

DOWNSTREAM PETROLEUM



THE INTERNATIONAL CRUDE OIL AND PRODUCT MARKETS



KEY FACTORS INFLUENCING OIL PRICES

- short and longer term changes in regional and global supply balances
- major supply disruptions from natural disasters, war, civil unrest/strikes
- seasonal demand and demand spikes
- inventory management
- shipping availability and freight rates
- market trading activities and strategies
- short term decisions of oil producing countries, National Oil Companies (NOCs) and nations holding strategic reserves
- changes in economic conditions/sentiment
- new oil discoveries
- investment in new oil production and refining capacity
- future global demand and supply balances
- population growth
- longer term global economic growth and short term conditions
- costs of oil production and refining
- technological progress
- long term policies of NOCs and oil producing nations
- regulation and government policy.



INTERNATIONAL PRICES

The price of fuel in Australia is dependent on world market prices, with these world market prices reflecting the market supply and demand.

Crude oil, petrol, diesel and jet fuel are bought and sold within their own specific trading markets. As they are different products – with their own unique physical characteristics, uses, and demand and supply factors – they are priced and traded separately.

Each market is regionally based. There are linkages and transactions between regional markets to balance global demand and supply.

Prices in regional markets can be volatile and can move in different directions from each other. This can be due to the impact of factors and events unique to one market or all markets globally. Australia's regional market for petroleum products is the Asia Pacific market.

Price benchmarks or 'markers' for crude oil and petroleum products are highly transparent providing convenient indicators of what is happening with prices in specific markets. Information on changes in the prices of these markers is extensively reported on a daily basis.

Australia's benchmark prices, including Tapis and Dated Brent crude oil, MOGAS95 petrol and Gasoil 10ppm sulphur diesel, are quoted daily by the independent monitoring agencies, Argus and Platts, based on transactions in the Singapore market on a given day.

Supplies of crude oil and petroleum product are sold internationally and domestically through a variety of term contract arrangements and in spot transactions. Crude oil and petroleum products are also traded on futures markets like NYMEX and ICE.

MAJOR EVENTS IMPACTING ON CRUDE OIL PRICES: TAPIS CRUDE OIL - CENTS PER LITRE (\$A)





THE LINK BETWEEN INTERNATIONAL AND AUSTRALIAN PRICES

There is a close relationship between international fuel prices and Australian wholesale and retail fuel prices, as verified by the ACCC.

To meet Australian demand, around 56% of petroleum products are imported, mostly from Asia. Singapore is the regional refining, distribution and trading centre and among the world's largest.

Singapore prices are the key pricing benchmarks for Australia because they represent the competitive alternative for supply to Australia. Benchmark prices are adjusted by a negotiated quality premium that reflects Australian fuel standards.

GROWTH IN DEMAND FOR FUEL IN AUSTRALIA IS LIKELY TO CONTINUE TO BE LARGELY MET BY IMPORTS, FURTHER STRENGTHENING THE PRICE RELATIONSHIP WITH ASIAN FUEL PRICES

Growth in demand for fuel in Australia is likely to continue to be largely met by imports, further strengthening the price relationship with Asian fuel prices.

Australian refiners must price their fuel products to be competitive with fuel imports from Asia —called 'import parity' pricing.

If Australian fuel prices were below Singapore prices, Australian fuel suppliers would have no commercial incentive to import the fuel needed here because sales of that fuel would

incur losses. In addition, Australian refiners would have an incentive to export production.

As the Singapore benchmark prices for fuel are quoted in US\$ per barrel terms, their price in Australian dollar terms also reflects movements in the US\$/A\$ exchange rate. This means that exchange rate movements can offset or magnify changes in Singapore fuel prices.

The Singapore market price for fuel plus shipping costs, Australian taxes and the exchange rate — called the refined product cost — represents almost 90 per cent of the retail price of fuel in Australia.

Overall market and fuel price transparency in Australia is assisted by data published by AIP and member companies. The ACCC also formally monitors fuel prices in Australia and publishes a report quarterly.

