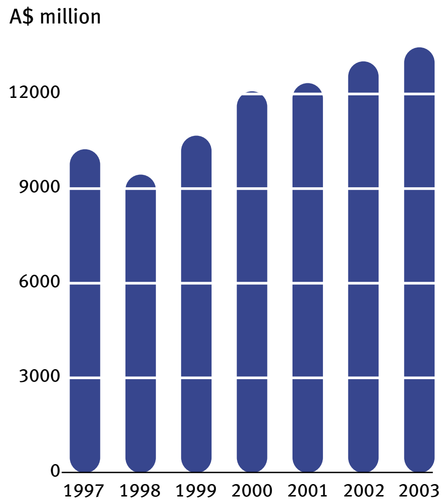
Downstream Petroleum

Financial and performance highlights

2004 UPDATE

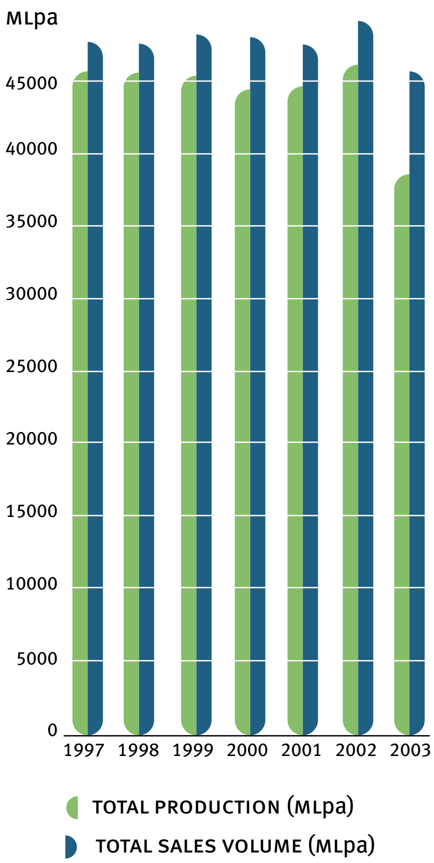
Australian
Institute of
Petroleum

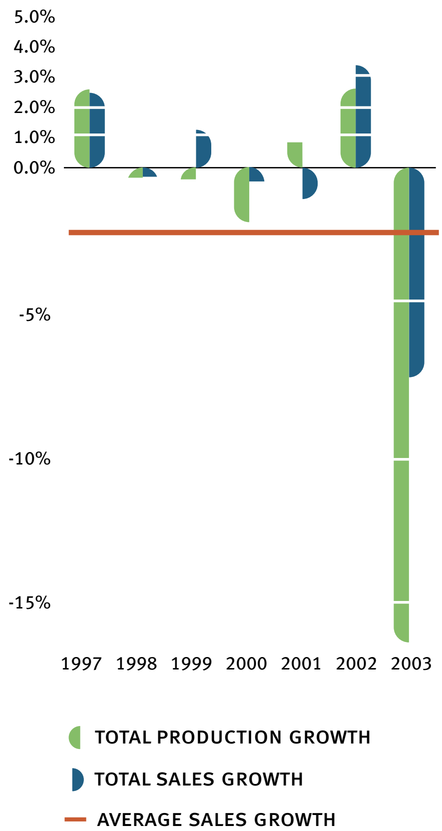
Asset value



At the end of 2003 the assets of the downstream petroleum industry were $13.4 billion. These consisted of almost $5 billion in refining assets and over $8 billion in marketing assets. The total value of assets rose by almost $400 million from $13 billion in 2002.

Production and sales





The key feature of domestic production in 2003 was a 16 per cent decline in production by the Australian refining sector because of the decline in overall production capacity and some temporary refinery reliability problems. This led to a substantial increase in imported products from 3000 ML in 2002 to 7000 ML in 2003. This changed Australia into a structural importer of petroleum products. Total sales volume fell by 7.1 per cent, largely because export sales fell by almost 3000 ML.

After relatively strong growth in 2002, domestic sales volume declined by almost 1 per cent due to the slight moderation in domestic economic growth.

