Australian Shareholders' Association

Australian Shareholders' Association Limited
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## Ampol's best year for some time

| | |
|---|---|
| **Company/ASX Code** | Ampol ALD |
| **AGM date** | Friday 12 May 2023 |
| **Time and location** | 10am The Mint, 10 Macquarie Street, Sydney |
| **Registry** | Link Market Services |
| **Type of meeting** | Hybrid |
| **Poll or show of hands** | Poll on all items |
| **Monitor** | Roger Ashley assisted by Don Adams |
| **Pre AGM Meeting?** | Yes with Steven Gregg (Chairman), Faith Taylor (Company Secretary), Fran van Reyk (Head of Investor Relations), Melinda Conrad (Chair of Human Resources Committee), Tom Clay (HR Director) and Penny Barker (Head of Sustainability and Climate Change) |

*The individuals or their associates involved in the preparation of this voting intention have no shareholding in this company.*

**Summary of issues for meeting**

In our opinion Ampol is a well governed company with the added element of a good year's results in 2022. The company's attention to gender diversity and ESG issues appear genuine and positive.

Given the industry in which they operate they will struggle to meet zero emissions while fossil fuel remains a significant part of Australia's transport environment. With this in mind, they can only attempt to reduce emissions within reasonable parameters given the state of the market and by diversifying into suitable projects to lower emissions wherever possible.

The ASA monitors were impressed with the responses to our questions both in terms of detail and clarity.

**Proposed Voting Summary**

| No. | Resolution description | |
|---|---|---|
| 2 | Adoption of Remuneration Report | For |
| 3a | Re-election of Melinda Conrad as a Director | For |
| 3b | Election of Simon Allen as a Director | For |
| 4 | Grant of 2023 performance rights to the Managing Director and Chief Executive Officer (MD & CEO) | Undecided (see below) |

**Summary of ASA Position**

**Consideration of accounts and reports - No vote required**

The year ended 31 December 2022 was notable for a significant increase in sales volume and pricing, the resolution of the ATO's Singapore tax liability with a write back of part of the provision, the contribution of the Lytton refinery and the impact of including the newly acquired operations of Z Energy New Zealand. The Lytton performance was such that the government Fuel Security Services Payment (FSSP) which continues until 2027 (with Ampol having a further three-year option) was not triggered. The "Ampol" rebranding project was completed during the year.

Total litres of fuel increased by 10% (including eight months of Z Energy sales) with a significant increase in jet fuel.

Statutory Net Profit After Tax increased 42% year on year while RCOP NPAT increased 129% at Group level and 146% on continuing operations. RCOP (Replacement Cost of sales Operating Profit) reflects the difference between the purchase price of fuel and the cost of fuel at the point of sale. RCOP is a global industry reporting measure that is also used to determine remuneration incentives.

A rollout of EV charging stations is underway in selected outlets. Ampol is looking to a first mover advantage since these stations can strain the electricity grid in some areas. Other low carbon initiatives begun last year including piloting a retail electricity operation and a start-up green hydrogen powered energy storage solution which can produce electricity on demand for remote off-grid locations (Endua) continue to be a work in progress. A pilot green hydrogen production plant at the Lytton refinery has been put on hold.

The dynamics of replacing a fossil fuel business with zero emissions products is very much in an embryonic phase with a low volume of EVs on Australian roads. More emphasis on convenience offerings including fast service restaurants are possibilities to take advantage of longer waiting times at service stations while charging EVs. While Ampol's "Foodary" outlets follow this concept, the MetroGo convenience store model is under review having not performed to expectations with one issue being that customers are not attuned to the concept of purchasing fresh meat and vegetables in a service station shop.

**Summary**

| (As at FYE) | **2022** | **2021** | **2020** | **2019** | **2018** |
|---|---|---|---|---|---|
| Statutory NPAT ($m) | 847 | 598 | (485) | 384 | 560 |
| UPAT ($m) (RCOP) | 732 | 298* | 212 | 344 | 538 |
| Share price ($) | 28.28 | 29.66 | 28.42 | 33.95 | 25.48 |
| Dividend (cents) | 161 | 75 | 76 | 93 | 118 |
| TSR (%) | 0.8 | 7.0 | (14.1) | 36.9 | (21.7) |
| EPS (cents) | 334 | 234 | (194) | 151 | 215 |
| CEO total remuneration, actual ($m) | 4.8 | 4.6 | 3.6 | 2.9 | 4.4 |

** 2021 RCOP NPAT restated to calculation basis used initially in 2022*

For 2022, the CEO’s total actual remuneration was **49.4 times** the Australian Full time Adult Average Weekly Total Earnings (based on November 2022 data from the Australian Bureau of Statistics).