The Singapore to wholesale price lag

Generally, there is a time lag of one to two weeks between changes in international (Singapore) prices and changes in Australian wholesale prices.

Importantly, this time lag occurs whether prices are going up (when the lag slows price rises to consumers) or prices are going down (when the lag delays price falls).

The lag is a result of using a rolling average of Singapore prices as part of the wholesale pricing methodologies of companies — very similar to that used by the ACCC when wholesale prices were government regulated. The pricing methodology is called import parity pricing or IPP.

According to the ACCC, this time lag can be longer during times of significant volatility in international prices.

PETROL PRICE TRENDS

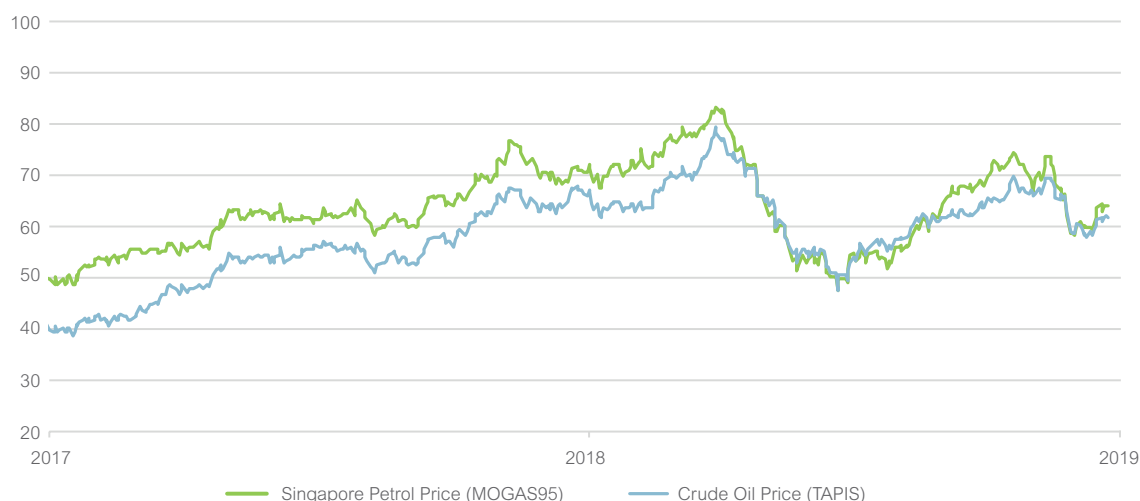
These charts provide a snapshot of the movements in the key market prices relevant to the price of petrol in Australia.

- CRUDE OIL PRICE (TAPIS)
- SINGAPORE PETROL PRICE (MOGAS95)
- (MOGAS95) PLUS SHIPPING AND TAXES
- AUSTRALIAN TERMINAL GATE PRICE (TGP)
- AUSTRALIAN PUMP PRICE
- GROSS MARGIN

