



**Caltex Australia Limited**

# **The Renaissance Of Refining**

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**Caltex Australia Limited ACN 004 201 307**



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- Caltex and Industry background
- So what has changed?
- How long will the refiner renaissance last?
- Caltex strategy



## Caltex background

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- Caltex is a top 100 company....however our story is still emerging !
- Caltex is the largest and only publicly listed downstream oil company in Australia
- Merger of Caltex Australia and Ampol assets in 1995 created an entity with a market share in transport fuels of approx 29%
- Caltex operates through two divisions:
  - Refining and Supply: sources and processes crude
    - approx 28% refining market share (including Port Stanvac production)
    - owns 2 refineries, strategically located in the growth states of New South Wales and Queensland
  - Marketing: responsible for retail network, distribution & branding
    - leading retail network
    - > 1,625 branded sites with high proportion of entrepreneurial ownership
    - > 400 C-stores
    - an interim and proposed final alliance with Australia's premier retailer, Woolworths



## Where has the industry come from?

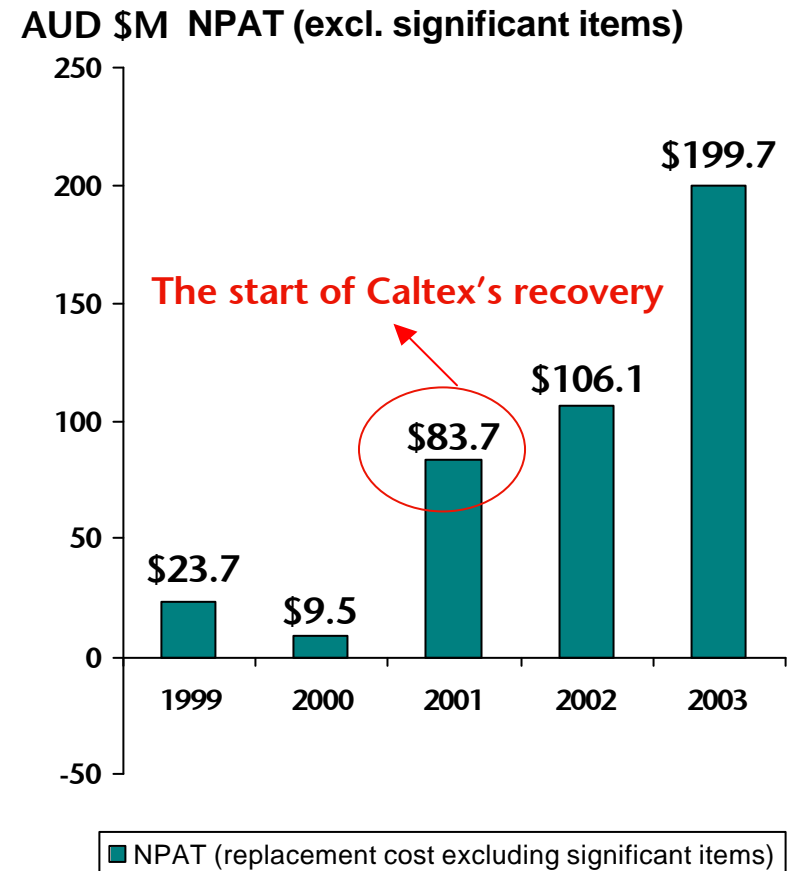
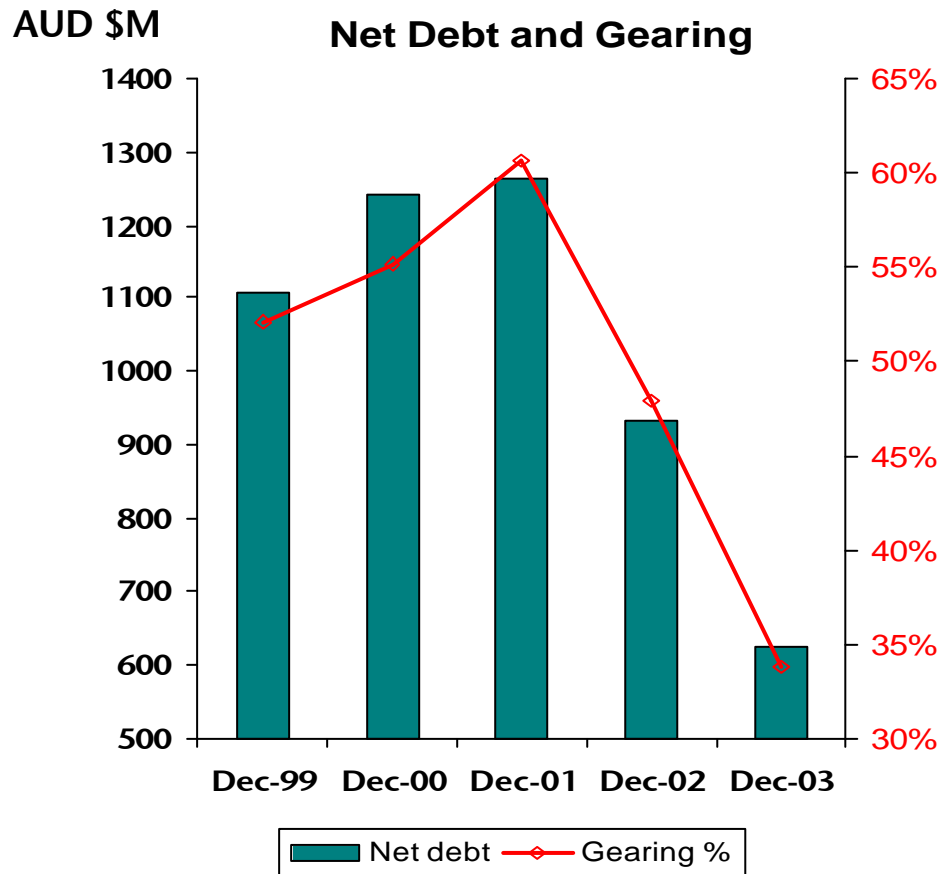
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- Both Asian region and Australia saw supply exceed demand, mainly as a result of the Asian financial crisis. This resulted in :
  - historically low refiner margins, (averaging US \$2.40/bbl 1998-2002)
  - under utilisation of refineries
  - growth of independent unbranded retailers, which dampened marketing margins
  
