ASX Release

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PROPOSED GOVERNMENT REFINING SUPPORT AND DECISION TO CONTINUE OPERATION OF LYTTON

Ampol Limited (ASX:ALD) today provides an update on the outcome of its Lytton refining review.

Key points

- Ampol welcomes the Federal Government's proposed support for Australian refineries, which provides a variable support payment of up to $108m pa for Lytton operations during periods of low refining margins
- The package also provides for a funding grant of up to $125 million from the Federal government to undertake infrastructure upgrades to produce ultra-low sulfur petrol
- Ampol intends to continue refining at Lytton until at least mid-2027, in accord with the package requirements, provided that the legislation is enacted and government support initiatives are finalised as proposed
- With ongoing refining operations, Ampol will realise benefits afforded to Australian refiners under proposed minimum stock holding obligations, including lower holding obligations, reducing working capital requirements and avoidance of costs on incremental storage
- Ampol's decision maximises shareholder value, and enables progress towards alternative uses for this strategic site, while preserving and developing manufacturing skills that will be critical for success in the energy transition
- Support during periods of low margins improves the quality of Lytton's earnings profile by significantly reducing earnings volatility and earnings downside risk, which should result in a higher earnings outcome on average
- Reduced volatility will improve earnings quality, lower average cost of capital, and enable Ampol to increase its target leverage range to 2.0x – 2.5x Adj. Net Debt / EBITDA, in turn supporting incremental growth and/or shareholder returns
- The Federal Government recognises that fuel security and energy transition are linked, and has confirmed an intention to work in partnership with Ampol to leverage its privileged assets, supply chain expertise and customer positions in shaping the energy transition and developing future energy solutions for Australian businesses

Ampol intends to continue refining operations at Lytton

Ampol is pleased to announce, that following comprehensive management analysis and constructive engagement with the Federal and Queensland State Governments, it has completed its review of the Lytton refinery.

Today the Federal Government has announced an extensive package of support initiatives, including variable refining support payments, funding support for capital investment which is required to meet the introduction of new clean fuel standards, and lower working capital requirements under the proposed minimum stock holding requirements.

After careful consideration of all options available for value creation from the Lytton site, Ampol has decided that continued refining operations with the proposed government support maximises shareholder value and retains the opportunity to transition the strategically located site to alternative uses in the future.

Assuming the proposed refinery support initiatives receive sufficient bipartisan support and are successfully legislated, Ampol intends to commit, as required by the government package, to ongoing refinery operations at Lytton until at least 2027, as a partner with government in meeting the dual objectives of fuel security and energy transition. Enactment of government legislation is anticipated early in 2H 2021. Ampol may reconsider its decision if this does not occur as planned.

Matt Halliday, Managing Director and CEO said: "Through our constructive engagement during the review, the Federal Government has proposed a package of support initiatives that will underpin the viability of the Lytton refinery over the medium term, and in doing so enable the continued employment of ~550 people in Australian manufacturing jobs and the indirect employment of hundreds more.

“We have also had constructive discussions with the Queensland State Government that are continuing. The Queensland government is committed to working with Ampol to support ongoing refining operations, deliver a transition to the production of “future fuels”, and sustainable growth-orientated industrial uses at Lytton.

“We are pleased that the governments have recognised the challenges faced by the local refining industry which includes competition from large-scale international refineries and the impacts of COVID-19. Under the proposed government support initiatives, we expect Lytton to generate an appropriate return on capital through the cycle which will allow for continued investment to deliver both cost competitive and ultra-low sulfur fuels, whilst also investing in future energy initiatives at the site.”

“Ampol is an Australian company with a long and proud history and has been refining at Lytton since 1965. Our operations play an important role in the economy and in delivering national prosperity, and consistent with this, our discussions with the government have been open and productive throughout our review.”

Rationale for continued operations at Lytton

Ampol’s decision to keep Lytton operational for the medium-term has several key benefits:

- **Provides an appropriate return for Lytton through the cycle:** the government support manages losses during poor margin conditions, to enable Ampol to keep operating and to make profits without any government support when conditions improve;
- **Improves the quality of Ampol’s earnings:** the government support significantly reduces Lytton’s earnings volatility and earnings downside risk with support payments highest when refining margins are low;
- **Improves cost of capital and balance sheet capacity:** the reduced volatility in earnings will provide increased balance sheet capacity to support incremental growth and/or shareholder returns, consistent with Ampol’s Capital Allocation Framework;
- **Fuel security & energy transition:** Ampol is partnering with government to meet the dual objectives of Australia’s fuel security and energy transition;
- **Community:** Ampol can continue the employment of ~550 Australian manufacturing jobs at Lytton and the indirect employment of hundreds more; and
- **Optimal use of the Lytton site:** government support will assist in funding investments required to meet Australia’s new fuel standards. Lytton will remain an operating refinery and, longer term, Ampol has ambitions to invest in future energy technologies at the site to facilitate an orderly energy transition.

