Viva Energy Group Limited (the "Company")
ACN 626 661 032
Appendix 4E - Preliminary Final Report

Results for announcement to the market

The current reporting period is the year ended 31 December 2018. The previous corresponding period is the year ended 31 December 2017.

	Year ended 31 Dec 2018 Actual A$M	Year ended 31 Dec 2018 Prospectus A$M	Year ended 31 Dec 2017 Actual A$M	% change 31 Dec 2018 Actual to Prospectus	% change 31 Dec 2018 Actual to 31 Dec 2017
Revenue	**16,395.1**	**15,059.2**	**13,905.4**	**8.9%**	**17.9%**
Profit from ordinary activities after tax/net profit for the period attributable to shareholders					
Historical cost basis	**579.6**	**463.1**	**289.7**	**25.2%**	**100.1%**
Replacement cost basis	**645.1**	**477.7**	**295.8**	**35.0%**	**118.1%**
Underlying Profit after tax attributable to shareholders					
Historical cost basis	**227.5**	**309.5**	**N/A**	**-26.5%**	**N/A**
Replacement cost basis	**293.0**	**324.1**	**N/A**	**-9.6%**	**N/A**

	Year ended 31 Dec 2018 Actual cents	Year ended 31 Dec 2017[2] Actual cents	% change 31 Dec 2018 Actual to 31 Dec 2017
Statutory Earnings per share (Historical cost basis)	**29.8**	**14.9**	**100.0%**
Underlying Earnings per share (Replacement cost basis)	**15.1**	**N/A**	**N/A**

	Year ended 31 Dec 2018 Actual A$	Year ended 31 Dec 2017[2] Actual A$	% change 31 Dec 2018 Actual to 31 Dec 2017
Net tangible asset per share[3]	**1.21**	**0.95**	**20.0%**

Dividend	**2018**
2018 Final dividend – amount per security (fully franked)[1]	4.8 cents
Trading on ex dividend basis	27 March 2019
Record date for determining entitlement to final dividend	28 March 2019
Date dividend expected to be paid	15 April 2019

Brief explanation of basis of results

Profit from ordinary activities after tax and net profit for the period are prepared in accordance with the Corporations Act 2001 and Australian Accounting Standards. In the 2018 financial year, this included a number of significant one-off items, including a deferred tax benefit in connection with the formation of a new tax consolidated group. See the Director's Report in the 2018 Financial Report for further detail in respect of this amount.

Viva Energy reports its "Underlying" performance on a "Replacement Cost" (**RC**) basis. RC is a non-IFRS measure under which the cost of goods sold is calculated on the basis of theoretical new purchases of inventory instead of the historical cost of inventory. As a result, it removes the effect of timing differences and management believes it enables users of the financial information to more clearly observe the operating performance of the business independently of the impact of movements in the oil price. Underlying earnings per share is prepared on the basis of Underlying profit.

Figures and comparisons in respect of the forecasts and disclosure in the Prospectus[4] are also presented above to provide a comparison to the disclosure in that document.

As the Company was listed on the Australian Securities Exchange for the first time on 13 July 2018 (the **Listing**), no interim dividend was paid in the 2018 year. The final dividend referenced above is the first dividend paid by the Company. The final dividend is fully franked. There is no dividend or distribution re-investment plan currently in operation.

This information should be read in conjunction with the 2018 Financial Report of Viva Energy Group Limited (**2018 Financial Report**) and associated ASX market releases made during the period. The 2018 Financial Report includes additional Appendix 4E disclosure requirements and commentary on the results for the year ended 31 December 2018.

This report is based on the 2018 Financial Report which has been audited by PricewaterhouseCoopers (**PwC**). The Independent Auditor's Report provided by PwC is included in the 2018 Financial Report.

Lachlan Pfeiffer
Company Secretary
27 February 2019

Notes:

1. There is no foreign sourced income component distributed in relation to the dividend.
2. For the purposes of comparison, the same number of ordinary shares is used for the calculation for year-end 2017 as existed for year-end 2018. The Company was incorporated in June 2018 and the Group was subject to a restructure and was listed on the ASX in July 2018. As such, this does not reflect actual share capital as at 31 December 2017.
3. Net tangible asset per share is derived by dividing net tangible assets by the number of shares issued. Net tangible assets are net assets attributable to members less intangible assets. The number of ordinary shares used in the calculation of net tangible assets per share is 1,944,535,168 (for each of 31 December 2017 and 2018, as per note 2 above).
4. Refers to the Prospectus dated 20 June 2018 and released to the ASX on 13 July 2018 (**Prospectus**)

About this Preliminary Report

The Company was admitted to the Official List of ASX on 13 July 2018. In connection with its Listing, the Company completed a corporate restructure, which included the acquisition of Viva Energy Holding Pty Limited (former ultimate holding entity of the Viva Energy Group) and its controlled entities. The Company was incorporated on 7 June 2018 and, except for the corporate restructure to acquire Viva Energy Holding Pty Limited and its controlled entities, the Company did not trade separately prior to the Listing. Accordingly, the full year results of Viva Energy Group Limited presented here, and the previous period results presented for comparison, adopt and incorporate the results of Viva Energy Holding Pty Limited and its controlled entities prior to the Listing.

Viva Energy Group Limited and controlled entities

Financial report for the year ended 31 December 2018

ACN: 626 661 032
ABN: 74 626 661 032

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Directors' report

The Directors present their report, together with the Financial Report of Viva Energy Group Limited (the 'Company') and the entities it controlled (collectively, the 'Group'), for the financial year ended 31 December 2018. The Company was admitted to the Official List of the Australian Securities Exchange (**ASX**) on 13 July 2018 (**Listing**). In connection with its Listing, the Company completed a corporate restructure, which included the acquisition of Viva Energy Holding Pty Limited ('**VEH**') and its controlled entities. Unless otherwise stated, the information presented in this Directors' Report covers the period 1 January 2018 to 31 December 2018.

This Directors' Report has been prepared in accordance with the requirements of the Corporations Act 2001.

A reference to Viva Energy, we, us or our is a reference to the Group or the Company, as the case may be.

Principal activities

During the year, the principal activities of the Group included the following:

- sales of fuel and specialty products through Retail and Commercial channels across Australia;
- management of a national supply, distribution and terminal network; and
- manufacturing activities at the Group's Geelong oil refinery.

Operating and financial review

Company History

Viva Energy has its origins dating back over 110 years when Shell Transport and Trading Company and the Royal Dutch Petroleum Company established the British Imperial Oil Company in Australia as a joint venture in 1907. Following this the business was operated by the Shell group as the Shell Australia downstream petroleum business for over 100 years. In 2014, a Vitol-led consortium, Vitol Investment Partnership, acquired the Shell Australia downstream business (excluding the aviation business) and the business was renamed Viva Energy. The aviation business was subsequently acquired and reintegrated in 2017. Viva Energy was admitted to the Official List of the ASX on 13 July 2018.

Company Overview

Viva Energy is one of Australia's leading integrated downstream petroleum companies. During 2018, Viva Energy supplied approximately 14 billion litres of petroleum products (close to a quarter of Australia's fuel needs). Viva Energy supplies those products to a national network of Retail Sites and directly to commercial customers, and has the sole right to use the Shell brand in connection with the sale of automotive fuels in Australia. The company also operates a nationwide fuel supply chain, including a strategically located refinery in Victoria, and an extensive import, storage and distribution infrastructure network, including a presence at over 50 airports and airfields. Viva Energy's procurement function leverages the extensive trading network and supply systems of Vitol, one of the world's largest independent energy commodity trading companies to facilitate the sourcing of most of its crude oil and finished products. Viva Energy also holds a number of strategic investments in complementary businesses, the largest of which is 38% of Viva Energy REIT (as at 31 December 2018), an ASX-listed company and property trust that owns service station property assets that it leases to Viva Energy and Liberty Oil.

Viva Energy operates across three business segments:

Retail, Fuels and Marketing

Retail: Viva Energy supplies and markets quality fuel products through a national network of Retail Sites. The majority of this network is Shell-branded, and over 700 of the sites are operated by Coles Express under the Coles Alliance. Viva Energy also supplies other retail operators and wholesalers.

Commercial: Viva Energy is a leading supplier of fuel, lubricants and specialty products to commercial customers in the aviation, marine, transport, resources, and construction and manufacturing industries, underpinned by long-standing customer relationships.

Refining

Viva Energy owns and operates a refinery in Geelong, Victoria, which converts imported and locally sourced crude oil into petroleum products including gasoline, diesel, jet fuel, aviation gasoline, gas, solvents, bitumen and other specialty products.

Directors' report (continued)

Operating and financial review (continued)

Supply, Corporate and Overheads

Viva Energy owns or has contracted access to a national infrastructure network comprising import terminals, storage tanks, depots and pipelines positioned across metropolitan and regional Australia in all states, and also uses three refuelling barges in Sydney and Melbourne. Viva Energy also contracts with a number of transport companies, providing for the efficient distribution of its products to market.

Viva Energy's Strategy

Viva Energy seeks to deliver strong cash generation and attractive and sustainable shareholder returns by growing the markets in which we operate and improving operational efficiency. Viva Energy's strategy is to build sustainable growth in Retail, Fuels and Marketing, improve cost performance in Supply, Corporate and Overheads and manage volatility in Refining. These objectives are balanced with a focus on prudent capital management including required capital investment to support asset integrity of retail, supply and refining infrastructure and investment in selected growth projects that further Viva Energy's strategic position and deliver appropriate returns.

In the short to medium term, management will be focused on the following key pillars to deliver the strategic objectives outlined above.

Safe and Reliable Operations: We believe every incident is preventable and are committed to pursuing the goal of no harm to people and protecting the environment. We call this 'Goal Zero'. To achieve this we manage safety in a systematic way and we also believe that providing a safe workplace and ensuring safe outcomes is an ethical responsibility. Our people at all levels of the organisation are the solution to any challenge and hold the resilience that our safety systems need to effectively function. Viva Energy's principal ambition is to deliver safe and reliable operations, which can only be achieved through effective management of both personal and process safety matters, as well as focused asset integrity management and proactive health and wellness initiatives.

Grow the Retail Alliance: In February 2019 Viva Energy announced certain amendments to the Alliance agreement which means that Viva Energy will be responsible for the pricing and marketing of retail fuel at over 700 Alliance sites from March 2019 onwards. Viva Energy intends to grow volume through the Alliance network to 70 million litres per week and then to over 75 million litres per week as marketing and pricing programs mature. This growth is expected to deliver both improved volume and aggregate margin in the retail sub-segment.

Extending the Retail Site network: Viva Energy continues to fill network gaps through the addition of new sites, as well as through acquisitions into areas in which Viva Energy has limited presence. Historical examples of this include the acquisitions of Liberty and Westside, which opened up the potential of growth into rural and regional areas. The Company will continue to pursue similar opportunities in order to grow its retail network.

Growing fuel margin: There is scope to generate margin improvements through the increase of market share by delivering an improved value proposition to customers through loyalty offers, increased product range, and through operating under a premium brand. We will continue to roll out Shell V-Power Diesel to more sites in 2019, to enable customers the choice between a standard and premium diesel offering. Further services may be offered to customers as technology advances, which could include electric vehicle charging, replenishing hydrogen fuel cells, and compressed natural gas or liquefied natural gas refuelling services.

Growing convenience and non-fuel earnings: Viva Energy's partnership with Coles continues to provide it with a strong convenience customer offering, which continues to grow through the increased presence and take-up of 'Click and Collect' and trialling fresh product offering. Coles Express aims to roll-out its food-to-go offer to over 500 stores by the end of June 2019. In addition to the Alliance, Viva Energy continues to develop its own convenience offering capabilities which can be deployed in locations where the Coles Alliance offer may not be suitable.

Deepen Commercial markets: Viva Energy's infrastructure, terminals, refinery and other assets, allows it to attract commercial customers from a range of industries and locations around Australia. The recent acquisitions of Shell Aviation and the Liberty business continue to provide platforms to gain further growth in the commercial segment. Commercial markets continue to be competitive and Viva Energy is focussing on de-commoditising commercial markets and expanding our service offering to deepen customer relationships and provide value alongside commercial fuel and specialty products.

Directors' report (continued)

Operating and financial review (continued)

Improving Refining potential: In addition to regular scheduled turnarounds, a key focus for the Company is to increase capacity and reliability of the Geelong Refinery through ongoing modernisation programs as well as several capital projects – such as:

- the recently completed additional crude storage designed to reduce crude costs;
- additional refined product storage to improve processing efficiency;
- increased utilisation of the pipeline system servicing Melbourne to grow sales into Victoria;
- a bitumen export pipeline to grow markets and utilise surplus production capacity; and
- a range of other projects to de-bottleneck processing and unleash capacity.

Driven by People: We operate with the philosophy that our business is driven by people and we place priority on investing in our people through a range of leadership development programs, talent management and an open and transparent workplace with a focus on agile ways of working.

2018 Business Performance Summary

2018 was a significant year for Viva Energy with the Company listing on the ASX, and subsequently facing some unexpectedly challenging trading conditions during the second half of the year.

Personal safety performance declined over prior years, with a higher frequency of personal injuries and an increase in the number of high potential near-miss incidents. Process safety incidents, however, were comparable with prior years. There was one contractor fatality when a third party vehicle crossed into the path of our contract driver in northern Queensland. The implementation of enhanced safety programs during the second half contributed to an improved performance, with Geelong refinery experiencing more than 4 months without a recordable injury. These programs continue into 2019, and overall safety performance remains very strong relative to comparable companies.

Group financial performance was particularly impacted by volatile and weaker refining margins during the latter part of the second half of the year, together with a number of external events which adversely affected Geelong refinery production. Fuel sales also slowed on weaker market conditions impacted by rising oil prices, and lower than expected sales through the Alliance network. However, growth in other retail channels and in our commercial businesses largely offset these declines, with the Company finishing broadly in line with its Prospectus[1] forecast for total fuel volumes for the year ended 31 December 2018 (FY2018). Non-refining segments collectively finished ahead of the Prospectus forecasts for Underlying EBITDA (RC) by approximately $16 million, and for the full year we reported Group Underlying EBITDA (RC) of $528.9 million compared with the Prospectus forecast of $605.1 million for the same period.

The business has delivered well on a number of strategic initiatives which are aimed at delivering future growth.

Retail, Fuels and Marketing

The Company continued to expand the retail network by 90 sites since 31 March 2018 through the construction and development of new sites, and securing new branded supply contracts with independent operators. The Company completed the acquisition of a 50% interest in the Westside Petroleum business. On 27 February 2019 the Company announced the acquisition of the remaining 50% interest in Liberty Oil's wholesale business and the establishment of a new retail joint venture, Liberty Oil Convenience of which it will own 50%. This business is aimed at further growing the Liberty and Shell branded retail network through a program of new developments and site acquisitions, predominantly in regional markets.

Early in 2019 the Company extended and revised the terms of the Alliance agreement through to 2029. Under this revised agreement Viva Energy will assume full responsibility for the provision of the fuel offering, including retail fuel pricing and marketing across the Alliance network from early March 2019. This will allow Viva Energy to provide a more consistent fuel offer across the Shell branded network, improve competitiveness, and better optimise its extensive nationwide supply chain and refining business. Coles Express will continue to operate the stores and provide a leading convenience offer under the Coles Express brand. The convenience market continues to grow and offers revenue and income growth opportunities through a combination of traditional convenience offerings and new opportunities. These include 'food to go' and 'click and collect' which leverage Viva Energy's high quality retail service station network.

[1] *Being the Prospectus lodged with ASIC by Viva Energy Group Limited on 20 June 2018 (**Prospectus**).*

Directors' report (continued)

Operating and financial review (continued)

During 2018 a significant number of our commercial sales contracts were successfully re-negotiated and extended, with a number of new contracts also secured. The Aviation business and on-airport refuelling offer was rebranded to the Viva Energy brand which greatly increases the visibility of the Viva Energy brand across more than 50 airports around the country, and reinforces the Company's operational and service capability in high-touch commercial markets. The commercial markets remain highly competitive, so it is pleasing that the Company delivered on its Prospectus forecast for the commercial business and held key customers in all sectors.

Refining

The major maintenance turnaround of the secondary distillation unit at Geelong was safely completed along with other projects which provide additional crude processing capability which support the refinery reaching its crude intake potential. The site continues to focus on addressing rising energy costs through energy efficiency programs and creative procurement strategies such as the Power Purchase Agreement with Acciona who own and run Mt Gellibrand, one of Victoria's newest and largest wind farms. This will support around one third of Geelong Refinery's annual electricity needs. The new crude tank commissioned in late 2017 has helped Geelong reduce crude costs through lower demurrage on crude imports, and the ability to take a wider range of crudes through enhanced blending capacity. The site also successfully introduced dynamic under keel management programs and trialled a crude lightering initiative which allows larger cargos to be procured.

Supply, Corporate and Overheads

The commissioning of new Jet storage in Cairns, new bitumen import capability in Townsville, and conversion of the prior Shell refinery site in Sydney to a large scale fuel important terminal were all delivered and will greatly improve our supply capability in these regions. Projects to construct additional Jet storage in Victoria, Petrol storage at Geelong Refinery, and Diesel storage at Esperance and the Goldfields are all underway to support market growth and supply chain efficiency, and are expected to be commissioned during 2019. The Company also successfully completed the transition from the legacy enterprise SAP platform to a modern Oracle JDE platform which will provide capability to automate tasks, improve operating efficiencies, introduce new customer offers, and more generally improve both customer and employee experiences.

The listing on the ASX and consequent election to form a new tax consolidated group resulted in an increase in the tax base of group assets based on the amount subscribed by investors under the Initial Public Offering (IPO). This increase will provide additional tax depreciation deductions to the Group in future years and was the primary driver of a one-off deferred tax benefit of $358.4 million to be recognised during 2018. Notwithstanding challenging trading conditions during 2018, Viva Energy continued to be a significant contributor to Federal and State taxes in Australia. Our total tax contribution by way of taxes, duties and excise during the year was $5.7 billion which included current income tax expense of $78.4 million. Further detail about our overall tax position will be included in our annual Taxes Paid Report for 2018, which we will publish along with our Annual Report in March 2019.

Viva Energy Consolidated Results for the Full Year ended 31 December 2018

The Group Net Profit After Tax (**NPAT**) on a historical cost basis (**HC**) for FY2018 was $579.6 million (**M**) compared with a Prospectus forecast for the same period of $463.1M. After adjusting for significant one-off items, net inventory gain/(loss), and the one-off tax benefit from tax consolidation, Underlying NPAT on a replacement cost basis (**RC**) for the period was $293.0M compared with a Prospectus forecast for the same period of $324.1M. A reconciliation from Statutory Profit After Tax (HC) to Underlying NPAT (RC) is summarised in the table below.

Reconciliation of Statutory Profit After Tax to Underlying NPAT (RC)	(A$M)
Statutory Profit After Tax	**579.6**
Add: Significant one-off items net of tax	6.3
Add: Net inventory loss net of tax	65.5
Less: One-off deferred tax benefits including tax consolidation	(358.4)
Underlying NPAT (RC)	**293.0**

Directors' report (continued)

Operating and financial review (continued)

Historical cost is calculated in accordance with IFRS and shows the cost of goods sold at the actual prices paid by the business using a first in, first out ('FIFO') accounting methodology. As such, HC accounting includes gains and losses resulting from timing differences between purchases and sales of inventory and the rise and fall of oil and product prices during that time. Gains and losses arising from the rise and fall of oil and product prices are typically offset by a change in working capital because of the higher or lower cost to replenish inventory. Replacement cost is a non-IFRS measure under which the cost of goods sold is calculated on the basis of theoretical new purchases of inventory instead of the historical cost of inventory. As a result, it removes the effect of timing differences to enable users of the financial information to more consistently assess the underlying performance of the business.

This represented basic earnings per share ('EPS') on a replacement cost basis of 15.1 cents.

Comparative information

The comparative financial information contained in the summary statement of profit and loss and the summary statement of cash flows represents the pro-forma financial information for the year ended 31 December 2017 for Viva Energy Holding Pty Ltd as disclosed in the Prospectus (FY2017 Pro Forma). The Company considers it appropriate to complete the operating and financial review of these summary financial statements with reference to the pro-forma financial information for VEH for the year ended 31 December 2017 instead of the actual historical financial information for the same period as the pro-forma financial information which was disclosed in the Prospectus includes pro-forma adjustments that present the financial information in a manner that is consistent with the structure and nature of the Group post IPO.

In accordance with relevant regulatory requirements the Financial Report includes comparative information based on actual financial information for the year ended 31 December 2017.

Directors' report (continued)

Operating and financial review (continued)

Summary Statement of Profit and Loss

	(A$M)	FY2018 Actual	FY2017 Pro Forma	Difference
	Revenue	16,395.1	15,724.3	670.8
	Cost of goods sold (RC)	(14,750.1)	(13,904.8)	(845.3)
	Gross Profit (RC)	**1,645.0**	**1,819.5**	**(174.5)**
	Retail, Fuels & Marketing			
	Retail	*720.3*	*738.0*	*(17.7)*
	Commercial	*584.1*	*561.6*	*22.5*
	Refining	*301.5*	*483.3*	*(181.8)*
	Supply, Corporate and Overheads	*39.1*	*36.6*	*2.5*
1.	**Total Underlying EBITDA (RC)**	**528.9**	**634.3**	**(105.4)**
	Retail, Fuels & Marketing			
	Retail	*608.8*	*607.3*	*1.5*
	Commercial	*323.8*	*311.5*	*12.3*
	Refining	*124.5*	*276.1*	*(151.6)*
	Supply, Corporate and Overheads	*(528.2)*	*(560.6)*	*32.4*
	Lease straight-lining	(25.3)	(28.9)	3.6
	Share of profit from associates	63.5	65.4	(1.9)
	Net gain/(loss) on other disposal of PP&E	10.2	15.6	(5.4)
	Revaluation gain/(loss) on FX and oil derivatives	1.9	(24.6)	26.5
	Depreciation and amortisation	(129.7)	(111.5)	(18.2)
	Profit before interest and tax (HC)	**355.9**	**541.6**	**(185.7)**
2.	Less: Net inventory (gain)/loss	93.6	8.7	(84.9)
	Profit before interest and tax (RC)	**449.5**	**550.3**	**(100.8)**
3.	Net finance costs	(39.2)	(28.9)	(10.3)
	Profit before tax (HC)	**316.7**	**512.7**	**(196.0)**
4.	Income tax expense	(89.2)	(157.8)	68.6
	Underlying Net Profit After Tax (HC)	**227.5**	**354.9**	**(127.4)**
	Less: Net inventory (gain)/loss net of tax	65.5	6.1	59.4
5.	**Underlying Net Profit After Tax (RC)**	**293.0**	**361.0**	**(68.0)**
6.	Significant one-off items net of tax	(6.3)	-	(6.3)
4.	One-off deferred tax benefit including tax consolidation	358.4	-	358.4
	Net Profit After Tax (HC)	**579.6**	**354.9**	**224.7**
	Net Profit After Tax (RC)	**645.1**	**361.0**	**284.1**

Directors' report (continued)

Operating and financial review (continued)

Summary Statement of Profit and Loss Analysis

1. Underlying EBITDA (RC)

	(A$M)	FY2018 Actual	FY2017 Pro Forma	Difference
a.	Retail, Fuels & Marketing			
a(i).	Retail	608.8	607.3	1.5
a(ii).	Commercial	323.8	311.5	12.3
b.	Refining	124.5	276.1	(151.6)
c.	Supply, Corporate and Overheads	(528.2)	(560.6)	32.4
	Total Underlying EBITDA (RC)	**528.9**	**634.3**	**(105.4)**

a(i). Retail

Retail consists of earnings from a national network of over 1,200 retail fuel and convenience sites comprising sites operated through various channels, including sites operated under a long term alliance (the **Alliance**) with Eureka Operations Pty Ltd (**Coles Express**), sites operated by other retail commission agents, un-manned truck stops operated by Viva Energy, and sites operated by independent dealer owners. Retail also includes fuel supply to Liberty Oil Holdings Pty Ltd (**Liberty Oil**) and Westside Petroleum Pty Ltd (**Westside**) as well as supply to other retail operators and wholesalers. The Group holds a 50% equity interest in Westside and Liberty Oil as at 31 December 2018.

The FY2018 performance was impacted by weaker than expected Alliance volumes, particularly in the second half driven by rising oil prices impacting industry demand and Alliance retail pricing. Alliance volume declines experienced throughout the year were largely offset by volume growth in other channels.

Retail achieved Underlying EBITDA (RC) of $608.8M slightly above FY2017 Pro Forma and behind the Prospectus forecast for FY2018 primarily driven by weakness in Alliance volumes.

Retail network expansion continued through Viva Energy controlled, Liberty, and Westside sites.

a(ii). Commercial

Commercial consists of the supply of fuel, lubricants and specialty products to commercial customers in the aviation, marine, transport, resources and construction and manufacturing industries.

Commercial achieved Underlying EBITDA (RC) of $323.8M finishing ahead of both FY2017 Pro Forma and the Prospectus forecast for FY2018. A number of large contracts were re-signed in the second half.

b. Refining

Refining relates to the earnings from the refinery located in Geelong, Victoria (**The Geelong Refinery**) which is owned and operated by the Group and converts imported and locally sourced crude oil into petroleum products including gasoline, diesel, jet fuel, aviation gasoline, gas, solvents, bitumen and other specialty products.

Directors' report (continued)

Operating and financial review (continued)

Summary Statement of Profit and Loss Analysis

1. Underlying EBITDA (RC) (continued)

b. Refining (continued)

Refining delivered an EBITDA of $124.5M, lower than FY2017 Pro Forma and the Prospectus forecast for FY2018, primarily due to lower regional refining margins and below plan operational availability.

The Geelong Refining margins dropped to an average of US$7.4/BBL in 2018 against an average of US$10.2/BBL in 2017. Weakness in regional gasoline margins was the primary driver of lower margins. Gasoline margins reached historic lows towards the end of 2018, due to additional supply and processing of light crudes from the USA, weak regional demand, additional exports from China and additional production from regional refineries that have upgraded their production of light products in advance of the IMO2020 Fuel Oil specification change.

Operational availability of 88.4% adversely impacted product yields and throughput levels (2017 operational availability was 93.7%). Significant external events that contributed to below plan operational availability included the unplanned outage of the Residue Cat Cracking unit in the first quarter following an abnormal weather event, a total site power outage in August due to a lightning strike and constraints on Geelong production due to issues at a 3rd party polypropylene plant (which uses feedstock from the refinery).

In the first half of FY2018 the Group completed the planned turnaround of the secondary distillation unit number 3. This included an upgrade of the unit furnace, delivering benefits on process safety, production, energy efficiency and maintenance costs.

Despite these availability challenges and lower margins, total throughput of 40.1 MBBLs was only 1.7% below 2017 throughput of 40.8 MBBLs.

Cost discipline and focus on driving efficiencies resulted in manufacturing costs below 2017 while energy costs increased on the back of higher electricity and natural gas prices. To manage exposure to energy prices, Viva Energy has moved from being a retail natural gas buyer to a wholesale gas market participant and entered into a Power purchasing agreement with Acciona's Mt Gellibrand Wind Farm in January 2019 to provide about one third of the Refinery's annual electricity needs.

c. Supply, Corporate and Overheads

Supply, Corporate and Overheads consists of Viva Energy's integrated supply chain of terminals, facilities, depots, pipelines and distribution assets located across Australia, property including rent for terminals and retail sites and maintenance costs as well as all head office costs.

The segment ended the year ahead with an Underlying EBITDA ahead of both the FY2017 Pro Forma and the Prospectus forecast for FY2018. Various significant one-off savings were achieved including head office and insurance cost savings and lower than expected property and maintenance costs.

