VIVA Energy Australia

ASX Release

26 August 2019

Viva Energy Results: Half Year ended 30 June 2019

Viva Energy (the **Company**) today announced the Group's financial results for the six months ended 30 June 2019 (**1H2019**), which are in-line with prior guidance provided to the market in June 2019[1].

Key highlights:

- **Renegotiation of the Alliance partnership with Coles Express and the acquisition of the Liberty Wholesale business (which remains subject to regulatory approvals).**
- **Total sales volume of 7,126 million litres, up approximately 2.5% on the half year ended 30 June 2018 (1H2018).**
- **Refining operational availability of 94% and refining intake of 21.4 mbbls[2], up 12% on 1H2018. Record diesel production at 40% of total production, up from 36% in financial year ended 31 December 2018 (FY2018).**
- **Group Underlying EBITDA (RC)[3] of $171.6 million, at the upper end of June 2019 guidance range of $150 – 180 million.**
- **Underlying Net Profit After Tax (NPAT)(RC) of $78.0 million, at the upper end of June 2019 guidance range of $60 – 80 million.**
- **Net debt of $168.7 million, increased from net cash of $0.2 million at 31 December 2018. This includes the one-off payment of $137.0 million made to Coles Express for the Alliance transaction announced in February 2019.**
- **Interim 2019 dividend of 2.1 cents (fully franked) determined, representing a payout ratio of 60% of Distributable NPAT (RC).**

CEO commentary

The Company enjoyed strong operational performance during 1H2019 and executed a number of strategic initiatives that have positioned it well for the future. The Alliance agreement with Coles was successfully renegotiated, and the transition of retail fuel pricing from Coles Express to Viva Energy was completed successfully from 1 March 2019. The implementation of a more competitive pricing strategy has successfully stabilised weekly sales volumes after a period of decline through this retail channel, and a range of marketing programs have been developed to reactivate lapsed customers.

Growth in Liberty and other retail channels, together with a strong performance in the Commercial business has seen sales volume grow by approximately 2.5% on 1H2018. The Company is encouraged by recent sales increases through the Alliance channel as its pricing strategy gains traction and is supported by successful marketing campaigns such as the Coles Little Shop 2. The Company remains committed to pricing competitively with the objective of lifting sales volume to above 70 million litres per week through the Alliance channel.

The refining business has enjoyed a period of strong reliability with unit availability at 94%, and refinery intake at 21.4 mbbls, up 12% over the same period last year. In response to very challenging gasoline refining margins, diesel production increased with record production levels achieved, reaching 40% of total production during 1H2019 (up from 36% in FY2018). The construction of additional gasoline storage (25 million litres) recently completed will further improve processing flexibility. Successful development of a Very Low Sulphur Fuel Oil blend will protect the Company's fuel oil markets as the world transitions to

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new low sulphur marine fuels from 1 January 2020.

Group Underlying EBITDA (RC) of $171.6 million is within the guidance of $150 – 180 million provided on 24 June 2019.

Viva Energy CEO, Scott Wyatt, said “I am very pleased with our operational and sales performance this year, and am excited about growth opportunities that we are pursuing through the retail Alliance with Coles, the Liberty business, and in our commercial markets. Refining margins have strengthened and we are seeing some very encouraging sales and customer engagement results through our Alliance platform. Retail market fuel margins are currently low, but we remain confident about the long-term strength of the fuel and convenience business and the competitive strength of our network, our brand, and our operating platforms. We are committed to maintaining competitive retail fuel pricing, developing new and exciting retail offers, and building the highest brand share preference in this important segment”.

