

Senate Rural and Regional Affairs and Transport References Committee

Questions on Notice – Monday, 2 February 2015 Sydney, NSW

Inquiry into Australia's transport energy resilience and sustainability

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**SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT
REFERENCES COMMITTEE**

Inquiry into Australia's transport energy resilience and sustainability

Public Hearing

Monday, 2 February 2015

Sydney, NSW

Questions Taken on Notice – Engineers Australia

1. HANSARD, PG 6

Senator LAMBIE: I just have one more question. I just go back to the coal to liquid. As you know, Germany ran their war effort on coal to liquid. At what cost per barrel does coal to liquid become unviable? We have to look at options. That is why I am asking you about nuclear power and things like that. We must cover all our options here in Australia; we have no choice.

Mr Greet: On the economics of it, I would have to take it on notice. Sorry. I cannot tell you straightaway. That is a changing figure too.

Answer:

Coal liquefaction is a process to convert coal to hydrocarbon products (liquid and gas).. A current Australian example of Coal liquefaction is the Arckaringa Project by Linc Energy which is an Australian energy company specialized on a coal-based synthetic fuel production. The project is expected to cost in the order of \$AUD100Billion and contribute somewhere between 100 to 200 Billion barrels of oil equivalent products.

Investment in coal to liquid is currently viable between \$AUD80 to \$AUD120 per barrel (Brent Crude Oil). General evidence suggests it is not viable at \$AUD160 (Brent Crude Oil) This is very similar to the investment profile for LNG and Coal Seam Gas projects because of the similar investment in infrastructure required. Biofuels investment profile is currently lower at \$AUD60 to \$AUD80 per barrel (Brent Crude Oil) because of the reduced complexity of infrastructure.¹

A deeper analysis in answer to the full economic viability of coal liquefaction should consider:

- The future competition for demand between different sources of energy.
- China's influence on future markets through investment in coal to Synthetic Natural Gas.
- Regional influences on the investment profile for competing technologies.
- Commercial investment demands such as availability of capital, return rate and taxation.

The market requires stability and a price at around \$80 to \$120 for Coal liquefaction to be a viable investment in current conditions.

¹ Various sources: US Department of Energy, ACIL Allen, Professor S. Chu, WEO Energy Outlook 2013.

**SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT
REFERENCES COMMITTEE**

Inquiry into Australia's transport energy resilience and sustainability

Public Hearing

Monday, 2 February 2015

Sydney, NSW

Questions Taken on Notice – Energy Supply Association of Australia

1. HANSARD, PG 8

CHAIR: You talked about plug-in technology for electric cars. How widespread is the network for someone to pull up at a bowser?

Mr Donoghue: That is dependent to some extent on how fast you wish to charge your vehicle. Many of the vehicles available can be charged from a standard electrical socket, but that will take some time—potentially 10 to 12 hours.

CHAIR: Like in the garage?

Mr Donoghue: Yes. That could take some considerable time. Generally we would expect that users of these vehicles would want opportunities to charge their vehicles faster, and potentially on the street, or during longer journeys. That requires faster charging infrastructure. At present there is relatively little of that. Some have been put in where there have been trials carried out in various parts of the country. There are a few in Melbourne, a few in Canberra and I believe there are even a few on Kangaroo Island, in South Australia. But at present they are not very widespread. Realistically, they would need to be to encourage the widespread take-up of such vehicles.

CHAIR: Why haven't your members made it widespread?

Mr Donoghue: There is a bit of a chicken and egg at play. Obviously if users wanted their own private chargers at home or at a business location, that would be their business to pay for it. But in terms of facilitating it through public infrastructure, it is simply the case that the investment case would not be justified by the likely use with the number of vehicles.

CHAIR: The demand for it is obviously not there at this stage, otherwise one would think you guys would be jumping onto it. How much does it cost to set it up?

Mr Donoghue: I do not have a figure. I can take that on notice, if you like.

Response

The cost of installing EV charging equipment varies with the location and type of charger installed (e.g. fast charger). Installation costs vary significantly depending on the surrounding environment and existing electrical infrastructure. As such, the figures cited in the table below are based on publicly available examples of installations.

Type of charger	Charger cost	Installation cost	Total
Home (BMW i3) ¹	\$1,750	\$660	\$2,360
Fleet/Workplace	\$1,790-2,190 ²	\$1,910 ³	\$3,700-4,100
Street	\$4,990 ⁴	\$15,000-25,000 ⁵	\$24,990-34,990
Fast Charge	\$20,000-30,000 ⁶	\$10,000 ⁷	\$30,000-40,000

2. HANSARD, PG 8 – 9

CHAIR: If you could give us an idea on that. How long does it take, on average, to charge a car overnight in your own garage at home.

Mr Donoghue: It depends entirely on the type of charger and the size of the battery. With a large battery, and using relatively low voltage, it could be 10 to 12 hours, although that is probably compatible with most people's vehicle use. We have done some calculations on what we call an 'e-litre'. To put it on the same level as the price of petrol at the pump—and obviously it depends to some extent on the fuel efficiency—roughly speaking the equivalent of a litre of petrol, in terms of how far you would be able to drive on it, would be 60c, if you have a flat tariff. But, obviously, if you had such a vehicle you would probably be interested in taking up an off-peak tariff option and that would be more like 40c at current prices.

CHAIR: For my benefit or the committee's benefit, do you have a breakdown—you can take it on notice and email it to us—of which vehicles and how long they take to charge up? Or does the manufacturer have that information? You guys have got to have some idea.

Mr Donoghue: As I say, it is a combination of both the vehicle and the type of charging infrastructure, but I am sure we could get some indicative figures.

CHAIR: I reckon you are very, very good at what you do, but you are a lousy electric car salesman because, if you had those figures, you would be throwing them at us at 100 million miles per hour, especially considering that I have just returned from China where they blow that stuff. So if you could get that for us.

Mr Donoghue: Just to give you an example, the Tesla Model S has a pretty big battery and probably has the largest range of any electric-only vehicle. Tesla's own chargers can charge it up to 80 per cent in under an hour.

CHAIR: Okay. If you could take that on notice for us.

¹ [BMW i3 Charging 360° Electric](#) Last accessed 6 February 2015.

² [E-station.com.au, e-Station Home Or Office Charge Stations](#). Last accessed 6 February 2015.

³ Victorian Government, EV Trial Mid-Term Report, p72, median cost.

⁴ [e-station.com.au, Street Charging](#). Last accessed 6 February 2015.

⁵ Victorian Government, op. cit., p82.

⁶ [e-station.com.au, e-Station Fast Charge AC/DC e-Browsers](#). Last accessed 6 February 2015.

⁷ University of WA, 12 November 2014, '[New fast-charging station for electric vehicles at UWA](#)'

Response

Vehicle	Type of charge	Time
Holden Volt ⁸	Trickle (240V/6A)	100% in 10 hours
	Normal (240V/10A)	100% in 6 hours
	ChargeSpot (240V/15A)	100% in 4 hours
Nissan Leaf ⁹	Quick charge	80% charge in 30 minutes
	Normal (240V/10A)	100% in 7-8 hours
	Trickle charge (240V/6A)	100% in 14 hours
Tesla Model S (85kW) ¹⁰	Supercharger network	80% charge in 40 minutes 100% in 75 minutes
BMW i3 ¹¹	Fast charge (ChargePoint network)	100% in 3 hours
	iWallbox Pure (home charger)	100% in 6 hours
Mitsubishi Outlander PHEV ¹²	Normal (220-240V/15A)	100% in 5 hours

3. HANSARD, PG 10 – 11

Senator LAMBIE: Mr Donoghue, I think we have all pretty much come to the conclusion that the one that makes the smallest, most compact battery that can store the most energy is going to be the world leader. So my question to you would be: what government incentives are in place to help our universities and IT companies to manufacture these batteries and the batteries for the future? How much funding is going to our universities and our IT experts to make sure that we can get out in front with this or at least to help us to see if we can be the leading country in the world when it comes to battery storage?

Mr Donoghue: To give you a figure, I would have to take that on notice. Certainly storage is an area that ARENA, the Australian Renewable Energy Agency, is very interested in, given that it is a form of technology that fits well with the intermittency of renewable technologies such as wind and solar. So certainly there are opportunities there. I would have to take on notice how many of their funds have been committed to storage projects, but there certainly is activity in that space. CSIRO is also active in battery research.

Response

It is challenging for us to provide information on the total amount of funding available through various government programs that could be or has been allocated to research into battery and storage technologies. It appears that such information is not in the public domain. An answer to this question is better sought from the government agencies responsible for allocating funding.

Additionally, the Australian Renewable Energy Agency (ARENA) has provided a list of the projects they have funded that involve components of storage and battery technologies. This is included at Attachment A.