Directors' report (continued)

Operating and financial review (continued)

Summary Statement of Profit and Loss Analysis	
2. Net inventory gain/(loss)	Net inventory gain/(loss) relates to the effect of movements in oil price and foreign exchange on inventory recorded at historical cost using the First In, First Out (FIFO) principle of accounting. From December 2017 to December 2018 average benchmark crude and finished product prices decreased by an average of A$5.3/BBL falling further into 31 December 2018. A net inventory loss of $93.6M was recorded for the full year compared with a net inventory loss of $8.7M for the FY2017 Pro Forma year. In the Prospectus, no movement in benchmark crude and finished product prices was forecast such that no forecast net inventory gain/(loss) was included in the Prospectus.
3. Net finance costs	For the year ended 31 December 2018, net finance costs consisted of interest income, interest expense on borrowings, fees associated with trade finance instruments, finance costs associated with finance leases, amortised financing transaction costs and the unwind of discounting on balance sheet provisions. Finance costs increased in FY2018 above both FY2017 Pro Forma and Prospectus as a result of higher daily average borrowing levels during the period relative to the prior year and unwinding of discount on provisions.
4. Income tax expense and one-off deferred tax benefit	Viva Energy is subject to income tax expense on the basis of historical cost earnings rather than replacement cost earnings, i.e. NPAT (HC) rather than NPAT (RC). As a result, the movement in income tax expense from FY2017 Pro Forma and Prospectus forecast for FY2018 is driven by changes in Profit before tax (HC) and certain other one-off items outlined below. One-off deferred tax benefits of $358.4M were recorded primarily as a result of the formation of a new tax consolidated group. The listing on the ASX and consequent election to form a new tax consolidated group resulted in an increase in the tax base of group assets based on the amount subscribed by investors under the IPO. This increase will provide additional tax depreciation deductions to the Group in future years and required the recognition of a one-off deferred tax benefit of $345.5M during FY2018. The Prospectus forecast for FY2018 included an expected deferred tax benefit arising from tax consolidation of $226.1M. The higher than forecast tax benefit recorded due to entry into the tax consolidations regime was based on further work conducted since the IPO that resulted in higher estimated valuations of assets in the business on the IPO and tax consolidation date. The effective tax rate excluding the one-off deferred tax benefit was 28.1%. This varies from the standard corporate tax rate of 30% due to $6.0M of adjustments made to prior period tax provisions and liabilities based on adjustment of the provisions and liabilities during FY2018.
5. Underlying Net Profit After Tax (RC)	The Underlying Net Profit After Tax (RC) of $293.0M is lower than FY2017 primarily due to the decrease in refining earnings. The final result exceeds the previous guidance update primarily due to the fair value adjustment of properties with respect to Viva Energy REIT recorded in share of profit of associates of $16.6M, gain on disposal of PP&E of $10.4M and the impact on changes in FX and oil derivatives of $6.4M.
6. Significant one-off items	Significant one-off items during the period included $20.7M in recoveries of capital expenditure incurred in relation to upgrading the Shell Brand and visual identity of retail service stations. This is offset by management fees of $15.3M paid up until the IPO, $2.9M of stamp duty incurred for the IPO, as well as transaction and restructuring costs.

Directors' report (continued)

Operating and financial review (continued)

Summary Balance Sheet

	(A$M)	FY2018 Actual	FY2017 Actual	Difference
1.	Working capital	268.0	306.0	(38.0)
2.	Property, plant and equipment	1,471.3	1,408.3	63.0
	Intangible assets	432.5	384.7	47.8
3.	Investment in associates	664.9	628.6	36.3
4.	Net debt	0.2	(74.6)	74.8
	Finance lease liability	(50.8)	(50.6)	(0.2)
5.	Long term provisions, other assets and liabilities	(143.6)	(141.5)	(2.1)
6.	Net deferred tax asset/(liability)	136.6	(226.1)	362.7
7.	**Total equity**	**2,779.1**	**2,234.8**	**544.3**

Summary Balance Sheet Analysis

1. Working capital

Working capital decreased primarily as a result of the overall net effect of a decrease in average benchmark crude and refined product prices of A$5.3/BBL between December 2017 and December 2018.

2. Property, plant and equipment (PP&E)

Property, plant and equipment relates to freehold terminal property, leasehold retail and terminal improvements, plant and infrastructure such as tanks and pipelines held at terminals, airports and retail sites and the Geelong Refinery land and equipment.

Property, plant and equipment increased during the year as a result of capital expenditure of $241.3M offset by depreciation of $114.7M, transfers of $50.9M to intangible assets relating to the JDE ERP system and $12.7M of disposals. A breakdown of capital expenditure by segment is outlined below.

	(A$M)	FY2018 Actual	FY2017 Pro Forma	Difference
a.	Retail, Fuels & Marketing	45.9	76.0	(30.1)
b.	Refining	84.5	52.8	31.7
c.	Supply, Corporate and Overheads	110.9	104.8	6.1
		241.3	**233.6**	**7.7**

a. Retail, Fuels & Marketing

Retail, Fuels and Marketing capital expenditure is lower than both FY2017 Pro Forma and the Prospectus forecast for FY2018 predominantly due to progress of the tank replacement program and a lower number of retail site developments completed compared with the prior period.

b. Refining

Refining capital expenditure in 2018 at $84.5M was higher than both FY2017 Pro Forma and the Prospectus forecast for FY2018, primarily due to higher than expected costs relating to the turnaround on the secondary crude distillation unit and the associated upgrade of the unit furnace. The total spend included significant growth projects such as the Bitumen Import/Export facility project to enable additional Bitumen production and a new 25ML Gasoline tank to enable more efficient export logistics.

Directors' report (continued)

Operating and financial review (continued)

Summary Balance Sheet Analysis		
2. Property, plant and equipment (continued)	**c. Supply, Corporate and Overheads**	Supply, Corporate and Overheads capital expenditure is higher than the FY2017 Pro Forma and the Prospectus forecast for FY2018 as a result of higher than expected capital expenditure associated with the completion and capitalisation of the replacement Enterprise Resource Planning (**ERP**) system.
3. Investment in Associates	This includes Viva Energy's investment in the Viva Energy REIT, Liberty Oil and Westside Petroleum (the latter being acquired during FY2018). Share of profit/(loss) from associates is recorded against this investment offset by distributions or dividends received. Investment in associates increased compared with FY2017 primarily due to the acquisition of a 50% equity stake in Westside Petroleum for $14.9M and the share of profit from Viva Energy REIT associated with fair value gains on investment properties that are not part of distributions received.	
4. Net debt	Net debt relates to Viva Energy's Revolving Credit Facility (RCF) which is used as a working capital facility to fund fluctuations in working capital, net of cash in bank. Viva Energy does not hold any long term structural debt. Net debt drawn for the full year was close to nil driven primarily by the change in working capital and the management of stock levels throughout the second half of the year.	
5. Long term provisions, other assets and liabilities	This predominantly relates to: (i) long term provisions associated with asset retirement obligations required by accounting standards; (ii) long term environmental provisions; and (iii) provisions associated with lease straight lining on lease obligations with Viva Energy REIT. Long term provisions, other assets and liabilities have remained relatively stable between FY2017 and FY2018.	
6. Net deferred tax asset/(liability)	Net deferred tax liabilities relate to the tax effected difference between the carrying value of assets and liabilities recorded under accounting and those recorded for tax purposes. One-off deferred tax benefits of $358.4M were recorded in profit and loss primarily as a result of the formation of a new tax consolidated group. The remaining increase in net deferred tax assets of $4.3M was due to normal movements in deferred tax due to origination or reversal of temporary differences between taxable income and profit during the year, along with movements posted directly to equity or other comprehensive income. This resulted in the net deferred tax liability of $226.1M at 31 December 2017 being replaced by a net deferred tax asset of $136.6M at 31 December 2018.	
7. Total Equity	Total equity increased by the NPAT (HC) of $579.6M for the period, $26.0M associated with the IPO Reserve offset by $2.7M of other comprehensive income and a capital return and dividend of $58.6M completed pre-IPO to return capital relating to certain surplus properties to the then sole shareholder of the Group, Viva Energy B.V. As a result of the IPO transaction the share capital was adjusted to reflect the common control transaction that occurred.	

Directors' report (continued)

Operating and financial review (continued)

Summary Statement of Cash Flows

	(A$M)	FY2018 Actual	FY2017 Pro Forma	Difference
	Underlying EBITDA (RC)	**528.9**	**634.3**	(105.4)
	Net inventory gain/(loss)	(93.6)	(8.7)	(84.9)
	Lease straight-lining	(25.3)	(28.9)	3.6
	Share of profit of associates	63.5	65.4	(1.9)
	Net gain/(loss) on disposal of PP&E	10.2	15.6	(5.4)
	Revaluation gain/(loss) on FX and oil derivatives	1.9	(24.6)	26.5
	Profit before interest, tax, depreciation and amortisation (HC) before significant items	**485.6**	**653.1**	**(167.5)**
	Total Underlying EBITDA (RC)			
1.	*Decrease/(increase) in inventories*	*(46.1)*		
2.	*Decrease/(increase) in receivables*	*(83.5)*		
3.	*Increase/(decrease) in payables*	*299.6*		
4.	*Increase/(decrease) in provisions*	*(24.4)*		
	Changes in working capital	145.6	(120.7)	266.3
5.	Non-cash items in profit before interest, tax, depreciation and amortisation	(95.5)	(86.6)	(8.9)
	Operating free cash flow before capital expenditure	**535.7**	**445.8**	**89.9**
	Capital expenditure	(241.3)	(233.6)	(7.7)
6.	Proceeds from sale of PP&E and intangibles	17.5	26.7	(9.2)
	Dividends received from associates	37.5	32.8	4.7
	Net free cash flow before financing, tax and dividends	**349.4**	**271.7**	**77.7**
7.	Significant one-off items	35.1		
	Finance costs	(28.0)		
8.	Income tax instalments	(280.1)		
	Net cash flow before borrowings	**76.4**		
	Net drawings/(repayment) of borrowings	(132.5)		
	Net cash flow	**(56.1)**		
	Opening net debt	**(74.6)**		
	Amortisation of capitalised borrowing costs	(1.6)		
	Closing net debt	**0.2**		
	Change in net debt	**76.4**		

Directors' report (continued)

Operating and financial review (continued)

Summary Statement of Cash Flows Analysis	
1. Increase in inventories	Inventory increased as a result of an increase in stock levels from December 2017 to December 2018 after reducing from the peak at June 2018 offset by average benchmark crude and refined product prices declining by A$5.3/BBL between December 2017 and December 2018. The Prospectus assumed no movement in benchmark crude and refined product prices and stock levels in line with typical target levels.
2. Increase in receivables	Receivables increased as a result of growth in commercial volume which is typically sold to large commercial customers on payment terms of up to 30 days offset by a decrease in average benchmark crude and refined product prices of A$5.3/BBL between December 2017 and December 2018. The Prospectus assumed no movement in benchmark crude and refined product prices. The movement in receivables has been adjusted to account for significant items totalling $52.0M and $53.2M of the non-cash distribution of surplus land assets made in 1H2018 that were in receivables at the beginning of the period.
3. Increase in payables	Payables increased as a result of increased purchases on terms that align with commercial customer terms offset by a decline in benchmark crude and refined product prices of A$5.3/BBL between December 2017 and December 2018 as well as higher purchases in the months of December 2018 compared with December 2017. Viva Energy aims to manage volume growth in the commercial segment on a working capital neutral basis by matching purchasing basis with customer terms. The Prospectus assumed no movement in benchmark crude and refined product prices and stock levels in line with typical target levels.
4. Decrease in provisions	This relates to cash settled historical long term employee bonus schemes, payment of annual and long service leave entitlements, settlement of environmental provisions and change in lease straight lining provisions. This is consistent with Prospectus assumptions.
5. Non-cash items	Profit before interest, tax, depreciation and amortisation (HC) before significant items includes certain non-cash items not excluded through movements in working capital such as; share of profit of associates of $63.5M, net gain/(loss) on disposal of PP&E of $10.2M, unrealised gain on derivatives of $23.9M and offset by other minor items totalling $2.1M.
6. Proceeds from sale of PP&E and intangibles	This relates to the sale of two freehold sites that were formerly retail service stations and have since been closed and remediated.
7. Significant one-off items	In addition to the significant one-off items outlined in the Summary Statement of Profit and Loss Analysis on page 14, this item includes recoveries from Shell associated with the settlement of claims relating to previously incurred Clyde Terminal Conversion Project and other recoveries of $73.0M offset by pre-IPO management fee expenses of $15.3M, Investment in Westside Petroleum and related loans of $18.4M and other transaction related costs of $4.2M.
8. Income tax	Income tax payments included a $116.1M payment in respect of settlement of the tax expense for the year ended 31 December 2017, which was paid on 1 June 2018 along with lodgement of the tax return for the same period. A $117.0M payment was outlined in the Prospectus. When the final return was lodged, the final payment was $116.1M. That payment was made in addition to total monthly tax instalments of $164.0M for the year ended 31 December 2018 which took total payments for the year to $280.1M. Tax instalments made during the year were based on prior year assessments before accounting for the net inventory gain/(loss) and the impact of tax consolidation. As a result the Company expects a refund of $78.4M upon lodgement of the tax return for FY2018.

Directors' report (continued)

Operating and financial review (continued)

Business Risks

Viva Energy's Enterprise Risk Management (ERM) Framework and related risk management policies and procedures are designed to identify, assess, monitor and manage risk and where appropriate, keep relevant stakeholders informed of material changes to the Company's risk profile.

Viva Energy maintains a strategic risk register to identify and manage risks that could materially impact the achievement of its business strategy and financial performance. The Audit and Risk Committee, HSSEC Committee and the Board maintain oversight over the management of material business risks.

The material business risks that could adversely affect the achievement of Viva Energy's financial prospects are outlined below. They are not listed in any order of significance.

Risk	Description	Mitigation
Operational and Supply Chain Risks	Viva Energy relies on a complex supply chain, which can be negatively impacted by a range of events including extreme weather, accidents, breakdown or failure of infrastructure, and interruption of power supply. Disruption to any part of Viva Energy's supply chain could materially impact Viva Energy's operating and financial results. The Geelong Refinery may experience or be subject to mechanical failures, equipment shutdowns, major accidents and other events that disrupt operations. Any such event may have a material adverse impact on refining capacity and revenues.	Viva Energy manages operational risk through a comprehensive health, safety, security and environmental (HSSE) management system. The Geelong Refinery has a proactive monitoring, inspection and preventative maintenance program to manage the risk of HSSE incidents and unplanned plant outages. Supply risk is managed through the maintenance of minimum stock levels, due diligence assessments on shipping and road transport providers and through alternative supply options. Viva Energy also maintains insurance coverage for major events and supply interruptions.
Compliance and Regulatory Risk	Viva Energy is subject to a wide range of legislative and regulatory obligations and operates a number of facilities under various permits, licences and approvals (***Regulatory Approvals***). A failure to comply with legislative requirements or the conditions of Regulatory Approvals may cause damage to Viva Energy's brand and reputation, could result in fines and penalties and/or loss of applicable Regulatory Approvals which would adversely affect Viva Energy's financial performance. Furthermore, changes in laws or the conditions of Regulatory Approvals could materially impact Viva Energy's operations and financial performance.	Viva Energy proactively manages these risks through: • a compliance program (incorporating the Viva Energy Code of Conduct, policies and procedures, staff compliance training and audits); • detailed operating procedures, standards, training, audit and assurance, to ensure operational sites comply with all applicable requirements; • monitoring existing regulatory requirements and proposed changes and engaging with regulatory bodies and lawmakers both directly and through industry bodies to ensure that it is aware of proposed changes and has an opportunity to participate in consultation regarding proposed changes in the law.

Directors' report (continued)

Operating and financial review (continued)

Business Risks (continued)

Risk	Description	Mitigation
Commodity Price Exposure	Viva Energy is exposed to the risk of price movements in global hydrocarbon pricing, particularly in respect of the refining margin earnt by the Geelong Refinery.	Viva Energy manages commodity price exposure through the active monitoring of commodity price exposure, hedging and the purchase or sale of swap contracts up to 36 months forward.
Health, Safety, Security & Environmental (HSSE) Risks	The processing, transportation and storage of crude oil and petroleum products, and the operation of the Geelong Refinery and fuel storage facilities, includes inherently hazardous and dangerous activities. A major incident could result in injury or fatality and/or damage to the environment. There is also a risk of smaller spills and leaks of petroleum and crude oil to the environment, giving rise to liabilities to Viva Energy for clean-up and remediation costs.	Viva Energy actively manages HSSE risks through its comprehensive HSSE control framework and management system. The HSSE management system is supported by a number of policies, procedures and standards designed to ensure that HSSE risks are either eliminated or reduced so far as reasonably practicable. A risk based audit and assurance process is in place which reviews facilities and critical activities against the HSSE management system and legislative requirements. HSSE performance is a key performance indicator that is actively measured and reported to the Board.
Key Strategic Relationships and Third Party Branding	Viva Energy has a number of key relationships in relation to its business and operations, including with Coles Express, Shell, Vitol and Viva Energy REIT. A material deterioration in the nature of Viva Energy's arrangements with these parties or a material decline in the performance of these parties or their reputation or brand has the potential to negatively impact the financial performance of Viva Energy.	Viva Energy manages these risks through its contractual rights, through assurance activities carried out in relation to the manner in which these parties undertake their business activities with Viva Energy, crisis management exercises and regular engagements with representatives of these parties.
Climate Change	Climate change risks include a decline in demand for Viva Energy's products due to regulatory or technical changes in response to climate change, increased operating costs arising from regulatory responses to reduce greenhouse gas emissions (such as a price on carbon) and physical impacts on our assets.	Viva Energy manages regulatory risks by monitoring potential regulatory changes and participating in consultation processes either directly or through industry associations. In regard to a potential fall in demand, Viva Energy actively monitors industry forecasts and technological developments and Viva Energy's longer term strategy involves diversifying its product offering by growing exposure to convenience retail to meet changing market demands.

Directors' report (continued)

Operating and financial review (continued)

Business Risks (continued)

Risk	Description	Mitigation
Liquidity and Financing	Viva Energy has substantial working capital requirements due to the need to purchase large shipments of crude oil and refined products. Viva Energy relies on banks and supply and trade financing arrangements to provide working capital funding. Adverse changes in Viva Energy's relations with providers of funding or in financial markets which reduce its access to, or increase the cost of, funding, could adversely impact Viva Energy's financial position.	Viva Energy manages liquidity risk via a framework that includes maintaining sufficient cash reserves, along with access to working capital funding sources via a syndicated financing facility, a range of trade finance facilities, actively monitoring of cash flow, management of accounts receivable and insurance coverage.
Refinery Margin Exposure	The Geelong Refining Margin ('GRM') is based on the difference between the value of the refined products that the Geelong Refinery produces and the cost of the crude oil and feedstock it consumes to do so. Refinery margins are affected by a range of factors including a decline in regional demand for refined products, increased refining capacity and international freight costs and exchange rate fluctuations. A low GRM can materially impact the earnings of the Geelong Refinery.	Exposure to refining margin risks are managed through inventory planning to optimize refining margin performance, programs to improve operational availability and reliability and limited hedging activity. Refining margin movements as a result of regional market forces are inherent in the refining business and the activities outlined above are not designed to completely eliminate this exposure.
Exchange Rate	Viva Energy purchases crude oil, feedstock and finished products in US dollars and sells its products in predominantly Australian dollars. Fluctuations in the AUD/USD exchange rate may negatively impact Viva Energy's earnings and cash flow.	Viva Energy operates a hedging program that is designed to manage the impact of exchange rate fluctuations.
Credit Risk	Credit risk is the risk that a customer or counterparty fails to meet its contractual payment obligations. Such a default could impact Viva Energy's revenue and cash flow.	Viva Energy manages credit risk by undertaking credit risk assessments on customers, establishing credit limits and managing exposure to individual entities.
Material Decline in Demand for Viva Energy's Products	A number of external factors, including a decline in economic activity, the entry of new competitors into the business segments in which Viva Energy operates, a change in government policies/regulation and changes in technology, have the potential to negatively impact demand for Viva Energy's products. If there is a significant decline in demand for Viva Energy's products, this could materially impact Viva Energy's financial performance.	Viva Energy manages its exposure to this risk by operating in a range of business segments and with a range of product offerings, through cost reduction initiatives to maintain competitiveness and through its exploration of opportunities associated with alternative fuels and technologies.

Directors' report (continued)

Operating and financial review (continued)

Business Risks (continued)

Risk	Description	Mitigation
Labour Costs and Industrial Disputes	Viva Energy's operations depend upon the availability and costs of labour and maintaining good relations with employees and labour unions. A major dispute with one or more unions representing Viva Energy's (or its major contractors') employees could disrupt operations at one or more Viva Energy facility and materially impact the financial performance of Viva Energy. Similarly, a material increase in the cost of labour could impact production costs and profit margin.	Viva Energy manages this risk through proactive management of its employees. It has in place employee agreements and conducts regular benchmarking to ensure that wages and other benefits offered to employees remain competitive. In circumstances where a risk of employee or third party industrial activity is heightened, Viva Energy develops contingency plans to mitigate potential impacts on the Company's operations.

GOVERNANCE

Directors

The Directors of the Company as at the date of this report are:

Robert Hill	Appointed 18 June 2018
Scott Wyatt	Appointed 7 June 2018
Dat Duong	Appointed 7 June 2018
Arnoud De Meyer	Appointed 18 June 2018
Hui Meng Kho	Appointed 18 June 2018
Jane McAloon	Appointed 18 June 2018
Sarah Ryan	Appointed 18 June 2018

Lachlan Pfeiffer was a director of the Company from 7 June 2018 to 18 June 2018.

Directors' report (continued)

Directors' Qualifications, Experience and Special Responsibilities

Robert Hill
LLB, BA, LLD(Hon), LLM, DPolSc(Hon)
Independent Non-Executive Director and Chairman

Term of office

Appointed to the Board on 18 June 2018. Formerly an Independent Non-Executive Director of Viva Energy Holding Pty Limited (5 February 2015 to 17 July 2018).

Skills and experience

The Hon. Robert Hill is a former barrister and solicitor who specialised in corporate and taxation law and who now consults in the area of international political risk. He has had extensive experience serving on boards and as chairman of public and private institutions, particularly in the environment and defence sectors.

Robert Hill was previously Australia's Minister for Defence, Minister for the Environment and Leader of the Government in the Senate during his time as a Senator for South Australia. He served as Australia's Ambassador and Permanent Representative to the United Nations in New York. Robert is a former Chancellor of the University of Adelaide. In 2012, he was made a Companion of the Order of Australia for services to government and the parliament.

Robert is currently Chairman of the Antarctic Science Foundation, Chairman of the NSW Biodiversity Conservation Trust, Chairman of Cooperative Research Centre for Low Carbon Living and Chairman of Re Group Pty Limited.

Board Committee memberships

- Chair of the Remuneration and Nomination Committee
- Member of the HSSEC Committee
- Member of the Investment Committee

Scott Wyatt
BCA
Chief Executive Officer and Executive Director

Term of office

Appointed as CEO on 13 August 2014. Appointed to the Board on 7 June 2018.

Skills and experience

Scott Wyatt has more than 30 years' experience in the oil and gas sector and has held various leadership roles within Viva Energy's downstream oil and gas business (formerly Shell) including strategy, marketing (consumer and commercial) and supply and distribution.

After a long career with Shell in New Zealand, Australia and Singapore, Scott relocated to Australia in 2006 as Distribution Manager (Australia and New Zealand) and in 2009 was appointed General Manager of Supply and Distribution Australia. In July 2013, he was appointed Vice President Downstream Australia, responsible for the downstream businesses in Australia. Scott was appointed as CEO in August 2014.

Scott is currently a Non-Executive Director of Viva Energy REIT (since 2016).

Board Committee memberships

- Member of the Investment Committee

Arnoud De Meyers
*MSc.E, MSc.BA, PhD Management, Hon Ph*d
Independent Non-Executive Director

Term of office

Appointed to the Board on 18 June 2018.

Skills and experience

Arnoud De Meyer is a former President of Singapore Management University and was previously a Professor in Management Studies at the University of Cambridge and Director of Judge Business School. Arnoud was also associated with INSEAD as a professor for 23 years, and was the founding Dean of INSEAD's Asia Campus in Singapore.

Arnoud currently serves on the board of Singapore Symphonia Company and he is an Independent Director of Dassault Systèmes (since 2005), listed on the Euronext Paris exchange. Arnoud previously served as an independent director for the Department for Business Enterprise and Regulatory Reform (UK) and the Singapore Economic Review Committee. He also served on the boards of Singapore International Chamber of Commerce and Temasek Management Services.

Board Committee memberships:

- Chair of the Investment Committee
- Member of the Remuneration and Nomination Committee

Jane McAloon
BEc(Hon), LLB, GDip CorpGov, FAICD
Independent Non-Executive Director

Term of office

Appointed to the Board on 18 June 2018.

Skills and experience

Jane McAloon has over 25 years of business, government and regulatory experience at senior executive and board levels across the energy, infrastructure and natural resources sectors.

Jane was an executive at BHP Billiton and AGL. Prior to this, she held positions in government in energy, rail and natural resources.

Jane is currently a Non-Executive Director of Healthscope Limited (since 2016), Energy Australia (since 2012) and Cogstate Limited (since 2017).

Board Committee memberships:

- Chair of the HSSEC Committee
- Member of the Audit and Risk Committee
- Member of the Investment Committee

Directors' report (continued)

Directors' Qualifications, Experience and Special Responsibilities (continued)

Sarah Ryan

PhD (Petroleum and Geophysics), BSc (Geophysics)(Hons 1), BSc (Geology), FTSE

Independent Non-Executive Director

Term of office

Appointed to the Board on 18 June 2018.

Skills and experience

Sarah Ryan has almost 30 years of international experience in the energy industry, ranging from technical and operational roles at a number of oil and gas companies, to a decade of experience as an equity analyst covering natural resources.

Sarah is a Fellow of the Australian Academy of Technological Sciences and Engineering (ATSE), a Fellow of the Australian Institute of Energy, a Member of the Australian Institute of Company Directors, a Member of Women Corporate Directors and a Member of Chief Executive Women. She serves as a member of the selection panel of the General Sir John Monash Foundation, Chair of the Advisory board of Unearthed Solutions, and is Deputy Chair of ATSE Energy Forum.

Sarah is currently a Non-Executive Director of Woodside Petroleum Limited (since 2012), Akastor ASA (since 2014), listed on the Oslo Stock Exchange and Kinetic Pty Ltd (since 2016). She is a former director of Central Petroleum Limited (from 2017 until 2018) and Aker Solutions (from 2010 to 2014).

Board Committee memberships:

- Chair of the Audit and Risk Committee;
- Member of the HSSEC Committee;
- Member of the Investment Committee.

Hui Meng Kho

BSc (Chemical Engineering) (Hon)

Non-Executive Director

Term of office

Appointed to the Board on 18 June 2018. Formerly a Non-Executive Director of Viva Energy Holding Pty Limited (23 June 2014 to 17 July 2018).

Skills and experience

Hui Meng Kho is the President and CEO of Vitol Asia Pte Ltd and a member of the Vitol Group Board of Directors. Hui Meng joined Vitol in 1987 and has been the head of Vitol Asia since 1999.

Prior to joining Vitol, Hui Meng was with Esso Singapore, involved in logistics, planning, trading and refinery operations.

Hui Meng is currently a director of Boustead Petroleum Sdn. Bhd. (formerly BP Malaysia) and on the Board of Trustees of Singapore Management University.

Hui Meng was conferred the title “Dato” by the Ruler of the Malaysian state of Pahang in 2004.

Board Committee memberships:

- Member of the Remuneration and Nomination Committee;
- Member of the Investment Committee.

Dat Duong

BBA, CFA

Non-Executive Director

Term of office

Appointed to the Board on 7 June 2018. Formerly a Non-Executive Director of Viva Energy Holding Pty Limited (1 January 2017 to 17 July 2018).

Skills and experience

Dat Duong is the Head of Investments for Vitol in Asia Pacific.

Dat joined Vitol in 2010, prior to which he was an Associate Partner at Leopard Capital, an investment fund focused on Asia’s frontier and emerging markets.

Dat has extensive international investment banking experience, including with Merrill Lynch in the Global Energy and Power Investment Banking Group in both Hong Kong and Canada, where he led multiple landmark downstream oil transactions.

Dat commenced his career at Esso Imperial Oil in Canada as a business analyst.

Board Committee memberships:

- Member of the Audit and Risk Committee;
- Member of the Investment Committee.

Directors' report (continued)

Company Secretary

Lachlan Pfeiffer is the Company Secretary of the Company, having commenced the position on 7 June 2018.

