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Electronic lodgement

Viva Energy Results: Financial Year ended 31 December 2019 and intended Off-market buy back

The attached announcement is for release to the market.

Julia Kagan
Company Secretary

VIVA Energy Australia

ASX Release

24 February 2020

Viva Energy Results: Financial Year ended 31 December 2019 and intended off-market buy back

Viva Energy (the Company) today announced the Group's financial results[1] for the year ended 31 December 2019 (FY2019), which are in-line with prior guidance provided to the market in December 2019.

Viva Energy today also announced its intention to return all $680 million of the net after-tax proceeds from the divestment of the stake in Viva Energy REIT (VVR) to shareholders via a buy-back, subject to obtaining necessary regulatory and shareholder approvals.

Key highlights:

- FY2019 Group Underlying EBITDA (RC)[2] of $644.5 million, in the top half of the December 2019 guidance range of $625 – $655 million.
- FY2019 Underlying NPAT (RC) of $135.8 million, within the December 2019 guidance range of $135 – 165 million.
- Positive and disciplined progress on the retail strategy, with a strong finish to the year achieving average Alliance weekly sales of approximately 65 million litres per week in the quarter ended 31 December 2019 (4Q2019), up 6.2% on 4Q2018.
- Retail fuel margins in FY2019 were negatively impacted by oil price volatility and sustained periods of heightened competition in the market. Retail fuel margins recovered in 4Q2019.
- Commercial posted positive sales growth with earnings negatively impacted in FY2019 by heightened competition, elevated freight costs and lower exchange rates.
- Geelong Refinery had a strong operational performance in FY2019 with periods of record production. Earnings finished marginally below the guided range due to higher crude premiums in December 2019.
- Supply, Corporate and Overheads performance reflects expected increases in employee and corporate costs, as well as several provision adjustments and one-off items.
- Net debt of $137.4 million, down from $168.7 million at 30 June 2019.
- Final dividend of 2.6 cents per share (cps) determined (fully franked), bringing the full year dividend to 4.7 cps, representing a payout ratio of 60% of Distributable NPAT (RC).
- Divested entire shareholding of 35.5% in Viva Energy REIT for $734.3 million.
- Intention to return to shareholders all $680 million through a buy-back of shares (subject to regulatory and shareholder approvals)[3].

CEO commentary

Viva Energy CEO Scott Wyatt said: "2019 saw a number of changes in the downstream market. Changes in ownership of fuel and convenience businesses and the renegotiation of the Alliance arrangements between Coles and our Company has altered the retail market, while the global transition to lower sulphur marine fuels and, more generally, changes in crude flows as a result of regional conflict and trade barriers have led to periods of volatility in oil prices and refining margins.

"In the face of these significant developments, we are very pleased with the underlying performance of the business and the progress made on our strategic priorities. Total sales volumes were up 4.6% on

2018 as a result of substantially improved performance in our retail Alliance business, continued growth in our Liberty channels, and solid sales results across our commercial and wholesale sectors. Refining was strong with periods of record production, high levels of unit availability and utilisation, and a strong focus on optimisation to minimise exposure to lower margin production. Our safety and environmental performance also improved on 2018.

"Our decision to take responsibility for retail fuel pricing across the Alliance network has delivered steady improvements in sales performance and brand perception. We expect to continue this during 2020 as we maintain our price and value positioning in the market. Lower retail market margins recovered in Q4 2019 and we are now well placed to benefit from any sustained improvement in trading conditions. A number of expiring commercial contracts were successfully renewed during the year, and we also expanded strategic relationships with key partners, including the Australian Defence Force, which provide opportunities for growth in the years ahead.

"We maintained strong capital discipline, with operating capital expenditure reduced by 33% to $162 million and net debt reduced by 19%[4] to $137 million after taking account of the acquisition costs associated with the renegotiation of the Alliance agreement and Liberty Wholesale. We maintained a dividend pay-out ratio of 60% of distributable net profit after tax.

"We are closely watching the development of Coronavirus disease (COVID-19). Currently this has not had a substantial impact on our business, however we continue to be alive to potential impacts, both to our operations, and to our procurement functions and customers. We have taken steps to minimise any risk to our employees and contractors."

"In 2020 we will continue to focus on restoring sales volumes in our Alliance channel and capturing any recovery in retail fuel margins. Optimising volume and margin mix in our Commercial segments and maintaining strong cost discipline are also key priorities. Work has commenced for the turnaround of the Residual Catalytic Cracker Unit (RCCU) and other related processing units at the refinery. We remain focused on capital management with an intended buy-back which would allow us to return substantial capital to shareholders."

