**TRANSCRIPTION**

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**[START OF TRANSCRIPT]**

Operator: Thank you for standing by and welcome to the VIVA Energy Australia Full Year 2023 Results. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will 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 everyone, and thanks very much for joining us today to discuss VIVA Energy's Full Year 2023 Results. My name's Scott Wyatt, chief executive officer of VIVA Energy. And on the call with me today is Carolyn Pedic, the chief financial officer. Jevan Bouzo, our CEO of Convenience and Mobility, and Denis Urtizberea, EGM of Commercial and Industrial. Let me begin by acknowledging the traditional owners of the lands on which we are collectively gathered for this call and pay my respects to their elder's past, present, and emerging.

As always, let me start with our safety and environmental performance which is set out on slide five. Last year was a very busy year for the company with the extended major maintenance activity at Geelong Refinery and the transition of the Coles Express business including taking full control of operations across the retail network. Given that amount of change, I'm really pleased with our safety performance, which remains steady and indeed some really good improvements in process safety. Looking forward, I'm conscious of the new risks we've taken on with the growth in our convenience and mobility business, and particularly the impact on our team members from robberies and crime that unfortunately occur from time to time. We have inherited good processes from Coles and we will continue to look for ways to improve our security and safety across the retail network as we upgrade stores and enhance our offer. Across the rest of the traditional business, we continue to invest in improving asset integrity and inspections to reduce the risk of leaks and spills, and generally driving a strong safety culture which remains a great source of pride amongst Viva Energy employees.

Turning to slide six, 2023 was very much a transformational year for Viva Energy. We delivered a strong financial performance and made significant progress on a strategic agenda, which we shared with investors at the Investor Day in November last year. Group sales increased by 9% to 15.5 billion litres, now 5% above pre-pandemic levels. EBITDA was $713 million, which outside of the refining business represented a 16% increase on 2022. Our refining operations were, of course, set back by the extended major maintenance, however the team responded well to maintain steady supply to their markets and the underlying regional margin environment remains healthy. On the strategic front, we took major steps to advance our convenience and mobility strategy. The first step was the acquisition of the Coles Express convenience retailing business, creating a platform for growth in the attractive convenience sector. The second was the acquisition of the OTR Group, which received ACCC approval towards the end of last year.

As you know, OTR is a world-class convenience retailer that creates substantial growth opportunities through its sophisticated offering, advanced systems, and substantial synergies. Our commercial and industrial business delivered another exceptional year and continued to improve the quality of our business through the development of high quality strategic accounts such as RFDS and the Australian Defence Force contract, which means us becoming the exclusive supplier of aviation, marine, and ground fuels. The Geelong Refinery was critical to this contract, cementing Viva Energy's role in providing energy security to Australia and supporting further investment in the energy hub including the construction of strategic storage and upgrades to produce low-sulphur gasoline. Given these strong results, the board has determined to pay dividends of 15.6 cents per share for the year, 10% above last year for the non-refining businesses. Our balance sheet remains strong, ending the period of net debt of $380 million.

Let me now turn to each of our three businesses to discuss the results in more detail, beginning with the convenience mobility business on slide seven. The retail marketplace was somewhat challenging last year with cost of living pressures, high pump prices, and illicit tobacco sales weighing on sales growth. The 3rd quarter was particularly challenging as rapidly rising oil prices compressed retail fuel margins and dented demand. In that context, I'm very pleased with the performance of the convenience and mobility business, which maintained fuel sales in line with the prior year. And outside of tobacco group, convenience sales by 8% with good improvements in gross margin. This demonstrates the resilience of this business through challenging times and the growth opportunity as we further extend the convenience offer and economic conditions improve. EBITDA was a very solid $232 million with a strong 4th quarter as trading conditions improved.

Turning to slide eight, the commercial industrial business delivered another record result in 2023, lifting sales by 13% and growing EBITDAs to nearly $450 million. Aviation demands particularly the international segment, to continues to steadily recover with jet sales up more than 40% over 2022 and now at 75% of our pre-pandemic levels. Diesel sales have also been strong, up 7% on prior year, with strong demand from all C&I segments. New business wins provide further growth opportunities through 2023 but earnings are expected to be somewhat volatile, driven by continued tightness in supply chains with rising shipping costs in particular, providing some headwinds. Overall, the C&I business is in great shape and we are progressing well towards our aspiration of building a sustainable $500 million business.

The addition of the OTR wholesale division will make an important contribution to this outcome once the acquisition is completed in the near future.

Turning to refining on slide nine, our performance in 2023 was naturally impacted by the extended major maintenance during the 2nd and 3rd quarter. Crude intake was reduced to 31.6 million barrels and refining margins were lower at $9.80 US per barrel. While regional refining margins remained elevated through the year, Geelong's margin performance reflected a lower production of diesel and larger production of intermediate products during the turnaround. The refinery returned to normal operations in the 4th quarter and is well-positioned to capture the stronger margin environment that we have experienced so far this year. The strategic storage facilities are on track to be commissioned in the 3rd quarter and construction has commenced on the low-sulphur upgrades to the refinery.

Now, let me hand over to Carolyn Pedic who will talk in more detail about our financial performance.

Carolyn Pedic: Excellent. Thanks Scott, and good morning everyone. Let's start on slide 11. Now when comparing FY '23 with FY '22, it is important to note the extraordinary environment we experienced during 2022 which was heavily impacted by the evolving conflict in Ukraine and disruption to global energy supply chains. So Viva Energy particularly benefited from periods of high refining margins and advantage procurement arrangements that were put in place with our trading partner, Vitol. Now, these procurement arrangements provided material support for the record earnings that were delivered in that year in '22, and were expected to unwind as energy markets normalised as we have seen during 2023. This represents a normalisation of earnings in the order of $56.5 million which is embedded in the C&M and C&I earnings results. To put this in context, the combined earnings across both these businesses grew by $180 million in FY '22 from the prior year.

So after adjusting for these unwinding of procurement benefits as foreshadowed last year, convenience and mobility grew by $17 million, and commercial and industrial by $135 million on an underlying basis. Energy and infrastructure was, of course, impacted by the extended major maintenance event as well as refining margins normalising.