Prior to joining Viva Energy in October 2014, Lachlan worked as a corporate lawyer for Skadden, Arps, Slate, Meagher and Flom (UK) LLP, based in London for seven years. Lachlan started his career in Melbourne working for Norton Rose Fulbright (Australia).

Lachlan is a legal practitioner and holds a Bachelor of Commerce and a Bachelor of Laws. He is also a member of the Australian Institute of Company Directors.

Lachlan is also a Non-Independent Non-Executive Director of Viva Energy REIT.

Directors' Meetings

Details regarding Board and Board Committee meetings held in the period from 7 June 2018 (the date of incorporation of the Company) to 3 December 2018 and each Director's attendance at these meetings is set out below.

	Board		ARC		HSSEC		RNC		IC	
Director	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Robert Hill	6	6			2	2	2	2	2	2
Scott Wyatt	6	6							2	2
Dat Duong	6	6	3	3					2	2
Arnoud De Meyer	6	6					2	2	2	2
Hui Meng Kho	6	6					2	2	2	2
Jane McAloon	6	6	3	3	2	2			2	2
Sarah Ryan	6	6	3	3	2	2			2	2
Lachlan Pfeiffer	1	1								

***Held**: number of meetings held during the period in which the Director was eligible to attend*
***Attended**: number of meetings attended by the Director*

Directors have a standing invitation to attend meetings of Board Committees of which they are not members. All Directors receive copies of the agendas, minutes and papers of each Board Committee meeting, save to the extent they are subject to a relevant conflict.

Directors' report (continued)

Remuneration Report

Letter from the Remuneration and Nomination Committee Chair – Robert Hill

Dear Shareholder

2018 marked a significant milestone for Viva Energy with the Company listing on the ASX on 13 July 2018. On behalf of the Board, I present to you the Company's inaugural Remuneration Report.

The purpose of the executive remuneration framework is to facilitate the long-term sustainable growth of your company. This includes ensuring levels of remuneration are sufficient for the attraction and retention of suitably qualified individuals focused on Board priorities. The performance conditions and measurement time frames are consistent with the objective of long-term sustainable growth, and our performance targets are designed to be challenging but achievable. The payment vehicles and ownership requirements are designed for shareholder alignment, and the deferral and vesting periods for appropriate risk management aligned with the longer term nature of the company's capital investment.

This report describes the Group's director and executive remuneration frameworks, and describes how they contribute to the execution of our business strategy. This report also describes legacy remuneration arrangements in place under the previous ownership, and explains the Board's approach to ensuring continuity of management as the legacy arrangements expire.

Our 2018 performance was impacted by volatile and significantly weaker refining margins together with a number of external events adversely affecting Geelong refinery production. Softer fuel sales volumes from the Alliance network were largely offset by growth in other retail channels and in our Commercial business, whilst overall the Commercial and Supply, Corporate and Overhead segments were both ahead of the Prospectus forecasts. For the full year we reported Underlying EBITDA (RC) of $528.9 million compared with the Prospectus forecast of $605.1 million for the same period.

The Prospectus described the gateway before the Executive Leadership Team (**ELT**) could receive any payment under the 2018 STI plan was achievement of Underlying EBITDA (RC) of $605.1 million. Given that Underlying EBITDA (RC) was below this level, the ELT will not receive any payment under the Company's 2018 STI plan.

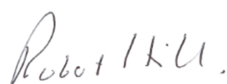
Notwithstanding this outcome, the ELT has delivered well on a number of strategic initiatives which are aimed at delivering future growth. The Company completed the acquisition of a 50% interest in the Westside Petroleum business, and together with that acquisition, the retail network was expanded by over 90 sites with the construction and development of new sites, and securing new contracts with independent operators. A significant number of commercial sales contracts were also re-negotiated and extended, and a number of new contracts secured from competitors.

The major maintenance turnaround of the secondary distillation unit at Geelong was safely completed, and together with other projects, this provides additional crude processing capability which supports the refinery reaching its nominal crude intake potential. The commissioning of new Jet storage in Cairns, new bitumen import capability in Townsville, and conversion of the Clyde refinery in Sydney to a large scale fuel import terminal were all delivered and will greatly improve our supply capability in these regions. Finally, the Company has also successfully completed the transition from the legacy ERP platform to a modern platform (Oracle JDE).

The Prospectus also described the current executive remuneration structure reflecting a mix of awards under a legacy long term incentive plan (Legacy LTI) in place prior to the Company's Listing, and the remuneration framework introduced for the Company's listing on the ASX.

The Legacy LTI arrangements put in place by the private company before Listing have significant value for the executives and, as such, will be effective in ensuring a continuity of management post-IPO. As the continuing tranches of the Legacy LTI vest or expire the Board will review executive remuneration arrangements to ensure an appropriate mix of remuneration elements to maintain management continuity and focus executives on the long term sustainable growth of your Company.

We welcome your feedback.



Robert Hill

Directors' report (continued)

Remuneration Report (continued)

1. Overview

Introduction

This Remuneration Report has been prepared in accordance with the Corporations Act 2001 and Corporations Regulations 2001. The content in this report has been audited by PricewaterhouseCoopers, the Company's external auditor.

The Company is required to prepare a remuneration report in respect of its Key Management Personnel (**KMP**), being those people that have responsibility and authority for planning, directing and controlling the activities of Viva Energy, either directly or indirectly. In 2018, the KMP were the Non-Executive Directors of the Company, the Chief Executive Officer (**CEO**) and the Chief Financial Officer (**CFO**).

In January 2019, after the end of the reporting period the subject of this Remuneration Report, Daniel Ridgway was appointed to a newly created role of Chief Operating Officer (**COO**). Given the Group wide accountabilities and responsibilities of this role, Daniel Ridgway will be a KMP in 2019 and his remuneration arrangements will be disclosed in the 2019 Remuneration Report.

The Company was incorporated on 7 June 2018 and it listed on the ASX on 13 July 2018. In connection with its Listing, the Company completed a corporate restructure that included the acquisition of VEH and its controlled entities. This report describes the Company's post Listing remuneration arrangements. However, to provide shareholders with a complete overview of each KMP's 2018 remuneration arrangements, remuneration received by KMP pre-Listing and the Legacy LTI arrangements that impacted KMP during 2018 is also disclosed.

Details of KMP

The following individuals were KMP of the Company in 2018[(1)].

Non –Executive Directors

Name	Title	Commencement as KMP[(2)]
Robert Hill	Chairman and Independent Non-Executive Director	18 June 2018
Arnoud De Meyer	Independent Non-Executive Director	18 June 2018
Dat Duong	Non-Executive Director	7 June 2018
Hui Meng Kho	Non-Executive Director	18 June 2018
Jane McAloon	Independent Non-Executive Director	18 June 2018
Sarah Ryan	Independent Non-Executive Director	18 June 2018

Executives

Name	Title	Commencement as KMP[(2)]
Scott Wyatt	Chief Executive Officer	7 June 2018
Jevan Bouzo	Chief Financial Officer	7 June 2018

(1) Lachlan Pfeiffer served as a Director of the Company from 7 June 2018 to 18 June 2018. This was a specific short term arrangement on incorporation of the Company and Mr Pfeiffer did not receive any remuneration in respect of his services as a Director of the Company. Mr Pfeiffer is not considered to be a KMP.

(2) The commencement date for Directors (other than the CEO) is the date of their appointment to the Board. The CEO and CFO commenced as KMP of the Company on its incorporation on 7 June 2018. The CEO and CFO also held those positions with the Viva Energy Group prior to Listing.

Directors' report (continued)

Remuneration Report (continued)

2. Remuneration Governance

2.1 Role of the Board

The Board, with the guidance of the Remuneration and Nomination Committee, is responsible for:

- approving the remuneration of the Non-Executive Directors and executive KMP;
- ensuring the Company's remuneration framework is aligned with the Company's purpose, values, strategic objectives and risk appetite;
- evaluating the performance of the CEO and other members of the ELT; and
- approving incentive plans and engaging external remuneration consultants as appropriate.

2.2 Role of the Remuneration and Nomination Committee

The Board has established a Remuneration and Nomination Committee to assist the Board in fulfilling its responsibilities for governance and oversight of remuneration related matters.

The Remuneration and Nomination Committee is comprised of three Non-Executive Directors, being Robert Hill (Chair), Hui Meng Kho and Arnoud De Meyer, the majority of whom are independent Directors.

The Remuneration and Nomination Committee's responsibilities include nomination and governance related matters as well as making recommendations to the Board in relation to:

- remuneration policies that will be designed to support the execution of the Company's strategy and plans, and set remuneration and rewards at levels to attract and retain the best people;
- the remuneration of the Non-Executive Directors;
- the remuneration packages (including fixed annual remuneration, incentive plans and any other benefits or arrangements) of the CEO and other members of the ELT; and
- the administration and operation of equity and incentive plans and assessing the effectiveness and implementation of such plans.

The Remuneration and Nomination Committee Charter can be found in the Corporate Governance section on the Company's website.

2.3 Use of remuneration consultants

The Remuneration and Nomination Committee seeks external remuneration advice to ensure that it is fully informed when making decisions, including on recent market trends and practices and other remuneration related matters. Remuneration consultants are engaged directly by the Remuneration and Nomination Committee.

KPMG assisted the Remuneration and Nomination Committee and the Board throughout 2018 with such matters.

KPMG provided a formal declaration confirming that its recommendations were made free from undue influence by the members of KMP to whom the recommendations related. On the basis of this declaration and the protocols and processes governing the engagement of KPMG and receipt of its recommendations, the Board is satisfied that each of the recommendations were free from undue influence by such persons.

In 2018, KPMG was paid $44,075 (excluding GST) in relation to remuneration recommendations provided as part of its engagement as a remuneration consultant.

KPMG was paid $676,186 (excluding GST) for other services provided across the business during 2018.

Directors' report (continued)

Remuneration Report (continued)

3. Executive Remuneration Overview

3.1 Executive remuneration objectives

The overall objectives for executive remuneration at Viva Energy are to:

1. Drive sustainable value creation for shareholders;
2. Drive appropriate behaviours and culture;
3. Attract and retain high calibre talent; and
4. Ensure remuneration is well understood and transparent.

To achieve these objectives, the Board seeks to set executive remuneration at levels that are competitive in the market (for ASX-listed companies comparable in terms of size and complexity and industry to the Company), and also provide incentives that focus the leadership team on achieving long term sustainable growth. The Board intends to review the executive remuneration strategy and remuneration levels on an annual basis.

The Prospectus described how the Board will typically set fixed remuneration, STI and LTI at or around the median of ASX-listed companies of a similar size and industry. In 2018, recognising the value, and retentive impact, of the Legacy LTI for executives, the Board set 2018 fixed annual remuneration and STI and LTI opportunities at levels significantly lower than the median of the ASX-listed comparator group. As the Legacy LTI is a transitional arrangement, the Board will continue to review the overall remuneration mix as the final tranches of the Legacy LTI awards vest or expire to ensure management continuity, motivation and engagement beyond the legacy arrangements.

The executive remuneration framework is summarised below.

Directors' report (continued)

Remuneration Report (continued)

2018 Executive remuneration framework

Component	Delivery Vehicle	Performance Measures	Link to Strategy
Fixed Annual Remuneration (FAR)	Base salary and superannuation	In 2018, recognising the value and retentive impact of the Legacy LTI to executives, the Board set the 2018 FAR at levels significantly below the median of the Company's ASX-listed comparable peers. As the final tranches of the Legacy LTI awards vest or expire, the Board intends to set the FAR at a market competitive level with regard for the size, complexity and accountabilities associated with the role, and the level of skills and experience required to perform the role.	Market competitive FAR is appropriate in order to enable Viva Energy to motivate, engage and retain the calibre of executives that can execute company strategy and continue to deliver value to shareholders.
Short Term Incentive (STI) – reward for performance against annual objectives	50% is paid in cash 50% is delivered in share rights	A threshold underlying EBITDA (RC) target must be met in order for any STI to be paid. A scorecard of performance measures is then used to assess vesting outcomes, with measures focused on financial (60%), strategic and operational excellence (30%) and safety and culture (10%) outcomes.	Incentivises execution of annual performance objectives. A balanced scorecard of measures ensure targets are achieved in a sustainable manner. STI deferral creates further alignment with shareholders and acts as a retention instrument. The gateway ensures variable pay is aligned with the company's capacity to pay.
Long Term Incentive (LTI) – reward long term performance and value creation for shareholders	Performance rights, allocated at face value	50% - relative TSR (ASX100 comparator group) 25% - free cash flow 25% - ROCE	Drives the delivery of Viva Energy's long term objectives in a sustainable manner, provides alignment with the interests of shareholders, and encourages long-term value creation.
Legacy LTI (historic plan) – reward for long term value creation	Options, vesting over five years, with an exercise price set in context of share price at date of grant. No further grants will be made under this plan.	The legacy LTI previously acted to motivate executives to transform and grow the value of the company over the initial five years through to a potential exit event (ie: listing on the ASX). Although the Company has since listed, the program for the CEO and the CFO continues to provide a strong impact on retention as any unvested tranches of options will be forfeited on resignation. Shares acquired through exercise of options are subject to escrow conditions following listing encouraging management continuity and alignment post IPO.	

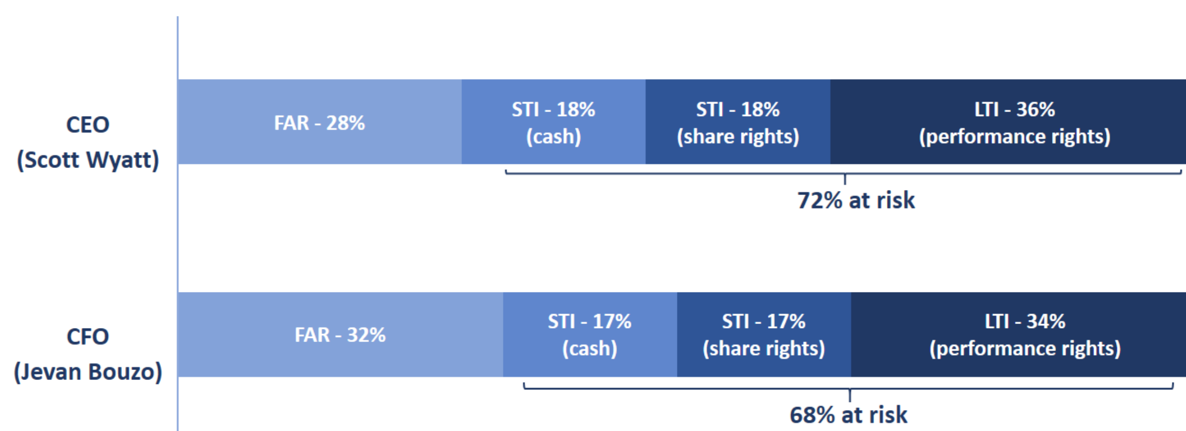
Minimum shareholding policy – The Board has adopted a minimum shareholding policy which requires each member of KMP (other than non-independent, non-executive directors), to accumulate a minimum shareholding of equivalent to 100% of their fixed annual remuneration within five years of the date on which they become a member of KMP, and to maintain such minimum shareholding for so long as they remain a member of KMP.

3.2 Executive remuneration mix

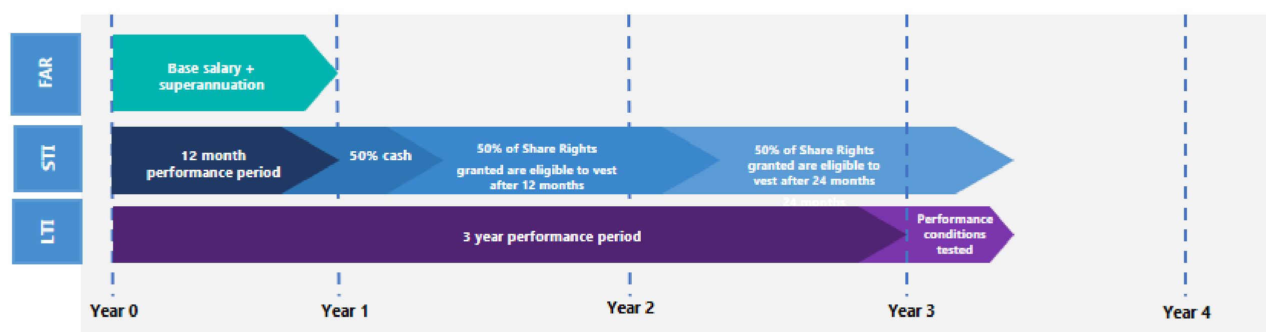
The weighting of each remuneration component of an executive's total remuneration is aligned to the objectives of the executive remuneration framework outlined in section 3.1, in particular driving sustainable value for the Company. The following diagram sets out the weighting of each remuneration component for the CEO and CFO based on the maximum potential value. This is calculated using the face value of the 2018 STI and LTI opportunity upon issue, and does not represent actual remuneration for 2018.

Directors' report (continued)

Remuneration Report (continued)



3.3 Executive remuneration delivery timeline – 2018 awards



4. Remuneration Framework

The components of the executive remuneration framework are explained in detail below.

4.1 Fixed annual remuneration (FAR)

FAR is comprised of base salary and superannuation.

4.2 Short term incentive (STI)

Viva Energy has established an STI plan to reward executive KMP and other members of the executive team for strong performance levels and contributions to the Company over a 12-month performance period.

Viva Energy assesses STI performance against a balanced scorecard comprised of a robust set of performance conditions which drive the Company's short term financial, strategic and operational objectives and set the platform for long term success.

Underlying EBITDA (RC) was established as a gateway in 2018 given the particular focus for stakeholders on financial outcomes in the immediate period following Listing.

No payments will be made under the 2018 STI plan, because the Underlying EBITDA (RC) gateway was not achieved.

Directors' report (continued)

Remuneration Report (continued)

2018 Group Performance

The table below outlines the Company's financial performance for 2018.

Revenue	$16,395.1 million
Underlying profit after tax (RC)	$293 million
Issue price of IPO	$2.50
Share price at 31 December	$1.80
Proposed dividend per share (fully franked)	4.8 cents
Statutory earnings per share basic/diluted[2]	29.8 / 29.4 cents
Underlying earnings per share	15.1 cents

Further information about the 2018 STI plan is set out below.

Opportunity	**CEO** • Target: 67% of FAR • Maximum: 134% of FAR		**CFO** • Target: 54% of FAR • Maximum: 107% of FAR	
Performance period	• Performance was assessed over a 12-month period, being the Company's financial year (i.e. 1 January 2018 – 31 December 2018 the "**Performance Period**").			
Performance Gateway	Prospectus forecast Underlying EBITDA (RC) for 2018 of $605.1 million, was required to be met before any STI payment would be made.			
Performance conditions	**Performance Condition**	**Weighting**	**Measures**	**Objective**
	Financial	60%	• Underlying EBITDA • Net Profit After Tax • Free Cash Flow (Pre Finance/Tax/Dividends)	Deliver sustainable shareholder returns and consistent operating cash flows.
	Strategic & Operational Excellence	30%	Retail • Sales Volume • Net New Sites • Underlying EBITDA (divisional)	Expand network, grow the Alliance network, develop Retail Agent platform, and increase premium penetration.
			Commercial • EBITDA from New Accounts • Sales Volume • Underlying EBITDA for the Commercial Business	Retain and grow quality accounts and sustained earnings, through focus on value led proposition.
			Refining • Intake • Availability • Underlying EBITDA for the Geelong Refinery	Increase intake towards nameplate, sustained reliability, and improved productivity.
	Safety & Culture	10%	• LTIF (Loss time injury frequency) • API Tier 1 and 2 incidents[3] • Employee Engagement	Build a generative safety culture with highly engaged employees focused on delivering high quality results.

[2] *See note 4 to the Viva Energy's financial report.*
[3] *LTIF and API Tier 1 and 2 measures are industry standard safety performance metrics that reflect personal safety and process safety performance (respectively).*

Directors' report (continued)

Remuneration Report (continued)

Delivery	• 50% in cash; and • 50% in Share Rights, with 50% eligible to vest 12 months after the cash component is paid and the other 50% eligible to vest 24 months after that date. A Share Right entitles the participant to receive one ordinary share for nil consideration subject to the satisfaction of the performance conditions.
Voting and dividends entitlements	Share Rights do not carry dividend or voting rights prior to vesting.
Restrictions on dealing	Holders of Share Rights must not sell, transfer, encumber, hedge or otherwise deal with Share Rights unless the Board allows it or the dealing is required by law. Holders of Share Rights will be free to deal with the ordinary shares allocated on exercise of Share Rights, subject to the requirements of the Viva Energy's Securities Trading Policy.
Cessation of employment	If a participant ceases employment due to special circumstances (including death, terminal illness or disablement), any unvested Share Rights held by such participant will remain on foot and subject to the original vesting conditions (other than any vesting condition relating to continued employment with Viva Energy), unless the Board exercises a discretion to treat them otherwise. In all other circumstances (including due to a participant's resignation or termination), unless the Board exercises its discretion to treat them otherwise and subject to applicable law, unvested Share Rights will automatically lapse.
Change of control	The Board may determine in its absolute discretion that all or a specified number of a participant's Share Rights will vest on a change of control.

4.3 Long term incentive plan (LTI)

Viva Energy has established a LTI plan to assist in the attraction, motivation, retention and reward of eligible employees.

The LTI plan is designed to reward long term performance, provide alignment with the interests of shareholders, and encourage long term value creation.

Viva Energy uses a combination of performance conditions which focus on sustainable long term performance. The performance conditions used in the LTI reflect Viva Energy's long term financial, strategic and operational objectives.

The CEO and CFO were granted Performance Rights under the LTI plan in 2018 shortly after the Company's Listing, as described in the Prospectus. A waiver of ASX Listing Rule 10.14 for the grant to Scott Wyatt, the CEO, was received and noted in the Prospectus. Details of the 2018 LTI are set out below.

Instrument	Performance Rights. A Performance Right entitles the participant to acquire one ordinary share for nil consideration at the end of the performance period, subject to the satisfaction of the performance conditions. The Board retains discretion to make a cash payment to participants on vesting of Performance Rights in lieu of an allocation of shares.	
Opportunity	**CEO** • Target: 67% of FAR • Maximum: 134% of FAR	**CFO** • Target: 54% of FAR • Maximum: 107% of FAR
Grant value	Performance Rights were granted using face value methodology. The number of Performance Rights awarded to each participant in 2018 was calculated by dividing the dollar value of their maximum LTI opportunity by $2.50 (the issue price under the IPO), and amounted to: • Scott Wyatt: 480,000 Performance Rights • Jevan Bouzo: 192,000 Performance Rights	

Directors' report (continued)

Remuneration Report (continued)

Performance conditions

The performance rights are subject to three performance conditions:

Performance Condition	Weighting	Measure	Objective
Total Shareholder Return **(TSR)**	50%	Total shareholder return over the period, relative to the ASX100 (**Comparator Group**)	To create strong alignment between LTI outcomes and the experience of shareholders.
Free Cash Flow (RC) **(FCF)**	25%	FCF is calculated based on Underlying EBITDA (RC), normalised for market movements in AUD refining margins and adjusted for maintenance capital expenditure, unrealized FX and derivative movements, dividends received from associated entities, interest and taxes paid.	This measure directly encourages strong cost and capital management with positive conversion of underlying earnings to cash flow to maximise cash that the Company has available to fund growth opportunities, pay dividends and repay debts.
Return on Capital Employed (RC) **(ROCE)**	25%	Underlying EBIT (RC) divided by average capital employed (total shareholder's equity plus net debt) for each year.	This measure incentivises executives to undertake prudent management of capital to maintain positive returns on capital employed over the performance period.

Replacement cost (**RC**) methodology is used in calculating both the FCF and ROCE outcomes, in order to provide a truer reflection of underlying performance. As explained in the Operating and financial review section of the Director's Report, this approach removes the impact of net inventory gain/(loss) caused by fluctuations in crude oil prices and foreign currency exchange rates.

The Board believes that the use of RC methodology in setting FCF and ROCE targets within the LTI is appropriate, and provides a suitable balance with the relative TSR measure.

There will be no re-testing of any of the performance conditions, and Performance Rights that do not vest will lapse (and expire).

Performance period and exercise

The LTI will be assessed over a 36-month period. For the Performance Rights granted in 2018, performance against the TSR Component will be assessed from the date of Listing to 31 December 2020, while the FCF component and ROCE component will be assessed based on performance from 1 January 2018 to 31 December 2020. Vested Performance Rights will be automatically exercised.

Directors' report (continued)

Remuneration Report (continued)

Vesting schedules

Performance Rights which have not lapsed will vest at the end of the three-year period over which performance is measure (1 January 2018 to 31 December 2020). As such, there is one vesting date of 31 December 2020.

TSR Component

The percentage of Performance Rights comprising the TSR component that vest, if any, will be based on the Company's TSR ranking relative to the Comparator Group over the performance period, as set out in the following vesting schedule:

Viva Energy's TSR ranking relative to the Comparator Group	% of Performance Rights that vest
Less than 50th percentile	Nil
At 50th percentile	50%
Between 50th and 75th percentile	Straight line pro rata vesting between 50% and 100%
At 75th percentile or above	100%

FCF Component

The percentage of Performance Rights comprising the FCF component that vest, if any, will be determined over the performance period by reference to the following vesting schedule:

Viva Energy's cumulative FCF over the performance period	% of Performance Rights that vest
Less than target FCF performance	Nil
Equal to target FCF performance	50%
Between target and stretch FCF performance	Straight line pro rata vesting between 50% and 100%
At or above stretch FCF performance	100%

ROCE Component

The percentage of Performance Rights comprising the ROCE component that vest, if any, will be determined over the performance period by reference to the following vesting schedule:

Viva Energy's average ROCE over each year of the performance period	Percentage of Rights that vest
Less than target ROCE	Nil
Equal to target ROCE	50%
Between target and stretch ROCE	Straight line pro rata vesting between 50% and 100%
At or above stretch ROCE	100%

Disclosure of FCF and ROCE targets

The Board considers disclosure of the FCF and ROCE targets can potentially indicate the Group's margins and, as such, jeopardise Viva Energy's competitive position. The Group's margins are commercially sensitive, and the publication of such targets before the end of the performance period will prejudice the competitive positioning of the Company.

The Board will provide full details of vesting outcomes in connection with each component of the LTI, including the levels at which performance targets were set, following completion of the performance period.

Other features

Performance Rights have the same voting and dividend entitlements, restrictions on dealing, treatment on cessation of employment, and change of control provisions as the Share Rights described in section 4.2 above.

Directors' report (continued)

Remuneration Report (continued)

4.4 Claw back and preventing inappropriate benefits

The Board has claw back powers that it may exercise if, among other things:

- a participant has acted fraudulently or dishonestly, is in material breach of their obligations to the Viva Energy Group, has engaged in negligence or gross misconduct, brought a member of the Viva Energy Group into disrepute or been convicted of an offence, or has a judgment entered against them in connection with the affairs of the Viva Energy Group;
- Viva Energy is required by or entitled under law or under the Executive Services Agreement to reclaim remuneration from the participant;
- a participant has made a material misstatement on behalf of a member of the Viva Energy Group or there is a material misstatement or omission in the financial statements of the Viva Energy Group; or
- a participant's entitlements vest or may vest as a result of the fraud, dishonesty, negligence or breach of obligations of any other person and the Board is of the opinion that the entitlement would not have otherwise vested.

The claw back regime applies to cash STI, and unvested or unexercised Share Rights granted under the STI plan and unvested or unexercised Performance Rights granted under the LTI plan.

4.5 Legacy LTI

Section 10.4.3 of the Prospectus described the Legacy LTI introduced by VEH) in 2015. Under that plan options over preference shares in VEH (**VEH Options**)[4] were issued to certain participants, including the CEO and CFO. All offers under the Legacy LTI were made in the years prior to Listing and no further offers will be made under this plan.

The Legacy LTI was introduced in order to assist in the motivation and retention of key executives, and to provide alignment with the interests of the previous shareholders. This was a key component of VEH's remuneration framework.