Although Ampol intends to commit to refining until at least mid-2027, under the legislation, Ampol retains flexibility to withdraw from the package and pursue an earlier conversion to an import terminal in the case of persistently low refinery margins, or other materially adverse events including changes to the Fuel Security Services Payment (FSSP) by future governments. Ampol also expects to be entitled to receive the one-off short-term refining support payments which were announced by the Federal Government in September 2020, which should be in the order of ~A$40 million for production in 1H 2021.

Reduced earnings volatility to support revised target capital structure

Given the material reduction in earnings volatility under the proposed government support initiatives, Ampol has received confirmation from Moody’s that Ampol‘s Baa1 investment grade threshold will increase to 2.8x Adj. Debt / EBITDA (from 2.3x currently). As a result, Ampol expects to increase its target leverage range (under its Capital Allocation Framework) to 2.0x – 2.5x Adj. Net Debt / EBITDA (from 1.5x – 2.0x currently).

Ampol’s leverage at the end of 2020 was 1.7x Adj. Net Debt / EBITDA, on a pro-forma basis following the $300 million off-market share buy-back completed in January 2021. Ampol will assess balance sheet capacity after the later of enactment of the support initiatives and Ampol’s 1H 2021 financial result in August 2021, with excess capacity used for investment in incremental growth and/or additional shareholder returns as per our Capital Allocation Framework.

Decision supports government partnership on energy transition and decarbonisation

Evolving our business to build the foundations for energy transition is one of the three key elements of Ampol’s strategy. Ampol’s privileged assets, supply chain expertise and deep customer relationships mean we are uniquely placed to be part of the decarbonisation solution by enabling an orderly energy transition and capitalising on opportunities that can deliver sustainable returns for shareholders over the long-term.

The outcome of the review will help enable an orderly energy transition from crude oil refining by assisting the Federal Government's policy objectives around liquid fuel security, while in parallel pursuing alternative future uses for the Lytton site that seek to leverage its industrial zoning, port access, and connection to existing utilities and infrastructure. The financial benefit of the refining support during times of low margins will support Ampol's investment in future energy opportunities, as will the retention and development of manufacturing skills that will be critical for success in future energy transition.

The Federal Government recognises the importance of fuel security and the role of refineries. The Government has confirmed an intention to work in partnership with Ampol to leverage its privileged assets, supply chain expertise and customer positions to develop future fuel technologies. The partnership will include working together on current and future measures relating to future fuels policy, and potential funding support through government agencies for future energy projects, particularly around enabling infrastructure.

Ampol looks forward to providing further information with the release of its Energy Transition and Decarbonisation strategy later this week.

Summary of government's proposed support initiatives

The Federal Government has today announced its Fuel Security package, including an intended Fuel Security Services Payment (FSSP) to support refining in Australia, and Minimum Stock Holding Obligation (MSO), with key details summarised below:

<u>Fuel Security Services Payment (FSSP)</u>[1]

Under the proposed FSSP, Australian refineries are entitled to a variable support payment based on the quantity of fuels refined and the Government's external marker margin. As it relates to Lytton refining operations, the FSSP is anticipated to provide:

- **Variable payment:** a variable support payment when the refining price marker is between 4.6AcpL and 6.4AcpL, which effectively increases realised margin to 6.4AcpL (an effective increase in LRM to a range between ~US$7.00 - $7.50/bbl),
- **Cap payment:** a maximum support payment of 1.8 AcpL if the refining price marker is 4.6AcpL or below; and
- **Collar payment:** no support payment if the Government refining price marker is greater than 6.4AcpL.

The cap and collar nature of the FSSP is intended to provide a high level of support when refining margins are low, and no support when refining margins are above the collar. In doing so, the payment reduces the volatility of Lytton's earnings and provides greater financial certainty in times of low margins, reduces the downside risk of the asset, and retains upside exposure to periods of higher margins. The maximum support payment reduces Lytton's EBIT breakeven LRM, which enables the confidence to continue to invest in sustaining capex.

The support initiatives apply for a period of 6 years commencing 1 July 2021, with acceptance requiring Ampol to commit to operating the refinery until mid-2027, with an option for Ampol to then extend the support for a further three years.

The variable support payment equates to up to $108m pa for Lytton operations during periods of low refining margins, based on 6.0 BL of production at 1.8 AcpL

<u>Minimum Stock Holding Obligation ("MSO")</u>

Under the proposed MSO, the Australian fuel industry will be required to hold a minimum stock holding in Australia, commencing from July 2022. This minimum level is anticipated to be equal to 24 days of petrol and jet demand, plus 20 days of diesel demand, increasing to an industry average of 28 days of diesel demand from July 2024.

The government has proposed that Australian refineries will be afforded reduced working capital obligations relative to importers by being allowed to count crude toward their MSO, and by a lower diesel stock holding obligation (20 days of diesel coverage with no increase in 2024). This lower than average MSO for local refineries will then require importers to hold a higher than average MSO, for the industry to meet mandated minimum stock holding targets.