On slide 12, we set up the earnings bridge of the convenience and mobility business. And following a particularly strong result in 2022, EBITDA declined 7% to $232 million due to the unwinding of procurement benefits, which I just covered, along with a significant shift in operating metrics as we took control of the convenience offering from May. So although these benefits unwound during 2023 along with some impact from the disruption at Geelong, which did flow through to the retail business, this was offset by strengthening industry margins. Property costs increased in line with lease terms, and operating costs were higher reflecting inflationary effects and marketing investments as well. We have set out, in some detail, the impact from the integration of the Coles Express business from the 1st of May 2023 in the bridge.

So going forward, fuel margins will be improved through the elimination of the fuel commission previously paid to Coles Express and also through the direct participation in convenience sales and margins. Operating costs will of course be higher to reflect the costs of directly operating stores, and through higher overheads from Coles Express and the transitional service agreement with the Coles Group. The contribution from Coles Express in 2023 reflects the first eight months of performance without any integration benefits. As we have said, the earnings uplift we expect in post-integration of that business which is going well. We do see significant opportunities from above-market convenience sales growth, product and category initiatives driving high-growth margins, and lower overheads as we progressively exit the transitional services and agreement.

Now, moving to slide 13. As Scott mentioned, the commercial and industrial business delivered $447.5 million in EBITDA in 2023, and that's an increase of 33% percent on 2022. There were several drivers of growth, robust demand from most sectors, the benefit of new business wins over several years, a continued focus on higher margin opportunities across our specialty businesses, and a continued recovery in international aviation. The C&I margin management and our focus on specialty products and services more than offset the reversible supply chain benefits from the prior year.

Moving on to slide 14, energy and infrastructure EBITDA of $65 million was down significantly on the record, 2022 result. Lower regional refining margins and the extended turnaround were responsible. The compressor incident in June delayed the restart of processing units for several months, preventing the refinery from producing higher margin products. And because of that, we had to sell intermediate products at a lower margin and import more refined products at a time when shipping costs were high. Insurance recoveries at $80 million were recognised and mitigated part of the impact, as well as a slight decrease in operating costs and lower energy costs.

Now on slide 15, we show the bridge from EBITDA to net cash flow of -$75 million during what was a highly unusual period. The treasury team did a fantastic job to manage our cash position this year, navigating the disruption from the unplanned turnaround, continued volatility in oil prices, and almost $350 million of acquisitions. And as expected, the cash position also benefited from a working capital benefit of around $60 million after completing the Coles Express acquisition. Underline free cash flow was almost $200 million, which includes the capital expenditure from the turnaround. This is before borrowings, dividends, and investments, and excludes operation in CapEx for one-off multi-year projects.

And talking to CapEx, delving further into that on slide 16, we continue to take a disciplined approach, prioritising the most compelling opportunities in the current environment. We invested $452 million in the business on a net basis. That's within guidance despite the lower than expected government contributions relating to project timing milestones. That's timing only. Outside energy and infrastructure, CapEx was broadly in line with 2022. The increases in 2023 were driven by a major refining maintenance which required a larger scope of work than anticipated, and the ramp-up of investment in the ultra low-sulphur gasoline project. For 2024, we maintain our guidance set out at the Investor Day for 440 million to $475 million net of government contributions. Please note, this excludes OTR and we will provide an updated guidance at completion of the acquisition.

Moving to slide 17, this shows our balance sheet position. After starting 2023 with net cash of $290 million, net debt at the end of the year was $380 million. The move was largely caused by a record dividend payment to shareholders following the outstanding 2022 result, the acquisition of Coles Express, and a high habit programme. A balance sheet position provides substantial capacity to fund the acquisition of OTR and also pursue opportunities in line with our strategic objectives. We expect to refinance the OTR acquisition through term debt during 2024, subject to market conditions. So, we continue to target long term gearing of between 1 to 1.5 times based on term debt to underlying EBITDA.

Now, slide 18 provides the breakdown of the dividend announcement today. A 7.2 cents per share, the final fully franked dividend represents a 70% payout ratio of net profits from the convenience and mobility, and commercial and industrial segments. This is at the top end of our dividend policy range and this equates to 76% payout ratio for the group. The decision to payout at the top end of the range reflects the large and growing contribution from our non-refining business. Both convenience and mobility, and commercial and industrial generate ex-loss cash conversion with a relatively stable earnings profile. The energy infrastructure of business is assessed annually under our dividend policy and did not pay dividend in 2023. The dividend will be payable to registered shareholders on a record date of the 8th of March 2024, with a payment date of 22 of March 2024.

I'd now like to hand back to Scott to cover our strategic update and outlook.

Scott Wyatt: Thanks, Carolyn. Since our Investor Strategy Day in November, we've continued to make some excellent progress on our strategic agenda. We've obviously announced and commenced converting the Coles Express stores to Reddy Express, with 12 stores now displaying the new branding at the end of last year. We plan to convert more than 300 this year to meet the milestones set out in our agreement with Coles. These are relatively simple conversions with the in-store experience and customer offer, largely remaining unchanged. We are refurbishing selected stores to prepare them for their eventual transformation to the OTR offering. We also continue to roll out initiatives to improve the existing food to go offer our loyalty programmes and more suitable pricing for the convenience sector. The OTR acquisition is on track to complete in the first half of 2024 following ACCC approval, which we secured last year. The approval requires us to divest 25 sites in South Australia to Chevron, which have also commenced.

In exchange, we are receiving 13 sites located in Queensland, New South Wales, and Western Australia. Work has also commenced to secure regulatory approvals for the remaining 50% stake in Liberty Convenience. In 2023, we laid the groundwork for our sustainability objectives for each of our businesses as set out in slide 21. Now that we have full control over our retail network, we are better placed to pursue opportunities to benefit from the energy transition. Late last year, we entered the co-funding arrangement with the New South Wales government to develop a premium offer of 30 EV charging stations in the state. Our priority is to upgrade our convenience offer through the OTR strategy while looking to instal EV charging simultaneously at the most suitable sites. Overseas experience has shown us that a compelling convenience offer, the best locations and a focus on customer service are critical in attracting drivers to EV charging stations over other locations. We've also initiated plans to roll out rooftop solar across the network as part of a multi-year programme to reduce energy costs. And in 2024, we will be targeting sites in Western Australia, Northern Territory Queensland, and New South Wales.