Financial highlights

	AASB 16 (new standard)	**AASB 117 (old standard)**		
	1H2019A $m	**1H2019A $m (1)**	**1H2018A[4] $m (2)**	**Difference between (1) and (2)**
Volume (ML)	**7,126.1**	**7,126.1**	**6,955.0**	**2.5%**
Underlying EBITDA (RC)				
Retail, Fuels & Marketing	441.6	438.9	474.4	(7.5%)
Retail	283.3	*283.3*	*308.0*	*(8.0%)*
Commercial	158.3	*155.6*	*166.4*	*(6.5%)*
Refining	18.4	18.4	48.1	(61.7%)
Supply, Corporate & Overheads	(162.6)	(285.7)	(259.8)	(10.0%)
Total Underlying EBITDA (RC)	**297.4**	**171.6**	**262.7**	**(34.7%)**
Distributable NPAT (RC)	**67.3**	**67.3**	**NA**	**NA**
Basic Underlying EPS (cps)	**2.6**	**4.0**	**6.7**	**(40.3%)**
Dividend (cps)	**2.1**	**2.1**	**NA**	**NA**

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AASB 16 leases

The new lease accounting standard AASB 16 applies for all reporting periods beginning on or after 1 January 2019 and Viva Energy has adopted the standard for 1H2019 financial results. The transition to AASB 16 has no impact on the underlying economics of the business, cash flows, dividends nor on any of Viva Energy's debt covenants, but it does represent a significant change to the reporting of financial statements. Key financial results under both AASB 16 and AASB 117 are presented in the Financial Highlights table above. For further information on the transition to AASB 16 please refer to the 1H2019 results presentation and Appendix 4D – 1H2019 Financial Report.

Business performance by segment

Retail

The Retail segment generated Underlying EBITDA (RC) of $283.3 million, within the guidance range of $275-290 million provided in June 2019. There is no impact to the Retail segment due to AASB 16.

The renegotiation of the retail Alliance partnership with Coles Express was successfully completed in 1H2019, with Viva Energy assuming control of retail fuel pump pricing effective 1 March 2019. The Company has commenced investment in more competitive pump pricing across the country, together with a range of new marketing initiatives underway, including joint initiatives with Alliance partner Coles Express.

Alliance volumes have been successfully stabilised in 1H2019, with the focus now on restoring volume growth through the Alliance network. Early results have been encouraging and the Company remains committed to competitive retail fuel pricing and maintaining its position as one of the leading fuel and convenience businesses in Australia.

Despite a relatively stronger sales performance during 1H2019, Retail earnings were impacted by lower retail market fuel margins, predominantly as a result of the rising cost of oil and delays in passing this on to customers through increases in retail pump prices.

The acquisition of the Liberty Wholesale business was announced in 1H2019. The transaction remains subject to regulatory approval, with that process expected to conclude in the second half of 2019. As part of this transaction, Viva Energy would hold a 50% interest in the Liberty retail Joint Venture, which currently holds more than 50 Liberty and Shell branded fuel and convenience stores, with plans to grow this further in the years ahead.

Commercial

Excluding the impact of AASB 16, the Commercial segment generated Underlying EBITDA (RC) of $155.6 million. With the adoption of AASB 16, Commercial Underlying EBITDA (RC) increases by $2.7 million to $158.3 million due to removal of lease expense.

During the period, Viva Energy successfully renegotiated and extended a number of customer contracts, with new contracts also secured that provide opportunities for future growth. Earnings were impacted by higher shipping costs and margin compression on contract renewals. The commercial customer portfolio remains high quality and, as a consequence, continues to provide opportunities for growth as the Company's customers grow.

The Commercial team has successfully undertaken trials of Very Low Sulphur Fuel Oil. The Company is well positioned to continue meeting the requirements of its marine customers after implementation of new lower sulphur marine fuel rules from January 2020.

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Supply, Corporate & Overheads

Excluding the impact of AASB 16, Supply, Corporate & Overheads delivered Underlying EBITDA (RC) of ($285.7) million, in line with guidance provided in June 2019.

With the adoption of AASB 16, $123.1 million of operating lease expense has been reclassified to interest expense resulting in an improvement to Supply, Corporate & Overheads Underlying EBITDA (RC). Under AASB 16, Underlying EBITDA (RC) is ($162.6) million.

Refining

The Refining segment delivered Underlying EBITDA (RC) of $18.4 million, at the upper end of revised guidance provided in June 2019. There is no impact to the Refining segment due to AASB 16.

