500 million litres of refined fuel.



We're keeping Kiwis moving

Z's forecourt concierges are known for great service, and now we reckon we're also the place to go to for the fastest fill-up in town. Forty-nine Z stations now offer pay-at-pump facilities, which means you can get your fuel and get back on the road quick smart.



Z site staff graduate top of the class

This year 1,450 Z site staff graduated with a New Zealand Qualifications Authority-accredited Certificate in Retail, a Level 2 tertiary qualification. This was a win-win way of equipping our people to deliver the Z factor to our customers, and also enabling them to be recognised for their skills and achievements in the employment market.



Doing more Good in the Hood

Z's neighbourhood investment programme, Good in the Hood, has been incredibly popular with our customers and our local neighbourhoods. In March 2014, Z customers voted again for the community groups they wanted us to support and again we gave more than \$1 million to around 500 unique groups across New Zealand that are actively supporting people who need it.

In addition, in August 2013, Good in the Hood took home the Sponsorship category at the TVNZ NZ Marketing Awards.



Customer satisfaction increase

We measure how our commercial customers think we're doing by asking them if they would recommend us to a friend or colleague. The industry as a whole does terribly in this area, due to years of underinvestment and poor customer service.

We've put a tonne of effort into doing a whole lot better for our commercial customers, which is now showing up in feedback from our customers.





Mike Bennetts
CEO's report

Ko mihi nui ki a koutou. Ko tēnei tau he wā whakahirahira mō Z Energy.
Ko te tumanako kia whakapai tō tātou herenga ki mua.
Na reira, tēnā koutou katoa.

As shareholders you can assess the performance of Z's team through the financial results contained in this document. These clearly operate as the 'scoreboard' for what we have done over the past 12 months and, more importantly, since you decided to invest in Z.

As much as the score is clear and obvious, I think it is equally important that we let you know how we have played the game. Don't get me wrong – the score really matters and is the ultimate measure of our performance, but you should equally assess how we played the game and whether it was consistent with the sort of company we say we are, and with your expectations as an investor.

That is why our annual reports do more than just give you the financial results. We want to be held accountable for both the score and how we played the game. This is entirely consistent with our values as a company and the way we position Z as a brand. We do this to provide a platform and forum for you to feed back how you reckon we are performing. That is one of the reasons why you can access our annual report through a digital platform and provide feedback and ask questions through it, including directly to me.

In the past year, we have transitioned to a publicly listed company and delivered on our forecasts, for the year ending March 2014, that we outlined in our investment statement and prospectus. We also have sufficient momentum to re-affirm the forecasts we provided through to September 2014 – the end of the first half of our 2015 financial year.

We can do that because we have integrity in our operational activities and are realising the benefits from our past investments in our assets, customer offers and our people. In fact, Z's employees are some of the most engaged employees in New Zealand. Staff engagement matters because it is a measure of the discretionary emotional energy an employee is willing to commit, i.e., going the extra mile. Given the clear link between engagement and performance, we benchmark this annually, and this year's result has Z in the upper quartile of workplaces across Australasia.

As for our operational activities, we have lowered our imported fuel costs through our new agreement with a South Korean refiner. While refining is a tough business at the moment, we are growing our underlying refinery margin performance by working more efficiently than ever before with Refining NZ in Whangarei. We continue to support the initiatives of their management to improve the efficiency of refinery operations, including the Te Mahi Hou expansion, which is scheduled for completion at the end of the 2015 calendar year.

In the past year, we invested to keep our supply chain assets safe and reliable so our operating costs are competitive and we are not wasting time and money covering operational inefficiencies.

In both our retail and commercial markets, we continue to optimise our volume and margins. This is the strategist's way of saying we trim out the unprofitable customers, work with our customers to reduce unnecessary costs of doing business together, and



We remain focused every single day on optimising our volume and margin decisions in order to deliver the best value to our customers and our shareholders, while maintaining an appropriate competitive position.



consciously choose how and where to compete. In doing so, we are very mindful of the economies of scale we need within our supply chain.

That means we have sold fewer litres this year than any year since we took over the business in 2010, and I appreciate that raises questions for shareholders. However, in deliberately choosing to sell less fuel at a better return and to focus on delivering real customer value to those customers we seek, we have delivered the best profit performance to date and (our analysis predicts) our highest share of the industry profit pool, i.e., we are making both more absolute and relative profits. This is how we play the game within the New Zealand market structure.

We know that our competitors are focused on price-based and discount-driven offers, whereas we are building long-term, value-based relationships with both our retail and commercial customers.

We remain focused every single day on optimising our volume and margin decisions in order to deliver the best value to our customers and our shareholders, while maintaining an appropriate competitive position.

Customer satisfaction matters to all of Z's employees. We actually stood the whole company down for half a day in December to spend time together to remind ourselves about why we are here, what is important about our brand and how each of us has a role to play in satisfying our customers.

Depending on the actual measure, we survey our retail customers (and those of our competitors) on a daily, monthly, quarterly and half-yearly basis. We have data that goes back for a few years now, so we are clear about what we do well, where our performance varies and what we still need to do. This enables us to remain consistently focused on the things that matter to our customers – doing more of what our customers like and addressing gaps and areas where we're not meeting their expectations.

We are deliberately giving more profile in our various market disclosures to our performance in health, safety, security and the environment (HSSE). HSSE matters because it is about the safety and well-being of all our people and our planet, while sustaining the long term future of our company.

We know we operate in an industry that has more operational hazards and risks than most, and in a country that has comparatively poor HSSE outcomes and results. For the past decade, per capita workplace injuries and fatalities in New Zealand are well beyond those of comparable countries like Australia, Canada, the United States and the United Kingdom.

In that context, companies like Z need to take a leading position on the changes needed to further improve workplace health and safety. At the simplest level this means having people go home to their families in good shape at the end of their working day. We are already working on the changes we will need to make in response to new health and safety legislation that will come into effect in 2015.

In the sustainability space, we are doing very well in some areas, are on track in others and are coming up against the inevitable speed bumps with a few of the targets we have set for ourselves.

When we originally set our sustainability goals, we didn't have a clear pathway to their achievement for about half of them. That didn't and still doesn't diminish our commitment. I'm very pleased that we have announced our plans for development of a commercial-scale plant capable of producing 20 million litres of sustainable biodiesel per annum. Initiatives like this help us start to change the fossil fuels paradigm. In the future we will also be reporting our sustainability performance more fully and against international best practice frameworks.

As an entire transport fuels industry, the products Z and our competitors collectively sell account for about 20% of New Zealand's greenhouse gas emissions. So we continue to



One of the benefits of being a public company is that I now receive more feedback from a wider group of people, even to the extent of being given specific advice on how to run the company!



work hard to be in the middle of the greenhouse gas solution rather than being seen as the centre of the problem.

In our investment statement and prospectus (pages 80/81) we spoke of the opportunities for growth, some of which would be delivered in the forecast period to the end of September 2014, and some of which could materialise in the years beyond that.

In the past few months, we have presented our Board with a range of options – what we call Strategy 2.0. This is the next iteration of our strategy following the successful completion of our first three-year strategic programme, which completed in March 2014. These are projects and initiatives that further strengthen our core business and are a natural evolution from where our business is today.

This will include investing in new service stations and car washes, upgrading another 50 of our convenience stores beyond the current 100-store network, enhancing the retail customer experience (like pay-at-pump technology), using information technology to make it easier and cheaper for our commercial customers to buy from us and getting the lowest cost products from a dual supply chain of local refining and imported fuels.

There are also opportunities for us to go beyond our core business into areas that are a natural extension from what we do today. This is how many other Kiwi companies grow in equally mature sectors.

If you would like to see how we speak about this strategy, you can read the pack and view the video from a session we held with institutional investors on our strategy in April this year here:

z.co.nz/assets/Uploads/Consolidated-Master-Pack-as-at-02042014.pdf

We will provide specific guidance as to what this means for future earnings at the appropriate time, as is current practice.

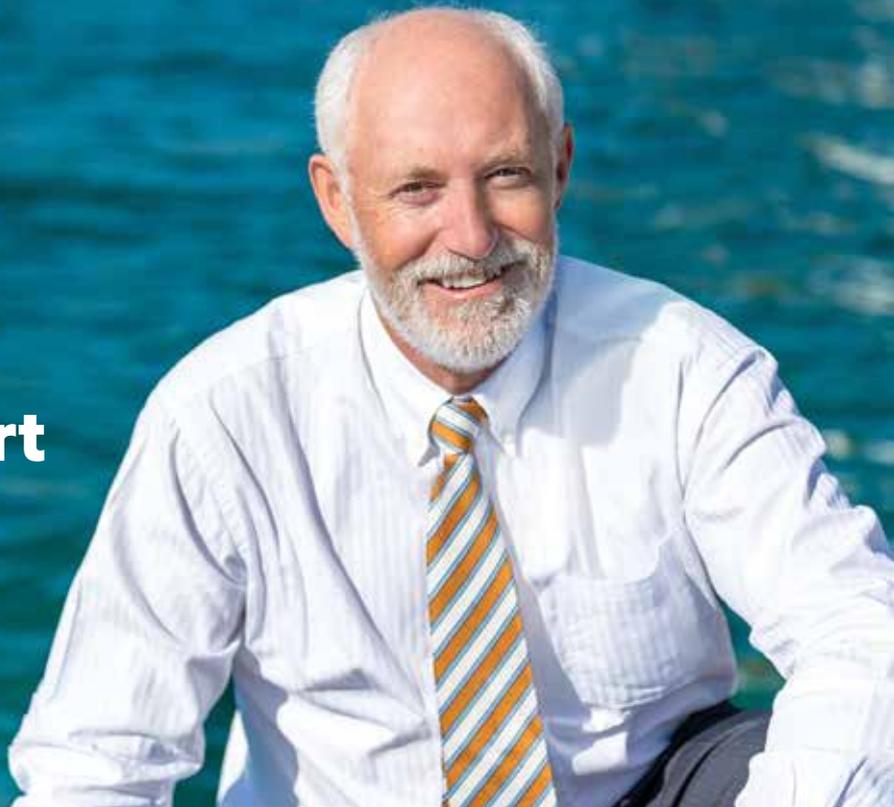
In addition, there remains the potential for further industry merger and acquisition activity, as there has been in the past, such as when Shell chose to exit part of their New Zealand assets in 2010. We believe we are well placed to participate in any such activity and see it as an opportunity for further growth.

Having growth options is important, but the key to success lies in execution. We have a strong balance sheet and a stable leadership team, most of whom have international experience with a good blend of oil industry backgrounds and diversity from a variety of other sectors. We continue to invest in the personal development of all our employees to ensure that they are always capable of doing what is asked of them and have the confidence to innovate and expand what is possible around operational excellence and the customer experience.

One of the benefits of being a public company is that I now receive more feedback from a wider group of people, even to the extent of being given specific advice on how to run the company! I would like to thank all of you who have taken the time to call, email, text or write a letter to me or anyone within Z. We work hard at listening and respect all of what we hear. That is entirely consistent with how we started this company and our core values.

I look forward to reporting back to you in a year's time if I don't have the opportunity to meet with you before then.

Mike Bennetts, CEO



Peter Griffiths Chairman's report

**Delivering what matters
for a moving world**

At Z, our purpose is simply 'solving what matters for a moving world'. This focuses our decisions on delivering value to our customers and our shareholders and is a theme that you will find runs throughout this report – our first as a publicly listed company.

This year, we have delivered on our key commitments made in the prospective financial information and set in place the strategic framework for Z's future operations and growth.

Z has delivered Replacement Cost Operating EBITDAF of \$219 million, which is slightly above our guidance range.

Given the nature of our industry and its inherent hazards, I am particularly pleased that we have delivered strong financial performance from safe operations.

This has been achieved in the face of challenging market conditions and demonstrates the ability of the business to manage volatility and unexpected change.

While we welcome the improving domestic economy, a number of factors such as improving vehicle efficiency and even the increasing penetration of broadband connectivity are resulting in a sluggish demand in our markets.

Our focus remains on delivering increasing value and distinctive performance. We have strengthened our market-leading brand and further developed our retail offer, and worked to support commercial customers and deliver what mattered most to them. Over the 2014 financial year this has enabled us to grow our gross margin and deliver 10% growth in underlying RC NPAT earnings despite lower total sales when compared with 2013.

The 2014 financial year has been as eventful and challenging as it has been rewarding, and I would like to thank every member of the Z team for their commitment to the company. In less than three short years, Z has gone from being simply the last letter of the alphabet to one of New Zealand's most iconic and widely recognised brands. The Z brand emphasises our commitment to New Zealand as the only market in which we operate and, in particular, to the customers who are at the heart of our business and our brand.

The IPO and listing on both the New Zealand and Australian stock exchanges in August 2013 placed a heavy demand on members of the Z team. The success of the IPO and its delivery consistent with Z's values is a tribute to those efforts.

You will be seeing even more of the Z brand over the coming years as an important part of the company's growth will flow from increasing the network of Z retail sites, each with an improved onsite offer.

While the Z network is the most visible part of our business, Z's success is underpinned by the quality of its supply system. During the year we have strengthened and built greater efficiency into our supply chain by negotiating better contractual terms for imported fuel and strengthening our local partnership to ensure we receive better value from processing crude oil at the Marsden Point refinery.



We plan to continue to safely deliver quality fuels and convenience to New Zealanders while providing a reliable financial return to our shareholders.



Z's good safety performance maintains the company's licence to operate. Z is wholly committed to minimising its impact on people and the environment.

In service of best-in-class health and safety performance, the quality and maintenance of equipment and the training and development of people are essential. However, nothing is more important than the fostering of a culture in which safety is paramount, in which leaders set an example and in which people are encouraged to intervene, report incidents and actively contribute to safer workplaces.

You will see in this report that Z reports a range of health and safety and environmental performance data, including spills to ground, robberies and lost time injuries. We are proud of our record to date, and we publish these statistics every quarter to encourage scrutiny and to hold ourselves publicly accountable for our performance.

Z has focused on reducing the carbon intensity and waste from its own operations and on supporting customers to get the best value from the fuel they buy. I'm pleased with our efforts in achieving our sustainability goals and the progress being made.

Growth and shareholder value is the focus of the second phase of Z's strategy. We will be focused on delivering greater value from the current business through flawless supply chain execution, improved cost efficiency and bringing a quality customer experience to more retail and commercial customers.

The company will invest in growth options both within the core business, such as expansion of the retail network, and into first-mover opportunities such as the recently announced biofuel production facility.

Z is a local company that is unique in this market. Z has the flexibility to make the investment decisions that determine its future here in New Zealand, and the way that, as a part of our community, it interacts with and actively supports its

neighbourhoods. Z's Good in the Hood programme has set a new standard in terms of community participation and has actively supported hundreds of community organisations to deliver what matters in their neighbourhoods.

So what does financial year 2015 hold?

With continued economic growth across the New Zealand economy, we expect this to be reflected in heightened demand for diesel, while industry petrol sales will remain flat to slightly declining.

It's a brave person who predicts oil prices or exchange rates too far into the future but Z's view is that oil is likely to remain within the current range of US\$100 – \$110 per barrel and for the USD-NZD exchange rate to remain relatively high. Z has a strong balance sheet and financial facilities to cope with a wide range of oil and exchange rate scenarios and also to enable the company to pursue strategic opportunities as they might arise.

We plan to continue to safely deliver quality fuels and convenience to New Zealanders while providing a reliable financial return to our shareholders.

On behalf of the Z Board, I would like to thank all of Z's shareholders for their support of Z during our market listing and to Mike Bennetts and the whole team at Z for their commitment and contribution to our company.

The 2015 year will be an exciting one for Z, and I look forward to sharing our successes with you over the course of the year.

Peter Griffiths, Chairman





Paul Fowler
Director

Marko Bogoevski
Director

Dr Bruce Harker
Director

Justine Munro
Director

Abby Foote
Director

Peter Griffiths
Chairman

Alan Dunn
Director

Meet Z's Board

Peter Griffiths Chairman

BSc (Hons)

Peter is an oil industry veteran. He has been General Manager BP Papua New Guinea and Commercial Manager for BP New Zealand's fuel and LPG interests. Until 2009, he was Managing Director of BP New Zealand and also Chairman of BP South West Pacific. Peter has served on the boards of Refining NZ, Liquigas and Bitumix. He is a director of Wanganui Gas, New Zealand Oil and Gas, and New Zealand Diving and Salvage.

Marko Bogoevski Director

BCA, MBA, ACA

Marko is Chief Executive Officer of Infratil and H.R.L. Morrison & Co. He was previously Chief Financial Officer of Telecom New Zealand, responsible for corporate finance, mergers and acquisitions, and group strategy. He is a director of Infratil and Trustpower. Marko holds a Master of Business Administration from Harvard University.

Alan Dunn Director

Member, Institute of Directors

Al knows all about retail and business leadership. He was Chief Executive Officer and Chairman of McDonald's New Zealand from 1993 to 2004 before heading to Chicago to become Vice President Operations then Regional Vice President in the Nordic region, and Managing Director of McDonald's Sweden. These days he manages his own business, Trumpeter Consulting, specialising in business leadership and development. He is also a director of New Zealand Post, Burger Fuel Worldwide and a number of private companies.

Abby Foote Director

LLB (Hons), BCA

Abby is an experienced director of both publicly listed and Crown companies. Based in Christchurch, she has worked in a range of corporate, treasury and legal roles over the last 20 years. Abby holds a number of directorships, including director of Transpower New Zealand and of New Zealand Local Government Funding Agency.

Paul Fowler Director

BS (Marine Engineering), ME (Nuclear Engineering), MBA,
Fellow of Australian Institute of Company Directors

Paul has primary industries in his blood. He was the founding Chief Executive Officer of Nyrstar NV, the world's largest producer of zinc metal. Before that he was Chief Operating Officer of Zinifex, an Australian zinc and lead mining and smelting company. He has also been Chief Executive Officer of Fletcher Challenge Forests and Carter Holt Harvey Forests and spent 15 years with BP in crude oil trading, strategic planning, refining and retail marketing. Paul has served on the boards of Refining NZ and Evergreen Forests.

Justine Munro Director

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

Justine Munro is a New Zealand Rhodes Scholar who is globally recognised in the fields of corporate social responsibility and business, community and government partnerships. Justine has returned to Auckland from Sydney where she was Executive Director, Education at Social Ventures Australia. Justine was the founding CEO of the New Zealand Centre for Social Innovation and helped to establish New Zealand Global Women in 2008. She has also worked in Australia and New Zealand as a lawyer and strategic management consultant.

Dr Bruce Harker Director (from 19 February 2014)

BE (Elect) (Hons), PhD (Elect Eng), FIPENZ

Dr Harker has extensive experience in corporate governance and energy markets, with a particular focus on renewable electricity developments. He is the Director of H.R.L. Morrison & Co's Energy Group and is Chairman of NZX listed renewable electricity company Trustpower. He has previously chaired the Australian hydro business Southern Hydro Partnership and was Deputy Chair of ASX listed Energy Developments Ltd. Also in Australia, Bruce chaired start-up electricity retailer Victoria Electricity between 2004 and 2012, from its first signed customer through to having over 400,000 customers.



Rob Freeman
GM Supply & Distribution

Rob Wiles
GM Corporate

Chris Day
CFO

Lindis Jones
GM Commercial

Meredith Ussher
General Counsel &
Company Secretary

Mike Bennetts
CEO

Mark Forsyth
GM Retail

Huma Faruqi
GM Capability &
Organisational
Development

Meet Z's executive team

Mike Bennetts CEO

BBS and Diploma in Corporate Management
Member, Institute of Directors

Mike became CEO of Z Energy after 25 years with BP in a variety of downstream roles in New Zealand, China, South Africa, the United Kingdom and Singapore. His last role was as CEO of BP's Eastern Hemisphere supply and trading business.

Rob Wiles GM Corporate

BE (Hons), MSc (Finance), Postgraduate Diploma in Banking

Rob has had an international career in corporate finance, infrastructure, treasury management, mergers and acquisitions, strategy and business development. He also has experience in the development of start-up businesses. Rob has held senior positions with the National Australia Bank, Bank of New Zealand, South Pacific Merchant Finance and National Bank of New Zealand.

Meredith Ussher General Counsel & Company Secretary

LLB, BA

Previously with Todd Energy and the New Zealand Racing Board/TAB, Meredith is an experienced corporate lawyer in both the energy and retail network industries. She also has a strong private practice history, having worked at Minter Ellison Rudd Watts as a senior associate. Within Z, she has responsibility for all group legal risks as well as relevant strategic and legal advice in respect of all operational matters including major contracts with key suppliers and customers. Meredith is also responsible for Z's Company Secretariat and advises on governance matters.

From 23 May 2014 Meredith will take 12 months' maternity leave and will be replaced by John Conlan, a Senior Associate from Minter Ellison Rudd Watts.

Rob Freeman GM Supply & Distribution

Before moving to New Zealand, Rob held senior management roles in Shell Australia in commercial marketing, services, distribution and logistics. He is Chair of New Zealand Oil Services and a director of Wiri Oil Services, Coastal Oil Logistics and Penagree Ltd. Rob is responsible for the fuel supply distribution chain, from sourcing in international markets to domestic distribution and supply.

Mark Forsyth GM Retail

BCom, Member, Institute of Directors

Mark has held management positions with Shell in New Zealand, the United Kingdom and Ireland. He oversees Z Energy's 200+ service stations and nearly 100 truck stops, as well as marketing, brand and asset management. Mark is a director of Loyalty New Zealand.

Chris Day CFO

BBS, CA, CTP, Member, Institute of Directors

Before moving to Z Energy, Chris has held general management, chief financial officer and financial controller roles in a range of listed and commercial companies, most recently as Financial Controller for Contact Energy and before that as Chief Financial Officer for AXA New Zealand. He is a member of the New Zealand Institute of Chartered Accountants and is a director of Landcorp Farming Ltd.

Lindis Jones GM Commercial

BCom (Hons), BSc, Masters in Finance

Before joining Z, Lindis was the Head of Property at ANZ National Bank. Prior to that he was with Shell for 13 years, primarily in retail operations and strategy in Europe, Asia and New Zealand. Lindis became the General Manager of Commercial in September 2011 after joining Z in the role of General Manager Corporate in May 2010 and is responsible for all our business-to-business activity including Z Card.

Huma Faruqui GM Capability & Organisational Development

Assoc CIPD, BA (Hons) Financial Services, MHRINZ, PG Cert Management Studies, MBTI certification, SHL certification, MECI UK, IMUK Certificate in Management

Before moving here from the United Kingdom in late 2003, Huma worked in human resources roles for Deutsche Bank, Cater Allen/Abbey National Bank and Deloitte. In New Zealand, she has held human resources leadership roles with Vero Insurance and, most recently, Telecom.



Making things happen

The continued evolution of the Z brand, the decisions we've taken to strengthen our supply chain and bring more sustainable fuels to our customers.



Z Technical Fuels Manager David Jacobson and the Norske Skog team at the sawdust plant in Kawerau.

Our supply chain



Crude Oil



Refined Oil



1

It's extracted

Crude oil is extracted from beneath the earth's surface via oil wells from all over the world. Z does not explore or drill for oil, so we have to purchase it on the international oil market.

4

It arrives

Crude oil arrives at Marsden Point where the crude is refined into petrol, diesel, jet fuel, fuel oil and bitumen. Refined products are shipped and piped straight to terminals around New Zealand.



5

We distribute it

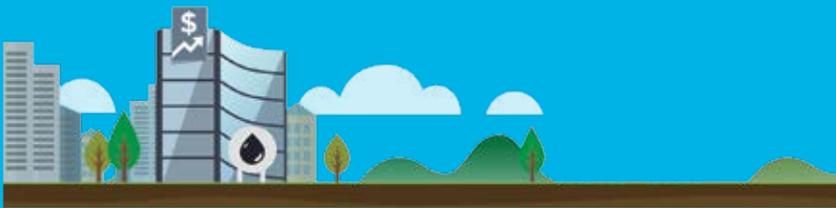
The refined products are shipped, trucked or piped to terminals around New Zealand.



2

We buy it

We buy crude oil and refined products (petrol and diesel) on the international oil market. Most of the crude oil Z imports is from the Middle East and Asia. The refined products we buy are imported from Asia.



3

It's shipped

Crude oil and refined products are then shipped from international ports to New Zealand.



6

You use it

The fuel products are then trucked to service stations, truck stops, aviation pumps and commercial customers around New Zealand, ready for our customers to use.



Helping Refining NZ work better for everyone

Around 75% of the fuel we sell each year starts as crude oil that we import and then refine at New Zealand's only oil refinery, Refining NZ, at Marsden Point in Whangarei. This makes Refining NZ a critical piece of the country's energy and transport fuel infrastructure.

As a shareholder in Refining NZ, as well as one of its major customers, we are committed to ensuring that the refinery is as efficient as possible, thereby securing its long-term success and competitiveness. Globally it's a tough time for refineries the size of Marsden Point. Although they are modern and efficient, they are competing against refineries that are up to 10 times bigger.

In early 2012, Z voted to support Refining NZ's \$365 million expansion project, Te Mahi Hou, which will improve the efficiency of the refinery and is due for completion in December 2015.

Now our focus is on working with Refining NZ and another major refinery customer to optimise the refinery's operations to ensure it is able to turn crude oil into refined fuel more efficiently and cost-effectively.

