3 April 2020

Z Energy Covid-19 and FY20 guidance update

Z Energy (NZX: ZEL) has been impacted by a series of material external factors over the past 18 months, including heightened retail competition and a challenging refining market that has seen historically low refining margins endure for an exceptional period of time. We are now facing unprecedented trading conditions as the economy manages through the Covid-19 crisis. In response to these overlapping and adverse influences, Z's Board and management has initiated several actions.

Z Energy is narrowing its guidance for FY20 to be in the range of $355 million to $365 million (from the previous range of $350 million to $385 million). This guidance includes expected provisions of $27 million related to Covid-19 costs that have already been incurred as well as additional Covid-19 related provisions.

During FY20, Z faced a period of materially reduced retail margins coupled with extremely low refinery margins that, as predicted in our December 2019 guidance revision, have endured for a much longer period than seen at any time during the past decade. This has resulted in fee floor contributions being paid to NZ Refining during 3Q and 4Q of FY20.

Some of the expected downward pressure on retail margins contained within the December 2019 guidance revision has been moderated by Z during 4QFY20. Those actions, along with the changes made in prior quarters to retail price positioning and gradually reducing crude prices in January and February, means that Z expects to be able to report within our December 2019 guidance range after the effect of the Covid-19 related provisions.

In light of uncertainty around Covid-19 related trading conditions, Z is implementing a series of initiatives with a focus on reducing operating expenses and improving cash flow to support a resilient balance sheet.

1. <u>FY20 Final Dividend Cancelled</u>: The Z Board has determined to not pay a final dividend for FY20. Z notes that shareholders have already received an interim dividend of 16.5cps during the current financial year.

2. <u>Cost Reduction Initiatives</u>: Z is accelerating several cost reduction initiatives already planned for FY21 and is developing options to ensure we can endure a

sustained impact from Covid-19. We will share the details of these initiatives at our full FY20 earnings presentation on 7 May.

3. Non-integrity Capital Expenditure: Z is suspending all capital expenditure not required to maintain safe and reliable operations.

4. Working capital facilities: In view of continued volatility in commodity prices and the exchange rate, Z is in constructive dialogue with its banks to increase its working capital facility.

   Prices for crude oil declined suddenly and significantly from 5 March 2020. The sudden price weakness has provided some support to Z's replacement cost earnings for FY20, albeit with adverse consequences for cash flow as inventory purchased at higher prices is then sold at lower prices. The underlying commodity price volatility has been compounded by currency movements, particularly the decline in the NZ Dollar / US Dollar exchange rate from NZ$0.64 in early March to a recent low of NZ$0.55. Z's existing working capital facility has been sized for such an event and has withstood the early March decline. The proposed increase would provide additional headroom to accommodate further commodity price and exchange rate movements, should they occur.

Commenting on the FY20 guidance update and dividend, Mike Bennetts CEO said, "Almost all of the fourth quarter has been as expected, with retail price competition remaining high against a backdrop of historically low refining margins. Z has been agile in its response to trading conditions and adjusted to deliver a result towards the top end of our guidance range, allowing for the Covid-19 related provisions."

"We recognise that the decision to cancel the final dividend has consequences for many shareholders and was not taken lightly. However, considering the potential consequences of Covid-19 to New Zealand, the Z Board believes it is prudent to conserve this cash and take actions to reduce operating expenses. When the time comes, we can accelerate out of the current situation and help get New Zealand moving again."

Remarking on the sudden and steep drop in crude prices in early March, Mike said "We promptly passed on the decline in input prices to our Retail customers, with multiple price drops throughout March, totalling around 16 cents per litre depending on the local trading area. Our Commercial customers have equally benefitted from reductions in their contracted weekly prices".

Discussing the outlook for Z in to FY21 Mike added, "At this stage of the Covid-19 global pandemic it is difficult to forecast sales volumes. The lockdown of NZ will clearly have very significant implications for customer demand levels, the mix of fuel required across the NZ economy and overall competitive conditions. Experience from overseas is not necessarily indicative of what we will see in NZ's export-led economy."

Accordingly estimates based on overseas experience may have limited relevance in the NZ context. This has proven to be true for the first week of the lockdown where Z's retail fuel volumes were materially above normal trading conditions for the first two days of the week but down 80% in the second half of the week and store sales down around 40%. These are more extreme than many other markets in a similar lockdown where fuel sales are typically down 40-60%. To help investors track Z's volume performance during this time we will provide regular volume updates to the NZX for the duration of 1QFY21.

Commenting on Z's ongoing operational resiliency during the Covid-19 shutdown Mike said, "Z stood up our crisis management team (CMT) in late January to evaluate the potential risks we saw around our supply chain and ensure surety of supply for New Zealand. As a company we had started social distancing at work and promoting remote working even before we moved to 'Code Red', our highest level of crisis response on Friday 20 March.

We reviewed our business continuity plans the prior week and the company was ready to quickly respond to the escalation to Level 4 shutdown. Our retail service stations were moved to a closed door policy a few hours before the midnight deadline, our operational and terminal staff altered the way they work to reduce Covid-19 related risks and our office workers were supported with technology to allow for remote working."

"Z is a Lifelines business and has an important part to play in keep New Zealand's essential services moving during this time. I'm proud of the way our employees, operational staff and all our supply chain partners have responded," Mike added.

Z Energy will release full FY20 results on 7 May at which time it will provide a further update on trading conditions, cost reduction initiatives and other ongoing actions.

Ends.

Investors:
Matt Hardwick, Corporate Affairs Manager
Mob. +64 (0)27 787 4688