As described in the Prospectus, the following took place on or around completion of the IPO, in accordance with the terms of the Legacy LTI:

- the Company acquired all of the VEH Options held by each participant and, as consideration, issued options over ordinary shares in the Company (**Legacy LTI Options**) to the participant. The Legacy LTI Options had substantially the same terms as the VEH Options including with respect to the exercise price[5] and vesting schedule. The Legacy LTI Options were then treated as follows:

  (i) a portion of the Legacy LTI Options remained unvested – these will vest according to the vesting schedule subject to the relevant participant's continued employment with Viva Energy (see the table below for further details);

  (ii) a portion of the Legacy LTI Options that had vested were cancelled in exchange for receipt of a cancellation fee (**Option Cancellation Fee**). The Option Cancellation Fee was based on the difference between $2.50 (being the final issue price under the IPO) and the exercise price for the vested Legacy LTI Option – for Scott Wyatt, the fee paid was $5,803,643, and for Jevan Bouzo, it was $298,384; and

  (iii) all remaining vested Legacy LTI Options were immediately exercised by the participant. The shares acquired on exercise were subject to disposal restrictions to maximise alignment with the new shareholders following IPO. Fifty percent of those shares are restricted from sale until 30 June 2019, and the other fifty percent are restricted from sale until 30 June 2020. The exercise price paid by Scott Wyatt was $4,272,201 and by Jevan Bouzo $185,600.

- the Prospectus also explained that the terms of the Legacy LTI arrangements provided for a cash payment to each option-holder based on the shareholder distributions and returns for the period over which the VEH Options had been held (**Legacy LTI Cash Payment**). The Legacy LTI Cash Payment for Scott Wyatt was $4,447,832, and for Jevan Bouzo, was $264,610[6].

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[4] *Holders of VEH Options were entitled to one preference share in the capital of VEH, for each VEH Option.*
[5] *The exercise price was adjusted to reflect the dilution of the Group's issued capital immediately following Listing.*
[6] *The Legacy LTI Cash Payment was disclosed in the Prospectus in US dollars. For Scott Wyatt, this was US$3,367,009 (then converted into Australian dollars at an exchange rate of 0.757 : 1 (US:AUD)). Mr Bouzo's payment was disclosed as part of the total amount provided to all ELT team members.*

Directors' report (continued)

Remuneration Report (continued)

The Option Cancellation Fee and the Legacy LTI Cash Payment were funded by the former shareholder, Vitol Investment Partnership Limited (**VIPL**)[7] under the IPO, net of the proceeds from the exercise of the vested Legacy LTI Options (as set out in paragraph (iii) above).

The Board recognises that the value delivered under the Legacy LTI is significant, and draw shareholders' attention to the following matters that are relevant:

- the arrangement was introduced in 2015, while VEH was privately owned, to motivate executives to grow the value of the company. The Legacy LTI was designed to focus management on what was required to improve business performance. As business performance significantly exceeded plans, the Legacy LTI enabled the leadership team to share in its growth;
- the Board imposed a mandatory escrow period to shares received on exercise of the Legacy LTI to ensure management's continued alignment with shareholder interests;
- executives will forfeit unvested Legacy LTI Options if they leave the company before vesting. This condition was included to minimize the risk of leadership turnover in the important period following IPO;
- the net proceeds of the Legacy LTI Cash Payment and Option Cancellation Fee were applied to fund the exercise price of the immediately exercised Legacy LTI Options (with the shares issued on exercise remaining subject to escrow).
- as described above, the net cash paid to the executives at IPO under the Legacy LTI was funded by the former shareholder, VIPL. The new shareholders have not borne the cost of the 2018 cash payments.

The number of unvested Legacy LTI Options held by the CEO and the CFO, as well as the vesting schedule and a summary of the key terms are set out below.

Unvested Legacy LTI Options	Scott Wyatt	Jevan Bouzo
Number held as at 31 December 2018	5,767,854	1,538,095
Exercise price	A$0.82 per Legacy LTI Option	A$1.21 per Legacy LTI Option
Vesting schedule and expiry	2,883,926 Legacy LTI Options vested on 1 January 2019 2,883,928 Legacy LTI Options are scheduled to vest on 1 January 2020, subject to continued employment with Viva Energy and the terms of the Legacy LTI Options. Each of the Legacy LTI Options will expire on 5.00pm on 1 January 2020 unless exercised earlier.	384,523 Legacy LTI Options vested on 1 January 2019 384,524 Legacy LTI Options are scheduled to vest on each of 1 January 2020, 2021 and 2022, subject to continued employment with Viva Energy and the terms of the Legacy LTI Option. Each of the Legacy LTI Options will expire on 5.00pm on 1 January 2022 unless exercised earlier.
Voting and dividend entitlements	Legacy LTI Options do not carry dividend or voting rights entitlements.	
Restrictions on dealing	Legacy LTI Option holders must not sell, transfer, encumber, hedge or otherwise deal with their Legacy LTI Options unless the Board allows it or the dealing is required by law. Legacy LTI Option holders will be free to deal with the ordinary shares allocated on exercise of their Legacy LTI Options, subject to the requirements of Viva Energy's Securities Trading Policy.	
Cessation of employment, change of control and claw back	Legacy LTI Options have the same treatment on cessation of employment, and change of control provisions as the Share Rights described in section 4.2 above, and the same claw back provisions as described in section 4.4.	

[7] *Acting through its wholly-owned subsidiary, Viva Energy BV.*

Directors' report (continued)

Remuneration Report (continued)

4.6 Other legacy arrangements

Jevan Bouzo received a discretionary bonus of $400,000[8] in recognition of his contribution to VEH in the period prior to the IPO. This payment was funded by the previous shareholder, VIPL, and there is no intention to make other discretionary bonuses as a listed company, outside the annual STI and LTI plans.

Jevan Bouzo also participated in a legacy long term incentive arrangement in his capacity as Head of Finance and Treasury (the role he occupied prior to taking on the role as CFO). This was a retention arrangement awarded in 2016 and assessed performance on both a company and individual level over the three-year period from 1 January 2016 to 31 December 2018. The face-value of the award was $50,000, and the maximum potential award under this plan was $150,000. Each year both a business performance factor (determined at the discretion of the Board) and an individual performance factor were awarded. Receipt of a final award was subject to both continued employment, and achievement of a threshold set at an above-target performance level across the three years, to reward sustainable long-term performance. Following assessment of performance over the period, Jevan Bouzo was awarded $81,000 gross (54% of the maximum potential award), which is scheduled to be paid in April 2019.

5. Statutory Remuneration Disclosures

The table below has been prepared in accordance with the requirements on the Corporations Act 2001 and the relevant Australian accounting standards. The amounts provided under the "2018 LTI" and "Legacy LTI - share based payment" columns are based on accounting values and do not reflect actual payments received in 2018.

	Short-Term Benefits					Post-Employment Benefits	Long-Term Benefits					Total
	Salary and Fees	2018 STI	Non-Monetary Benefits	Other (Legacy Dis-cretionary)	Annual Leave	Super-annuation	Long Service Leave	2018 LTI	Legacy LTI Cash Payment	Legacy LTI - share based payment	Other (Long-Term)	
			1	2	3			4	5	6	7	
Scott Wyatt	$622,396	$0	$5,383	$0	$16,836	$35,152	($15,715)	$247,400	$4,447,832	$480,868	$0	$5,840,152
Jevan Bouzo	$345,966	$0	$2,941	$400,000	($9,441)	$38,619	$0	$98,960	$264,610	$41,515	$27,000	$1,210,170
Total	**$968,362**	**$0**	**$8,324**	**$400,000**	**$7,395**	**$73,771**	**($15,715)**	**$346,360**	**$4,712,443**	**$522,383**	**$27,000**	**$7,050,322**

Notes:

1. Non-Monetary Benefits represent the Viva Energy fuel discount benefits received, the payment of premiums for death and total and permanent disability insurance cover, the payment of plan management fees for the Viva Energy Superannuation Plan, and payments made with respect to mobile phone use.
2. Other (Legacy Discretionary) represents a discretionary bonus paid for contribution to the successful Listing. There is no intention to offer further discretionary bonuses as a listed company. The bonus relates to 2018 services provided pre-Listing and was funded by the previous shareholder VIPL.
3. Jevan Bouzo annual leave is negative due to the leave taken being greater than the leave accrued in 2018.
4. 2018 LTI represents the fair value of Performance Rights granted under the 2018 LTI, calculated in accordance with accounting standards.
5. Legacy LTI Cash Payment represents the cash payment made to option-holders upon completion of the IPO, calculated by reference to shareholder distributions over the vesting period. As described in section 4.5, the Legacy LTI Cash Payment was funded by the previous shareholder VIPL.
6. Legacy LTI – share based payment, represents the statutory expense recorded in the income statement for (i) the value of Legacy LTI Options vesting across the period, calculated in accordance with accounting standards; and (ii) with respect to Legacy LTI Options that were cancelled or exercised at or around the IPO date, the associated employee expenses recognized on an accelerated basis.

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[8] *Paid in August 2018.*

Directors' report (continued)

Remuneration Report (continued)

7. Other (Long-Term) represents an accrual under a long term incentive arrangement recognising performance for the period 2016 – 2018. This relates to Jevan Bouzo's previous role of Head of Finance and Treasury. As further described, in section 4.6, Jevan Bouzo is scheduled to receive a total payment of $81,000 in April 2019 in relation to this incentive.

6. Non-Executive Director Remuneration

6.1 Non-Executive Director Fees

Non-Executive Directors are paid annual fees. With the exception of the Chairman, each Non-Executive Director who is a chair or a member of a Board Committee receives Committee fees in recognition of the additional responsibilities, time and commitment required. Non-Executive Directors do not receive any performance related remuneration.

Under the ASX Listing Rules and Viva Energy's constitution, the total amount paid to all Non-Executive Directors must not exceed in aggregate in any year the amount fixed by Viva Energy in a general meeting for that purpose. As disclosed in the Prospectus, this amount has been fixed by the Company at $1.9 million per annum. Non-Executive Director fees paid in 2018 were within this cap.

6.2 Fee structure

The table below sets out Non-Executive Director remuneration, inclusive of statutory superannuation.

	Description	Fees
Board	Chair	$400,000[9]
	Director	$165,000[10]
Committee fees	Chair	$35,000
	Member	$17,500

The fees paid to the Non-Executive Directors in 2018 are set out in the table below:

	Short-Term Benefits		Post-Employment Benefits	Total
	Since appointment to the Company Board	Prior to appointment to the Company Board	Superannuation Benefits	
	1	2		
	$		$	$
Robert Hill	$202,383	$371,687	$10,266	**$584,336**
Hui Meng Kho*	$0	$0	$0	**$0**
Dat Duong*	$0	$0	$0	**$0**
Jane McAloon	$114,460	$149,500	$10,874	**$274,834**
Arnoud De Meyer	$118,863	$177,000	$0	**$295,863**
Sarah Ryan	$114,460	$149,500	$10,874	**$274,834**
Total	**$550,166**	**$847,687**	**$32,014**	**$1,429,867**

[9] *The Board Chair does not receive any additional fees for being the Chair or Member of any Board Committees*
[10] *Hui-Meng Kho and Dat Duong have elected to forgo directors and Board committee fees.*

Directors' report (continued)

Remuneration Report (continued)

Notes:

* Hui Meng Kho and Dat Duong have agreed to not receive any remuneration for their position as a Non-Executive Directors

1. Represents gross Board fees (Chairperson and Directors) and Committee Chair and Member fees effective from joining the Board of the Company.
2. These amounts were paid by VEH and were paid in connection with the IPO, for consulting services and participation in the due diligence process. The amount for Robert Hill also includes $35,000 in Non-Executive Director fees in connection with his role on the VEH Board prior to Listing. No consulting fees will be paid going forward.
3. No non-monetary benefits were provided to Non-Executive Directors during 2018.

6.3 Minimum shareholding policy

As stated in the Prospectus, the Board has adopted a minimum shareholding policy that requires each KMP (excluding non-independent Non-Executive Directors) to accumulate a minimum shareholding equivalent to 100% of their fixed annual remuneration within five years of the date on which they become a member of KMP, and to maintain such minimum shareholding for so long as they remain a member of KMP.

7. Equity Movements

Performance Rights and Legacy LTI Option-holdings

	Plan	Exercise Price	Balance as at 1 January 2018		Exchange VEH Options for Legacy LTI Options (2)		Granted as Remuneration (4)		Cancelled (3)	Exercised		Balance as at 31 December 2018	
			Vested	Unvested	Vested	Unvested	No.	Value		No.	Value (5)	Vested	Unvested (6)
Scott Wyatt	VEH Options	US$1.48	3,641,955	2,427,971	(3,641,955)	(2,427,971)	Nil	-	Nil	Nil	-	Nil	Nil
	Legacy LTI Options	$0.82	Nil	Nil	8,651,777	5,767,854	Nil	-	3,460,711	5,191,066	$8,720,911	Nil	5,767,854
	2018 LTI Performance Rights	$0.00	Nil	Nil	Nil	Nil	480,000	$878,400	Nil	Nil	-	Nil	480,000
Jevan Bouzo	VEH Options	US$2.17	161,864	647,459	(161,864)	(647,459)	Nil	-	Nil	Nil	-	Nil	Nil
	Legacy LTI Options	$1.21	Nil	Nil	384,522	1,538,095	Nil	-	230,712	153,810	$198,415	Nil	1,538,095
	2018 LTI Performance Rights	$0.00	Nil	Nil	Nil	Nil	192,000	$351,360	Nil	Nil	-	Nil	192,000

Notes:

1. No other members of KMP held Performance Rights or Options during the year.
2. As outlined in section 4.5, at the time of the Listing, VEH Options were acquired by the Company and, as consideration, Legacy LTI Options were granted to the executives on 20 June 2018. Such Legacy LTI Options carry substantially the same terms as the VEH Options they replaced (including with respect to the exercise price and vesting schedule). The number of options, and the exercise price, were adjusted to reflect the dilutionary impact of the Listing.
3. Each of the Legacy LTI Options were granted in 2018, having been exchanged for VEH Options granted in 2015 for Scott Wyatt and 2017 for Jevan Bouzo.
4. Each of the Performance Rights were awarded on 20 June 2018. The values represent a fair value calculation, prepared in accordance with accounting standards.
5. The value of each exercised Legacy LTI Option was calculated by subtracting the exercise price for the option ($0.82 for Scott Wyatt, and $1.21 for Jevan Bouzo), from the issue price under the IPO of $2.50, and multiplying by the number of shares. All exercised shares remain in escrow as described in section 4.5 above.
6. As at 31 December 2018, 100% of the outstanding Legacy LTI Options remained unvested. Prior to their exchange for Legacy LTI Options as described in Note 2 above, 60% of the total number of Scott Wyatt' VEH Options had vested (20% of the total having vested during the 2018 year on 1 January 2018), and 20% of the total number of Jevan Bouzo's VEH Options, having vested on 1 January 2018.

Directors' report (continued)

Remuneration Report (continued)

8. Shareholdings

The number of shares in the capital of the Company held by each KMP are set out below[1]:

	Balance as at 1 January 2018	Purchased in 2018	Acquired through exercise of options	Shares disposed	Balance at 31 December 2018
Robert Hill	Nil	40,000	Nil	Nil	40,000
Hui Meng Kho	Nil	Nil	Nil	Nil	Nil
Dat Duong	Nil	Nil	Nil	Nil	Nil
Jane McAloon	Nil	20,000	Nil	Nil	20,000
Arnoud De Meyer	Nil	20,000	Nil	Nil	20,000
Sarah Ryan	Nil	24,291	Nil	Nil	24,291
Scott Wyatt	Nil	Nil	5,191,066 [2]	Nil	5,191,066
Jevan Bouzo	Nil	Nil	153,810 [3]	Nil	153,810

Notes:
1. No members of KMP held shares in VEH. The table captures Viva Energy shareholdings throughout the period.
2. Of the 5,191,066 shares acquired by Scott Wyatt on 18 July 2018, 2,595,533 are subject to a disposal restriction until 30 June 2019, and 2,595,533 are subject to a disposal restriction until 30 June 2020.
3. Of the 153,810 shares acquired by Jevan Bouzo on 18 July 2018, 76,905 are subject to a disposal restriction until 30 June 2019, and 76,905 are subject to a disposal restriction until 30 June 2020.

9. Executive Service Agreements

The CEO and CFO have open ended employment contracts. Key terms are as follows:

- Employment may be terminated by either the Company or the executive upon providing 12 months' written notice;
- Viva Energy may elect to pay the executive in lieu of all or part of such notice period with any such payment to be based on the executive's FAR over the relevant period. The executive may also be required to serve out the whole or part of the notice period on an active or passive basis at the Board's discretion;
- Any payments made to the executive upon termination of employment will be limited to the maximum amount permitted by the Corporations Act; and
- The executive's employment may be terminated by Viva Energy without notice in certain circumstances such as un-remediated material breach of their contract, serious misconduct (including dishonesty, fraud or willful breach of duty), bankruptcy, failure to comply with a reasonable direction from the Board, and if a personal profit is made at the expense of the Viva Energy Group to which they are not entitled.

Directors' report (continued)

ADDITIONAL INFORMATION

Significant changes in the state of affairs

The Company was admitted to the Official List of the ASX on 13 July 2018.

The following corporate restructure transactions were undertaken in connection with the IPO and listing on the Company ASX:

- The Company acquired:
  - all of the shares in Viva Energy Holding Pty Limited from Viva Energy B.V. a subsidiary of Vitol Investment Partnership Limited; and
  - all of the options in Viva Energy Holding Pty Limited from the participants in the legacy Long Term Incentive Plan in return for options over ordinary shares in the Company. Immediately following the Company's listing, a portion of the new options were cancelled for a cash payment which was, in part, immediately applied to satisfy the exercise price in respect of all vested new options. Unvested new options remained outstanding.
- The Company restructured a number of commercial arrangements to which Viva Energy Holding Pty Ltd and its controlled entities were a party with Vitol Investment Partnership Limited, Vitol Holdings B.V. and/or certain of their respective affiliates.

As a result of the restructure, the Company held 100% of the equity in Viva Energy Holding Pty Limited from 17 July 2018.

The restructure has been treated as a common control transaction and is not in the scope of AASB 3 Business Combinations.

There were no other significant changes in the state of affairs of the Group during the year.

Dividends

An inaugural dividend was determined on 27 February 2019 in respect of the performance for the six month period ended 31 December 2018 of 4.8 cents per share, amounting to $93.2M, payable on 15 April 2019 to shareholders registered on 28 March 2019. The dividend has not been provided for in the consolidated financial statements and will be recognised in the consolidated financial statements for FY2019.

The inaugural dividend was determined based on a payout ratio of 60% of Distributable NPAT (RC)[11] for the half year ended 31 December 2018. Distributable NPAT (RC) is calculated based on Underlying NPAT (RC) adjusted for the items in the table below which are non-cash in nature or expected to normalise over the longer term. A reconciliation from Underlying NPAT (RC) to Distributable NPAT (RC) for 1H2018, 2H2018 and FY2018 is set out in the table below.

Reconciliation of Underlying NPAT (RC) to Distributable NPAT (RC)	1H2018	2H2018	FY2018
	A$M	A$M	A$M
Underlying NPAT (RC)	**129.4**	**163.6**	**293.0**
Add: Lease straight lining	13.5	11.8	25.3
Less: Revaluation gain / (loss) on FX and oil derivatives	4.5	(6.4)	(1.9)
Less: Fair value gain / (loss) in share of profit from associates	0.5	(17.1)	(16.6)
Less: Tax effect associated with above items	(5.6)	3.5	(2.1)
Distributable NPAT (RC)	**142.3**	**155.4**	**297.7**
Payout ratio		**60%**	
Total dividend		**93.2**	
Dividend per share (cents)		**4.8**	

No dividend was determined by the listed Group, Viva Energy Group Limited, during the period ended 31 December 2018.

[11] *Distributable NPAT (RC) is the equivalent of the defined term Underlying NPAT (RC), as it was used in the Prospectus.*

Directors' report (continued)

Dividends (continued)

Dividend Franking Account

The balance of the franking account of the Australian consolidated tax group, headed by Viva Energy Group Limited, is $46.4M at 31 December 2018 based on a tax rate of 30%.

The dividend determined on 27 February 2019 will be fully franked and will reduce the franking credits available to the Group.

Matters subsequent to the end of the financial year

Coles Alliance partnership

On 6 February 2019, the Group announced the extension of the Alliance agreement with Coles Express through to 2029 under revised terms to create greater alignment between both parties and position the agreement for future growth. Under the revised terms, in March 2019 the Group will assume full responsibility for the provision of the fuel offering, including retail fuel pricing and marketing across the Alliance network. Coles Express will continue to operate Alliance stores and manage the customer experience. As a result of the amendments to the Alliance terms and fuel margin forgone by Coles Express, the Group will make a one off payment of $137 million in March 2019 to be funded by existing debt facilities.

Bank refinancing

On 26 March 2018, the Group replaced its borrowing facility with a US$700 million syndicated, unsecured revolving credit facility which has an initial 2 year term and a 1 year extension option.

At the end of the reporting period, the Group has entered into discussions with its existing lending group and is seeking to extend its existing US$700 million syndicated, revolving credit facility. This is expected to be completed on terms and conditions largely consistent with the existing facility.

Restructure of Liberty arrangements

On 27 February 2019, the Group agreed to acquire the remaining 50% interest in Liberty Oil Holding Pty Ltd's wholesale business, together with agreeing to establish a new retail joint venture to continue to grow the Liberty Oil retail business, of which it will own 50%. The consideration payable for the proposed transaction is $42 million, which will be funded out of existing debt facilities. The transaction remains subject to regulatory approvals.

Likely developments and expected results of operations

Except as otherwise disclosed in this report, further information on likely developments and their expected results has not been included in this report on the basis that it would be likely to result in unreasonable prejudice to the interests of the Group.

Directors' interest in Share Capital

The relevant interests of each Director in the share capital of the Company as at the date of this Directors' Report is set out below.

Director	Number of ordinary shares in which the Director has a relevant interest
Robert Hill	40,000
Scott Wyatt	5,191,066
Dat Duong	-
Arnoud De Meyer	20,000
Hui Meng Kho	-
Jane McAloon	20,000
Sarah Ryan	24,291

Directors' report (continued)

Rights and options

Non-Executive Directors do not hold any rights or options over shares in the Company or any Group entity.

The Managing Director and CEO, Scott Wyatt, holds the following securities (in addition to the ordinary shares set out in the table above):

- 5,767,854 options over ordinary shares issued under the Company's legacy Long Term Investment Plan ('LTIP'); and
- 480,000 performance rights issued under the Company's legacy LTIP.

Shares under option

Following on from the IPO, the following changes has been made to the employee share option plan:

- The Group acquired all of the options in VEH from the participants in the legacy LTIP in return for options over ordinary shares in the Group (**Legacy LTI Options**).
- Immediately following the ASX listing, a portion of the Legacy LTI Options were cancelled for a cash payment which was, in part, immediately applied to satisfy the exercise price in respect of all remaining vested options.
- After listing, executive management hold shares in the Group as well as a total of 16,534,520 legacy LTI Options to replace the legacy options that had not yet vested. The remaining vesting periods are consistent with the legacy share option plan.
- In addition to this a new Short Term Incentive Plan ('STIP') and LTIP was put in place for 2018 including both cash, and performance rights for executive management.

The total granted options over unissued ordinary shares outstanding as at 31 December 2018 is 16,534,520 with a weighted average exercise price per share option of AUD$0.94. During the period 1,600,000 performance rights were granted, 5,341,533 options were exercised and 3,884,749 options were cancelled.

Non-audit services

During FY2018 the Company's auditor, PricewaterhouseCoopers (PwC) has been employed on assignments additional to its audit services. PwC received or are due to receive the following amounts for the provision of non-audit services. The nature and scope of each type of non-audit services provided means that auditor independence was not compromised.

Fees payable to PwC for assurance services	$
Audit or review of financial reports of the Group	635,000
Audit of WAG accounts	20,000
Other assurance services	2,127,824
Total assurance services	2,782,824
Fees payable for other services	$
Tax advisory	35,000
Other services	132,276
Total assurance and other services	**2,950,100**

The Directors have formed the view, based on advice from the Risk and Audit Committee, that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The non-audit services provided did not involve the external auditor reviewing or auditing its own work or acting in a management or decision making capacity for the Company, or otherwise could reasonably be expected to compromise their independence.

No officer of the Company was a partner or director of PricewaterhouseCoopers during the financial year.

A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 47 and forms part of this Directors' Report

Directors' report (continued)

Environmental performance

The Group is subject to Federal, State and Local Government environmental regulation in respect of its land holdings, manufacturing, terminal and distribution facilities and marketing operations.

The Group's terminals and refinery operate pursuant to licences issued by the relevant environmental regulators or other authorities.

These licences generally require discharges to air and water to be below specified levels of contaminants, and solid wastes to be removed to an appropriate disposal facility (for some facilities only). These requirements arise under relevant legislation within the jurisdictions where the facilities operate.

During the year, there was a 14% reduction in the number of breaches of environmental licence requirements. The breaches that did occur were reported to the relevant regulators and the Group has taken steps to investigate, mitigate and reduce the reoccurrence of these incidents. The improved performance is largely attributed to a reduced number of licence non-compliances at the Group's terminals.

Instances of newly discovered legacy soil and groundwater contamination were reported to environmental authorities in accordance with regulatory obligations and the Group has received formal regulatory notices, including direction for either further investigation or remediation. The Group is working with the relevant environmental authorities in relation to each of these incidents.

In January 2018, the Group identified and rectified a fuel leak on the Mascot Jet Pipeline at Sydney Olympic Park, Homebush. Investigation has concluded that the cause is most likely as a result of historical third party activity, and the New South Wales Environment Protection Authority has confirmed they will not be initiating any prosecution proceedings.

The Group was ordered to pay a fine of $21,000 in total, without conviction, and pay costs of $10,870 after pleading guilty in court to four related offences under the Environment Protection Act 1970 (Vic). These offences related to contravention of a licence condition by exceeding the Fluoride emission limit on four separate occasions between December 2015 and March 2016 at the Geelong Refinery.

The Group was ordered to pay a fine of $7,929 for a breach of an environmental licence condition at the Geelong Refinery in regard to an incident that occurred in 2017.

The Group entered into an Enforceable Undertaking with the New South Wales Environment Protection Authority following the supply of petrol in November 2017 and early December 2017 from the Group's Parramatta Terminal which did not comply with the applicable vapour pressure limits under the Protection of the Environment Operations (Clean Air) Regulation 2010. The Enforceable Undertaking requires the Group to pay $250,000 to the NSW Office of Environment and Heritage towards a long-term roadside air quality monitoring station within the NSW Air Quality Monitoring Network and $20,500 for the EPA's legal and investigation costs.

The Group pleaded guilty in the NSW Land and Environment Court to two offences under the Protection of Environment Operations Act 1997 (NSW) relating to a fuel oil pipeline leak at Gore Bay Terminal in December 2016. The Court is yet to hand down the penalty for these offences.

Indemnification and insurance of directors, officers, employees and auditors

The Company has entered into a deed of access, insurance and indemnity with each Director and the Company Secretary of the Group. Under those deeds, the Company indemnifies, to the extent permitted by law, each Director and the Company Secretary against any loss that may arise from, or in connection with, any act or omission by that Director/Company Secretary in the performance of, or relating to or in connection with, their position as an officer of the Company or the execution or discharge of duties as such an officer, to the full extent permitted by law. Each deed provides that the Company must meet the full amount of any such loss, including legal costs (calculated on a full indemnity basis) that are reasonably incurred, charges and expenses.

Under the deeds, the Company must arrange and maintain a directors' and officers' insurance policy for the Directors and the Company Secretary to the extent permitted by law, and must use reasonable endeavours to maintain such insurance for the period from the date of the deed until seven years after the Director/Company Secretary ceases to hold office. This seven-year period can be extended where certain actions or proceedings commence before the period expires.

Directors' report (continued)

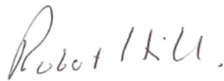
Indemnification and insurance of directors, officers, employees and auditors (continued)

The Group has also entered into insurance policies to insure the Directors and Company Secretary. The Group has paid the premiums for those policies. In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

Rounding of amounts

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, all amounts in this Directors' Report have been rounded to the nearest one hundred thousand dollars ($100,000), or in certain cases, to the nearest one thousand dollars ($1,000).