⁸ Holden, [Volt Specifications](#). Last accessed 6 February 2015.

⁹ Nissan, [Nissan Leaf Overview](#), Last accessed 6 February 2015.

¹⁰ Tesla, [Supercharger](#). Last accessed 6 February 2015.

¹¹ BMW, [BMW i3 Charging 360° Electric](#) Last accessed 6 February 2015.

¹² Mitsubishi, [Mitsubishi Outlander PHEV Specifications](#). Last accessed 6 February 2015.

ARENBA project type	Sub-category	Company	Project Name	Project Aim	ARENBA Funding provided/committed	Link
R&D	CST	ANU	High-temperature solar thermal energy storage via manganese-oxide based redox cycling	Develop a novel high-temperature thermochemical energy storage system for concentrated solar power generation.	\$ 1,193,534	http://arena.gov.au/project/high-temperature-solar-thermal/
R&D	CST	Barbara Hardy Institute	Development of high temp phase change storage syst & test facility	To demonstrate the financial viability of high temperature thermal storage systems.	\$ 689,500	http://arena.gov.au/project/development-of-a-testing-facility-for-storing-heat-from-solar-energy-at-high-temperatures/
R&D	CST	CSIRO	Advanced solar thermal energy storage	Develop and demonstrate reliable high temperature storage systems/heat transfer mediums to overcome CSP intermittency	\$ 3,538,846	http://arena.gov.au/project/advanced-solar-thermal-energy-storage-technologies/
R&D	CST	CSIRO	Australian Solar Thermal Research Initiative (ASTRI)	Deliver the next wave of CSP cost reductions to deliver solar electricity at between 9-12 cents per kWh.	\$ 35,000,000	http://arena.gov.au/project/astri-australian-solar-thermal-research-initiative/
R&D	Tool development	CSIRO	Virtual Power Station 2	To develop an energy optimisation solution for distributed networks which coordinates load, energy storage and solar export within residential and small commercial sites as well as to develop coordination algorithms that aggregate multiple sites.	\$ 850,000	http://arena.gov.au/project/virtual-power-station-2/
R&D	Battery technology	UTS	Develop lithium-sulfur batteries for large-scale electrical energy storage	To develop improved lithium-sulfur batteries with capabilities for renewable energy storage.	\$ 750,000	http://arena.gov.au/project/lithium-sulfur-batteries-for-large-scale-energy-storage/
Study	CST	Abengoa Solar Power Australia	Perenjori Dispatchable Solar Thermal Power Project	Preparatory activities for a proposed 20MW molten salt solar demonstration tower with thermal energy storage and gas-fired back-up.	\$ 449,718	http://arena.gov.au/project/feasibility-study-for-perenjori-20mw-dispatchable-solar-tower-project/
Study	CST	AUSTELA	Potential Network Benefits of Solar Thermal Generation in the NEM	To quantify and map key economic benefits which may arise from developing CST generation in the NEM, esp in grid-constrained areas	\$ 179,965	http://arena.gov.au/project/potential-network-benefits-of-csp-in-the-nem/
Study	RE Integration	Clean Energy Council	Future Proofing Australia's Electricity Industry	Identify and understand barriers and opportunities to increase the integration of renewable energy into the Distribution Network Systems.	\$ 877,900	http://arena.gov.au/project/future-proofing-in-australias-electricity-distribution-industry/
Study	Business case	AGL	Energy Storage for Commercial Renewable Integration (South Australia)	To define the business case for energy storage within the NEM	\$ 445,846	http://arena.gov.au/project/energy-storage-for-commercial-renewable-integration/
Project	Off-grid hybrid power project	First Solar (Australia)	Weipa Solar PV Project	Phase 1, a 1.7MW (DC) solar PV facility. Phase 2, a further 5MW (DC) of solar PV plus approximately 4MWh of storage.	\$ 11,300,000	http://arena.gov.au/project/weipa-solar-farm/
Project	Off-grid hybrid power project	Hydro Tasmania	Hydro Tasmania King Island Renewable Energy Integration	Integrate wind, solar and storage and a DSM system with a biodiesel generator to power the King Island minigrid	\$ 6,083,000	http://arena.gov.au/project/king-island-renewable-energy-integration-project/
Project	Off-grid hybrid power project	Lord Howe Island Board	Lord Howe Island Renewable Project	Installation of a 1MW renewable energy facility with storage to deliver high penetration renewable energy to displace diesel generation on LHI.	\$ 5,300,000	http://arena.gov.au/project/lord-howe-island-hybrid-renewable-energy-system/
Project	Battery technology	Smart Storage (Ecout)	UltraBattery Distributed Solar PV Support and UltraBattery for RAPS	Develop CSIRO's UltraBattery storage technology for Australian conditions.	\$ 553,780	http://arena.gov.au/project/ultrabattery-distributed-pv-support-and-ultrabattery-for-remote-area-power-supply/
Project	CST demonstration project	Vast Solar	Vast solar 6MW (thermal) grid connected multi-module CST plant with thermal storage	Development of solar thermal power plant near Forbes	\$ 4,966,960	http://arena.gov.au/project/vast-solar-6mw-concentrating-solar-thermal-pilot-project/
Project	Batter and energy trading system	Reposit Power	A commercially viable application of electricity storage for Australia's national electricity grid	Demonstrate domestic solar/battery integration with proprietary control system.	\$ 445,000	http://arena.gov.au/media/storage-solution-to-enhance-rooftop-pv
Venture *	Storage solution	Sunverge Energy	Sunverge Energy	The Sunverge Solar Integration System combines advanced lithium batteries with a sophisticated control platform that allows power flows to and from the grid to be controlled.	\$ 3,800,000	http://www.sxvp.com/content-23

* Note: This is an investment by the Renewable Energy Venture Capital Fund managed by Southern Cross Venture Partners.



13 February 2015

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Senate Standing Committee on Rural and Regional Affairs and Transport
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Dear Secretariat,

Please find below AUSVEG's responses to the questions on notice from the Committee's hearing held in Sydney on Monday, 2 February 2015.

1. HANSARD, PG 15 – 16

CHAIR: Mr White, I know you represent a number of different commodities, but what would be the average on-farm storage for those growers who are in greater need of, say, diesel? Do you have any indication?

Mr AJ White: I am not sure, Chair. I would have to take that question on notice, but I can make some inquiries with a number of our growers, and we could try and seek that information on what the average amount of storage would be.

CHAIR: Sure. Say the grain. Let us go to the grain. What would an average on-farm storage be? Senator Williams says—

Senator WILLIAMS: It depends on the size of the farm.

CHAIR: What I am alluding to is: do you have any information on the greater number of litres that could be kept? Would some farmers have a 20,000 or 30,000 storage capacity—some of your members?

Mr AJ White: Potentially. As I said, I would have to seek clarification. It would depend on the size of the farm as to how much storage they may have on farm, so I would have to probably take that question on notice and seek some—

CHAIR: Yes, take it on notice for me please, if you can. Senator Bullock has mentioned the submission by the Australian Institute of Petroleum. That is fine, and I have never had to carry, say, 20,000 or 30,000 litres of fuel, but I do not know if many farmers would have the money to fill those tanks. Maybe I am wrong; maybe they do. I do not know.

Answer: We spoke to vegetable growers located around Australia of different farm sizes. Storage depended on the size of the farm - smaller growers had a few thousand litres of storage, with the larger growers having up to 33,000 litres.

2. HANSARD, PG 17

Senator BACK: I will jump in if I may, Chair. The chair asked you what you understood to be the level of on-farm storage, and you did not know. But I just wonder if you either know or could take on notice, if there is this concern by your members about fuel security: is there a trend to increase on-

farm storage? Are people putting on-ground tanks, for example, back on their farms to overcome this concern they have about supply? Again, if you do not know now, could you canvass it and find out?

Mr AJ White: We can certainly canvass that with our members and take that on notice, absolutely.

Answer: We canvassed a number of growers. Growers mentioned that the capacity of farm storage and therefore refuelling is dependent on whatever is the most cost-effective option, most likely due to tough business conditions caused by decreased profits and higher production costs. As a consequence, growers mentioned that there was no trend to increase on-farm storage. Whilst there have been no supply issues in recent times, growers emphasized that if there was to be a supply disruption, the ramifications would have a considerable negative impact on their businesses, due to operations (such as machinery and transport) unable to function.

Yours sincerely

Andrew White
Deputy Chief Executive Officer

**SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT
REFERENCES COMMITTEE**

Inquiry into Australia's transport energy resilience and sustainability

Public Hearing

Monday, 2 February 2015

Sydney, NSW

Questions Taken on Notice – [Australian Institute of Petroleum](#)

1. HANSARD, PG 24 - 25

Senator HEFFERNAN: Can you give us the details of your protocols?

