Fuels and Infrastructure

Our privileged assets, deep customer base, expansion into international markets and the capabilities of our people in managing complex supply chains underpins the success of our Fuels and Infrastructure business.

22.04BL
record total sales, a 9.7% increase on 2020

38% increase in international volumes on 2020

Proposed **Z Energy acquisition** announced

TRIFR **1.9** down from 4.6 in 2020

Decision to **continue operating at Lytton**

In 2021, Fuels and Infrastructure delivered significantly improved earnings, with growth supported by increased Lytton earnings and execution of our strategy to diversify and grow our international business. While Australian volumes were impacted by COVID-19 and competitor supply chain decisions, growth in international volumes led to record total sales in 2021.

Milestones included the first full year of trading at our Houston office, our announcement to continue operating at Lytton and the proposed Z Energy acquisition.

Financial performance

Fuels and Infrastructure delivered an RCOP EBIT of $417.6 million, an increase of 170% on the prior year, with performance underpinned by strong operating performance at Lytton and earnings growth in our international business.

During the year, safe and reliable operations at the Lytton refinery drove increased production in an improving refiner margin environment. It delivered an RCOP EBIT of $158.7 million, which includes the benefit of $40 million from the Federal Government's once-off Temporary Refining Production Payment to support Lytton's continued operations.

This compares with the loss of $144.8 million incurred during 2020 when the refinery was shut down for the extended T&I due to the impact of COVID-19.

The resumption of production at Lytton displaced additional imported volumes required in 2020 during the extended T&I. This was the main contributor to the reduction in RCOP EBIT to $110.2 million for Fuels and Infrastructure Australia (ex-Lytton). Overall, earnings from Fuels and Infrastructure's Australian operations (including Lytton) increased by approximately $230 million when compared with 2020.

Pleasingly, the successful execution of the strategy to diversify and grow international earnings saw the Fuels and Infrastructure International RCOP EBIT grow to $110.9 million, up 31% on the prior year. International volumes also grew by 38% to 8.99 billion litres.

CASE STUDY

Lytton refinery to continue supporting 550 manufacturing jobs and enable the energy transition

In May 2021, Ampol announced it would maintain refining operations at Lytton. The announcement followed a formal review process announced in October 2020, after challenging conditions in 2020 led to a loss of $144.8 million for the year.

Ampol engaged with the Federal Government and Queensland Government throughout the review, with the decision delivering value for shareholders and a path forward for Ampol's valued employees at the refinery. The decision supports the continued employment of 550 Australian manufacturing jobs and the indirect employment of hundreds more.

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

"The Queensland Government is also 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 government support initiatives, we expect Lytton to generate an appropriate return on capital through the cycle that will allow for continued investment to deliver both cost-competitive and ultra-low sulfur fuels, while 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, and we look forward to evolving the site as we move forward."

Fuels and Infrastructure continued

International growth continues as we expand into new markets and geographies

Our International strategy is underpinned by our ambition to accelerate expansion into international markets by growing earnings, improving our capability and agility to scale quickly into new geographies, applying learnings to unlock further potential in Australia and enabling the energy transition. We continued to focus on executing this strategy in 2021, with a significant RCOP EBIT uplift of 31% delivered in Fuels and Infrastructure International compared with 2020.

The International business is supported by our trading and shipping operations, which allows us to source petroleum products from global markets into Australia and overseas, manage price volatility and expand our customer base internationally. In 2021, we expanded our customer base across the Pacific, supplying 16 countries over the course of the year.

2021 also represented the first full year of operating in the United States, following the commencement of trading at our Houston-based Trading and Shipping office in late 2020. Supporting our Singapore Trading and Shipping business, the Houston office has enabled us to capitalise on the United States' position in international oil markets, with our presence supporting growth in the purchase and sale of cargo related to the Americas, which improves resilience across our supply chain and increases commercial options to grow our customer base.

Our Houston office has also enabled us to diversify our crude supply capability by building direct relationships with US-based crude producers to reduce landed crude costs and improve Lytton financial performance.

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This helps us to improve resilience across our supply chain and increase commercial options to grow our customer base."

We have launched our own into-plane refuelling service at Sydney Airport

Our Gull business in New Zealand performed well during the year, despite managing the continued impacts of COVID-19 travel restrictions, adding 9 new sites to its network. Seaoil in the Philippines, of which we own a 20% equity interest, also continued to expand its network and added an additional 71 branded sites to the network in 2021.

In August, we also submitted a non-binding indicative proposal to acquire 100% of the shares of Z Energy, a Wellington-headquartered fuel distribution and retailing company that owns and manages over 300 fuel stations in New Zealand. Z Energy is a logical growth opportunity for Ampol and forms part of our strategy to continue to grow our international footprint and earnings, and to build scale as we transform our business for the energy transition.

We are also tracking well against our 2019 commitment to deliver $70 million in International earnings uplift by 2024, with a cumulative EBIT uplift of $39 million delivered by the end of 2021.