By working more closely with Refining NZ we can jointly deliver the most optimal plans that will allow refining efficiency gains to be realised and, in doing so, deliver better financial results for Z and the refinery. While efficiency-improvement projects such as these can take time to co-ordinate and get off the ground, they help Refining NZ stay competitive against imported refined fuels from world-scale refineries in the Asia-Pacific region.

Smarter manufacturing planning arrangements with Refining NZ and other crude oil importers substantially cut Z's cost of doing business.

Keeping things simple for Kiwi businesses

Our main aim is to help Kiwi businesses get on with their day-to-day work, so we're continually looking for ways to make refuelling a smoother and more efficient exercise. So when trucking-engine manufacturers introduced a new technology (selective catalytic reduction, or SCR) to help reduce diesel vehicle emissions that required customers to use a separate diesel exhaust cleaning fluid, we saw an opportunity.

In 2014, we launched Z DEC (the DEC stands for diesel emission cleaner), an exhaust fluid that is added directly into the vehicle at the time of refuelling, saving the customer from purchasing and carrying separate containers of the fluid and using the product themselves.

We trialled our Z DEC offer in two truck stop sites in 2013, and the level of use among our customer base straight away exceeded our expectations and confirmed the value of the offer. As well as creating a single, convenient stop for customers with a SCR vehicle, Z DEC can also be put on Z Card, meaning there is just one payment system for diesel and diesel emission fluid fills – we think that couldn't be any easier.

It's better for the environment and our customers if they can fill up with Z DEC from our truck stops instead of buying their diesel emission cleaner in separate containers. The ammonia content in diesel emissions cleaners means that if containers are spilt or residue is washed down waterways, it can be toxic for the

environment; filling at the pump means one less thing to worry about.

Z DEC matters because when used with SCR technology, it reduces the level of emissions from heavy diesel vehicles. Increasingly, New Zealand's heavy vehicle fleet will require this product to run and we have now committed to rolling Z DEC out to selected truck stops across the country. We anticipate this will be completed in the next few months, meaning a faster fill-up for customers nationwide and cleaner diesel fuel emissions to benefit everyone.



Bunny McDiarmid, CEO Greenpeace

Guest columnist

The greatest business challenge of our time is how we respond to the threat of climate change. The science is certain: burning fossil fuels like oil is the major cause and we can no longer ignore the urgent need to act.

Climate change is causing more extreme weather, which hits food production, threatens scarce water resources and damages energy security and is having a massive financial impact on global economies. Flooding in China, attributed to a warming world, cost its economy nearly US\$70 billion in 2013 alone, and this is just one small part of a global picture.

In response, we are witnessing a global shift in the way we power our economies. Huge opportunities are emerging as we develop technologies that reduce pollution by doing things in a cleaner, smarter way. The status quo is being disrupted as innovation drives investment in the business solutions that solve our environmental problems.

And there is no better place to look than the innovation that is emerging in the energy sector.

With the beginning of the end of easy-to-reach conventional fossil fuels, exploration costs are escalating and success rates diminishing. High carbon investments are becoming less predictable and financial institutions are starting to become uneasy about the liability of extracting high polluting resources. Smart investors can see that investing in companies that rely solely on fossil fuels is becoming risky.

And this means that energy-technology innovators are taking advantage of developments in areas such as solar, wind and

biofuels to improve how the world produces and consumes energy. Indeed, according to Bloomberg New Energy Finance nearly US\$300 billion was spent last year on clean energy technologies. As renewable energy is scaled up and deployed more widely, the costs are falling and becoming more competitive with fossil fuels.



Huge opportunities are emerging as we develop technologies that reduce pollution by doing things in a cleaner, smarter way.



Over the next decade, advances in energy storage technology could make electric vehicles (hybrids, plug-in hybrids and all-electrics) cost competitive with vehicles based on internal-combustion engines and will revolutionise the way we travel to work and move products through our economy. According to McKinsey and Co, the cost of batteries is dropping precipitously making electric vehicles – once the cause celebre of A-list Hollywood stars – more affordable, with improved fuel economy more viable in replacing high-cost, mostly imported oil, transforming our vehicle fleets.



And the win-win in all of this is that it will help significantly reduce the country's carbon pollution.



And this presents both risks and opportunity for businesses like Z Energy. It's a case of adapt or die as those companies that neglect what is happening on the margins today put themselves at risk of being pushed to the margins tomorrow.

In New Zealand, conventional transport has been the fastest growing source of carbon pollution and leaves us dependent on the global supply of oil. To build a smart, modern and low environmental impact economy, there is a need to shift away from energy intensive transport modes and increase greater use of public transport, electric and hybrid vehicles and sustainable transport fuels.

In 2013, Greenpeace released a report, 'The Future is Here', documenting the huge potential for job creation and economic benefit from shifting almost entirely to clean energy sources. It was based on modelling from one of the world's leading energy market analysts at the German Aerospace Centre. The report showed that with the right policies and investment decisions, road transport could be virtually oil free within 22 years, creating up to 27,000 jobs in the bio-energy sector and saving over NZ\$7 billion per year in oil imports. Once the gains have been made in improving efficiency and electrification, the remaining road transport energy needs in 2035 could be met by home-grown liquid fuels from production forestry.

This is why Greenpeace has welcomed Z Energy's move into the biofuel sector with the 'Stump to Pump' programme, which is investigating the viability of turning woody waste from the forest industry into 'green crude'. Domestically produced fuels are less vulnerable to price volatility and free of exchange rate risk. They could provide a major economic advantage to the economy while boosting regional development and providing much-needed employment in rural communities.

And the win-win in all of this is that it will help significantly reduce the country's carbon pollution.

By understanding how cleaner, smarter innovation and technology will shape the world's economies, business must make the right decisions to invest in new forms of infrastructure and be part of these solutions. In New Zealand, we are blessed with a wealth of innovators and pioneers as well as renewable natural resources. The challenge now is whether we can transform our businesses to become the drivers of a cleaner, more prosperous future, or whether they continue to be part of the problem.



We're on track to become New Zealand's leading biofuel producer

Sustainability is becoming one of the biggest issues facing New Zealand companies. Customers are increasingly judging businesses on their position on environmental and sustainability related issues, so work done now will contribute to the long-term viability of our company.

For Z, this means not just ensuring that our own practices are efficient but also working to create new alternative energy options to help solve what matters for New Zealand. We're a transport energy company, not a fossil-fuel company, so we have the freedom to explore options beyond traditional fuels. In last year's annual review, we introduced some exciting developments in the world of biofuels, and we've been continuing our work in this area in the last financial year.

Biodiesel

Z has spent the last four years actively investigating, analysing and developing a new, highly sustainable biodiesel project that will use inedible tallow – a by-product from New Zealand's substantial meat industry – as its principal feedstock, or primary manufacturing ingredient.

During that time, we have purchased a pilot-phase manufacturing process and the intellectual property to produce this biodiesel, tested the patented technology and developed the process to commercial-scale production of biodiesel that meets New Zealand and European quality standards and specifications. Z's biodiesel is completely safe, with substantially fewer toxic emissions than mineral diesel.

As at the date of writing this report, we have critically examined the business case, are in the process of securing construction contracts with experienced and well-respected companies, have found an ideal location for the plant in South Auckland that will create 12 new jobs and are in the process of securing a reliable supply of tallow, which will ensure the long-term resilience of the project. Crucially, we've also talked with our major commercial customers, and we're comfortable that we have the support and demand to bring our biodiesel to the market.



... we have critically examined the business case, are in the process of securing construction contracts with experienced and well-respected companies, have found an ideal location for the plant in South Auckland that will create 12 new jobs and are in the process of securing a reliable supply of tallow, which will ensure the long-term resilience of the project ...



In April 2014, after more than three years of painstaking work, we decided to proceed with this biodiesel project and will start construction in the coming months. We plan to be in production of a high-quality, sustainable biodiesel by June 2015.

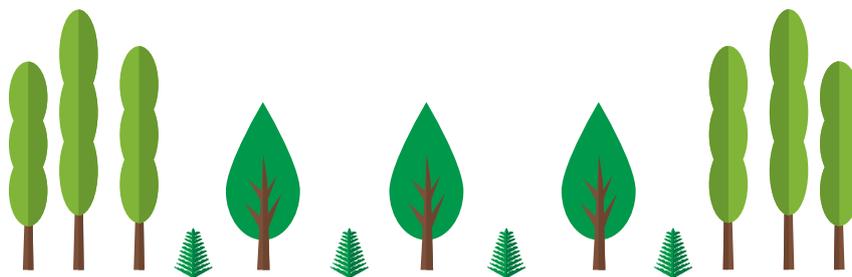
We are hugely excited by this biodiesel production facility. It's an ambitious and innovative way of delivering an alternative fuel option for a large chunk of our customer base.

While not the first biodiesel plant to be constructed in New Zealand, it will be the first built at a commercial scale (production capacity of 20 million litres per year) and, with domestic production, will deliver greater resilience into New Zealand's security of fuel supply. The plant is capable of being built and operated without taxpayer subsidy or grants. Establishing a market-leading position in biofuels meets the changing needs of our customers and is exactly what Z's brand purpose is all about – solving what matters for a moving world.

Our discussions with commercial customers show there is strong demand for a sustainable alternative to mineral diesel as it becomes increasingly important for businesses to contribute to carbon-reduction targets and for councils to improve air quality in high-density urban cities.

The biodiesel production will be based at a new facility in South Auckland, near our fuel terminal at Wiri – an area of increasingly high growth and fuel demand. This location will initially allow us to supply our commercial customers in the upper half of the North Island with a diesel blend, with the possibility of supplying our retail customers in the future.

Watch this space for more updates!





Stump to pump

Z is currently partnering with multinational paper manufacturer Norske Skog to investigate the feasibility of developing a new biofuel that uses forestry waste as its feedstock. It's a real partnership, with Norske Skog supplying the woody biomass expertise and Z providing fuel industry knowledge, access to transport fuels infrastructure and a pathway to the market.

In July 2013, the Ministry for Primary Industries approved co-funding of \$6.8 million for an economic feasibility study into the project. Norske Skog and Z will together match the government funding, bringing the project's total funding to \$13.5 million. The goal of the programme is to determine the commercial viability, engineering and design of a test plant to process New Zealand forest waste into sustainable transport fuel.

It's an exciting and innovative project that has the potential to cut New Zealand's transport carbon emissions and reduce our reliance on imported fossil fuels, and it's renewable and sustainable. And in financial terms, if the technology can be commercialised, the estimated economic benefit for New Zealand in the next 20–25 years is an annual gross domestic product increase of up to \$1 billion and 1,200 new jobs. However, it's crucial for Z and Norske Skog that the project is economic in the long term, hence the detailed commercial evaluation being undertaken at this stage. We'll continue our focused work in this area and keep our stakeholders informed of progress and developments.



Making biodiesel

An alternative energy future

Lindis Jones, Steve Alesech and David Jacobson talk about turning tallow into biodiesel.

Lindis Jones, GM Commercial:

At Z there are a few things that we hold to be true. The first is that the world has a limited ability to actually absorb the waste and emissions that humans produce. The second thing is that over time resources will become more and more scarce and more and more expensive. But why does that matter to a fossil fuels company? Well the first thing that we realised is that we aren't just a fossil fuels company. What do I mean by that? First of all, we don't have a link to upstream oil; we don't have biases or incentives to sell more oil just because we drill it out of the ground. So, we can then focus on doing the right thing for New Zealanders.

The problem

In my role as the GM Commercial I spend a lot of my time with customers and I see the angst and the frustration that they have in not being able to express either their personal commitment to sustainability or their corporate commitment to sustainability. Part of the reason for that is because a lot of the waste and emissions that my customers create through their own businesses is actually caused by the fuel that we sell them or the fuel that they consume, and without us playing a part in this or being part of the solution

they have got nowhere to go. So for someone in the industry to actually front up and cause something to be different (without asking for a hand-out) is something that I am immensely proud of as a New Zealander but also as a member of the Z team.

The project

Steve Alesech, Biofuels Manager:

This project requires a level of investment that is around \$22 million in total. We've spent around \$2 million to date getting through the feasibility stage. The next stage we'll implement is the construction, which will cost us around \$15 million to build the plant and another \$3 million to build our blending and storage facilities at Mount Maunganui and Wiri oil terminal. From a financial returns perspective, our Board is very comfortable with the proposition we put in place and I guess the real risk comes when we bring product to market and how acceptable our product is going to be to our customers. What gives us a lot of confidence at this stage is the level of acceptance and commitment that our customers, particularly our large commercial customers, have given us in their passion and desire to see us succeed and bring this product to market, producing a sustainable and viable option for them to offset

their carbon commitments and to be able to produce something that really is a good fit for New Zealand.

Where's the project at?

We're at a point now where we're very close to making a start on constructing the plant. We're just waiting on satisfying a couple of conditions and most of those are around resource consents and contractual arrangements. So we expect to be complete by the middle of next year and in full production shortly thereafter, which will be around 20 million litres per annum of biodiesel. We can then expand that production to 40 million litres, but that'll be purely based on what sort of customer demand we get at that time.

The product

David Jacobson, Technical Fuels Manager:

To manufacture biodiesel from tallow, we take tallow from New Zealand (which is a by-product from the meat industry), put it into a big pot, a big reactor vessel, add a couple of chemicals, add a catalyst to speed up the reaction, then heat and stir that mix and that converts the tallow into a tallow methyl ester. We then allow the reaction to finish and settle, which separates out a by-product called glycerol. Then we take the biodiesel, run it through several clean-up processes and finish up with the final product.

We don't sell anything in our market unless it meets and complies completely with all regulations. As well as complying with the New Zealand regulations, our biodiesel will also meet the European biodiesel specification EM14214. A lot of vehicle manufacturers require that specification to be met before the fuel is deemed to be acceptable for use in those vehicles.

A lot of studies that have been done and a lot of feedback from customers is that they don't notice any difference in the power available when using biodiesel compared with mineral diesel.

What are the benefits to the environment?

Biodiesel is deemed to have zero contribution to atmospheric CO₂, because it is deemed to be a renewable source. So you've got a cycle if you like; you get biodiesel produced from tallow, it makes CO₂ in the environment, but it's a renewable cycle – so it's zero rated. Every litre or kilogram of mineral diesel that you don't burn or replace with biodiesel, results in a three kilogram reduction in CO₂ to the atmosphere.

What is the opportunity?

New Zealand's got access to a significant tallow resource. If we can convert that into a biodiesel locally (using a locally developed process), to me we've got a significant opportunity to reduce our carbon footprint and to reduce the impact of burning fossil fuels on the environment. So you have the health benefits around reducing particulate matter produced in the diesel exhaust as well as a significant reduction in CO₂ produced.

Being part of the solution

Lindis Jones, GM Commercial:

Right at the beginning of Z, we said we would be New Zealand's largest biofuel supplier. What I'm most excited about is that we're right on the verge of delivering on that commitment. To be honest, three years ago we had no idea how we were going to deliver on that promise; we just knew it was important to us personally and our customers had told us it was very important to them. We get that dealing with climate change is tough – what are individuals, organisations, or even countries to do? I don't think that's been sorted. This is a real start for New Zealand in the New Zealand context. The scale of the plant will actually make a difference for our customers, result in better environmental outcomes and provide one way for every motorist to actually make a difference on their own as well.



This is a transcript.
You can watch the video at z.co.nz/annual-report-2014

Helping Kiwis fill up faster

When we spoke to 17,000 New Zealanders back in 2010 about what they wanted from a Kiwi fuel company, we learned a lot! However, one resounding answer was 'excellent service and great food'. So we delivered that with our forecourt concierges, our commitment to awesome service and our brand-new espresso coffee and bakery food line.

Our customers also told us that speed matters a lot, so we're working hard to be faster, to help our customers get in and out as quickly as possible. We're in the middle of introducing a range of new technologies to our sites solely to make things faster, easier and more efficient for our customers.



Giving our customers more of what they want

When we spoke to Kiwis before we launched Z, we heard loud and clear that being able to pick up top-quality food and drinks when they fill up their tanks was a must-have. We listened, and we've upgraded our top sites to make sure they can churn out a perfect espresso and piping hot pies every day. We must have got it right because from the beginning, we found that this stuff literally flies out the door. Lots of our customers tell us we have the best pies in the country and we agree!

In 2013, our food service range was as popular as ever: this year we sold more than 3 million pies (or enough to go up and down the Sky Tower 770 times) and made a fresh, hot cup of coffee every 13 seconds.

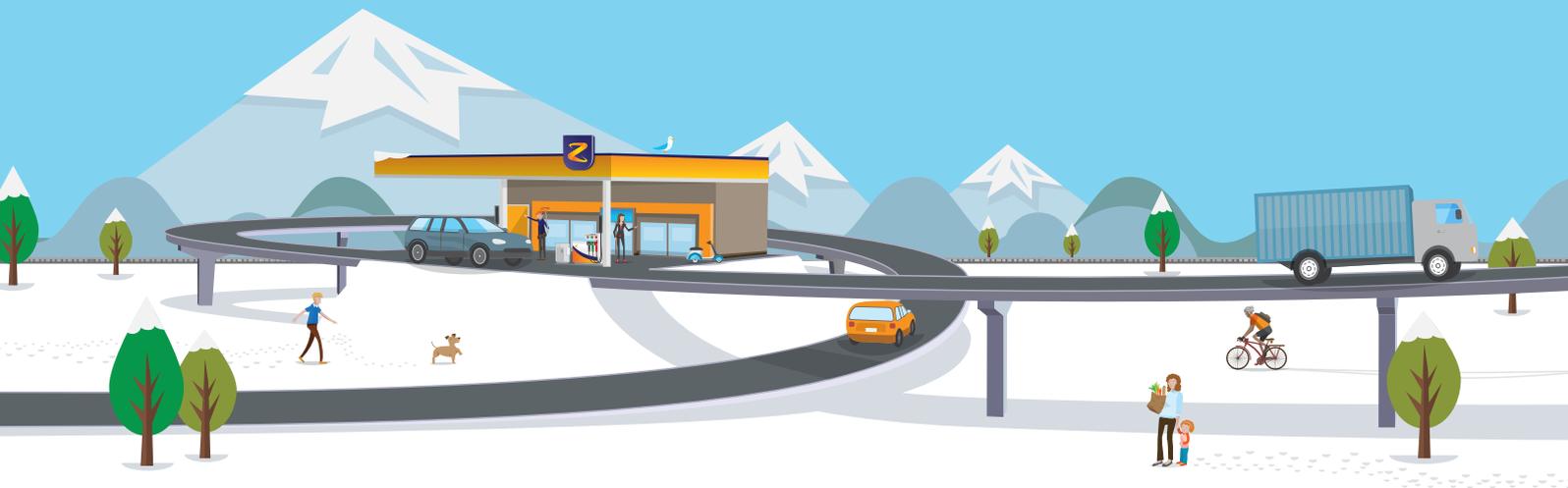
But as always, we're not about to sit back and rest on our laurels. Currently, our gourmet pies and coffee are available at around 100 Z retail sites, but now that we know we're onto a winner, we're going to up the ante by extending this to a lot more stores over the next couple of years. We also know that our customers want

more from us, so we're planning to roll out more food and drink choices. Of course, when it comes to exactly what food we'll be introducing, we're not flying blind here; we're always listening to exactly what our customers want.

Z's successful new in-store retail offer has been proven to deliver real value, with like-for-like sales getting a significant boost when the new offer has been rolled out. So that's great news for our hungry and thirsty customers, and great news for our shareholders!

After our \$12 million point-of-sale upgrade in the last financial year, which slashed transaction times by more than two thirds, we've installed longer hoses that reach both sides of the car, and put diesel on just about all pumps at our top 100 sites, so that filling up is a breeze every time. We've got our customers covered no matter what fuel they want, and they no longer have to remember which side their petrol tank is on! We've also rolled out our pay-at-pump technology at 49 service stations so far. Our customers told us they love the speed and the hassle-free experience, so we're rolling it out to our top 100 sites.

If that wasn't enough, customers can save even more valuable seconds each day by paying with Visa PayWave. We're excited about these developments, which will help Kiwis fill up with Z and get back on the road, pronto. We want Z to be famous for fast, friendly and hassle-free service. Each contactless transaction helps to reduce queues and makes Z a speedier place to fill up. And we're not done yet: we're always keeping an eye out to see what our customers reckon would make their lives easier.



Every drop counts

We love rewarding our customers with Fly Buys points, but we've learned through talking to them that our customer value proposition (how customers collect points with Z) was too confusing. We agreed that it was a bit complex, so we simplified it. Now customers collect one standard Fly Buys point for every 20 litres of fuel they purchase, and every drop over 20 litres (or multiples of 20 litres) goes towards their next point. Or, as we say, every drop counts! We're also working with our friends at Fly Buys to make sure our customers keep getting what's important to them, like a great range of rewards, more instant choices and awesome service. And we know that Fly Buys is still New Zealand's largest rewards scheme. Customers at Z alone collected more than 40 million points last year, enough for 2,600 return trips to London!



Where to next for the Z brand?

When we talk about our brand, we don't mean our logo or name, or our television ads (though they all form a part of it). What we really mean is the full picture of Z – what we care about, how we talk to our customers (and equally important, how we listen to them), what we stand for and who we work alongside.

In other words, it's the entire experience, and this comes from the whole company, not just the frontline staff who talk to customers each day. When managed well, a brand is a distinctive business asset that can create customer loyalty.

This time last year we reported that our brand metrics – we measure them each month – were two years ahead of schedule. We've continued on this path, but we've also spent the last year developing our brand strategy for the next few years as we move beyond the establishment phase. The Z brand has been hugely successful – according to Colmar Brunton's Brand Tracker Survey

it is the most preferred retail fuel brand in this industry when compared with our competitors, and is now well known and liked by New Zealanders. But we plan on being around for the long haul, so we needed to develop a strategy that was future-focused and would help us deliver on our goal of becoming an iconic brand.

Our new brand purpose is an aspirational one for a fuel company: 'solving what matters for a moving world'. This embodies our desire to go beyond being a supplier to being a company that is part of Kiwis' everyday lives, and that anticipates people's needs and provides solutions. Everything we do needs to be in service of that purpose and to get there, we need some principles to guide us.



Solving what matters for a moving world



Be nimble

We need to stay alert and agile with our eyes and ears open – spotting trends, following a hunch, being intuitive about what’s happening around us, anticipating what’s needed and finding the best way to achieve it. We aim to innovate by delivering the big solutions and continually improving what we’re doing to provide day-to-day solutions our customers need.

Live neighbourhood

We will be both a vital and active part of our neighbourhoods, as well as a good neighbour. By creating opportunities and solving what matters locally, we can have a positive impact in our neighbourhoods and across the country.

Outside in

We’re a small company, and we know that solutions and good ideas can come from anywhere. We ensure we understand the needs of our customers, both big and small, and the challenges they face. Then we look outside to develop solutions – with our customers, partners and other great Kiwi businesses to deliver value to our customers and our business.

Freedom in a framework

We have the freedom to try new ideas and take some risks. If they don’t work we fail fast, adjust our thinking, learn and move on. Freedom to think, make decisions and take action is good but freedom within guidelines is even better. It saves time, helps us focus and doesn’t lead us on a wild goose-chase.

Lead the way

We have an opinion on the things that matter, make decisions faster, front-foot our actions and put in place innovations and fresh thinking that enable us to lead on the things that Kiwis expect from a company like us.

We believe that establishing these principles for everything we do will put us in a strong position to be an iconic, enduring New Zealand brand. It also enables people to hold us to account when what we do might be inconsistent with these principles.

What do you Reckon?

Listening to New Zealanders has underpinned the Z brand since day one, and in 2013, we made it official and started asking Kiwis what they reckon we should do next. It turns out that people all over the country are having light-bulb moments every day, and they’ve posted hundreds of suggestions on our Facebook page for how Z could be even better.

After suggestions have been posted, other Kiwis can weigh in and vote on the ideas they’d like to see at Z. Then, we start reviewing them, keeping people posted on whether an idea is under consideration, can’t be done, needs some further investigation or has been done. As we expected, there are some great ideas, and we’ve already implemented a handful of them, including adding potato-top pies to our in-store food range, putting recycling bins on our forecourts and checking customers’ oil and tyre pressure as part of our service commitment.

We've started winning at word-of-mouth

When it comes to the commercial fuel market, our focus in the last year has been on doing our job better so that our customers can get on with theirs. On the whole, New Zealand businesses that buy fuel have been woefully under-served by their fuel providers. And, quite predictably, they've been dissatisfied as a result.

We'll admit that the service wasn't just average; it was bad. Hearing about customers who didn't get their fuel on time, and when it did arrive, it was the wrong amount, was an all-too-frequent occurrence. Customers running out of fuel, meaning they couldn't go about their business, was happening far too often, and incorrect invoices were a daily occurrence.

There was no way we wanted to carry on like this, so a couple of years ago, we started talking to our customers about how we could stop getting in the way of their day-to-day business and start helping out with what matters. The feedback was straightforward: 'fuel is your business not ours; keep it simple and enable me to get on with my business'.