- Over the past 18 months industry dynamics have become more favourable :
  - refiner margins in Asia have started to recover as Asian demand for petroleum products catches up with supply
  - one Australian refinery, Port Stanvac, operated by Mobil, was closed in 2003, moving the Australian market into a short gasoline and diesel position



# Strong improvement in financial position since the Asian crisis

- 2003 Replacement cost net profit of \$199.7 million, up 88% on 2002
- 2003 Debt reduced by \$330 million in 2003





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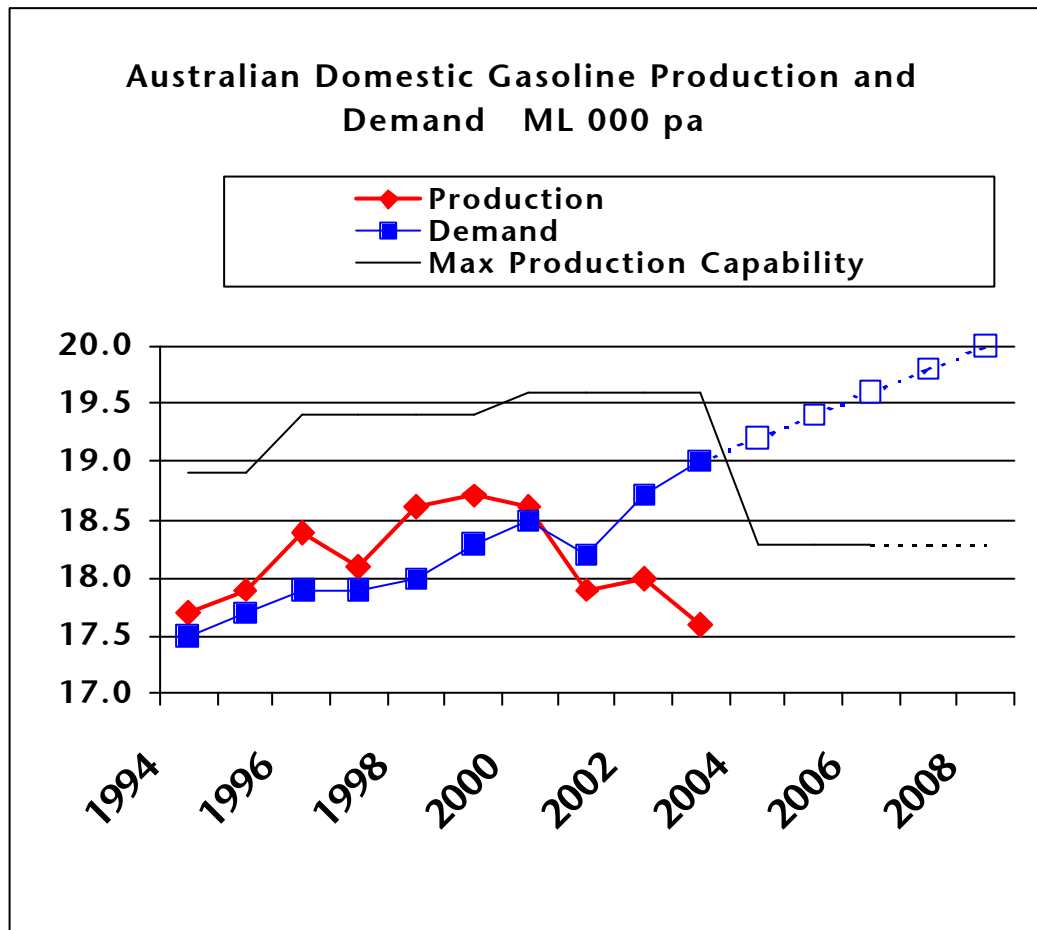
## What has changed ?