Mr Warrell: Sure. We can give you the—

AIP RESPONSE:

The Australian Institute of Petroleum is an industry association representing its member companies who supply petroleum products to the Australian market. This question was taken on notice by Mr Andrew Warrell in his capacity as a Director of ExxonMobil Pty Ltd and Mr Warrell will respond to the Committee in that capacity and in relation to his company's "quality control and testing protocols" to ensure the quality and integrity of their fuel supply to their customers.

2. HANSARD, PG 28

Senator BACK: Sure. Can I ask in the same line—and you might not be able to answer it, but we would like it on notice—can you just tell us, on average, how many ships at any given time are on the seas coming to Australia bringing product and the tonnages in those vessels? I need to get an idea of this diversity that you and others have raised.

Mr Warrell: We will take that on notice and we will come back to you with that information.

AIP RESPONSE:

An independent report prepared for the Department of Industry contains information on the tonnage of tankers coming to Australia and the average number of tankers coming to Australia at any given time. This report is 'Australia's Maritime Petroleum Supply Chain' by Hale & Twomey Limited.








This Report was prepared for the Department of Resources, Energy and Tourism and was published on 27 June 2013. It is publicly available from the Department's website at

<http://www.industry.gov.au/Energy/EnergySecurity/nesa/Documents/2013-Maritime-Petroleum-Supply-Chain-Report.pdf>

Key information from this Report (**reproduced below**) includes the following:

CLASSIFICATION OF TANKERS IN THE GLOBAL MARKET AND THEIR TONNAGE (Page 3)








Table 2: Tanker Classification

Crude Oil carriers		Typical DWT	Typical Length	Typical Beam	Typical Draft
	Panamax ⁵	50,000 – 80,000	228m	32.2m	12m
	Aframax	80,000 – 120,000	244m	34m	20m
	Suezmax	120,000 – 200,000	274m	45m	23m
	Very Large Crude Carrier (VLCC) ⁶	200,000+	333m	55m	28m
Product tankers ⁷					
	Medium Range (MR)	25,000-55,000	179m	29m	11m
	Large/Long Range One (LR1)	55,000 – 80,000	226m	32m	13m
	Large/Long Range Two (LR2)	80,000 - 100,000	241m	40m	14m

Source: Clarksons, Danish Ship Finance⁸

PROFILE OF TANKERS USED TO SERVICE THE AUSTRALIAN SUPPLY CHAIN (Page 20)

Table 12: Ship categories for Australian supply

Crude Oil carriers ²⁰		Use in Australian supply
	Panamax	Not commonly used
	Aframax	Used for majority of Australia's crude imports and exports
	Suezmax	Used on occasions for long haul trips from Middle East/West Africa by refineries capable of receiving them
	Very Large Crude Carrier (VLCC)	Too large for Australian ports but have been used for part voyage before transfer to smaller ships (trans-shipment)
Product tankers		
	Medium Range (MR)	Used for all of Australia's product imports and coastal movements
	Large/Long Range One (LR1)	Expected to be used for product supply as demand increases and product terminals increase capacity as a result of refinery closures
	Large/Long Range Two (LR2)	Not used

NUMBER OF TANKERS COMING TO AUSTRALIA EACH MONTH (Pages 29 & 30)

NOTE: AIP notes that since this report was published, the Shell Geelong Refinery was not closed but was purchased by Vitol and now Viva Energy Australia continues to run it as an operational refinery. Therefore, the final row in each of the following tables should be disregarded.

Table 15: Number of ships (import and domestic voyages/month).

	Crude tankers /month*	Product tankers /month*
2011/2012	27	42
2016/2017 with Clyde and Kurnell closed	19	69
2016/2017 with Clyde, Kurnell and Geelong closed	15	77

* Excludes export tankers

Table 16: Trend for product tanker numbers servicing Australia

Case	1: No change	2: Larger MR	3: Larger MR / Some LR1	4: Larger MR / Max LR1
Average cargo (tonnes)	40,000	45,000	50,200	53,750
2011/2012	34	31	31	31
2016/2017 with Clyde and Kurnell closed	62	55	51	49
2016/2017 with Clyde, Kurnell and Geelong closed	72	64	57	53

OTHER RELEVANT INFORMATION

The volume and diversity of shipping servicing the Australian market each month, and its importance to distributing large volumes of fuel between ports, is also analysed in the Hale & Twomey Report on 'Stock on the Water Analysis'. This report was prepared for the Australian Department of Resources, Energy and Tourism and the New Zealand Ministry of Business, Innovation and Employment and was published on 27 February 2013.

The Report is publicly available from <http://www.industry.gov.au/Energy/EnergySecurity/Liquid-fuels-security/Documents/HTStockOnTheWaterReport2013.pdf>

The report concludes that stock on water "is part of a secure supply chain and useful for responding to supply disruptions. Stock within a country's EEZ provides a good measure of the stock on the water that is very secure (close to a country) and flexible to respond to disruption (able to be diverted to various ports in country)."

3. HANSARD, PG 32

Senator LAMBIE: I was just wondering whether you would be able to supply to the committee the risk assessment and the management plan that you have in place for cyber warfare and a terrorist attack on your refineries in Australia. That is the first thing. Are you able to do that? I am assuming that you have a management plan for both cyber warfare and a terrorist attack on your refineries.

Mr Warrell: We absolutely have those plans. What I do not know is whether or not we are able to share them with you. Every refinery business has been tested. I will just have to take it on notice and go back and see whether or not we are allowed to share that.

Senator LAMBIE: If you cannot give me the full content of that, you can give me a brief.

Senator HEFFERNAN: Through you, Chair: I think we would be happy to receive an answer in camera if necessary.

AIP RESPONSE:

The Australian Institute of Petroleum is an industry association representing its member companies who, as part of their business, operate refineries in Australia. This question was taken on notice by Mr Andrew Warrell in his capacity as a Director of ExxonMobil Pty Ltd and Mr Warrell will respond to the Committee in that capacity.

4. HANSARD, PG 34

Senator LAMBIE: I would like to put on notice the question on political donations as well. I would like to make that quite clear.

AIP RESPONSE:

The Australian Institute of Petroleum makes no political donations.



David Stuart

Director - Government Affairs

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13 February 2015

Committee Secretary
Senate Standing Committee on
Rural and Regional Affairs and Transport
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Dear Secretary,

Re: Questions of notice – Inquiry into Australia’s energy resilience and sustainability

BP Australia Pty Ltd (BP) attended the public hearing for the above inquiry on Monday 2 February 2015. Appearing before the Committee with other industry participants and the Australian Institute of Petroleum (AIP), three questions were taken on notice.

BP’s responses to these questions along with supporting information is attached.

I trust this information is sufficient for the Committee’s consideration. Please contact me if you would like to discuss anything in further detail.

Yours sincerely

David Stuart
BP Australia

Question 1 of 3

Senator LAMBIE: *I would like to put on notice the question on political donations as well. I would like to make that quite clear.*

Based on BP group's code of conduct, BP Australia does not make political donations.

Question 2 of 3

Senator MUIR: *I have one very last question, which I think a lot of people want to know the answer to. Why is fuel up to 20-plus cents per litre more expensive in rural and regional areas at the moment in comparison to our city counterparts?*

Senator LAMBIE: *And why are we paying 30c more in Tasmania? You are killing us down there. So, I would like to know too, and I am sure Tasmanians would.*

Given the public nature of this document, BP is unable to provide specific company information due to concerns related to *The Competition and Consumer Act 2010* (the Act), as well as the commercial-in-confidence nature of such details. To avoid such concerns, BP is prepared to discuss such details in confidence.

Nevertheless, publicly available information published by the Australian Competition and Consumer Commission (ACCC) may provide a useful overview to the Committee. BP notes that the ACCC is the only party in a position to respond on a fully informed basis on pricing questions.

- This is because the ACCC formally monitors the Australian petroleum industry in all capital cities and around 180 regional areas across Australia, under the provisions of the Act. Not only are crude oil and fuel prices across Australia monitored, but also the prices paid, costs, and profits of fuel suppliers.
- This involves the ACCC collecting an extensive range of data and information from all major fuel suppliers in Australia each year and analysing the details of millions of daily fuel transactions. The resulting analysis and findings have been annually published in their monitoring report since 2008.

For this reason, we refer heavily to relevant ACCC published findings and conclusions in this response.

