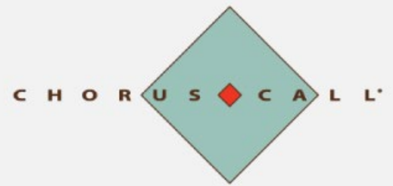

TRANSCRIPTION

Company: Viva Energy Australia

Date: 124 August 2021

Time: 10:30am, AEST

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[START OF TRANSCRIPT]

Operator: Thank you for standing by. And welcome to the Viva Energy Australia Half Year 2021 results conference call. All participants are in listen only mode. There will be a presentation followed by a question and answer session.

Operator: If you wish to ask a question, you'll need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr. Scott Wyatt, Chief Executive Officer, please go ahead.

Scott Wyatt: Good morning, and thank you all for joining us today to discuss Viva Energy's results for the first half of 2021. My name is Scott Wyatt, Chief Executive Officer of Viva Energy. And on the call with me today, Mr. Jevan Bouzo, our Chief Operating and Financial Officer.

Scott Wyatt: I'd like to begin this morning by acknowledging the traditional owners of the lands on which we are collectively gathered for this call and pay my respects to their elders past, present and emerging. We'll begin the presentation this morning on page five of the pack that was uploaded to the ASX this morning. And as always, we'll be happy to take questions at the end of the call.

Scott Wyatt: After a very challenging 2020, I'm delighted with the way the business has performed during the first half of this financial year. Although the country continues to grapple with the pandemic, there were fewer lockdowns compared to the first half last year. And we've seen good recovery in our retail and non-aviation business. The steps taken to reduce servicing costs in response to a lower sales environment have contributed to an improvement in commercial earnings. And higher sales in our retail channel have helped offset the impacts of margin compression from rapidly rising oil prices during the period.

Scott Wyatt: Strong production, lower crude costs and receipt of the federal government temporary production grant have seen the refining business return to profitability. A long-term support in the form of the fuel security services payment and expected benefits from the mandatory stockholding obligations and capital contributions towards storage and upgrades to low-sulphur petrol substantially improves the

outlook for our refining business by reducing downside margin risk and ongoing capital requirements.

Scott Wyatt: Beyond refining, we also see, I would say, continue to make good progress on our LNG import facility and other projects aimed at transforming the site of Geelong into a modern energy hub. At the growth level, we have delivered $125 million improvement in EBITDA compared with the first half of 2020 and $144 million of free cash flow, which has led to a $44.7 million net cash position at the end of June. I'm very pleased that we're able to declare a fully franked dividend of 4.1 cents per share, and are now in a position to return the remaining proceeds from the divestment of our stake in WayPoint REIT through a mix of capital return and an on market buyback.

Scott Wyatt: Before we move into more detailed explanation of our results, I want to touch on a few major changes to our business since we last reported. These are set out on slide six. I've already mentioned the introduction of the suite of measures by the federal government under the fuel security package. With these measures in place, we expect the refining business to more consistently achieve cash returns above breakeven levels with periods of out-performance when production and regional refining margins are strong.

Scott Wyatt: Given these changes to the refining earnings profile, we have taken a decision to determine dividends on the performance of our retail fuels and marketing businesses separately from our refining business in future. We expect to deliver more consistent dividends from our retail and commercial businesses with dividends from our refining business depending on the operating environment across the course of the year. In order to provide more transparency on the underlying cash performance of each business, we've also updated our segment reporting so that supplied corporate and overhead costs are now allocated to the relevant businesses that they support. Costs, which cannot be directly allocated, are retained in the smaller corporate segment, and the rest of the presentation reflects this new recording.

Scott Wyatt: Now turning to slide seven. Then you make a few comments on our escalating performance for the year. I continue to be pleased with the way that we're managing the impacts of the pandemic. We have not had any incursions of COVID within our operations. And with people working seamlessly between home and office, as restrictions allow, we expect there'll be some parts of their operations where mandatory vaccination may be required in future. But for the majority of our operations, we are aiming for voluntary vaccination rates to reach above 90% by the end of the year.

Scott Wyatt: Unfortunately we have seen an increased number of personal injuries this year, driven in part by an increase in operational and maintenance activity, which was deferred from last year. Many of these injuries are a result of manual handling or line of fire events. And as such, we have launched additional programmes to improve manual handling techniques and risk management in many parts of our business.

CHORUS CALL

Scott Wyatt: The Geelong refinery incurred two loss of containment events, which have been recorded as API tier two incidents. But otherwise, Geelong has performed well with high level supplant availability, following unit maintenance and continued progress on our reliability programmes.

Scott Wyatt: As you can see on slide eight, Geelong achieved 98% availability, which has led to strong production on crude intake of 1.4 million barrels for the half. Production has shifted to diesel and gasoline on the back of market demand recovery. And we continue to minimise jet production given the ongoing impacts to aviation from border closures.

Scott Wyatt: Original refining margins remained significantly lower than historical levels, but we have seen some encouraging improvement in gasoline margins and crude premiums remained well down on last year, which is helping to reduce the refinery's cost of crude. Geelong's refinery margin for the half was US $6.10 per barrel.

