

17 May 2021

Federal Government Fuel Security Announcement

Viva Energy Group Limited (the **Company**) welcomes today's announcement by the Federal Government to implement a long-term Fuel Security Package (**FSP**) to support Australia's refining industry. The FSP acknowledges the importance of refining to the country's broader energy security and enhances the long-term viability of the domestic refining sector (noting that the package remains subject to legislative approval processes)¹. Viva Energy expects to commit to and participate in the FSP, subject to the finalisation of the detail of the package, and approval of the legislative package. A conference call (dial-in details found at the end of this release) has been scheduled for 11am (AEST) today to discuss the FSP further.

The FSP consists of three main elements: A Fuel Security Services Payment (**FSSP**), the introduction of industry minimum stockholding obligations (**MSO**), and capital contributions towards refinery upgrades to allow the production of ultra-low sulphur gasoline (**LSG**)² (together with bringing forward of LSG specifications to the end of 2024). As part of the package, Viva Energy would make a six-year commitment to maintain refining operations through to 30 June 2027, with a further three-year option for the Company to extend until 30 June 2030.

CEO and Managing Director, Scott Wyatt said: "Today's announcement by the Federal Government provides important and welcome structural support to the refining sector in Australia. The sector has faced several structural headwinds in recent years from challenged trading conditions globally, increased competition from Asian refinery imports, and the significant impacts of demand destruction from the COVID-19 pandemic in 2020. This has seen the number of refineries in Australia reduce from six in 2011, to only two continuing refineries today, leaving the country predominantly reliant on product imports from international refineries for our fuel requirements. We thank Minister Taylor for working closely with the sector to secure and maintain our remaining refinery capacity through this package.

"Refineries provide a critical role in energy security to this country, through their crude conversion capability and substantial inventory positions. In FY2020, our Geelong operations had a cash-loss of over \$200 million, and without the support of the Federal Government continued operations would have not been sustainable. This could have seen the loss of over 700 direct jobs, the loss of the last major manufacturing operations in Geelong, and a significant contributor to the Victorian economy.

"Critically, the structure of the FSP allows us to commit to the necessary and significant capital program through the package's life cycle. The structure of the FSSP is not designed to underpin or support profits of Geelong, but rather to mitigate some of the downside risk of low refining margin cycles, to which Australian refineries are exposed outside of their control. Reducing this risk allows us to proceed with greater confidence, as we seek to invest in the future of the Geelong site.

"This confidence supports our vision for the Geelong Energy Hub, to transition the refining site to multiple sources of energy, as we participate in the longer-term goal of energy transition to a lower carbon economy. Coupled with this is a commitment to improved fuel standards, through the advancement of ultra-LSG fuel specifications, and working towards further harmonisation to Euro 6³ vehicle emission standards.

"We now look forward to a period of substantial investment in Geelong, providing an exciting period in the site's history. The investment in capital upgrades needed for ultra-LSG, together with our normal capital investments and major maintenance turnarounds, and our plans for Energy Hub projects -

including the Gas Terminal Project and hydrogen refuelling station - means a period of substantial investment which supports the site's future.

"2020 was a challenging period for our refinery, as it was for many people and businesses. Our people played a critical role in maintaining refining operations in the toughest of circumstances, and it is very much through their dedication, attitude and hard work that we are able to now move forward to a more positive period. I thank them greatly for this."

The following sets out the key expected parameters of the FSP. We note that the final package remains subject to legislative approval, and the preparation and adoption of the necessary regulatory and contractual mechanisms to implement the package. Viva Energy intends to work with the Federal Government through this period – and Viva Energy's formal commitment to the package will be agreed following the finalisation of all necessary mechanisms.

Fuel Security Service Payment

The FSSP is intended to commence from 1 July 2021 and will continue to 30 June 2027 (unless extended by option). When applicable, the FSSP will be a cents-per-litre (**cpl**) payment calculable on the actual production of main grade fuels (gasoline, jet and diesel), produced from the Geelong Refinery.

The payment will be determined by reference to a Margin Marker, developed separately for each Australian refinery. It comprises transparent and public markers for crude, product and freight to develop a base margin, with a calibration factor to adapt the public data to Geelong Refinery's operations. The Margin Marker has been calibrated based on Geelong's historical performance and it is intended to approximate Geelong's actual refining margin, on average. It is expected that the marker will be published by the Federal Government when the regulatory instruments and mechanisms are finalised.