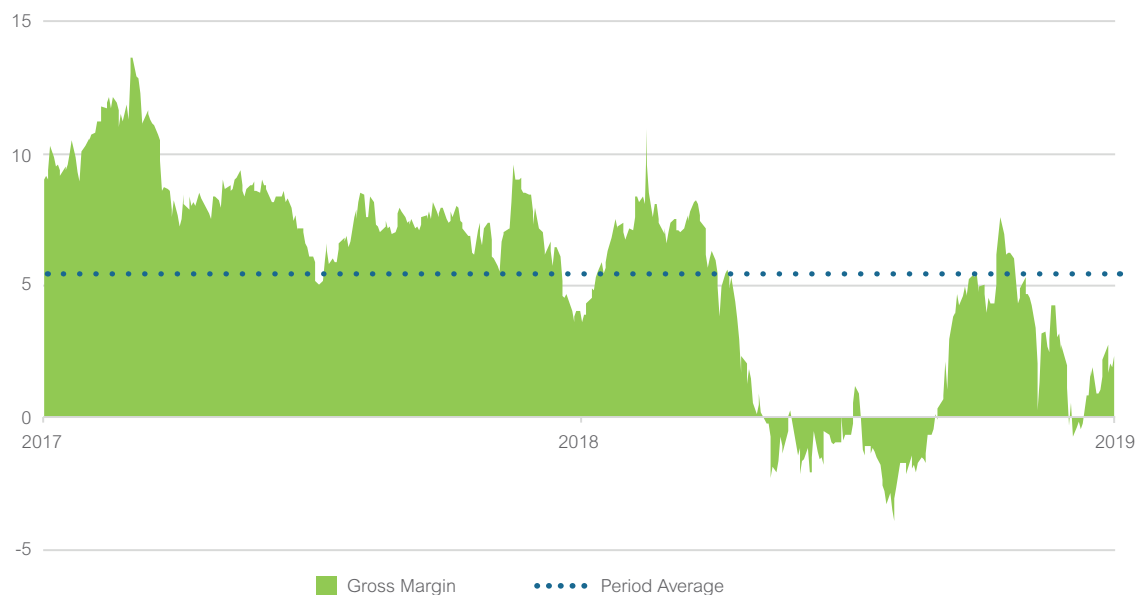
The 'margin' shown in these charts is the difference between two market prices or benchmarks and is used to highlight trends within a specific market or market segment. It is a 'gross margin' and does not represent profits in the market nor take account of the range of relevant costs.

INTERNATIONAL MARKET TRENDS: 2017/18 - 2018/19

Cents per Litre (A\$)



INTERNATIONAL MARKET TRENDS: 2017/18 - 2018/19 GROSS MARGIN



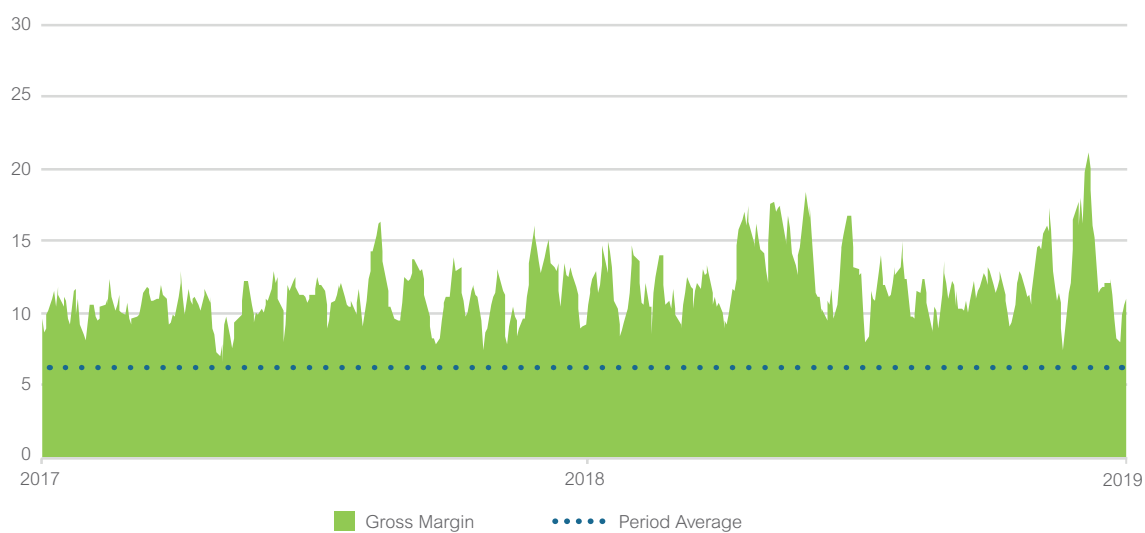
WHOLESALE MARKET TRENDS: 2017/18 - 2018/19

Cents per Litre (A\$)



