24 January 2017

Z Energy operational data for quarter ended December 2016

Health, safety, security and environment (HSSE)

	December 2016	December 2015	September 2016	September 2015
Lost time injuries	6	2	3	3
Spills to ground	0	0	0	0
Robberies[1]	6	3	6	2
Fuel quality incidents	0	0	0	0
Process safety incidents	1	0	0	0
Food safety incidents	0	0	0	1
Total recordable case frequency	1.4	1.1	1.0	1.8
Motor vehicle incident frequency	0	5.6	0	6.0

Fuels

All fuels in millions of litres	December 2016	December 2015	September 2016	September 2015
Total industry volumes (all fuels)[2]	2,332	2,211	2,123[3]	1,987
Z Group total fuel volumes	1,068	1,110[4]	1,007	1,019[4]
Petrol - Z Retail	190	208	193	194
- Caltex Retail	132	137[4]	124	126[4]
Diesel - Z Retail	72	76	71	70
- Caltex Retail	46	49[4]	42	43[4]
- Commercial	204	195[4]	186	179[4]
Other fuels	277	256[4]	236	214[4]
Supply - Domestic	132	124[4]	113	108[4]
- Industry & Export	15	65[4]	42	85[4]

1 Robberies reported only relate to Z Retail sites. Caltex sites are owned and operated by independent dealers.

2 Excludes 'Supply – Industry & Export' sales.

3 This number has been restated to reflect Caltex bitumen volumes, which were not included in industry data in September 2016

4 These numbers have been restated to reflect Caltex volumes prior to Caltex forming part of Z Group.

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Refining

	December 2016	December 2015	September 2016	September 2015
Refining NZ gross refining margin (GRM):				
USD GRM per barrel	9.20[5]	10.82	6.20	7.66
NZD GRM per barrel[6]	12.96	16.07	8.64	11.70

Customer experience

	December 2016	December 2015	September 2016	September 2015
Z Retail customer satisfaction[7]	87%	86%	86%	85%
Total Z Retail transaction count	14.6 million	14.9 million	13.8 million	13.8 million
Z Retail: fuel-only transactions	7.3 million	7.7 million	7.2 million	7.4 million
Z Retail: fuel and store transactions	1.9 million	1.9 million	1.7 million	1.8 million
Z Retail: store only transactions	5.4 million	5.3 million	4.9 million	4.6 million
Z Average weekly store sales	$35,100	$32,810	$31,025[8]	$29,358
Z Average weekly store sales like-for-like	$35,974	$33,765	$31,691	$29,739
Number of Z branded service stations	204	212	211	212
Caltex Retail customer experience score[7]	88%	-	89%	-
Number of Caltex branded service stations	142	-	146	-
Commercial customer satisfaction[7]	86%	81%	89%	83%
Number of truck stops	156[9]	92	161[9]	92