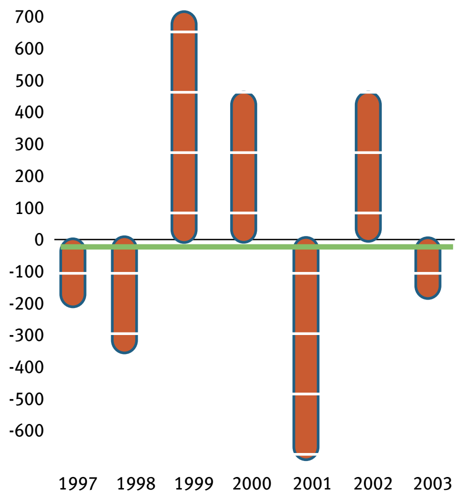
Profitability measures

Return on assets

LONG TERM BOND RATE

EBIT ON TOTAL ASSETS—STATUTORY

EBIT ON TOTAL ASSETS—UNDERLYING



Stock losses and gains

$MILLION

AVERAGE

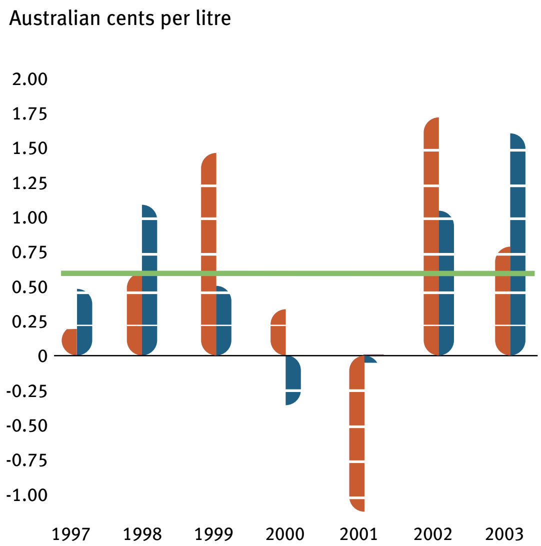
Strong competition led to pressure on refiner–marketer profitability. Returns on assets were largely below the long term bond rate over the last ten years. The long term bond rate has averaged 6.1 per cent since 1997.

Profits are presented as earnings before interest and tax (EBIT) on total assets for both a statutory and underlying return. The statutory return is reported in company accounts complying with relevant legislation. The underlying return removes the impact of stock gains and losses to derive a profit result which is not influenced by international crude oil prices. Removing stock valuation effects provides a clearer picture of the fundamental economic performance of the industry.

Fluctuations in international crude oil prices continued to be a major driver of changes to statutory profit. In 2003, a stock loss of $185 million contributed to the fall in statutory returns from 9.5 per cent in 2002 to 4.3 per cent in 2003.

Underlying returns continued to improve in 2003 to 7.5 per cent, rising from 6.3 per cent in 2002, following a string of very poor returns from 1999 to 2001. The increase was due to improved refining margins in the Asian region and a continued focus by Australian refiner-marketers on efficiency improvements. The result was achieved in an environment of increased retail price competition following the entry of the supermarket alliances. While the improved levels of profitability were encouraging, the underlying returns still did not represent an adequate return on investment over time.

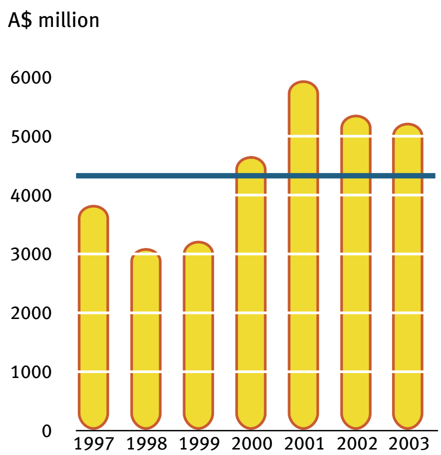
The improvement in underlying returns was reflected in the profit per litre which rose to 1.6 cents per litre in 2003, up from 1 cent per litre in 2002. The profit result on a per litre basis showed that profits are only a very small proportion of the pump price.



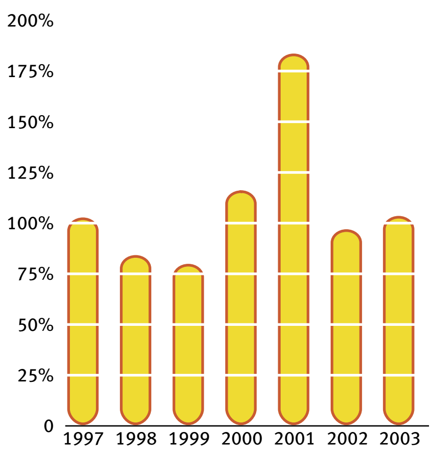
Net profit per litre

Debt position

The debt position for the industry remained at historically high levels in 2003 with total borrowings staying close to $5.3 billion. The debt to equity ratio rose slightly to 102 per cent.