Our approach hasn't been to do anything flashy; rather we've made significant investment in systems and focused on getting the basics right so that refuelling is something that lets our customers do their job with minimal fuss. This means that when a customer needs a new fuel card, it'll now be in their hands in as little as 48 hours. Or where in the past our truck stops could be unavailable to customers

for many hours each month due to fuel outages, electronic failure or unscheduled maintenance, they are now down for only a matter of minutes each month, across our network of more than 90 truck stops. We've also reduced the error rate with our invoices by more than 90%.

However, while we're thrilled to be making progress, we've got a long way to go – and plenty of ideas on how to get there. We're also now in a position to think beyond just the basics and look to the future. For example, we're currently securing what we call our 'foundation biofuels customers' – those organisations that support our work in this area, and are showing us their commitment to come with us on the journey. Not only is biodiesel an exciting new product to make available to our customers, but the fact that they're keen to partner with us in the long term is also a vote of confidence that we're doing things better.

Customer commitment

Over the next financial year, we will continue to focus on where and how we sell to customers. Doing business where we have the right infrastructure and capability ensures that we can stand behind our commitment to our customers and create value for ourselves. Our industry has a track record of under-investing and not delivering on its commitments. Investing in our systems and infrastructure and entering only mutually beneficial relationships with customers will enable us to break this cycle.



Our approach hasn't been to do anything flashy; rather we've made significant investment in systems and focused on getting the basics right so that refuelling is something that lets our customers do their job with minimal fuss.





Peter Baker Transport

Driving customer service

Operations Manager Nafiz Ali talks about the benefits of a partnership approach.

PBT was started in 1972 by Peter Baker, who is the current CEO and managing director of the group. PBT comprises PBT Transport, PBT Couriers and PBT Bulk, the three main operating entities of the group.

We specialise in transport, couriers and containers. We have 450 staff members, 500 contractors and just over 500 vehicles on the road at any given point in time. We're a nationwide freight services provider and have locations from Kaitaia to Bluff.

Z is very customer driven and as a customer of Z, we love that. At PBT we value customer service highly and felt really good receiving a dedicated relationship manager as a contact point for all PBT couriers.

The proactive nature of annual reviews, showing our volume and span, where we are filling up most and what can be done to reduce costs shows that Z is very proactive and always offering new ideas and solutions.

When Euro 5 vehicles were introduced last year (which require AdBlue cleaner to be added to diesel), Z introduced Z DEC at Sylvia Park and Palmerston North truck stops, two of our main truck stop usage points, to enable us to fill using Z DEC. We appreciated this approach. Z understand our business needs and provide solutions that are tailored to the requirements of our business.

Our relationship with Z has been one of partnership, and we have enjoyed a great working relationship with Z over the past five years.



Z is very customer driven and as a customer of Z, we love that.



This is a transcript.
You can watch the video at z.co.nz/annual-report-2014

CO₂ emissions

So what has changed for Z and carbon in the last 12 months?

Well our product and its combustion still makes up the lion's share of our carbon footprint at 99%. So rather than looking the other way, we're starting conversations about fuel-efficient driving with New Zealanders, including our retail and commercial customers, and have begun eco-driver training programmes, but that's really just the beginning.

Inside our own back yard, we struggled this year. Travel is almost 80% of our corporate carbon footprint, and while we managed a 6% decrease from 2012 that was only after a bumper increase the year before. Facing this challenge has meant asking ourselves hard questions about how we do business and what we are committed to for our people and our environment. We won't be the first or the last company in New Zealand to say that we struggle with the balance between our sustainability aspirations and our desire to be connected with our customers and our business by being there in person.

From March 2016, we will be holding ourselves to account for our progress across all sustainability pillars. Right now, we don't use an external framework to assess our progress, but we're in the process of choosing a framework that will give us a clear picture and help us make better choices for Z, and ultimately for the environment.



Z offices and retail sites

1 seat or 10.9 kt



NZ supply chain

37 seats or 410.5 kt



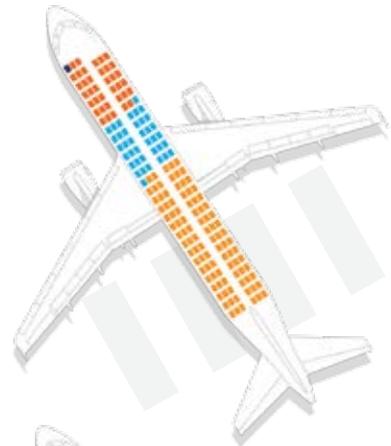
Share of the refinery

39 seats or 430.3 kt



Our customers using Z products

522 seats or 5731.7 kt



Switching on sustainability

Changing a light bulb might seem like sustainability small change compared with developing ground-breaking biofuel technology, but when you switch forecourt canopy lights in 171 Z retail stations around the country to LED bulbs, the effect starts to add up.

Our sustainability strategy is three-pronged: as well as helping customers use fuel more efficiently and developing alternative sustainable energy sources, we need to make sure we have our own business running as sustainably as possible. And this project certainly delivers: making the switch to LED lights will save 490 tonnes of CO₂ emissions each year for the 10 years of the project, meaning a 16% reduction in our annual operating emissions. The LED lights also bring a raft of other benefits: our annual electricity bill will likely be cut by about 11%; better forecourt lighting means increased safety for site staff and customers, and we'll have fewer outages and maintenance costs.

Z invested \$3.1 million in the six-month LED replacement project, and was supported by a \$580,000 business grant from the Energy Efficiency and Conservation Authority (EECA), contingent on the achievement of energy savings and targets. EECA got behind us, not just because of the real reduction in carbon emissions that comes from working at the scale of Z's network of stations, but because of the leadership opportunity to showcase a large-scale business undertaking a nationwide project that works from sustainability, energy conservation and financial bottom-line perspectives.

Making the switch to LED lights will save



of CO₂ emissions each year for the 10 years of the project, meaning a



reduction in our annual operating emissions.

Growing capability

**Becoming a world-class Kiwi company requires
a commitment to leadership and innovation.**



Z prime sign being constructed at Z Stadium prior to opening.

Helping New Zealanders drive smarter

We're sometimes told that our sustainability strategy seems counter-intuitive. After all, a fuel company that encourages people to use less fuel makes about as much sense as a butcher trying to convert people to vegetarianism. But, on the basis of the logic that the fossil-fuel industry in its current form isn't sustainable in the long term, and that if we want to be around in 40 or 50 years' time as a profitable business, some changes must be made. So, we've made a commitment that by 2015, 'with Z's help, customers have reduced their fuel consumption and been rewarded for their efficiency.'

By simply changing how they drive their car, drivers can save up to 40 cents per litre on their fuel bill and reduce their carbon emissions. So showing New Zealanders how to drive in an efficient way (or 'eco-driving') not only demonstrates leadership in the sustainability space but also delivers real value to our customers, which we know they appreciate.

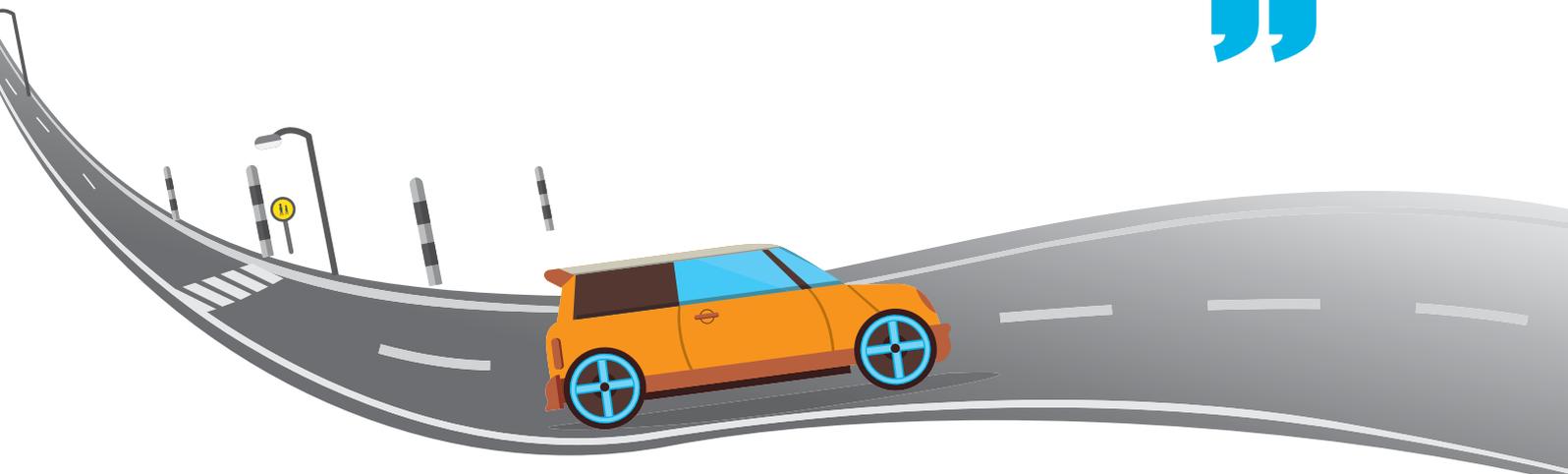
The government's EECA publishes great tips on efficient driving that we're always happy to help promote, but we wanted to take it up a notch and create an innovative and compelling way to share these tips with drivers. We partnered with Kiwi company eDrive to create the Z Eco-Driving Tool, an online driving simulator with six different driving trials to test just how efficient your driving really is, and with some easy tips on how to improve it.

The Eco-Driving Tool was launched by Z at the Sustainable Business Network Showcase in Auckland in October 2013, and we've promoted it widely on Facebook and through the Internet. We've been thrilled to see thousands of Kiwis using the tool and learning more about efficient driving, and our customers have been pleasantly surprised to see us talking to them about using less fuel, not more.

The next step in helping customers to use less fuel was a national eco-driver training programme, launched in February. Eco-driving trainer (and winner of the EnergyWise Rally) Mark Whittaker is helping self-nominated drivers in six cities around New Zealand to learn and practise the rules of driving more efficiently. They'll each have an hour's lesson in their own cars, followed by a repeat session a couple of months later to see how they've done. Not only will this help reduce fuel use and spread the word on efficiency tips, but importantly, it'll give us some great case studies on how real Kiwi drivers relate to the how-to's of driving more efficiently.



Showing New Zealanders how to drive in an efficient way (or 'eco-driving') not only demonstrates leadership in the sustainability space but also delivers real value to our customers, which we know they appreciate.



Fuelwise

There are 4 million vehicles in New Zealand – one of the highest vehicle ownership rates in the world – and Z wants to help ensure that every one of them is driven in a safer and more sustainable way. It's a big goal, and as always, we're starting by getting our own house in order. We have set ourselves an ambitious target: by 2015, we want to save 900 tonnes of CO₂ (a target reduction of 25%) through more efficient fuel use by our own tanker drivers and another 400 tonnes through more efficient scheduling of our fuel deliveries across the country.

To help bring this about, we have Domenico Kalasih, our own in-house expert on the impact transport has on our environment. Dom has undertaken training

in fuel-efficient driving run by EECA, and as well as helping Z's own contracted fleet drive smarter, he's sharing that knowledge with our commercial customers, working with them to analyse their fuel use, come up with a fuel-efficiency plan and help them implement the plan and monitor the results.

Our Fuelwise team also assist drivers – both within Z and the companies we work with – to drive more safely. The principles of fuel-efficient driving – accelerate modestly, don't speed, don't brake excessively and don't idle your engine unnecessarily – all mirror those of safe driving.

Beyond this, our highest priorities are driver fatigue and truck rollovers. Our

tankers run 24 hours a day, 365 days a year and collectively travel around 8 million kilometres per year to ensure Kiwi businesses get the fuel they need. However, it's well understood that the human body is not designed to function at full capacity around the hours of 2am–4am, thereby creating a risk period each day. We are currently modelling the effect on our business – and yours – of taking all our drivers off the roads during that period. It's a shocking truth that New Zealand has the highest rate of truck rollovers in the world, and Z is looking at how we can help change this.

More places to fill up with Z

There are about 1,200 service stations around New Zealand, a tiny fraction of the 6,000 New Zealand boasted 20 years ago. Add to the mix a rapidly growing population, changing population centres and a developing national roading network, and it becomes clear that some Kiwis no longer have service stations where they need them. Z is committed to filling gaps in our network and bucking the continuing trend of industry site closures. We're building new sites where they'll be most convenient and investing in improving our existing sites so that they truly meet the needs of today's customers.

It's fair to say that Z is fairly unique in this approach; in terms of new site builds (based on the number of new sites opened in New Zealand over the past 12 months), we're out-investing our nearest competitor by about three or four sites a year. It's a significant investment of resource and capital, but when we talk



to our customers, we hear that location and convenience are crucial: easily as important as speed and service. In the 2014 financial year, we built new or upgraded existing Z stations in Auckland, Wellington, Hamilton, New Plymouth, Taupo and Whangarei. And the good news for our shareholders is that they pay off quickly.

We've got no plans to slow down either: our build programme is set to continue for the foreseeable future, and we already have new sites planned for Auckland, Christchurch, Whanganui and Palmerston North in the 2015 financial year.

Inspiring great leadership



Leadership is one of the fundamentals of our organisation. We spend significant time and resources developing and maintaining our leadership capability on the belief that distinctive leadership is necessary to deliver distinctive results.

Twenty-five per cent of each Z manager's annual performance assessment is devoted to their effectiveness as a leader, and our leadership competencies even form the structure of this annual report. But, of course, we can't expect great leadership to just happen without equipping our people with the skills to be great leaders, and in this realm, we put our money where our mouth is.

In previous years, we invested significantly in leadership development for all staff at Z. First, our leadership team of 25 people spent 15 days on a transformational leadership development programme. Then there was the 12-day programme for all our people leaders and a three-day-long workshop that followed the first two but focused on effective leadership for the remainder of our employees.

Last year, we extended the leadership programmes to our 23 Z retailers. The feedback from our retailers was excellent and, even before the programme was finished, they were telling us how much their site leaders and operations managers would benefit from the training. We agreed, and thought it would be a great way to contribute to their growth and development. In February this year, we began a six-day tailor-made pilot programme for our site leaders and operations managers, and will roll out the full programme over the next 24 months – which is how long it'll take to get around 230 staff through the programme.

Building a Sensing City

Imagine a city where you can get real-time information about where resources are flowing. Imagine a city where people can interact with their environment to understand better what's important to them – water quality, air quality and traffic flows, for example. Imagine a 'sensing city' that attracts global investment and becomes a hub for innovation... Now imagine this city as Christchurch.

In May 2013, Z was approached by Roger Dennis, a passionate Christchurch local, about supporting his 'Sensing City' concept. Since the earthquakes of September 2010 and February 2011, Z has been helping Christchurch get back on its feet at a community and grassroots level, in keeping with our commitment to backing New Zealand neighbourhoods. When Roger spoke to us about his vision for turning Christchurch into a Sensing City, it struck us as quite a different approach to what we had done so far, but also one that excited us because of the potential it has to contribute genuinely to a self-sustaining recovery for the city. To us, it sounded very much like solving what matters for a moving world, so we grabbed the opportunity to be involved.

The Sensing City project positions Christchurch as a world-leading city by incorporating an integrated network of digital sensors into the physical infrastructure (utilities and buildings) of the Christchurch CBD that generate real-time granular data for multiple uses and benefits. It's a unique opportunity that Christchurch is ideally positioned to take advantage of as it embarks on a \$30 billion rebuild of the city.



There are two main objectives for the Sensing City initiative: to be the catalyst in the creation of new information-based services and solutions to benefit citizens, improving quality of life and enhancing the way people work, live and play in Christchurch; and to kick-start a new data-focused export industry in New Zealand, encouraging inward investment and skills, stimulating growth, fostering the development of local expertise and attracting talent to the Canterbury region.

The initiative is already producing valuable data, with two projects launched to date – the first around water quality and the second around understanding the relationship between air quality and respiratory illness.

Z is a main sponsor of the water-quality project, which Sensing City is undertaking in collaboration with the Massachusetts Institute of Technology. It takes a bottom-up community approach to understanding the health of the rivers in Christchurch and encouraging school children to take an interest in how we interact with, and preserve, our natural environment and resources.



To see how this project will actually work, watch the short video at sensingcity.org for an insight into the water-quality project and how Christchurch is beginning to take shape as a Sensing City.

A photograph of a woman and two children sitting in the back of a dark-colored car. The woman is in the front passenger seat, smiling and looking towards the children. The children, a boy and a girl, are in the back seat, also smiling. The car is parked outdoors under a blue sky with white clouds. The text "Acting as one team" is overlaid in large white font on the bottom left of the image.

Acting as one team

**Meet some of our people and see what
we're up to within our local communities.**



One of Z's many forecourt concierges offering a great service experience while customers fill up.

Doing even more Good in the Hood

Good in the Hood is the name of our well-loved programme that lets our customers choose which of their local neighbourhood groups we'll support.



Through it we contribute more than \$1 million each year to hundreds of neighbourhood groups and projects throughout New Zealand and it has been so successful that we've seen similar initiatives from other companies, which is all the better for New Zealand neighbourhoods. But it also extends far beyond that to our overall strategy of corporate social responsibility – what we in Z call 'community'. We try to ensure that everything we do is contributing something positive and constructive to our local neighbourhoods, and we're seeing this have a real impact on the way other Kiwi organisations think about their presence in communities.

An example of this is the enduring and meaningful relationships our retail sites have had with groups that have come through the Good in the Hood programme. The Z sites run by Dave and Lynette Gillies in the Bay of Plenty are strong allies of the Dream Chaser Foundation, which supports children with cancer and their families and received \$1,600 through Good in the Hood in 2013. Each year, the Gillies' retail sites run Sunshine Week, where the staff dress up and fundraise for the Dream Chaser Foundation. Taking 50 cents for every cup of coffee sold and other collections last year sent just over \$10,000 to the foundation, which it put towards Christmas gifts for children with cancer.



We try to ensure that everything we do is contributing something positive and constructive to our local neighbourhoods, and we're seeing this have a real impact on the way other Kiwi organisations think about their presence in communities.



In 2012, the first year we ran Good in the Hood, the customers of the Z site on Fenton Street in Rotorua chose to give \$1,000 to the Rotorua Salvation Army. This was the beginning of a closer relationship between the two organisations, and when The Salvation Army was burgled just before Christmas last year, Glen Carlson and the Fenton Street team stepped in with a \$1,500 cheque to replace the stolen food that had been prepared for Christmas parcels for families in need.

These are just a couple of stories. All over New Zealand, our retailers are working with hundreds of groups and businesses in their communities. We're delighted to have created a platform that moves beyond cash contributions to meaningful deeds that form enduring connections between Z, and the people of Z, with their local neighbourhoods.

Of course, the relationships with community groups don't always start from such a positive beginning. Z retailers in Auckland and Hamilton now have strong connections with local schools that had originally made submissions against two service stations being constructed in the first place. Part of the relationship-building initially involved ensuring the school groups were happy with the submission process and doing further work to allay specific concerns. We've also collaborated with the schools on projects: at Onewa Road in Auckland, the primary school students were involved in selecting native trees for us to plant near the site; and at Mill Street, Hamilton, we found out what mattered to local students and included them in our last round of Good in the Hood. Funding has provided them with new cultural nodes, areas where they can relax and socialise with other students and feel a sense of responsibility for a portion of their school environment.

Whatever the starting point, or on whatever foot a relationship starts, when it comes to our neighbours, we're committed to getting it right and doing some good in our hoods.

Waging a war on waste

As part of our sustainability strategy, we have a pretty ambitious goal of reducing waste to landfill from our retail sites by 70% by 2015. We got a long way towards that goal this year, thanks to some real enthusiasm from Z site staff.



We commissioned research in 2012 to see what we were really throwing away and learned that our sites produced almost 6,000 tonnes of waste each year, of which 57% went straight to landfill and 43% was cardboard that was recycled. While that was a good start to our recycling mission, we reckoned we must be able to do a whole lot more. We mentioned our ambitions at a Z retailer conference in February 2013, unaware that Anton Hutton, the operations manager at one of our clusters of retail sites in Christchurch, was listening closely. We must have hit a nerve, because Anton went back to Christchurch inspired. Within the next 36 hours, he had set up a waste-reduction plan with his local provider to ensure a 70% reduction in waste to landfill from the Z Carlton Corner site, installed the necessary recycling and food waste bins, and put together a presentation to get the rest of the team involved.

Anton's response was outstanding, and an example of what can be achieved with the combination of strong leadership, committed suppliers and solid systems. We wanted to find Antons all over the country, and so we launched the Z Waste Warriors competition. Each Z retailer nominated a recycling champ from their cluster of sites, and we pitted them against each other in a three-month competition to see who could recycle the most. Our winner was another clued-up Cantabrian, Colin Lippert from Z Belfast (unsurprisingly from the same Z cluster as Anton), who got the team there recycling 85% of all their waste – a result beyond our wildest dreams.

Spurred on by our Waste Warriors, we've now started rolling out recycling bins on all of our forecourts, so our customers can get in on the action too. Since our retail recycling initiative began, we reckon we're about halfway to our goal of a 70% reduction.



Christchurch's own waste warrior

Anton Hutton

Talks about his journey tackling waste at Z retail sites.

Hi, my name is Anton Hutton; I'm the manager of operations for Hattrick Services Limited. We operate eight Z stations in the east of Christchurch.

The mechanics behind tackling waste were relatively easy to put into place with really good people. The tougher part of the journey came around how we implemented it onsite to make sure that the waste was correctly separated back of house.

We picked a pilot site, here at Z Carlton Corner, and we broke down what we were going to need internally. We needed paper bins, co-mingled recycling bins, waste, actual rubbish bins and food bins.

So we went out and bought bins that matched the colours we had. Green for food, red for rubbish and yellow for recycling. Our people talked about it being great to be proud of where they worked. Their energy made life really, really easy and we nominated a head Waste Warrior. At this site, we had Deb (who was super passionate about it) and she worked with Ursula, the site leader, to bring it to

life onsite every day. That's when Matt, our forecourt concierge, came into play. He was out there every day trying to educate our customers about what waste could go into what bin to maximise our recycling potential on the forecourt and again, minimise the amount of waste. I think at last count, around 83% of all our waste is now recycled.

Being a Kiwi company, we're about keeping New Zealand beautiful realistically. It's something that I saw as really low hanging fruit, that I could easily achieve, and that made a difference with very, very little effort. It's very much a maintenance-free programme, other than at the time of inducting new team members. Every reason you can give a team member to be proud of where they work is a positive one.



This is a transcript.
You can watch the video at z.co.nz/annual-report-2014

The faces of Z

Z is famous for its customer service, and we couldn't be prouder of the people who deliver this service every day. We'd like to introduce you to a few Z retailers from around the country.



Meet John Lambert from West Auckland

Western Gas, with John Lambert at the helm, operates 11 of the Z sites in West Auckland, from Kumeu all the way down to Hillsborough. John, who's been there for nine years, is joined by a team of about 100 staff members to keep the 11 sites running each day.

John comes from a varied background of senior management and marketing positions with leading local and international firms in the retailing, pharmaceuticals and food industries. But he gave all that up and chose to work with Z because of the company's values, its involvement with the community and the regular contact with a variety of people that his role involves.

Like all Z retailers, Western Gas is committed to giving back to its local communities and is currently making a real difference in the West Auckland community by addressing youth unemployment, working with community groups, making a difference to the environment, and supporting and growing its own staff. As John

says, "It's about caring for and contributing to the community that supports your business and creating the opportunity for employment, as well as learning and having fun in everything that we do." This company is a family with shared goals and dreams.

Western Gas has strong relationships with the Foundation for Youth Development for whom they provide youth mentors; Hospice West Auckland, who they support through numerous fundraising events and Vision West Trust, who provide outstanding community services and programmes throughout West Auckland.

John can't get enough of interacting with customers and staff and spends much of the day supporting Z's concept of surprising and delighting customers. He is passionate about any sport in which New Zealand competes and loves travelling.

The faces of Z



Meet Lynette and Dave Gillies from the Bay of Plenty

Lynette and Dave Gillies are no strangers to the fuel business, having clocked up 55 years of industry experience between the pair of them. Together, and along with their 90 fantastic staff members, they run 12 Z sites in the Bay of Plenty. The cluster is known as the Gillies Cluster Family, and they have a culture of fun, backing each other, and being empowered to make decisions – the Gillies' philosophy is 'if it is safe and appropriate, then go for it'. This results in a cluster of sites that are regularly running fundraising projects or organising themed days. The Gillies' team supports a range of local organisations, including Homes of Hope, the Dream Chaser Foundation, Merivale Community Centre, Tauranga Breast Cancer Support Service, Bay of Plenty Foster Care Association and the Foundation for Youth Development.

Lynette and Dave say that they work with Z, not for Z. They share Z's focus on developing their people and having fun and say that creating a great customer experience – along with a fantastic espresso from one of their sites – is what gets them out of bed in the morning. Their favourite part of being a retailer is watching their staff members develop and achieve their personal goals, and outside of work, the exercise-mad pair can be found mountain biking, road cycling, doing martial arts or working out at the gym. They also love travelling and enjoying friendships.





Meet one of the faces of Z

Jonathan Usher

Hear him talk about his cluster of retail sites and life as a professional comedy magician.

Hi there, my name is Jonathan Usher and I'm a retailer in the Dunedin and North Otago region. I look after Z retail sites in Dunedin, Palmerston and Oamaru.