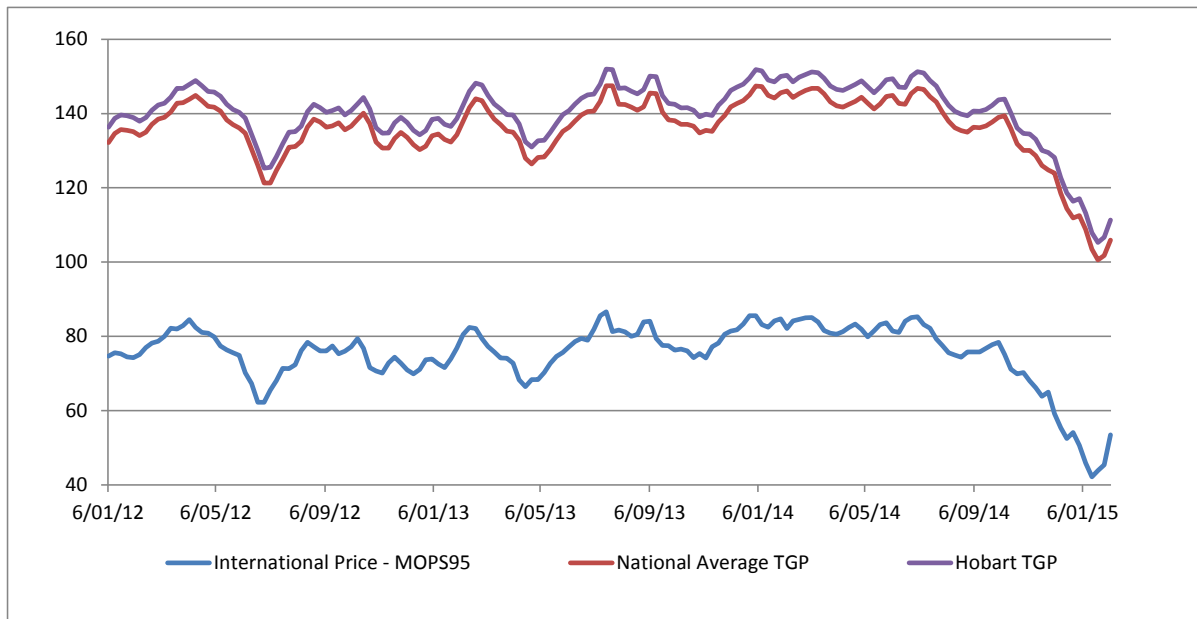
Wholesale fuel price changes in Australia:

Key findings from ACCC analysis include:

- wholesale fuel prices in Australia track international prices very closely;
- international fuel prices and taxes (excise and the GST) are the major elements of wholesale prices in Australia - accounting for around 97 per cent of wholesale prices in 2013-14;
- while major oil companies supply the bulk of wholesale fuel to the Australian market, retail prices are largely set by independent owners and operators and the specialty retailers.

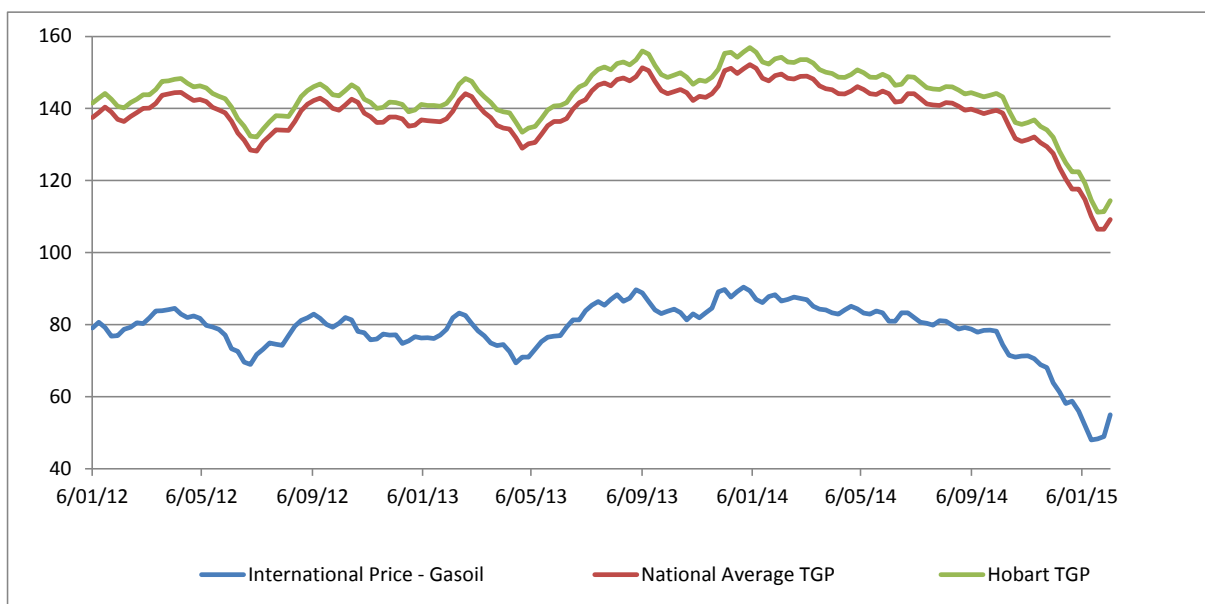
This ACCC analysis is consistent with the range of data and information published by the AIP. For example, the charts below show the very close relationship between international prices for petrol and diesel and Australian wholesale prices for those fuels. The international price for petrol and diesel (MOPS95 and Gasoil) plus shipping costs and Australian taxes (around 50 cents per litre) represents almost the entire wholesale price of petrol and diesel.

CHART 1 - Comparison of Singapore Petrol Price (MOPS95) with Australian Wholesale (Terminal Gate) Petrol Prices - National Average TGP and Hobart TGP



Platts (McGraw Hill Inc.) for international petrol prices and published TGP petrol data (required under the OilCode Regulations) for AIP member companies

CHART 2 - Comparison of Singapore Diesel Price (Gasoil) with Australian Wholesale (Terminal Gate) Diesel Prices - National Average TGP and Hobart TGP



Platts (McGraw Hill Inc.) for international petrol prices and published TGP petrol data (required under the OilCode Regulations) for AIP member companies

Regional Retail Fuel Prices

In relation to the Committee's specific question of **'why is fuel more expensive in regional and rural areas (and Tasmania) compared to mainland capital cities'**, the ACCC publishes a factsheet on **'Fuel in regional Australia'** explaining why "petrol prices in regional locations are generally higher (and more stable) than those in the capital cities" - see <http://www.accc.gov.au/consumers/petrol-diesel-lpg/fuel-in-regional-australia>.

The latest ACCC annual monitoring report (*Monitoring of the Australian petroleum industry*, 3 December 2014) contains a chapter on **'Retail Prices in Regional locations'** – see pages 73-81 of the Report available from <http://www.accc.gov.au/publications/monitoring-of-the-australian-petroleum-industry/monitoring-of-the-australian-petroleum-industry-2014-report>. The key points from this chapter are below.

"KEY POINTS

- *Retail petrol prices in regional locations in Australia are typically higher than those in the capital cities, although they generally tend to follow the same overall price movements.*
 - *94 per cent of the regional locations monitored by the ACCC in 2013–14 had annual average retail petrol prices higher than the prices in their respective capital cities.*
- *Movements in retail petrol prices in regional locations are largely driven by changes in international refined petrol prices and the AUD–USD exchange rate, just as they are in the five largest cities.*
- *However, the extent to which petrol prices in each regional location are influenced by changes in these factors varies between locations, due to the specific characteristics of each regional location.*
- *Petrol prices in regional locations are generally higher than in the five largest cities for a number of reasons, including:*
 - *a lower level of local competition, often reflecting the lower number of retail sites*
 - *lower volumes of petrol sold*
 - *distance/location factors*
 - *lower convenience store sales.*
- *These factors also explain differences in petrol prices between regional locations.*
- *Movements in petrol prices in regional locations—both up and down—tend to lag those in the five largest cities."*

Source: ACCC, 'Monitoring of the Australian petroleum industry', 3 December 2014 (page 73)

In their monitoring activities, according to the ACCC, "Where we see issues of concern we will investigate. And, where we find sufficient evidence we will take action to protect consumers against misleading and anti-competitive conduct by fuel retailers."

Consistent with the ACCC analysis and factsheets is the AIP's own published factsheet on 'Facts about Prices in Regional & Country Areas' – http://www.aip.com.au/pricing/facts/Facts_about_Prices_in_Regional_and_Country_Areas.htm

- In regional areas, retail prices are largely set by independent owner/operators, including those who sell fuel supplied by one of the major brands under license. According to the ACCC, *"while the refiner marketers (ie. major oil companies) brand names appear on the majority of petrol retail sites, it is important to note that mostly the businesses are actually owned and/or operated by supermarkets, independent retailers, franchisees, or commission agents"*.