Last year, we also gave our customers more options to manage their emissions. We now offer a full suite of carbon-neutral products under Climate Active, which remains an important interim measure until low-carbon fuels become commercially viable. At the same time, we are actively working with customers to trial these sorts of fuels. We distribute a sustainable aviation fuel for the first time to the Australian Defence force, collaborating with manufacturers and using our extensive supply network and operational expertise. They're also supporting cleaner waiver trial, 100% renewable diesel made from waste of feedstocks.

As I mentioned, we are also well-progressed in upgrading the refinery to produce low-sulphur petrol. We have also started planning for additional changes to aromatics fuel specifications, which will apply to unleaded 95. As the federal government has extended the deadline for both requirements, we are no longer seeking a waiver and we expect to complete the two projects in the second half of 2025 at a total cost of $200 million net of the government funding. We are also working to reduce our own emissions, signing a 10-year power purchase agreement with ACCIONA to provide renewable electricity from the Mount Gellibrand wind farm. The deal's the largest electricity and environmental certificate contract ever completed by Viva Energy, having the potential to meet nearly all of Viva Energy's net-zero scope two targets as well as providing an effective hedge against high electricity prices in Victoria.

Let's now turn to the outlook for 2024 as set out on slide 22. While energy markets remain tight and volatile, our convenience and commercial businesses are increasingly driving strong and stable earnings with steady growth from our strategic agenda. Convenience sales demonstrating continued growth outside of tobacco, and we look forward to capturing a full year of gross margin benefits as well as the uplift from the OTR acquisition once this completes. We expect continued demand strength from our commercial and industrial businesses with a further uplift from the acquisition of the OTR wholesale division. Supply and costs are expected to be volatile due to tightness in energy markets, and we're facing some headwinds from rising shipping costs in particular. Nonetheless, as you know, this is a very diverse business with demonstrated resilience to sectorial cycles. Refining margins remain elevated and our refinery is operating well following the major maintenance last year. We had minimal maintenance planned for 2024, and we are well-placed to maximise production and take advantage of a supportive refining margin environment.

In summary, we're very excited about the year ahead. The environment is challenging in some areas but we now have strong and diverse portfolio, which is well-positioned to capture growth opportunities, with strategic initiatives that provide considerable outside of the market fundamentals. It's a big execution year and we have begun the year with strong momentum. On that, let me now open up for questions.

Operator: 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 comes from Michael Simotas with Jefferies. Please go ahead.

Michael Simotas: Morning, team. My first one is relating to the outlook commentary or the outlook comments around supply chain costs and volatility. In the past, Viva has fared very well through those sorts of environments. You seem to be a little bit more cautious on this particular environment. Can you just give us a little bit more colour on why that is and how that's likely to flow through the business?

Scott Wyatt: Thanks, Michael. Thanks very much for the question. I think we have fared extremely well through some pretty challenging times over the last few years. I mean, 2022 was a particularly strong year for Viva Energy, as you know, and our supply chain advantages were a big part of that performance in 2022. So, I think we've got some good track record of managing periods of volatility. I have great confidence about the year ahead as well. I think areas we're calling out in particularly as a result of more recent events in the Middle East and the impacts that that is having on shipping costs, but that is a bit of a hit one potentially. But at the same time, I still remain confident in our supply chain capability to navigate all of that, and to protect earnings and continue to grow. It's just one of those factors that we'll have to manage through this period, but I wouldn't say that we are flagging it as a significant drain on any sense. I think we're very confident about the ability to manage the supply chain in the year ahead and navigate some of those changes.

Michael Simotas: Okay. Do you have pass-through arrangements in your major commercial contracts?

Scott Wyatt: A lot of our contracts have had... Majority of our commercial contracts provide pass-through for a lot of the costs that we face into. And again, you've got good evidence in the past few years of how we've been able to do that, and it's certainly 2023 that we've called that out in the commercial industrial results as well as about how we've managed to pass through some of the high costs that we're facing into. So certainly, shipping costs and other supply chain costs, there's a great degree of capability to pass that through to our customers and through to the market.

Michael Simotas: Okay, thank you. Then just a couple on Coles Express or convenience and mobility, if I can. Just a clarification, if I look at the waterfall chart and I sum the individual drivers of Coles Express, they summed to near exactly zero. Does that mean there was zero EBITDA contribution from Coles Express in this period?

Scott Wyatt: Thanks for the question, Michael. We've got Jevan on the call, and probably a good opportunity to give them a bit of an opportunity to talk about how the integration has gone and the contribution from the Coles Express business.

Jevan Bouzo: Thanks Scott, and thanks for the question, Michael. Yeah, that's about right. We basically had eight months contribution of the Coles Express retail business. So, we're progressing really well on integration but we're still within transitional services arrangements and other transitional, I suppose, integration arrangements we put in place for the business post-transition. I think in the context of the first eight months, some improvement we've made in shop and margin, and how industry's traded over the course of last year, it's been a good outcome to add the business in. I would've liked to see it contribute a little more, but still confident that as we complete integration plans over the next 12 to 18 months, we'll see a meaningful uplift that we talked about when we did the deal.

Michael Simotas: Okay. And then just one quick one while I've got you, there's a bit of industry feedback that Coles Express has been a bit more aggressive on fuel price in the last few months. Is there any change in strategy on how you're likely to price your fuel offer or is that just the usual noise?