I employ 61 people across the six retail sites that I operate. The main thing that stands out about Z is the fact that it is a New Zealand organisation, so it likes to do things in its own communities and neighbourhoods. I think that's fantastic, and I'm really pleased to be a part of it.

I'm involved in the Saddle Hill community board, the Malcam Trust, the J.R. McKenzie Trust and Rotary. I love doing things in our local community, which is such a great fit with what Z does.

For fun, I'm actually a professional comedy magician, so I perform shows at functions and conferences all over New Zealand, Australia and even some international gigs around the Pacific. So, one of the things I encourage in my team is to have fun every day, both with the team and with our customers. The more fun we have, the better it shows in the service that we deliver.



This is a transcript.
You can watch the video at z.co.nz/annual-report-2014

How safe were we?

Workplace safety has been a focus around the country this year as businesses have started preparing for the Health and Safety Reform Bill, which is expected to come into force from around April 2015.

We support this much-needed legislation and believe that every company in New Zealand – including Z – could stand to lift their game in this area. We're also proud to be participating in this process, and members of our staff are on several industry working groups facilitated by the Ministry for Business, Innovation and Employment. At Z, we've been preparing ourselves and our key contractors for the new legislation, updating our policies and processes, and investing in our contractor management system.



In 2014, the areas on which we focused our efforts have seen improvements. And while the results are no better or worse than previous years, we have captured better information that has helped give us a fuller picture of our performance and the areas we can do better in. We firmly believe that numbers can give a snapshot of our performance, but they give only half the story: it's more important to thoroughly assess our culture of safety and determine whether and how our people demonstrate safe behaviour every day.

Health, Safety, Security and the Environment (HSSE)

Key performance indicators – financial year ending 31 March 2014^a

	FY2011	FY2012	FY2013	FY2014
Exposure hours (millions)	3.7	3.7	4.6	4.5
Compliance with HSSE plan (%)	98%	99%	97%	100%
HSSE actions close out rate (%)	100%	100%	100%	100%
Life-saving rules infringements (total number)	21	31	32	12
Safety critical maintenance completed on time	100%	100%	100%	100%
Lost-time injuries (LTIs) (number)	4	9	8	13
Lost work days (number)	N/A	N/A	66	50
Lost time injury frequency (LTIF)	1.08	3.81	3.28	4.72
TRC ^{b,c} (number)	10	14	15	21
TRCF ^b	2.69	3.81	3.26	4.72
Number of spills (loss of containment)	10	7	8	1

Note:

^a April 2013 – March 2014

^b NT – Tracked and trended but no targets set for these measures

^c TRC – Total Recordable Cases include Medical Treatment Case (MTC), Restricted Work Case (RWC), Lost Time Injury (LTI)

When looking at the number of Lost Time Injuries (LTIs) in FY2014, it may appear that our performance in this area hasn't improved. However, the actual number does not provide the overall picture of our performance.

While the number of LTIs has increased from eight in FY2013 to 13 in FY2014, the number of Lost Work Days has decreased over the same period (from 66 in FY2013 to 50 in FY2014).

Eleven of the 13 injuries occurred to employees working at a retail site. The other two injuries occurred to contractors who slipped while working on a Z aviation site.

Ten of the 13 injuries were associated with a slip (five), a trip (three) or a twist (two). This is where the individual either lost their footing while walking, stumbled over an obstacle or an injury occurred as a result of their body position and/or movement.

The longest recovery period for an injury was 13 days – for a person to recover from a twisted ankle sustained while walking through the retail store (no obstacle was involved). In eight of the injury cases, the individual was back to work within two days.

While it is not acceptable that 13 people were hurt while they were working for Z, the impact of their injuries was relatively short term. We remain committed to a zero-harm working environment, and are continually investigating ways to keep our people safe.

Keeping our people safe

Keeping our site teams, staff and customers safe is a top priority for Z, and an unfortunate but undeniable threat to that safety is service station break-ins and robberies.

We've worked hard over several years to drastically reduce the number of robberies we experience every year. We're down to about five robberies a year, and our existing IntelliSafe technology limits access to cash on premises, so the financial cost to us is very low. However, when you consider the psychological and physical harm that could come to our people and customers, every robbery is a potential tragedy and is one too many.

So we're committed to zero robberies on our sites.

This year we've invested heavily in technology to help make our sites as difficult a target as possible. To start with, we embarked on a four-year, \$8 million project to update our old analog closed-circuit television (CCTV) to state-of-the-art digital CCTV in every station. We also bumped up the number of cameras to more than a dozen at each site. If you're on our sites, we're not going to miss you!

CCTV is recognised internationally as one of the very best ways of protecting a site, and the recommended first port of call when it



comes to robbery prevention. The new cameras will be dotted around each site, and the high-definition footage they provide will be both recorded and instantly broadcast on large screens in the station. The big-screen footage will be a highly visible deterrent to would-be offenders, and if anyone does try to rob a Z service station, their chances of going unrecognised when the image is released will be close to zero. We've also been using our crystal-clear new images to read licence plate numbers in the case of petrol drive-offs, with a high level of success.

In addition, we've gone really high-tech and have started trialling a new spray technology that will help identify criminals after the fact. The SelectaDNA spray unit is discreetly installed at the service station and automatically activates in the event of a robbery or after-hours burglary. It is then impossible for an offender to leave the site without being sprayed by a fine mist that is unique to each location. It stays on the skin for up to 10 days and glows blue under ultraviolet light, giving police an irrefutable link between the offender and the location.



We bring Mini-Tankers on board

When Z first began, we inherited a relationship with Mini-Tankers, formerly a 100%-owned subsidiary of Shell.

Mini-Tankers is a nationwide onsite diesel refuelling system, which means it saves businesses time and money by bringing the fuel directly to the customer at, say, a forestry or construction site. It's a unique offering that reduces the health and safety risks of storing fuel on site, increases productivity and reduces waste – it's easy to see why commercial customers love this extra level of service.

For the first year of business, we maintained the status quo: two of our executive team sat on the Mini-Tankers board and that was the extent of our involvement. However, as we learned more about their business, in particular, the value of having franchisees operating within their own community and areas, we gained an appreciation for Mini-Tankers' niche and high-value offer and areas where the company could benefit from some new investment. We felt that by making Mini-Tankers a closer part of the Z business, we could share resources and ultimately help it deliver more value to customers.

So from 1 April 2013, Mini-Tankers became fully integrated into Z Energy. The integration has created a range of internal operational efficiencies, which has contributed to an even smoother and more efficient service for customers. The integration meant Mini-Tankers could draw more heavily on the expertise within the wider Z team, and that we could offer an integrated approach to support our customers' businesses. The ultimate goal is always to make the process of getting fuel to our customers as seamless as possible so that they can get on with their job uninterrupted.

Of course, while an integrated and efficient company was the end goal, in the short term there was a significant amount of work to be done integrating the Mini-Tankers business model into Z, as well as integrating their systems and people. We had a dedicated human resources manager take care of the transition, which included everything from new and improved employee contracts and performance plans to an introduction to the Z working environment and company values.



Z Fuelwise Manager, Hayley Jones, engaging staff in what it means to solve what matters for a moving world.



Inspiring others

See how we're becoming distinctive through the support and opportunities we're offering our people and our communities.

Site staff go to the top of the class

We think Richard Branson is a pretty switched on guy!
In his autobiography, he says the correct pecking order in a business is employees first, customers next and shareholders last.



This may sound worrying in a report to shareholders, but his logic is compelling: if your employees are happy, they'll look after your customers, who will then take care of the bottom line, ensuring shareholders are rewarded.

We recognise that staff on our retail sites are the face of the company for many Kiwis, and they're the ones we rely on to deliver awesome customer service day in and day out.

This year, we found a way of giving something back to our service station staff. When we put together our new retail training course 'Getting Famous', we worked alongside the New Zealand Qualifications Authority (NZQA) to ensure it matched up

with NZQA unit standards. This means that all site staff who complete the course – and this year that was 1,450 – will graduate with an NZQA-recognised Certificate in Retail, a Level 2 tertiary qualification that is recognised by employers nationwide. In 2013, a further 152 site staff added the Certificate in Retail to their existing NZQA credits to achieve their first National Certificate of Educational Achievement (NCEA) – some at Level 3, which equates to UE (university entrance).

The response from site staff to opt in to the course was staggering, and we're receiving new applications each day. For some staff, including Jeff Waghorn, our Christchurch North retailer, this is their first

formal qualification. We've heard that the site staff in Jeff's cluster find it inspiring that their boss is taking the same course and achieving the same qualifications as they are. In fact, two of his team have been so buoyed by their new qualifications that they've left Z to undertake tertiary education: Rebecca Stanley is heading to the University of Canterbury to start a Bachelor of Commerce this year, while Jordan Wells is looking into enrolment options at the same university. While we're always sad to lose great team members, we couldn't be prouder that getting those qualifications through their Z training helped them on their way to further their education.

Leading the conversations that matter

We make no secret of our ambition to be a world-class Kiwi company, and in our mind that includes leading the discussion and debate around things that matter – not just within our company or our industry but for the whole country.

Being Kiwis means we have a tendency to avoid patting ourselves on the back too often. However, we think it's important to recognise where we have separated ourselves from the rest and taken some unexpected actions. In 2013, we did this in a few key areas, some of which were very much connected to our industry, whereas others were a bit broader in scope.

One of the most significant pieces of work we've done in the last few years is around transparency of fuel margins and ensuring people understand how this sometimes contentious area actually works. It's a common misconception that fuel retailing is hugely profitable; while that can certainly be true for the companies involved in oil and gas exploration and production, it's a different proposition when you have to buy from the market what you then sell to your customers.

Z has taken the previously unheard of step to disclose how much money we make on every single litre of fuel we sell. We also talk freely about the kind of returns we target in order to deliver a financially sustainable industry and to enable the investments this industry needs. No other competitors do this.

We like to think that through being prepared to front up and share everything, we've helped ensure a much higher level of information and understanding about the financial performance of our company and industry.

Z staff weigh in on drink driving

In 2013, Z made a submission on the Land Transport Amendment Bill supporting the lowering of the adult legal alcohol limit from 400 micrograms per litre of breath to 250 micrograms – the same as in Australia. This was the result of a company-wide piece of work that saw the New Zealand Police join Z staff to discuss the relationship between driver safety and alcohol consumption.

The police spent an afternoon with Z staff, and after a one-hour presentation, 15 Z staff members took part in a two-hour experiment whereby they consumed alcohol and were breath-tested between drinks. It soon became evident that the breath alcohol readings were varied and at times disturbing: of the 15 staff who took part, 12 consumed five drinks and were still under the current breath alcohol limit, and two consumed six drinks and were still under the limit. Without exception, everyone participating in the trial reported feeling so impaired that they would not have driven well before they reached the legal limit.

After the experiment and presentation, we asked Z staff whether Z should advocate for maintaining the current limit or for lowering it. The results were unanimous: Z staff thought that the current level was too high, posed an unacceptable public safety risk and was inconsistent with our commitment to best practice in health and safety.

Z's submission reflects the fact that Z's contracted fuel tankers travel approximately 8 million kilometres every year distributing hazardous products and as a result we care deeply about road safety. You can read our submission:

[z.co.nz/assets/FINAL-drink-driving-submission.pdf](https://www.zenergy.co.nz/assets/FINAL-drink-driving-submission.pdf)



Being good neighbours all year round

It's really important to us at Z that we don't just support our local neighbourhoods through cash contributions but that we contribute time and energy as well. In 2013, a large number of Z Shed staff rolled up their sleeves and washed windows, painted walls and weeded gardens at four organisations we supported – The Hospice, Riding for the Disabled, The Nelson School of Music and the SPCA.

And while we're always happy to pitch in and paint fences, we reckon we can also make a more valuable contribution if we used the specific expertise of each Z staff member. So next year, we'll be matching people to skilled volunteering opportunities, which could see our Head of Marketing helping the local food bank with their marketing strategy or our GM Retail advising the neighbourhood kindergarten on their fundraising. Being good neighbours all year round is what Z is all about, and we want to ensure we're always making the best contribution we can.

Skilled volunteering

From 2014, Z staff will be able to volunteer their time and their expertise in a Z skilled volunteering programme as part of the Good in the Hood programme.

There's evidence that contributing skills adds significantly more value to community organisations than unskilled volunteering. We'll continue to do both: many of our teams enjoy the team building and sense of contribution through unskilled volunteering – such as cutting tracks, for example – but we'll also supplement that by harnessing the considerable skills and expertise of our people.





Engaging our people

When we talk about engagement, we simply mean the level of emotional commitment that an employee has to the organisation they work for and how that translates into the effort they put into their work (going beyond just getting the job done).

It's widely accepted that there is a direct and significant correlation between the engagement of the employee and the success – financial or otherwise – of the business.

When we ran our first full engagement survey in July 2012, we were delighted with our 98% participation rate and our overall result of 66% engagement (putting Z in the high-performance zone), but we were most interested in looking beyond the numbers and into the details. We learned that we were rated highly when it came to strategy and innovation – our people can clearly see how Z's overall strategy connects to the part they play, and they love helping to do things in new and better ways. We also discovered we could improve in the areas of career opportunities and leadership. We rate leadership as being hugely important, so we were pleased to see that our team agreed and had high expectations.

So we didn't muck about and got to work. We got a team from across the organisation to work out a plan for how we could lift our game in those areas. When it came to careers, an important thing was to simply give our people more information.

We clarified our procedures for promotions and internal recruitment, and now regularly publish recruitment stats on our intranet. And now, every time someone is hired, we encourage the person doing the hiring to share all the reasons behind the appointment with the rest of the team.

We also explained what we were doing with succession plans and talent development through a company-wide presentation. It can be a controversial topic, and most businesses don't share this information, but we've learned that the more we share and the more people can ask questions, the more comfortable they feel about it.



We rate leadership as being hugely important, so we were pleased to see that our team agreed and had high expectations.





We want everyone to understand that leadership is not an extra bit of work to do alongside everything else; rather, it's the cornerstone of our company, and if you lead well, everything else will take care of itself.



We also realised we needed to work harder at assisting our people with thinking about their careers. So in June 2013, we set up an online platform of career-planning tools and invited our team to take part – around 130 people logged in and answered questions about their career values, talents and motivations, their preferred ways of working and their career goals. At the same time, we trained up all our people managers on career coaching so that employees could take their results from the planning platform and use them to have conversations with their manager about their five-year plans, and what steps to take this year. The feedback we've had from those who have used the process has been positive.

When it came to leadership, we realised we'd been a victim of our own success: we had been so focused on our large-scale work on developing leadership capability across Z, that we'd actually lost focus on doing the basics consistently, like making sure each employee gets regular one-on-one meetings with their manager. We believe that leadership is fundamental to our company's success, so we've taken some big steps to show it: leadership is now a standard performance measure for all Z managers and it forms 25% of a manager's overall performance rating. We want everyone to understand that leadership is not an extra bit of work to do alongside everything else; rather, it's the cornerstone of our company, and if you lead well, everything else will take care of itself.

And when we said that the numbers weren't the important bit? Well it's not entirely the case: just before this annual report went to print, the results of our latest engagement survey arrived, and we're thrilled that our engagement score is now 69%, putting us in the top quartile for all employers. This is a three-percentage-point-increase on our 2012 results, meaning we're inching closer to our ultimate goal of 79%, Aon Hewitt's Best Employer benchmark. We know that this is where the going gets tough – getting incremental gains is harder the higher engagement climbs. We reckon that's a challenge worth taking on.





Z terminal team on the ground at Mount Maunganui terminal.



Thinking commercially

See some of our strategy in action and how we run our business.

We signed a new contract for imported refined fuel

A quarter of all fuel sold by Z is directly imported refined petrol and diesel (the remaining 75% comes from imported crude oil that is refined by Refining NZ at Marsden Point in Whangarei).

Part of our maturing as a Kiwi company means we are now in the position of negotiating our refined fuel supply contracts directly, rather than through an intermediary, as we did previously, or through an off shore parent company, as some other fuel businesses do.

For that 25% of our fuel we can't manufacture locally, Z is now a sought-after purchasing partner for international refiners and we've developed a reputation as a trustworthy business in a country with a stable political system. The experience we've gained and the relationships we've built over the last few years mean we now have the unique expertise required for directly buying large volumes of refined fuel products. We know what a competitive price looks like – and this year we negotiated a competitive supply contract that utilises these skills.

In January 2014, we signed a contract for the supply of approximately 500 million litres of refined petrol with a South Korean refiner. We've worked with them under different commercial terms (negotiated on our behalf by a third party) for the 19 months prior to this, and know them to be a reliable refiner making a top-quality product that meets New Zealand's high fuel specifications. As you'd expect, cutting out the middle man and negotiating the contract ourselves meant a much better price than we'd been paying previously – the improved figures being consistent with those we forecasted in our prospectus.

The 500 million litres of fuel from the new arrangement started arriving in New Zealand in February 2014, and will be delivered on a roughly monthly basis directly to Z's import terminals around New Zealand.

Where our oil comes from

Sourcing, buying and safely importing crude oil can be a tricky business, with a myriad of factors to be worked through. Our aim is to find the best-quality crude at the lowest price, and closest to home.

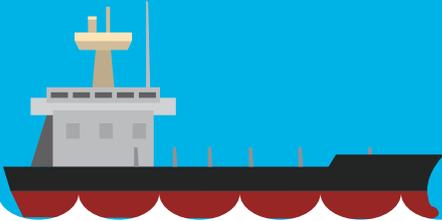
Refining NZ is a tolling refinery, which means that it refines the crude oil that is supplied by each of its four main oil company customers. Refining NZ provides us with a model that shows the characteristics of each crude oil and which ones they can refine into the products we need. We use this model to plan what crudes we buy and what products we ask the refinery to make for us. For many years, each of the refinery's four customers had individually selected their own crudes which resulted in the refinery operating in a less than optimal manner.

Now, working with another of the refinery's customers in a new collaborative relationship, we jointly procure and process crude oil through the refinery to better match crude cargoes to the refinery's production requirements and to enable the refinery to run more efficiently.

Once the most optimal crudes have been selected and purchased, the complications then begin: not all crudes are sold in full shipments (due to availability) and not every type of crude is sold in every region of the world. Furthermore, at the same time as we try to buy crudes, other companies are also trying to buy them, driving prices up. Then there's shipping: we need to find the right ship at the right time with the right size window of availability for our planned voyage.

Sometimes we'll fill a ship up with single or multiple crudes at one port and come straight to New Zealand, but at other times, if it is better to bring in crudes from different ports on the same ship, then the ship will start at the port farthest away and stop off at others to load more stock before arriving here.

Importing refined products is a different sort of challenge, as almost all the refined fuel that Z imports comes from a single South Korean refiner.



Did you know?

- Of the 200-plus types of crude oil in the world, Z uses only 15.
- A typical crude oil shipment is about 100 million litres, whereas a finished, refined fuel shipment is about 50 million litres.
- Some crude oils can't be used in New Zealand at all, as they only start to flow as a liquid above 30 degrees Celsius.
- The world uses 90 million barrels of crude oil each day, of which New Zealand takes only about 24 million litres, or around 0.1%.
- When ships travel near Somalia and India, precautions are taken against the very real threat of pirates. This involves having armed guards on board or simply speeding up to get through the high-risk zone as quickly as possible.
- In the last financial year, our crude oil was imported from Malaysia, Brunei, Saudi Arabia, Kuwait, the United Arab Emirates and Russia. Almost all our imported fuel (including petrol, diesel and jet fuel) comes from South Korea, with some aviation fuel coming from Australia and specialist-grade bitumen from the United States.
- Last financial year, we imported 1.9 billion litres of crude oil and 550 million litres of refined fuels.

The value of each drop

Striking the right balance between how much fuel we sell and how much we sell it for is an intricate art.

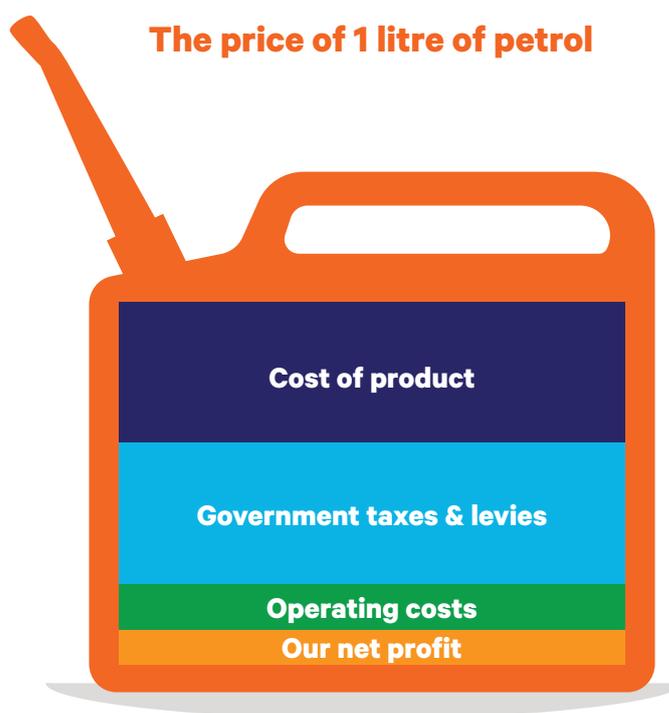
In the last year, we have continued our strategy to manage volumes for the best overall dollar – an approach we think is much more sustainable in the long term and enables us to secure a greater share of the value in this industry, in which competitors are relying on discounting to try and attract customers.

Rather than using sporadic discounts to try to attract opportune customers, we think Kiwis are increasingly looking for value. Our approach focuses on quality, service, supporting communities and delivering against what our customers want. In addition, the majority of the money we make stays in New Zealand rather than being shipped offshore.

We believe this approach provides a stronger value proposition to our customers and is more likely to deliver more loyal customers.

It also means we can deliver superior shareholder value and continue our programme of leading the investment in infrastructure and things that matter, ensuring that we'll be around – and in good condition – for the long haul. After all, we're a Kiwi company, and this is the market we care about – if the going gets tough, we won't simply back out of this territory and focus on the rest of the world.

So how much do we make on every drop of petrol? By the time our fuel products have been refined or purchased, and we've paid our levies and taxes to the government, Z receives around 17 cents per litre on its fuel marketing volume. After all of our operating and financing costs (staff salaries, transport, energy costs, interest and so on) have been covered, we earn a net profit of 4.2 cents per litre.





Our alternative energy strategy

As a downstream fuel company that's not an oil producer, we don't have to rely on fossil fuels. We believe that alternative sources of energy will be part of the way forward, and we're excited about having the flexibility to move from being part of the climate change problem to being at the heart of a solution.

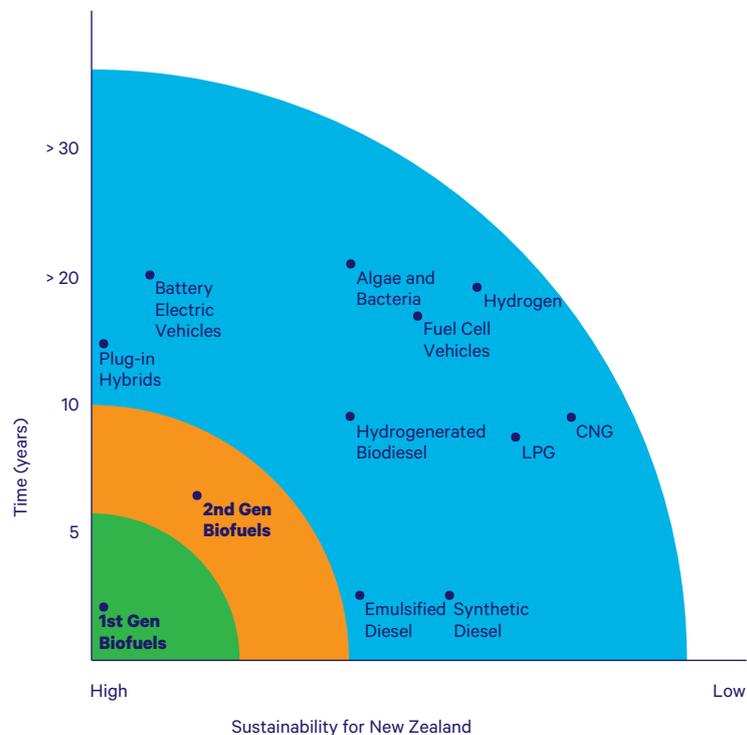
While fossil fuels are highly likely to provide the backbone of transport fuels for the next 20 or 30 years, there are other emerging options for fuelling New Zealand in a more sustainable way. As a transport fuel company committed to delivering customer and shareholder value for the long term, we need to understand these technologies and work out where we can lead and add additional value.

Over the last 18 months, Z has seriously considered 15 alternative transport energy sources according to their technological and economic maturity and how well they would fit with the New Zealand market. We've come to the conclusion that the most viable options for the next decade are all liquid technologies, which is the perfect fit with Z's business. This helps inform us that it makes sense for Z to be an industry leader in this realm.

We're committed to developing top-quality biofuels that reduce the environmental impacts of the transport fuels industry, but that's not our only criteria: biofuels also need to be economically sustainable and ideally deliver superior value to our customers compared with conventional fuels. Developing new energy technologies is an intensive and expensive undertaking, and we're only prepared to invest in those that have the potential to be truly robust, long-term alternatives. Assessing the possibilities according to these criteria has given us five options that we think could be implemented in New Zealand in the next five to 10 years, and we're focusing our efforts on two of them: woody biomass and inedible tallow.