Scott Wyatt: On slide nine, we set out our retail and commercial sales performance in line with the new segmentation basis. Retail reflects all sales through our Shell and Liberty branded channels. Whereas commercial includes sales to competitive retailers through our wholesale channels, as well as the traditional commercial segments. Retail sales volumes have increased over the first half of 2020 reflecting fewer days in lock down and strong performance across our Alliance, Liberty and owner dealer channels. Premium petrol represents around 32% of our total retail petrol sales. And we expect this to grow as we expand our V-Power offering to owner dealer network and new markets such as Tasmania.

Scott Wyatt: Commercial sales remained in line with first half of 2020 with a decline in aviation sales offset by improved diesel sales through our wholesale resources and transport segments. The diversity of our commercial business has been a key driver of this resilient performance.

Scott Wyatt: Before I hand over to Jevan to explain our financial performance in more detail, let me touch on some of our key achievements in the first half on slide 10. Our retail business performed extremely well during the worst of the pandemic in 2020 and has maintained this momentum in 2021. Sales have quickly recovered as stay at home restrictions were relaxed, and we have made good progress on the development of our convenience software with our Alliance partner and delivered network growth through the Liberty convenience channel, which now stands at more than 90 stores.

Scott Wyatt: Despite the impact of aviation and marine sales from border closures, the commercial business has performed extremely well. The diversity of segments represented in our commercial businesses provides a great deal of resilience to different conditions in each sector. And we have done well to reset the business to reflect a lower demands environment.

Scott Wyatt: Our refining businesses returned to profitability, and we have clear plans in place to invest and develop our site into a broader energy hub. In addition to the contribution

towards low sulphur fuels production, we were pleased to receive up to $33.3 million in funding to develop 19 million litres of storage at the site. This is expected to improve production and import economics and increase our participation in the mandatory stock holding obligation programme when it is introduced.

Scott Wyatt: Since listing, we have continued to demonstrate a strong cost in capital discipline. Maintaining a strong balance sheet and returning the proceeds from the divestment of our stake and wayPoint REIT as promised. We are well-advanced on our development of the energy hub and look forward to taking the gas terminal project to FID in 2020.

Scott Wyatt: Reports continue to support the need for additional gas in Victoria. And we look forward to meeting this with first gas expected from 2024. Overall, I feel very good about what we've achieved and I'm really excited about our plans for the future. Now I'd like to hand over to Jevan, our chief operating and financial officer to discuss our key financials in more detail.

Jevan Bouzo: Thanks, Scott, I'll kick off on slide 12. As part of today's announcement, we've reorganised our reporting segments and separated the retail fuels and marketing or RFM part of our business from refining. On this slide, I'll take a little more time to talk through the financial highlights in the new format. And then I'll talk to the changes on the next slide.

Jevan Bouzo: The first half of this year has been really positive after a challenging 2020. Group EBITDA has increased by $124.6 million or 95% to $256.3 million. The retail fuels and marketing business recorded EBITDA of $217.6 million for the half, up 7% from the prior comparative periods and underlying NPAT of $108.6 million. CapEx for the period was relatively low at $21.8 million for the RFN business, as we continue to manage costs carefully, given the uncertain environment. This meant we delivered free cashflow of $131.3 million for the RFN business.

Jevan Bouzo: It was pleasing to see the refinery return to profitability recording EBITDA of $43.8 million compared with negative $66.8 in the prior periods and NPAT of $3.3 million. Overall, group NPAT has recovered to $111.9 million for the half, up from $24.4 million this time last year. Free cash flow was $144 million. And we've declared a first half dividend of $65.9 million.

Jevan Bouzo: The strong performance in the first half of this year demonstrates the speed at which the business can recover as lockdowns ease and activity only partially resumes. On slide 13, we've set out a summary of the changes to our reporting segments. Going forward we'll report underlying EBITDA RC, including actual lease expenses to better align this measure with cash generation of the business. We've allocated supply, corporate and overhead costs to better provide transparency of retail fuels and marketing profitability, with refinery related costs allocated directly to the refining segment.

Jevan Bouzo: Thirdly, we've moved the wholesale volume to independently branded operators from retail to commercial, within the RFM segments and aligned the underlying impact RC with the previous definition of distributable NPAT. This has the effect of removing the need for a separate distributable NPAT calculation, dividends can be determined with respect to underlying NPAT RC going forward. And as you can see from the previous slide, our underlying NPAT relates more directly to free cashflow.

Jevan Bouzo: A detailed summary of the reporting changes, including to the prior comparative period, is set out in the appendix to the presentation. Turning to slide 14, we've set out the segment results in a similar format as past presentations to highlight the year on year changes. We've included the reporting changes to the prior comparative periods in the waterfall. However, I'll focus on the first half of 2021 as I walk through the slides. Our first half of retail EBITDA for 2021 was $116.7 million, broadly in line with the first half in 2020.

Jevan Bouzo: We saw a strong sales volume growth in regional Australia through our dealer owned and Liberty convenience outlets while Alliance volumes averaged 58.4 million litres per week, up from 54.1 for the same periods last year. The strong sales growth coupled with non-fuel income grossed from convenience store sales royalties almost completely offset the impact of lower retail fuel margins due to the impact of sharp increases in oil price.