5 This number is from Refining NZ published data for the Nov/Dec period.

6 The NZD conversion is calculated by Z.

7 Customer satisfaction determined using ongoing internal customer measurement.

8 Average weekly store sales restated to reflect one site divested in September 2016.

9 This figure represents the combined Z and Caltex branded truck stops.

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Z Energy quarterly update

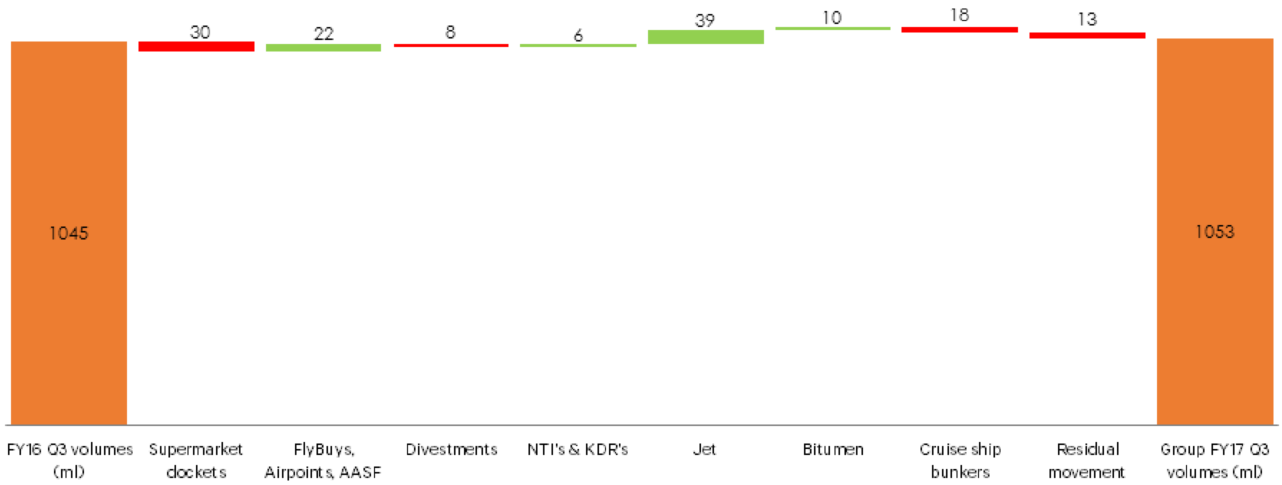
Introduction

The integration of the Caltex and Z businesses is complete with the functional and integration strategy work now incorporated into business as usual. The development of Strategy 3.0 is on track with key choices approved by the Board in December 2016 enabling implementation planning for FY18 to commence.

Given ongoing development of Strategy 3.0 and What is Next (strategy beyond 2020), quarterly operational data will be supplemented with additional information on an ongoing basis to ensure the market is well informed about synergy and strategy developments.

Operational performance

Operational data for 3QFY17 shows a small increase in volumes against the prior comparable period. To provide further clarity, the chart below illustrates the components of the change in volumes between 3QFY16 and 3QFY17.



The 22ml growth in volume from Z's three loyalty programmes (Fly Buys Pumped, Airpoints dollars and AA Smartfuel) has offset more than 70% of the 30ml volume loss attributable to losing the supermarket dockets relationship with Progressive Enterprises. The 10ml uplift in bitumen was partly weather-related (poor weather pushes volume into finer months) and partly a result of a quieter 3QFY16. Cruise ship bunkers had a slower 3QFY17 with competitor facilities in Mount Manganui back up and running after last year's unscheduled outage, and larger vessels this season which were unable to refuel in Auckland.

Jet fuel demand at Auckland International Airport Limited (AIAL) continues to show very strong growth. This growth in demand has placed predictable pressure on the jet fuel supply chain. Z is working through solutions to ensure demand can continue to be met, including working closely with Refining NZ. Jet fuel demand over the summer period is particularly strong and Z has contracted to supply imported jet fuel to meet the demand growth at AIAL from both new to AIAL airlines as well as existing carriers expanding services. Z's view is that jet fuel imports now have a structural role to play in meeting product demand in New Zealand. Over the last month Z has priced some jet fuel supply contracts to reflect the import option rather than local refining, and to recover the incremental costs of distribution given investment that is required in additional import tankage and increasing access to the Refinery to Auckland pipeline (RAP) for additional jet volumes.

Divestment update

The programme to divest 19 retail service stations and one truck stop will be formally completed by the end of January meeting the Commerce Commission deadline of 1 February 2017. All sites within the divestment programme have now been de-branded. The service stations have been divested to five existing market participants as follows:

Allied Petroleum (Mobil supplied)	1
BP	3, and one truck stop
G.A.S. (BP supplied)	2
Mobil	7
NPD (Mobil supplied)	2
Waitomo (Mobil supplied)	4

Gross proceeds of sales were $30m, offset by cash divestment costs of $12m, all of which have been capitalised. Of this $12m, $5.5m related to Z's decision to purchase three service stations to divest in a back-to-back process and the remaining $6.5m was divestment-related spend. Net cash flow of $18m contributed to debt reductions made in December 2016.

As per previous guidance, the volume impact is 68ml and the EBITDAF impact is $15m per annum.

Synergies

Z is on track to deliver $40 - $45 million of synergies in FY18 as guided at investor day. The following table confirms where Z is up to in the implementation phase of synergy projects.