Rather than wait for other companies to sort out all the nuts and bolts of these technologies, we're getting in there from the start and putting in the hard yards ourselves. We're leading the action, engaging with government and other stakeholders and leading the conversations on alternative fuels.

Future transport energy options for New Zealand



Stump to Pump is a development project that involves turning residual wood-processing waste into high-quality transport fuel and is a joint project between Norske Skog and Z Energy, with support from the Ministry for Primary Industries. It's an innovative technology that uses existing forestry waste such as sawdust and harvest residue that otherwise has little or no value. It's a strong fit for New Zealand, with its extensive forestry industry.

Tallow-based biodiesel is another excellent match for New Zealand, given that it draws on by-products from the country's meat industry, using inedible tallow as the primary feedstock. This biodiesel product would be truly sustainable and it does not impact on biodiversity, alternative land-use or diversion of food production.

While we've got our work cut out for us with Stump to Pump and biodiesel, our doors are wide open to new ideas: we welcome proposals for sustainable biofuel models to pursue (and receive them regularly). Indeed, part of our alternative energy strategy is to develop and maintain capability to review new options and act on those that are, or that become, financially and technically viable.

Z's alternative energy strategy

- Focus on technologies that could be commercially viable in New Zealand within the next five to 10 years
- Prioritise options that offer superior value to the customer
- Prefer fuels created in local production facilities over imported options
- Develop and maintain capability to review new options and act on those that are, or that become, financially and technically viable
- Secure options where local feedstock is readily available.

Thinking commercially

As we went through the transition period to a stand-alone Kiwi company, it became clear that a high level of sound commercial thinking among all staff would be crucial to the new company's success. In fact, after leadership, what we call 'commercial thinking' became – and still is – our top organisation-wide development focus.

By 'commercial thinking', we mean business acumen or nous, or a level of understanding as to how the company makes money, our opportunities and risks, as well as how best to use our resources to achieve our goals.

Why is it so important?

We have no international head office to buffer us through any commercial missteps. We're a pretty small company, considering our responsibility to New Zealanders in keeping their businesses moving each day (as well as to our shareholders), which means that every single one of us makes a real contribution to how the company performs and that meeting our commercial objectives doesn't happen by accident. All the smaller decisions made every day by people across Z can have as much effect on the company's bottom line as one big decision made by a senior leader.

So we decided that everyone at Z needs to know how we make money, what our commercial objectives are, how we win commercially in a competitive market and how they can make everyday decisions that will support those goals. Our mid-level staff also need to understand how best to process information, gain insight and make decisions quickly, and the senior leadership team needs all of that capability plus an understanding of long-term profitability, strategy and decisions that impact shareholder value.

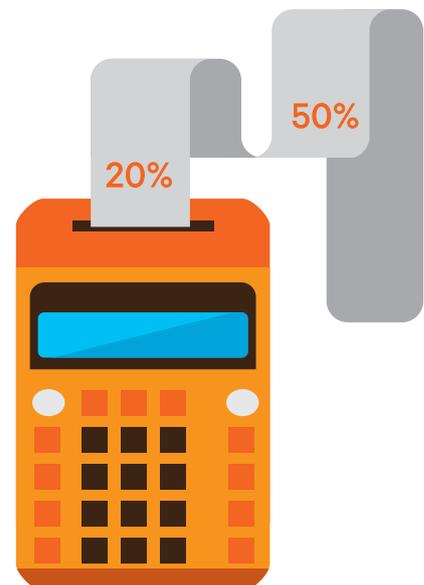
In the 2013 financial year, we put together Commercial Thinking Phase 1, an e-learning module for all staff that covered all of the above. This year we began to build on this and have developed a series of face-to-face workshops targeted at smaller groups, especially within the Commercial, Retail

and Supply and Distribution units – those people who manage money-making teams and budgets.

We unequivocally believe that the development we've done in this area has had a positive effect on our company's performance. Our regular 360 feedback process gives an insight into where we have improved in this area and where we can do better. We regularly receive anecdotal results, such as while we are doing the same amount of travel each year, our total flight expenditure is much less, indicating some savvy ticket purchasing by our people.



All the smaller decisions made every day by people across Z can have as much effect on the company's bottom line as one big decision made by a senior leader.



Corporate governance



The Board and management are committed to ensuring that Z Energy maintains best practice governance structures and adheres to high ethical standards.



Our approach to corporate governance

Z Energy Limited is incorporated in New Zealand and is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act 2001. The acquisition of securities in Z Energy may be limited under New Zealand law by the Takeovers Code (which restricts the acquisition of control rights of more than 20% of Z Energy other than via a takeover offer under the Code) or the effect of the Overseas Investment Act 2005 (which restricts the acquisition of New Zealand assets by overseas persons).

Framework

Z Energy shares are listed on the New Zealand Main Board (NZSX) and on the Australian Securities Exchange (ASX). Z Energy has also issued three series of retail bonds, which are quoted on the NZX Debt Market (NZDX), and as a result must comply with the NZDX listing rules.

Z Energy's investor relations website z.co.nz/investor-centre/governance/ contains copies of the following corporate governance documents referred to in this section:

- Director Code of Ethics
- Z Energy Constitution
- Z Energy Board Charter
- Audit and Risk Committee Charter
- Human Resources and Nominations Committee Charter

- HSSE and Reputation Committee Charter
- ASX Corporate Governance Statement
- Disclosure Policy
- Diversity Policy
- External Auditor Independence Policy
- Risk Management Policy
- Shareholder Communication Policy
- Code of Conduct
- Insider Trading Policy

The Board is responsible for establishing and implementing Z Energy's corporate governance frameworks and is committed to doing so according to recommendations issued by NZX Limited, ASX Limited and the New Zealand Securities Commission, including the NZX Corporate Governance Best Practice Code and the Corporate Governance Principles and Recommendations issued by the ASX Corporate Governance Council.

This section sets out our commitment to good corporate governance and measures our compliance with the eight fundamental principles of the ASX Recommendations throughout the financial year ended 31 March 2014 (and through that, our compliance with the NZX code). Z Energy considers that during the reporting period, the corporate governance principles adopted and followed by it did not materially differ from NZX's Corporate Governance Best Practice Code.

Principle 1

Lay solid foundations for management and oversight

The Board has the final responsibility for all decision making within Z Energy, having a core objective to represent and promote the interests of shareholders with a view to adding long-term value to the company.

The Board Charter describes the Board's role and responsibilities and internal procedures. The Board has delegated some of its powers to sub-committees and to the CEO. This framework also establishes the authority levels for decision making within the management team.

The Board directs the business and supervises the management of Z Energy including:

- ensuring that the company's goals are clearly established and that strategies are in place for achieving them
- ensuring that performance is reviewed against these strategic objectives
- approving transactions relating to acquisitions and divestments and capital expenditure above delegated authority limits
- ensuring that business risks are regularly assessed and that there are appropriate control and accountability systems in place to manage them
- establishing policies aimed at strengthening the performance of the company, including through innovation, initiative, technology, new products and the development of its business capital
- monitoring the performance of management.

The performance of the CEO and the senior management team is reviewed annually in accordance with formal review procedures disclosed in Z Energy's Corporate Governance Statement given to ASX on listing.

In the financial year ended 31 March 2014, each member of the senior management team participated in a formal performance review process in accordance with these formal review procedures, which formed the basis of a review by the CEO. The performance review included assessment against targeted key performance indicators and company values. The performance of the CEO was also reviewed in accordance with these procedures with the review being undertaken by the Chair of the Board.

The performance of the senior management team was reviewed in the previous financial year in accordance with this process.



Principle 2

Structure the Board to add value

The Board's structure and its governance arrangements are set out in its Board Charter. The Board, including the skills, experience and expertise of each director, are set out in the profiles of all directors on page 18.

The Board actively seeks to ensure that it has an appropriate mix of diversity, skills and expertise to enable it to effectively discharge its responsibilities and be well equipped to provide the range of knowledge, views and experiences relevant to the company's business. Matters relating to Board (and Board committee) composition are considered by the Human Resources and Nominations Committee as set out in the next section.

The directors as at the date of this annual report and the dates of their appointment are:



Peter Griffiths
Chair – Independent
2 April 2010



Marko Bogoievski
1 April 2010



Alan Dunn
2 April 2010



Abby Foote
Independent
15 May 2013



Paul Fowler
2 April 2010



Justine Munro
Independent
15 May 2013



Bruce Harker
19 February 2014

Liberato Petagna retired as a director, and Bruce Harker was appointed as a director, during the financial year ended 31 March 2014.

The Board has determined that for the purposes of the NZX Main Board Listing Rules and the ASX Principles:

- Peter Griffiths, Abby Foote and Justine Munro, are independent directors; and
- Marko Bogoievski, Paul Fowler, Alan Dunn and Bruce Harker, are not independent directors,

In order for a director to be considered independent, the Board must affirmatively determine that the director does not have a disqualifying relationship (other than solely as a consequence of being a director). The basis for determining whether a director has a disqualifying relationship is set out in the Board Charter available on the Z Energy website. In accordance with the Board Charter, only relationships that are material will be considered for the purposes of assessing director independence. Materiality will be considered having regard to the materiality to Z Energy, the director and the person or organisation with which the director is related (e.g., the customer, supplier or adviser).

The ASX Principles recommend that the majority of the Board should be independent directors. Z Energy does not comply with this recommendation as the Board does not consist of a majority of independent directors. The Board's composition was originally established to provide further assurance that change of control risks, detailed in Section 4 of its Investment Statement and Prospectus, were not triggered. These risks are unlikely to remain, but the Board considers that its composition is appropriate as the current skills and experience of the Board meet Z Energy's needs.

Board access to independent professional advice

The Board has adopted a procedure under which it may take independent professional advice at Z Energy's expense as described in the Board Charter.

Board committees

The Board has three standing committees to assist in carrying out its responsibilities:

Audit and Risk Committee (ARC)

The Audit and Risk Committee helps the Board oversee all matters relating to risk management and financial management, accounting, audit and reporting.

Risk management and internal audit (assurance) are critical governance and management functions within the company. Robust policy and compliance assurance in both risk management and financial audit is important for investors in Z Energy, financial markets more generally and for internal assurance as to the transparent, safe and financially responsible management of the company.

Chair – Abby Foote

Members – Paul Fowler, Marko Bogoievski, Peter Griffiths and Justine Munro

Human Resources and Nominations Committee (HRN)

The Human Resources and Nominations Committee helps the Board oversee people policies and strategies and promotes the continual improvement of good corporate governance, as expected of a NZX Main Board, NZX Debt Market and ASX listed organisation, in accordance with the framework set out in the Human Resources and Nominations Committee Charter.

The committee is responsible for developing and recommending to the Board for its approval an annual evaluation process of the Board and its committees. This includes identifying and recommending individuals for nomination (including rotation and re-appointment) to membership of the Board and Board committees, taking into account such factors that it considers are appropriate. These factors will include skills, experience and expertise in transport fuels, marketing, retail and sales, finance and legal, as well as relevant qualifications, judgements, the ability to work with other directors and fit with the culture of Z Energy.

The Committee also approves annual remuneration increase guides and budgets.

Chair – Alan Dunn

Members – Justine Munro and Marko Bogoievski

Health, Safety, Security, Environment (HSSE) and Reputation Committee

The HSSE and Reputation Committee provides a specific governance focus on risks arising from the company's physical (not financial) operations, HSSE policy and risk mitigation programmes, and any matters that may affect the company's reputation outside of the financial risks addressed by the Audit and Risk Committee.

Chair – Paul Fowler

Members – Alan Dunn, Abby Foote and Bruce Harker.

Review of Board and director performance

The performance evaluation for the Board, its committees and directors has taken place in the reporting period and was done so in accordance with the process disclosed in the Board Charter.

Attendance at Board meetings

The table below sets out attendance at the Board and Board Committee meetings in the year ended 31 March 2014.

Director	Board meetings	ARC	HRN	HSSE and Reputation
Total number of meetings held	15	5	8	6
Peter Griffiths	13/15	1/3	-	1/2
Marko Bogoievski	15/15	4/5	8/8	-
Alan Dunn	13/15	-	7/8	4/4
Abby Foote	11/12	3/3	-	4/4
Paul Fowler	14/15	4/5	-	6/6
Justine Munro	11/12	3/3	4/4	-
Liberato Petagna	12/15	2/2	-	2/4
Bruce Harker	0/0	-	-	-

Note 1: This table reflects that Liberato Petagna resigned from the Board on 20 February 2014.

Bruce Harker was appointed to the Board on 19 February 2014, Justine Munro and Abby Foote were both appointed to the Board on 15 May 2013.

Note 2: This table shows the number of meetings Board members attended while they were a Board and Board Committee member.

If they were not a member of the relevant Board Committee at the time of the relevant Board Committee meetings a "-" has been recorded.

Principle 3

Promote ethical and responsible decision making

The Board maintains high standards of ethical conduct, and the CEO is responsible for ensuring these standards are maintained by all staff. The Code of Conduct (which can be found on Z Energy's website) is a cornerstone of expected behaviour and company culture.

This Code is designed to help guide and inform the choices that Z staff make on a daily basis and ensure they do the right thing. It is designed to help Z's people succeed through making choices that are consistent with two key parts of the company's foundations: Z's values and policies.

Z's values

Be straight up

As far as we're concerned, there's only one way to do business and that's the New Zealand way. So we make it our mission to be honest, open, transparent and real.

Have the passion

It is impossible to be the best unless you are absolutely passionate about what you are doing and you take ownership of it. We are and we do. Our business helps to keep the country running. Literally. And we intend to do it better than anyone and bring more benefits to the whole of New Zealand.

Share everything

We believe that so much more can be achieved if we are united. If we share our thoughts, our knowledge and our passion, then we'll all share the success.

Back people

We back our employees to grow and succeed. We give back to the neighbourhoods we work in. We back our customers by knowing what they want and making it happen for them.

Be bold

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

Each year, awards are issued in relation to these values which encourage the use and spirit of each value. Z requires all of its employees, contractors, secondees and directors to comply with the Code of Conduct and with all company policies. All employees and contractors representing Z are required to take an online test to acknowledge their understanding and acceptance of the Code of Conduct.

Diversity at Z

The Board is committed to a culture that promotes diversity and inclusiveness. At Z Energy we believe that a diverse workforce is better able to understand our broad-ranging customer and stakeholder needs and to respond effectively to them. In practice, this means that we actively seek out people with a variety of thinking styles, backgrounds and abilities. This enables Z to increase the breadth of the recruitment pool and for Z Energy people to be the best they can be at work. A copy of our Diversity Policy is available on our website.

Consistent with our values, we want to make sure that diversity and inclusion is central to our policies and practices throughout our organisation. Z Energy believes that embracing diversity in its workforce contributes to the achievement of its corporate objectives and enhances its reputation. It enables Z Energy to:

- recruit the right people based on merit from a diverse pool of talented candidates
- make more informed and innovative decisions; drawing on the wide range of ideas, experiences, approaches and perspectives that employees from diverse backgrounds, with differing skill sets, bring to their roles and so better represent the diversity of its stakeholders and markets.

The ASX Principles recommend establishing measurable objectives for achieving gender diversity. While at present Z Energy has not established measurable objectives for achieving gender diversity, it is working towards implementing such objectives for the following financial year. Since the listing of Z Energy last August, other matters have had priority over the adoption of measurable objectives for gender diversity. The principal criteria for selection and promotion in Z Energy are an individual's relative prospects for adding value to Z Energy and his or her probability of contributing to its objectives.

Z Energy gender composition

The gender composition at various levels of the Z Energy workforce as at 31 March 2014 is outlined below, alongside comparable figures for the past four years.

Female

	FY2014		FY2013		FY2012		FY2011		FY2010	
	#	%	#	%	#	%	#	%	#	%
Board	2	29%	0	0	0	0	0	0	0	0
Senior management	2	25%	2	25%	2	25%	1	14%	1	14%
Overall organisation	95	39%	96	37%	91	38%	88	39%	68	35%



Male

	FY2014		FY2013		FY2012		FY2011		FY2010	
	#	%	#	%	#	%	#	%	#	%
Board	5	71%	5	100%	5	100%	5	100%	5	100%
Senior management	6	75%	6	75%	6	75%	6	86%	6	86%
Overall organisation	150	61%	161	63%	147	62%	136	61%	128	65%





Z and Women's Empowerment Principles

In 2012, Z signed up to the Women's Empowerment Principles. Through Z's commitment to these principles, the Board evaluates the company's performance as having met the objectives of the Diversity Policy. The Women's Empowerment Principles are a set of principles for business offering guidance on how to empower women in the workplace, marketplace and community. They are the result of collaboration between UN Women and the United Nations Global Compact. The development of the principles included an international multi-stakeholder consultation process, which was launched in March 2009.

The principles are:

- Establish high-level corporate leadership for gender equality
- Treat all women and men fairly at work – respect and support human rights and non-discrimination
- Ensure the health, safety and well-being of all women and men workers
- Promote education, training and professional development for women
- Implement enterprise development, supply chain and marketing practices that empower women
- Promote equality through community initiatives and advocacy
- Measure and publicly report on progress to achieve gender equality.

Principle 4

Safeguard integrity in financial reporting

Financial reporting

The Board is committed to a transparent system of auditing and reporting on the company's financial performance. The Audit and Risk Committee is central to achieving this.

The Audit and Risk Committee's principal functions are:

- to assist the Board in ensuring that appropriate accounting policies and internal controls are established and followed
- to assist the Board in producing accurate financial statements that comply with all applicable legal requirements and accounting standards
- to ensure the efficient and effective management of business risks.

The external auditors are invited to attend meetings when the committee considers it appropriate. The committee comprises five non-executive directors, three of which are independent directors, and is chaired by an independent director who is not the Chair of the Board. A full description of the Audit and Risk Committee's role is contained in its Charter, which can be found on the Z Energy website.

Principle 5

Make timely and balanced disclosure

Z Energy is committed to maintaining a fully informed market through effective communication and complying with the NZX Main Board and ASX Listing Rules. Our Market Disclosure Policy is available on the Z Energy website. This policy assists the Board with keeping Z Energy's investors and markets informed in a timely, clear and balanced way that includes both positive and negative news.

The General Counsel and Company Secretary is the Market Disclosure Officer, and in this capacity has created a Disclosure Committee (made up of the Board Chair, the Chair of the Audit and Risk Committee, the CEO, the Chief Financial Officer and the Communications and Investor Relations Manager) who are ultimately responsible for ensuring that Z Energy complies with its disclosure obligations. All market disclosures are made to the NZX Main Board, ASX and Z Energy's website.

Principle 6

Respect the rights of shareholders

Z Energy is committed to high standards of communication with its shareholders and other stakeholders and to ensuring they have all information required to make informed assessments of Z Energy's value and prospects. Z Energy believes effective communication is achieved by providing equal access to timely, accurate and complete information. Z Energy's Shareholder Communication Policy shows how we ensure shareholders and other stakeholders have access to all relevant information.

The Board encourages active participation by shareholders at the annual meeting of the company, and shareholders can submit questions for the Board prior to or at the meeting.

The 2014 Annual General Meeting will be held at Shed 6, Wellington Waterfront, on Wednesday 25 June 2014, 2pm–4pm.

Principle 7

Recognise and manage risk

The identification and effective management of Z Energy's risks is a priority of the Board.

The Board is responsible for overseeing and approving risk management strategy and policies, as well as ensuring effective audit, risk management and compliance systems are in place. The Audit and Risk Committee assists the Board in fulfilling its risk assurance and audit responsibilities.

Z Energy has in place an overarching Enterprise Risk Framework supported by a suite of risk management policies, including a Risk Management Policy (available on Z Energy's website), a Treasury Policy and a Manual of Authorities. The framework aims to embed within Z Energy a group-wide capability in risk management and a consistent method of identifying, assessing, controlling, monitoring and reporting existing and potential risks faced by Z Energy. The Risk Management Policy sets out the risk management objectives and requirements and from there Z Energy management conducts structured risk management.

As a New Zealand company, section 295A of the Australian Corporations Act is not applicable to the company. However, the company's CEO and Chief Financial Officer have provided equivalent assurances to the Board as part of the annual external audit process, which confirm Z Energy's financial statements are based on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial reporting risks.

Z Energy's management has provided the Board reports as to the effectiveness of our management of our material business risks.

Principle 8

Remunerate fairly and responsibly

Human Resources and Nominations Committee

Z Energy's remuneration framework and policies are managed by the Human Resources and Nominations Committee in accordance with the Human Resources and Nominations Committee Charter (available from the Governance section of Z Energy's website).

The purpose and roles of the committee are described under Principle 2, where attendances at the meetings of the committee are also disclosed.

As set out under Principle 2, the current members of the Human Resources and Nominations Committee are Alan Dunn (Chair), Justine Munro and Marko Bogoievski. As only Justine Munro is independent, Z Energy does not comply with the recommendation that the Human Resources and Nominations Committee should be chaired by an independent director and that the committee should comprise a majority of independent directors. However, Z Energy considers the composition of the committee to be appropriate, considering director workloads and that the Z Energy Board has only three independent directors.

The remuneration of senior executives and the leadership team is made up of three components: fixed remuneration, short-term performance incentives and a long-term incentive plan (with grants that vest up until 31 March 2015), which has now been replaced with a Restricted Share Long-Term Incentive Plan – which vests over three years resulting in the first payment potentially being made in April 2016.

No directors are entitled to any retirement benefits.

Transactions in associated products

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

Remuneration

The Z Energy Board and management are committed to a remuneration framework that aims to achieve a high-performance culture, linking pay to the achievement of the company strategy and business objectives.

As part of ensuring management is motivated to create sustainable shareholder wealth, the Board has established a Human Resources and Nominations Committee, which operates under the delegated authority of the Board. The role and membership of the committee is set out under Principle 2 in the Corporate Governance section.

Z Energy's remuneration strategy aims to attract, retain and motivate high-calibre employees to all levels of the organisation, in turn driving performance, a strong customer focus and personal growth. Underpinned by a company-wide philosophy of paying for performance, this strategy supports and promotes strategic business objectives, behaviours and values and is based on a practical set of guiding principles that provide consistency, fairness and transparency.

All Z Energy employees have a fixed remuneration and Short Term Incentive (STI) component in their remuneration packages. A limited number of employees are also entitled to participate in a Restricted Share Long Term Incentive Plan (RSLTIP).

Fixed remuneration

The fixed remuneration model is informed and adjusted each year based on data from multiple independent remuneration specialists. Employees' fixed remuneration is based on a matrix of their own performance and their current position in the market range.

Short-Term Incentive scheme

STI values are calculated as a percentage of fixed remuneration and determined based on the complexity of the roles. Employees' STI payments are determined following a review of the company performance and individual performance and may be paid out at a multiplier of 0x to 3x. This model is focused on articulating performance goals, driving for outcomes, differentiating high performance and rewarding delivery.

Long-Term Incentive scheme

Z Energy has historically operated a cash-based long-term incentive (LTI) scheme for selected employees who have been classified as Senior Executive or Leadership Team (currently, this covers 17 of our head office employees). The long-term incentive scheme was designed to reward and retain our key talent, align those employees' interests with the interest of our shareholders and encourage longer-term decision making and performance. The final date in which the cash-based LTI scheme may vest is April 2015.

Restricted Share Long-Term Incentive Plan

Following listing, Z Energy replaced its long-term incentive scheme with a restricted share, long-term incentive plan (RSLTIP) for selected employees who have been classified as Senior Executive or Leadership Team (collectively, executives). The RSLTIP is intended to incentivise executives to achieving long-term shareholder returns by providing a proportion of the executives' remuneration on an "at-risk" basis aligned to the achievement of defined performance targets. The first time this scheme may vest is April 2016.

Employee Share Purchase Plan

Post listing, Z Energy established an employee share purchase plan for eligible employees of Z Energy to buy and hold shares in the company at a discount to the listing price. The plan is an IRD approved DC12 plan and has a three-year vesting period on the shares purchased. One hundred and forty-two employees are currently participating in the plan.

Chief executive remuneration

Mike Bennetts's employment agreement for his role as CEO commenced on 1 April 2010.

The key terms of Mike's employment are as follows:

- Mike currently has a base salary of \$639,600 per annum, which is reviewed annually with effect from 1 April each year.
- In addition to his base salary, Mike may also be paid an annual short-term incentive payment with an on-target value of 50% of his base salary and a maximum payment of up to 150% of his base salary. Payment of a short-term incentive is fully discretionary and is assessed in the first quarter of each financial year, based on the business's performance in the previous financial year and Mike's performance in reference to certain key performance indicators. If Mike is made redundant, then he will be entitled to a proportional short-term incentive-based performance payment up to his departure.
- Mike may also be entitled to long-term incentive payments calculated against his base salary. Mike's potential entitlements to long-term incentive payments (which include the RSLTIP) may be paid in 2015 and 2016, based on the business's performance against specific financial objectives for each year. The maximum payments to which Mike may be entitled under the LTI are \$750,000 in 2014, and \$858,000 in 2015. The maximum entitlements to which Mike may be entitled in 2016 under the RSLTIP is \$458,532.
- Z Energy has also agreed to pay Mike's reasonable accommodation and living expenses in Wellington, and the reasonable travel expenses for national travel (particularly between Wellington and Auckland).
- Either Z Energy or Mike can terminate his employment on three months' notice. Z Energy can also terminate his employment for redundancy or for ill health (in both cases, also on three months' notice).
- Mike has also agreed to non-solicitation commitments (applying to Z Energy's suppliers and staff) and a restraint of trade (restricting him from involvement in the downstream oil industry in New Zealand). Both of these generally apply for 12 months after the end of his employment as CEO, but the restraint of trade does not apply if Mike is made redundant.