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- There are three main reasons why our outlook has turned more positive :
  - Australia has moved from an over-supply position for refined products to being a net importer of gasoline, diesel and jet;
  - regional supply and demand is now better balanced. However, regional demand growth is expected to out-pace supply, especially as China continues to grow;
  - environmental standard changes in Australia have resulted in “clean fuel” specifications which will result in differential pricing for Australian-grade products



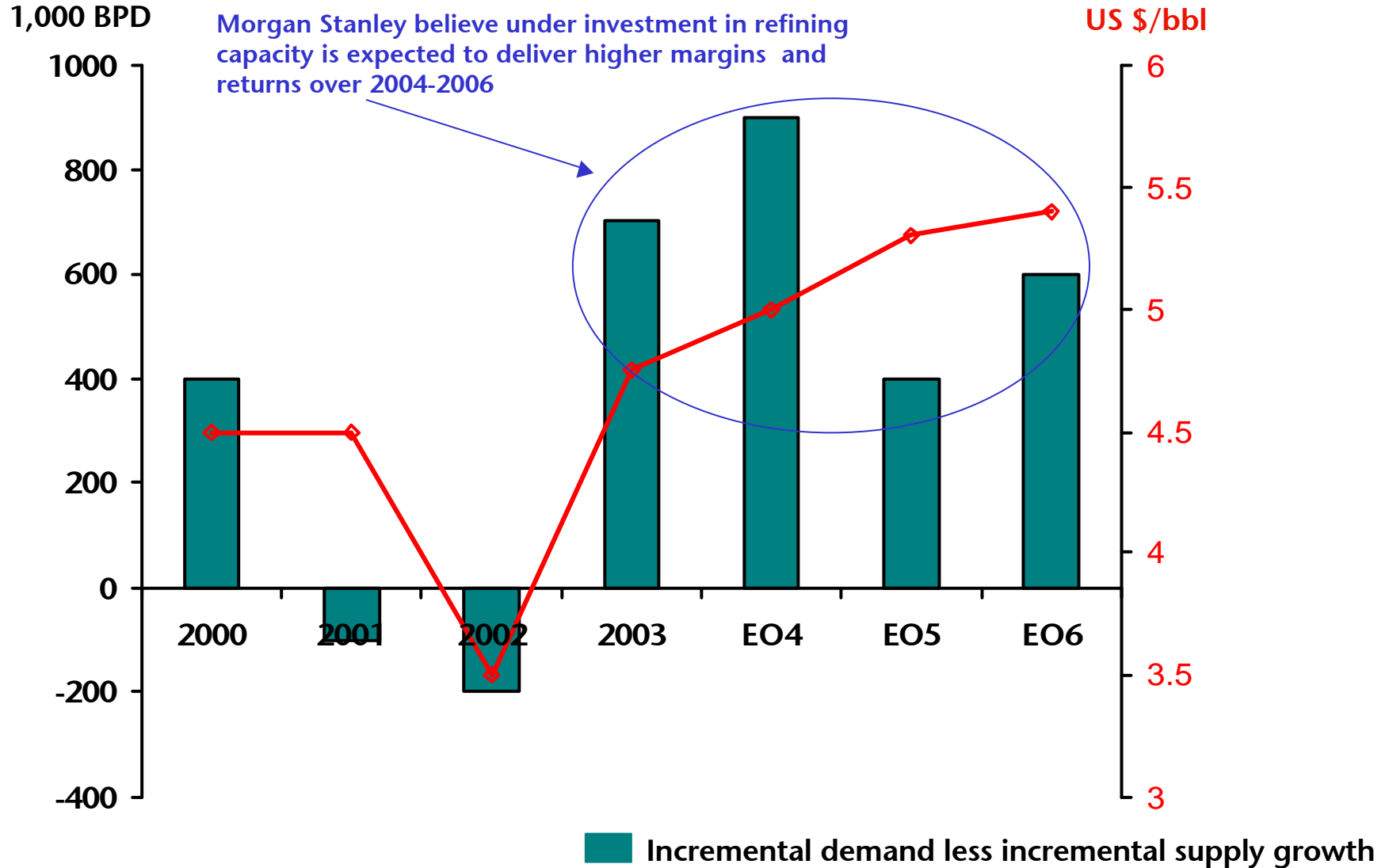
# Australian gasoline has finally shifted from surplus to deficit