BP notes that on 15 January 2015, the ACCC provided an overview of the intent to monitor and analyse fuel markets in a more regular and in-depth manner. Rather than an annual report, typically published in December, the ACCC will instead produce at least eight reports including quarterly reviews referred to as 'macro reports', and at least four issues-specific reports, of which three will review a regional market.

In announcing this change, the ACCC referenced regional locations in Victoria and Tasmania.

AIP information and data on market prices

In relation to the fuels market in Australia, the AIP publishes a range of factual information, independently sourced data and reports on market prices, most of which are updated weekly. This wide range of data and information, readily accessible on the AIP website, aims to assist interested parties to better understand and actively monitor the fuels market, and also ensures up-to-date and timely information is constantly available to the community, policy makers and market commentators.

The key AIP information on market prices, all of which are available on the AIP website (at www.aip.com.au), include:

- AIP's 'Weekly Petrol Prices Report – see <http://www.aip.com.au/pricing/weeklyreport.htm>
- AIP's 'Weekly Diesel Prices Report' - see www.aip.com.au/pricing/weeklydieselreport.htm
- AIP factsheets on petrol and diesel prices and the Australian fuel market – covering market structure and operation, and general price determination, in each market segment (international, wholesale and retail market segments) - see www.aip.com.au/pricing/facts.htm
- AIP historical terminal gate price (TGP) data for Petrol and Diesel – www.aip.com.au/pricing/tgp.htm
- AIP retail (pump) prices for petrol and diesel across Australia <http://www.aip.com.au/pricing/retail.htm>

The principles underpinning this information and related AIP prices material include the use of:

- Data of the best quality and broadest coverage available
- Robust data methodologies and statistical techniques
- Independent authoritative sources of raw data, particularly that is available to third parties
- Collection/compilation of raw data by an independent party
- Collection/publishing of only historical and aggregated data (no real time or company specific data)

- Published AIP data, and any calculations made, can be independently verified or replicated.

Consistent with the above principles, AIP:

- sources data from independent published sources:
 - **International prices** for crude oil, key petroleum products, shipping rates and exchange rates - Platts, Worldscale and the Reserve Bank of Australia (RBA)
 - **Wholesale prices** for petrol and diesel- public posting of TGPs by AIP member companies required under government regulation
 - **Retail prices** for petrol and diesel - Motormouth published data
- collects and compiles data through Orima Research, an independent research company.

Recognising AIP's robust principles and approaches, this data is used extensively domestically and internationally, including by all Federal statistical agencies, government departments, industry bodies, unions and employer organisations, and a range of market operators, advisors and commentators.

Question 3 of 3

Senator HEFFERNAN: *We will see. Next question: could you individually provide me with your corporate structure, your financing structure and financing capitalisation arrangements, because I am actually researching you for tax purposes.*

BP is conscious of the significant contribution it makes to the tax system in Australia and the importance this has on being able to deliver goods and services to Australians. We understand we are in the top 10 corporate taxpayers in Australia with GST of \$7.5Bn pa and Excise of \$4.2Bn pa under management, and income tax payments of ~\$500m pa..

The BP group has a long history operating in Australia and prides itself on the open and constructive relationships it has with Government and the Australian Taxation Office. BP Australia was the first company for example to enter into a cooperative agreement with the ATO covering all indirect taxes, has been represented on the Commissioner's Large Business Advisory Group and has an active and ongoing relationship with Treasury via its Oil & Gas Taxation Taskforce.

We attach a copy of the most recent correspondence from the Commissioner of Taxation which refers to this open and honest relationship.

1. Corporate structure

We attach a copy of the current corporate structure of the BP group in Australia. We note the following:

- The BP group in Australia is indirectly wholly owned by BP Plc, a public company whose shares are listed on the London Stock Exchange.
- Due to historical reasons, the BP group in Australia is directly owned by both the US and UK parts of the BP global group. These historical reasons include the merger with Amoco, and the acquisition of Burmah Castrol and Arco Groups in the years since 1999.
- The main Upstream operating activities in the BP group in Australia are carried out by BP Developments Australia Pty Ltd, which include our 1/6th non-operating interest in the North West Shelf Project, our ~17% non-operating interest in Browse and our majority operator interest in the Great Australian Bight exploration program.
- The main Downstream operating activities in the BP group in Australia are carried out by BP Australia Pty Ltd which includes manufacturing and processing of crude oil and the marketing and distribution of refined products to both commercial and retail customers.

2. Financing structure

Accompanying this letter is a copy of the statutory accounts for the year ended 31 December 2013 for BP Australia Investments Pty Ltd (**BPAI**) which includes the consolidated figures for the BP group in Australia. The accounts for BP Regional Australasia Holdings Pty Ltd (**BPRAH**) are included for completeness to assist reconciliation with the group structure above. The Statutory accounts for the year ended 31 December 2014 are in the process of being finalised and we expect these to be available in mid-April 2015.

We note the following:

- BPAI's statutory accounts are audited by Ernst & Young and disclose total assets of \$15.085 billion and total liabilities of \$11.433 billion such that there are \$3.652 billion net assets in the consolidated accounts.
- The BP group in Australia ("the Australia Group") is financed from a debt and equity finance from the BP group as well as its own cash reserves.
- Notes 12-14 to the statutory accounts discloses the liabilities of the consolidated group. They disclose that the Australia Group's debt funding comes from related parties. These long term loans are from BP International Ltd, a UK company which finances BP affiliates. This funding is on arm's length terms and this funding structure has been discussed and disclosed in detail with the ATO.
- The Australia Group pays approximately \$500m pa of income tax. This, in addition to our GST and Excise collections and payments, confirm the substantial contribution made by the BP group in Australia to the tax system.

3. Financing capitalisation arrangements

- The BP group in Australia is adequately and prudently capitalised.
- The gearing of the Australia Group falls within the tax thin capitalisation safe harbour amounts



Commissioner of Taxation

Mr Andy Holmes
Country President
BP Regional Australasia Holdings Pty Ltd
GPO Box 5222
MELBOURNE VIC 3001

Dear Mr Holmes

I am writing to advise you of your categorisation within the ATO risk-differentiation framework (RDF) for 2014.

I am pleased to confirm that BP Regional Australasia Holdings Pty Ltd (BP) continues to be a key taxpayer for income tax, goods and service tax (GST), excise and petroleum resource rent tax (PRRT).

The categorisations reflect your significant role within the tax system. For example, in the 2014 financial year the total amount of GST under management by BP was \$7.5 billion¹ and the total value of excise related taxes under management for the 2014 financial year was \$4.3 billion².

Over the past year BP has clearly demonstrated a willingness to maintain a cooperative and open relationship with us. This was clearly evident in the recent meeting between myself, your Tax Director, Indirect and Group Tax Operations, Mr Nicolas Burgin, Deputy Commissioner James O'Halloran in October 2014 where we discussed BP's new global indirect tax compliance framework. We were encouraged by this development. We appreciate the efforts of your staff and their genuine desire to work with us and we look forward to a continuation of this strong relationship.

Should you or your executives require any more information on the risk-differentiation framework a fact sheet is also available at ato.gov.au/rdffacts. If you would like to discuss your RDF categorisations please contact your senior relationship manager Assistant Commissioner

I would like to thank you for your positive contribution to an effective tax system.