Jevan Bouzo: This compares to the sharp decreases experienced in the first half of 2020, when oil prices collapsed and overall is an excellent period on period result. Operationally, we completed a site and store refresh of more than 80 Coles express stores. And saw convenience sales growth through the Alliance network of 11% relative to two years ago. We continued to extend V-Power premium fuels to our dealer networks. And saw a premium petrol penetration at 32%.

Jevan Bouzo: Turning to slide 15, commercial EBITDA for the first half was $105.9 million up $15.2 million over the prior period, reflecting solid sales growth in sectors other than aviation and marine, as we cycle only three months of lockdown impact in the first half of 2020. During the first half of 2021, aviation and marine continued to be impacted by border closures. A reduction in servicing costs helped to make a meaningful earnings contribution while the appreciating Australian dollar reduced the overall cost of goods sold in specialties segments.

Jevan Bouzo: It was great to see the company launch our first carbon neutral jet products with the inaugural flight occurring in July this year.

Jevan Bouzo: On slide 16 the refinery returned to profitability in the first half following the impact of a difficult and COVID affected 2020. Refining EBITDA for first half was $43.8 million, up $110.6 million from the 66.8 million loss in the first six months of 2020. Operationally, the refinery reported strong production performance with plant availability above 98%, higher than it's been for a number of years. Low accrued premiums helped drive the Geelong Refining Margin to $6.10 per barrel up from US $2.90 per barrel in the first half of 2020. This was partially offset by the appreciating

Australian dollar, and increased production naturally led to increased variable operating costs. The overall result was supported by the federal government's temporary refining production payments, which totalled $40.6 million for the period. And going forward, this has been replaced by the ongoing field security services payment, which commence 1 July 2021.

Jevan Bouzo: Turning to slide 17, the first half saw a strong underlying free cash flow supporting the resumption of dividends. Working capital was up $110.4 million due largely to the impact of increases in the average crude and product prices. However, this was mostly offset by the inventory gain experienced during the period. When adjusting for these impacts, underlying free cash flow was a healthy $144 million supported by strong cash flow in the retail fuels and marketing business. Lower capital expenditure during the half, as we continued to manage costs carefully in an uncertain environment, drove cash conversion above 100% of unplanned NPAT.

Jevan Bouzo: A good segue into slide 18 on capital expenditure. CapEx for the half was $48.3 million relative to our guidance of 185 million to 210 million for the year, including the refining major maintenance. We deferred a significant amount of expenditure to the second half of 2021, particularly in refining as we worked through the refining fuel security package and major maintenance on the hydrofluoric acid alkylation plant that was deferred from 2020 is proceeding now and is expected to reduce refining intake for Q3 by 0.9 million barrels. At this stage, we are working towards our original capital expenditure plans for 2021, and as such have held guidance for the year. However, we'll continue to monitor this as the year unfolds.

Jevan Bouzo: Turning to slide 19, we've set out the revised dividend policy. Under the new policy, the board will continue to target the dividend payout ratio of between 50% and 70% of retail fuels and marketing NPAT. We'll also target a payout ratio of between 50% and 70% of refining NPAT. Declaration of refining dividends will be assessed on an annual basis rather than half yearly, and if declared is paid together with any final retail fuels and marketing dividend. The change to the policy follows our review of reporting segments and means that we expect to pay a more consistent stream of dividends from our retail fuels and marketing business, irrespective of refining performance over time, which has the potential for significant upsides on an annual basis. As a result of the strong retail fuels and marketing NPAT of $108.6 million, the board has determined a fully franked dividend of $65.9 million or 4.1 cents per share for the six months ending 30 June 2021.

Jevan Bouzo: On slide 20, we've set out the improvement in our balance sheet from $104.2 million of net debt at 31, December 2020 to $44.7 million of net cash at 30 June 2021 driven by the strong free cash flow generation during the period. Given the balance sheet strength and our previous commitment to return the remaining WayPoint REIT divestment proceeds, today we announced capital management initiatives of $140 million, comprising a capital return of $100 million and associated share consolidation subject to shareholder approval, and an on-market buyback of up to $40 million. The shareholder meeting to approve the capital return is planned for the 11th of October

with a view to having the capital return and share consolidation completed by the end of October.

Jevan Bouzo: After completion of the capital return, we expect to commence the on-market buyback, which is agreed at the current low share price. When accounting for the capital management of $140 million, the company's pro forma net debt would be 95.3 million at 30 June 2021, which still provides substantial headroom for future growth. Together with the dividend declared today, the capital management initiatives total $205.9 million that we intend to return to shareholders. With that, I'll hand back to Scott to cover the recovery plan progress and the outlook.

Scott Wyatt: Thanks Jevan. At the end of last year, we set ourselves a plan to consolidate and build a recovery from the impacts of the pandemic. The plan and progress on each area is set out on slide 22. I won't go through this in detail other than to say that we have made considerable progress in every area, and this progress is very much reflected in the results that we have shared today.