Total borrowings

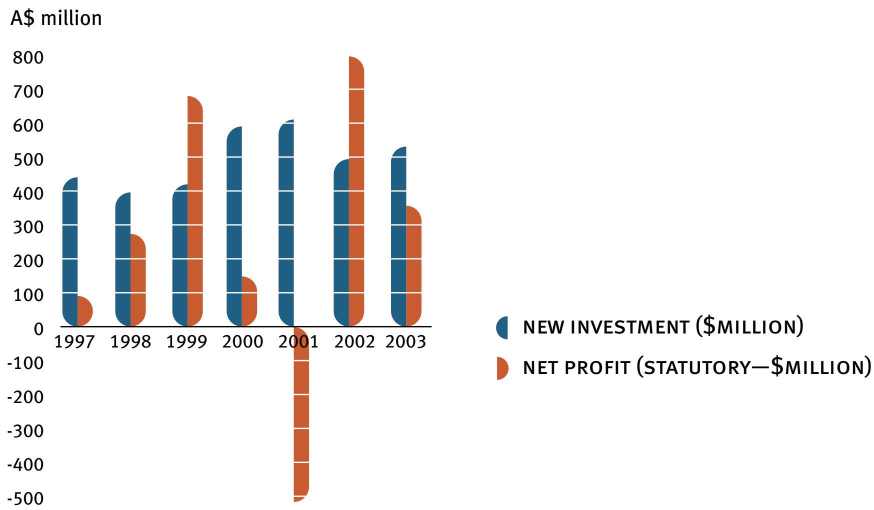


Debt to equity

Investment and profits

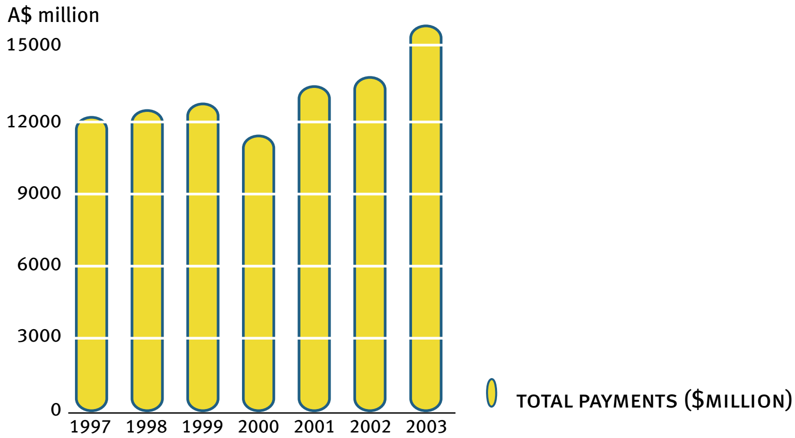
As a capital intensive industry, downstream petroleum requires large and ongoing investment in plant and equipment to continue safe and reliable operations. The industry continued a consistent investment program with $524 million in new investment for 2003. New investment averaged almost $500 million since 1997.

In comparison, net statutory profits for 2003 fell well short of this investment requirement with $360 million reported in 2003. Since 1997 net statutory profits have averaged only $256 million per year. Underlying profit in 2003 was $740 million but the average since 1997 was only $277 million per year.

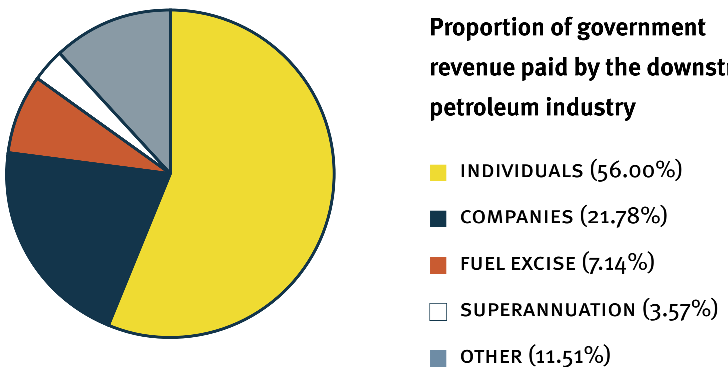


Payments to governments

The industry and consumers continued to make substantial contributions to government revenue, totalling $15.6 billion in 2003. This included excise payments of $13 billion. Government taxes (excise and GST) account for almost half the cost of petrol at the pump. There was also a substantial increase in income tax paid to the Australian Government from $97 million in 2002 to $223 million in 2003.



Excise revenue provides a substantial proportion of Australian Government revenue and accounted for over 7 per cent of total taxation revenue in 2003.



Proportion of government revenue paid by the downstream petroleum industry

Australian
Institute of
Petroleum

ABN: 11 005 152 581

Level 2, 24 Marcus Clarke Street
Canberra, ACT 2600
GPO Box 279, Canberra ACT 2601

Telephone: + 61 2 6247 3044
Facsimile: + 61 2 6247 3844

www.aip.com.au