- In early 1990's refinery margins encouraged investment to increase production capability
- 2000-2002 saw poor gasoline margins which slowed production
- Consistent demand growth has worked to reduce the surplus
- Closure of Stanvac confirmed shortfall in capability



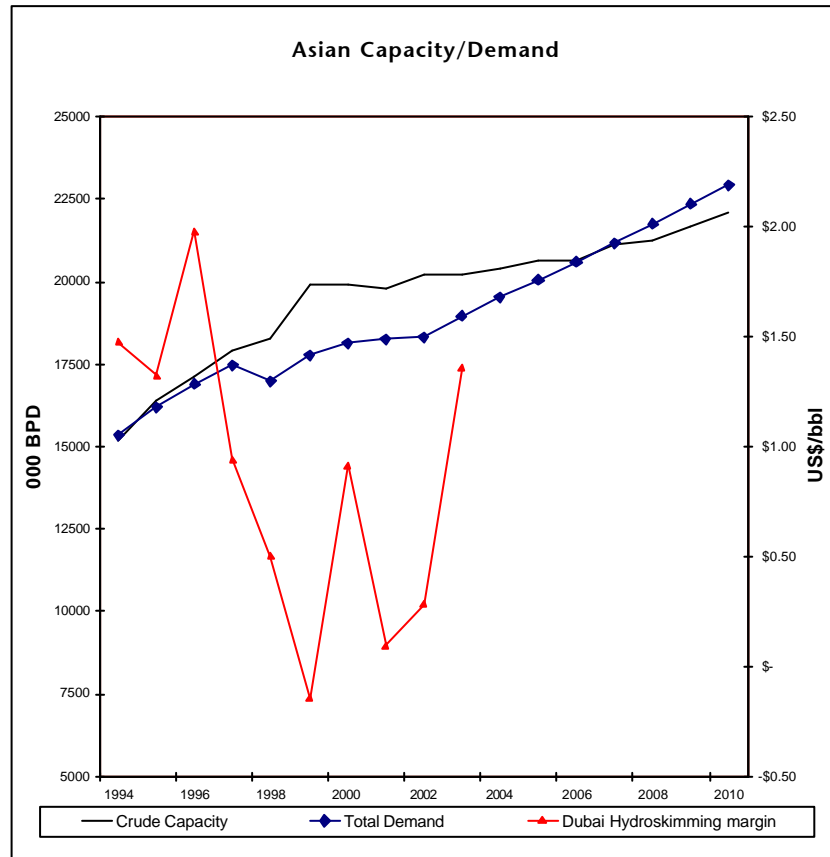
# Worldwide refiner margins are lifting



Source: Oil and Gas Journal: Morgan Stanley data Feb 2004



# Asia Pacific demand set to catch up with refining capacity



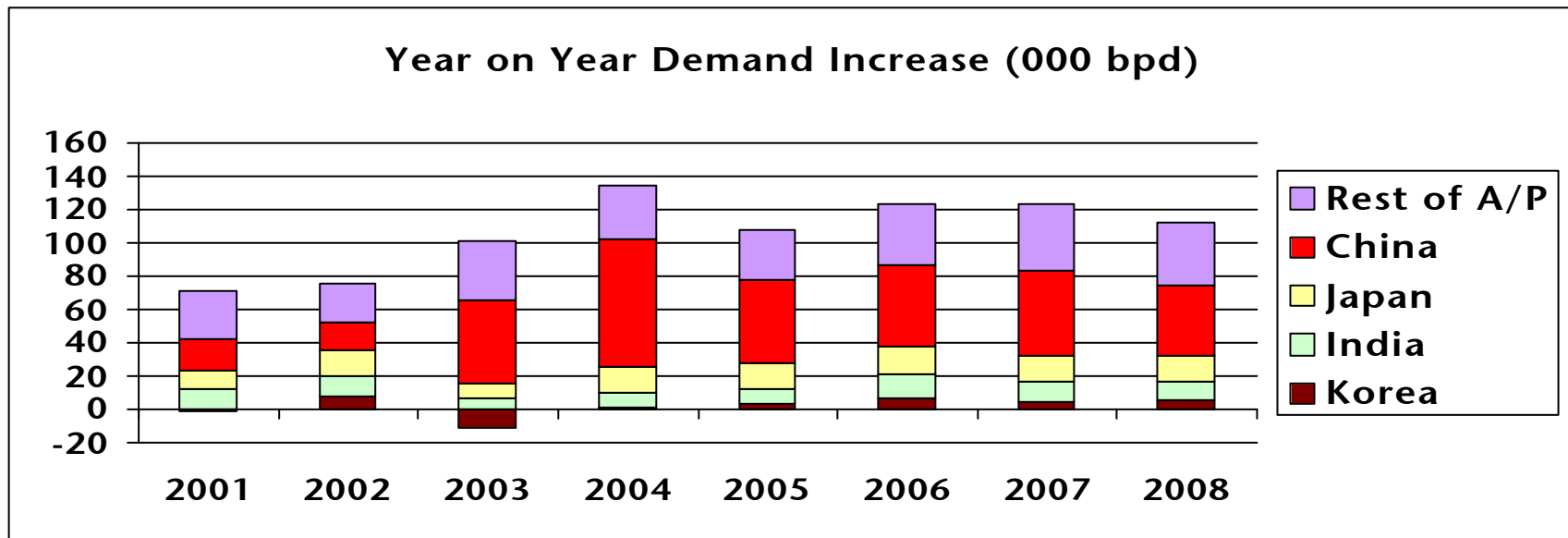
- Asia Pacific demand had been rising rapidly through the 1990's until the Asian crisis of 1997
- The capacity overhang is being absorbed by strong growth particularly in China.
- Some 1 million barrels per day of new refinery capacity (creep, expansion or grassroots) is likely to come on stream between 2003 and 2008.
- In this period demand is expected to rise by 3.5 million barrels per day.