Scott Wyatt: Looking forward on slide 23, the pandemic will no doubt continue to impact parts of the business in the second half. After a period of fewer lockdowns, we've seen New South Wales and now Victoria enter extended lockdowns and other states and territories periodically impacted from the spread of Delta. Vaccination was always our way out of this and it's pleasing to see this now becoming a key focus of our various state and federal leaders. We expect the reminder of this year to be impacted by lockdowns, but have plans in place to manage this across our operations and each of our businesses.

Scott Wyatt: I expect there will be continued impacts to retail, aviation and marine sales, and maybe some impacts to production and refining yields, depending on how domestic market demand evolves. We've learned a lot through the last 18 months on how to manage these disruptions to our business and know that markets quickly recover as restrictions are eased. We're very much looking forward to ending this year with a greater degree of certainty to further our recovery and growth plans. With this in mind, we are planning to hold an investor day later this year to share our strategies for each of our different businesses and how we're thinking about the broader energy transition. We certainly look forward to talking with you then, but for now, let me open to questions.

Speaker 2: Thank you. If you wish to ask a question, please press *1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press *2. If you're on a speakerphone, please pick up the handset to ask your question. Your first question is from Michael Simotas with Jefferies.

Michael Simotas: Good morning guys. The first question from me is on the commercial segment. So clearly it was a very good outcome given the COVID impact on aviation and marine. Maybe you could just break it down for us a little bit if you could, and in particular, how much of a drag was marine on the business, given you were cycling a fairly normal cruise season of last year, and it looks like you've done quite well in some of

the specialty products as well. Is there anything in there that's sort of lumpy or should we think of that as being sustainable going forward?

Scott Wyatt: Thanks for the question Michael. I think the way to think about commercial, I mean, I think is that first of all, fundamentally outside of aviation and marine cruise business, the rest of the economy has continued to perform pretty strongly throughout 2020 and certainly through 2021. We've seen strong demand in resources driven by, obviously, strong commodity prices and strong levels of production. That's reflected in our diesel sales performance. We've also continued to see strong demand in transport and we've managed to make some good gains in our transport segments.

Scott Wyatt: And as I sort of touched on, let me talk to you about last year's results. Australia has enjoyed a period now of a very strong agricultural sector and that's continued into this year and we're hopeful for a very strong harvest season as well coming up. So all of that is supporting some good, strong, healthy distillate diesel demands, and that, as I have mentioned, offsets the continued suppression that we see in aviation. I mean having said that, we have seen in the first half, some periods where we've seen some good recovery in aviation demands, it just, obviously, hasn't been sustained given the fragility of the situation across the country.

Scott Wyatt: So beyond that, the other big piece on commercial, and probably the one to focus on, is there's, obviously, the earnings performance and, as Jevan pointed out, a lot of that uplift in earning and commercial over the last year has been driven by the work we've done to take costs out of business to reflect a lower demand environment in aviation and marine. And so any volume offset that we've seen in those sectors has been certainly well recovered in terms of the cost of work that we've done, and that's been a big factor in the improvement in commercial results in the first half. So overall, as you pointed out, really happy with the way the commercial business has performed.

Michael Simotas: Clearly the teams doing a very good job there. Just the second question from me around the balance sheet. What sort of capacity do you have post this capital management? I mean, if we just look at headline metrics, post AASB 16, the leverage isn't particularly low, but I know AASB 16 has a peculiar treatment for your leases because it doesn't capture the inflow from Coles. So I'd just be interested in how you look at it and what the capacity is, and what sort of opportunities are you looking at? Would you consider M&A in the hydrocarbon space, or is it more about investing in future energy?

Scott Wyatt: Jevan, maybe can get you to answer the first part of that question.

Jevan Bouzo: Yeah, sure. Yeah, so to talks to the balance sheet Michael, thanks for your question. As you say, the way the accounting standards look at leasing impacts and particularly look at the leasing impacts of the leases that we have in our business, it doesn't necessarily give a meaning for calculational view of leverage in the business, as you rightly point out. And part of the changes we've made to segmentation today is to more appropriately align the reporting at an EBITDA and a profitability level with

the cash flow generation of the business. And when you think about that cash flow generation and our actual bank debts and balance sheet leverage, we're sitting at a net cash position now, obviously, and post the capital management, still at a pretty conservative level of net debt, below $100 million on a pro forma basis.

Jevan Bouzo: So that does still provide fairly significant capacity in the balance sheet when you think about bank debt in the context of our underlying facility that's in place with a limit of 700 million US dollars, and the ability to leverage relative to EBITDA at say, one to one and a half times within the bounds of that facility. I pass to you, Scott, to talk to some of the opportunities.

Scott Wyatt: Yeah, thanks Jevan. I think Michael, we're very focused on the development of our business here in Australia. I think the work we've done over the 12 months in the repositioning of the refining business, obviously, puts that business now in a very different footing going forward and supporting the development of other energy projects around Geelong, and, obviously, the LNG import project is most advanced. We're continuing to invest in the expansion of our retail network and particularly Liberty Convenience has been a big contributor to the growth that we've seen in retail sales this year versus last year.