Financial overview

	AASB 16		AASB 117 (old standard)	
	FY2019 $m	FY2018[5,6] $m	FY2019 $m	FY2018[5,6] $m
Underlying Group EBITDA (RC)				
Retail, Fuels & Marketing	860.8	937.8	854.6	932.6
Retail	*564.3*	*608.8*	*563.3*	*608.8*
Commercial	*296.5*	*329.0*	*291.3*	*323.8*
Refining	117.0	124.5	117.0	124.5
Supply, Corporate & Overheads	(333.3)	(287.7)	(584.5)	(528.2)
Total Underlying Group EBITDA (RC)	**644.5**	**774.6**	**387.1**	**528.9**
Underlying NPAT (RC)	**135.8**	**231.5**	**186.3**	**293.0**

Business performance by segment

Retail

The Retail segment generated Underlying EBITDA (RC) of $564.3 million, above the top end of the guidance range of $548 – 558 million provided in December 2019. This result was achieved by stronger than forecasted retail fuel margins in December 2019.

During the year, Viva Energy renegotiated and extended the Alliance Agreement from 2024 to 2029. Under the new arrangement, Viva Energy took responsibility for retail fuel pricing and marketing, collecting the full retail fuel margin and an enhanced royalty on convenience sales. In consideration of the commercial terms and the margin forgone by Coles, Viva Energy made a one off payment of $137 million to Coles Express.

The renegotiated Alliance agreement with Coles Express provides a stronger platform to restore sales growth and better leverage our leading retail network and partnership. In less than nine months, the Company has stabilised fuel sales within the retail Alliance network and restored volumes to approximately 65 million litres per week during the six months ended 31 December 2019 (2H2019), up by approximately 9% on the six months ended 30 June 2019 (1H2019). We remain focussed on restoring our sales volumes through the Alliance network to above 70 million litres per week through a disciplined and measured approach.

Retail fuel margins in FY2019 were lower than FY2018 as a result of oil price volatility and periods of heightened competition. During 4Q2019 and January 2020, retail fuel margins and volumes have continued to improve. The Company is well positioned to capture recovery in retail fuel margins on increased volumes within the key Alliance channel.

The Company will continue to evolve its network to close network gaps and leverage its brands, offers, and loyalty programs, to build customer preference and cement our position as a leading fuel and convenience network. Over the year, customer price perception continued to improve as the Company's retail fuel pricing strategy now offers a compelling and competitive price offer across Australia.

Commercial

The Underlying EBITDA (RC) for FY2019 for the Commercial business was $296.5 million, at the top end of the guidance range of $292 – $297 million provided in December 2019.

During 2019, the Company increased sales volumes within the Commercial segment despite softer economic conditions and heightened competition. Expiring customer contracts were successfully extended or renewed and new business secured. We believe that our capability and expertise allows us to offer significant value within these partnerships and to continue to grow our business alongside our customers.

The Company successfully secured a contract with the Australian Defence Force (ADF) to manage, maintain and supply fuel to HMAS Cairns Defence Fuel Installation, allowing the Company to commercialise the facility in order to generate supply efficiencies. The business also successfully introduced a new marine product, Very Low Sulphur Fuel Oil (VLSFO), which is compliant with the new International Marine Organisation (IMO2020) regulations, allowing the Company to secure its future position in this segment.

Commercial earnings were impacted in 2019 by heightened competition and unfavourable movements in rising shipping rates and a falling exchange rate. These impacts are expected to cycle through 2020, with recovery possible as future contracts are renewed.

Refining

The Underlying EBITDA (RC) for FY2019 for the Refining business was $117.0 million, slightly below the lower end of the guidance of $120 – $130 million provided in December 2019. Refining margins in December 2019 were impacted by higher than expected crude premiums. The actual GRM[7] for the full year 2019 was US$6.6/Barrel (BBL), with refining intake of 42.0MBBLs (million barrels), compared with 2018 GRM US$7.4/BBL and intake of 40.1MBBLs.

Refining margins for FY2019 were impacted by continued weakness in gasoline margins and higher crude premia for light sweet crudes. Gasoline margin weakness continued from FY2018 to FY2019 due to weak regional demand, additional exports from China, and additional production from regional refineries that upgraded their production of light products in advance of IMO2020 fuel specification changes. The impacts of IMO2020 continue to be the primary driver of both product prices and crude costs.

Several operational records were set at Geelong Refinery during FY2019, with record white barrel production averaging 105kbpd and refinery intake at 42.0Mbbl. A new 25ML gasoline tank was commissioned that enabled the Refinery to efficiently aggregate gasoline parcels for coastal shipping and reduce associated demurrage.

Turn-around activities at Geelong Refinery

The Board has approved the major maintenance turn-around of the Residual Catalytic Cracking Unit (RCCU) and other associated processing units at Geelong Refinery. The work is scheduled to commence towards the end of 3Q2020, with a total estimated capital cost between $110 – $140 million. The RCCU enables the refinery to upgrade lower quality products into more valuable light products. The turnaround is expected to take approximately up to 2 months to complete and is expected to negatively impact refining intake by approximately 1-1.5MBBLs and reduce the GRM. The actual impact on GRM will depend on the regional refining margin environment prevailing at the time.

Supply, Corporate & Overheads

The Underlying EBITDA (RC) for FY2019 for the Supply, Corporate and Overheads segment was $(333.3) million, within the guidance range of $(335) – $(330) million provided in December 2019.

The FY2019 result reflects expected increases in employee and corporate costs due to acquisition costs, the extension of the Alliance agreement and full year impact of additional costs relating to operating as a publicly listed company. Also contributing to the year-on-year increase is the impact of certain one-off benefits recognised in FY2018.