This Directors' Report is made in accordance with a resolution of the Board.



Robert Hill
Chairman

Scott Wyatt
CEO and Director

Date: 27 February 2019

Auditor's Independence Declaration

As lead auditor for the audit of Viva Energy Group Limited for the year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Viva Energy Group Limited and the entities it controlled during the period.

Chris Dodd
Partner
PricewaterhouseCoopers

Melbourne
27 February 2019

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
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Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated statement of profit or loss

For the year ended 31 December 2018

	Notes	2018	2017 Restated*
		$M	**$M**
Revenue from contracts with customers	1	**16,395.1**	**13,905.4**
Replacement cost of goods sold		(10,328.8)	(7,769.7)
Net inventory loss	5	(93.6)	(8.7)
Sales duties and taxes		(4,135.3)	(4,123.6)
Import freight expenses		(286.0)	(256.4)
Historical cost of goods sold		**(14,843.7)**	**(12,158.4)**
Gross profit		**1,551.4**	**1,747.0**
Net gain on other disposal of property, plant and equipment		10.2	15.7
Other income		**10.2**	**15.7**
Transportation expenses		(278.6)	(311.1)
Salaries and wages		(249.7)	(242.7)
General and administration expenses		(128.0)	(191.6)
Maintenance expenses		(100.4)	(102.4)
Operating leases	2	(286.3)	(269.0)
Sales and marketing expenses		(114.2)	(106.1)
Impairment	2	(1.4)	(0.5)
		403.0	**539.3**
Interest income		2.7	3.6
Share of profit of associates	28	63.5	65.4
Realised/unrealised gain/(loss) on derivatives	2	39.7	(41.1)
Net foreign exchanges (loss)/gain	2	(29.6)	17.7
Movement in financial assets		-	4.8
Depreciation and amortisation expenses		(129.7)	(107.2)
Finance costs	2	(41.9)	(31.3)
Profit before income tax expense		**307.7**	**451.2**
Income tax benefit/(expense)	25	271.9	(161.5)
Profit after tax		**579.6**	**289.7**
Earnings per share		**cents**	**cents**
Basic earnings per share	4	29.8	14.9
Diluted earnings per share	4	29.4	14.6

* See Note 1 *Revenue from contracts with customers* for details regarding the restatement of revenue and cost of goods sold as a result of the retrospective application of AASB 15 *Revenue from Contracts with Customers*

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Notes	2018 $M	2017 $M
Profit for the year		**579.6**	**289.7**
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent years (net of tax)			
Effective portion of changes in fair value of cash flow hedges – Unrealised (losses)/gains on cash flow hedges recognised by Viva Energy REIT	28	(3.2)	1.6
Other comprehensive income not to be reclassified to profit or loss in subsequent years (net of tax)			
Remeasurement of retirement benefit obligations	31	(1.4)	(0.1)
Net other comprehensive income/(loss)		**(4.6)**	**1.5**
Total comprehensive income for the year (net of tax)		**575.0**	**291.2**

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 31 December 2018

	Notes	2018 $M	2017 $M
ASSETS			
Current assets			
Cash and cash equivalents	6	108.6	164.7
Trade and other receivables	8	1,138.7	1,165.0
Inventories	5	1,011.3	965.2
Assets classified as held for sale	12	4.1	9.7
Derivative assets	18	15.5	-
Prepayments	9	71.0	62.2
Current tax assets		78.4	-
Total current assets		**2,427.6**	**2,366.8**
Non-current assets			
Long-term receivables	13	17.5	11.7
Property, plant and equipment	12	1,467.2	1,398.6
Goodwill and other Intangible assets	14	432.5	384.7
Post-employment benefits	31	11.4	15.3
Investments accounted for using the equity method	28	664.9	628.6
Net deferred tax assets	25	136.6	-
Other non-current assets		1.6	0.8
Total non-current assets		**2,731.7**	**2,439.7**
Total assets		**5,159.3**	**4,806.5**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	10	1,922.8	1,586.0
Provisions	15	123.2	152.1
Short-term borrowings	11	7.2	246.4
Derivative liabilities	18	0.9	9.3
Current tax liabilities		-	139.0
Total current liabilities		**2,054.1**	**2,132.8**
Non-current liabilities			
Provisions	15	174.1	169.3
Long-term borrowings	19	152.0	43.5
Net deferred tax liabilities	25	-	226.1
Total non-current liabilities		**326.1**	**438.9**
Total liabilities		**2,380.2**	**2,571.7**
Net assets		**2,779.1**	**2,234.8**
Equity			
Contributed equity	21	4,861.3	645.2
Reserves	21	(4,226.4)	11.5
Retained earnings		2,144.2	1,578.1
Total equity		**2,779.1**	**2,234.8**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Notes	Contributed equity $M	Reserves $M	Retained earnings $M	Total equity $M
Balance at 1 January 2017		**645.2**	**8.8**	**1,541.2**	**2,195.2**
Profit for the year		-	-	289.7	289.7
Unrealised gains/(losses) on cash flow hedges recognised by Viva Energy REIT		-	1.6	-	1.6
Remeasurement of retirement benefit obligations	31	-	(0.1)	-	(0.1)
Total comprehensive income for the year		**-**	**1.5**	**289.7**	**291.2**
Dividends paid	32	-	-	(252.8)	(252.8)
Share based payment reserve		-	1.2	-	1.2
Balance at 31 December 2017		**645.2**	**11.5**	**1,578.1**	**2,234.8**
Balance at 1 January 2018		**645.2**	**11.5**	**1,578.1**	**2,234.8**
Profit for the year		-	-	579.6	579.6
Unrealised gains/(losses) on cash flow hedges recognised by Viva Energy REIT		-	(3.2)	-	(3.2)
Remeasurement of retirement benefit obligations	31	-	(1.4)	-	(1.4)
Total comprehensive income for the year		**-**	**(4.6)**	**579.6**	**575.0**
Dividends paid	32	-	-	(13.5)	(13.5)
Capital return		(45.1)	-	-	(45.1)
Disposal of share by prior owner		(600.1)	-	-	(600.1)
Capital contribution from IPO		4,861.3	-	-	4,861.3
Reserve arising from IPO		-	(4,235.2)	-	(4,235.2)
Share based payment reserve		-	1.9	-	1.9
Balance at 31 December 2018		**4,861.3**	**(4,226.4)**	**2,144.2**	**2,779.1**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the year ended 31 December 2018

	Notes	2018 $M	2017 $M
Operating activities			
Receipt from trade and other debtors		19,006.8	16,034.1
Payments to suppliers and employees		(18,419.2)	(15,653.1)
Interest received		2.7	2.4
Interest paid on loans		(15.3)	(10.9)
Interest paid on finance lease		(7.7)	(7.5)
Income tax paid		(280.1)	(202.9)
Net cash flows from operating activities	7	**287.2**	**162.1**
Investing activities			
Purchases of property, plant and equipment		(241.3)	(231.1)
Net cash consideration paid for the acquisition of Shell Aviation	27	(4.0)	(259.0)
Proceeds from sale of property, plant and equipment		17.5	26.7
Loan repayments received from third parties		-	19.7
Dividends received from associates	32	37.5	32.8
Purchase of intangible asset		(2.1)	-
Loan to associate		(3.5)	-
Investment in associate		(14.9)	-
Net cash flows (used in)/from investing activities		**(210.8)**	**(410.9)**
Financing activities			
Drawdown of borrowings		3,720.0	2,315.0
Repayments of borrowings		(3,850.0)	(2,075.0)
Dividend paid	32	-	(252.8)
Upfront financing cost paid and capitalised		(2.5)	-
Net cash flows used in financing activities		**(132.5)**	**(12.8)**
Net (decrease) in cash and cash equivalents		(56.1)	(261.6)
Cash and cash equivalents at the beginning of the year		164.7	426.3
Cash and cash equivalents at the end of the year	6	**108.6**	**164.7**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements

General information

Reporting entity

The consolidated financial statements of Viva Energy Group Limited ('Company') and the entities it controlled (collectively, 'Group') for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Directors on 27 February 2019. The Company is a for-profit Company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX: VEA).

The Group is principally engaged in refining, marketing, sale, supply and distribution of fuel and related specialty products. The Group's principal place of business is 720 Bourke Street, Docklands, Australia.

Pre-IPO restructure

On 13 July 2018 the Group was part of an initial public offering ('IPO') and listed a total of 1,944,535,168 shares on the ASX. As part of the IPO process, the Group acquired 100% of the shares in Viva Energy Holding Pty Limited ('VEH') from Viva Energy B.V (a subsidiary of Vitol Investment Partnership Limited). The shares in VEH were transferred to the Group on 17 July 2018, immediately prior to the allotment of shares pursuant to the IPO on 18 July 2018. Viva Energy B.V (now known as VIP Energy Australia B.V.) remains a significant shareholder of the Group with 45% ownership interest.

The restructure has been treated as a common control transaction[1] and is outside the scope of AASB 3 *Business Combinations.* The Group elected to use predecessor accounting for the acquisition of VEH where:

- No assets or liabilities were restated to their fair values. Instead, the Group adopted VEH carrying values at the date of acquisition;
- The difference totalling $2.5 billion between the consideration given ($4.8 billion[2]) and the aggregate reorganisation date book value of VEH assets and liabilities ($2.3 billion) was included in equity within a separate IPO reserve. No goodwill was recognised; and
- VEH's results and balance sheet were incorporated into the consolidated financial statements of the Group as if both entities had always been combined. Consequently, the consolidated financial statements reflect all entities' full year results.

There were also changes to the employee option plan as part of the IPO discussed in Note 32(e) *Related party disclosures.*

Basis of preparation

Statement of compliance

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared on a historical cost basis, except for financial assets and liabilities (including derivative instruments) which have been measured at fair value.

The financial report is presented in Australian Dollars. In accordance with ASIC Legislative Instrument 2016/191, all values are rounded to the nearest one hundred thousand ($100,000), or in certain cases, to the nearest one thousand ($1,000).

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('functional currency'). The consolidated financial statements are presented in Australian dollars, which is the Group's functional and presentation currency.

[1] *A common-control transaction is a transfer of net assets or an exchange of equity interests between entities under the control of the same parent. The combining entities are ultimately controlled by the same party or parties both before and after the combination.*

[2] *Represents net transaction proceeds, calculated as total share issuance value of $4.9 billion less transaction costs of $93.9 million.*

Use of estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- Information about the assumptions and the risk factors relating to impairment are described in Note 8 *Trade and other receivables* and Note 14 *Goodwill and other intangible assets;*
- Note 12 *Property, plant and equipment* describes the policy and estimation of minimum operating stock;
- Note 15 *Provisions* provides key sources of estimation, uncertainty and assumptions used in regards to estimation of provisions;
- Note 17 *Financial assets and liabilities* and Note 23 *Fair value of financial assets and liabilities* provides an explanation of the key assumptions used to determine the fair value of financial assets and liabilities; and
- Information about the assumptions and the risk factors relating to income tax expense and deferred tax balances are described in Note 25 *Income tax and deferred tax*.

New and revised accounting standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period. The Group has reviewed and where relevant adopted the following standards in line with the AASB.

- AASB 9 *Financial Instruments* (effective 1 January 2018) discussed in Note 8 *Trade and other receivables*, Note 17 *Financial assets and liabilities*; and
- AASB 15 *Revenue from Contracts* with Customers (effective 1 January 2018) discussed in Note 1 *Revenue from contracts with customers.*

The adoption of these standards and interpretations and the new related accounting policies are disclosed in the notes referenced above.

Several other amendments and interpretations listed below apply for the first time in 2018, but do not have a significant impact on the consolidated financial statements of the Group in the current or future periods.

- AASB 2016-5 *Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions*;
- AASB 2017-1 *Amendments to Australian Accounting Standards - Transfers to Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments*;
- Interpretation 22 *Foreign Currency Transactions and Advance Consideration.*

Standards issued but not yet effective as at 31 December 2018

Australian Accounting Standards and interpretations issued, but not yet effective, as at 31 December 2018, which are likely to have a material impact are listed below and detailed in the relevant notes.

- AASB 16 *Leases* (effective 1 January 2019) discussed in Note 16 *Commitments and contingencies*

This standard (and interpretations) is applicable from periods beginning 1 January 2019 or beyond as noted by the effective date, and the Group intends to adopt this standard when it becomes effective. All other standards issued but not yet effective are not expected to have a material effect on the consolidated financial statements.

Reclassification and changes in financial presentation

Where presentation and classification of items in the consolidated financial statements changes, the comparative amounts are also reclassified unless it is impractical to do so. The nature, amounts and reason for the reclassification are also disclosed. If the reclassification affects an item on the balance sheet, a third consolidated statement of financial position is also presented.

Results for the Year

1. Revenue from contracts with customers

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	2018	2017
	$M	**$M**
Revenue from sale of goods	16,194.0	13,733.9
Non-fuels income	151.2	141.7
Other revenue	49.9	29.8
Total revenue	**16,395.1**	**13,905.4**

Revenue from sale of goods

The Group primarily generates revenue from the sale of refined products in Australia directly or indirectly to service stations for sale to motor vehicle users and to commercial businesses such as road transport, and shipping companies and airlines. The refined products that the Group sells are either refined at its own Geelong Refinery or imported into Australia as refined products.

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery. The customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. No element of financing is deemed present as the sales are made with a credit term of typically 15 to 45 days, which is consistent with market practice. Revenue is recognised based on the price specified in the contract, net of expected returns, trade allowances, rebates and GST collected on behalf of third parties. Total revenue includes the recovery of excise paid.

Non-fuels income

Non-fuel income is principally from the site lease and licence payments that the Group receives under a long-term alliance with Coles Express. Other non-fuel income is from the use of Shell Card, the payment of royalties on convenience sales at alliance retail sites and commissions paid by the operators of retail agent sites.

(i) Shell Card Fees

The Group offers Shell Cards that provide customers a secure and efficient way to buy quality fuels, access an extensive national service stations network and the option to use online tools to manage fuel spending. The Group charges a monthly card fee to its customers for the use of the card. Revenue from Shell Card is recognised over a period of time. No element of financing is deemed present as the sales are made with a credit term of typically 15 to 45 days, which is consistent with market practice.

(ii) Royalties

The Group receives royalties on convenience store sales in excess of agreed sales thresholds. The amount payable to the Group is calculated on an annual basis as a percentage of any excess over a threshold amount of gross sales of certain kinds of goods and services made on certain sites. Revenue from royalties is recognised over a period of time.

(iii) Brand Licence Fees

Licence fees relate to the right to access and to market fuel under the Shell brand. The Group (i.e. licensor) holds the licence to Shell brand and therefore retains the control over the brand. Revenue from licence fees is recognised over time over the licence period.

1. Revenue from contracts with customers (continued)

Non-fuels income (continued)

(iv) Site Lease & Licence

The Group has granted to Coles Express a lease (or licence) of the premises for the conduct of its business from that site and the right to use the fuel equipment on the premises for the conduct of its business. The headleases remain with the Group, as well as the obligation to maintain fuel, signage and forecourt infrastructure. The right to use and occupy the sites or grant such rights to another third party will revert to the Group upon expiry of the contractual term.

Calculation of the site lease and licence fee payable by Coles Express is detailed in each Site Agreement and on commercial terms that are bespoke to the Alliance Arrangements. Revenue from lease/licence fees is recognised over time over the lease/licence period.

These site licences have been assessed to be leases for the purposes of meeting revenue standard requirements.

Other revenue

Other income includes rental recoveries, income from sub-leases and management fees earned through the Aviation business.

Assets and liabilities related to contracts with customers

There were no assets or liabilities recognised in the balance sheet related to revenue from contracts with customers because the period of amortisation is less than one year.

Disaggregation of revenue from contracts with customers

No one customer accounts for more than 10% of revenue other than income obtained from Eureka Operations Pty Ltd (Coles Express) which operates 666 Viva Energy controlled service stations in alliance with the Group.

AASB 15 Revenue from Contracts with Customers – Impact of adoption

AASB 15 *Revenue from Contracts with Customers* specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services when control of the goods or services passes to the customer. The revenue to be recognised should reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Group adopted AASB 15 using the full retrospective method of adoption with the date of initial application of 1 January 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all contracts as at 1 January 2018.

The cumulative effect of initially applying AASB 15 should be recognised at the date of initial application as an adjustment to the opening balance of retained earnings. There were no retrospective adjustments to retained earnings as the net impact of the adjustment is nil.

The Group previously showed revenue and cost of goods sold on a gross basis for certain buy-sell contracts it holds with other industry participants for the purchase and sale of refined products. New standard guidance implies that these contracts are not within the scope of AASB 15 and revenue was adjusted to be shown on a net basis in respect of these contracts under the new standard. An equivalent adjustment to remove the purchase side from cost of goods sold was also made, and thus there is no impact on Gross Profit or on Profit after Tax. The adjustment for the full year to 31 December 2018 reduced revenue and cost of goods sold by $1,966.8 million as compared to what would have been recorded under the previous revenue standard. The 2017 prior period comparative revenue and cost of goods sold have also been adjusted down by $1,755.2 million to comply with retrospective application of the new standard.

2. Expenses

	2018	2017
Operating leases	**$M**	**$M**
Leases from Viva Energy REIT	(134.0)	(125.6)
Other operating leases	(127.0)	(114.5)
Non-cash straight lining on leases	(25.3)	(28.9)
Total operating leases	**(286.3)**	**(269.0)**

	2018	2017
Realised/unrealised gain/(loss) on derivatives	**$M**	**$M**
Derivative contracts	39.7	(41.1)

The Group is exposed to the effect of changes in foreign exchange and commodity price movements. During the year the Group entered into derivative contracts, being principally foreign exchange currency contracts (forwards and swaps) and commodity derivative instruments for the purpose of managing the market risks arising from the Group's operations and to hedge market exposure.

Derivatives are recognised at fair value. The gain or loss on subsequent remeasurement is recognised immediately in the consolidated statement of profit or loss. For the year ended 31 December 2018 and including any open positions at balance date, gains of $39.7 million were made (2017: $41.1 million loss). The gains in the current period were the result of various commodity price movements and a weakening AUD through the year.

	2018	2017
Foreign exchange gain/(loss)	**$M**	**$M**
Foreign exchange gains	123.5	141.3
Foreign exchange losses	(153.1)	(123.6)
Net foreign exchange gain/(loss)	**(29.6)**	**17.7**

Foreign currency transactions are translated into Australian dollars using the exchange rate at the date of transactions. Gains and losses resulting from the settlement of such transactions and from the translation of foreign exchange denominated monetary assets and liabilities at year end exchange rates are recognised in profit or loss. The net foreign exchange gain/(loss) primarily relates to the foreign currency movements arising from the Group's trade and other payables.

	2018	2017
Finance costs	**$M**	**$M**
Interest on borrowings, trade finance and commitment fees	(24.5)	(17.4)
Interest on finance lease	(8.0)	(7.9)
Unwinding of discount on provisions	(9.4)	(6.0)
Total finance costs	**(41.9)**	**(31.3)**

As at 31 December 2018 the Group had $1.6 million in net borrowing costs capitalised (2017: $0.7 million) amortising over the current terms of the borrowings facility.

	2018	2017
Impairment	**$M**	**$M**
Impairment of receivables	(1.4)	(0.5)
Total impairment	**(1.4)**	**(0.5)**

3. Segment information

The Group has identified its operating segments on the basis of how the Chief Operating Decision Maker reviews internal reports about components of the Group to assess performance and determine the allocation of resources. The Group is organised into business units based on operational activities and has three reportable segments:

Retail, Fuels and Marketing

The Retail, Fuels and Marketing segment consists of both retail and commercial sales and marketing of fuel and specialty products in Australia under the Shell and Viva Energy brands as well as generation of substantial non-fuel income. All sales and marketing focused activities are included in this segment.

Refining

The Group's Geelong refinery in Corio, Victoria refines crude oil into petrol, diesel and jet fuel. The refinery also manufactures and produces specialty products such as liquid petroleum gas, bitumen, oils, and chemical products.

Supply, Corporate and Overheads

The Group owns and manages an integrated supply chain of terminals, storage facilities, depots, pipelines and distribution assets throughout Australia in order to facilitate product distribution and delivery through wholesale and retail sites. This segment also includes property expenses and corporate functions that facilitate business activity. These activities have been grouped as a segment as they largely represent the overhead base of the business and undertake all the non-sales and non-manufacturing activities within the Group.

Management monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. The performance of operating segments is evaluated based on segment profit and loss, and is measured consistently with profit or loss in the consolidated financial statements in accordance with the Group's accounting policies. Transfer prices between operating segments are on an arm's length basis similar to transactions with third parties.

Information about reportable segments

31 December 2018	**Retail, Fuels and Marketing**	**Refining**	**Supply, Corporate and Overheads**	**Total Segments**
	$M	**$M**	**$M**	**$M**
Segment revenue:				
Total segment revenue	16,046.4	4,495.2	15,090.7	35,632.3
Inter-segment revenue	-	(4,495.2)	(14,742.0)	(19,237.2)
External segment revenue	**16,046.4**	**-**	**348.7**	**16,395.1**
Gross Profit	1,304.4	301.5	39.1	1,645.0
Net inventory gain/(loss)	-	-	(93.6)	(93.6)
Gross Profit	**1,304.4**	**301.5**	**(54.5)**	**1,551.4**
Profit before interest, tax, depreciation and amortisation	**932.6**	**124.5**	**(580.5)**	**476.6**
Interest income	-	-	2.7	2.7
Depreciation and amortisation expenses	(45.6)	(52.0)	(32.1)	(129.7)
Finance costs	(9.9)	-	(32.0)	(41.9)
Segment profit before tax expense	**877.1**	**72.5**	**(641.9)**	**307.7**
Other material items:				
Share of profit of associates	-	-	63.5	63.5
Capital expenditure	45.9	84.5	110.9	241.3

3. Segment information (continued)

31 December 2017	Retail, Fuels and Marketing	Refining	Supply, Corporate and Overheads	Total Segments
	$M	**$M**	**$M**	**$M**
Segment revenue:				
Total segment revenue	13,459.8	3,707.7	14,664.0	31,831.5
Inter-segment revenue	-	(3,707.7)	(14,218.4)	(17,926.1)
External segment revenue	**13,459.8**	**-**	**445.6**	**13,905.4**
Gross Profit	1,232.4	483.3	40.0	1,755.7
Net inventory gain/(loss)	-	-	(8.7)	(8.7)
Gross Profit	**1,232.4**	**483.3**	**31.3**	**1,747.0**
Profit before interest, tax, depreciation and amortisation	**885.5**	**276.1**	**(575.5)**	**586.1**
Interest income	-	-	3.6	3.6
Depreciation and amortisation expenses	(34.9)	(46.2)	(26.2)	(107.2)
Finance costs	(15.5)	-	(15.7)	(31.3)
Segment profit before tax expense	**835.1**	**229.9**	**(613.8)**	**451.2**
Other material items:				
Share of profit of associates	-	-	65.4	65.4
Capital expenditure	73.5	52.8	106.0	232.3

Geographical information

The Group's country of domicile is Australia. The Group has operations in Australia and Singapore however all revenues are generated in Australia. All of the Group's non-financial non-current assets are located in Australia.

4. Earnings per share

Basic earnings per share ('EPS') is calculated by dividing the profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive options into ordinary shares. In line with the requirements of AASB 133 *Earnings per Share* adjustments to the weighted average number of ordinary and diluted shares are made for events, other than the conversion of potential ordinary shares, that have changed the number of shares outstanding without a corresponding change in resources.

The following tables reflect the earnings and share data used in the basic and diluted EPS computations:

(a) Basic earnings per share

	2018	2017
	Cents	**Cents**
Total basic earnings per share attributable to the ordinary equity holders of the Group	29.8	14.9

(b) Diluted earnings per share

	2018	2017
	Cents	**Cents**
Total diluted earnings per share attributable to the ordinary equity holders of the Group	29.4	14.6

4. Earnings per share (continued)

(c) Weighted average number of shares used as the denominator

	2018 Number	2017 Number
Weighted number of ordinary shares used as the denominator in calculating basic earnings per share	1,944,535,168	1,944,535,168
Adjustments for calculation of weighted diluted earnings per share: Options	29,211,925	37,488,003
Weighted number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	1,973,747,093	1,982,023,171

(d) Information concerning the classification of securities

Ordinary Shares

Ordinary shares at 31 December 2018 represent the 1,944,535,168 shares listed on the ASX as part of the IPO on 13 July 2018. As part of the IPO process, the Group acquired all 809,323,406 shares in VEH from Viva Energy B.V that represented the number of ordinary shares within the Group at the end of the previous period and immediately prior to the IPO.

Per the requirements of AASB 133, the 1,944,535,168 ordinary shares upon listing represents the denominator in calculating the weighted average earnings per share for both 2018 and 2017 after adjusting for the change in ownership profile that ultimately did not change the resources of the Group. As applicable, this approach has also been used for the adjustment to calculate diluted earnings per share.

Any profit is available for distribution to the holders of Viva Energy Group Limited ordinary shares in equal amounts per share, subject to the Group's approved dividend strategy.

Options

Options granted to employees under the Group's Long Term Incentive Plan are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share if the exercise price of the options is lower than the listed share price of Group shares as at 31 December 2018. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in Note 32 *Related party disclosures*.

Working capital and cash flow

5. Inventories

	2018	2017
	$M	**$M**
Crude for processing	198.8	317.5
Hydrocarbon finished products	793.6	630.0
	992.4	**947.5**
Stores and spare parts	18.9	17.7
Total inventories	**1,011.3**	**965.2**

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in, first-out ('FIFO') principle and includes the direct cost of acquisition or manufacture plus a proportionate share of appropriate functional overheads, depreciation and amortisation. The inventory management system used by the Group is based on replacement cost methodology. Certain management estimates are required to adjust replacement cost to the FIFO method in order to comply with accounting standard requirements.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Net realisable value is determined based on market selling price under existing contracts.

Impairment of inventories is recognised when net realisable value falls below carrying cost. This primarily occurs as a result of movements in crude oil and refined product prices between the date of purchase and balance date. Impairment of inventories during the year amounted to $27.7 million (2017: nil) and is recorded in net inventory gain/(loss) in the consolidated statement of profit or loss.

During the year, a net inventory loss of $93.6 million (2017: $8.7 million loss) was recorded in net inventory gain/(loss) which accounts for the net impact of movement in oil prices on inventory sold. Net inventory gains and losses within costs of goods sold represent the difference between the cost of goods sold calculated using the replacement cost of inventory and the cost of goods sold calculated on the FIFO method. Under the FIFO method, which is used to comply with accounting standard requirements, the cost of inventory charged to the statement of profit and loss is based on its historical cost of purchase or manufacture, rather than its replacement cost at the time of sale.

Fluctuations in foreign exchange and commodity prices (which are impacted by both the USD oil price and the foreign exchange rate) can have a distorting effect on the Group's underlying results, and the replacement cost of goods sold quantifies this impact. Replacement cost of goods sold is a non-International Financial Reporting Standards measure, and is used by management to present a clearer picture of the Group's underlying business performance before impacts from movements in oil price and foreign exchange. The Group's replacement cost methodology is consistent with the methods used by other companies in comparable industries.

6. Cash and cash equivalents

	2018	2017
	$M	**$M**
Cash at bank	108.6	164.7

Cash and cash equivalents include cash deposits held at call with financial institutions. Cash at bank earns interest at floating rates based on daily bank deposit rates during the year, and at the end of the reporting year there were no restrictions on cash (2017: nil).