Scott Wyatt: And we've got one of the most diverse commercial businesses in the country, and we're looking to continue to build on that. So I think there's a range of opportunities across our business, but very focused on diversification and, obviously, setting ourselves up to be successful in the energy transition as well, Michael. That's not to say we're not interested in continuing to explore opportunities in traditional business as well because we are, but it's probably going to be a mix of those two things as we look to the future.

Michael Simotas: That's really good colour. Thanks Scott and Jevan.

Operator: Your next question comes from Mark Samter with MST.

Mark Samter: Yeah, morning guys. I'm sure someone's going to ask you if you are going to buy gold. It won't be me to ask that question. I'm just keen to ask a question on the energy hub and, obviously, the LGN import terminal bit's more visible and kind of easy to digest, but

Mark Samter: I guess when you look at the broader opportunity in that hub and it feels like everyone in the country whose got an ageing coal plant that should shut 15 years sooner than it's slated to, is desperate to build the notion of Energy Hub just so they can push remediation costs back. But you've got a site that's going to continue operating for a long time, an industrial heartland, et cetera, et cetera. Can you talk through the opportunities more about the broader Energy Hub and I guess maybe the level of interest you're seeing from some of those players in the broader energy sector around it.

Scott Wyatt: Yeah, I think it's... The Energy Hub originally came from thinking about the strategic position that we hold here in Victoria and the role that we play, obviously in servicing

the energy needs of the state, obviously fundamentally through the refining and import capability that we have there. And looking to really leverage that position and the existing operations we have there and the capability we have in terms of the workforce as well, and the reputation within the community. So those are all real positives for the company. And that led us to think about other projects that can support a broader range of energy needs for the state. But leveraging that capability and obviously diversifying the income earning stream for the site.

Scott Wyatt: So LNG import facilities has been the most advanced, it's progressing really well. It's meeting our imminent need for the gas for the state, given the declining production in the southern states of the country. And with the abandonment of the project at Crib Point and we're already now the leading project in Victoria. And in most recent reports, including recently from the ACCC, demonstrate that growing need for gas is very imminent and our project is set up to meet that need. It's progressing extremely well. As I said in my commentary, we aim to take... The ambition to take that FID next year, and potentially have gas on stream in early 2024. And with support from our partners and a lot of interest in the project naturally, as now the leading project in the state. So we're very positive about that project and it's advancing extremely well.

Scott Wyatt: Beyond that, less advanced, but we've also made steps forward in terms of looking at how to commercialise hydrogen for heavy vehicle use, particularly buses and trucks. We do feel that that scenario where hydrogen can make grounds for heated battery electric vehicles, and that's starting to prove the case overseas. And we've obviously formed a relationship with Hyzon Motors to advance that together with customers in future and build our refuelling position in Geelong, potentially manufacturing green hydrogen as well. And I guess starting to commercialise that energy and use it as a platform to potentially build a network of refuelling sites between Melbourne and Sydney and Brisbane on the major trucking routes in time as well.

Scott Wyatt: So I think the Hub obviously has material businesses there today being refining, being import capability and obviously the development of further diesel storage will improve our position there. The development of the Energy Hub further diversifies and builds a new income stream. And together they create platforms to do other projects that will not only be earning, generating in their own right, but also help us develop our own role in the energy transition for the country. So that's how we think about it, hopefully it makes sense.

Mark Samter: Yep and I might just ask a quick question on the old world assets and how it particularly is getting your head around MSO more and just the changing nature of the market with the other refinery closures. Do we think we're in a position where we're getting closer to more industry consolidation around infrastructure? Or is everyone just "profitability has been too good the last 12, 18 months, and we're not driven the necessity in others"? Or do you think we are in a position where we can start to see some sensible consolidation and infrastructure?

Scott Wyatt: I think obviously with the closure of two of the four refineries, I think we're seeing obviously some changes in the traditional supply patterns of fuel to markets in

Australia, and that naturally changes our traditional supply patterns as well. So I think that certainly we are continuing to look at what's the right way to supply our various markets around the country going forward, and to do that in the most competitive and economic way. I'm sure others are as well. And I think we'll continue to see the sort of traditional supply patterns evolve over the next sort of 12 months or so. So what comes out of that mark, I'm not sure, but it's certainly a period of transition I think for the sector and closure of two refineries is not an immaterial change to the sector.

Mark Samter: Okay thanks.

Operator: Your next question comes from David Errington with Bank of America.

David Errington: Morning, Scott. Morning, Jevan. Scott, Jevan, my first question is a bit of a holistic, top-down, trying to get an understanding as to how you look at your capital allocation metrics. I think it's fair to say, and Jevan you should take a lot of pleasure in hearing this, but I would suggest that Viva Energy is proving to be one of the most disciplined in terms of capital management. I mean, the amount of money that you've given back to shareholders in the last three years has been exceptional. Whether the Viva REIT transaction, et cetera, et cetera, today's transaction.