Source: Wood Mackenzie 2002



# Asia Pacific gasoline outlook

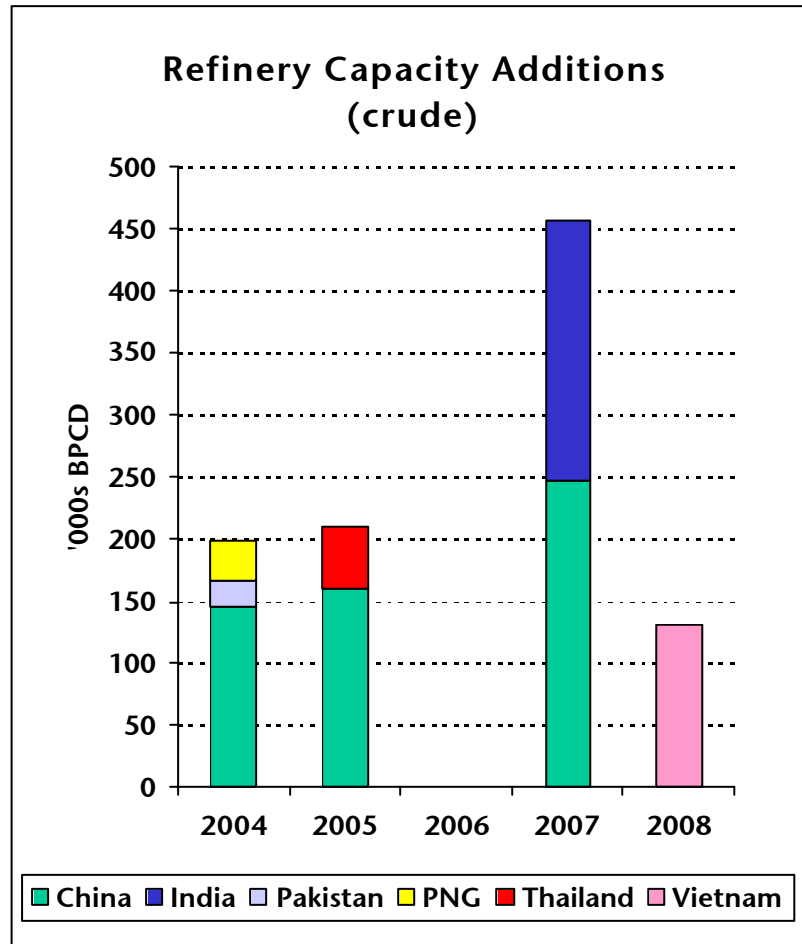
- Asian gasoline balance is moving from surplus towards balance
- Asian gasoline demand is continuing to grow even though regional economies have been weak. Cumulative increase forecast to be over 700,000 bpd from 2003 to 2008
- Increases in Chinese gasoline production capacity are being absorbed by deficits in Japan and Indonesia and significant demand increases within China itself



Source: ESAI



# Expected refining capacity (crude) additions by country



- The majority of these additions are in China (552,000 BPCD).
- Upgrading unit capacity increases forecast during the period 2004 to 2008, will be less than crude capacity additions

Source: ESAI



# Simple and complex refineries impact on yield

- Simple refinery - crude distillation, hydrotreating of middle distillates, catalytic reforming of naphtha to enhance gasoline yields
- Complex refinery - simple refinery plus a catalytic cracker, alkylation plant plus some gas processing

% Yield	Simple	Complex
Gasoline	15%	47%
Jet Fuel	10%	19%
Distillate	25%	17%
Residual/Fuel Oil	45%	20%
Fuel Loss/ (Gain)	5%	-3%
Total	100%	100%