Value Creation	Description	Actual YTD	FY17 Forecast	Guidance Range
Supply chain - benefitting from scale	• RNZ optimisation • Crude & product procurement • Freight & secondary distribution	1	3	22-24
People - integrating teams	• Duplication of roles and simplification	1	1	4-5
Corporate	• Offshore charges • Offset by Z incremental cost • Non-oil corporate procurement	7	10	12-13
Fuels marketing - retail and commercial channels	• Simplicity of task or process • Improved pricing controls • Retail procurement	0	1	2-3
	Total net synergies ($m pa)	9	15	40-45

Note offshore charges based on NZD:USD FX rate of 0.70.

Z is confident of $37m of the FY18 guidance given decisions taken to date and actions already completed. The balance of $7m is subject to negotiations and commercial agreements with third parties. It is expected these will be successfully concluded by the end of 1H FY18.

Strategy 3.0

As a result of the Caltex acquisition, value from both synergy and strategic choices has been identified. Strategy value is derived from new choices available to the larger Z group in how the company competes, participates or operates in any given market. These choices result in value over and above the guided synergy numbers.

These choices were presented to the Board in December and, given their approval, are now subject to implementation planning and will be progressively executed from April 2017 onwards. Until this planning is complete, it is premature to provide guidance as the value will be dependent upon timing of execution, some of which is driven by negotiations and agreements with third parties. None of these options represent a "value grab" from Z with any third parties, and are mostly value accretive to both parties, but will still require time to work through. Z will also consider re-investing some of this incremental value back into the core business to support a targeted volume position.

Although most of the value of these options is commercially confidential, Z can confirm the following:

- Of the 10 Caltex CORO (company owned, retailer operated) sites:
    - Three sites will be operated under the Z business model which will require rebranding from Caltex to Z. This will occur in FY19 given existing contractual obligations limit an earlier transition.
    - Three sites will be divested to a Caltex retailer during FY18. Net proceeds are yet to be determined.
    - Two sites (Fanshawe Street and North Highway in Paraparaumu) have already been sold and net proceeds of $22m and $300k respectively will be used to reduce debt. Fanshawe Street will settle in February 2017 and North Highway by early April 2017. North Highway's proceeds are so low because the site is not being sold as a going concern and an encumbrance has been put in place so that it will not be used as a service station in the future.
    - One site (Broadway) will close and revert to its landlord for an alternative use at the expiry of its lease in FY20.
    - One site (Otaki) is yet to be decided pending assessment of repairs required to the canopy.
- Z will invest throughout the supply chain in initiatives to grow Jet capacity at Auckland Airport.
- Z will adopt a simplified distribution model rather than continue with the current differences between the Caltex and Z models. This may still result in separate (but similar) contracts with two hauliers.
- Z will reduce value leakage by consolidating the Caltex pricing data into Z's existing pricing optimisation system and standardise control processes for the pricing at Caltex sites.

What is Next (WIN)

At its recent investor day Z discussed the need to develop capability to capture future value for options of "extend the core" and "beyond the core". In support of this, Z has appointed Scott Bishop as its new Chief Innovation Officer. Scott will be responsible for building an innovation capability within Z with a focus on customer experience and growth opportunities. Scott was previously the Head of Innovation at Air New Zealand and has held senior roles with Amazon and Microsoft.

As part of the WIN strategy stream of work, Z has partnered with MEVO to pilot and showcase an electric vehicle sharing scheme. Last week the government announced it will match Z with $40,000 of funding for the project. At two of Z's Wellington sites, fast chargers will be installed and Z's customers will be able to buy vouchers at a significant discount to use an Audi electric vehicle for an hour. Customers will be able to download a smartphone application to make bookings and unlock the car. The insights gained will help to inform the work Z is doing in evaluating strategic choices for the period post 2020.

Deleveraging

Z remains on track to return to its target leverage of 2.0x net debt to RC Operating EBITDAF. Bank debt was reduced by $25m in 2QFY17 and $45m in 3QFY17. With anticipated deleveraging in FY18 from operating earnings and divestment proceeds Z expects to be close to this target debt range by the end of FY18.

This is three to four quarters earlier than was originally anticipated at the time of announcing the acquisition. This provides Z with flexibility in 2H FY18 to review its current interim distribution policy (currently 10 per cent annual growth in DPS) and/or support investment in growth options beyond the core.