Yours sincerely

Chris Jordan AO
Commissioner of Taxation

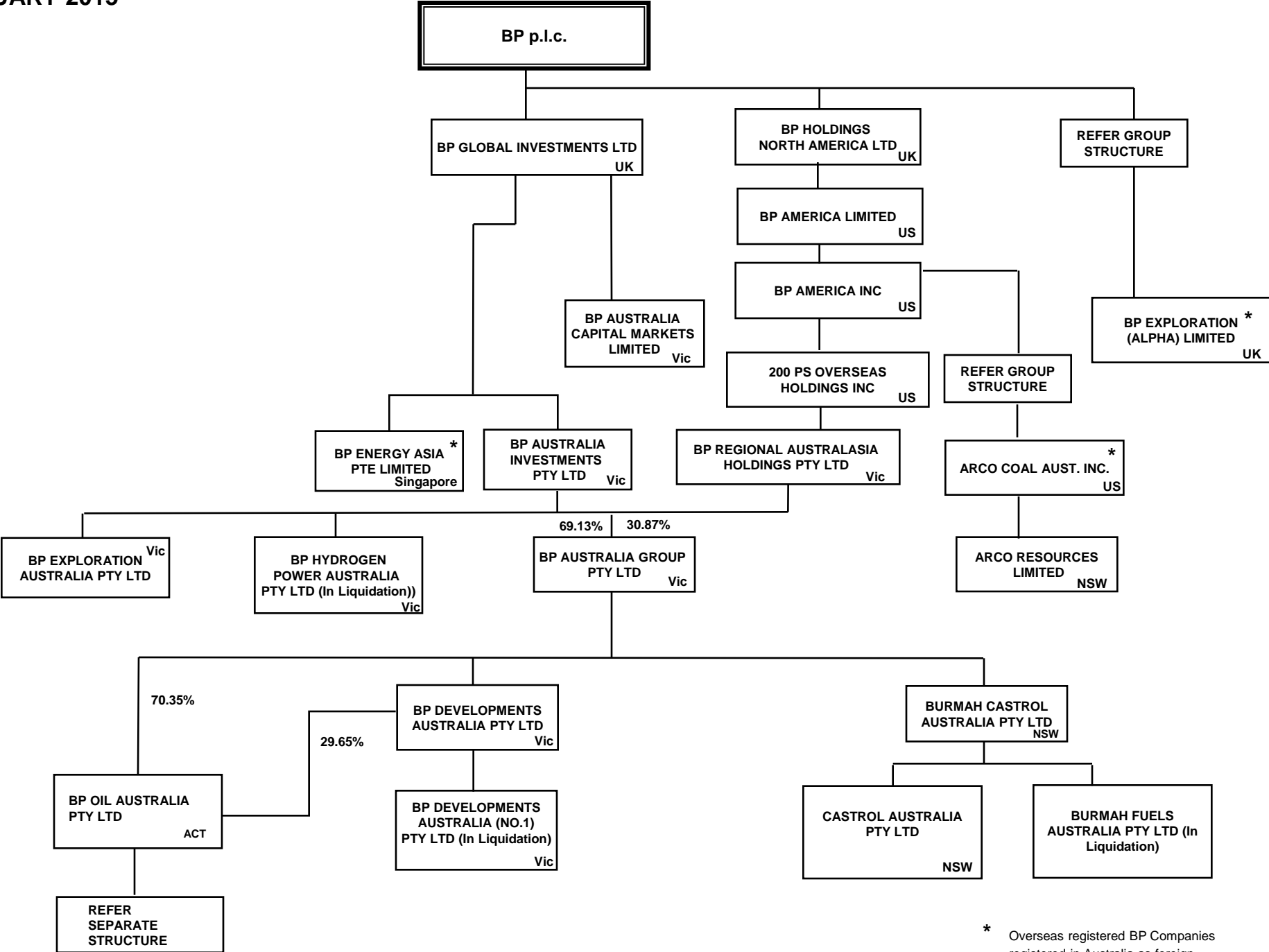
19 December 2014

¹ Tax amounts under management refer to total inputs and outputs, not net amounts paid or payable

² This includes all tax obligations for Excise, Wine Equalisation Tax, Concessional Spirits, Fuel Tax Credits and Cleaner Fuels Grant Scheme

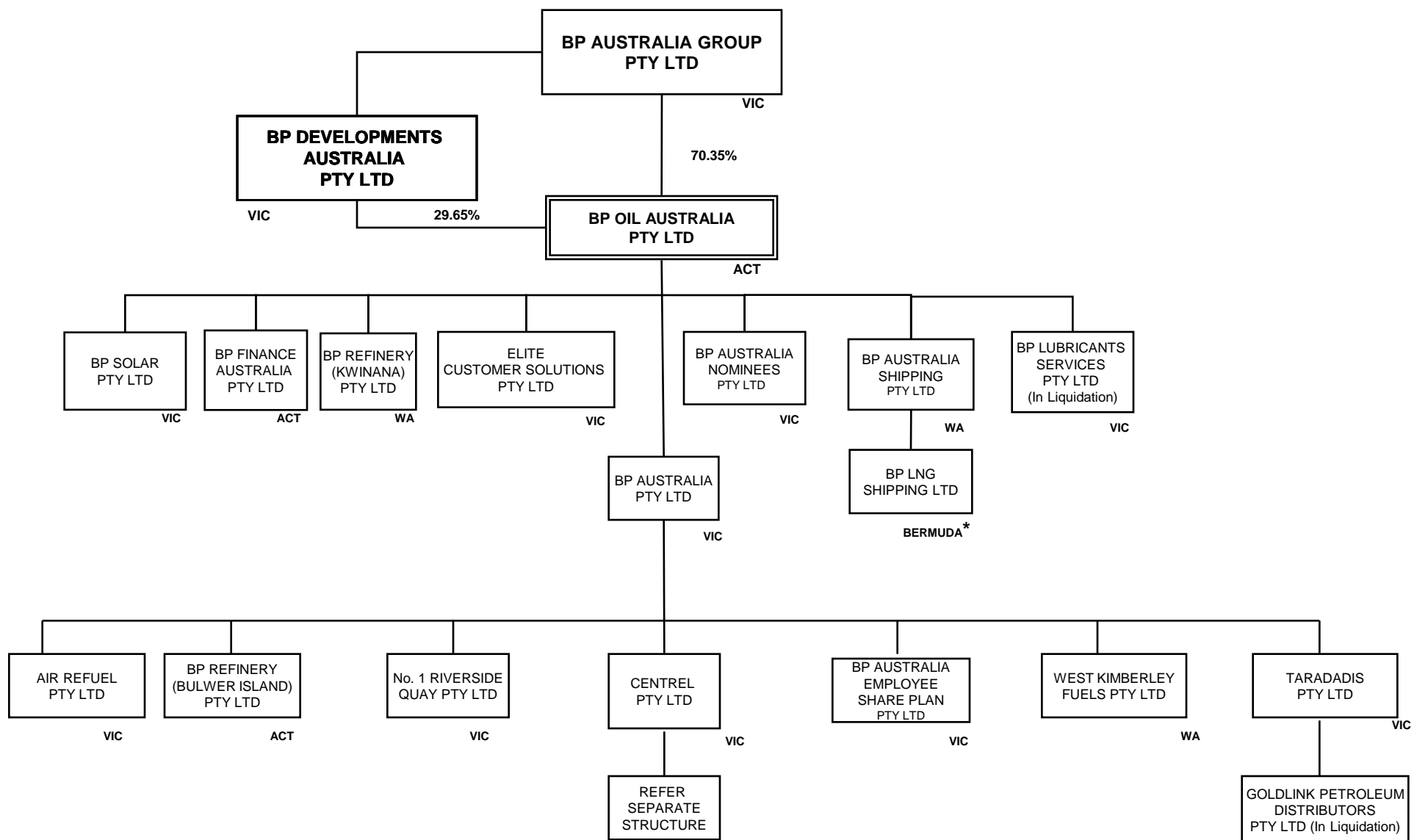
BP IN AUSTRALIA - CORPORATE STRUCTURE

JANUARY 2015



* Overseas registered BP Companies registered in Australia as foreign companies.