Remuneration of directors

None of the directors are entitled to any remuneration from Z Energy other than by way of directors' fees and reasonable travelling, accommodation and other expenses incurred in the course of performing duties or exercising powers as directors.

The total remuneration pool for Z Energy's non-executive directors was set at \$900,000 per annum for the period 1 April 2013–1 April 2015. This pool enables flexibility to deal with any changes in the Board.

The directors' remuneration is paid in the form of directors' fees. Additional fees are paid to the Chair and members in respect of work carried out by directors on various Board committees to reflect the additional time involved and responsibilities of these positions.

Details of the total remuneration of each director of Z Energy (including the value of all benefits received) during the financial year ended 31 March 2014 are as follows:

Director	Fee
Peter Griffiths	\$146,146
Marko Bogoeievski	\$126,042
Paul Fowler	\$113,795
Alan Dunn	\$112,448
Liberato Petagna	\$80,000
Abby Foote	\$76,607
Justine Munro	\$68,021
Bruce Harker	\$0

Note: This table reflects that Liberato Petagna resigned from the Board on 20 February 2014, Bruce Harker was appointed to the Board on 19 February 2014, Justine Munro and Abby Foote were both appointed to the Board on 15 May 2013.



Employee remuneration

There were 126 Z Energy Employees (or former employees) who received remuneration and other benefits in excess of \$100,000 in their capacity as employees during the year ended 31 March 2014, as set out in the table below.

Amount of remuneration	Employees	Amount of remuneration	Employees
\$100,000 to \$110,000	20	\$250,001 to \$260,000	2
\$110,001 to \$120,000	11	\$290,001 to \$300,000	1
\$120,001 to \$130,000	12	\$300,001 to \$310,000	2
\$130,001 to \$140,000	10	\$320,001 to \$330,000	1
\$140,001 to \$150,000	13	\$330,001 to \$340,000	1
\$150,001 to \$160,000	5	\$410,001 to \$420,000	3
\$160,001 to \$170,000	9	\$420,001 to \$430,000	1
\$170,001 to \$180,000	4	\$430,001 to \$440,000	1
\$180,001 to \$190,000	7	\$440,001 to \$450,000	1
\$190,001 to \$200,000	3	\$510,001 to \$520,000	2
\$200,001 to \$210,000	6	\$540,001 to \$550,000	1
\$210,001 to \$220,000	4	\$600,001 to \$610,000	2
\$230,001 to \$240,000	1	\$2,050,001 to \$2,060,000	1
\$240,001 to \$250,000	2		

This includes salary, short and long term performance bonuses, settlement payments and redundancy payments for all permanent employees.

Disclosure of directors' interests

The following disclosures of interests have been made by directors in terms of section 140(2) of the Companies Act 1993:

Director	Position	Company
Peter Griffiths	Director	New Zealand Oil and Gas Limited New Zealand Diving and Salvage Limited NZDS Properties (No 2) Limited Shoman Limited Hemnestral Limited Kupe Royalties Limited National Petroleum Limited Nephrite Enterprises Limited NZOG Services Limited Petroleum Equities Limited Stewart Petroleum Co Limited Northland Port Corporation (NZ) Limited Island Leader Limited Z Energy Limited Civil Aviation Authority

Director	Position	Company
Marko Bogoievski	Director	Zig Zag Farm Limited
		Morrison & Co International Limited
		Infratil No. 5 Limited
		NZ Airports Limited
		Infratil Gas Limited
		Infratil Energy Limited
		Swift Transport Limited
		Infratil Australia Limited
		Morrison & Co. Ventures Limited
		Morrison & Co Funds Management Limited
		Infratil 1998 Limited
		Morrison & Co Infrastructure Management Limited
		Infratil Securities Limited
		Infratil No. 1 Limited
		H.R.L. Morrison & Co Limited
		Woodward Capital Limited
		Infratil Ventures Limited
		Infratil UK Limited
		H.R.L. Morrison & Co Offshore Limited
		Morrison & Co Wealth Management Limited
		H.R.L. Morrison & Co Group Limited
		Infratil Infrastructure Property Limited
		Morrison & Co Property Group Limited
		Morrison Leasing Limited
		Infratil Europe Limited
		North West Auckland Airport Limited
		Infratil Insurance Co Limited
		Woodward Funds Management Limited – (this company owns 36.3m Infratil shares)
		Infratil Investments Limited
		Morrison Asian Investments Limited
		Infratil Limited
		Morrison Capital Limited
		Infratil Energy New Zealand Limited
		Z Energy LTI Trustee Limited
		Infratil Asia Limited
		Infratil Outdoor Media Limited
		Morrison & Co PIP Limited
		Trustpower Limited
		Aotea Energy Holdings Limited
		Aotea Energy Holdings No 2 Limited
		Aotea Energy Limited
Z Energy Holdings Limited		
Z Energy ESPP Trustee Limited		
Infratil Finance Limited		
Z Energy Limited		
Alan Dunn	Director	Burger Fuel Worldwide Limited
		DPA Technologies Limited
		New Zealand Post Limited
		Z Energy Limited
		Z Energy ESPP Trustee Limited
Z Energy LTI Trustee Limited		

Director	Position	Company
Abby Foote	Director	Transpower New Zealand Limited New Zealand Local Government Funding Agency Limited BNZ Life Insurance Limited BNZ Insurance Services Limited Z Energy Limited
Paul Fowler	Director	Z Energy Limited
Justine Munro	Director	Z Energy ESPP Trustee Limited Z Energy LTI Trustee Limited Z Energy Limited Maia Consulting Limited Munro Crockett Trustees Limited
Liberato Petagna	Director	Envoy Investments Limited Morrison & Co International Limited Morrison Nominees Limited Morrison & Co. Ventures Limited Morrison & Co Funds Management Limited Morrison & Co Infrastructure Management Limited H.R.L. Morrison & Co. Trustee No. 2 Limited H.R.L. Morrison & Co Limited Woodward Capital Limited H.R.L. Morrison & Co Offshore Limited Adair Investments Limited Morrison & Co Wealth Management Limited H.R.L. Morrison & Co Group Limited JML Capital Limited Infratil Infrastructure Property Limited Hettinger Nominees Limited Morrison Leasing Limited Terrace Nominees Limited Woodward Funds Management Limited – (this company owns 36.3 m Infratil Limited shares) Lakeview Rural Holdings Limited Fisher Funds Management Limited Morrison Asian Investments Limited Sapphire Rural Holdings Limited T R Rural Holdings Limited JML Trustee Company Limited JML Bloodstock Limited Mana Capital Holdings Limited Morrison Capital Limited Woodward Infrastructure Limited Morrison & Co PIP Limited New Zealand Bus Limited New Zealand Bus Finance Company Limited Z Energy Limited
Bruce Harker	Director	IKEGPS Group Limited Trustpower Metering Limited Trustpower Limited Z Energy Limited

Directors' interests in share transactions

Directors disclosed, pursuant to section 148 of the New Zealand Companies Act 1993, the following acquisitions and disposals of relevant interests in shares during the period to 31 March 2014.

Director	Number of shares purchased/(sold)	Consideration	Date of transaction	Interest
Peter Griffiths	42,857 shares purchased	\$3.50	21 August 2013	Shares acquired as part of the Initial Public Offer of Shares in Z Energy
Abby Foote	14,285 shares purchased	\$3.50	21 August 2013	Shares acquired as part of the Initial Public Offer of Shares in Z Energy

Directors' interests in shares

Directors disclosed the following relevant interests in shares as at 31 March 2014.

Director	Number of shares in which a relevant interest is held
Peter Griffiths	Shareholder: Z Energy Limited – 42,857 shares New Zealand Refining – 18,744 shares
Paul Fowler	Shareholder: Caltex Australia Limited – 500 subordinated notes
Bruce Harker	Bondholder of: ZEL010 – \$300,000 ZEL030 – \$125,000 <i>Both Bonds are held by the BJ & JS Harker Trust</i>

NZX Main Board and ASX waivers

Z Energy has no waivers from the requirements of the NZX Main Board Listing Rules.

As part of its application to list on the ASX, Z Energy applied for and was granted waivers from the ASX Listing Rules that are standard for a New Zealand company listed on both the NZX Main Board and the ASX:

- A waiver from ASX Listing Rule 6.10.3 to the extent necessary to permit Z Energy to set the specified time to determine whether a security holder is entitled to vote at a shareholders' meeting in accordance with the requirements of the relevant New Zealand legislation.
- A waiver from ASX Listing Rule 7.1 to permit Z Energy to issue securities without security holder approval, subject to the following conditions:
 - Z Energy remains subject to, and complies with, the NZX Main Board Listing Rules with respect to the issue of new securities
 - Z Energy certifies to ASX on an annual basis (on or about 30 June each year) that it remains subject to, has complied with, and continues to comply with, the requirements of the NZX Main Board Listing Rules with respect to the issue of new securities
 - if Z Energy becomes aware of any change to the application of NZX Main Board Listing Rules with respect to the issue of new securities, or that Z Energy is no longer in compliance with the requirements of the NZX Main Board Listing Rules with respect to the issue of new securities, it must immediately advise ASX
- Without limiting ASX's right to vary or revoke its decision pursuant to ASX Listing Rule 18.3, ASX reserves the right to revoke this waiver if:
 - Z Energy fails to comply with any of the above conditions
 - or
 - there are changes to the NZX Main Board Listing Rules in respect of the issue of new securities such that, in ASX's opinion, the regulation of the issue of new securities under those NZX Main Board Listing Rules ceases to be comparable to the regulation of the issue of new securities under the ASX Listing Rules.
- A waiver from ASX Listing Rule 15.7 to permit Z Energy to provide announcements simultaneously to both ASX and NZX.
- A waiver from ASX Listing Rules 15.13, 15.13A and 15.13B to the extent necessary to permit Z Energy to divest shareholders of less than a minimum holding in accordance with the procedure set out in Z Energy's Constitution.

Donations

For the year ended 31 March 2014, Z Energy made donations of \$859,968.

Restricted Security Agreement

Z Energy has entered into a Restricted Security Agreement with Aotea Energy Investments Limited (formerly Z Energy Holdings Limited) and NZSF Aotea Limited, under which they have agreed they will not transfer any of the shares they own in Z Energy following completion of Z Energy's Initial Public Offer (for a period up until the date of the announcement of Z Energy's financial results for the period ending 30 September 2014), other than in certain limited circumstances. See section 6.3, pages 211–212 of Z Energy's Investment Statement and Prospectus for further information.

The total number of Z Energy's restricted securities is 160,000,000 Z Energy shares.

Indemnity and insurance disclosure

As permitted by its constitution, Z Energy has entered into a deed of indemnity indemnifying 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 Energy or its related companies. Z Energy has a directors' and officers' liability insurance policy in place. This provides insurance for the liabilities of the directors and employees of Z Energy 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.

Results disclosure

The reporting period for this annual report relates to the 12 months to 31 March 2014.

The previous reporting period relates to the 12 months to 31 March 2013.

	12 months to 31 March 2014 (\$m)	% change
Operational results		
Revenues from ordinary activities	3,371	(5)
Profit (loss) from ordinary activities after tax attributable to security holders	95	(31)
Net profit (loss) attributable to security holders	95	(31)

Dividend disclosure

	Amount per security (cents)	Imputed amounts per security (cents)
Dividends – Ordinary shares		
2014 Interim dividend	7.7	2.9944
Record date		22 November 2013
Payment date		4 December 2013
2014 Final dividend	14.3	5.5611
Record date		23 May 2014
Payment date		4 June 2014

Professional fees disclosure

Total fees paid to KPMG in their capacity as auditors for the year ended 31 March 2014 was \$246,030.

Total fees paid to KPMG for other professional services for the year ended 31 March 2014 was \$520,918.

The Audit report is based on the audited group financial statements. KPMG has provided an Audit report on the financial statements.

Net tangible assets per security

Net tangible assets per security as at 31 March 2014 67 NZ cents (132 NZ cents: 31 March 2013).

Group disclosures – Subsidiaries

Harbour City Property Investments Limited (HCPIL)
 Directors: Michael John Bennetts and Mark Andrew Forsyth.
 During the period of this report, Gail Anne Calder was also a director but ceased to be a director on 9 April 2014. Mark Edghill resigned as a director of HCPIL during the reporting period.

The directors of HCPIL are employees of Z Energy and do not receive any remuneration in their capacity as directors.

Disclosure of directors' interests – HCPIL

Director	Position	Company
Michael John Bennetts	Director	Loyalty New Zealand Limited Auckland Iron Works Limited The New Zealand Refining Company Limited
Mark Andrew Forsyth	Director	Loyalty New Zealand Limited
Gail Anne Calder	Director Shareholder	Calder Properties Investments Limited

Z Energy ESPP Trustee Limited
 Directors: Marko Bogoievski, Alan Dunn, Justine Munro

The directors of Z Energy ESPP Trustee Limited and Z Energy LTI Trustee Limited do not receive any remuneration.

Z Energy LTI Trustee Limited
 Directors: Marko Bogoievski, Alan Dunn, Justine Munro

The directors' interests of Z Energy ESPP Trustee Limited and Z Energy LTI Trustee Limited are disclosed at page 87-88.

Shareholder information

Z Energy shares are quoted on the NZX Main Board and on the ASX. Z Energy trades under the ticker ZEL (NZSX) and ZNZ (ASX).

Z Energy has registered with the Australian Securities and Investment Commission (ASIC) as a foreign company. Z Energy has been issued an Australian Registered Body Number (ARBN) of 164 438 448.

As at 11 April 2014, there were 400,000,000 fully paid ordinary shares in Z Energy (Z Energy Shares) on Issue. Each Z Energy Share confers on its holder the right to attend and vote at a meeting of Z Energy, including the right to cast one vote on a poll on any resolution.

The date that the content of the Shareholder Information section was prepared (11 April 2014) was not more than six weeks before the release of the annual report.

Shareholders holding less than a marketable parcel

As at 11 April 2014, there were six shareholders holding between one and 99 Z Energy Shares (less than a minimum holding number according to the NZX Main Board Listing Rules) and, based on the market price of A\$3.60, there were eight holders that held less than a marketable parcel of A\$500 of Z Energy Shares under the ASX Listing Rules.

Distribution of ordinary shares and shareholders

As at 11 April 2014

Size of holding	Number of Shareholders	%	Number of Shares	%
1 – 1,000	1,357	13.68%	1,082,111	0.27%
1,001 – 5,000	5,567	56.14%	14,316,965	3.58%
5,001 – 10,000	1,835	18.50%	12,910,635	3.23%
10,001 – 100,000	1,028	10.37%	18,581,003	4.65%
100,001 and over	130	1.32%	353,109,286	88.28%
Totals	9,917	100%	400,000,000	100%

Substantial security holders

As at 11 April 2014, Z Energy had received notices under Section 26 of the Securities Markets Act 1988 that the following shareholders were substantial security holders in respect of Z Energy shares:

Substantial security holders	Number of voting securities	% of shares held at date of notice	Date of notice
NZSF Aotea Limited	80,000,000	20%	28 February 2014
Aotea Energy Investments Limited	80,000,000	20%	28 February 2014
Cooper Investors Pty Limited	24,937,044	6.23%	20 September 2013

20 largest shareholders

As at 11 April 2014

Rank	Holder name	Holding	%
1	Z Energy Holdings Limited	80,000,000	20.00%
2	New Zealand Superannuation Fund Nominees Limited	80,000,000	20.00%
3	National Nominees Limited	17,391,261	4.35%
4	National Nominees New Zealand Limited	16,961,255	4.24%
5	Accident Compensation Corporation	15,639,829	3.91%
6	HSBC Nominees (New Zealand) Limited	12,591,187	3.15%
7	JPMorgan Chase Bank	10,002,113	2.50%
8	Cogent Nominees Limited	8,088,605	2.02%
9	RBC Investor Services Australia Nominees Pty Limited	7,911,998	1.98%
10	FNZ Custodians Limited	7,122,902	1.78%
11	HSBC Custody Nominees (Australia) Limited	6,835,177	1.71%
12	Custodial Services Limited	6,806,751	1.70%
13	J P Morgan Nominees Australia Limited	6,394,777	1.60%
14	Forsyth Barr Custodians Limited	6,122,902	1.53%
15	BNP Paribas Noms Pty Ltd	5,967,508	1.49%
16	HSBC Nominees (New Zealand) Limited	5,334,221	1.33%
17	Tea Custodians Limited	5,129,467	1.28%
18	Citibank Nominees (NZ) Ltd	3,595,369	0.90%
19	UBS Nominees Pty Ltd	3,311,036	0.83%
20	Forsyth Barr Custodians Limited	3,302,086	0.83%

In the above table, the shareholding of New Zealand Central Securities Depository Limited (NZCSD) has been re-allocated to the applicable members of NZCSD.



Z Business Development Manager, Alana Pollock giving a helping hand to the site staff at Z Harbour City.



Our financial results

Our key numbers and financial performance for the 2013/14 financial year.

Statement of comprehensive income

for the year ended 31 March 2014

	Notes	Group		Parent	
		2014 \$m	2013 \$m	2014 \$m	2013 \$m
Total Revenue	4	3,371	3,558	3,371	3,547
Excise and carbon expense		(546)	(569)	(546)	(569)
Purchases of crude and product		(2,311)	(2,511)	(2,311)	(2,511)
Primary distribution expenses		(25)	(24)	(25)	(24)
Operating expenses	5	(281)	(289)	(281)	(279)
Share of earnings of associate companies (net of tax)	13	(5)	-	-	-
Earnings before interest, taxation, depreciation (including gains and (losses) on sale of fixed assets), amortisation and fair value movements in interest rate derivatives (EBITDAF)		203	165	208	164
Depreciation and amortisation	10,11	(39)	(39)	(39)	(39)
Impairment	10	1	-	1	-
(Loss)/gain on sale of fixed assets		(4)	41	(4)	41
Net financing (expense)/income	21	(25)	3	(25)	3
(Loss) on interest rate derivatives		(2)	-	(2)	-
Net profit before taxation		134	170	139	169
Taxation expense	15	(39)	(33)	(39)	(33)
Net profit for the year		95	137	100	136
Net profit attributable to owners of the company		95	137	100	136
Other comprehensive income that will not be reclassified to profit or loss					
Asset revaluation reserve after tax		143	-	142	-
Share of associate other comprehensive income after tax		1	-	-	-
Other comprehensive income net of tax		144	-	142	-
Total comprehensive income for the year		239	137	242	136
Total comprehensive income attributable to owners of the company		239	137	242	136

The accompanying notes form part of these financial statements.

Statement of financial position

as at 31 March 2014

	Notes	Group		Parent	
		2014 \$m	2013 \$m	2014 \$m	2013 \$m
Shareholders' equity		591	597	597	593
Represented by:					
Current assets					
Cash and cash equivalents	9	178	115	178	114
Trade, accounts receivable and prepayments	6	227	961	229	966
Inventories	8	479	482	479	481
Derivative financial instruments	21	1	-	1	-
Assets held for sale		-	2	-	2
Total current assets		885	1,560	887	1,563
Non current assets					
Property, plant and equipment	10	511	311	506	306
Intangible assets	11	35	27	35	25
Investments in associates and subsidiaries	13,14	96	1	105	6
Derivative financial instruments	21	12	-	12	-
Other non-current assets		1	2	1	2
Other investments		-	1	-	1
Deferred tax	15	-	4	-	3
Total non current assets		655	346	659	343
Total assets		1,540	1,906	1,546	1,906
Current liabilities					
Accounts payable, accruals and other liabilities	7	424	824	424	828
Income tax payable	15	12	4	12	4
Provisions	16	11	4	11	4
Derivative financial instruments	21	2	5	2	5
Total current liabilities		449	837	449	841
Non current liabilities					
Other liabilities		17	18	17	18
Provisions	16	21	24	21	24
Derivative financial instruments	21	10	-	10	-
Bonds	20	430	430	430	430
Deferred tax	15	22	-	22	-
Total non current liabilities		500	472	500	472
Total liabilities		949	1,309	949	1,313
Net assets		591	597	597	593

Approved on behalf of the Board on 7 May 2014



Peter Griffiths
Chairman



Abigail Foote
Director

The accompanying notes form part of these financial statements.

Statement of cash flows

for the year ended 31 March 2014

	Notes	Group		Parent	
		2014 \$m	2013 \$m	2014 \$m	2013 \$m
Cash flows from operating activities					
<i>Cash was provided from:</i>					
Receipts from customers		3,387	3,564	3,387	3,469
Dividends received	13	1	-	1	1
Proceeds from insurance recoveries		2	3	2	3
Interest received		24	30	24	30
		3,414	3,597	3,414	3,503
<i>Cash was disbursed to:</i>					
Payments to suppliers and employees		(2,714)	(2,605)	(2,714)	(2,512)
Excise and carbon paid		(546)	(569)	(546)	(569)
Interest paid		(44)	(28)	(44)	(28)
Taxation paid		(29)	(28)	(29)	(28)
		(3,333)	(3,230)	(3,333)	(3,137)
Net cash inflow from operating activities		81	367	81	366
Cash flows from investing activities					
<i>Cash was provided from:</i>					
Proceeds from sale of investments	13,14	1	1	1	1
Proceeds from sale of property, plant and equipment	10	7	87	7	87
		8	88	8	88
<i>Cash was disbursed to:</i>					
Purchase of intangible assets		(10)	(5)	(10)	(5)
Purchase of Refining NZ		(100)	(2)	(100)	(2)
Purchase of property, plant and equipment		(63)	(68)	(63)	(67)
		(173)	(75)	(173)	(74)
Net cash (outflow) from investing activities		(165)	13	(165)	14
Cash flows from financing activities					
<i>Cash was provided from:</i>					
Issue of bonds		-	135	-	135
Issue of shares		422	-	422	-
Cash from intercompany		162	-	160	-
		584	135	582	135
<i>Cash was disbursed to:</i>					
Cash to intercompany		(324)	(350)	(322)	(350)
Purchase of shares		(2)	-	(2)	-
Dividends paid to owners of the company		(111)	(67)	(111)	(67)
		(437)	(417)	(435)	(417)
Net cash inflow/(outflow) from financing activities		147	(282)	147	(282)
Net increase in cash		63	98	63	98
Amalgamation of subsidiary		-	-	1	-
Cash balances at beginning of year		115	17	114	16
Cash at end of year		178	115	178	114

The accompanying notes form part of these financial statements.

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

	Group		Parent	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Net profit for the year	95	137	100	136
<i>Adjusted for items not involving cash flows:</i>				
Depreciation and amortisation	39	39	39	39
Impairment	(1)	-	(1)	-
Equity accounted earnings and income of associates	5	-	-	-
Movement in bad and doubtful debt provisions	1	1	1	1
Fair value of derivatives	2	(6)	2	(6)
Gain/(loss) on sale of fixed assets	4	(41)	4	(41)
Other	(1)	2	(1)	(3)
<i>Movements in working capital</i>				
Change in trade, accounts receivable and prepayments	14	4	14	4
Change in inventories	3	190	3	190
Change in accounts payable, accruals and other liabilities	(90)	36	(90)	41
Change in taxation	10	5	10	5
Net cash flow from operating activities	81	367	81	366

The accompanying notes form part of these financial statements.

Statement of changes in equity for the year ended 31 March 2014

Group – for the year ended 31 March 2014

	Capital \$m	Retained earnings \$m	Employee share reserve \$m	Asset revaluation reserve \$m	Total equity \$m
Balance at beginning of year	10	587	-	-	597
Net profit for the year	-	95	-	-	95
Other comprehensive income	-	1	-	143	144
Disposal of revalued assets	-	2	-	(2)	-
Total comprehensive income for the year	-	98	-	141	239
Transactions with owners recorded directly in equity:					
Change in share capital	422	-	-	-	422
Own shares acquired	-	-	(2)	-	(2)
Dividends to equity holders	-	(665)	-	-	(665)
Total transactions with owners recorded directly in equity	422	(665)	(2)	-	(245)
Balance at end of year	432	20	(2)	141	591

Group – for the year ended 31 March 2013

	Capital \$m	Retained earnings \$m	Employee share reserve \$m	Asset revaluation reserve \$m	Total equity \$m
Balance at beginning of year	10	517	-	-	527
Net profit for the year	-	137	-	-	137
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	137	-	-	137
Transactions with owners recorded directly in equity:					
Dividends to equity holders	-	(67)	-	-	(67)
Total transactions with owners recorded directly in equity	-	(67)	-	-	(67)
Balance at end of year	10	587	-	-	597

The accompanying notes form part of these financial statements.