Jevan Bouzo: No, I think that's the usual noise. I mean, it's been our intention to remain competitive in market and that hasn't really changed over the last couple of years. We're definitely focused on positioning the brand and the stores, the network both from a fuel and the convenience perspective, and making sure that the fuel price positioning and the shop price positioning line up in a way that provides the right level of value for customers. But we haven't made any significant or material changes to the strategy. That's been a focus for some time now, but obviously, having control of the shop means that we can be a little bit more targeted with offers across shop and fuel, and be consistent across the two. But certainly, no. No change or no intention to move fuel pricing strategy in that regard. I think it's been a bit of a soft mobility period over the past few months in some states, and so maybe that's contributing to a bit of chatter. But they're all pretty good from my perspective.

Michael Simotas: Okay, great. Thank you.

Operator: Your next question comes from Dale Koenders with Barrenjoey. Please go ahead.

Dale Koenders: Morning, gents. And just a question, I guess firstly on OTR. I was hoping, Jevan, you could provide a little bit more colour on how you've seen that business running over the last 12 months. Has store count changed? If you can put any numbers on that profitability, any guidance on how that business has been running.

Jevan Bouzo: Yeah, I can talk a little bit to that. I mean, we're obviously pre-completion. There's some information sharing requirements that we agreed as part of the transaction. Obviously, we are pretty well-engaged with how they're going. They don't publish numbers, as you know, but I can say that they're performing in line with our expectations and the business case that we put forward when we announced the deal. So, I'm feeling good about that. I think the structure of the deal and the arrangement, obviously providing a material portion of the price in equity in the Viva business, has worked well and it's kept the sellers pretty focused on running that business successfully because they obviously benefit from that success as well through the issuance of equity.

So, we've got good alignment and we're obviously still working within some competition constraints because we haven't completed it yet. But everything I'm seeing and engaging with them on is heading in the right direction, and the focus on innovation and continuing to expand and grow the offer in that business has continued at pace, which has been really pleasing to see. So planning for completion now, which is obviously a busy time, and then looking to start seeing some of the first sites convert through the course of this year, which will be exciting.

Dale Koenders: Is there a cash adjustment if the completion drags on?

Jevan Bouzo: Not typical to do something like that. I think where we're at now, we've got our ACCC clearance. We're on track for a third clearance in the coming weeks based on their published dates. And obviously, a few things that are required for completion, that all feels like it's pretty well in hand at this stage. So, I expect that we'll be able to complete within the first half and there shouldn't be anything that really holds that up in a material way.

Dale Koenders: Okay. Then just a final question, I guess, for Scott. Just in the refinery, operating costs is quite high in the half with the T&I coming around, bringing costs back to $8 a barrel. Can you talk about what's going on at the moment? Why costs are still elevated and how quickly you can turn that around?

Scott Wyatt: Yeah, no. Thanks, Dale. I think there's no reason to flag that operating costs were high last year as a result of the extended outage, particularly shipping costs and demurrage costs associated with moving unexpected supplies of finished product into Australia and intermediates out. So, that will naturally cycle out now that the refinery is back running normally in a full production. And so, we've spent most of the backend of last year, quarter four, just tidying that situation up and getting our shipping costs back down, so that would just naturally actually cycle through. Energy's been a bit of an [inaudible] feature refined in the last couple of years, there's a higher cost that has cycled down through the course of last year as well. That doesn't mean it's not still a potential headwind given the situation in Victoria in terms of energy costs, but we are happy that that's cycling back closer to where it's been historically.

And a lot of our operating costs were obviously impacted by having to deal with an extended turnaround, which again cycles back out. I mean, there is obviously continued action in the refinery to continue to drive productivity and performance improvement. But the big cost, the headwinds that we've seen last year, really just will cycle out, Dale and flow through to the results this year.

Dale Koenders: Is that done now, Scott, or when you [crosstalk]

Scott Wyatt: Yeah. In short, that's exactly what I'm saying.

Dale Koenders: Perfect.

Scott Wyatt: We're essentially running this year at a level that we'd expect to be running.

Dale Koenders: Okay, thanks.

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

David Errington: Morning, Scott. Morning, Carolyn. I'm probably directing to Jevan. Really pleased with your shop performance, Jevan, non-tobacco sales up 8% for the full year where the other mob across the road only delivered 3%. And I saw some really nice margin expansion, gross margin up to 35.7, which surprised me on the positive and you know, past, previous discussion where the business was making nothing. I mean, the previous owners previously clearly did zero to enhance that business. So, I really thought that that was a very pleasing result. But my question now is On the Run is done, really excited. It's public, we're pretty positive toward that acquisition and I think there's some huge upside. But the transition now, I mean the next six, I'll say it's going to be on July starting date. It's done, the ACCC's approved it, so we're done. So let's be adult about it, the deal's done. What can we expect now for the next six to 12, 18 months starting July 1?

Because this transition is going to be... For us as investors, we need to get this right. So, what can we expect? Now, you've got a business there making zero. Do you attack that? Is there ways that you can attack it? Because that business shouldn't be making zero, it should be making something. Do you attack that or do you basically just ride it through and do you just go full bore on the transition? Can you give us a bit of sugar as to what your thoughts are now that the deal is ready to go? Because I think the second half of '24 and the full year of '25 is going to be really critical for us as investors to get right in terms of your transition. Can you go into a bit more depth on that, please, as to what you're thinking?

Jevan Bouzo: Yeah, absolutely. And thanks for the questions, Dave. I'll do my best with the sugar. We've got a fair bit to do and I think I'm really conscious of that. We've got a really good team in place but I think the short answer is we need to do a little bit of both. The focus now is around identifying stores or the first stores for conversion from a Coles Express or Reddy Express directly to an OTR, and we'll be putting a fair bit of focus on getting the first lot of stores converted, trading, and running well. But I think you make some really good points. It's not a case of leaving the Coles-Reddy Express network where it is and just waiting for the conversion to deliver results.

Within the number that you see there or the close to breakeven contribution, and I touched on it briefly before, we've still got transitional services arrangements in place with Coles. And some of the work that we've done on sales growth ex tobacco and margin expansion or in some regards, fixing the margin and the convenience store price positioning a little to be a little more aligned with a convenience network. It has been done progressively over the eight months that we picked up the business last year. So, there'll be a bit of cycling of that through the course of this year and a bit more to come. And obviously, some integration work that should help us improve the cost side a little. I think the focus for us is yes, transition is important. We need to get the first sites converted and start to see them trade well, and there needs to be a strong focus on that.