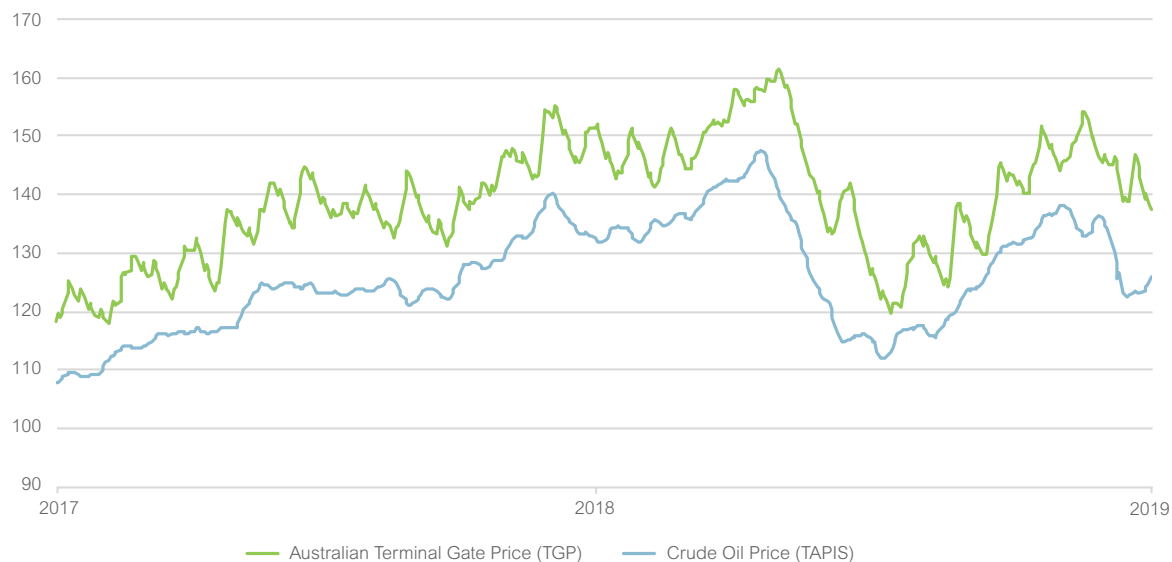
WHOLESALE MARKET TRENDS: 2017/18 - 2018/19

GROSS MARGIN

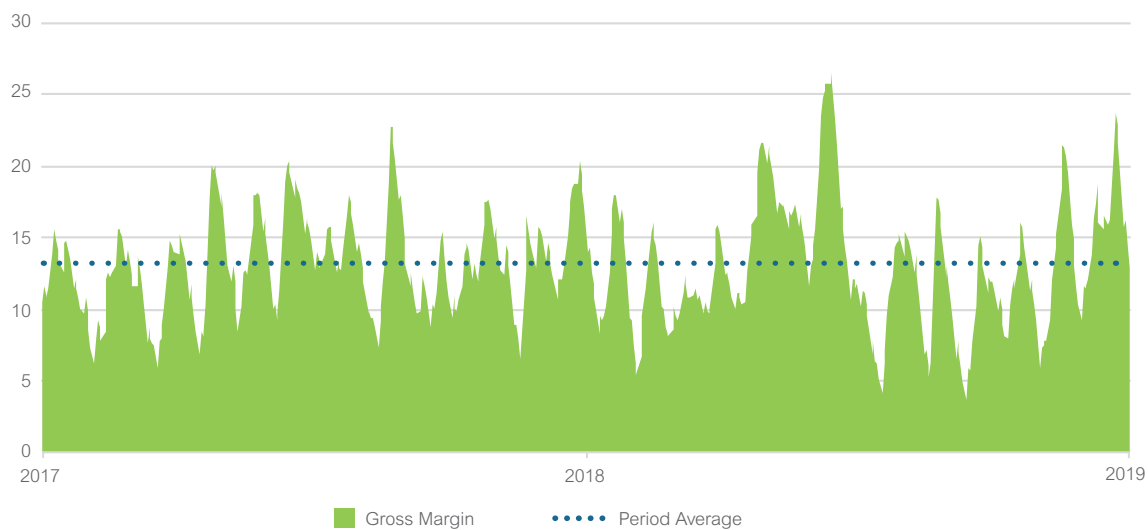


RETAIL MARKET TRENDS: 2017/18 - 2018/19

Cents per Litre (A\$)



RETAIL MARKET TRENDS: 2017/18 - 2018/19 GROSS MARGIN





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