7. Reconciliation of profit to net cash flows from operating activities

	2018	2017
	$M	$M
Profit	**579.6**	**289.7**
Adjustments for:		
Net gain on other disposal of property, plant and equipment	(10.2)	(15.7)
Depreciation and amortisation	129.7	107.2
Non-cash interest and amortisation on long term loans	1.6	0.6
Non-cash movement in financial assets	-	(4.8)
Non-cash share based payment expense	-	0.2
Amortisation of finance lease	0.3	0.4
Unrealised loss/(gain) on derivatives	(23.9)	16.4
Unrealised foreign exchange movements	24.4	(22.1)
Share of associate's profit not received as dividends or distributions	(63.5)	(65.4)
Non-cash employee share option taken up in reserve	1.9	-
Non-cash tax expense relating to IPO transaction cost offset against IPO reserve	0.1	-
Net cash flows from operating activities before movements in assets/liabilities	**640.0**	**306.5**
Movements in assets and liabilities:		
Working capital balances		
(Increase)/decrease in receivables*	31.0	(155.3)
Increase/(decrease) in other receivables arising from land sales	(53.2)	53.2
(Increase) in inventories*	(46.2)	(297.5)
Increase in payables*	299.6	243.4
Other		
Decrease/(increase) in other assets*	(9.2)	1.0
(Increase) in deferred tax assets**	(343.2)	(8.4)
Decrease in post-employment benefits	1.9	1.0
(Decrease) in tax liability**	(209.1)	(33.5)
Increase/(decrease) in provisions*	(24.4)	51.7
Net cash flows from operating activities	**287.2**	**162.1**

** Movements in the assets and liabilities for the year ended 31 December 2017 have been adjusted for the assets and liabilities transferred from Shell Aviation Australia Pty Ltd ('Shell Aviation') which was acquired on 31 May 2017, as well as elimination of intercompany balances due to the acquisition. Refer to Note 27 Business combinations for further details.*

*** Figures exclude the tax impact of IPO transaction costs which are offset against reserves.*

8. Trade and other receivables

	2018	2017
	$M	$M
Trade receivables		
Trade receivables	914.0	955.6
Provision for impairment of receivables	(4.3)	(5.6)
Total trade receivables	**909.7**	**950.0**
Other receivables		
Receivables from related parties	170.0	69.8
Consideration receivable	-	49.4
Other debtors	59.0	95.8
Total other receivables	**229.0**	**215.0**
Total receivables	**1,138.7**	**1,165.0**

8. Trade and other receivables (continued)

Trade receivables

Trade receivables are non-interest-bearing and are generally on terms of 15 to 45 days. Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are recognised initially at fair value and are held with the objective to collect the contractual cash flows, and therefore subsequently measured at amortised cost using the effective interest method. Due to the short term maturity, the carrying amount approximates the fair value. Periodically, the Group enters into factoring arrangements on specific trade receivable balances as part of their overall collections strategy. At 31 December 2018 there were no outstanding trade receivables subject to factoring (2017: nil).

The Group applies the AASB 9 simplified approach to measuring trade receivable expected credit losses which uses a lifetime expected loss allowance for expected credit losses for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over past periods using historical data and also using forward looking projections of customer payment expectations. Trade receivables are often insured for events of non-payment, through third party insurance, which has also been factored into the expected loss rate calculations.

The loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of AASB 9) was determined as follows for trade receivables:

31 December 2018	Total	Current	Not more than 30 days past due	More than 30 days but not more than 60 days past due	More than 60 days but not more than 90 days past due	More than 90 days but not more than 120 days past due	More than 120 days past due
	$M	$M	$M	$M	$M	$M	$M
Expected loss rate		0.4%	1.0%	2.0%	5.0%	10.0%	15.0%
Gross carrying amount – trade receivables	914.0	874.0	28.6	2.7	3.1	1.9	3.7
Loss allowance	(4.3)	(3.0)	(0.3)	(0.1)	(0.2)	(0.2)	(0.5)

1 January 2018	Total	Current	Not more than 30 days past due	More than 30 days but not more than 60 days past due	More than 60 days but not more than 90 days past due	More than 90 days but not more than 120 days past due	More than 120 days past due
	$M	$M	$M	$M	$M	$M	$M
Expected loss rate		0.5%	1.0%	2.0%	5.0%	10.0%	15.0%
Gross carrying amount – trade receivables	955.6	913.9	32.5	1.4	0.2	0.2	7.4
Loss allowance	(5.6)	(4.1)	(0.3)	(0.1)	-	-	(1.1)

Movements in the allowance for impairment of receivables were as follows:

	2018	2017
	$M	$M
31 December – calculated under AASB 139	(5.6)	(6.0)
Amounts restated through opening retained earnings	-	-
Opening loss allowance as at 1 January 2018 – calculated under AASB 9	(5.6)	(6.0)
Increase in loss allowance recognised in profit or loss during the year	(1.4)	(0.5)
Receivables written off as uncollectable	2.7	0.9
At 31 December	**(4.3)**	**(5.6)**

The creation and release of loss allowances for trade receivables has been included within impairment expense in the consolidated statement of profit or loss. Amounts charged to the allowance account are generally written off when there is no reasonable expectation of recovering additional cash.

8. Trade and other receivables (continued)

Other receivables

Other receivables include receivables from related parties and other debtors of which the majority relates to GST receivable balances and other specific receivable balances. Other receivables are measured at amortised cost as they are held with the objective to collect contractual cash flows of principal and interest payments. Given the nature of the other receivable balances and based on both previous history of collections and future expectations of receipts, management believe that other receivables are fully collectable and have not applied a credit loss allowance to these balances.

Consideration receivable relates primarily to amounts relating to the recovery of certain costs from Shell. These were collected in 2018.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included within trade and other receivables or trade and other payables in the consolidated statement of financial position.

9. Prepayments

	2018	2017
	$M	$M
Head leases	50.1	48.6
Other prepayments	20.9	13.6
Total prepayments	**71.0**	**62.2**

Other prepayments primarily relate to prepaid council rates, insurance and shipping related costs.

10. Trade and other payables

	2018	2017
	$M	$M
Trade payables	619.7	585.3
Amounts due to related parties	1,290.3	989.0
Amounts due to associates	12.8	11.7
Total trade and other payables	**1,922.8**	**1,586.0**

Trade payables and amounts due to related parties are non-interest-bearing and are normally settled in 30 to 60 days. Amounts due to related parties are primarily for purchases of hydrocarbon. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the end of the reporting period. The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

11. Short-term borrowings

	2018	2017
	$M	$M
Short-term bank loans (secured)	-	240.0
Net capitalised borrowing costs on short term bank loans (secured)	-	(0.7)
Short-term finance lease liability	7.2	7.1
Total short-term borrowings	**7.2**	**246.4**

Borrowings are initially recognised at fair value, net of transaction costs incurred, and are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

11. Short-term borrowings (continued)

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

On 26 March 2018, the Group refinanced the short-term US$900 million secured borrowing base facility and replaced it with a long-term US$700 million unsecured revolving credit facility which has an initial 2 year term and a 1 year extension option. The first utilisation date under the new facility was 28 March 2018. For further details, refer to Note 19 *Long-term borrowings*. The short term bank loans in 2017 were secured against Group cash, inventory and receivable assets totalling US$1.5 billion at 31 December 2017.

Long-term assets and liabilities

12. Property, plant and equipment

	Construction in progress	Freehold land	Freehold buildings	Leasehold buildings	Plant and equipment	Total
	$M	$M	$M	$M	$M	$M
Cost						
As at 1 January 2017	209.6	166.7	157.6	58.6	807.6	1,400.1
Additions	158.2	5.6	4.4	-	73.4	241.6
Acquisition of Aviation Business	10.4	3.2	28.4	-	71.2	113.2
Disposals*	(3.2)	(59.7)	(1.1)	-	(10.8)	(74.8)
Transfers	(153.0)	7.6	13.8	8.1	123.5	-
As at 31 December 2017	**222.0**	**123.4**	**203.1**	**66.7**	**1,064.9**	**1,680.1**
Additions	230.4	-	2.1	-	8.8	241.3
Disposals	-	(10.2)	(0.3)	-	(2.2)	(12.7)
Transfers**	(180.3)	(0.3)	1.2	(0.6)	129.1	(50.9)
As at 31 December 2018	**272.1**	**112.9**	**206.1**	**66.1**	**1,200.6**	**1,857.8**
Accumulated depreciation						
As at 1 January 2017	-	-	(29.7)	(7.7)	(137.6)	(175.0)
Depreciation	-	-	(10.0)	(3.2)	(83.6)	(96.8)
As at 31 December 2017	**-**	**-**	**(39.7)**	**(10.9)**	**(221.2)**	**(271.8)**
Depreciation	-	-	(11.1)	(3.2)	(100.4)	(114.7)
As at 31 December 2018	**-**	**-**	**(50.8)**	**(14.1)**	**(321.6)**	**(386.5)**

**Disposals in 2017 included a sales transfer of $53.2 million to the immediate parent entity.*

***Net transfers out of $50.9 million represents the completed JDE ERP system transferred from construction in progress to intangibles during the 2018 period.*

	Construction in progress	Freehold land	Freehold buildings	Leasehold buildings	Plant and equipment	Total
Net book value						
As at 31 December 2017	222.0	123.4	163.4	55.8	843.7	1,408.3
Less: Assets held for sale	-	(8.1)	(0.3)	-	(1.3)	(9.7)
Net book value as at 31 December 2017	**222.0**	**115.3**	**163.1**	**55.8**	**842.4**	**1,398.6**
As at 31 December 2018	272.1	112.9	155.3	52.0	879.0	1,471.3
Less: Assets held for sale	-	(4.0)	-	-	(0.1)	(4.1)
Net book value as at 31 December 2018	**272.1**	**108.9**	**155.3**	**52.0**	**878.9**	**1,467.2**

All property, plant and equipment is stated at historical cost less depreciation, with the exception of construction in progress and freehold land which are not subject to depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

12. Property, plant and equipment (continued)

Depreciation on assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Buildings — 20 years
- Plant and equipment — 5 to 15 years
- Supply and refining infrastructure — 20 to 30 years
- Land — Not depreciated

Minimum operating stock – significant estimate

Minimum operating stock which is the minimum level of inventories held in the entire supply chain and is necessary to operate supply and refining as a going concern, is treated as part of property, plant and equipment. It is valued at cost and is depreciated over the estimated useful life of the related asset to its estimated residual value.

Assets held for sale

The Group has a number of in use property, plant and equipment assets that are classified as held for sale from continuing operations. These assets include retail, supply chain and aviation assets totalling $4.1 million (2017: $9.7 million) and meet the AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* classification requirements.

13. Long-term receivables

	2018	2017
	$M	$M
Receivables	9.0	6.7
Loans to related parties	8.5	5.0
Total non-current receivables	**17.5**	**11.7**

14. Goodwill and other intangible assets

	Goodwill	Software	Customer contracts	Joint venture rights	Total
	$M	$M	$M	$M	$M
Net book value					
As at 1 January 2017	-	-	8.9	-	8.9
Additions	213.3	-	20.9	152.1	386.3
Amortisation for the year	-	-	(6.0)	(4.5)	(10.5)
Impairment for the year	-	-	-	-	-
As at 31 December 2017	**213.3**	**-**	**23.8**	**147.6**	**384.7**
Cost	213.3	-	35.8	152.1	401.2
Accumulated amortisation and impairment	-	-	(12.0)	(4.5)	(16.5)
As at 31 December 2017	**213.3**	**-**	**23.8**	**147.6**	**384.7**
Additions	9.8	50.9	2.1	-	62.8
Amortisation for the year	-	(1.4)	(5.9)	(7.7)	(15.0)
Impairment for the year	-	-	-		
As at 31 December 2018	**223.1**	**49.5**	**20.0**	**139.9**	**432.5**
Cost	223.1	50.9	37.9	152.1	464.0
Accumulated amortisation and impairment	-	(1.4)	(17.9)	(12.2)	(31.5)
As at 31 December 2018	**223.1**	**49.5**	**20.0**	**139.9**	**432.5**

14. Goodwill and other intangible assets (continued)

(a) Goodwill

Goodwill arises when the fair value of the consideration paid for a business acquisition exceeds the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Where consideration is less than the fair value of acquired net assets, the difference is recognised immediately in the consolidated statement of profit and loss. Goodwill is not amortised and is measured at cost less any impairment losses. In accordance with Australian accounting standard requirements, goodwill is allocated to a Cash-Generating Unit (CGU) and is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

A CGU level summary of the goodwill allocation is presented below

	2018	2017
	$M	$M
Marketing and Supply	223.1	213.3
Refining	-	-
Total goodwill recognised	**223.1**	**213.3**

Goodwill represents other intangible assets that did not meet the criteria for recognition as separately identifiable assets at the date of the Shell Aviation acquisition in 2017, with an additional $9.8 million recognised in 2018 due to an adjustment to the purchase price allocation upon finalisation of the accounting for the acquisition, in line with AASB 3 *Business Combinations*. The Group acquired Shell Aviation as its operations align with the Group's core operations and provides additional channels and infrastructure to support the sale and growth of the Group's aviation fuel products. The recognised goodwill has been allocated to the Marketing and Supply CGU and is tested for impairment annually based on a value-in-use calculation. The calculation uses pre-tax cash flow projections based on financial budgets approved by management with conservative growth rates that do not exceed industry expectations.

Key assumptions in the value-in-use calculation

Assumption	Approach used to determining values
Cash flow	Earnings before interest, tax, depreciation and amortisation adjusted for working capital movement expectations and capital spend projections
Estimated long term average growth rate	3%
Pre-tax discount rate	8.4%

The above key assumption values used in the goodwill assessment represent management's expectations of future trends within the industry of which the Marketing and Supply CGU operates, based on both external and internal data sources. Management have considered and assessed reasonably possible changes in the key assumptions used and have not identified any instances that could cause the carrying amount of the Marketing and Supply CGU to exceed its recoverable amount.

There were no goodwill impairment losses recognised during the year ended 31 December 2018 (2017: nil)

(b) Other intangibles

The Group capitalises amounts paid for the acquisition of identifiable intangible assets, such as software, customer contracts and joint venture rights, where it is considered that they will provide benefit in future periods through revenue generation or reductions in costs. These assets, classified as finite life intangible assets, are carried in the consolidated statement of financial position at the fair value of consideration paid less accumulated amortisation and impairment losses.

Intangible assets with finite useful lives are amortised on a straight-line basis over their useful lives. Amortisation for the period is included within the depreciation and amortisation expenses in the statement of profit and loss. The estimated useful lives in the current and comparative periods are reflected by the following amortisation periods:

- Software — 5 to 12 years
- Customer contracts — 6 to 10 years
- Joint venture rights — 20 years

14. Goodwill and other intangible assets (continued)

(b) Other intangibles (continued)

(i) Software

During 2018 the Group successfully transitioned from the legacy SAP enterprise platform to Oracle JDE following the 18-month planning and transitioning process, with a total project cost of $50.9 million. As at 31 December 2018, the carrying amount of this software was $49.5 million (2017: nil).

The Group estimates the useful life of the software to be at least 12 years based on the expected technical obsolescence of such asset. This useful life profile conservatively aligns with the written commitment to provide premier support of the platform, underpinning the asset integrity of the system until at least December 2030, not including extended support option periods generally available. The actual useful life may be shorter or longer than 12 years, depending on technical innovations.

(ii) Customer contracts and joint venture rights

The customer contracts and joint venture rights were acquired as part of a business combination, namely, the Shell acquisition in 2014 and the Shell Aviation acquisition in 2017. These intangible assets were recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line based on the timing of projected cash flows of the contracts over their estimated useful lives.

15. Provisions

	Employee benefits	Restructuring provision	Asset retirement obligation	Environmental remediation	Other	Total
	$M	$M	$M	$M	$M	$M
At 1 January 2018	**98.4**	**4.8**	**91.9**	**51.2**	**75.1**	**321.4**
Additions (write-back)	25.8	10.5	(2.7)	1.0	22.5	57.1
Utilised	(53.0)	(12.8)	(4.7)	(12.0)	(8.1)	(90.6)
Unwinding of discount	2.2	-	6.2	0.8	0.2	9.4
At 31 December 2018	**73.4**	**2.5**	**90.7**	**41.0**	**89.7**	**297.3**
Current	67.0	2.5	12.0	20.9	20.8	123.2
Non-current	6.4	-	78.7	20.1	68.9	174.1

	Employee benefits	Restructuring provision	Asset retirement obligation	Environmental remediation	Other	Total
	$M	$M	$M	$M	$M	$M
At 1 January 2017	**86.7**	**6.9**	**94.7**	**35.0**	**33.5**	**256.8**
Additions (write-back)	44.2	6.8	(10.8)	20.6	43.0	103.8
Utilised	(41.1)	(8.9)	(1.3)	(5.9)	(2.1)	(59.3)
Unwinding of discount	2.4	-	3.2	0.1	0.3	6.0
Transfers from Shell Aviation acquisition	6.2	-	6.1	1.4	0.4	14.1
At 31 December 2017	**98.4**	**4.8**	**91.9**	**51.2**	**75.1**	**321.4**
Current	89.8	4.6	16.8	26.4	14.5	152.1
Non-current	8.6	0.2	75.1	24.8	60.6	169.3

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

15. Provisions (continued)

(a) Employee benefits

Liabilities for wages and salaries, including annual leave and sick leave expected to be settled within 12 months of the end of the year, are measured at the amounts expected to be paid.

Liabilities for long service leave and annual leave that are not expected to be settled within 12 months of the end of the year are measured at present value. In determining present value, consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are adjusted for future wage and inflation movement expectations, and discounted using market yields of corporate bonds.

(b) Asset retirement obligation – significant estimate

The present value of costs for the future dismantling and removal of assets, and restoration of the site on which the assets are located, is capitalised and depreciated over the useful life of the asset. Subsequent accretion to the amount of a provision due to unwinding of discounting is recognised as a finance cost.

The costs for the future dismantling and removal of assets is based upon management's best estimate using actual costs incurred in similar past projects inflated to the estimated end of useful life date and discounted using an appropriate discount rate.

The Group has recognised a provision associated with plant and equipment including tanks at retail service station sites and fuel storage terminals. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, the expected cost to dismantle and remove the assets from the site and the expected timing of those costs. The carrying amount of the provision as at 31 December 2018 was $90.7 million (2017: $91.9 million). The Group estimates that the costs would be realised upon exit of the sites or disposal of the assets.

(c) Environmental provision – significant estimate

Provisions for environmental remediation resulting from ongoing or past operations or events are recognised in the period in which an obligation, legal or constructive, to a third party arises and the amount can be reasonably measured. Measurement of liabilities is based on current legal requirements and existing technology. Liabilities are determined independently of expected insurance or other recoveries.

Where environmental impact studies have been completed, the result of this is used to estimate cost at the expected time of exit from the site. In other cases, estimates are based on management experience of remediation at similar sites projected over the estimated remaining occupancy of the site, or the remaining term of the lease.

16. Commitments and contingencies

(a) Capital commitments

At 31 December 2018, the Group had capital expenditure contracted for at the reporting date but not recognised as liabilities related to property, plant and equipment totalling $40.2 million (2017: $81.6 million). Included within the total capital commitments is $9.6 million (2017: $9.2 million) in commitments which represents the Group's share of the contracts entered into by associate companies totalling $22.3 million for retail outlets, an investment property and capital improvements. Refer to Note 28 *Interests in associates and joint operations* for further information.

(b) Lease commitments

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease against the requirements of the accounting standards.

(i) Finance lease – Group as a lessee

A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

16. Commitments and contingencies (continued)

(b) Lease commitments (continued)

Future minimum lease payments under finance lease are as follows:

	2018		2017	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	$M	$M	$M	$M
Within one year	7.9	7.2	7.7	7.1
After one year but not more than five years	33.5	21.1	32.7	20.6
More than five years	102.7	22.5	111.3	22.9
Total minimum lease payments	**144.1**	**50.8**	**151.7**	**50.6**
Less: Finance charges	(93.3)	-	(101.1)	-
Present value of minimum lease payments	**50.8**	**50.8**	**50.6**	**50.6**

(ii) Operating lease – Group as a lessee

A lease in which the Group does not transfer substantially all the risks and rewards of ownership of an asset is classified as an operating lease. Operating lease payments are recognised as an operating expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

Future minimum lease expense expected to be paid in relation to non-cancellable leases as lessee are as follows:

	2018	2017
	$M	$M
Within one year	303.0	282.0
After one year but not more than five years	937.3	936.7
More than five years	1,675.5	1,892.8
Total	**2,915.8**	**3,111.5**

Within the above commitments, the following are minimum lease payments in relation to non-cancellable operating leases payable to Viva Energy REIT are as follows:

	2018	2017
	$M	$M
Within one year	135.7	131.4
After one year but not more than five years	581.3	562.7
More than five years	1,376.5	1,542.2
Total	**2,093.5**	**2,236.3**

Standards issued but not yet effective as at 31 December 2018 impacting Leases

AASB 16 *Leases* (effective 1 January 2019)

AASB 16 *Leases* represents a significant change to how lessees account for operating leases. Under the new standard, as a lessee the Group will be required to:

- recognise all right of use assets and lease liabilities, with the exception of low value and short-term leases, on the consolidated statement of financial position. The asset/liability is initially measured at the present value of future lease payments for the lease term, which includes any lease extension options if the Group is reasonably certain that it will exercise the option;
- recognise depreciation of right to use assets and interest on lease liabilities in the consolidated statement of profit and loss over the lease term; and
- present separately the total cash paid into a principal portion and interest portion within the consolidated statement of cash flows.

The adoption of AASB 16 will therefore result in higher assets and liabilities in the consolidated statement of financial position and charges to the consolidated statement of profit and loss will be included in depreciation and interest which are excluded from profit before interests, taxes, depreciation and amortisation (although included in profit before income tax). Under AASB 16, lessees will have one accounting model for accounting for leases, which is similar to the current finance lease model in AASB 117 *Leases.*

16. Commitments and contingencies (continued)

(b) Lease commitments (continued)

An early estimate of the impact on the 2019 results was included in the Prospectus forecast financial information. The Group has a work program in place and continues to progress work on the impact of the new standard, which has included:

- Collating a complete list of applicable lease arrangements to which the standard applies;
- Review procedures to identify key characteristics of existing contractual arrangements;
- Determination of lease terms to be capitalised and the inclusion of option extension periods where appropriate;
- Determination of an appropriate discount rate to be applied to both initial implementation for existing leases and a methodology to be applied to new leases going forward;
- Appropriate initial implementation methodology (full retrospective or simplified prospective); and
- Impact (if any) on existing sub-lease / rental income arrangements and their classification.

Depending on the methodology and assumptions adopted as part of the approach, it is expected that the impact range on the balance sheet would be between $2.1 billion and $2.6 billion had the Group early adopted the changes as at 31 December 2018. The Group is in a position to support the system, process and reporting requirements needed to be able to meet the requirements of the new standard when it becomes effective. It is expected that the Group will adopt the fully simplified approach which allows the liability to be calculated at transition date based on the present value of future payments at transition date.

The application of AASB 16 *Leases* will also affect accounting for the Group's leasing arrangements where it acts as sub-lessor. Although lessor accounting is not significantly changing under AASB 16 as the Group will now be recognising right of use assets for the head lease arrangement, a re-assessment of the sub-lease will need to be made to assess whether this now represents a finance lease of the recognised right of use asset. Where the lease terms are substantially matched, it is anticipated that these will represent finance leases and the right of use asset will be derecognised and replaced with a finance lease receivable. For such leases, operating lease rental income will no longer be recorded and will instead be replaced with interest income on the finance lease receivable balance.

(iii) Operating lease – Group as a lessor

The Group leases out various service station sites, office premises, vehicles, shipping vessels and storage facilities under non-cancellable operating leases expiring within 2 to 16 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Future minimum lease income expected to be received in relation to non-cancellable leases as lessor are as follows:

	2018	2017
	$M	$M
Within one year	142.1	148.7
After one year but not more than five years	510.6	490.7
More than five years	749.5	947.9
Total	**1,402.2**	**1,587.3**

(c) Guarantees

As at 31 December 2018, guarantees amounting to $58.5 million (2017: $51.5 million) have been given in respect of the Group's share of workers compensation, sureties for major contracts and other matters including government works.

Under the terms of the Deed of Cross Guarantee entered in accordance with ASIC Instrument 2016/785, each Australian Group entity guarantees to each creditor payment in full of any debt in accordance with the Deed. Parties to the deed are identified in Note 30 *Deed of cross guarantee*. No liabilities have been recognised in the consolidated statement of financial position in respect of financial guarantee contracts.

(d) Contingencies and other disclosures

(i) Stamp duty – Viva Energy REIT

On 24 September 2018, Viva Energy REIT received an assessment from the Victorian State Revenue Office ('SRO') for $31.2 million. The assessment relates to the transfer of properties prior to the completion of the Viva Energy REIT IPO in August 2016. Pursuant to the arrangements between Viva Energy REIT and the Group at the time, which were disclosed in the Prospectus, any such costs are payable by the Group.

16. Commitments and contingencies (continued)

(d) Contingencies and other disclosures (continued)

The Group lodged an objection to the assessment on 2 November 2018 and considers that it has strong prospects of having the assessment set aside. The SRO advised in a letter dated 22 November 2018 that it will not take recovery action while the objection and any appeal process is continuing.

Management do not consider it probable that the Group has a present obligation in relation to the assessment as at 31 December 2018, and as a result have not recorded a provision in the statement of financial position.

As at 31 December 2018, the Group have other contingent liabilities of $37.5 million (2017: $13.3 million) which includes the above Stamp duty amount of $31.2 million.

It is management's view that these contingent liabilities are considered not probable.

Capital funding and financial risk management

For the purpose of the Group's capital management, capital includes issued capital and all other equity reserves. The primary objective of the Group's capital management is to maximise the shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Under the terms of the major borrowing facilities, the Group is required to comply with the following financial covenants:

- the interest cover ratio must not be less than 3.0x;
- the liquidity ratio must not be more than 60%;
- the leverage ratio must not be more than 2.0x; and
- the tangible net worth must not be less than $1.2 billion.

Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest-bearing loans and borrowing in the current period.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

17. Financial assets and liabilities

This table provides a summary of the Group's financial instruments, how they are classified and measured, and reference to relevant disclosure notes within the financial statements.

The Group holds the following financial instruments at the end of the reporting period:

Financial assets	**Notes**	**2018**	**2017**
		$M	**$M**
Financial assets held at amortised cost			
Trade and other receivables	8	1,138.7	1,165.0
Long-term receivables	13	17.5	11.7
Cash and cash equivalents	6	108.6	164.7
Financial assets at fair value through profit and loss			
Derivative assets	18	15.5	-
		1,280.3	**1,341.4**

Financial liabilities		**2018**	**2017**
		$M	**$M**
Financial liabilities held at amortised cost			
Trade and other payables	10	1,922.8	1,586.0
Borrowings	11,19	159.2	289.9
Financial liabilities at fair value through profit and loss			
Derivative liabilities	18	0.9	9.3
		2,082.9	**1,885.2**

17. Financial assets and liabilities (continued)

Financial assets

(a) Initial recognition and subsequent measurement

From 1 January 2018, the Group classifies its financial assets, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial assets contractual cash flow characteristics and business model the Group uses to manage them. At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Subsequent measurement of financial assets depends on the Group's business model for managing the asset and its associated cash flow characteristics. The Group's three measurement categories are as follows:

(i) Amortised cost

This category is the most relevant to the Group. Financial assets are measured at amortised cost if the asset is held within a business model to collect contractual cash flows where those cash flows represent solely payments of principal and interest. Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost include trade and other receivables, long term receivables and cash and cash equivalents.

(ii) Fair value through other comprehensive income (FVOCI)

The Group measures financial assets at FVOCI if the financial asset is held within a business model to collect contractual cash flows and for selling the financial assets, where those cash flows represent solely payments of principal and interest. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains and losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. The Group currently holds no financial assets measured at FVOCI.

(iii) Fair value through profit and loss (FVPL)

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL and include financial assets held for trading, financial assets designated upon initial recognition at FVPL, or financial assets required to be measured at fair value. Financial assets at FVPL are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. During the year, derivative assets were the only assets measured at FVPL.

(b) Derecognition

A financial asset is derecognised from the Group's consolidated statement of financial position when the rights to receive cash flows from the asset have expired, or the Group has transferred its rights to receive cash flows from the asset and, has transferred substantially all the risks and rewards of the asset and/or control of the asset.

(c) Impairment of financial assets

From 1 January 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortised cost and FVOCI. The impairment methodology applied depends on the determined risk profile of each financial asset and the future expected credit risks relating to the identified asset. For trade receivables, the Group applies a simplified approach to calculating expected credit losses as permitted by AASB 9, recognising a loss allowance based on expected credit losses at each reporting date. The Group has established a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. See Note 8 *Trade and other receivables* for further details.