BP OIL AUSTRALIA PTY LTD - CORPORATE STRUCTURE

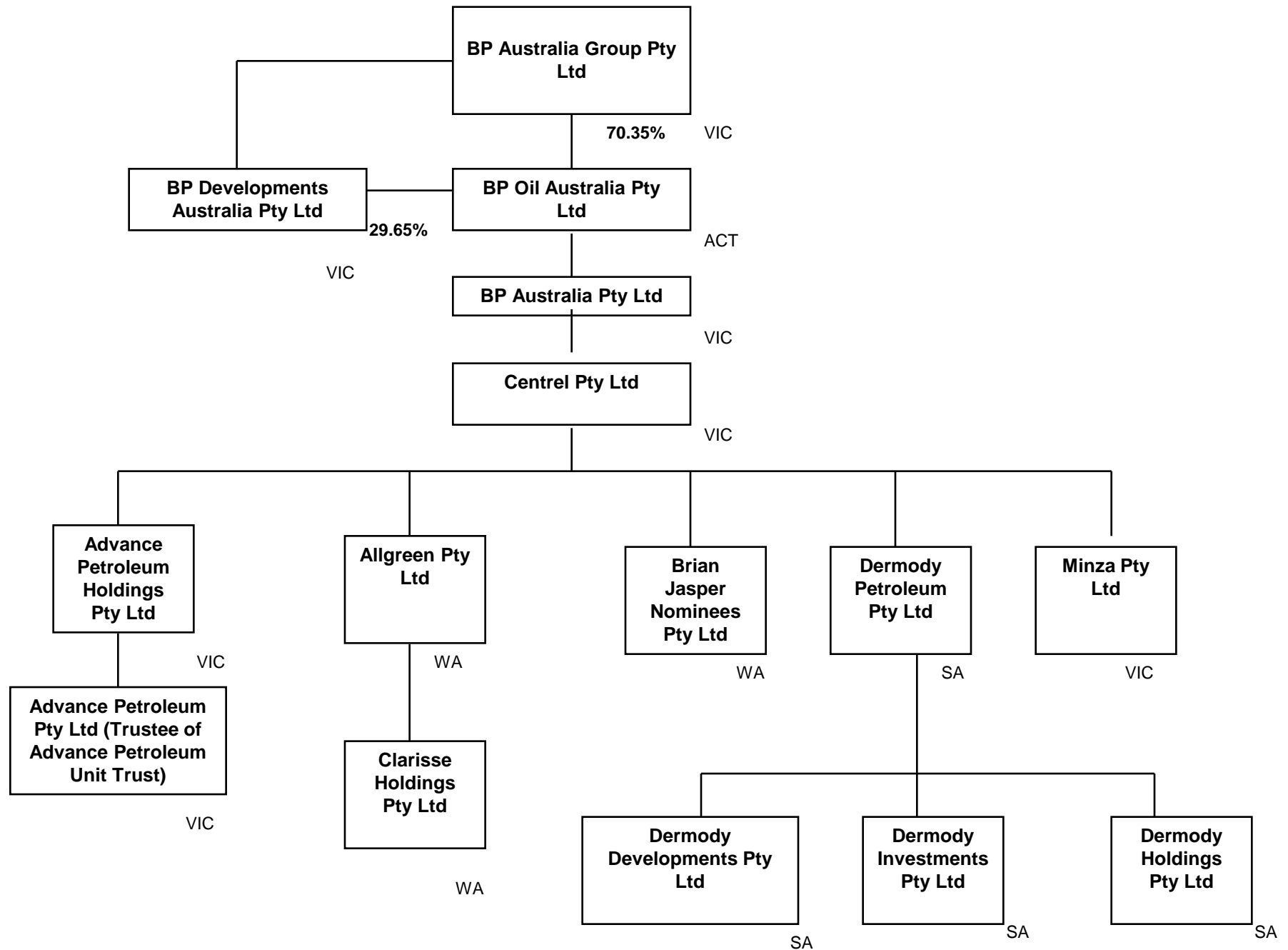


QLD

*the company undertakes shipping activities for BP's upstream business. Its profits are subject to Australia's controlled foreign company tax regime

JANUARY 2015

CENTREL PTY LTD - CORPORATE STRUCTURE



BP AUSTRALIA INVESTMENTS PTY LTD

and its controlled entities

ABN 66 102 991 551

Financial report for the year ended 31 December 2013



BP AUSTRALIA INVESTMENTS PTY LTD AND ITS CONTROLLED ENTITIES

CORPORATE INFORMATION

ABN 66 102 991 551

DIRECTOR

A F Holmes (appointed 01/07/2013)

B A Miller (appointed 21/08/2013)

L P Waterman (resigned 01/07/2013)

COMPANY SECRETARY

S C Broe

PRINCIPAL PLACE OF BUSINESS

Level 17, 717 Bourke Street

Docklands, Victoria, 3008

Phone: +61 3 9268 4111

REGISTERED OFFICE

Level 17, 717 Bourke Street

Docklands, Victoria, 3008

Phone: +61 3 9268 4111

BANKERS TO THE GROUP

Australia and New Zealand Banking Group Limited

National Australia Bank

SOLICITORS

Corrs Chambers Westgarth

AUDITORS

Ernst & Young

Australia

DIRECTOR'S REPORT

The directors present their reports on the consolidated entity (referred to hereafter as the Group) consisting of BP Australia Investments Pty Ltd and the entities it controlled at the end of, or during, the year ended 31 December 2013.

DIRECTOR

The following persons were directors of the Group during the whole of the financial year and up to the date of this report, unless otherwise stated:

A F Holmes (appointed 01/07/2013)

B A Miller (appointed 21/08/2013)

L P Waterman (resigned 01/07/2013)

EMPLOYEES

The Group employed 7,213 people as at 31 December 2013 (2012: 7,640 employees).

PRINCIPAL ACTIVITIES

During the year the principal activities of the Group consisted of:

- the exploration for and production of oil, natural gas and liquefied natural gas, and
- the refining, transportation and marketing of petroleum and lubricant products, sealants and waxes.

DIVIDENDS

No dividends were paid or provided for during the year ended 31 December 2013 (2012: \$nil)

REVIEW AND RESULTS OF OPERATIONS

The Group's net profit for the year after income tax was \$683 million (2012: \$641 million).

The Group, through its subsidiary BP Developments Australia Pty Ltd, is one of seven partners in the North West Shelf (NWS) venture. Alongside Woodside Offshore Petroleum (also the operator), BHP Billiton, ChevronTexaco, Japan Australia LNG and Shell, BP holds a 16.67% interest in the gas infrastructure and an equal 15.78% interest in the gas and condensate reserves with China National Offshore Oil Corporation (CNOOC) owning the remaining 5.32%. The operation covers offshore production platforms, a floating production and storage vessel, trunk lines, onshore gas processing plants and LNG carriers.

Demand growth in the Australasia region has been offset by a competitive input cost environment, placing continuing pressure on historic cost operating margins in the downstream industry (refining and marketing). Strong competition continues in the Australian retail marketplace and consequently the Group has continued its revenue enhancement initiatives during 2013 to help meet income targets.

In September 2013, gas production started through North Rankin 2 compression platform, designed to extend the life of the North West Shelf production to 2040.

BP is also one of five participants in the Browse LNG venture (operated by Woodside) and holds a working interest of over 16.67%. In September the Browse joint venture participants decided to change the development concept from an onshore LNG plant at James Price Point to an offshore floating LNG concept resulting in an impairment of \$249 million. The proposed development remains subject to regulatory, joint venture and internal BP approvals.

In August 2013 BP farmed down 30% of its interest in the four deepwater exploration blocks in the Ceduna Sub Basin to Statoil. BP as operator will drill four deepwater wells in this frontier exploration basin, located within the Great Australian Bight off the coast of Southern Australia.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

During the year ended 31 December 2013, refinery assets at the Bulwer Island Refinery located in Brisbane were impaired to the value of \$281m. On 2nd April 2014, BP Australia announced the planned closure of the Bulwer Island Refinery, with the plan being to convert the facility into a Jet Terminal. This will result in some assets being decommissioned and mothballed, and other assets being retained for use in the Jet Terminal. As at the date of reporting, an estimate of the financial effect is not able to be made due to the complex nature and early stage of the site conversion project.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the year ended 31 December 2013, refinery assets at the Bulwer Island Refinery located in Brisbane were impaired to the value of \$281m. On 2nd April 2014, BP Australia announced the planned closure of the Bulwer Island Refinery, with the plan being to convert the facility into a Jet Terminal. This will result in some assets being decommissioned and mothballed, and other assets being retained for use in the Jet Terminal. As at the date of reporting, an estimate of the financial effect is not able to be made due to the complex nature and early stage of the site conversion project.

DIRECTOR'S REPORT

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Australia has committed to reduce its GHG emissions by 5% below 2000 levels by 2020. In accordance with the Clean Energy Act 2011, Australia's carbon price took effect on 1 July 2012 with a fixed price of \$23 Australian dollars a tonne of carbon pollution in 2012-2013, \$24.15 a tonne in 2013-2014 and \$25.40 a tonne in 2014-2015. The fixed price phase is scheduled to transition into a market-based price (emissions trading scheme) on 1 July 2016. BP refineries and BP's share of North West Shelf Joint Venture are covered entities within the Clean Energy Act 2011 and are liable for CO₂e emissions. With Australia's change of federal government in September 2013, there is significant uncertainty that exists in relation to the future of the Carbon Pricing Mechanism provided for under the Clean Energy Act 2011. BP Australia continues to monitor the situation.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Group's ultimate holding company, BP p.l.c., maintains insurance for directors and officers of all its Group companies insuring them against the financial consequences of actions brought against them for acts or omissions in the performance of their duties, subject to certain exemptions and exclusions.

ENVIRONMENTAL REGULATION AND PERFORMANCE

BP's strategy is to create value by producing energy in a way that is affordable, secure and doesn't damage the environment. BP Australia remains committed to identifying, managing and minimising the environmental impacts from its operations and products.

Examples of activities and performance in Australia include:

Ensuring effective environmental management

Our refineries at Bulwer Island and Kwinana continue to operate ISO 14001-accredited Environmental Management Systems. The systems provide a framework for the identification of environmental impacts and their management, as well as a means for setting targets for improvement. Compliance with the requirements of the system is independently certified.