The Company continues to improve supply chain efficiencies with the commissioning of a new 8ML jet fuel storage tank at the Newport terminal in Melbourne, and continued improvement of marine fuel oil storage in Sydney to service growing demand from Australian leisure cruise ships. Cost management will continue to remain a strong focus.

Capital management

Viva Energy intends to return to its shareholders all $680 million in after-tax proceeds from the sale of its security holding in Viva Energy REIT. Subject to obtaining the necessary regulatory and shareholder approvals, the Company intends to return these proceeds to shareholders by way of an off-market share buyback with any proceeds not returned via that process able to be returned to shareholders via an on-market buyback.

Further information regarding the capital management program will be provided when all regulatory approvals have been received.

Credit rating

The Company initially undertook a credit rating process in 2016 when it was privately held to assist potential stakeholders of VVR with understanding the Company's financial position, as part of VVR's 2016 initial public offering. Since that time Viva Energy REIT has obtained its own credit rating of Baa1 issued by Moody's and the Company has exited its 35.5% stake in Viva Energy REIT.

As at 31 December 2019, Viva Energy's debt terms are not contingent on maintaining a particular credit rating and the Company has no structural long term debt. As a result, the Company has issued a request to Standard and Poors Global to withdraw the Company's rating.

Leadership team

Viva Energy announced the following changes that will take effect from the end of March 2020.

Daniel Ridgway, Chief Operating Officer, has made a decision to leave the Company after more than 22 years with the business. The Board extend their appreciation to Daniel for his significant contribution to the business during his many years of service.

Thys Heyns will step down as Executive General Manager, Refining, and will take on the role of Chief Operating Officer. Dale Cooper will join the Company and the executive team as Executive General Manager, Refining. Dale brings more than 30 years' experience in the refining sector.

Dale Cooper Biography

Dale Cooper has over 30 years' experience in the oil & gas, refining and transportation industries. Dale spent over 20 years with Irving Oil in Canada where he has held refining and commercial roles, most recently as General Manager of the 320 kb/d Saint John Refinery. Prior to this, Dale held roles as General Manager, Mid-Continent Crude and leadership roles in Rail Logistics, Supply Chain Operations, Refinery Operations and Project Management. Prior to joining Irving Oil, Dale held operational and engineering roles with Saudi Aramco and Esso Petroleum Canada.

Dale holds a Bachelor of Science, Chemical Engineering from the University of New Brunswick and a Masters of Business Administration from the University of New Brunswick. He has attended executive education programs at Harvard Business School, Queen's University and Babson College.

Notes

1. Financial results are prepared and reported in accordance with AASB 16, the new lease accounting standard, unless otherwise stated.
2. 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 historical cost of inventory. This removes the effect of timing differences and the impact of movements in the oil price.
3. The Company intends to resolve to proceed with, and set a record date for, this proposed capital management initiative following receipt of all regulatory confirmations, waivers and approvals that are required to undertake an off-market buy-back via a tender process. The Company has lodged all necessary applications to obtain these confirmations, waivers and approvals, but there is no guarantee that they will be obtained. If they are obtained, the Company will also seek shareholder approval to permit it to buy-back more than 10% of its own shares under the proposed capital management initiative. If shareholder approval is not obtained, then the percentage of the Company's shares that will be bought back under any such initiative will not exceed 10%.
4. Calculated from Net Debt of $168.7 million as at 30 June 2019
5. In the previous corresponding period to 31 December 2018, the holding company of the group was Viva Energy Holding Pty Ltd (VEH). The Company became the holding entity of the group subsequently, in conjunction with its listing on the ASX in the second half of 2018. Accordingly, the results for the period to 31 December 2018 that are presented for comparison are the consolidated results of VEH and its controlled entities.
6. Numbers may not add due to rounding.
7. The Geelong Refining Margin is a non-IFRS measure calculated in the following way: IPP less the COGS, and is expressed in US dollars per barrel (US$/BBL), where:

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

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

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

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Conference Call details

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

Date: 24 February 2020

Time: 10:30 am (AEDT)

Dial-in Details			
Conference ID:		1000 3313	
Participant Numbers			
Participants can pre-register by navigating to **https://s1.c-conf.com/diamondpass/10003313-invite.html** Participants can access the public link by navigating to **https://services.choruscall.com.au/webcast/viva-200224.html**			
To enter the call via operator you will need to quote the conference ID provided above and use the dial in below.			
Participant toll:		+612 9007 8048	
Participant toll free:		1800 908 299 / 1800 455 963	
International Dial-in Details			
These numbers are toll-free dial-in numbers for each country listed below. For countries not listed below, the Australian Participant Toll number listed above can be dialled. To ask a question, you will need to dial *1 on the telephone keypad.			
Hong Kong	800 968 273	Singapore	800 101 2702
Japan	0066 3386 8000	United Kingdom	0800 051 1453
New Zealand	0800 452 795	United States	1 855 624 0077

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About Viva Energy

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

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

www.vivaenergy.com.au