David Errington: I mean, you've even restructured your accounts to provide shareholders with future access to cash flow in the most efficient way. I mean, that's clear what you've been doing there to separate your retail and commercial businesses from your refining. So shareholders should be really pleased with the way you're conducting your affairs and doing the best for them, so congratulations on that front. But the reality is, and this is where the question comes, you look at what Ampol did yesterday, making an acquisition that's above their current valuation. How do you guys look at this? When your stock's trading on six or seven times EBITDA, how do you actually look at now with your future investments, where buying back your own stock will always be more accretive than actually making future investments?

David Errington: How do you get yourself out of that situation so that you can actually grow in the future? I mean, your capex has dropped right back, you're incredibly disciplined, you're giving money back to shareholders. But how do you get yourself out of this cycle where buying back your own stock will always be more capital accretive than actually making an investment? Which is unfortunately where the petrol distributors at this point in time are at. So how do you do that? Are there projects there that you can actually say are going to be more accretive in the near term, and I'm talking two or three years, than actually buying back your own stock? And that's not a criticism, it's a compliment, but unfortunately you're in a bad situ... Well, not a bad situation, but you're in a challenged position. Where buying back your own stock will always be more efficient than making an investment.

Scott Wyatt: Great question, David, which I'm sure Jevan will enjoy answering.

Jevan Bouzo: Thanks, Scott.

David Errington: [Laughing] The bus just came right around and you threw him right under it Scott.

Jevan Bouzo: Thanks both of you. I mean, it's interesting, David, I feel like I'll quote you one day on saying that being in a position to continue returning money to shareholders might be a bad position to be in.

David Errington: It's not, it's not, it's not. I'm not saying it that way. I'm only saying that-

Jevan Bouzo: [Laughing] Yeah I know.

David Errington: How do you actually justify making investment when you're in this position?

Jevan Bouzo: No, I know. And I think, as you say, we're in a very fortunate position that we've still got quite a lot of capacity in the balance sheet. And I think you see from the decisions that we've made around capital management today, that at current low share prices it is quite attractive to take that option and we've moved forward with that option.

Jevan Bouzo: There are still a lot of opportunities in the business. And I think over time, a lot of opportunities to participate in the energy transition and to participate in areas that are complimentary to the business that we run and leverage the strengths and competitive advantages that we have. And Scott's talked a little bit about the Energy Hub, and I think as we progress over the next few years there'll certainly be investments that we can make in that part of our business that will still be attractive relative to returning funds to shareholders. But that doesn't necessarily mean we can't continue to return funds. And as you also rightly point out, the free cashflow of the business is pretty healthy. And that supports us, particularly in the context of the new segmentation and reporting to continue paying a pretty healthy dividend over time too.

Jevan Bouzo: So I wouldn't rule out either and we continue to look at all opportunities. I think over time, as we start to print some more consistent earnings in the new format of reporting. And people see that free cash flow performance more directly than perhaps they've been able to see in the past, under the way we've previously reported. And over time that may too flow through to the valuation of the company and if that's the case, then some of those other opportunities may look more attractive relative to buying back shares. But in the meantime, we're obviously happy to take advantage of the current environment and progress with the capital management that we've announced today.

David Errington: Yeah, you're doing a great job in that front. And it's the case of whether you become a victim of your own success, but no, all credit. Second question is on the retail side of the business. I noticed the margin coming off. I'm trying to get an understanding as to how much the industry has improved in terms of rationality and how much this is just the margin is just unwinding a little bit of the gasoline or of the oil price high and a lag impact. And a follow-up on that question is, one thing I'm looking at is the minimum mandatory stock holding as potentially a catalyst that could be supportive of future margins. Can you give a bit of an update as to where we're at with what that's likely to be? How much holding we're likely to see? And whether that's going to be another boost to retail margins potentially for you and for Ampol?

Scott Wyatt: Yeah. I think, look on retail margins I think it's... You saw it throughout last year and again this year, it's a pretty rational market overall. And I've said many times the underlying reason for that is the cost space across the risk competitor models is pretty similar and that drives a certain margin need, which ultimately over the long run should play out in what you say in retail margins.

Scott Wyatt: Having said that you've clearly got two factors that have a big impact on margins and the short term one being movements and oil price and foreign exchange. And the other one being the price cycle sort of phenomenon that works and that takes place in major cities. So you will see short term compression and expansion of margin and I think you just go and look through that and then continue to look through the long run. And first half of this year was punctuated by heavily, rapidly rising oil prices throughout the half. Last year it was the reverse. So if you look at the margin performance half on half, you can actually see that playing out over that period of time. So I feel it certainly remains a very good market to be in and it still remains very competitive, but overall pretty rational from a retail perspective.

Scott Wyatt: I think in terms of mandatory stock holding obligations, it probably talks more to refining than anything else. And I think back to your earlier question, David, around the performance of the stock I guess, is that I think the opportunity for rewriting as a stock still is in the market for seeing the workings of the fuel security package and on the refining business over time.