Geelong Refining margins declined to an average of US$5.1/bbl in 1H2019 against an average of US$7.4/bbl in FY2018. Continued weakness in regional refining margins, in particular gasoline cracks, was the primary driver of the lower margins achieved at Geelong.

Operational performance at Geelong was particularly strong in 1H2019 with refining intake of 21.4 mbbls compared to 19.1 mbbls in 1H2018 and 40.1 mbbls in FY2018. Operational availability was 94.0%, up from 85.5% in the prior corresponding period.

1H2019 has also seen record diesel production at 40% of total production, up from 36% in FY2018. This is a strong outcome and reflects improvements in crude sourcing that has provided Geelong with greater processing flexibility and reduced exposure to lower gasoline margins.

Balance sheet remains strong

Net debt of $168.7 million at 30 June 2019 compared to $0.2 million net cash at 31 December 2018. This includes the $137.0 million payment made to Coles Express as part of the arrangement to extend and reset the Alliance agreement to 2029.

Dividend

The Board has determined an interim dividend of 2.1 cents per share, fully franked, for the six months ended 30 June 2019. This represents a 60% payout ratio of Distributable NPAT (RC) in line with the policy to target a payout ratio of between 50 – 70% of Distributable NPAT (RC).

Dividend	
2019 interim dividend – amount per security (fully franked)	2.1 cents
Trading on ex dividend basis	26 September 2019
Record date for determining entitlement to interim dividend	27 September 2019
Date dividend expected to be paid	14 October 2019

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2H2019 outlook

Group volume outlook

Total sales volumes in 2H2019 are expected to remain broadly in line with sales volumes achieved in 1H2019.

Retail

Viva Energy remains committed to competitive retail fuel prices with the objective of meeting its medium term target of lifting sales volumes through the Alliance channel to 70 million litres per week and then 75 million litres per week. Volume performance has been encouraging in July and August 2019 as a result of improved price positioning and a focus on progressing a range of marketing initiatives such as the Coles Little Shop 2 promotion (available at Coles Express).

Retail fuel margins remain lower than average during the early part of 2H2019 due to heightened competition, oil price volatility and a lower Australian dollar putting pressure on retail fuel prices. If retail margin weakness persists in 2H2019, Retail earnings are unlikely to improve from the Underlying EBITDA (RC) result achieved in 1H2019.

Commercial

The commercial market remains extremely competitive. Viva Energy remains focused on improving margin performance through cost and supply chain efficiencies.

Supply, Corporate & Overheads

Cost improvement across all areas of the business will remain a focus in 2H2019.

Refining

Improvements in regional refining margins in July and August 2019 have been supportive of the Geelong Refining Margin (**GRM**)[5]. The actual GRM for July 2019 is US$7.7/Barrel, with refining intake of 3.6mbbls. The expected GRM and refining intake for the quarter ending 30 September 2019 (**Q3**) will be impacted by the planned maintenance of the Platformer in August 2019, as previously disclosed.

For the purposes of tracking the financial performance of the Geelong Refinery, a sensitivity table is provided below to illustrate the impact on 2H2019 Underlying EBITDA (RC) and NPAT (RC) of each US$1.0 per barrel move in GRM along with movements in foreign exchange. The table utilises the 1H2019 Refining Underlying EBITDA (RC) of A$18.4 million, an average monthly GRM of US$5.1/Barrel and refining intake of 21.4 mbbls as a reference point for illustrative purposes only[6].

Variable	Increase/Decrease	6 month Pro forma EBITDA (RC) impact A$m	6 month Pro forma NPAT (RC) impact A$m
GRM	+/- US$1.0 per barrel	+30.3 / (30.3)	+21.2/(21.2)
US$/A$ exchange rate	Appreciation of A$ against US$ by 3 cents	(6.2)	(4.4)
US$/A$ exchange rate	Depreciation of A$ against US$ by 3 cents	+6.79	+4.75

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Future reporting

Going forward, the Company intends to provide a quarterly trading update with the first Q3 Trading update expected to be provided in late October 2019. Performance of the refining segment will also now be updated on a quarterly basis through the release of GRM and refining intake performance.