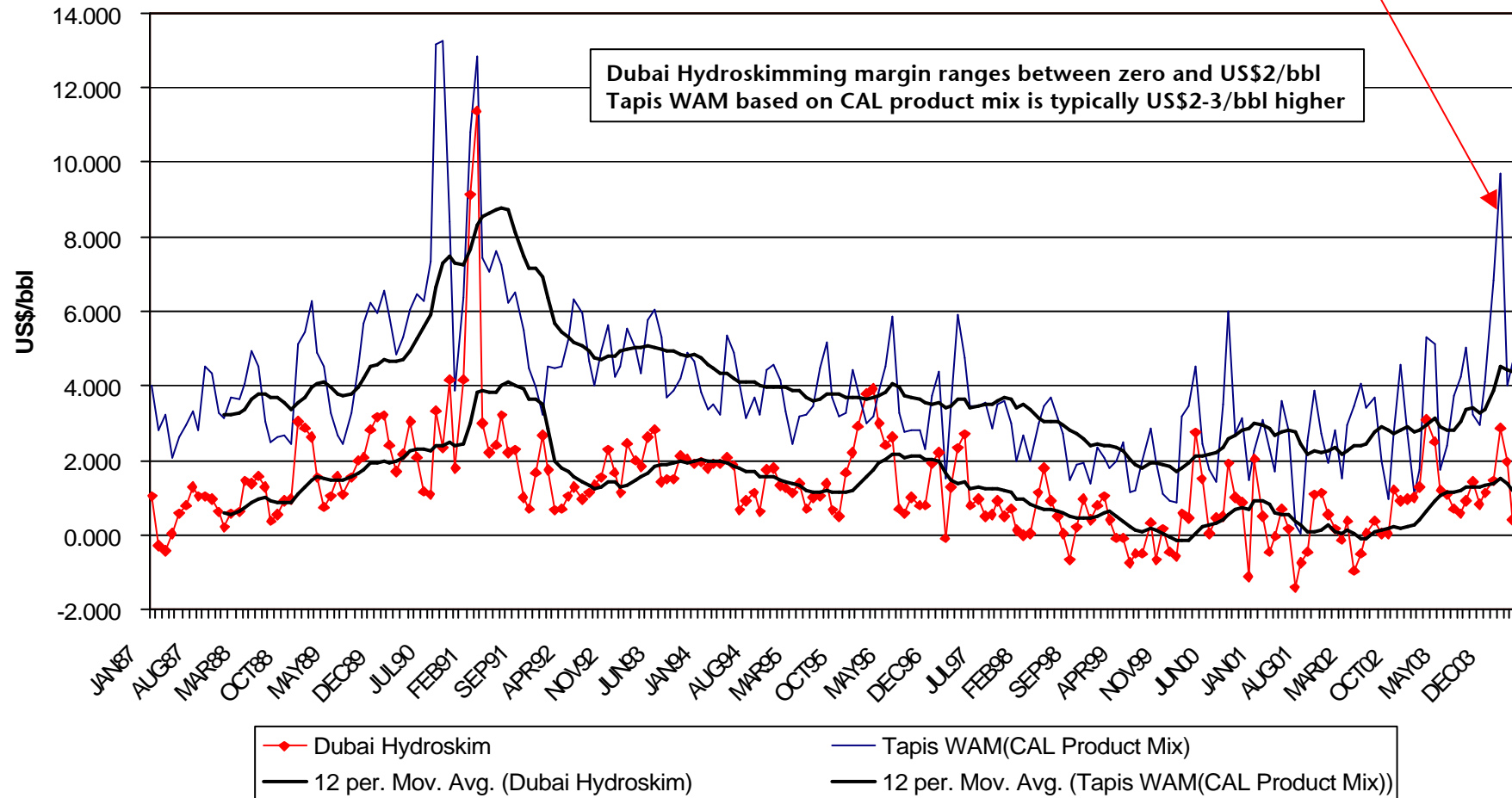
The major driver of Asian refiner economics

A major driver of Australian refiner economics



# Singapore margins are recovering

The January 2004 spike in light product refiner margins benefited the complex refiners more than simple refiners





## Australian clean fuels regulations presents challenges for Asian refineries

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- Australia is moving to more stringent product quality standards in 2006, the main limits for 2006 are :
  - Gasoline-less than 1% benzene and 50 ppm sulfur in premium unleaded;
  - Diesel- less than 50 ppm sulfur
- Australian grade quality gasoline will be available, but less readily from the region
- Olefin specification limits the volume of catalytic cracked naphtha that can be included in the blend
  - Catalytic cracked naphtha is major component of Chinese gasoline
- Diesel sulfur limit of 50 ppm or lower will not be possible for all refineries in Asia
  - Hydrogen availability and limited desulfurisation capacity are issues



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## **Caltex Australia has entered a period of opportunity**

- **We believe that in the medium term, refining margins will be above the long term average**
- **Australia is now short gasoline, diesel and jet and must now import from a region which is becoming tighter**
- **Planned capacity additions are below projected demand growth**
- **Capacity expansion will be concentrated mainly in China and India by national oil companies, rather than the integrated multi-nationals who were “burned” by the Asian crisis**
- **Changing environmental standards and different specifications within Asia will fragment commodity markets and result in differential pricing for “clean fuels”**
- **Major capacity additions have 4 to 5 year lead times, resulting in our view that many companies will not repeat the mistake of over-investment that occurred in the late 1990’s**