But I'm certainly not losing any focus on the opportunity that exists to integrate the Coles Express business or the Reddy Express network as it will be in the next 12 to 18 months and have that start to tick along and perform a little better in parallel. So, plenty to do, it means we've got to do both, but I think there's good opportunity on both fronts.

David Errington: Yeah, because it's important for us as investors to make sure that the profit continues to grow, but at the same time, that you can transition. So, that's going to be something there that you've just got to get right, I suppose. But that positive performance in that result since you took ownership is really pleasing. May I ask, where is the CapEx going this year? You're stepping up your CapEx before the On the Run. I think it's going from 40 million to 80 million. What's your thoughts on the mycar? Every time I go in, I can't get my car in there because in mycar, they've got 15 cars parked in the car park for servicing. What are you going to do with that? And if you punt them, what sort of cost will that be from the sublease arrangement? Can you give us a bit of thoughts, a bit more sugar if you wouldn't mind, on what your thoughts are there?

Jevan Bouzo: Yeah, sure. I think to start with some of the sublease arrangements particularly, it's not just about mycar. We've obviously got a broader relationship with mycar across the business as a customer of the commercial business, too. But there's some 430 sub tenants across our network. Some of those are automotive workshops but a lot of QSRs and other things. To give you some context, there's around 2,500 Hungry Jacks in the network that are subleased. There's a number of vacant, abandoned old workshops and QSRs. There's subways. There's plenty of things in there.

Our intention would be to work through those over the remaining five years or so that a lot of the subleases are in place for, and given the historical alliance to 2029. It will mean that some of those will come out and convert to company operations in time. Some will move to an OTR and an expanded shop. Some will move to a QSR that will look to run our other offers. So, there's plenty of work to do in that space. And I hear you. I think the traditional service station with an automotive workshop next to the petrol pumps is probably not necessarily the model of the future. And I think you will see a fair bit of that change over time.

David Errington: And the CapEx?

Jevan Bouzo: The CapEx for us is really, it's a combination of conversion but also investment in store. There's some work I'd like to do on fuel equipment. We've got a bit of ageing infrastructure across the Express network, both in shop but also on the forecourt. I think there's a little we can do to optimise things like all products at all pumps, the configuration of premium at some of the sites. There's been some of that work that we've done in the past, some that we haven't given the arrangements in the way that the network was run. And there will be a little bit of improvement that we make to some of the sites that we know will stay at Reddy Express for a longer period.

I feel like there's quite a lot of opportunity in that network and it's fantastic to see how it's performing already, as you say. I mean, everyone who's been to a Coles Express or Reddy Express store and then an OTR can see the contrast between the two offers. And it's pretty good that the base offer of Express is still outperforming competitors as it is. So, really pleased about how things are going and I think there's lots of opportunity that we'll be able to unlock.

David Errington: Thank you. And please, if there's a price inquiry, for heaven's sake don't do a Four Corners interview. Both you and Scott, Jevan.

Jevan Bouzo: Thanks. Noted.

Scott Wyatt: Thanks, David.

Operator: Your next question comes from Tom Allen with UBS. Please go ahead.

Tom Allen: Good morning, Scott, Carolyn, Jevan, and the broader team. What we're hearing, it's a challenging environment to manage costs currently, and so the integration with Coles has seen some high costs coming through. Can you please talk to the specific strategies and mitigations in place to manage the risk of incurring higher than expected costs as Viva rolls out the Ready Express rebranding and OTR conversions following completion?

Jevan Bouzo: Yeah, I can keep on that. Did you want me to start-

Scott Wyatt: Yeah, you go.

Jevan Bouzo: I think the one... So, there is a bit of a cost inflation environment that I think all retailers are saying across all retail industries. I think the fortunate thing that's playing in our favour at the moment is the growth and the scale that we've got. Most of the partners and suppliers that we're working with are looking at the opportunity over the next five years plus to really double the size of the network, to grow, to refurbish and rebuild stores. And we've actually seen really good engagement across our contractor and supplier base where they look at the opportunity to come work with us on scope, work with us on cost and optimization. And really, try to be part of the bigger picture. I think that's really helpful, that supports us. I think if you're in a run and maintain space, and you're perhaps not as interesting to some of your suppliers around growth and expansion, it's harder to get that buy-in and support. But I felt like we're in a pretty good place, plus we obviously have the scale that should bring us some benefit over time, too.

Tom Allen: Thanks, Jevan. And then just hoping for some comments on the fuel volume outlook and just specifically what are the key initiatives that Viva are utilising to drive higher retail fuel volume growth across the network. I think your response, Jevan, to an earlier question mentioned that there's no change in the board pricing strategy. So, just wondering what other specific initiatives you're going after.

Jevan Bouzo: I mean, it's definitely important to stay competitive and we continue to do that. I think the opportunity we have now with the business being run on an integrated basis is to do a little bit more around marketing consistent with shop. So in the past, you'd see Coles Express run in-store promotions. We'd run fuel-focused forecourt style promotions and they wouldn't necessarily be lined up or coordinated as well as they could be. I think there's definitely an opportunity to do more of that in a consistent way, start to link fuel purchases with shop, buy fuel, get coffee. Those sorts of offers.

We've tried a few things. In November and December, we ran a double docket campaign where we took the 4 cent shopper docket and effectively doubled that to 8 cents for a limited period leading up to Christmas. Probably didn't shoot the lights out but... It wasn't as amazing as I'd hoped, but delivered some really positive results. We saw 28,000 lapsed customers return to the shopper docket programme and return to stores. And obviously, the Flybuys programme and the Flybuys data really helps with being able to understand the success of some of those initiatives.

So, I think we'll be out there in the marketing space. We'll continue to try some different and hopefully some edgy promotions, both in the Express network and across the OTR offer as we start to roll that out outside of South Australia. So watch this space, I think is the message.