Lytton operations to support fuel security and the energy transition

In May, we were pleased to announce the outcome of our Lytton refinery review, with the decision to continue operating supported by the Federal Government's Fuel Security Program. This important decision has enabled Ampol to maximise shareholder value and create the opportunity for a controlled transition to alternative uses of this strategic site, while preserving and developing 550 manufacturing jobs and hundreds more indirectly.

The Lytton refinery's earnings are underpinned by the Federal Government's variable support payment of up to $108 million per annum during periods of very low margins, while retaining the full benefit of higher margins. This support has enabled Ampol to improve the quality of Lytton's earnings profile by significantly reducing earnings volatility and earnings downside risk. In 2021, improved regional refiner margins helped Lytton deliver an RCOP EBIT of $158.7 million, which compares with the loss of $144.8 million incurred during 2020 when the refinery was shut down for the extended T&I due to the impact of COVID-19. Ampol received a one-off grant of $40 million from the Federal Government's Temporary Refining Production Payment scheme relating to the 2021 first half to support Lytton's continued operations, but did not receive a Fuel Security Service Payment for production in 2021.

The Federal Government package also includes the opportunity for a funding grant of up to $125 million to undertake infrastructure upgrades to produce ultra-low sulfur petrol. Work on scoping this program is underway.

We will also be able to realise benefits afforded to Australian refiners under proposed minimum product stockholding obligations, including lower holding obligations, reduced working capital requirements and avoidance of costs on incremental storage. We have been engaging with government on the regulatory framework of these obligations in 2021 and anticipate being ready to meet compliance requirements in 2022.

More broadly, our leading infrastructure and supply chain positions in key demand centres across Australia, including our 15 terminals and 55 wet depots, support fuel security and provide us with optionality for repurposing and developing as the energy transition evolves. We will continue to investigate opportunities to augment our infrastructure position and capture further value in 2022.

We continue to maintain a leading position within the Australian fuels market

The heart of our business continues to be the scale of our demand base in Australia, with approximately 80,000 business customers spanning a variety of sectors, including defence, mining, transport, marine, agriculture, aviation and other commercial sectors. In 2021, with the impact COVID-19 continued to have on businesses, we remained focused on leveraging our capability, knowledge and scale to create value for our customers.

Total Australian sales volumes were 13.05 billion litres in 2021, which is 3.9% lower than the 13.58 billion litres in 2020. This reflects the full-year impact of COVID-19 on jet volumes, the impact of rolling lockdowns on Australian retail market demand in the second half, as well as competitor supply chain decisions earlier in the year that adversely impacted net buy/sell volumes.

This year, Ampol successfully completed the conversion to Mobil lubricants, including repurposing our Queensland lubricant manufacturing facility and beginning distribution through both business and retail channels.

Forming part of the Ampol rebrand, this followed an announcement in late 2020 that Ampol and ExxonMobil had entered a marketing alliance to blend, distribute and market Mobil lubricants across Australia. This alliance enables Ampol to leverage its scale, Australian expertise, manufacturing capability and strong customer relationships to bring Mobil lubricants to Australian consumers and businesses. It also supports our commitment to evolving our lubricant offer to meet changing customer needs.

We also launched our own into-plane refuelling service at Sydney Airport, which will support improved volumes and earnings capability as jet fuel volumes return over the coming years.

In 2022, we will continue to leverage our strengths to improve performance in the Australian business and commercial markets, while at the same time providing our customers with new solutions to support their decarbonisation and energy transition journeys.

Improving our safety and environmental performance

In 2021, Fuels and Infrastructure delivered a 59% improvement (from 4.6 to 1.9) in its TRIFR. It also saw an improvement in the DAFWIFR to 0.8.

This was another pleasing outcome, delivered throughout a disruptive period during COVID-19 lockdowns and the Lytton review, and was a result of the continued focus put on personal safety through the delivery of fit-for-purpose projects and campaigns led by management, supervisors and front-line personnel.

Key initiatives delivered throughout the year included a peer support program at the refinery to support employees facing personal challenges affecting their mental health and wellbeing, as well as a Fit For Work program delivered in the aviation business, focusing on degenerative conditions across the employee lifecycle. A major project at the Kurnell terminal wharf also achieved the milestone of 500 days injury-free.

For process safety, during the first half Fuels and Infrastructure recorded three Tier 2 process safety incidents, all related to spill events. Detailed investigations were delivered, with improvements put in place in the second half. These improvements included an intensive Carrier Safety Intervention (CSI) program delivered for all third-party carrier incidents, as well as field inspections and ongoing engagements with carrier company management teams.

Improving environmental outcomes was also a focus in 2021, with several programs delivered to reduce emissions. This included commencing a fleet replacement program to replace Ampol's truck fleet with modern, diesel engine technology that is expected to generate a material reduction in fleet emissions, with emissions also being offset through participation in the carbon neutral fuel pilot program. We also introduced our first EV to our fleet to support our Brisbane Depot operations.

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