Scott Wyatt: And it's obviously, the sort of long-term models only been in place since first of July. So we'll start to see that play out over the course of this next half. And as you know, there's a number of components that feed into that one, being the production payment for the refinery. The other one being the mandatory stock holder obligations and that's still work in progress in terms of the design of that. And we'll have to wait and see how that plays out, but should overall be supportive of the refining system. Given the fact that it's ultimately a cost that fits with imports, not

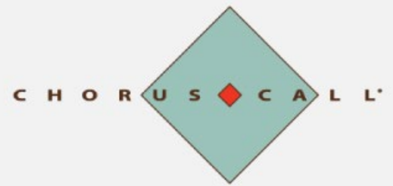
Scott Wyatt: Likely refined production and obviously the capital support as well that will help reduce the capital call on the site. So, the big change this year is just the fundamental repositioning of the refining business particularly. And we can see it and we think that really does transform how you should think about our business going forward. And maybe the market just needs to see that in the workings of our earnings over time to get more confident with that. But I certainly think that's a big change.

David Errington: So, it's still work in progress. The mandatory... It's still got a bit of work... It's coming. It's just going to be the time.

Scott Wyatt: Yeah.

David Errington: Is that right? Yeah okay.

Scott Wyatt: Yeah. I mean, just the design of it is still... We're engaged with government on that. And obviously the intention is there to implement it. It's just the design and how it gets implemented.



David Errington: Thanks. Thanks Scott. Thanks Jevan.

Operator: So our next question comes from Mark Wiseman with Macquarie.

Mark Wiseman : Good day, Scott. Good day, Jevan. Thanks for the update today and congrats on the result. I just wanted to ask a couple of questions on the Liberty Convenience, JV. It sounds from your comments like that was a significant contributor to the retail fuel volumes. And I suspect that's probably an area of the business that we're all or suspect a lot of us are probably undervaluing that business. Could you just remind us what your opportunity is to consolidate that business down the track? And is there any comments you can give just around how much further you expect to grow that network and any sort of profitability metrics? Just to get a sense of how profitable those sites are compared to your base business?

Scott Wyatt: Jevan, I might give you the option here to talk to that.

Jevan Bouzo: Sure. Yeah, no, I think that's right, Mark. It's really been our primary channel for retail network growth. And over time, we've talked to the fact that certainly our Coles Express Shell branded alliance network is more of a Metro focused network. And as you know, has been built up over many decades in more Metro locations. And the Liberty business has been an opportunity for us to get a little bit more active in regional markets that Shell had exited in the past 10 to 20 years. And it's really been where we've focused our retail network growth in terms of new sites on the ground. There's obviously a few that will come in Metro or suburban locations where opportunities drive that. But generally that network has been focused on filling out our Shell cards, network acceptance, and looking at larger, more major sites in regional locations.

Jevan Bouzo: And while at the moment you see the wholesale deal margin that we make on supplying that JV. It's a 50-50 share with the other two shareholders. And that means we pick up a share of NPAT at the bottom line. But we don't see the full economics of that retail business. It's around 80 sites at the moment and continuing to grow. And over time, over the next few years, we do have the opportunity to buy out the other shareholders and take full ownership of that business once we feel its reached maturity. So it is a retail network that we expect to own on a fully integrated basis in time. And for now we'll continue to work with the other shareholders to grow. And something that I think we'll start to talk more and more about over time as it starts to reach maturity. But certainly an opportunity that we're quite focused on as well as you point out.

Mark Wiseman: Great. Thanks very much.

Operator: Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Joseph Wong with UBS.

Joseph Wong: Hi guys, I just had a question. I was thinking of the energy hub and in particular the LNG import terminal. I guess the decision change its dividend policy to have a more

stable dividends, how should we look at the business model that you're looking at for the LNG input? Should we be expecting a more stable earnings from that business? Or would you be inclined to take some commodity exposure on the LNG?

Scott Wyatt: Yeah. Good question and we're still considering the commercial right commercial model for us to take forward. And that will be driven a little bit by what arrangements we put in place with partners and other users of the facility. I think first and foremost, it's the facility there to facilitate bringing gas into Victoria. And we expect to have existing participants in the gas market being involved in the terminal. And that would provide probably the foundation business for the facility. I think there is an option for us as Viva towards say, participate more directly in the gas markets. But that's an option that we haven't landed on yet and what we obviously consider will be a factor in determining the model that we take to FID and ultimately commit to the project on. Or it could be a mix of those two models.

Scott Wyatt: But fundamentally, the majority of the earnings for the facility will come from other users of the facility. And therefore should be a relatively stable and predictable earning stream for that facility. But maybe with a little bit of a merchant participation from us on the edge. But, yet to be decided at this point in time.

Joseph Wong: Yeah. I guess on the LNG import terminals, how do you see the economics stand up given where LNG prices are?

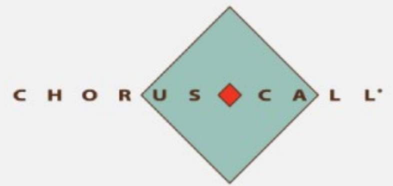
Scott Wyatt: Yep. So, as I said the fundamental purpose of the facility is to facilitate bringing gas into the market and filling a gas short. So, the project itself should be relatively independent of what's happening with gas prices internationally. Because, ultimately the domestic market should have some reflection of what's happening with international gas prices as well. And so, it's more of an important facility to facilitate the infrastructure project to bring guests to market, if that makes sense. Now, obviously if we participate in the gas markets, it's a different story. But that's not the primary purpose of our involvement.