The FSSP support will commence when the Margin Marker falls below A\$10.20/bbl. The support will increase from 0 cpl to 1.8 cpl (or A\$0.0/bbl to A\$2.90/bbl), on a linear basis until the support caps at the Margin Marker level of A\$7.30/bbl. Below this margin level, full support at 1.8cpl (A\$2.90/bbl) will be provided.

The support is designed to mitigate some of the downside risk to refining margins, providing payments when the margin environment falls below the long-term cash breakeven level (having regard to all operating costs and capital expenditure) of Geelong's operations. The structure also incentivises Viva Energy to continue to operate the Geelong facility as efficiently as possible, and to seek process and production improvements where possible.

The FSSP effectively reduces the cash break-even level of Geelong operations by the quantum of the 1.8 cpl support – that is, it reduces the average margin necessary to achieve cash breakeven by approximately A\$2.90/bbl.

The FSSP replaces the existing Temporary Refinery Production Payment. The total payments received through to 30 June 2021 are expected to be approximately \$40 million (approximately 1.39 cpl or A\$2.21/bbl)⁴.

Minimum Stockholding Obligations

The Federal Government intends to introduce minimum stockholding obligations on main grade fuels (petrol, jet and diesel) across the fuel industry, on a staged basis.

The first stage is expected commence from 1 July 2022 and is designed to maintain current average product levels in the country, requiring stored holdings of fuel equalling national consumption coverage of 24 days for petrol, 20 days for diesel and 24 days for jet.

The second stage is expected commence from 1 July 2024 and requires a 40% increase of holdings of diesel nationally – increasing the consumption days coverage to 28 days for diesel.

The MSO will apply to Viva Energy; however, refineries are exempt from the increased diesel requirements at an asset level. Further, the crude held by refineries will be counted toward the product holding requirements, on a converted product basis. The Company expects that a secondary trading market in storage will develop through the introduction of the MSO.

Ultra-Low Sulphur Gasoline Specification

As part of the FSP, the Federal Government intends to bring forward the requirement for ultra-LSG to the end of 2024. To produce refined fuel to this specification requires substantial upgrades to the Geelong Refinery.

To facilitate this, the Federal Government intends to provide a 50% (up to a maximum of \$125 million) contribution towards the capital upgrades necessary at Geelong to produce ultra-LSG. The Company currently expects the capital upgrades to cost up to \$250 million and is conducting assessment work to commence the project to deliver this by the end of 2024. In conjunction, it is anticipated that the upgrades will also involve energy efficiency improvements, and potential work toward further harmonisation with Euro 6 vehicle emissions standards.

Viva Energy and the Federal Government have also agreed to bring forward important work to assess Australian gasoline and diesel specifications, and particularly the aromatics content of fuels, in order to seek further progression towards harmonisation to Euro 6 vehicle emissions standards. This work will be brought forward to the second half of 2021, and should the review result in further changes, the Federal Government has made available additional funding for any identified capital spend (up to \$26 million), or for adjustments necessary to the FSSP setting to allow for operating expenditure increases.

The Company has long supported the continued improvement in Australian fuels standards where there are direct benefits, and looks forward to working with Government and industry to identify future pathways.

Refining Commitment

In order to receive the benefit of the FSSP and ultra-LSG capital grants, the Company will be required to commit to continued refining operations until 30 June 2027 – aligning the refining commitment with the benefit of the FSSP. In addition, an option to extend the program to 30 June 2030 will be made available for future election. Subject to the package being approved and finalised (discussed further below), Viva Energy expects that it will commit to the package.

In the event that a commitment to continue refining is made under the legislation and not ultimately satisfied, refiners will be required to repay a proportion of funds received under the program (proportionate to the period of the commitment that remains unsatisfied). Such repayments will not be required in circumstances of force majeure, or where operating conditions or financial performance are substantially loss making over an extended period, notwithstanding receipt of the FSSP.