## Chinese car population growth is dramatic

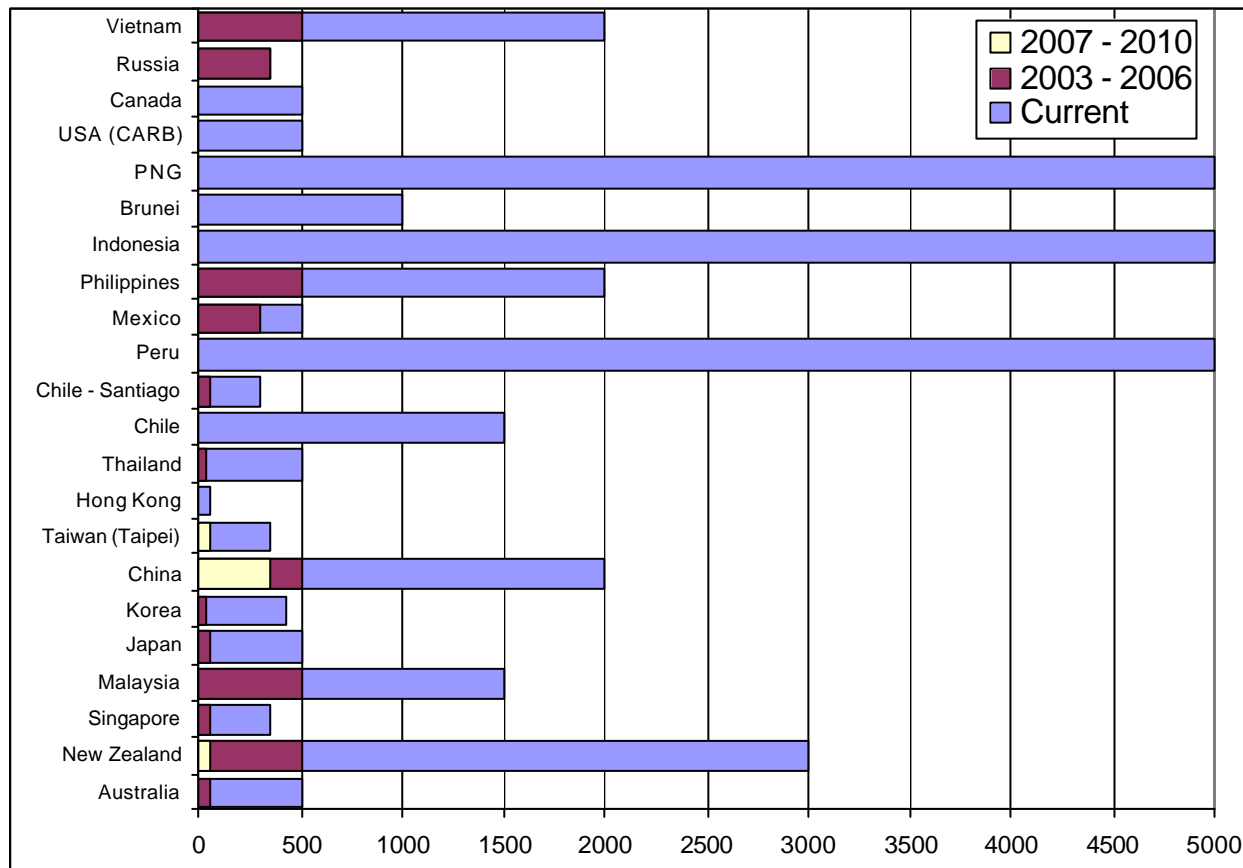
- China saw car sales leap 75 percent in 2003 to a record 1.97 million units
- In 1997 China was ranked 39th in kms of highway...by 2002 it was 2nd
- In 2004 about 0.1% of China's 1.3 billion population will buy a new car
- Chinese exports of gasoline in January 2003 were nearly 250,000 barrels a day...in January 2004 it was only 10,000 barrels a day
- In November 2003 China overtook Japan for the first time in gasoline consumption at 1.1 million barrels a day





## Asian clean fuel implementation will be piecemeal

- Investment requirements climb to over \$US32 billion as the region moves to more advanced fuel quality by 2012
- Korea, Japan & Taiwan are likely to lead the drive toward cleaner fuels
- Sulfur reduction will be the primary focus among most APEC member economies through the end of the decade



Source: HART APEC Study

Diesel Sulfur Limit, ppm



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## Great performance great execution

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- **Caltex is benefiting from improving industry dynamics**
  - debt is under control and we are now financially stable
  - clean fuels investments will be met out of operating cash flows
- **Regardless of the more positive outlook for external drivers, ultimate long term success will be driven by our focus on:**
  - continued improvement in safety;
  - successful implementation of clean fuels project;
  - reduction in unit operating cost;
  - superior refinery operational availability and utilisation



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