Joseph Wong: Yes. Thanks a lot.

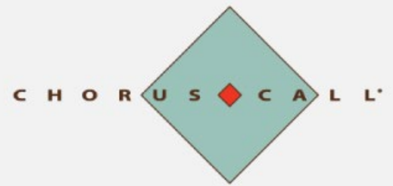
Operator: So our next question is from Scott Ryall with Rimor Equity Research.

Scott Ryall: Hi there. Thank you. Scott, I was wondering if you can just... Maybe building on that question just then, you talked about potential for FRD at Geelong, for the gas inport terminal from 2022 with first gas 2024. What are the key milestones you have to hit in order to get the FID?

Scott Wyatt: Well, we're also doing the front end engineering design work at the moment. That's a big part of what's underway. We've also got the regulatory approval processes in place, including environmental approvals. So, a key milestone will be obviously gaining those approvals and firming up our cost estimates as part of the front end engineering design work. And obviously determining the commercial model that we want to take forward in securing foundation customers. So, those are the milestones wanted to hit. And it's all progressing well and on plan. And we've said right from the



	beginning of this that we would like to be in a position to go to FID during 2020. And that's still on track to be able to deliver that.
Scott Ryall:	Okay. And in terms of the foundation customers, what sort of volume throughput will you expect to be able to bank before you go to FID?
Scott Wyatt:	Look, it's a 120 pedagol project. You know, we expect to be able to commit the majority of how much we need to be able to go to FID is something obviously still under consideration. And something we haven't made public at this point in time.
Scott Ryall:	Okay. That's fine. Thank you. And then the only other question I had was, and again, it comes up with a few of the other questions online. You've mentioned in your presentation that would be with the changes that you've talked about in refining you need to make sure that you can secure your supply chain for other markets outside of Victoria. Just broadly speaking, what do you think that Viva needs to do over the next two to three years to make sure that's in place, please?
Scott Wyatt:	We have supply positions into all our markets in any case. And so, it's just traditionally, we've taken supply from other refineries in some markets. An obvious one where we have traditionally tried to supply from BP's refinery there. And so, that's a change for us. We can have options to continue to take supply from them or import in our own right into the import facility that we operate out of in Perth. So, those are choices that we need to make. We have, outside of... Perth is a third party facility that we use. Outside of Perth. In other markets we have a mix of our own facilities or again a third party facilities that we use. So we're well positioned. It's just that the flow of the... From our infrastructure perspective, it's just that the flow of the molecules might change now that there's no longer refineries in some of those markets, Perth market in particular.
Scott Ryall:	Okay. Am I rightly assuming that that doesn't seem like a very capital intensive process to do that?
Scott Wyatt:	No, it's not a capital intensive projects process for us. No.
Scott Ryall:	Okay. Thank you. That's all I have.
Operator:	Your next question comes from Michael Simotas with Jeffrey's.
Michael Simotas:	Oh, hi guys. I've just got a housekeeping question if I can, relating to the new segmentals. In particular retail and commercial. What exactly is in your retail volumes and retail earnings? So, obviously there's the alliance, but then what else is in there in terms of the volumes you put through retail and then the earnings?
Scott Wyatt:	Yeah. So retail is very straight forward. It's really all of our Shell and Liberty branded networks. So, that's the Alliance platform. It's the Liberty Convenience platform. And it's what we call owner dealer platform, which is sites owned by independent retailers that carry and use the Shell brand or the Liberty brand. So, that's the business that's incorporated in the retail platform. Sales to other branded competitors. Because we



obviously have a reasonable wholesale business as well. As well as two distributors that now sits in the commercial business. So.

Michael Simotas: Okay. So, even sites which are Shell branded, for example, but you don't control pricing. You still book through the retail platform?

Scott Wyatt: Correct. Because we do... Whilst we don't control pricing, we control the brand. We control the products that they sell. And so we have... The fuel products they sell, I should say. And so, that's part of our broadly controlled retail network. If that makes sense?

Michael Simotas: It does, thank you.

Operator: There are no further questions at this time. I'll now hand back to Mr Wyatt for closing remarks.

Scott Wyatt: Thank you all for joining us this morning and for your questions. And look, as I mentioned at the beginning of the session, I am really pleased with the way the business has performed throughout the pandemic last year and in the results that we've delivered in the first half of this year. We have a retail business, which continues to deliver on our underlying growth and a commercial business, which has demonstrated I think, remarkable resilience, despite some challenging conditions in some sectors.

Scott Wyatt: As I mentioned, our retail business... Our refining businesses emerged from COVID with a revitalised future. And we do have a number of exciting projects which will provide growth opportunities within the broader energy hub of which the refinery is a key part. I'm very pleased to be able to return dividends for this half and to complete the return of capital from the divestment of our stake and WayPoint REIT.

Scott Wyatt: The changes in dividend policy and reporting segmentation will provide more transparency and consistency moving forward. And we very much look forward to speaking with you all at our Investor day a bit later in this year. Thanks again for your support and have a great day.

[END OF TRANSCRIPT]