Tom Allen: Okay. Thanks, folks.

Operator: Your next question comes from Gordon Ramsay with RBC Capital Markets. Please go ahead.

Gordon Ramsay: Thank you and great results, gentlemen. Just interested in the move to clean fuels and your view on that market, and whether you believe pricing will be at a premium for low-sulphur 98 octane gasoline and other products that you're going to be producing under the new standards. Just your view on that market, do you think it's relatively tight?

Scott Wyatt: I'll answer that. Yeah, I think there's a possibility that it will be a difficult product to source on top of an increasingly tight piping market, which obviously will flow through into product premias. It is obviously two years away, so often change in the next two years. It's a little bit hard to forecast that. But certainly, it's a tight spec. We're falling in line with where global specs are going, so it is available. It's a product that is available in the market, but anytime in your space can generally lead to higher product premias. I think there's a real opportunity for that in a couple of years time when this goes live, but it is two years away so a lot can change in the refining market in that time.

Gordon Ramsay: Thanks, Scott. Sorry, I got a cold so my voice is deep. Just on the commercial-industrial side, in your Investor Day you made it pretty clear that to get to the long term goal that you have for that business, and it's obviously performing very strongly right now, would involve an acquisition. Are you still thinking along those lines that it would be similar to like a polymer business where it's a bolt-on acquisition that fits in really well with the business?

Scott Wyatt: We're got Denis here with us today as well, so might send that one over to him.

Denis Urtizberea: Thank you for your question, Gordon. Yeah, absolutely, still very consistent with what we announced at the end of last year. We continue to grow our baseline business but we have in mind our... Aspiration today were $500 million business in a sustainable manner. And we are working on them definitely on a few potential targets on acquisition. To repeat the criteria, we definitely want to have acquisitions that will have a very good strategic fit, taking the opportunity to continue the diversification of our portfolio as we have done that you just mentioned with our plastic division, and potentially a bit more of geographic footprint as well.

So absolutely, a core part of the strategy aside the continuous growth on our existing business. Obviously, we cannot reveal a number of targets that we are working on but this is pretty much in the agenda, and we hope to get something in the next two or three years.

Gordon Ramsay: Okay, thank you very much. That's good.

Operator: Your next question comes from Mark Wiseman with Macquarie Group. Please go ahead.

Mark Wiseman: Hi Scott, Jevan, Carolyn, and team. Thanks for the update today. I had a couple of questions firstly on the C&I business, really strong result. It looks like you've largely held on to those first half profits. I wonder if you could just comment on the outlook into 2024. Do you think you can hold this level of profitability and grow into that 500 million run rate over the next several years or should we anticipate a bit of a pullback in that level of profit in 2024?

Denis Urtizberea: Thank you, Mark, for your question. But definitely, the objective that we have been given as a team is certainly not to move backwards, so hopefully we'll continue to grow. More seriously, if you look at the volume growth that we had in 2023, all in all, it's up to 13% growth in volume, 40% of that coming from recovery and 60% of that being attributable to new business wins. And those things, you remember what we discussed during the Investor Day, the tenure of our contracts is something very important. We have a high quality customer base and very loyal customers. So all of these wins that we accumulated in the last three years, we'll continue to keep their fruits in the coming years. From a recovery point of view and it's interesting, we still believe there is still a bit of recovery to come. If you look at our aviation volume, a spectacular growth in 2023 year-on-year of 40%, but still 25% below of pre-pandemic level.

So there is still some recovery to happen in the international aviation, in particular with our Chinese customers. We believe there are definitely a number of elements making us very optimistic to continue to push the business on the same trajectory we have seen in the last three years. And this is probably another element, this growth has been very consistent for the last three years. Our pipeline is very solid and we have acquired a large number of new [inaudible] customers. Some of them have been disclosed, like the Defence Forces or Royal Flying Doctors, but we have many more in our pipeline as well. So, we believe we are definitely in the great tradition to continue to grow.

And the last element maybe to give you is the change of mix in the way that our specialty business is taking from a learning perspective. And from a growth perspective, we continue to grow 10% in volume on our specialty business, pretty much close to 40% compared to pre-pandemic. And obviously from a mixed perspective, not only brings resilience to our business but it's changing our earning profile. So combined with some potential acquisition, yeah, we believe we'll continue to grow and that we want to be very optimistic about 2024.

Mark Wiseman: That's fantastic. Thanks for that detail. And just a smaller one, I just wondered if you could give an update on the LNG import terminal at Geelong. How's the engagement with Victorian government and what's the update for that project, please?

Scott Wyatt: Yeah, sure. Really, largely unchanged from when we spoke about it, the Investor Day. And that is we're working through the various additional studies that we were required to do under the environmental approval process, but they're progressing well and nearing completion. And that then takes us to the next milestone which is to resubmit to a panel for the final stage to the environmental approval process. So, we see that running. Really, process continue to run through the course of this year. And I think we remain positive about the project. We remain... We still see a pretty strong business case for that project in Victoria to meet dwindling gas supplies and shore up energy security. So, we think it's a great project. We think it's going to be needed by the state. But at the same time, we got a process to run through with government. We'll see that out. And then following that, once we've secured environment approval, there's obviously then the contractual elements that we need to secure or to take it to FID. There's still a little way to go through that project over the course of this year.

Mark Wiseman: So it sounds like FID would be 2025 at earliest. Is that reasonable?

Scott Wyatt: I think that's reasonable, yeah. It's going to take, assuming it progresses well and we continue to progress the project through the approval processes, it'll take most of this year I think before we conclude that and takes us into 2025. And obviously at the end of the day, it's a decision for the Victorian government about whether they want this project to go ahead, so that's obviously a bit in their hands as well. But I think from a planning perspective, that's probably I think a fair call in how you should think about it.

Mark Wiseman: Great. Thank you.

Operator: Your next question comes from Henry Meyer with Goldman Sachs. Please go ahead.

Henry Meyer: Morning all, and thanks for the updates. Just want to dive in a little bit more into some of the commentary around the supply chain impacts from shipping disruptions, and perhaps around the Vitol supply agreement. Can you touch on whether you'd expect to offset some of those supply challenges through the clean-dirty spread you pick up on refining, please?