Statement of changes in equity for the year ended 31 March 2014

Parent – for the year ended 31 March 2014

	Capital \$m	Retained earnings \$m	Employee share reserve \$m	Asset revaluation reserve \$m	Total equity \$m
Balance at beginning of year	10	583	-	-	593
Net profit for the year	-	100	-	-	100
Other comprehensive income	-	-	-	142	142
Disposal of revalued assets	-	2	-	(2)	-
Total comprehensive income for the year	-	102	-	140	242
Transactions with owners recorded directly in equity:					
Change in share capital	422	-	-	-	422
Amalgamation of subsidiary	-	5	-	-	5
Own shares acquired	-	-	-	-	-
Dividends to equity holders	-	(665)	-	-	(665)
Total transactions with owners recorded directly in equity	422	(660)	-	-	(238)
Balance at end of year	432	25	-	140	597

Parent – for the year ended 31 March 2013

	Capital \$m	Retained earnings \$m	Employee share reserve \$m	Asset revaluation reserve \$m	Total equity \$m
Balance at beginning of year	10	514	-	-	524
Net profit for the year	-	136	-	-	136
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	136	-	-	136
Transactions with owners recorded directly in equity:					
Dividends to equity holders	-	(67)	-	-	(67)
Total transactions with owners recorded directly in equity	-	(67)	-	-	(67)
Balance at end of year	10	583	-	-	593

The accompanying notes form part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2014

(1) Basis of accounting

Reporting entity

Z Energy Limited (the Parent), is registered in New Zealand under the Companies Act 1993 and is an issuer for the purposes of the Financial Reporting Act 1993. The Parent is party to listing agreements with NZX Limited (NZX) and ASX Limited (ASX), with its ordinary shares quoted on the NZX Main Board and ASX and three series of bonds quoted on the NZX Debt Market. The Group financial statements of the Parent (referred to as Z or the Group) at, and for the year ended 31 March 2014, comprise the Parent, its subsidiaries and the Group's interests in associates and jointly controlled operations.

On 19 August 2013, the Parent issued \$422 million of new shares on the NZX Main Board and ASX. The cash proceeds from the initial public offer were not retained by the Parent and were used to repay intercompany debt and to settle the transfer of shares in The New Zealand Refining Company Limited (Refining NZ).

The Group is primarily involved in the marketing of petroleum based products, is profit orientated and has its operations in New Zealand. The address of its registered office is 3 Queens Wharf, Wellington 6011, New Zealand.

Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and the Financial Reporting Act 1993. They comply with the NZ equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities, and with International Financial Reporting Standards (IFRS).

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

The financial statements are prepared on the basis of historical cost, except certain financial derivatives which are valued in accordance with the accounting policy in note 21 and Property, Plant and Equipment (PPE) which is valued in accordance with the accounting policy in note 10 Property, Plant and Equipment and is recorded at fair value.

Basis of Consolidation

A list of subsidiaries and associates is shown in notes 13 and 14. Consistent accounting policies are employed in the preparation and presentation of 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.

Subsidiaries

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

Associates

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

Jointly controlled operations

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

(2) Changes in accounting policies

On 1 April 2013 Z adopted a fair value policy for its property, plant and equipment. At this date all relevant assets have been valued by an independent valuer in accordance with the requirements of NZ IAS 16 Property, Plant and Equipment and NZ IFRS 13 Fair value measurement. An assessment of fair value will be performed annually to assess the drivers of each asset class to determine whether a further revaluation is required. At a minimum, a full revaluation will be performed every five years.

In accordance with the transitional provisions of NZ IFRS 13, the Group has applied the new fair value measurement guidance prospectively, which primarily relates to the measurement of financial instruments and has not provided any comparative information for new disclosures. The change had no significant impact on the measurement of the Group's assets and liabilities.

Presentational changes

Certain amounts in the comparative information have been reclassified to ensure consistency with the current period's presentation.

During the year, the Group modified the Statement of Comprehensive Income classification to show Revenue gross with a separate Excise and carbon expense. Comparative amounts have also been reclassified for consistency and have resulted in a \$569m increase in Revenue and Excise and carbon expense. A corresponding change in presentation has also been made in the Statement of Cash Flows which has resulted in a \$569m increase in Receipts from customers and Excise and carbon payments in the comparative amounts. This reclassification has not had any net impact on EBITDAF, Net Profit After Tax or on cash flows from operating activities.

Adoption status of relevant new financial reporting standards and interpretations

The following new standards, amendments to standards and interpretations have been issued, but are not effective for application for the year ended 31 March 2014 and have not been early adopted. The adoption of these standards are not expected to have a material impact on the financial statements.

- Amendments to NZ IAS 32: Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014).
- Amendments to NZ IFRS 10, NZ IFRS 12 and NZ IAS 27: Investment Entities (effective for annual periods beginning on or after 1 January 2014).
- Amendments to NZ IAS 36: Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014).
- NZ IFRS 9 Financial Instruments: Classification and measurement (effective for annual periods beginning on or after 1 January 2017).

(3) Critical accounting estimates and judgements

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

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

Provisions

Liabilities are estimated for the decommissioning and restoration of certain sites of operation. Such estimates are valued at the net present value of the expenditure expected to settle the obligation. Key assumptions have been made as to the expected amount and timing of expenditure to remediate based on the expected lives of the assets employed on the sites, discounted using a market-based risk-free interest rate.

Valuation of investments in associates and subsidiaries

Management performs an assessment of the carrying value of investments at least annually and considers objective evidence for impairment on each investment taking into account observable data on the investment, the fair value, the status or context of capital markets, its own view of investment value and its long term intentions. For more detail refer to note 13 and 14.

Measurement of fair value

A number of the Group's accounting policies and disclosures require the measurement of fair values, for PPE assets and liabilities.

For further information about the assumptions made in measuring fair values refer to the notes.

(4) Revenue

Revenue comprises the fair value of consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Sales of goods are recognised when a Group entity has supplied products to the customer, the customer has accepted the products and the collectability of the related receivables is reasonably assured. The Group has recorded Revenue gross with a separate Excise and carbon expense in accordance with the changes referred to in note 2.

	Group		Parent	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Fuel	3,287	3,465	3,287	3,454
Non-Fuel	59	56	59	56
Chemicals	25	37	25	37
Total revenue	3,371	3,558	3,371	3,547

(5) Operating expenses

	Group		Parent	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
On-site expenses	(46)	(40)	(46)	(40)
Selling commissions	(56)	(59)	(56)	(59)
Secondary distribution	(46)	(47)	(46)	(39)
Employee benefits	(50)	(41)	(50)	(39)
Storage and handling	(18)	(20)	(18)	(20)
Insurance	(8)	(8)	(8)	(8)
Administration and other expenses	(64)	(64)	(64)	(64)
Realised/unrealised gains/(losses) on foreign exchange and commodity transactions	7	(10)	7	(10)
Total operating expenses	(281)	(289)	(281)	(279)

Included in Administration and other expenses are fees paid to auditors. These include audit and audit related fees of \$246,030 (2013: \$168,500) and other services of \$520,918 (2013: \$420,391). Audit and audit related fees comprise \$172,000 (2013: \$150,500) for the audit and review of financial statements, fees for audit of bank covenants and trustee reporting of \$12,000 (2013: \$12,000), technical accounting opinions of \$37,608 (2013: nil), agreed upon procedures for license fee return \$6,000 (2013: \$6,000) and carbon emission reporting review of \$18,422 (2013: nil). Other Services comprise tax compliance \$6,628 (2013: nil), financial model review \$14,385 (2013: nil) and continuous improvement initiative \$499,905 (2013: \$420,391).

Included in Employee benefits are directors' fees of \$0.7m (2013: \$0.5m).

(6) Trade, accounts receivable and prepayments

Receivables, classified as loans and receivables, are initially recognised at fair value. Thereafter they are measured at amortised cost less any provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect the amount due.

	Group		Parent	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Trade receivables	211	225	211	225
Provision for doubtful debts	(1)	(2)	(1)	(2)
Prepayments	9	5	9	5
Other receivables	8	13	8	13
Intercompany balances (within the group)	-	-	2	-
Intercompany balances (with ultimate parent group)	-	720	-	725
	227	961	229	966

(7) Accounts payable, accruals and other liabilities

	Group		Parent	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Accounts payable	397	484	397	488
Accruals and other liabilities	13	15	13	15
Employee benefits payable	14	10	14	10
Intercompany balances (with ultimate parent group)	-	315	-	315
	424	824	424	828

(8) Inventories

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

	Group		Parent	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Raw materials and consumables	147	101	147	101
Finished goods/trading products	332	381	332	380
	479	482	479	481

During the year, the write down of inventories to net realisable value amounted to \$4m (2013: \$1m). The write down is included in 'purchase of crude and product'.

(9) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at banks, financial institutions and investments in money market instruments, excluding outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

(10) Property, plant and equipment

Cost includes expenditure that is directly attributable to the acquisition of the item, including the cost of all materials, direct labour, resource management consent costs, and an appropriate portion of variable and fixed overheads. An assessment of fair value will be performed annually to assess the drivers of each asset class to determine whether a further revaluation is required. At a minimum, a full revaluation will be performed every five years.

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

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

Property, plant and equipment – for the year ended 31 March 2014

The Parent property, plant and equipment balances are equal to Group other than subsidiary land and buildings with a carrying value of \$5m.

March 2014	Group				Total \$m
	Construction in progress \$m	Buildings \$m	Land and Improvements \$m	Plant and machinery \$m	
Cost/valuation					
Balance at beginning of year	33	108	107	351	599
Offset of accumulated depreciation on revaluation	-	(80)	(30)	(177)	(287)
Additions	71	-	-	-	71
Disposals	-	(1)	(4)	(5)	(10)
Revaluation adjustment	-	20	77	77	174
Transfers between asset classes	(57)	5	4	43	(5)
Balance at end of year	47	52	154	289	542
Accumulated depreciation and impairment losses					
Balance at beginning of year	-	(80)	(30)	(178)	(288)
Offset of accumulated depreciation on revaluation	-	80	30	177	287
Depreciation	-	(4)	(1)	(27)	(32)
Impairment	-	-	-	1	1
Disposals	-	-	-	-	-
Transfers between asset classes	-	-	-	1	1
Balance at end of year	-	(4)	(1)	(26)	(31)
Carrying amounts					
At 1 April 2013	33	28	77	173	311
At 31 March 2014	47	48	153	263	511

Included in buildings \$9m and plant and machinery \$1m are assets held under finance leases (2013: buildings \$1m and plant and machinery \$1m).

During the year, assets with a cost of \$5m and accumulated depreciation of \$1m previously classed as Plant and machinery were transferred to Intangibles.

Property, plant and equipment – for the year ended 31 March 2013

March 2013	Group				Total \$m
	Construction in progress \$m	Buildings \$m	Land and Improvements \$m	Plant and machinery \$m	
Cost					
Balance at beginning of year	78	154	123	261	616
Additions	65	-	-	-	65
Disposals	-	(3)	(29)	(50)	(82)
Transfers between asset classes	(110)	(43)	13	140	-
Balance at end of year	33	108	107	351	599
Accumulated depreciation and impairment losses					
Balance at beginning of year	-	(118)	(32)	(160)	(310)
Depreciation	-	(3)	(2)	(25)	(30)
Impairment	-	-	-	-	-
Disposals	-	41	4	7	52
Balance at end of year	-	(80)	(30)	(178)	(288)
Carrying amounts					
At 1 April 2012	78	36	91	101	306
At 31 March 2013	33	28	77	173	311

Measurement of fair value

On 1 April 2013, Z adopted a fair value policy for its property, plant and equipment (PPE). At this date, all relevant assets have been valued by an independent valuer in accordance with NZ IAS 16 Property, Plant and Equipment. An assessment of fair value will be performed annually to assess the drivers of each asset class to determine whether a further revaluation is required. At a minimum, a full revaluation will be performed every five years.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including level 3 fair values (the fair value hierarchy is explained in note 21), and reports directly to the CFO and Audit Risk Committee (ARC).

Level 3 fair value

PPE is valued using a level 3 fair value measurement in accordance with the fair value hierarchy. There were no transfers between levels during the year.

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

Valuation techniques	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
<p>Land is valued using the direct capitalisation approach. This method involves striking a sustainable market rental, which is capitalised at an appropriate rate of return or yield derived from an analysis of sales of comparable assets. The market rental is built up from:</p> <ul style="list-style-type: none"> - fuel throughput margin (adjusted downward for loyalty participation rate where a percentage of throughput is deemed to be derived from the Fly Buys loyalty scheme) and - estimated shop rental (for non-fuel sales) <p>A total value for land and buildings is determined by this approach. The value ascribed to the land is then the residual value after deducting the building value which is determined using the depreciated replacement cost approach below.</p>	<p>Throughout rental rate (cents/litre) 1.20 – 1.75 (Retail)</p> <p>Throughput rental rate (cents/litre) 0.70 – 0.80 (Truck stop)</p> <p>Loyalty participation rate 5% – 15%</p> <p>Shop rental \$150 – \$450 per square metre</p> <p>Capitalisation rate 6.50% – 10.25%</p>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • throughput margin was higher (lower); • loyalty participation rate was lower (higher); • shop rental rates were higher (lower); • capitalisation rate was lower (higher).

Valuation techniques	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Buildings, plant and machinery is valued using the depreciated replacement cost approach. This approach is based on the gross current replacement cost, reduced by factors providing for age, physical depreciation and technical and functional obsolescence taking into account an assets 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 were higher (lower); technical and functional obsolescence were lower (higher).

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.

(11) Intangible assets

Emissions trading scheme

Units acquired are carried at cost less any accumulated impairment as they are held for settlement of emissions obligations. Currently, overseas units have a finite life and NZ units an indefinite life.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over three years on a straight line basis.

Other intangibles

Other intangible assets that are acquired by the Group that have indefinite useful lives are measured at cost less accumulated impairment losses.

Intangible assets that have a finite life are measured at cost or fair value less accumulated amortisation and accumulated impairment losses. 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. Other intangibles includes software, franchise rights, domain name and occupation rights.

	Group		Parent	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Intangible assets – emissions units				
Balance at beginning of year	16	3	16	3
Additions at cost	46	64	46	64
Utilised	(42)	(51)	(42)	(51)
Balance at the end of year	20	16	20	16
Intangible assets – other				
Balance at beginning of year	11	14	9	12
Amalgamation of subsidiary	-	-	2	-
Additions at cost	11	6	11	6
Disposals	-	-	-	-
Amortisation	(7)	(9)	(7)	(9)
Balance at the end of year	15	11	15	9
Total intangible assets	35	27	35	25

(12) 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 emission's obligation.

Stock of units	Group	
	2014 Units millions	2013 Units millions
Balance at beginning of year	7	7
Plus units acquired and contracted for	1	2
Units utilised	(3)	(2)
Balance at end of year	5	7

Obligation	Group	
	2014 Units millions	2013 Units millions
Obligation payable as at 31 March	3	3

(13) Investments in associates

The Group is considered to have significant influence over its investment in Refining NZ due to the fact that it has representation on the Board of Directors and therefore has equity accounted this investment. Based on its closing share price of \$1.75, the fair value of the Group's investment in Refining NZ is \$84m (2013: nil).

Carrying amounts	Group		Parent	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Listed				
The New Zealand Refining Company Limited	95	-	100	-
Unlisted				
Loyalty New Zealand Limited	1	-	-	-
New Zealand Oil Services Limited	-	-	-	-
Wiri Oil Services Limited	-	-	-	-
Penagree Limited	-	-	-	-
Coastal Oil Logistics Limited	-	1	-	1
Carrying amount at end of year	96	1	100	1

Movements in carrying amounts	Group		Parent	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Carrying amount at beginning of year	1	1	1	1
Dividends received / receivable	(1)	-	(1)	-
Share of profits from associate	(5)	-	-	-
Share of other comprehensive income from associate	1	-	-	-
Purchase of investment	100	-	100	-
Return of investment	-	-	-	-
Carrying amount at end of year	96	1	100	1

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

2014

	Ownership	Principal activity	Total assets \$m	Total liabilities \$m	Income \$m	Profit / (loss) \$m	Other Comprehensive income \$m
Listed							
The New Zealand Refining Company Limited	15%	Refinery	1,064	473	223	(5)	27
Unlisted							
Loyalty New Zealand Limited	25%	Marketing	92	89	83	2	-
New Zealand Oil Services Limited	50%	Fuel Storage	7	7	45	-	-
Wiri Oil Services Limited	28%	Fuel Storage	2	2	16	-	-
Penagree Limited	25%	Ship Charterer	13	13	2	-	-
Coastal Oil Logistics Limited	25%	Shipping Operator	13	11	52	-	-

2013

	Ownership	Principal activity	Total assets \$m	Total liabilities \$m	Income \$m	Profit / (loss) \$m	Other Comprehensive income \$m
Unlisted							
Loyalty New Zealand Limited	25%	Marketing	91	90	83	2	-
New Zealand Oil Services Limited	50%	Fuel Storage	4	4	32	-	-
Wiri Oil Services Limited	28%	Fuel Storage	2	2	15	-	-
Penagree Limited	25%	Ship Charterer	15	14	3	-	-
Coastal Oil Logistics Limited	25%	Shipping Operator	13	10	53	-	-

(14) Investments in subsidiaries and joint operations

The significant subsidiaries of the Group and their activities are shown below:

The financial statements of the subsidiaries are included in the Group's financial statements. The financial year-end of all the significant subsidiaries is 31 March. From 1 April 2013, Mini Fuels & Oils Limited has been fully amalgamated into the Parent.

Subsidiaries				
	2014 Holding	2013 Holding	Principal activity	Country of incorporation
Mini Fuels & Oils Limited	0%	100%	Fuel Distribution	New Zealand
Harbour City Property Investments Limited	100%	100%	Property	New Zealand
Z Energy ESPP Trustee Limited	100%	0%	Trustee	New Zealand
Z Energy LTI Trustee Limited	100%	0%	Trustee	New Zealand

The Group has participating interests in three unincorporated jointly controlled operations relating to the storage and distribution of petroleum products. The revenues and expenses are allocated on a performance/usage basis rather than the share of the joint arrangement. The Group has rights to the assets and obligations for the liabilities relating to the jointly controlled operations. As at 31 March 2014, there were no contingent liabilities in respect of the jointly controlled operations. The value of assets in these interests is \$9m (2013: \$5m).

Joint operations			
	2014 Holding	2013 Holding	Principal activity
Joint User Hydrant Installation (JUHI)	25%	25%	Fuel Storage
Joint Interplane Fuelling Services (JIFS)	50%	50%	Fuel Distribution
Jointly Owned Storage Facility (JOSF)	50%	50%	Fuel Storage

(15) Taxation

Taxation expense comprises both current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognised in respect of the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

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

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

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

Taxation expense is determined as follows:

	Group		Parent	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Net profit before taxation	134	170	139	169
Less share of earnings of associate companies (net of tax)	5	-	-	-
Net profit before taxation excluding share of earnings from associates	139	170	139	169
Taxation on profit for the year at the corporate income tax rate of 28% (2013: 28%)	(39)	(48)	(39)	(47)
Plus taxation adjustments:				
Over provision in prior periods	-	3	-	3
Non-taxable gain on sale of PPE	-	12	-	12
Taxation expense	(39)	(33)	(39)	(32)
Comprising:				
Current taxation	(44)	(30)	(44)	(30)
Deferred taxation	5	(3)	5	(3)
Taxation expense	(39)	(33)	(39)	(33)

Deferred tax

Deferred tax assets and liabilities are offset on the face of the Statement of Financial Position and presented as a net deferred tax asset/(liability). The movement in deferred tax assets and liabilities is provided below:

Group								
	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 2012	(2)	2	1	-	1	3	1	6
Recognised in the Income Statement	(6)	(4)	1	-	1	(1)	5	(4)
Under/(Over) provision in prior periods in the Income Statement	-	1	-	-	-	-	1	2
Balance at 31 March 2013	(8)	(1)	2	-	2	2	7	4
Balance at 1 April 2013	(8)	(1)	2	-	2	2	7	4
Recognised in the Income Statement	2	-	(1)	-	-	(1)	1	1
Recognised in other comprehensive income	(31)	-	-	-	-	-	-	(31)
Under/(Over) provision in prior periods in the Income Statement	3	-	-	5	-	-	(4)	4
Balance at 31 March 2014	(34)	(1)	1	5	2	1	4	(22)
Parent								
	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 2012	(2)	2	1	-	1	3	1	6
Recognised in the Income Statement	(6)	(4)	1	-	1	(1)	5	(4)
Under/(Over) provision in prior periods in the Income Statement	-	1	-	-	-	-	1	2
Balance at 31 March 2013	(8)	(1)	2	-	2	2	7	4
Balance at 1 April 2013	(8)	(1)	2	-	2	2	7	4
Recognised in the Income Statement	2	-	(1)	-	-	(1)	1	1
Recognised in other comprehensive income	(31)	-	-	-	-	-	-	(31)
Under/(Over) provision in prior periods in the Income Statement	3	-	-	5	-	-	(4)	4
Balance at 31 March 2014	(34)	(1)	1	5	2	1	4	(22)

Imputation credits available for use in subsequent reporting periods are \$17m (2013: nil). Upon listing, the Parent ceased to be a member of the Aotea Energy Limited Imputation Group and the Group's imputation credit balance remained with the Aotea Energy Limited Imputation Group.

(16) Provisions

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

Estimated decommissioning and restoration costs are recognised at the estimated future cost. The estimated future cost is calculated using amounts discounted over the estimated useful economic life of the assets. The discount rate applied is the risk free rate of return which has been

equated to be the New Zealand 10-year bond rate. Decommissioning and restoration costs expected to be settled within one year are classified as current liabilities. Decommissioning and restoration costs expected to be settled between one and 30 years are classified as non-current.

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

For the year ended 31 March 2014

Group and Parent				
	Decommissioning and restoration \$m	Remediation \$m	Other \$m	Total \$m
Balance at beginning of year	20	4	4	28
Provisions made	2	1	5	8
Provisions used	(1)	(1)	(1)	(3)
Provisions reversed	-	-	-	-
Unwind of discount	(1)	-	-	(1)
Balance at end of year	20	4	8	32
Current	4	1	6	11
Non-current	16	3	2	21
Balance at end of year	20	4	8	32

For the year ended 31 March 2013

Group and Parent				
	Decommissioning and restoration \$m	Remediation \$m	Other \$m	Total \$m
Balance at beginning of year	21	2	2	25
Provisions made	1	2	4	7
Provisions used	(2)	-	(1)	(3)
Provisions reversed	-	-	(1)	(1)
Unwind of discount	-	-	-	-
Balance at end of year	20	4	4	28
Current	2	-	2	4
Non-current	18	4	2	24
Balance at end of year	20	4	4	28

(17) Share capital and distributions

Ordinary shares (fully paid)	Group		Parent	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Total issued capital at beginning of year	10	10	10	10
<i>Movements in issued and fully paid ordinary shares</i>				
Shares issued	422	-	422	-
Total issued capital at end of year	432	10	432	10

Ordinary shares (fully paid) in millions of shares	Group		Parent	
	2014	2013	2014	2013
Total issued capital at beginning of year	5	5	5	5
<i>Movements in issued and fully paid ordinary shares</i>				
Shares issued	395	-	395	-
Total issued capital at end of year	400	5	400	5

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

498,108 shares at a cost of \$1.8m are held by Z Energy LTI Trustee Limited for Z's restricted share long-term incentive plan.

Dividend	Group and Parent			
	2014 \$m	2014 cents per share	2013 \$m	2013 cents per share
2012 Final dividend (Paid May 12)			35	700
2013 Interim dividend (Paid November 12)			32	649
2013 Final dividend (Paid June 13)	29	580		
2014 Special dividend (Paid June 13)	50	1,000		
2014 Non-cash dividend to settle intercompany balances	555	11,100		
2014 Interim dividend (Paid December 13)	31	8		

Final dividend declared subsequent to balance date not provided (refer to note 29).

(18) Earnings per share

	Group and Parent	
	2014	2013
Profit after tax attributable to shareholders of the parent company (\$m)	95	137
Weighted average number of shares (million)	244	5
Basic and diluted earnings per share (cents)	39	2,740

(19) Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings.

For more information about the Group's exposure to interest rate and foreign currency risk, see note 21.

	Group		Parent	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<i>Facilities not utilised at reporting date</i>				
Secured bank facilities	400	400	400	400
	400	400	400	400

Financing arrangements

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

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

At 31 March 2014, the Group had secured bank debt facilities of \$400m (2013: \$400m). No amounts were drawn on the \$350m facility or the \$50m working capital and revolving term debt facility. Both facilities mature 4 July 2016.

The bank debt facilities are able to be drawn-down as required subject to Z being in compliance with undertakings in respect of those facilities. Working capital loans and revolving term debt loans must be repaid on the relevant due dates. Interest rates are determined by reference to prevailing money market rates at the time of draw-down plus a margin. Interest rates paid during the year ranged from 3.7% to 3.9% (2013: 3.9% to 5.9%).

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the borrowing using the effective interest rate. Bond and bank debt issue expenses, fees and other costs incurred in arranging finance are capitalised and amortised over the term of the relevant debt instrument or debt facility using the effective interest rate method.