Notes

1. Financial results discussed in the Key highlights and CEO commentary sections are reported based on AASB 117, the old lease accounting standard, unless otherwise stated, to provide consistency with the June 2019 updated guidance to the market and with the results in the previous corresponding period. A reconciliation of these results to the results reported in the 1H2019 Financial Report of the Company and its controlled entities (which is prepared applying AASB 16, the new lease accounting standard) is set out in the Financial highlights table.
2. mbbls: million barrels of oil
3. Viva Energy reports segment information on a "replacement cost" (RC) basis. See section 4.3.1 of the Prospectus issued in connection with the Company's initial public offer (**Prospectus**), dated 20 June 2018, for a description of the difference between "historical cost" (HC) and RC accounting. See further description of the accounting policy for "inventories" in Appendix C of the Prospectus.
4. In the previous corresponding period to 30 June 2018, the holding company of the group was Viva Energy Holding Pty Ltd (**VEH**). The Company became the holding entity of the group subsequently, in conjunction with its listing on the ASX in the second half of 2018. Accordingly, the results for the period to 30 June 2018 that are presented for comparison are the consolidated results of VEH and its controlled entities.
5. The Geelong Refining Margin is a non-IFRS measure calculated in the following way: IPP less the COGS, and is expressed in US dollars per barrel (US$/BBL), where:

   IPP: a notional internal sales price which is referrable to an import parity price for the relevant refined products, being the relevant Singapore pricing market and relevant quality or market premiums or discounts plus freight and other costs that would be incurred to import the product into Australia

   COGS: the actual purchase price of crude oil and other feedstock used to produce finished products

   Geelong Refining Margin is a financial measure Viva Energy uses to illustrate and aid in the understanding of the performance of the Geelong Refinery. It involves elements of estimation and is not alone a measure of historical financial performance. In addition, it is only one contributor to the replacement cost Underlying EBITDA of Viva Energy, with other segments including the Retail Fuels and Marketing business and Supply, Corporate and Overheads. In its financial reporting, Viva Energy converts GRM into Australian dollars using the prevailing month average exchange rate.

   For further discussion of the impacts of refining margins on financial performance, and the components and calculation of GRM, please see sections 3.3, 4.3.1, 4.4.1 and 4.9 of the Prospectus dated 20 June 2018 and released to the ASX on 13 July 2018.
6. The 1H2019 Refining result is used as a reference point for the purpose of presenting the sensitivity analysis and should not be taken as a forecast of the 2H2019 Refining performance

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Conference call

Viva Energy management will today be hosting a conference call to discuss this update:

Date: Monday, 26 August 2019

Time: 10:30 am (AEST)

Dial-in Details			
Conference ID:		10001121	
Participant Numbers			
Participants can pre-register by navigating to https://s1.c-conf.com/diamondpass/vivaenergy-10001121-invite.html Please note that registered participants will receive their dial in number upon registration to enter the call automatically on the day.			
To enter the call via operator you will need to quote the conference ID provided above and use the dial in below.			
Participant toll:		+612 9007 8048	
Participant toll free:		1800 908 299	
International Dial-in Details			
These numbers are toll-free dial-in numbers for each country listed below. For countries not listed below, the Australian Participant Toll number listed above can be dialled. To ask a question, you will need to dial *1 on the telephone keypad.			
Hong Kong	800 968 273	Singapore	800 101 2702
Japan	0066 3386 8000	United Kingdom	0800 051 1453
New Zealand	0800 452 795	United States	1 855 624 0077

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About Viva Energy

Viva Energy (ASX: VEA) is one of Australia's leading energy companies and supplies approximately a quarter of the country's liquid fuel requirements. It is the exclusive supplier of high quality Shell fuels and lubricants in Australia through an extensive network of more than 1,260 service stations across the country.

Viva Energy owns and operates the strategically located Geelong Refinery in Victoria, and operates bulk fuels, aviation, bitumen, marine, chemicals and lubricants businesses supported by more than 20 terminals and 50 airports and airfields across the country.

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