Scott Wyatt: If I understand the question, it's more about how we think about managing the higher shipping costs that we're seeing at the moment?

Henry Meyer: Yeah, if you'd offset some of those challenges in the refining segment as well.

Scott Wyatt: Yeah. So obviously, the refinery benefits from the clean-dirty spread as part of the refining margin, so a higher spread benefits the refinery. And so often, there's a bit of an offset in our business from our shipping costs. High shipping costs is a potential headwind for Denis' business particularly. But it's generally an offset within the refining business from the benefit we get from the clean-dirty spread. So that's the benefit of having a diverse business, I guess. But as I said earlier, there's also a lot of flexibility within the commercial business to pass on increased costs over time. There can be a lag in seeing that pass through to the market, but our contracts are set up in such a way that we have a lot of flexibility to cover those variable costs. So, I think we have set it right at the beginning.

It's a feature of the market at the moment because obviously, shipping costs have gone up a lot as a result of the Middle Eastern conflict. That can change quickly as well. But at the same time, we have a great degree of flexibility on how we manage it, and there's upsides and downsides within our business from that change.

The arrangements with Vitol are certainly helpful for us for a lot of the contracts that we have. The very large contracts that we typically enter into on multiple years, we typically will lock in back-to-back arrangements with Vitol so that the risks associated with these changes sits with them, not with us, and we have a more certain margin that we can expect to generate from those accounts. That does cover a lot of the C&I business that Denis manages and provides a lot of protection for us.

Henry Meyer: Great. Thanks, Scott. And maybe just to stick on the refining theme, are you able to share perhaps what the refining margin has been like in January, so far? You talk about the refining back to capacity. Should we assume that you've cleared out the inventory of partially refined products and you're back to 2019 slate levels as of Jan?

Scott Wyatt: Yeah, completely clean start to the year. We tidied up all of that last year. As I indicated in the commentary, it's been a good start to the year from a refining perspective, reasonably strong. Refining margins and tight markets, generally supportive of refining. So yeah, pretty happy with how that business has kicked off this year. And looking forward, very optimistic about it as well because we've got a pretty clean year from a major maintenance perspective. And should have an opportunity really to run pretty hard and enjoy whatever environment we face into, which at this point in time, looks pretty good.

Henry Meyer: Great. Thanks, Scott. If I can squeeze in maybe a third. Really strong performance from C&I, again we've touched on a bit. I think in the past few results, you've been cautious to flag that that could be repeatable and the language around that has changed a bit now. Could it be the case that this 500 mil target over the next few years is conservative or is that still a reasonable target to be working towards from this year's result?

Scott Wyatt: Yeah [crosstalk] I'll perhaps should let Denis kick-off on it. We have same views as well, handing over to you Denis.

Denis Urtizberea: Thank you for your comment, and I'm not sure if Scott will take that on board when he has to design the objective for the next three years. Again, back to what I was saying before, I think there is a very strong demand in the market and we see definitely some positive momentum, for example, in the mining industry. In the next three years, aviation, there will be more recovery. As I mentioned, transport is growing. So, we have a number of sectors with really good fundamentals in terms of the sectors' economy, and we certainly benefit from that because we have strong position on those sectors. The $500 million that you see, that reached... And if we look at the curve of the performance of that business, it looks pretty achievable pretty soon.

But again, I would never repeat enough that we don't want this to be a spike performance. We want to deliver to get a $500 million business in a sustainable manner. That's the reason why an acquisition strategy is important to make sure that even in times where it could be a bit more headwinds, we would still be in a position to repeat that performance. So whether the $500 million is conservative, this is our first target and we want to get there in a sustainable manner. If we get there sooner, then we'll reuse the strategy for the future. But that's definitely our first objective. But I'm glad you believe we are a bit conservative on that business.

Scott Wyatt: Yeah, it's a very different look, I think, think of it as a much improved business from what it was five years ago. We've obviously focused on our sweet spots, in areas where we have competitive advantages, where they build a really high-quality customer base with lots of opportunities to grow from those customers and grow with them. And that's a big feature of Denis' portfolio, which is really quite diverse now. So organically, I think we're in a very strong position.

Adding to that, there's obviously a known uplift that we'll see from the OTR Group acquisition when that's completed this year that flows into the commercial business as well in terms of the wholesale division of OTR. So yeah, there's clearly a clear trajectory of 400, 500 million. The aspiration is Denis' sector to deliver that sustainably year-on-year. So, we get there earlier. It's more about delivering that on a continuous basis is the focus.

Henry Meyer: Got it. That's great. Thanks all.

Operator: Your next question comes from Rob Koh with Morgan Stanley. Please go ahead.

Rob Koh: Good morning. Congratulations on the result. My first question is just a quick one about the CapEx and with the fuel quality standard for aromatics coming in 2025. Does that require any CapEx for you guys? Is that included in the CapEx budget?

Carolyn Pedic: Yep, I'll take that one. Thanks, Scott. The fuel quality standard, I think you're talking about the ultra low-sulfur gasoline quality standards in the aromatics. We definitely have included that in our 2024 guidance and that will come into play in 2025. So, we will see some CapEx across those two years.

Rob Koh: Okay. So, some CapEx for '24 and '25 for the aromatics. Great. Okay. So, second question-

Carolyn Pedic: That's right.

Rob Koh: Yeah, thank you. That's very clear. So second question is just about the remuneration report, and congrats on the result there. I don't think anybody's got any complaints about that. The return on capital employed came in at 26.4%. And obviously, you don't disclose the targets going forward for commercial reasons. But could you give us some colour on any of the drivers that go into that? Do they get reviewed because of rising rates? Obviously, capital employed will go up with the acquisition. Just if you can give us any steer on that please.