17. Financial assets and liabilities (continued)

Financial Liabilities

(d) Initial recognition and subsequent measurement

Financial liabilities are classified, at initial recognition, as financial liabilities measured at amortised cost (which for the Group are Trade and other payables or borrowings) or as financial liabilities at FVPL. All financial liabilities are recognised initially at fair value and, in the case of payables and borrowings, net of directly attributable transaction costs. The subsequent measurement of financial liabilities depends on their classification, as described below:

(i) Amortised costs

This is the category most relevant to the Group and includes trade and other payables and borrowings. Trade payables and amounts due to related parties are non-interest-bearing and are normally settled in 30 to 60 days. Amounts due to related parties are primarily for purchases of hydrocarbon. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the end of the reporting period. They are recognised initially as fair value and subsequently measured at amortised cost using the effective interest method. Due to their short-term nature, the carrying amounts of trade and other payables are considered to be the same as their fair values. Borrowings are initially recognised at fair value net of transaction costs incurred, and subsequently measured at amortised cost. Any differences between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

(ii) Fair value through profit and loss (FVPL)

Derivatives are the Group's only financial liabilities that are measured at FVPL. They are classified as held for trading and are entered into by the Group to mitigate exposure to the effects of changes in foreign exchange and commodity price movements. Changes in fair value of any derivative liabilities are recognised immediately in realised/unrealised (loss)/gain on derivatives in the consolidated statement of profit or loss.

(e) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

AASB 9 Financial Instruments – Impact of adoption

Until 31 December 2017, the group classified its financial assets into one of the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets.

The classification depended on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period. A significant impact of the new standard related to held-to-maturity investments and available-for-sale financial assets, which changed measurement category under the new standard. This did not impact the Group as there were no held to maturity or available-for-sale financial instruments held at the time of adoption. Under AASB 9, the Group continued to measure at either amortised cost or FVPL all financial instruments previously held at these measurement classifications under AASB 139. Therefore, the classification and measurement requirements did not have a significant impact on the Group.

On 1 January 2018 (the date of initial application of AASB 9), the Group's management assessed which business models apply to the financial assets held by the group and classified its financial instruments into the appropriate AASB 9 categories.

17. Financial assets and liabilities (continued)

AASB 9 Financial Instruments – Impact of adoption (continued)

	Measurement category		Carrying amount	
	Original (AASB 139)	**New (AASB 9)**	**Original**	**New**
Financial assets			**$M**	**$M**
Trade and other receivables	Amortised cost	Amortised cost	1,165.0	1,165.0
Long-term receivables	Amortised cost	Amortised cost	11.7	11.7
Cash and cash equivalents	Amortised cost	Amortised cost	164.7	164.7
Derivative assets	FVPL	FVPL	-	-
Financial liabilities				
Trade and other payables	Amortised cost	Amortised cost	1,586.0	1,586.0
Borrowings	Amortised cost	Amortised cost	289.9	289.9
Derivative liabilities	FVPL	FVPL	9.3	9.3

AASB 9 was generally adopted without restating comparative information, with adjustments arising from the new expected credit loss model not material. While trade and other receivables and cash and cash equivalents are subject to the new impairment requirements of AASB 9, the identified impairment loss was not material. Refer to Note 8 *Trade and other receivables* for further information on the expected credit loss calculation.

18. Derivative assets and liabilities

Derivatives are classified as held for trading and accounted for at fair value through profit or loss. The Group has the following derivative financial instruments at the end of the reporting period:

	2018	2017
	$M	**$M**
Derivative assets	15.5	-
Derivative liabilities	0.9	9.3

Management have determined the fair value, which is classified as Level 2 in the fair value hierarchy, using the present value of estimated future settlements based on market quoted information.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss category are presented in profit or loss within other income or other expenses in the period in which they arise. Interest income from these financial assets are recognised in the consolidated statement of profit or loss.

19. Long-term borrowings

	2018	2017
	$M	**$M**
Long-term bank loans	110.0	-
Net capitalised borrowing costs on long-term bank loans	(1.6)	-
Long-term finance lease liability	43.6	43.5
Total non-current borrowings	**152.0**	**43.5**

On 26 March 2018, the Group replaced its borrowing facility with a US$700 million syndicated, unsecured revolving credit facility which has an initial 2 year term and a 1 year extension option.

At the end of the reporting period, the Group had access to the unsecured facility limit amounting to $991.8 million (2017: $1,155.3 million secured) that were in place primarily for working capital purposes. The amount drawn at 31 December 2018 is $110.0 million unsecured (2017: $240.0 million secured). The weighted average interest rate on long-term bank loans in 2018 was 2.73% (2017: 2.81%).

This borrowing facility is subject to covenant arrangements disclosed under Capital funding and financial risk management on page 72. Finance lease liability represents the present value of the lease payments under the finance lease at reporting date. For further details, refer to Note 16 *Commitments and contingencies.*

20. Consolidated net debt

	2018	2017
	$M	$M
Net debt		
Cash and cash equivalents	108.6	164.7
Finance lease liabilities – repayable within one year	(7.2)	(7.1)
Borrowings – repayable within one year	-	(239.3)
Finance lease liabilities – repayable after one year	(43.6)	(43.5)
Borrowings – repayable after one year	(108.4)	-
	(50.6)	**(125.2)**

	Other Assets	Liabilities from financing activities				
Analysis of changes in consolidated net debt	**Cash / overdrafts**	**Finance leases due within 1 year**	**Finance leases due after 1 year**	**Borrowings due within 1 year**	**Borrowings due after 1 year**	**Total**
	$M	$M	$M	$M	$M	$M
Net debt as at 1 January 2017	**426.3**	**(6.9)**	**(43.2)**	**-**	**2.5**	**378.7**
Cash flows	(261.6)	7.5	-	(240.0)	-	(494.1)
Other non-cash movements	-	(7.7)	(0.3)	0.7	(2.5)	(9.8)
Net debt as at 31 December 2017	**164.7**	**(7.1)**	**(43.5)**	**(239.3)**	**-**	**(125.2)**
Net debt as at 1 January 2018	**164.7**	**(7.1)**	**(43.5)**	**(239.3)**	**-**	**(125.2)**
Cash flows	(56.1)	7.7	-	-	132.5	84.1
Other non-cash movements	-	(7.8)	(0.1)	239.3	(240.9)	(9.5)
Net debt as at 31 December 2018	**108.6**	**(7.2)**	**(43.6)**	**-**	**(108.4)**	**(50.6)**

21. Contributed equity and reserves

Ordinary shares are classified as equity. These shares entitle the holder to participate in dividends, and to share in the proceeds of winding up the Group in proportion to the number of and amounts paid on the shares held.

	2018	2017
	$M	$M
Issued and paid up capital	4,861.3	645.2
Cost per share	$2.5000	$0.7972

Movements in ordinary share capital	**Shares**	**$M**
At 1 January 2017	809,323,406	645.2
At 31 December 2017*	**809,323,406**	**645.2**
At 1 January 2018	809,323,406	645.2
Restructure of the Group**	(809,323,406)	(645.2)
IPO issuance**	1,944,535,168	4,861.3
At 31 December 2018	**1,944,535,168**	**4,861.3**

*Refers to ordinary shares in VEH as at 31 December 2017.

**On 13 July 2018 the Company was part of an IPO and listed a total of 1,944,535,168 shares on the ASX. As part of the IPO process, the Group acquired 100% of the shares in VEH from Viva Energy B.V. The shares in VEH were transferred to the Group on 17 July 2018, immediately prior to the allotment of shares pursuant to the IPO on 18 July 2018.

21. Contributed equity and reserves (continued)

The following table shows a breakdown of the reserve balances and the movements in these reserves during the year.

	Post employment benefits reserve	SBP reserve	IPO reserve	Cash flow hedge reserve	Total
		$M	$M	$M	$M
At 1 January 2018	**8.7**	**1.2**	**-**	**1.6**	**11.5**
Movement in share based payment reserve	-	1.9	-	-	1.9
Remeasurement of retirement benefit obligations	(1.4)	-	-	-	(1.4)
Recognition of IPO reserve	-	-	(4,235.2)	-	(4,235.2)
Unrealised (losses)/gains on cash flow hedges recognised by Viva Energy REIT	-	-	-	(3.2)	(3.2)
At 31 December 2018	**7.3**	**3.1**	**(4,235.2)**	**(1.6)**	**(4,226.4)**

	Post employment benefits reserve	SBP reserve	IPO reserve	Cash flow hedge reserve	Total
		$M	$M	$M	$M
At 1 January 2017	**8.8**	**-**	**-**	**-**	**8.8**
Movement in share based payment reserve	-	1.2	-	-	1.2
Remeasurement of retirement benefit obligations	(0.1)	-	-	-	(0.1)
Unrealised (losses)/gains on cash flow hedges recognised by Viva Energy REIT	-	-	-	1.6	1.6
At 31 December 2017	**8.7**	**1.2**	**-**	**1.6**	**11.5**

22. Dividends declared and paid

Viva Energy Holding Pty Ltd declared and paid a dividend of $13.5 million (1.66 cents per share) on 29 March 2018, to the then sole shareholder of the Group, Viva Energy BV, such dividend being related to certain properties surplus (or soon to be surplus) to the operational requirements of Viva Energy, which were transferred out of the Group.

During the IPO process the Directors announced their intention, in respect of the year ended 31 December 2018, to target a dividend payout ratio of 60% of the Underlying NPAT (RC) in respect of the 6 months ending 31 December 2018.

Dividend franking account

The balance of the franking account of the Australian consolidated tax group, headed by Viva Energy Group Limited, is $46.4 million at 31 December 2018 based on a tax rate of 30%.

The dividend determined on 27 February 2019 will be fully franked and will reduce the franking credits available to the Group.

23. Fair value of financial assets and liabilities

The Group's accounting policies and disclosures may require the measurement of fair values for both financial and non-financial assets and liabilities. The Group has an established framework for fair value measurement. When measuring the fair value of an asset or a liability, the Group uses market observable data where available.

Fair values are categorised into different levels in a fair value hierarchy based on the following valuation techniques:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability are categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

(a) Fair value measurement hierarchy for the Group

	Quoted in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	$M	$M	$M
31 December 2018			
Derivative assets	-	15.5	-
Derivative liabilities	-	0.9	-
Total at 31 December 2018	**-**	**14.6**	**-**
31 December 2017			
Derivative liabilities	-	9.3	-
Total at 31 December 2017	**-**	**9.3**	**-**

There were no transfers between levels during the 2018 and 2017 years.

(b) Estimation of fair values

Derivative assets and liabilities

The Group enters into derivative financial instruments with financial institutions with investment grade credit ratings. Foreign exchange forward contracts and commodity forward contracts are valued using valuation techniques, which employ the use of market observable inputs. As at 31 December 2018, the marked-to-market value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk.

24. Financial risk management

The Group's principal financial liabilities, other than derivatives, comprise current and non-current borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include loans, trade and other receivables, and cash and cash equivalents that were derived directly from its operations. The Group also holds financial assets and enters into derivative transactions.

Exposure to foreign currency risk, interest rate risk, liquidity risk, commodity price risk and credit risk arises in the normal course of the Group's business. The Group's overall financial risk management strategy is to seek to ensure that the Group is able to fund its corporate objectives and meet its obligations to stakeholders. Derivative financial instruments may be used to hedge exposure to fluctuations, especially shifts in foreign exchange rates.

Financial risk management is carried out by Group Treasury while risk management activities in respect to customer credit risk are carried out by the Group Credit team. Both Group Treasury and the Credit team operate under policies approved by the Board. Group Treasury and the Credit team identify, evaluate and monitor the financial risks in close co-operation with the Group's operating units.

24. Financial risk management (continued)

(a) Foreign exchange risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group is exposed to movements in foreign exchange rates in the normal course of its business primarily due to the fact that it purchases product and crude in United States Dollar ('USD') and sells in Australian Dollar ('AUD'). Any specific foreign exchange exposure that relates to term loans is managed separately and subject to separate Board approvals.

The objective of the Group's foreign exchange program is to minimise the effect of a fluctuation in foreign exchange rates on Group earnings and its cash flows. Transactions which could be regarded as speculative are not permitted. The program of foreign exchange risk management identifies, measures, takes actions to mitigate this risk, and report out the performance of the program, in a controlled and non-speculative manner. The focus is on cash flow exposures rather than just profit and loss.

The Group manages foreign currency risk by using foreign currency forward contracts to offset foreign exchange exposures. At 31 December 2018 and 2017, the Group hedged 100% of its net USD payables and this is actively managed on a daily basis through a hedge program. As at 31 December 2018, the total fair value of all outstanding foreign currency exchange forwards amounted to a $14.6 million loss (2017: $9.3 million loss).

The Group's exposure to foreign exchange rates for classes of financial assets and liabilities including sensitivities to pre-tax profit of the Group if the AUD strengthened / weakened by 10% against the USD with all other variables held constant, are set out below. The foreign exchange program outlined is undertaken to mitigate this risk.

	2018	2017
	$M	$M
USD denominated trade receivables (in AUD)	234.0	186.8
USD denominated trade payables (in AUD)	(1,302.5)	(1,003.9)
Net exposure	**(1,068.5)**	**(817.1)**
Effect in pre-tax profit		
AUD strengthens against USD by 10%	106.8	81.7
AUD weakens against USD by 10%	(106.8)	(81.7)

The Group has minimal exposure to other currencies (Euro, British Pound, New Zealand Dollar and Singapore Dollar) with total payable balances denominated in other currencies of $1.4 million at 31 December 2018 (2017: $1.6 million).

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's syndicated bank loan with floating interest rates.

The Group's exposure to interest rate risk for classes of financial assets and liabilities including sensitivities to pre-tax profit of the Group if interest rates had changed by -/+1% from the year end rates, with all other variables held constant, are set out as follows:

	2018	2017
	$M	$M
Financial assets		
Cash and cash equivalents	108.6	164.7
Loan to related party (long-term)	8.5	5.0
Total financial assets	**117.1**	**169.7**
Financial liabilities		
Short-term bank loans	-	239.3
Long-term bank loans	108.4	-
Total financial liabilities	**108.4**	**239.3**
Net exposure	**8.7**	**(69.6)**
Interest rates increase by 1%	0.1	(0.7)
Interest rates decrease by 1%	(0.1)	0.7

24. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Due to the dynamic nature of the underlying business, the liquidity risk policy requires maintaining sufficient cash and an adequate amount of committed credit facilities to be held above the forecast requirements of the business.

The Group manages liquidity risk centrally by monitoring cash flow forecasts, maintaining adequate cash on hand and debt facilities. The debt portfolio is periodically reviewed to ensure there is funding flexibility across an appropriate maturity profile.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	No more than 1 year	More than 1 year but no more than 5 years	More than 5 years	Total
	$M	$M	$M	$M
31 December 2018				
Trade and other payables	1,922.8	-	-	1,922.8
Short-term bank loans	-	-	-	-
Long-term bank loans	-	110.0	-	110.0
Derivative liabilities	0.9	-	-	0.9
Finance lease liability	7.9	33.5	102.7	144.1
Total at 31 December 2018	**1,931.6**	**143.5**	**102.7**	**2,177.8**
31 December 2017				
Trade and other payables	1,586.0	-	-	1,586.0
Short-term bank loans	240.0	-	-	240.0
Derivative liabilities	9.3	-	-	9.3
Finance lease liability	7.7	32.7	111.3	151.7
Total at 31 December 2017	**1,843.0**	**32.7**	**111.3**	**1,987.0**

The financial liabilities due within the next 12 month period amount to $1,931.6 million. The Group has current assets of $2,427.6 million, a net current asset position of $373.5 million and is in a position to meet its financial liability obligations as and when they fall due.

(d) Commodity price risk

The Group is exposed to the effect of changes in commodity price (i.e. oil and refined product prices) in its normal course of business.

The objective of the Group's commodity price strategy is to reduce earnings volatility as a result of movements in oil and refined product prices. The Group achieves this by:

- Monitoring hydrocarbon volumes priced in and out on a monthly basis and hedging up to 100% of the net exposure; and
- Monitoring expected refining margins and hedging constituent components to protect refining income, hedging up to 100% of net refinery exposure.

The Group manages commodity price exposure through the purchase or sale of swaps contracts up to 36 months forward. No commodity price hedges were outstanding at 31 December 2018 and 2017.

24. Financial risk management (continued)

(d) Commodity price risk (continued)

Commodity price sensitivity analysis

The Group's exposure to commodity prices risk including sensitivities to pre-tax profit if commodity prices had changed by -/+10% from the year end prices, with all other variables held constant, are set out as follows:

	2018	2017
	$M	$M
Commodity prices decrease by 10%	3.9	2.6
Commodity prices increase by 10%	(3.9)	(2.6)

(e) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions and other financial instruments.

Customer credit risk

The Group manages credit risk and the losses which could arise from default by ensuring that parties to contractual arrangements are of an appropriate credit rating, or do not show a history of defaults.

All receivables are monitored by the Group Credit team. If any amounts owing are overdue, these are followed up. The Group applies the AASB 9 simplified approach to measuring trade receivable expected credit losses which uses a lifetime expected loss allowance for expected credit losses for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over past periods using historical data and also using forward looking projections of customer payment expectations. Trade receivables are often insured for events of non-payment, through third party insurance, which has also been factored into the expected loss rate calculations. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity.

The aging profile of the receivable balance and expected credit loss rates are detailed in Note 8 *Trade and other receivables.*

Financial institution credit risk

Financial assets such as cash at bank and forward contracts are held with high credit quality financial institutions.

Maximum exposure to credit risk

The Group's maximum credit risk exposure at balance date in relation to each class of recognised financial assets, other than equity and derivative financial instruments, is the carrying amount of those assets as indicated in the consolidated statement of financial position.

Taxation

25. Income tax and deferred tax

(a) Reconciliation of income tax expense at Australian standard tax rate to actual income tax expense

	2018	2017
	$M	**$M**
Accounting profit before income tax expense	**307.7**	**451.2**
Tax at the Australian tax rate of 30%	(92.3)	(135.4)
Non-deductible transaction costs	(0.9)	(4.3)
Research and development expenditure	(0.4)	(1.8)
Election to form tax consolidated group	345.5	-
Sundry items	0.5	(4.6)
Adjustment relating to prior periods	18.9	(18.1)
Non-refundable carry forward tax offsets	0.6	2.7
Income tax benefit/(expense) for the period	**271.9**	**(161.5)**

(b) Income tax expense

	2018	2017
Current tax expense	(78.4)	(176.8)
Deferred tax (expense)/benefit	331.4	33.4
Adjustment relating to prior periods	18.9	(18.1)
Income tax benefit/(expense) reported in the consolidated statement of profit or loss	**271.9**	**(161.5)**
Deferred income tax benefit/(expense) included in income tax benefit/(expense) comprises:		
Increase/(decrease) in deferred tax assets	126.8	23.9
Decrease/(increase) in deferred tax liabilities	204.6	9.5
Adjustment in deferred tax relating to prior periods	12.9	(24.9)
	344.3	**8.5**

Tax relating to items recognised in other comprehensive income or directly in equity rather than through the statement of profit or loss

	2018	2017
Deferred tax related to items recognised in other comprehensive income during the period:		
Remeasurement of defined benefit obligations	(0.6)	(0.1)
Unrealised losses on cash flow hedges recognised by Viva Energy REIT	1.4	0.8
Deferred tax related to items recognised directly to equity during the period:		
Reserve arising from IPO	17.6	-

(c) Deferred tax

	2018	2017
	$M	**$M**
Deferred tax assets		
The balance comprises combined temporary differences attributable to:		
Property, plant and equipment	128.9	-
Inventories	66.6	64.0
Asset retirement obligation	27.0	28.3
Employee benefits	20.3	17.7
Other	43.9	32.9
Total deferred tax assets	**286.7**	**142.9**

25. Income tax and deferred tax (continued)

(c) Deferred tax (continued)

	2018	2017
	$M	$M
Deferred tax liabilities		
The balance comprises combined temporary differences attributable to:		
Property, plant and equipment	-	(142.2)
Intangible assets	(50.0)	(51.8)
Derivative contracts	(2.5)	(10.1)
Financial assets and investments	(97.6)	(164.9)
Total deferred tax liabilities	**(150.1)**	**(369.0)**
Net deferred tax assets/(liabilities)	**136.6**	**(226.1)**
Net deferred tax balances expected to be realised within 12 months	30.8	(2.3)
Net deferred tax balances expected to be realised after more than 12 months	105.8	(223.8)
	136.6	**(226.1)**

(d) Movements in deferred tax assets

2017 movements	Property, Plant and Equipment	Inventories	Asset retirement obligations	Employee benefits	Other	Total
	$M	$M	$M	$M	$M	$M
Opening balance at 1 January 2017	-	53.0	28.1	17.5	18.2	116.8
(Charged)/credited:						
To profit or loss	-	11.0	(1.2)	(0.6)	14.7	23.9
Acquired in business combination	-	-	1.4	0.8	-	2.2
Closing balance at 31 December 2017	**-**	**64.0**	**28.3**	**17.7**	**32.9**	**142.9**

2018 movements	Property, Plant and Equipment	Inventories	Asset retirement obligations	Employee benefits	Other	Total
	$M	$M	$M	$M	$M	$M
Opening balance at 1 January 2018	-	64.0	28.3	17.7	32.9	142.9
(Charged)/credited:						
To profit or loss	128.9	2.6	(1.3)	3.2	(6.6)	126.8
Directly to equity	-	-	-	-	17.6	17.6
Other comprehensive income	-	-	-	(0.6)	-	(0.6)
Closing balance at 31 December 2018	**128.9**	**66.6**	**27.0**	**20.3**	**43.9**	**286.7**

(e) Movements in deferred tax liabilities

2017 movements	Property, Plant and Equipment	Intangible assets	Derivative contracts	Financial assets and investments	Total
	$M	$M	$M	$M	$M
Opening balance at 1 January 2017	(124.1)	(3.4)	(6.4)	(214.0)	(347.9)
(Charged)/credited:					
To profit and loss	(10.2)	3.5	(3.0)	(5.7)	(15.4)
Acquired in business combination	(7.9)	(51.9)	-	54.8	(5.0)
Other comprehensive income	-	-	(0.7)	-	(0.7)
Closing balance at 31 December 2017	**(142.2)**	**(51.8)**	**(10.1)**	**(164.9)**	**(369.0)**

25. Income tax and deferred tax (continued)

(e) Movements in deferred tax liabilities (continued)

2018 movements	Property, Plant and Equipment $M	Intangible assets $M	Derivative contracts $M	Financial assets and investments $M	Total $M
Opening balance at 1 January 2018	(142.2)	(51.8)	(10.1)	(164.9)	(369.0)
(Charged)/credited:					
To profit and loss	142.2	1.8	7.6	65.9	217.5
Other comprehensive income	-	-	-	1.4	1.4
Closing balance at 31 December 2018	**-**	**(50.0)**	**(2.5)**	**(97.6)**	**(150.1)**

The income tax expense for the year is the tax payable on the current year's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unrecognised deferred tax assets, or liabilities such as unused tax losses.

Current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not accounted for if it arises from initial recognition of goodwill, or of an asset or liability in a transaction, other than a business combination that at the time of the transaction affects neither accounting nor taxable profit (or loss). Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Tax assets and liabilities are offset when there is a legally enforceable right to offset.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Tax Consolidation

The Company and its wholly-owned Australian controlled entities have elected to form an income tax consolidated group (TCG).

In addition to its own current and deferred tax amounts, the Company also recognises the current income tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the TCG.

The entities in the TCG have entered into a tax funding agreement under which the wholly-owned entities fully compensate the Company for any current income tax payable assumed and are compensated by the Company for any current income tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the Company under the income tax consolidation legislation.

The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements. Assets or liabilities arising under tax funding agreements with the entities in the TCG are recognised as current amounts receivable from or payable to other entities in the Group.

Tax resetting process on formation of Tax Consolidated Group

The effect of the election to form a TCG is that the tax base of assets held by the Company and its subsidiaries was reset at values closer to current market value based on the Initial Public Offer valuation.

As an outcome of the reset, a total tax benefit of $345.5 million arose, resulting in the net deferred tax liability existing at 31 December 2017 being replaced by a net deferred tax asset in 2018. The key deferred tax benefits arising from the election to form a TCG are reflected in Property, Plant and Equipment, Financial Assets (through a reset of the investment in Viva Energy REIT) and Other (reflecting future tax deductions for transaction costs associated with the IPO).

Group structure

26. Group information

(a) Principles of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

(b) Controlled entities

The consolidated financial statements of the Group includes the controlled entities listed below:

Name of entity	Country of incorporation/establishment	Equity holding 2018 %	Equity holding 2017 %
Viva Energy Holding Pty Limited	Australia	100	100
Viva Energy Australia Group Pty Limited	Australia	100	100
Viva Energy Australia Pty Limited	Australia	100	100
Viva Energy Aviation Pty Limited	Australia	100	100
Viva Energy Gas Pty Limited	Australia	100	100
Viva Energy Refining Pty Limited	Australia	100	100
VER Manager Pty Limited	Australia	100	100
ZIP Airport Services Pty Ltd	Australia	100	100
Viva Energy S.G. Pte Ltd	Singapore	100	-

Viva Energy S.G. Pte Ltd was incorporated on 19 June 2018 as an indirect wholly-owned entity of the Group.

(c) Interests in associates

The Group holds interest in the following investments accounted for using the equity method:

Name of entity	Country of incorporation/establishment	Equity holding 31 Dec 2018 %	Equity holding 31 Dec 2017 %
Liberty Oil Holdings Pty Limited	Australia	50	50
Viva Energy REIT	Australia	38	38
Westside Petroleum Pty Limited	Australia	50	-

Further details regarding these investments can be found in Note 28 *Interests in associates and joint operations.*

(d) Interests in joint operations

The Group has a 52% interest in W.A.G Pipeline Pty Ltd (2017: 52%), a 50% interest in Crib Point Terminal Pty Ltd (2017: 50%) and a 33% interest in Cairns Airport Refuelling Services Pty Ltd. These are classified as joint operations under AASB 11 *Joint Arrangements*. Further details regarding these investments can be found in Note 28 *Interests in associates and joint operations.*

27. Business combinations

(a) Acquisitions in 2018

There were no acquisitions in 2018 that are within the scope of *AASB 3 Business Combinations*. The pre-IPO restructure disclosed in page 53 has been treated as a common control transaction and is outside the scope of AASB 3.

(b) Acquisitions in 2017

On 31 May 2017, the Group acquired 100% of the voting shares and operations of Shell Aviation Australia Pty Ltd ('Shell Aviation'), an entity based in Australia and part of the Shell Group of Companies for consideration of $651.9 million plus incidental acquisition costs. The total purchase consideration was paid as follows:

	Purchase consideration
	$M
Offset loan receivable and financial assets associated with Shell Aviation	154.7
Offset trade receivables from Shell Aviation	165.0
Cash settlement*	332.2
Consideration paid	**651.9**

Shell Aviation specialised in the distribution and supply of aviation fuels to airports around Australia. The Group acquired Shell Aviation as its operations align with the Viva Energy Group core operations and provides additional channels and infrastructure to support the sale of the Group's aviation fuel products.

The acquisition had the following effect on the Group's assets and liabilities:

	Recognised values
	$M
Cash and cash equivalents*	73.2
Trade and other receivables	137.7
Property, plant and equipment	113.2
Intangible assets	173.0
Inventories	17.6
Other assets	0.5
Trade payables	(5.1)
Provisions	(14.0)
Net deferred tax liabilities	(57.5)
Net identifiable assets and liabilities at fair value	**438.6**
Goodwill on acquisition	213.3
Consideration paid	**651.9**

The recognised values represent the fair value of assets recorded on acquisition.

Intangible assets acquired of $173.0 million represented the amount paid to Shell Aviation for customer contracts and joint venture rights, which meets the criteria for recognition as a separately identifiable intangible asset at the date of acquisition. These intangible assets are to be amortised over their expected life. Refer to Note 14 *Goodwill and other intangible assets* for further details.