(20) Bonds

	Group and Parent	
	2014 \$m	2013 \$m
Balance at the beginning of the year	438	303
Issued	-	135
Balance of bonds at end of year	438	438
Transaction costs to be amortised	(5)	(6)
Unwind of fair value loss on substitution	(3)	(2)
Balance at end of year	430	430
Current	-	-
Non current	430	430
Balance at end of year	430	430
<i>Repayment terms and interest rates:</i>		
Maturing on 15 October 2016, 7.35% per annum fixed coupon rate	149	149
Maturing on 15 August 2018, 7.25% per annum fixed coupon rate	148	148
Maturing on 15 November 2019, 6.50% per annum fixed coupon rate	133	133
Balance at end of year	430	430

Fixed coupon

The fixed coupon bonds Z has on issue are at a face value of \$1.00 per bond. Interest is payable bi-annually on the bond maturing 15 October 2016, and quarterly on the bonds maturing 15 August 2018 and 15 November 2019.

The bonds require the borrowers to maintain certain levels of performance, security and gearing and get the indirect benefits of bank covenants through cross default provisions.

(21) Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk (interest rates, foreign exchange and oil commodity prices)

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established an Audit and Risk Committee with responsibilities that include reviewing treasury practices and policies. The Group has established a Treasury Management Committee to review and set treasury strategy within policy guidelines and report on market risk positions and exposures. The Group has developed a comprehensive, enterprise wide risk management framework, which guides management and the Board in the identification, assessment and monitoring of 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.

In accordance with the Group's risk management policies, the Group does not hold or issue derivative financial instruments for speculative purposes. Derivatives are not hedge accounted and are required to be accounted for at fair value through profit or loss. Derivative financial instruments are recognised initially at fair value at the date they are entered into. Subsequent to 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 profit or loss immediately.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Group. The Group is exposed to credit risk in the normal course of business including those arising from trade receivables with its customers, financial derivatives and transactions (including cash balances) with financial institutions. The Group has adopted a policy to assure the credit-worthiness of Z's counterparties, as a means of mitigating the risk of financial loss from defaults. The Group minimises its exposure to credit risk of trade receivables through the adoption of counterparty credit limits and standard payment terms. Derivative counterparties and cash deposit transactions are limited to high-credit-quality financial institutions and organisations in the relevant industry. The Group's exposure and the credit ratings of counterparties are monitored, and the aggregate value of transactions concluded are spread amongst approved counterparties. The carrying amounts of financial assets recognised in the Statement of Financial Position best represent the Group's maximum exposure to credit risk at the reporting date. Generally no security is held on these amounts. Concentration of credit risk with respect to trade receivables is limited due to the Group's large customer base. Less than 2% of the Group's receivables are more than 30 days overdue.

Liquidity risk

Liquidity risk is the risk that assets held by the Group cannot readily be converted to cash to meet the Group's contracted cash flow obligations. Liquidity risk is monitored by continuously forecasting cash flows and matching the maturity profiles of financial assets and liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions. The Group manages liquidity risk by maintaining an adequate amount of committed credit facilities and spreading debt maturities in accordance with policy.

The tables below analyse the Group and Parent financial liabilities into relevant maturity groupings based on the earliest possible contractual maturity date at the year end. The amounts in the tables below are contractual undiscounted cash flows, which include interest through to maturity.

For the year ended 31 March 2014

Group and Parent							
	6 months or less \$m	6-12 months \$m	1 to 2 years \$m	2 to 5 years \$m	5 years + \$m	Contractual cash flows \$m	Statement of financial position \$m
Non-derivative financial liabilities							
Accounts payable	(397)	-	-	-	-	(397)	(397)
Finance leases	(1)	(1)	(2)	(7)	(13)	(24)	(13)
Bank overdraft	-	-	-	-	-	-	-
Secured bank facilities	-	-	-	-	-	-	-
Bonds	(15)	(15)	(30)	(361)	(142)	(564)	(430)
	(413)	(16)	(32)	(368)	(155)	(985)	(840)
Derivative financial instruments (liabilities)/assets							
Foreign exchange contracts	-	-	-	-	-	-	-
Interest rate swaps	-	-	(1)	(2)	8	5	2
Commodity hedges	(1)	-	-	-	-	(1)	(1)
	(1)	-	(1)	(2)	8	4	1

For the year ended 31 March 2013

Group and Parent							
	6 months or less \$m	6-12 months \$m	1 to 2 years \$m	2 to 5 years \$m	5 years + \$m	Contractual cash flows \$m	Statement of financial position \$m
Non-derivative financial liabilities							
Accounts payable	(484)	-	-	-	-	(484)	(484)
Finance leases	(1)	(1)	(2)	(6)	(16)	(26)	(13)
Bank overdraft	-	-	-	-	-	-	-
Secured bank facilities	-	-	-	-	-	-	-
Bonds	(15)	(15)	(30)	(228)	(306)	(594)	(430)
	(500)	(16)	(32)	(234)	(322)	(1,104)	(927)
Derivative financial instruments liabilities							
Foreign exchange contracts	-	-	-	-	-	-	-
Commodity hedges	(5)	-	-	-	-	(5)	(5)
	(5)	-	-	-	-	(5)	(5)

The Parent balances are equal to Group other than subsidiary accounts payable with a value of \$4 million aged six months or less.

There are no differences between the expected and contractual maturities for the Parent's financial liabilities.

Market risk

Interest rate

Interest rate risk (cash flow and fair value) – Z's primary interest risk arises from its issued bonds (see note 20) which are sourced at fixed interest rates. In accordance with the treasury policy, Z manages its exposure to interest rate risk by entering into Interest Rate Swaps (IRS). By managing the interest rate risk, Z aims to minimise the cost of debt and manage the impact of interest rate volatility on the Group's interest income and expense cash flow and earnings. The aggregate notional principal amount of the outstanding IRS at 31 March 2014 is \$590m (2013: \$295m). The fair value of the IRS is \$2m (2013: \$4m).

Sensitivity analysis

At 31 March 2014, if bank interest rates at that date had been 100 basis points higher/lower with all other variables held constant, it would change post-tax profit for the year by \$0.2m lower/higher (2013: \$0.5m).

Foreign currency

The Group has exposure to currency risk on the value of its sales contracts, commodity/product supply purchases, other transaction flows and assets/liabilities denominated in foreign currencies.

The Group enters into forward exchange contracts under the terms of its treasury policy to reduce the risk from price fluctuations of foreign currency commitments mainly associated with the purchase of hydrocarbons.

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. The resulting gain or loss is recognised in profit or loss immediately.

The aggregate notional principal amount of the outstanding forward foreign exchange contracts at 31 March 2014 was \$17m (2013: \$224m). At balance date, the fair value of forward foreign exchange contracts outstanding was nil (2013: nil).

Sensitivity analysis

At 31 March 2014, if the New Zealand dollar had strengthened/weakened by 10% per cent against the currencies with which the Group has foreign currency risk with all other variables held constant, post-tax profit for the year would change by \$21m higher/\$22m lower (2013: \$25m).

Commodity hedges

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

The Group enters into commodity swap contracts under the terms of its treasury policy to reduce the risk from price fluctuations by matching purchase and sales volumes in a particular month. All hedging is within a six month duration. At 31 March 2014 the fair value of commodity hedges was \$(1)m (2013: \$5m).

Sensitivity analysis

At 31 March 2014, if the oil commodity price had weakened/strengthened by 10% per cent in which the Group has commodity price risk with all other variables held constant, the value of commodity derivatives would change post-tax profit for the year by \$0.2m lower/higher (2013: \$9.9m).

Fair value measurement in the financial statements

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

The fair values of derivatives are calculated using observable market rates based on discounted cash flow analysis. The fair values determined capture the applicable credit risk of the counterparties and are a level 2 fair value measurement per the requirements of NZ IFRS 7 (explained below).

Where the fair value of a derivative is calculated using discounted cash flow analysis, the two key types of variables used by this valuation technique are as follows:

- forward price curve (for the relevant underlying interest rates, foreign exchange rates or commodity prices); and
- discount rates.

The selection of variables requires judgement, and therefore, there is a range of reasonably possible assumptions in respect of these variables that could be used in estimating the fair value of these derivatives.

2014 Asset and liability fair value classification

Group and Parent

Assets	Held for trading at fair value \$m	Available for Sale \$m	Loans and receivables \$m	Total carrying amount \$m	Fair value \$m
Cash and cash equivalents	-	-	178	178	178
Other investments	-	-	-	-	-
Derivatives	13	-	-	13	13
Trade receivables	-	-	211	211	211
Total assets	13	-	389	402	402

Liabilities	Held for trading at fair value \$m	Financial liabilities at amortised cost \$m	Total carrying amount \$m	Fair value \$m
Bonds	-	(430)	(430)	(451)
Secured bank facilities	-	-	-	-
Derivatives	(12)	-	(12)	(12)
Bank overdraft	-	-	-	-
Finance leases	-	(13)	(13)	(13)
Accounts payable	-	(397)	(397)	(397)
Total liabilities	(12)	(840)	(852)	(873)

2013 Asset and liability fair value classification

Group

Assets	Available for Sale \$m	Loans and receivables \$m	Total carrying amount \$m	Fair value \$m
Cash and cash equivalents	-	115	115	115
Other investments	1	-	1	1
Trade receivables	-	225	225	225
Total assets	1	340	341	341

Liabilities	Held for trading at fair value \$m	Financial liabilities at amortised cost \$m	Total carrying amount \$m	Fair value \$m
Bonds	-	(430)	(430)	(469)
Derivatives	(5)	-	(5)	(5)
Bank overdraft	-	(13)	(13)	(13)
Accounts payable	-	(484)	(484)	(484)
Total liabilities	(5)	(927)	(932)	(971)

2013 Asset and liability fair value classification

Parent

Assets	Available for Sale \$m	Loans and receivables \$m	Total carrying amount \$m	Fair value \$m
Cash and cash equivalents	-	114	114	114
Other investments	1	-	1	1
Trade receivables	-	225	225	225
Total assets	1	339	340	340

Liabilities	Held for trading at fair value \$m	Financial liabilities at amortised cost \$m	Total carrying amount \$m	Fair value \$m
Bonds	-	(430)	(430)	(469)
Derivatives	(5)	-	(5)	(5)
Bank overdraft	-	(13)	(13)	(13)
Accounts payable	-	(488)	(488)	(488)
Total liabilities	(5)	(931)	(936)	(975)

NZ IFRS 7 requires disclosure of fair value measurements using the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

At 31 March 2014, the fair value of bonds disclosed in the table above was a level 1 measurement (2013: level 1) and the fair value of derivatives was a level 2 measurement (2013 level 2). The fair value disclosed for bonds is the quoted price of the bonds on the NZDX as at 31 March 2014. The fair value disclosed for derivatives is calculated using observable market rates based on discounted cash flow analysis and for the remaining financial instruments recorded in the Statement of Financial Position, carrying value approximates fair value.

Capital management

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

- Nature of activities
- Forecast of earnings and cash flows
- Capital needs over the forecast period
- Available sources of capital and relative cost.

The Group's capital includes share capital and retained earnings. The Group's borrowings are subject to certain compliance ratios relevant to the facility agreements or the trust deed applicable to the borrowings. The Group will seek to spread the maturities of its debt with no more than 50% of core debt facilities maturing in any forward 12 month period. Discussions on refinancing of bank debt facilities will normally commence at least six months before maturity with facility terms agreed at least three months prior to maturity. Bank facilities are maintained with AA- or above rated financial institutions, with a syndicate of four bank counterparties to ensure diversification.

(22) Leases

Operating leases

Operating lease payments, where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items, are charged to the profit or loss on a straight line basis over the period of the lease term.

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

	Group		Parent	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<i>Operating lease receivables as lessor</i>				
Between 0 to 1 year	3	3	3	3
Between 1 to 5 years	12	13	12	13
More than 5 years	27	29	27	29
	42	45	42	45

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

	Group		Parent	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<i>Operating lease payables as lessee</i>				
Between 0 to 1 year	20	20	20	20
Between 1 to 5 years	77	85	77	85
More than 5 years	79	112	79	112
	176	217	176	217

Lease costs expensed and sub-lease income received through profit or loss during the year were \$23m (2013: \$17m) and \$1m (2013: \$1m) respectively.

Finance leases as lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items, are capitalised at the lower of fair value or present value of the minimum lease payments. The leased assets and corresponding liabilities are therefore recognised and the assets are depreciated in line with the Group's depreciation policy to reflect the estimated useful lives. Each lease payment is allocated between the liability and finance charges so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year.

The Group has finance leases arising from the sale and leaseback of buildings and plant and machinery with a carrying amount of \$10m (2013: \$2m). These lease contracts expire within six to twelve years and have additional terms of renewal. The Group also receives some sub-lease income on these assets but this does not have a significant impact on the profit or loss.

Group and Parent

	2014 \$m	2013 \$m
<i>Present value of minimum lease payments</i>		
Between 0 to 1 year	1	-
Between 1 to 5 years	3	2
More than 5 years	9	11
Present value of minimum lease payments	13	13

Group and Parent

	2014 \$m	2013 \$m
<i>Lease liability under finance leases</i>		
Between 0 to 1 year	2	2
Between 1 to 5 years	9	8
More than 5 years	13	16
Minimum lease payments	24	26
Less interest attributable to future years	11	13
Present value of minimum lease payments	13	13
Present value of minimum lease payments – short term	1	-
Present value of minimum lease payments – long term	12	13

(23) Share based payments

Z Energy Limited Restricted Share Long Term Incentive (LTI) Plan

The restricted share LTI was introduced for selected senior Z employees on 19 August 2013 and will run until 31 March 2016. Under the LTI plan, ordinary shares in the Parent are issued to Z Energy LTI Trustee Limited (the Trustee), a subsidiary. Participants purchase shares from the Trustee with funds lent to them by the Parent company. The shares vest after a three-year period if total shareholder return, hurdles and performance targets are met, although a reduced period may be used in some cases. If the individual is still employed by the Parent at the end of the vesting period, the employee is provided a cash bonus which must be used to repay the loan and the shares are then transferred to the individual.

Measurement of fair values

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

The inputs used in the measurement of the fair values at grant date were as follows.

Weighted average share price at grant date	\$3.71
Contractual life	2.61 years
Risk free rate	3.7%
Standard deviation of Z share price	17.5%–22.5%
Standard deviation of NZX50	9%
Correlation between Z share price and NZX50	0.28–0.57

The volatility and correlation measures were derived from measuring the standard deviation of Z's share price with reference to the standard deviation of returns for listed companies that operate in the NZ and Australian petroleum and retail sectors. There was insufficient historical data to base the measures on Z's share price alone. The standard deviation of NZX50 was based on historical returns for the NZX50 Gross Index over a three-year period. The risk free rate was based on annualised government bond yield for the term.

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 plan.

The estimate of the fair value per share is in the range of \$1.00 to \$1.40 with a point estimate of \$1.26. The grant date fair value of equity settled share based payment awards is recognised as an expense, with a corresponding increase in equity, over the vesting period of the plan. The expense relating to the LTI plan in the year ended 31 March 2014 is \$0.2m (2013: nil). The unamortised fair value of the remaining shares at 31 March 2014 is \$0.5m (2013: nil).

Number of shares

Shares granted during the year ended 31 March 2014: 498,108 (2013: nil).

Outstanding shares at 31 March 2014: 498,108 (2013: nil). Outstanding shares have a remaining contractual life of two years and are grant date fair valued at \$1.26 each. No shares were exercised, forfeited or have expired during the year.

An employee share purchase programme also exists which does not have a material impact on these financial statements.

(24) Related parties

a) Ultimate parent entities

From 1 April 2013 until 19 August 2013, the ultimate parent group of Z was Aotea Energy Holdings Limited (AEHL). As a result of the initial public offer on 19 August 2013, AEHL's shareholding reduced to 40%. From 1 March 2014, AEHL control ceased as a result of change in the shareholding.

b) Transactions with key management personnel

Key management personnel have been defined as the directors, the chief executive and the executive team for the Group.

	Group		Parent	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Key management personnel compensation comprised the following				
Short-term employee benefits	4	4	4	4
Other long-term benefits	2	1	2	1
Termination benefits	1	-	1	-
	7	5	7	5

Executive members also participate in the Group's restricted share LTI Plan (see note 23).

c) Other related party transactions

Included in profit or loss are sales and expenses that arise from transactions between group and associated companies. Such transactions mainly comprise sales and purchases of goods and services in the ordinary course of business on normal trading terms, but also include dividends and interest.

During the year Z purchased the investment in Refining NZ from the ultimate parent group (refer to note 1), settled related party balances with companies within the ultimate parent group (as shown in the Statement of Cash Flows) and received interest of \$8m from the ultimate parent group.

Certain Z directors have relevant interests in a number of companies with which Z has transactions in the normal course of business. A number of Z directors are also non-executive directors of other companies. Any transactions undertaken with these entities have been entered into as part of the ordinary business of Z and are not included below.

The following transactions occurred with related parties:

	Group		Parent	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<i>Sales of goods and services</i>				
Subsidiaries	-	-	-	83
Associates	2	3	2	3
Infratil Group	1	1	1	1
Companies with common directorship	4	5	4	5
	7	9	7	92
<i>Purchases of goods and services</i>				
Associates	482	48	482	48
Infratil Group	1	1	1	1
Companies with common ownership	-	441	-	441
	483	490	483	490

The following other balances are outstanding at the reporting date in relation to transactions with related parties:

	Group		Parent	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<i>Current receivables</i>				
Associates	-	-	-	-
Infratil Group	-	-	-	-
Companies within AEHL Group	-	720	-	720
Companies with common directorship	1	-	-	-
	1	720	-	720
<i>Current payables</i>				
Associates	43	3	1	3
Companies within AEHL Group	-	315	-	315
Companies with common ownership	-	38	-	-
	43	356	1	318

(25) Commitments

Capital commitments relate to property, plant and equipment and contracts for the purchase of ETS units.

	Group		Parent	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Contracted but not provided for	18	64	18	64

(26) Contingent liabilities

The Group has guaranteed an exposure of up to \$5m (2013: \$5m) to a financier of one of the Group's associate companies.

(27) Contingent assets

The Group has submitted insurance claims of \$2m (2013: \$3m) relating to the Christchurch earthquake, but there is no certainty these will be paid so an asset has not been recognised.

(28) Comparison against prospectus forecast

The forecast numbers for the year ended 31 March 2014 formed part of the Investment Statement and Prospectus dated 25 July 2013. An adjusted forecast has been included, where appropriate, to incorporate the presentation change for revenue, Excise and carbon expense (see note 2). In addition forecast commodity and foreign exchange gains and losses have been reclassified.

The Group's primary basis of evaluating business performance is replacement cost operating EBITDAF. This is a non GAAP measure. Refer to the Investment Statement and Prospectus dated 25 July 2013 for more detail on this measure. In addition refer to the Group's management discussion and analysis material.

Statement of comprehensive income vs. prospectus forecast

Group	Actual 2014 \$m	Adjusted forecast 2014 \$m	Forecast 2014 \$m
Total revenue	3,371	3,548	2,968
Excise and carbon expense	(546)	(580)	-
Purchases of crude and product	(2,311)	(2,427)	(2,432)
Primary distribution expenses	(25)	(26)	(26)
Operating expenses	(281)	(296)	(291)
Share of earnings of associate companies (net of tax)	(5)	6	6
EBITDAF	203	225	225
Depreciation and amortisation	(39)	(36)	(36)
Impairment	1	-	-
(Loss) on sale of fixed assets	(4)	(1)	(1)
Net financing expense	(25)	(24)	(24)
(Loss) on interest rate derivatives	(2)	(1)	(1)
Net profit before taxation	134	163	163
Taxation expense	(39)	(45)	(45)
Net profit for the year	95	118	118
Net profit attributable to owners of the company	95	118	118
Other comprehensive income that will not be reclassified through profit or loss			
Asset revaluation reserve after tax	143	140	140
Share of associate other comprehensive income after tax	1	-	-
Other comprehensive income net of tax	144	140	140
Total comprehensive income for the year	239	258	258

Revenue and purchases of crude and product were below the adjusted forecast due to lower volumes. Operating costs were \$10m lower than forecast principally due to foreign exchange gains in the year, which were not forecast. Refining margins were lower than forecast due to the challenging refining market conditions impacting associate company's earnings.

Statement of financial position vs. prospectus forecast

Group	Actual 2014 \$m	Forecast 2014 \$m
Shareholders' equity	591	612
Represented by:		
Current assets		
Cash and cash equivalents	178	146
Trade, accounts receivable and prepayments	227	223
Inventories	479	513
Derivative financial instruments	1	-
Other assets	-	4
Total current assets	885	886
Non-current assets		
Property, plant and equipment	511	547
Intangible assets	35	25
Investments in associates and subsidiaries	96	107
Other non-current assets	13	3
Total non-current assets	655	682
Total assets	1,540	1,568
Current liabilities		
Accounts payable, accruals and other liabilities	424	439
Income tax payable	12	15
Provisions	11	-
Derivative financial instruments	2	1
Total current liabilities	449	455
Non current liabilities		
Other liabilities	17	16
Provisions	21	29
Derivative financial instruments	10	-
Bonds	430	430
Deferred tax	22	26
Total non-current liabilities	500	501
Total liabilities	949	956
Net assets	591	612

Refer below to analysis on cash flows and cash on hand. Inventory levels were lower than forecast due to the unplanned March 2014 refinery shutdown at Refining NZ. Property, plant and equipment was lower than forecast mainly due to the carry over of build programme projects into the subsequent financial year.

Statement of changes in equity vs. prospectus forecast

Group	Actual 2014 \$m	Forecast 2014 \$m
Equity at 1 April 2013	597	597
Net profit for the year	95	119
Other comprehensive income	144	140
Changes in share capital	422	422
Own shares acquired	(2)	-
Distributions to new and existing equity owners	(665)	(665)
Total equity at end of year	591	612

Net profit after tax differences to forecast have been explained above and are the main driver of the change in equity against forecast.

Statement of cash flows vs. prospectus forecast

Group	Actual 2014 \$m	Adjusted forecast 2014 \$m	Forecast 2014 \$m
<i>Cash was provided from:</i>			
Receipts from customers	3,387	3,552	3,552
Dividends received	1	-	-
Proceeds from insurance recoveries	2	-	-
<i>Cash was disbursed to:</i>			
Payments to suppliers and employees	(2,714)	(2,835)	(3,415)
Excise and carbon paid	(546)	(580)	-
Net interest paid	(20)	(32)	(32)
Taxation paid	(29)	(29)	(29)
Net cash inflow from operating activities	81	76	76
Cash flow from investing activities			
<i>Cash was provided from:</i>			
Sale of investments	1	-	-
Sale of property, plant and equipment	7	-	-
<i>Cash was disbursed to:</i>			
Purchase of intangible assets	(10)	-	-
Purchase of investments	(100)	(100)	(100)
Purchase of property, plant and equipment	(63)	(99)	(99)
Net cash (outflow) from investing activities	(165)	(199)	(199)
Cash flows from financing activities			
<i>Cash was provided from:</i>			
Cash from intercompany	162	160	160
Cash from share capital	422	422	422
<i>Cash was disbursed to:</i>			
Repay financial instruments	-	(4)	(4)
Finance lease	-	(1)	(1)
Dividends paid	(111)	(101)	(101)
Cash to intercompany	(324)	(322)	(322)
Share purchase for share scheme	(2)	-	-
Net cash inflow from financing activities	147	154	154
Net increase in cash	63	31	31
Cash balances at beginning of year	115	115	115
Cash at end of year	178	146	146

Net cash outflows from investing activities were \$34m lower than forecast due to lower than forecast spend on purchases of property, plant and equipment.

(29) Events after balance date**Dividend**

Subsequent to 31 March 2014, the Directors have approved a fully imputed dividend of \$0.143 per share, which is equal to \$57.2m to be paid on 4 June 2014 (2013: \$29.1m, \$5.82 per share).



Independent auditor's report

To the shareholders of Z Energy Limited

Report on the company and group financial statements

We have audited the accompanying financial statements of Z Energy Limited ("the company") and the group, comprising the company and its subsidiaries, on pages 96 to 129. The financial statements comprise the statements of financial position as at 31 March 2014, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

Directors' responsibility for the company and group financial statements

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of company and group financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these company and group financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the company and group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company and group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company and group's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has also provided other services to the company and group in relation to taxation, advisory and general accounting services. Partners and employees of our firm may also deal with the company and group on normal terms within the ordinary course of trading activities of the business of the company and group. These matters have not impaired our independence as auditor of the company and group. The firm has no other relationship with, or interest in, the company and group.

Opinion

In our opinion the financial statements on pages 96 to 129:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company and the group as at 31 March 2014 and of the financial performance and cash flows of the company and the group for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Z Energy Limited as far as appears from our examination of those records.

7 May 2014
Wellington

Directory

Directors

Peter Ward Griffiths (Chairman)

Marko Bogoievski

Alan Michael Dunn

Abigail Kate Foote
(appointed 15 May 2013)

Paul Lightle Fowler

Justine Mary Munro
(appointed 15 May 2013)

Liberato Petagna
(resigned 20 February 2014)

Bruce Harker
(appointed 19 February 2014)

Senior Management

Michael Bennetts

Chief Executive

Chris Day

Chief Financial Officer

Rob Freeman

General Manager Supply and Distribution

Mark Forsyth

General Manager Retail

Lindis Jones

General Manager Commercial

Huma Faruqui

General Manager Capability and
Organisational Development

Rob Wiles

General Manager Corporate

Meredith Ussher

General Counsel and Company Secretary

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Registered office – Australia

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Hong Kong and Shanghai Banking Corporation

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Westpac Banking Corporation

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