Based on the decision to continue refining operations, it is expected that Ampol will have sufficient storage capacity to meet this obligation but more work is required to finalise this view, with higher holding obligations if Lytton were converted to an import terminal.

Federal Government funding to accelerate new fuel standards

In addition to the proposed FSSP and MSO benefits, the Federal Government will provide a grant of up to A$125 million to the Lytton refinery, to undertake infrastructure upgrades to produce ultra-low sulfur petrol in accordance with fuel quality standard changes by end 2024. Ampol expects this support initiative will cover approximately half of the required investment at Lytton to produce ultra-low sulfur petrol.

The Federal government is also considering a pathway towards Euro 6 equivalent standards in Australia, and has proposed potential for both capital to support required aromatics upgrades at Lytton and further support under the FSSP in this event.

Conference Call Details

Ampol is hosting an investor call to discuss the outcome of its refining review at 9.00am (AEDT) on 17 May 2021.

To participate in the call, pre-registration is available via https://s1.c-conf.com/diamondpass/10014029-p3tr01.html, or investors are able to listen in via the webcast on our website: https://www.ampol.com.au/about-ampol/investor-centre

Authorised for release by: the Board of Ampol Limited.

Appendix

To assist in investor understanding of the refining review outcome, Ampol provides some of the key determinants in arriving at this decision, which are subject to formal front end engineering and design work:

<u>Continued refining operations</u>

- LRM outlook: A range of refining margins were considered, from continuation of weakness over last 12 months (~US$5/bbl) to a recovery back to 10yr average levels (~US$9/bbl)
- Volume outlook: ~6BL p.a. production.
- Capex: $50-90m p.a. SIB capex, ~$150-250m capex (100% basis) in 2021-2024 to meet new fuel standards

<u>Conversion to import terminal</u>

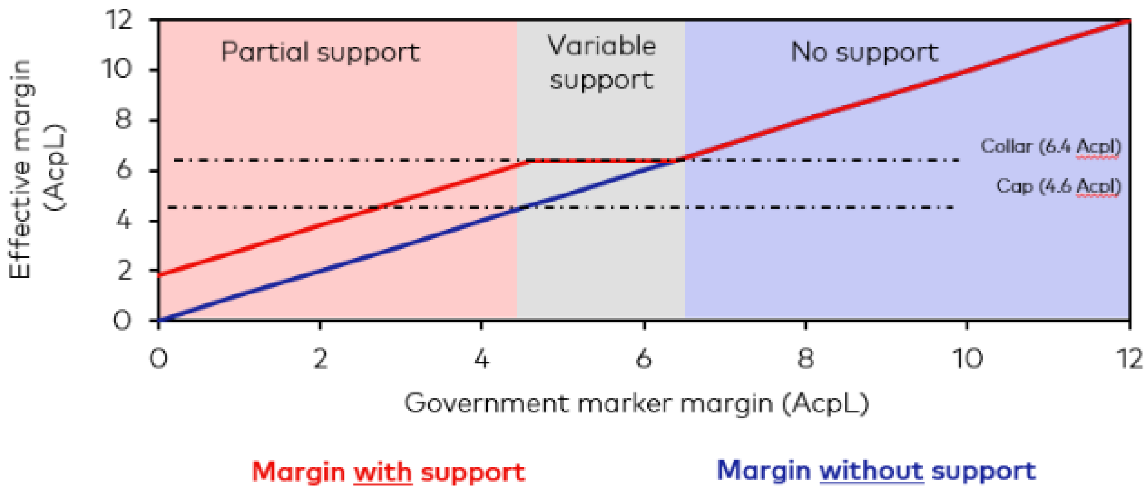
- Volume outlook: 2.5 BL p.a. – 4 BL p.a. import facility, with the upper end of this range representing the opportunity for industry collaboration to optimise supply chains
- Capex: ~$200m for decommissioning, redundancies, and demolition, ~$100-150m conversion capex, and a further $50-100m [present value] for longer dated remediation
- Cash offsets: ~$200m cash tax benefit realised post dismantling, ~$100m working capital release
- Terminal case replacement EBIT: materially lower than refining
- Incremental tankage may be required to meet MSO

1. Notes to Federal Security Services Payment (FSSP)

FSSP payments are denominated in AcpL, based on a Government refining price marker, which broadly correlates to the Lytton Refiner Margin ("LRM"). Payments are made quarterly based on the average of the refining marker in the quarter.

FSSP is structured with a maximum payment of 1.8 AcpL when the refining price marker is below 4.6 AcpL, variable support when the refining price marker is between 4.6 AcpL and 6.4 AcpL, and no support when the price market is above 6.4 AcpL.

For the purpose of illustration, all LRM comparatives in this document are based on an AUDUSD of 0.78.



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