Goodwill acquired of $213.3 million in 2017 represented other intangible assets that did not meet the criteria for recognition as separately identifiable assets at the date of acquisition. During 2018 there was an adjustment to the purchase price allocation of the Shell Aviation acquisition and a further $9.8 million in goodwill was recognised in line with *AASB 3* guidance. None of the goodwill recognised is expected to be deductible for tax purposes. The consideration of the carrying value of Goodwill is considered in Note 14 *Goodwill and other intangible assets*.

There were no other material business combinations during the year ended 31 December 2017.

*The cash flow statement on page 52 shows the net cash consideration of $259.0 million.

28. Interests in associates and joint operations

(a) Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The Group has a non-controlling interest in the following entities which are classified as associates under the current ownership structure in accordance with AASB 128 *Investments in Associates and Joint Ventures.* These investments have been recognised in the consolidated financial statements using the equity method:

	31 Dec 2018	31 Dec 2017
	$M	$M
Liberty Oil Holdings Pty Limited	58.4	58.4
Viva Energy REIT	591.6	570.2
Westside Petroleum Pty Limited	14.9	-
Total investments accounted for using the equity method	**664.9**	**628.6**

Liberty Oil Holdings Pty Limited

Liberty Oil Holdings Pty Limited ('Liberty') is a private entity that is based in Melbourne, Australia. The Group holds 50% (2017: 50%) equity holding in Liberty.

Liberty had no other contingent liabilities or capital commitments as at 31 December 2018 and 2017, except as disclosed in Note 16 *Commitments and contingencies*.

	31 Dec 2018	31 Dec 2017
Movement of Liberty Oil Holdings investment	$M	$M
Balance at the beginning of the year	58.4	58.2
Dividends received	-	-
Share of Liberty Oil Holdings profit	-	0.2
Share of Liberty Oil Holdings OCI	-	-
	58.4	**58.4**

Viva Energy REIT

Viva Energy REIT is an ASX listed real estate investment trust that owns a portfolio of service stations leased to Viva Energy Australia Pty Limited, a wholly-owned, consolidated subsidiary of the Group. As at 31 December 2018, the Group held a 38% interest (2017: 38%) in Viva Energy REIT and is represented by two of five Board members. The 276,060,625 shares owned in Viva Energy REIT had a fair value of $621.1 million (2017: $623.9 million) as at 31 December 2018 based on the ASX quoted share price.

	31 Dec 2018	31 Dec 2017
Movement of Viva Energy REIT investment	$M	$M
Balance at the beginning of the year	570.2	535.5
Dividends received	(37.5)	(32.8)
Share of Viva Energy REIT profit	63.5	65.2
Share of Viva Energy REIT OCI	(4.6)	2.3
	591.6	**570.2**

Westside Petroleum Pty Limited

In May 2018, the Group agreed to acquire a 50% non-controlling interest in Westside Petroleum Pty Ltd ('Westside'), an independently owned and operated retail fuels business with more than 50 retail sites across New South Wales, Victoria and Queensland.

The transaction was finalised in August 2018 after ACCC and FIRB approval, for a settlement purchase price of $14.9 million plus an earn-out that is contingent to achieving an EBITDA target in 2019.

28. Interests in associates and joint operations (continued)

(a) Associates (continued)

Movement of Westside Petroleum investment	**31 Dec 2018** **$M**
Balance at the beginning of the year	-
Acquisition	14.9
Dividends received	-
Share of Westside Petroleum profit/(loss)	-
Share of Westside Petroleum OCI	-
	14.9

Total share of profits in associates for the 2018 year amounted to $63.5 million (2017: $65.4 million).

Included within the capital commitments disclosed in Note 16 *Commitments and contingencies*, is $9.6 million (2017: $9.2 million) in commitments which represents the Group's share of capital contracts entered into by associate companies totalling $22.3 million for retail outlets, an investment property and capital improvements. Viva Energy REIT had no other contingent liabilities or capital commitments as at 31 December 2018 and 2017, except as disclosed in Note 16 *Commitments and contingencies*.

Aggregate summary information of associates

This summarised financial information represents the aggregate summary information of associates with the majority relating to Viva Energy REIT. It represents the amounts shown in financial statements of the associate companies in accordance with Australian accounting standards.

	2018	**2017***
	$M	**$M**
Current assets	145.6	139.0
Non-current assets	2,561.1	2,343.1
Current liabilities	(194.2)	(109.6)
Non-current liabilities	(905.6)	(763.1)
Net asset/(liabilities)	1,606.9	1,609.4
Net assets/(liabilities) – Group share based on percentage of investment	612.7	614.6
Adjustments resulting from the equity accounting method	52.2	14.0
Carrying amount of investments accounted for using the equity method	664.9	628.6
Revenue	1,926.0	1,513.8
Net profit from continuing operations	167.1	172.3
Other Comprehensive Income	(12.2)	(7.0)
Total Comprehensive Income	154.9	165.3
Distributions received from equity accounted for investments	37.5	32.8

**2017 does not include Westside Petroleum Pty Limited.*

(b) Joint operations

Joint operations are those entities whose financial and operating policies the Group has joint control over, and where the Group has rights to the assets and obligations for the liabilities of the entity.

The Group owns a 52% interest in W.A.G Pipeline Pty Ltd, a 50% interest in Crib Point Terminal Pty Ltd and a 33% interest in Cairns Airport Refuelling Services Pty Ltd. The investments are incorporated in Australia with principal operations in Victoria and Cairns, and are classified as joint operations under AASB 11 *Joint Arrangements*, where the Group recognises its direct right to the jointly held assets, liabilities, revenues and expenses and has proportionately consolidated its interests under the appropriate headings in the consolidated financial statements.

The joint operations had no other contingent liabilities or capital commitments as at 31 December 2018 and 2017, except as disclosed in Note 16 *Commitments and contingencies*.

29. Parent company financial information

The financial information presented below presents that of the parent entity of the Group, Viva Energy Group Limited. No 2017 comparative information was presented as the parent entity was newly formed on 13 July 2018 as part of the initial public offering. Refer to the pre-IPO restructure disclosed on page 53 for further details.

	2018
	$M
Statement of financial position	
Current assets	17.8
Non-current assets	4,782.9
Total assets	**4,800.7**
Current liabilities	5.0
Non-current liabilities	-
Total liabilities	**5.0**
Contributed equity	4,861.3
IPO reserve	(67.8)
Total equity	**4,793.5**
Results	
Profit of the Company	2.2
Total comprehensive income of the Company	**2.2**

30. Deed of cross guarantee

The Company and all the controlled entities listed in Note 26(b) *Group information* (with the exception of Viva Energy S.G. Pte Ltd) are parties to a Deed of Cross Guarantee ('Deed') as at 31 December 2018. Under the Deed each company guarantees the debts of the others to each creditor payment in full of any debt in accordance with the terms of the Deed. The Deed of Cross Guarantee was introduced on 14 December 2018 with Viva Energy Group Limited as the Holding Entity of the Group. The Deed replaced previous commensurate arrangements pursuant to which Viva Energy Holding Pty Limited was the Holding Entity.

By entering into the Deed, the controlled entities have been relieved from the requirement to prepare a financial report and directors' report under Instrument 2016/785 issued by the Australian Securities and Investments Commission ('Instrument'). The companies referred to above represent a 'Closed Group' for the purposes of the Instrument.

30. Deed of cross guarantee (continued)

The aggregate assets and liabilities of the companies which are party to the Deed and the aggregate of their results for the period to 31 December 2018 and 2017 are set out below:

	2018	2017
	$M	**$M**
Revenue	**16,394.4**	**13,905.4**
Replacement cost of goods sold	(10,328.6)	(7,769.4)
Inventory gain/(loss)	(93.6)	(8.7)
Sales duties and taxes	(4,135.3)	(4,123.6)
Transportation expenses	(286.0)	(256.4)
Historical cost of goods sold	**(14,843.5)**	**(12,158.1)**
Gross profit	**1,550.9**	**1,747.3**
Net gain on disposal of property, plant and equipment	10.2	15.6
Other income	**10.2**	**15.6**
Transportation expenses	(283.4)	(316.1)
Salaries and wages	(249.1)	(242.1)
General and administration expenses	(140.3)	(191.2)
Maintenance expenses	(98.1)	(99.4)
Operating leases	(286.3)	(269.0)
Sales and marketing expenses	(114.2)	(106.1)
Impairment	(1.4)	(0.5)
Results from operations	**388.3**	**538.5**
Interest income	2.7	3.6
Share of profit in associates	63.5	65.4
Realised/unrealised (loss)/gain on derivatives	39.7	(41.1)
Net foreign exchanges gain/(loss)	(29.8)	17.7
Movement in financial assets	-	4.8
Depreciation and amortisation expenses	(129.6)	(107.1)
Finance costs	(41.7)	(31.3)
Profit before income tax expense	**293.1**	**450.5**
Income tax benefit/(expense)	276.8	(161.3)
Profit after tax	**569.9**	**289.2**

30. Deed of cross guarantee (continued)

	2018	2017
	$M	**$M**
ASSETS		
Current assets		
Cash and cash equivalents	107.2	164.4
Trade and other receivables	1,141.4	1,162.7
Inventories	1,010.9	964.8
Assets classified as held for sale	4.1	9.7
Derivative assets	15.5	-
Prepayments	71.0	62.2
Current tax assets	83.2	-
	2,433.3	**2,363.8**
Non-current assets		
Long-term receivables	19.7	13.9
Property, plant and equipment	1,463.8	1,395.3
Intangible assets, including Goodwill	432.5	384.7
Post-employment benefits	11.4	15.3
Investments accounted for using the equity method	664.9	628.6
Net deferred tax assets	136.5	-
Other non-current assets	1.5	0.8
	2,730.3	**2,438.6**
Total assets	**5,163.6**	**4,802.4**
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	1,941.1	1,586.6
Provisions	123.2	152.1
Short-term borrowings	7.2	246.4
Derivative liabilities	0.9	9.3
Current tax liabilities	-	139.0
	2,072.4	**2,133.4**
Non-current liabilities		
Provisions	174.1	169.2
Long-term borrowings	152.0	43.5
Net deferred tax liabilities	-	226.1
	326.1	**438.8**
Total liabilities	**2,398.5**	**2,572.2**
Net assets	**2,765.1**	**2,230.2**
Equity		
Contributed equity	4,857.1	641.0
Reserves	(4,226.5)	11.5
Retained earnings	2,134.5	1,577.7
Total equity	**2,765.1**	**2,230.2**

Other disclosures

31. Post-employment benefits

(a) Superannuation plan

The main provider of superannuation benefits in the Group is the Viva Energy Superannuation Fund ('VESF'). This fund was established on 1 August 2014, and provides a mixture of defined benefits and accumulation style benefits. Currently, the principal type of benefits provided under the VESF (to eligible members) is a lump sum, pension or lump sum and accumulation benefits. Lump sum and pension benefits are based primarily on years of service and the highest average salary of the employee.

The Viva Energy Superannuation Plan ('Plan') is a sub-plan in the Plum Division of the MLC Super Fund which is operated by NULIS Nominee (Australia) Limited (the Trustee). The Plan is a "regulated fund" under the provision of the Superannuation Industry (Supervision) Act 1993. The Plan is treated as a complying defined benefit superannuation fund for taxation purposes.

The Group's superannuation plan has a defined benefit section and also a defined contribution section. The defined contribution section receives fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions. The defined benefit section was closed to new members in 1998.

(b) Defined benefit superannuation - significant estimate

The liability or asset recognised in the consolidated statement of financial position in respect of defined benefit superannuation section is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market yields of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

Gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the consolidated statement of changes in equity and recognised as remeasurement of retirement benefit obligations in the consolidated statement of financial position.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in the consolidated statement of profit or loss within salaries and wages as past service costs.

Contributions to the defined contribution section of the Group's superannuation fund and other independent defined contribution superannuation funds are recognised as an expense as they become payable.

The following sets out details in respect of the defined benefit section only.

Amounts recognised in consolidated statement of financial position

	2018	2017
	$M	$M
Present value of defined benefit obligation	(111.4)	(123.1)
Fair value of defined benefit plan assets	122.8	138.4
Net defined benefit asset recognised in the consolidated statement of financial position	**11.4**	**15.3**

31. Post-employment benefits (continued)

(b) Defined benefit superannuation - significant estimate (continued)

Changes in the defined benefit obligation and fair value of plan assets

	Present value of defined benefit obligation		Fair value of defined benefit plan assets	
	2018	**2017**	**2018**	**2017**
	$M	**$M**	**$M**	**$M**
Balance at 1 January	(123.1)	(124.2)	138.4	140.6
Current service cost	(5.0)	(5.1)	-	-
Net interest on the defined benefit (liability)/asset	(3.8)	(4.1)	4.2	4.6
Return on assets less interest income	-	-	(2.2)	3.0
Actuarial gain/(loss) – change in demographic assumptions	(1.7)	-	-	-
Actuarial gain/(loss) – change in financial assumptions	(0.6)	(3.9)	-	-
Actuarial gain/(loss) – experience adjustments	2.5	0.6	-	-
Tax on remeasurement of defined benefit obligation	-	-	-	-
Benefits paid	21.1	20.6	(21.1)	(20.6)
Employer contributions	-	-	2.7	3.8
Employee contributions	(0.8)	(0.6)	0.8	0.6
Business acquisition	-	(6.4)	-	6.4
Balance at 31 December	**(111.4)**	**(123.1)**	**122.8**	**138.4**

Amounts recognised in consolidated statement of profit or loss

	2018	2017
	$M	**$M**
Amounts recognised in profit or loss		
Service cost	4.5	4.8
Member contributions	(0.5)	(0.6)
Plan expenses	1.0	0.9
Current service cost	**5.0**	**5.1**
Net interest on the new defined benefit liability/(asset)	(0.4)	(0.5)
Components of defined benefit cost recorded in profit or loss	**4.6**	**4.6**
Amounts recognised in other comprehensive income		
Remeasurement of the net defined benefit liability:		
Return on assets less interest income	2.2	(3.1)
Actuarial (gain)/loss – change in demographic assumptions	1.7	-
Actuarial (gain)/loss – change in financial assumptions	0.6	3.9
Actuarial (gain)/loss – experience adjustments	(2.5)	(0.6)
Tax on remeasurement of defined benefit obligation	(0.6)	(0.1)
Components of defined benefit cost recorded in other comprehensive income	**1.4**	**0.1**

31. Post-employment benefits (continued)

(b) Defined benefit superannuation - significant estimate (continued)

The major categories of plan assets of the fair value of the total plan assets are, as follows:

	2018	2017
	$M	$M
Australian equities	11.6	13.0
International equities	16.8	19.0
Property	10.3	11.6
Fixed income bonds	51.2	57.7
Other	12.9	14.5
Cash	20.0	22.6
Total plan assets	**122.8**	**138.4**

The Group has agreed to pay contributions to the Plan of 8.8% (2017: 18.5%). The following payments are expected to be contributed to the defined benefit plan in future years:

	2018	2017
	$M	$M
Within the next 12 months	1.6	3.8
Between 2 and 5 years	4.1	10.3
Between 5 and 10 years	2.1	5.4
Beyond 10 years	0.6	1.8
Total expected payments	**8.4**	**21.3**

The average duration of the defined benefit plan obligation at the end of the reporting period is 5 years (2017: 5 years).

Actuarial assumptions

The principal assumptions used in determining benefit obligations for the Group's Plan are shown below:

	2018	2017
	%	%
Discount rate	3.1	3.2
Expected rate of salary increases	2.5	2.5
Pension increase rate	2.1	2.1

Pensioner mortality has been assumed following the mortality under the Australian Life Tables 2010-12.

Significant assumptions used to determine the present value of the defined benefit obligation are the discount rate and expected salary increases. The sensitivity analysis shown below has been based on reasonable possible changes of the assumptions occurring at the end of the reporting period:

	Impact on defined benefit obligation	
	2018	2017
	$M	$M
Discount rate:		
1.0% increase	(6.1)	(6.8)
1.0% decrease	6.9	7.7
Expected rate of salary increases:		
1.0% increase	4.4	5.2
1.0% decrease	(4.1)	(4.9)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

32. Related party disclosures

Note 26 *Group information* provides information about the Group's structure, including details of the subsidiaries and the parent entities.

Entities in the Group engage in a variety of related party transactions as part of the normal course of business. They supply products to related entities and overseas related corporations outside of the Group, and purchase crude and products from and pay service fees to overseas related corporations.

- All related party transactions are conducted at arm's length on a commercial basis
- Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash
- For the year ended 31 December 2018, the Group has not recorded any impairment of receivables relating to amounts owed by related parties, nor has there been any expenses recognised during the period in respect of bad or doubtful debts written off from related parties (2017: nil)
- The assessment of related party receivables is undertaken on an ongoing basis each financial year through examining the financial position of the related party and the market in which the related party operates

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

(a) Transactions with related parties

	2018 $'000	2017 $'000
Sales and purchases of goods and services		
Purchases	10,598,718	8,087,016
Sales of goods and services	604,685	17,818
Sales of assets	58,581	-
Other transactions		
Dividends paid to parent*	13,474	252,829
Return of capital*	45,108	-
Outstanding balances arising from sales / purchases of goods and services		
Receivables	82,117	-
Payables	1,290,261	988,967

* Represents a 2018 non-cash dividend and capital return settled through the sale of assets of $58.6 million to the immediate parent prior to the IPO.

(b) Transactions with associates

	2018 $'000	2017 $'000
Sales and purchases of goods and services		
Purchases	30,961	18,842
Sales of goods and services	1,440,714	1,139,186
Other transactions		
Interest income from associates	252	102
Sales of assets to associates	420	-
Lease expense paid to associates	135,389	128,351
Dividends from associates	37,517	32,796
Loan to associates	8,500	5,000
Outstanding balances arising from sales / purchases of goods and services		
Receivables	87,924	69,794
Payables	12,829	11,734

32. Related party disclosures (continued)

(c) Transactions with key management personnel or entities related to them

Executive directors of controlled entities are entitled to receive discounts on their purchases of company products under the same conditions as are available to all other employees of the Group. The terms and conditions of the transactions with directors or their director related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities or on an arm's length basis. Dealings between the Group and various related companies are identified in this note.

Some directors hold directorships within the Vitol group of companies and any transactions entered into by the Company with the Vitol group of companies are in the ordinary course of business and are at arm's length.

(d) Key management personnel compensation

	2018	2017
	$'000	**$'000**
Short-term employee benefits	1,368	5,931
Post employee benefits	74	255
Employee option plan	5,608	237
Total compensation paid to key management personnel	**7,050**	**6,423**

(e) Employee option plan

The establishment of an Employee Option Plan for the Group's executive staff was approved by shareholders during 2016. The Employee Option Plan is designed to provide long-term incentives for selected executive staff to deliver long-term earnings for the Group. Under the plan, participants are granted options which only vest if certain performance standards are met. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

In connection with the IPO, the following changes have been made to the employee option plan:

- The Group acquired all of the options in VEH from the participants in the legacy Long Term Incentive Plan ('LTIP') in return for options over ordinary shares in the Group.
- Immediately following the ASX listing, a portion of the options were cancelled for a cash payment which was, in part, immediately applied to satisfy the exercise price in respect of all remaining vested options.
- After listing, executive management hold shares in the Group as well as a total of 16,534,520 new share options to replace the legacy options that had not yet vested. The remaining vesting periods are consistent with the legacy share option plan.
- In addition to this a new Short Term Incentive Plan ('STIP') and LTIP was put in place for 2018 including both cash, and performance rights for executive management.

The total granted options over unissued preference shares outstanding as at 31 December 2018 is 16,534,520 (2017: 16,186,468) with a weighted average exercise price per share option of AUD$0.94 (2017: USD$1.64). During the period 1,600,000 performance rights were granted, 5,341,533 options were exercised and 3,884,749 options were cancelled. No options or performance rights have been granted to Directors or any of the five highest remunerated officers since the end of the financial year.

			Number of options	
Grant date	**Expiry date**	**Exercise price ($AUD)**	**31 December 2018**	**31 December 2017**
26 April 2016	1 January 2020	0.82	13,073,808	13,758,498
26 April 2016	1 January 2020	1.51	1,922,618	1,618,647
25 October 2017	1 January 2022	1.21	1,538,094	809,323
Total			**16,534,520**	**16,186,468**
Weighted average remaining contractual life of options outstanding at end of period			1.2 years	2.1 years

32. Related party disclosures (continued)

(e) Employee option plan (continued)

Grant date	Fair value at grant date ($AUD)	Number of performance rights allocated	
		31 December 2018	**31 December 2017**
23 July 2018	$1.39	800,000	-
23 July 2018	$2.27	400,000	-
23 July 2018	$2.27	400,000	-

The assessed fair value of the share options at grant date is determined using an adjusted form of the Black Scholes Model and the Chaffe put option model, that takes into account exercise price, the term of the option, business valuation at grant date, volatility rate of 40% and risk free rate in the range of 1%-1.5% and the impact of control / marketability variants were used in the calculation of the fair value of the options.

The assessed fair value of the performance rights at grant date is determined using the Monte Carlo simulation (using the Black Scholes framework) and takes into account the share price of $2.50, expected volatility of 31% and a dividend yield of 4.1%.

Total expenses arising from employee option plan transactions recognised during the 2018 period was $1,900,000 (2017: $236,893).

33. Auditor's remuneration

The auditor of the Company and the Group is PricewaterhouseCoopers Australia ('PwC'). The following fees were paid or payable to PwC for services provided to the Company and the Group.

	2018	2017
	$	**$**
Audit or review services:		
Audit or review of financial reports of the Group	635,000	530,000
Non-audit services:		
Other assurance services*	2,197,824	252,500
Due diligence services and other services	117,276	280,899
Total	**2,950,100**	**1,063,399**

* Other assurance services in 2018 includes $2,127,824 of IPO related services.

34. Events occurring after the reporting period

Coles Alliance partnership

On 6 February 2019, the Group announced the extension of the Alliance agreement with Coles Express through to 2029 under revised terms to create greater alignment between both parties and position the agreement for future growth. Under the revised terms, in March 2019 the Group will assume full responsibility for the provision of the fuel offering, including retail fuel pricing and marketing across the Alliance network. Coles Express will continue to operate Alliance stores and manage the customer experience. As a result of the amendments to the Alliance terms and fuel margin forgone by Coles Express, the Group will make a one off payment of $137 million in March 2019 to be funded by existing debt facilities.

Bank refinancing

On 26 March 2018, the Group replaced its borrowing facility with a US$700 million syndicated, unsecured revolving credit facility which has an initial 2 year term and a 1 year extension option.

At the end of the reporting period, the Group has entered into discussions with its existing lending group and is seeking to extend its existing US$700 million syndicated, revolving credit facility. This is expected to be completed on terms and conditions largely consistent with the existing facility.

Restructure of Liberty arrangements

On 27 February 2019, the Group agreed to acquire the remaining 50% interest in Liberty Oil Holding Pty Ltd's wholesale business, together with agreeing to establish a new retail joint venture to continue to grow the Liberty Oil retail business, of which it will own 50%. The consideration payable for the proposed transaction is $42 million, which will be funded out of existing debt facilities. The transaction remains subject to regulatory approvals.

Directors' declaration

This Directors' declaration is required by the Corporations Act 2001.

The Directors declare that in their opinion:

(a) the consolidated financial statements and notes of the Viva Energy Group for the year ended 31 December 2018 set out on pages 48 to 98 are in accordance with the Corporations Act 2001, including:

   (i) complying with Accounting Standards and the Corporations Regulations 2001;

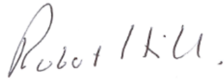
   (ii) giving a true and fair view of the Viva Energy Group's financial position as at 31 December 2018 and of its performance for the year ended on that date;

(b) there are reasonable grounds to believe that the Viva Energy Group will be able to pay its debts as and when they become due and payable; and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 30 *Deed of cross guarantee* to the financial statements will be able to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the Deed of Cross Guarantee described in Note 30 *Deed of cross guarantee* to the financial statements.

The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the year ended 31 December 2018.

The declaration is made in accordance with a resolution of the Directors.



Robert Hill
Chairman

Scott Wyatt
CEO and Director

27 February 2019

Independent auditor's report

To the members of Viva Energy Group Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Viva Energy Group Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 31 December 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of profit or loss for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality	*Audit scope*	*Key audit matters*
• For the purpose of our audit we used overall Group materiality of $15.0 million, which represents approximately 5% of the Group's profit before tax. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. • We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.	• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • Our audit included procedures over the Group's system migration, including testing the data migration, evaluating and testing the design and operating effectiveness of certain automated and IT dependent controls.	• Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: - Inventory valuation - Environmental and asset retirement provisions - Tax resetting process on formation of Tax Consolidated Group • These are further described in the *Key audit matters* section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	***How our audit addressed the key audit matter***
Inventory valuation *(Refer to note 5) [$1,011.3m]* Following a system migration in FY18, the Group transitioned its legacy inventory calculation to J.D. Edwards (JDE). This introduced an automated standard costing and purchase price variance (PPV) function based on replacement cost basis. However, the month-end process includes management estimation of inventory based on the first- in- first out (FIFO) method which is used to comply with accounting standard requirements. This was a key audit matter due to the judgement involved and the significance of the inventory balance.	To assess the valuation of inventory, we performed the following procedures amongst others: • Tested the mathematical accuracy of the valuation calculations. • Tested the consistency of key inputs in the valuation models, including refining margins and manufacturing costs, by comparing them to the evidence obtained from other audit procedures. • Assessed the reasonableness of management assumptions used to support variances recognised on the balance sheet. • Compared the carrying value of the inventory to market price obtained from an external site (Platts) to assess if inventory is carried at the lower of cost or net realisable value.
Environmental and asset retirement provisions *(Refer to note 15) [$131.7m]* As at 31 December 2018, the Group recognised the following provisions: - Environmental provision: $41.0m - Asset retirement provision: $90.7m These are in relation to the Group's obligations to rehabilitate sites, either during or at the end of their operations. This includes the Group's conversion of its former Clyde refinery to a storage terminal. This was a key audit matter as the calculation of the provisions required the Group to make judgements in estimating the cost and timing of future rehabilitation	We performed the following procedures amongst others: • Tested the mathematical accuracy of the provision calculations. • Obtained and read the litigation register and board minutes to identify any legal notices in relation to environmental obligations and checked that these were appropriately considered in the determination of the provision. • Assessed the competence, experience and objectivity of the internal and external experts used to prepare the relevant calculations for the determination of the provisions.

Key audit matter	*How our audit addressed the key audit matter*
work. As the costs were discounted to a present value for the provision, the Group also needed to use judgement to determine an appropriate discount rate.	• Corroborated a sample of estimates used in the provision calculations to third party support or estimates made by external experts. • Evaluated the completeness of the provisions through comparison of obligations arising from new sites. • Performed sensitivity analysis over key estimates and assumptions, such as the discount and inflation rates, used in the rehabilitation models by using other assumptions that we consider reasonably possible to assess the impact on the asset retirement provision determined.
Tax resetting process on formation of Tax Consolidated Group *(Refer to Note 25)* As part of the Initial Public Offering (IPO), the former Viva Energy Holding tax consolidated group (TCG) was deconsolidated and a new multiple entry consolidated (MEC) group was formed with Viva Energy Group Limited (VEG) as the new head entity. The tax base of assets held by the Group were reset at values closer to current market values based on the IPO valuation. As an outcome of the reset, a total tax benefit of $345.5m arose, resulting in the net deferred tax liability existing as at 31 December 2017 being replaced by a net deferred tax asset in 2018. This was a key audit matter due to the judgement involved regarding the valuation of the assets and the magnitude of the tax benefit recognised.	We performed the following procedures, amongst others: • Tested the mathematical accuracy of the calculations in the tax consolidation workbooks. • Obtained and read valuation reports from management's experts. • Assessed the competence, experience and objectivity of external experts used to prepare the relevant valuation reports. • Together with our internal tax experts, assessed whether the preliminary tax positions which are subject to review by the Australian Taxation Office (ATO) as part of the Group tax return submission in July 2019, are in line with our understanding of the current Australian tax legislation.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 December 2018, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' Report. We expect the remaining other information to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 26 to 41 of the directors' report for the year ended 31 December 2018.

In our opinion, the remuneration report of Viva Energy Group Limited for the year ended 31 December 2018 complies with section 300A of the *Corporations Act 2001.*

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001.* Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

Chris Dodd
Partner

Niamh Hussey
Partner

Melbourne
27 February 2019