Commerce Commission Retail Fuel Market Study - Summary of Z's position on draft report

Z is committed to great outcomes for New Zealanders. Just like it says on the tin: "Z is for NZ". Our 2,500-strong employees and contractors across the country work hard every day to deliver a world-class customer experience. We know Kiwis. We *are* Kiwis. We understand the importance of a fair deal.

We therefore support the intent and process of the Commerce Commission study into the retail fuel market and agree with many things in the draft report. However, we cannot agree with the draft findings on profitability.

Profitability draft findings include errors and omissions

We know the price of fuel matters. Getting this study right counts.

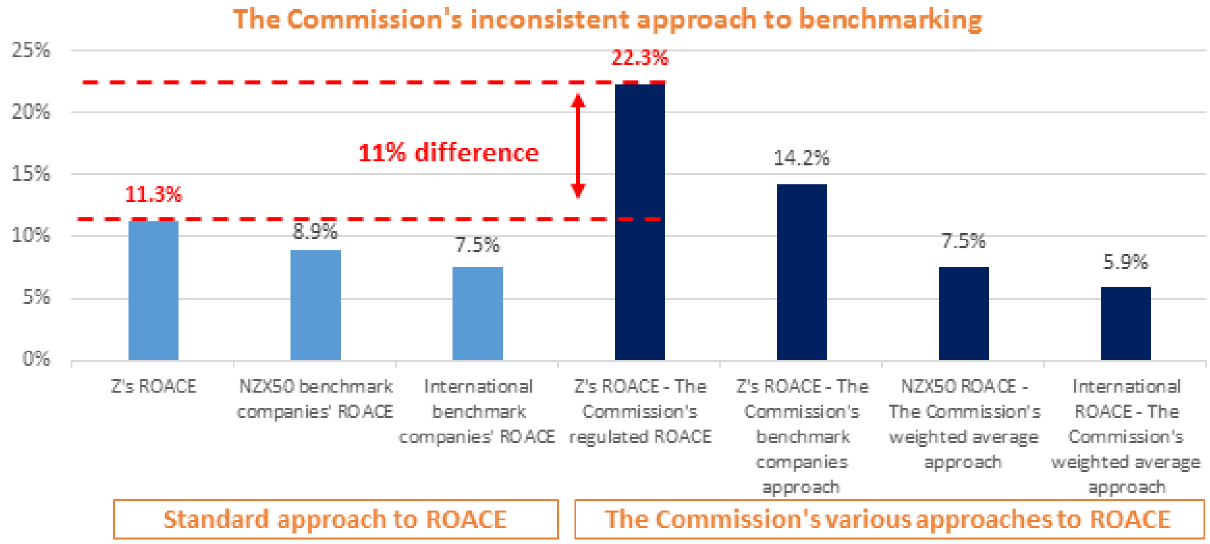
We appreciate the Commission's intention to engage publicly on their preliminary work, and that no measure is perfect. That said, we believe that the draft report contains omissions and errors and misrepresents Z's profitability. The Commission has an important role in our society and one we fully support, so we would not share this view if it did not matter and without double-checking with others.

As you can see in our full submission, we need to set the record straight on the following:

- The draft report doesn't take into account the requirement to generate returns from some of our major investments or the need to earn a return from financing our permanent level of inventory so we can provide security of fuel supply to NZ.
- We believe the draft report overstates our returns by almost two times what we actually achieve (~22% per their analysis, versus ~11% per ours).
- The draft report engages in comparing apples with oranges. Where our returns are compared with companies in other markets, the Commission does not make the same adjustments for these companies as they do for Z. That has the effect of incorrectly increasing our returns and decreasing those of other companies.
- Nor does the draft report always account for differences between currencies when making these weighted average comparisons.
- The OECD figures relied upon are also a case of apples and oranges. The reliance on these figures to support a narrative about our prices relative to other countries is flawed, not least because different countries have

different monitoring regimes (e.g. Korea uses credit card data, others like Australia measure pump prices only in major cities).

- The draft report uses 'Tobin's Q' as a measure of profitability, which is not widely used. Their analysis scores the industry at 1.8x Tobin's Q. That's more than the 'Dotcom' crash in 2000, which was 1.6x. Our market is patently not comparable to that.
- The draft report incorrectly suggests we have opened 35 new sites since 2017. This is a basic error, but it has a big impact as the Commission posits that the opening of a lot of new sites indicates higher than reasonable returns in the industry. In fact, we've not opened any new sites since 2017.
- The draft report also includes the money we make from our whole business, including pies and coffee, in their analysis, which is inconsistent with the mandate to consider the prices people pay for fuel at the pump.



We believe that our 2016-2018 return as measured by the standard ROACE (Return On Average Capital Employed) methodology at ~11% is reasonable given the risk involved in our industry, and how many Kiwis are relying on us to get around.

No attention paid to declining use of fossil fuels

It is widely agreed that the demand for fossil fuels will go down substantially in the future. The draft report has not taken this factor into account.
By failing to consider the certain decline in demand for fossil fuels the draft report is, in effect, anticipating there will be no industry or investor response to the science of climate change (despite the Government proposing economic incentives for electric vehicles during the study).

Z is committed to delivering solutions

While the numbers require a resolution, we understand why Kiwis may have concerns about other points raised in the draft report. As a Kiwi company we believe we have a role in coming up with solutions that will benefit all stakeholders, from officials working on monitoring, to the tens of thousands of KiwiSaver members benefitting from their shareholding in us, to those focused on a just energy transition, to all the people filling up at the pump daily.

We're committed to a big shift in transparency

- We suggest mandated full disclosure of prices on price boards, including post-discount prices (which we already display for our PUMPED discount program).
- We can deliver on pricing of Premium products on the price board and believe the rest of the industry should too.
- We can assist with the accuracy of MBIE's monitoring regime by implementing daily site-by-site data monitoring (an improvement on unreliable OECD data).

We're committed to opening up the wholesale market

- We recommend a move to 'terminal gate' pricing, through supply contracts or spot pricing.
- We support the shorter duration of distributor contracts (7-year max).
- We support more efficient refinery arrangements.

We're committed to preserving the best of NZ's low-cost sustainable supply chain

- We want to retain an efficient supply chain with access for all.
- We will explore ways to sustain the refinery as a key asset for NZ.
- We believe that retaining these advantages will enable vigorous competition with competitors, including multinationals taking the substantive portion of their profits offshore such as Caltex Australia (Gull), BP and ExxonMobil.

We're committed to working on an industry code

- This has been successful in the Australian fuel market and we think it would work well here too.