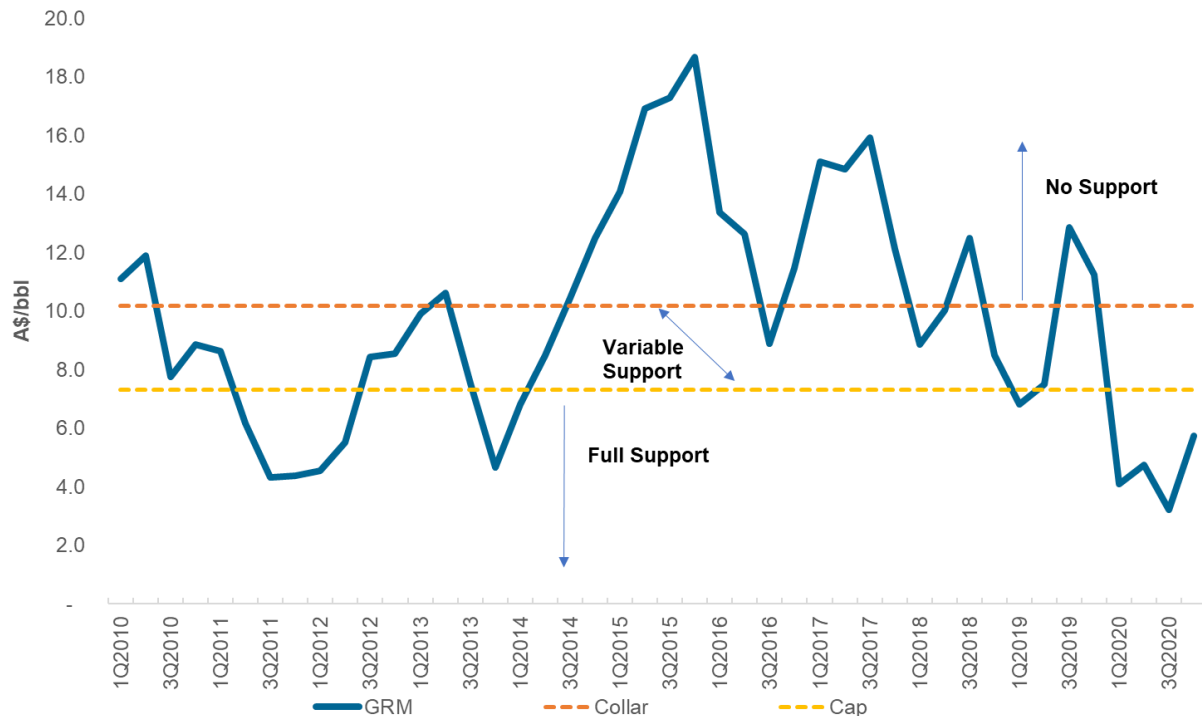
Process, Timing and Review

The FSP is expected to be implemented through a suite of legislative instruments and contractual grants. In particular, the legislation requires political support for it to be passed through parliament, prior to its implementation. Accordingly, the final FSP, and Viva Energy's final commitment to the mechanisms, will not be finalised until this process is complete. Viva Energy intends to work with Government to finalise these matters as soon as is practicable.

Once the package is implemented, it is expected that the Federal Government will conduct a review two-years after its implementation, and prepare a milestone report. This review is expected to assess the performance of the Margin Marker mechanism against policy objections, the impacts of the MSO, and the outcome of the aromatics fuel specification review.

Historical Actual GRM and FSSP mechanism

The following chart is provided for illustrative purposes only, to show how the cap and collar mechanism is intended to operate. It charts Geelong's actual historical refining margin (A\$/bbl) (**GRM**) from FY2010 through to FY2020 (on a quarterly basis). The Margin Marker is intended to approximate GRM, on average and over time. And whilst it is intended to be strongly correlated to GRM, the Margin Marker will not exactly track GRM, and as such there will be some variance between the Margin Marker and GRM. Payments of the FSSP (and the application of the cap and collar structure) will be based on the Margin Marker, not GRM.



Authorised for release by: the Disclosure Committee of Viva Energy Group Limited

Notes:

1. All policy settings noted within this ASX notice in relation to the Fuel Securities Package announced by the Federal Government on 17 May 2021 remain subject to resolution through the legislative process.
2. Requires gasoline with a sulphur content of less than 10 parts per million.
3. Euro 6 fuel standards refers to vehicle emission standards developed by the United Nations to regulate gasoline and diesel vehicle emissions.
4. Total final payment amount under the interim refining production grant is dependent upon levels of refined production at Geelong Refinery during 2Q2021.

Further enquiries:

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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 1,330 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 55 airports and airfields across the country.

www.vivaenergy.com.au

Conference Call details

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

Date: 17 May 2021

Time: 11:00 am (AEST)

Dial-in Details	
Conference ID:	1001 4005
Participant Numbers	
Participants can pre-register by navigating to https://s1.c-conf.com/diamondpass/10014005-yte963.html	
Please note that registered participants will receive their dial in number upon registration to enter the call automatically on the day.	
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