Scott Wyatt: They do get reviewed probably every year when they're set by the board in terms of the grants that are made for the following three years to reflect, obviously, any changes in our WAC, in our anticipated capital and investment programme. And particularly, in terms of the areas where we're looking to grow, which is becoming a big feature of the forward capital plans now, both in retail and in the commercial business, too. So it's a bit of a reflection of both, by the cost and the opportunity, Rob, and setting a target that reflects both those elements and provides significant sufficient stretch for the executive team to outperform.

Rob Koh: Okay, sounds good. Just a final question, I guess Mr. Errington alluded to this, but it is serious. And having covered utilities for many years, unfortunately there is such a thing as making too much money in this day and age. Can you just give us a sense of how you're gauging social licence risk for the current cost of living initiatives going on by government? And if you have a crisis management team on retainer or just... Because it's not necessarily enough to just keep your head down and keep on with business in this day and age.

Scott Wyatt: Sure, I totally understand. I know we're very focused on that through the course of last year, particularly in respect of the retail business which obviously is focusing on consumers and wanting to continue to provide real value to customers through challenging times. So that reflected in, obviously, making sure that we remain competitive and providing that value to customers but also investing in programmes like the one that Jevan touched on, that we did towards the back end of the year to provide double docket discounts to consumers for a period of time. Provide an opportunity for those that were looking for opportunities to save to be able to do that in terms of their relationship with us.

So, I think now we've got full control over the network and the convenience store offer, and obviously with OTR coming on board as well. I think that certainly, it's top of mind and we'll continue, but we'll have many more levers to be able to provide value to customers. And particularly, support those customers that are looking for opportunities to save ways of doing that as well. On that front, I think it's very much part of the retail strategy. In terms of our general preparedness for crisis, I guess it's something we do prepare for, we do train for, not just in these reputational issues but all elements of the risks that we face into whether it's operating risk or cyber risk and so on.

We have quite a lot of effort goes into that, we do train for that regularly, and have access to people to support us in the event that we need that support.

Rob Koh: Okay, great. Thanks very much. Sounds good. Good luck with it.

Scott Wyatt: Thank you.

Operator: Once again, if you wish to ask a question, please press *1 on your telephone.

Your next question comes from Scott Ryall with Rimor Equity Research. Please go ahead.

Scott Ryall: Hi. Thank you. Hopefully, two very quick ones for you to finish off. I'm just referring to slide 21 of your pack, and I'm interested in your view around what makes for a premium EV charging station as opposed to a normal one. I think from your press release, you're referring to the fact that they'll be at sites where you've got very strong convenience, and maybe restaurant offerings. But maybe, if you could give a bit more colour on that one. And then the other one, hopefully again is pretty quick, how does the vehicle emissions standards impact your thoughts on the refinery investments that you're doing at the moment, please?

Denis Urtizberea: Jevan, would you like to tackle the EV question?

Jevan Bouzo: Yeah, sure. I mean, it's really a couple of things. You touched on the point around convenience. So, it's making sure that where we've got an EV charging offering, we've got a convenience offer that supports it. And that will be a little more focused around the OTR style convenience offer going forward and trying to align sites that have EV charging with the sites that are obviously converting to the OTR offer. That's the first point.

The second is making sure that the EV charging offer itself is something that works really well for customers. I know you know this space well, but making sure we've got fast charging, making sure that there's sufficient space on site and on the forecourt to do that. That there's sufficient bays, and the infrastructure and the systems that run that charging offer work really well and effectively without the usual bugs that EV owners seem to suffer when they look for charging stations. That's what we mean when we talk about a premium EV charging offer.

Scott Wyatt: On the emissions question, obviously the changes to a vehicle emission standards is designed to increase the availability of low-emission vehicles coming to the market in Australia. Obviously, EVs is part of that, and I guess the intent is through having greater availability of those vehicles in Australia. It will drive an uptake in transition, particularly to EVs, over time. That's obviously something that we've anticipated and that's a market change that we've anticipated for quite some time. In terms of, and which is a case that drives the investment experience in the EV recharging facilities for customers as well to try and meet that growing market demand. In terms of the investments in the refinery, I think the refinery's investments remain resilient in a world where we've got greater EV uptake. Because at the end of the day, the 80% of Australia's fuel demand is imported from overseas. So, the two refineries in Australia really only meet 20% of the fuel demand.

Fuel demand has to decline a long way before the markets for refined production are impacted in Australia. The life for the refineries is quite a long one. And from a supply perspective, and obviously it has a particular key role to play in energy security as well, which has only became very prominent through the pandemic and is only growing with all the geopolitical issues around the world this time. We feel very confident about that, the refining investments that we've made. And as we've foreshadowed in the past, we see for the next decade that refining and the supply-demand balance for refining is going to remain quite tight and should be overall largely supportive of refining action through that period.

Scott Ryall: Okay, great. That's all I had. Thank you.

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

Scott Wyatt: Look, thank you very much for taking the time to join us today. I think I'll just close just talking about the year ahead, I think it's a very exciting year for Viva Energy with the strategic agenda that we've got. Having completed the Coles Express transition last year and not far from completing on the OTR transaction, we've got all the platforms in place to really accelerate our convenience strategy and the transformation of our retail business. It's very much a year of a focus on execution, a lot of work going into obviously, managing the transition of those business as well, bringing together the integration, and moving forward with the rollout of the convenience software across the network and really accelerating the product that we have in the retail market. So, that's exciting.

In commercial, it's maintaining that momentum that we've built up now over a number of years, the acquisition of the OTR. Wholesale division will be a material one that will really help to continue to build our presence in rural and regional Australia, as an example. And as Denis touched on, we continue to look for other opportunities to build on what has become a really strong capability in our commercial industrial business. And refining a clean year ahead, a good start to the year in terms of the regional refining margin environment. Obviously, a lot of work happening to prepare for next year in terms of the upgrades to low-sulphur gasoline, but that's going well. And the opportunity to really turn in, I think, a good result in refining in 2024.

So yeah, I said big thing for us is execution, maintaining focus on customers and delivering on our promises. So, looking forward to talking to you a bit more about that at the half-year point when we've got the first half behind us. But thanks again for joining us today and for your questions. Much appreciated.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.

**[END OF TRANSCRIPT]**