**Election or re-election of directors**

There are five male non-executive Directors (NEDs) and three female NEDs. All conform to ASA guidelines in terms of length of service and value of shares held (determined on a multiple of base fees).

We note that the Board Skills Matrix is contained within the Corporate Governance Report but does not attribute skills to directors specifically as recommended by ASA guidelines which would enable investors to assess the skills of individual directors.

We raised the position of Director Mark Chellew with the Chairman given his resignation from Downer EDI, a company currently facing charges of irregularities. The Chairman was supportive of Mr. Chellew with a plausible argument in favour of his ongoing directorship.

The Directors seeking election/re-election at this AGM are:

Melinda Conrad

Ms. Conrad was appointed to the Board in 2017. She holds three other directorships and roles with the Australian Institute of Company Directors and Five V Capital. She has had previous senior career positions with Harvard Business School and Colgate-Palmolive.

Simon Allen

Mr. Allen is seeking election to the Board. His background includes the Chairman of Z Energy, the entity acquired by Ampol in 2022. He is currently Chair of IAG (New Zealand) and was Chief Executive of BZW/ABN AMRO in New Zealand for 21 years.

**Adoption of Remuneration Report and approval of equity grants to Managing Director/CEO**

Issues with the remuneration report are a 3 year period for the long-term incentive, rather than 4 years. We note too that the Board reserves the right to make adjustments to both the STI and LTI awards but historically has refrained from doing so. Refer to Appendix 1 for more detail on the incentive scheme.

The CEO’s LTI grant for 2023-25 is 110,104 shares at maximum opportunity. This represents a target award of $2.55 million based on a VWAP of $27.89 per share for 20 trading days to 1 January 2023 to which the Black Scholes methodology has been applied to allow for dividends paid over the incentive period resulting in a share price for the maximum opportunity award of $23.16. We are awaiting a response regarding the calculation of the allowance for future dividends and hence are treating this resolution as “undecided.”

The LTI hurdles comprise equal components of a Relative Shareholder Return and Return on Capital Employed.

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## Appendix 1
## Remuneration framework detail

| CEO rem. Framework for FY2022 | Target $m | % of Total | Max. Opportunity $m | % of Total |
|---|---|---|---|---|
| Fixed Remuneration[1] | 1.824[2] | 39% | 1.824[2] | 30% |
| STI - Cash | 0.766[2] | 16% | 1.149[2] | 19% |
| STI - Equity | 0.462 | 10% | 0.693 | 11% |
| LTI | 1.650 | 35% | 2.475 | 40% |
| Total | 4.701 | 100.0% | 6.141 | 100% |

*Notes:*

1. *A 3% increase in fixed remuneration was implemented 1 April 2023. The table is based on annual remuneration in 2022*
2. *Includes superannuation @10.5%*

There have been only minor changes to the remuneration framework between 2021 and 2022.

A profit gateway must be achieved for participation in the profit, safety, climate and brand measures which account for 65% of the short-term incentive (STI), the balance relating to subjective performance against "strategic priorities". The STI is payable 60% in cash with 40% in equity after a two year deferral.

The long-term incentive is based on equal measures of Relative TSR and return on capital employed (ROCE).

Our major concerns relate to a 3 year period for the LTI award, rather than 4 years. We note too that the Board reserves the right to make adjustments to both the STI and LTI awards but historically has refrained from doing so. We have previously been assured that the basis for any discretionary adjustments made would be noted after the event in the annual report.

Given the results for 2022, the majority of senior executives achieved 85% or above of STI maximum opportunity whereas the LTI for 2020-22 vested at 25% representing a ROCE of 13.5%.

Company policy is that the CEO must build a minimum shareholding of 100% of fixed remuneration within five years.