8 May 2014

Z delivers on financial targets, sets agenda for future growth

Result and dividend

Z Energy Limited (Z) today posted its first full year result as a listed company, delivering statutory Historic Cost Net Profit After Tax (HC NPAT)[1] for the year ended 31 March 2014 of $95 million.

Z posted 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) - the company's preferred measure of evaluating business performance[2] - of $219 million, up from $196 million in the prior year.

The Z Board has decided to pay a fully imputed final cash dividend to shareholders of 14.3 cents per share, taking the total for the year to 22 cents per share, which equates to 87 per cent of pro forma Replacement Cost Net Profit After Tax (RC NPAT).

Flexibility and managing volatility

Z Chief Executive Mike Bennetts said the result highlighted the ability of the company to manage volatility in different parts of the business and deliver quality earnings.

"We've deliberately and consistently focused our fuel volume and margin strategy on delivering value for the loyal customers Z seeks. This strategy has continued to allow Z to increase its share of profit from the market and also to manage unexpected impacts such as bottom-of-cycle refining margins for extended periods," he said.

"While being willing to deliberately trade some volume for the sake of better unit margins, Z closed the year with market leading positions across petrol and diesel sales with total market share down two percentage points from April 2010 when the company was bought."

Z's fuel margin over the year was 17.1 cents per litre, up from 15.8 cents per litre in 2013. Once all operating expenses have been met, Z's pro forma RC NPAT was 4.2 cents per litre, down from 5.5 cents per litre in the prior year or up from 3.7 cents per litre if the impact of property sales in 2013 is removed.

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1 Z's statutory NPAT earnings are prepared on an historic cost basis as required by NZ GAAP. Earnings prepared on this basis are subject to fluctuations in the value and volume of stock sold over the period due to changes in oil prices, exchange rates and deliveries.

2. 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. More information about replacement cost accounting and the difference between replacement cost and historic cost earnings is provided at the end of this announcement and in the accompanying presentation pack.

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Strategy and growth

Mike Bennetts said Z launched the company's second strategy programme in April 2014. The strategy will guide the company's operations over the next three to five year period and the initiatives within it are expected to deliver an additional $40 - $50 million of RC EBITDAF by 2018 on top of the company's underlying performance.

"The performance we've delivered to date and the way we have run the business has been driven by deliberate choices. We are now very much focused on executing the company's next strategy programme to deliver further customer and shareholder value."

In the year ended 31 March 2014, Z completed five new retail service stations and rolled out diesel pumps on all lanes across the company's top 100 sites, as well as 'pay at pump' at 49 retail sites.

The company's next strategy programme will secure growth in fuel volume and non-fuel margin through development of new convenience store offers in Z's tier one retail operations, the construction of approximately five new service stations and three rebuilds of existing sites per annum, plus pushing Z's food and coffee offer deeper into the network through an extension of store refits across the company's tier two retail network.

"Z will continue to invest in the most efficient and convenient retail network and in building a brand and customer experience that is truly distinctive and consistently delivers value to our customers," said Mike.

"We will also focus on ensuring we are disciplined in our commercial markets, that we are satisfying the expectations of our customers and that we are targeting our volume into the channels where we are best positioned, such as where we have advantaged terminal and distribution infrastructure."

Commitment to biofuels

In April, Z announced its commitment to a $21 million investment in a domestic biodiesel production facility at Wiri and associated blending infrastructure at Mount Maunganui and Wiri.

Z has already secured agreements from a number of commercial customers to take production from the plant which gives the company confidence around the success of the plant.

"We've had very strong interest from our commercial customers for what will be a limited product. Our customers are increasingly concerned about climate change and Z's biodiesel will be a distinctive offer that will allow customers the choice to use a high quality and more sustainable transport fuel," said Mike Bennetts.

It is expected that Z will begin construction of the plant in May, with production due in the first quarter of the 2016 financial year.

Outlook and guidance

Mike Bennetts said the company was well positioned to deliver earnings growth through the roll-out of the company's second strategy programme.

Z's guidance for the 2015 financial year is for RC Operating EBITDAF between $220 million and $240 million.

This guidance factors in the costs associated with the prolonged shutdown at Refining NZ over April 2014. These costs are extended loss of refining margin, and the increased logistics and product costs associated with alternative supply arrangements at short notice. These one-off costs are expected to be in the area of $4-6 million.

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Reconciliation from statutory NPAT to Pro Forma RC Operating EBITDAF

Net Profit per the statutory financial statements	**95**
Share of earnings in Refining NZ from 1 April to 18 August	4
Net financing income/(expense) from 1 April to 4 July	(8)
Replacement cost of sales adjustment (net of tax)	8
Taxation	2
Pro Forma RC net profit after tax	**101**
Depreciation and amortisation	39
Net financing income/(expense)	33
Other	5
Taxation (incl tax on COSA)	40
Share of earnings of associate companies (net of tax)	1
Pro Forma RC Operating EBITDAF	**219**

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