Our exploration activities are within four permits in the relatively unexplored waters of the Great Australian Bight (GAB). In May 2012 we completed a large (12,100 km²) 3D seismic marine survey, our first step in exploring GAB. These data are currently being analysed at BP's International Centre for Business Technology, in Sunbury, UK. During 2013 we completed a site investigation survey to obtain data that will be used for the safe planning and execution of the GAB exploration wells. The site investigation survey was conducted in accordance with an activity specific Environment Plan which was accepted by NOPSEMA.

Improving energy efficiency

Our refineries in Australia have invested in process equipment and operating practices to improve operating efficiency, reduce GHG emissions and increase energy efficiency. These investments have taken place over many years. Both refineries maintain energy efficiency plans to help further reduce energy consumption and greenhouse gas emissions. Our retail business has also begun implementing a 5 year energy road map for our retail network which has helped reduce energy consumption at those sites to which it has been rolled out by up to 7%.

Improving water management

BP aims to minimise water consumption where possible across its operations. In 2013 BP's Kwinana Refinery in Perth was the recipient of a Platinum award for water efficiency. The award recognised the refinery's efforts to improve water efficiency by 50%.

Managing our environmental liabilities

We continue to remediate and monitor contaminated properties owned and/or managed by BP Australia through our Remediation Management business, in consultation with appropriate regulatory agencies and stakeholders. This business also actively promotes various prevention strategies across our operations to avoid generating new environmental liabilities.

Developing cleaner fuels

BP Australia is committed to alternative fuels and continues to progress towards complying with state biofuels mandates and meeting customer demand. In 2013, BP has continued to sell ethanol blended motorspirit and has introduced biodiesel to additional retail sites in Sydney. BP has continued to work in partnership with the Australian Government to address the issue of petrol sniffing in remote Australia.

DIRECTOR'S REPORT

Public reporting

BP reports publicly on its environmental performance through a range of mechanisms including:

- BP Australia Sustainability Report
- National Greenhouse & Energy Reporting
- Energy Efficiency Opportunities
- National Pollutant Inventory
- Australian Packaging Covenant

In conclusion, the directors are not aware of any breaches of environmental legislation during the financial year by the entity which are material in nature, and have no reason to believe that any possible legal or remedial action would result in a material cost or loss to the company or the Group.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of the Company have adopted and operated within a robust set of governance policies that go beyond regulatory compliance.

ROUNDING

Amounts in these financial statements have, unless otherwise indicated, been rounded to the nearest million dollars.

AUDITOR INDEPENDENCE AND NON AUDIT SERVICES

A copy of the auditor's independence declaration as required under Section 370C of the *Corporations Act 2011* is attached.

Signed in accordance with a resolution of the directors.

A F HOLMES
Director
Melbourne

Dated 23 April 2014



Building a better
working world

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Melbourne VIC 3000 Australia
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Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com

Auditor's Independence Declaration to the Directors of BP Australia Investments Pty Ltd

In relation to our audit of the financial report of BP Australia Investments Pty Ltd for the financial year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Fiona Campbell
Partner
23 April 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Note	Millions of dollars	
		Consolidated	
		2013	2012
ASSETS			
Current Assets			
Cash and cash equivalents		43	10
Trade and other receivables	4	4,862	3,373
Inventories	5	1,846	1,833
Other current assets	6	24	19
Total current assets		<u>6,775</u>	<u>5,235</u>
Non-current assets			
Trade and other receivables	4	35	32
Investments accounted for using the equity method		1	1
Other financial assets	7	1,265	56
Property, plant and equipment	9	6,052	6,235
Deferred tax asset	3	153	142
Intangible assets	10	804	982
Total non-current assets		<u>8,310</u>	<u>7,448</u>
TOTAL ASSETS		<u>15,085</u>	<u>12,683</u>
LIABILITIES			
Current liabilities			
Trade and other payables	12	1,655	1,684
Borrowings	13	157	154
Provisions	14	130	116
Total current liabilities		<u>1,942</u>	<u>1,954</u>
Non-current liabilities			
Trade and other payables	12	130	114
Borrowings	13	8,606	7,119
Deferred tax liabilities	3	431	547
Provisions	14	324	320
Total non-current liabilities		<u>9,491</u>	<u>8,100</u>
TOTAL LIABILITIES		<u>11,433</u>	<u>10,054</u>
NET ASSETS		<u>3,652</u>	<u>2,629</u>
EQUITY			
Contributed equity	15	998	998
Retained earnings	16	1,461	1,036
Reserves	16	(3,711)	(4,000)
		<u>(1,252)</u>	<u>(1,966)</u>
Non-controlling interest	17	4,904	4,595
TOTAL EQUITY		<u>3,652</u>	<u>2,629</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013**

		Millions of dollars	
	Notes	2013	2012
Sale of goods		21,768	22,362
Rendering of services		402	429
Other revenue	2	380	264
Revenue		22,550	23,055
Cost of sales	2	(18,441)	(19,099)
Gross profit		4,109	3,956
Other income	2	29	2
Marketing & Distribution Expenses	2	(548)	(602)
Occupancy expenses	2	(212)	(190)
Administrative expenses	2	(1,161)	(1,078)
Other expenses	2	(909)	(739)
Finance Cost	2	(398)	(434)
Expenses		(3,228)	(3,043)
Profit before income tax		910	915
Income tax expense	3	(227)	(274)
Profit after income tax		683	641
NET PROFIT FOR THE YEAR		683	641
OTHER COMPREHENSIVE INCOME			
Foreign currency translation	16	400	18
Actuarial (loss)/gain on defined benefit plans	20	73	(8)
Income tax expense on item of other comprehensive income	3	(144)	(1)
Other comprehensive income for the year, net of tax		329	9
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,012	650
Profit attributable to:			
Members of BP Australia Investments Pty Ltd		374	270
Non-controlling interest		309	371
		683	641
Total comprehensive income attributable to:			
Members of BP Australia Investments Pty Ltd		703	279
Non-controlling interest		309	371
		1,012	650

BP AUSTRALIA INVESTMENTS PTY LTD

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

Notes	Contributed equity	Retained earnings	Foreign currency translation	Millions of dollars				Members of the parent	Non-controlling interest	Total equity
				Employee equity benefits	Common control reserve					
Consolidated										
Balance at 1 January 2012	998	772	(312)	5	(3,294)	(1,831)	6,019	4,188		
Profit for the year, after tax	-	270	-	-	-	270	371	641		
Other comprehensive income, net of tax	-	(6)	15	-	-	9	-	9		
Total comprehensive income for the year	-	264	15	-	-	279	371	650		
Transactions with owners in their capacity as owners:										
Share-based payments	-	-	-	7	-	7	-	7		
Reduction in non-controlling interest	-	-	-	-	(421)	(421)	(1,795)	(2,216)		
Balance at 31 December 2012	998	1,036	(297)	12	(3,715)	(1,966)	4,595	2,629		
Balance at 1 January 2013	998	1,036	(297)	12	(3,715)	(1,966)	4,595	2,629		
Profit for the year, after tax	-	374	-	-	-	374	309	683		
Other comprehensive income, net of tax	-	51	278	-	-	329	-	329		
Total comprehensive income for the year	-	425	278	-	-	703	309	1,012		
Transactions with owners in their capacity as owners:										
Share-based payments	-	-	-	11	-	11	-	11		
Reduction in non-controlling interest	-	-	-	-	-	-	-	-		
Balance at 31 December 2013	998	1,461	(19)	23	(3,715)	(1,252)	4,904	3,652		

BP AUSTRALIA INVESTMENTS PTY LTD

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Millions of dollars	
	Consolidated	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	26,434	27,653
Payments to suppliers and employees	(24,930)	(25,956)
Rent received	7	6
Cost recoveries	133	77
Other revenue	84	73
Borrowing costs	(398)	(434)
Net cash flows from operating activities	1,330	1,419
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for financial and intangible assets	(55)	(98)
Purchases of property, plant and equipment	(490)	(537)
Proceeds from sales of property, plant and equipment and investments	82	9
Interest received	152	101
Dividends received	4	4
Net cash flows used in investing activities	(307)	(521)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	268	742
Sharebuy back during the year	-	(2,216)
Repayments of borrowings	-	(350)
Dividends paid	-	-
Net movement in deposit balances	(1,300)	873
Net cash flows from financing activities	(1,032)	(951)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(9)	(53)
Effects of exchange rate changes on cash and cash equivalents	42	-
Cash and cash equivalents at the beginning of the year	10	63
CASH AND CASH EQUIVALENTS AT END OF YEAR	43	10
Cash and cash equivalents at end of year comprising:		
Cash in bank	43	10

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of BP Australia Investments Pty Ltd for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the director on 23 April 2014.

The ultimate parent of BP Australia Investments Pty Ltd is BP p.l.c (incorporated in England and Wales) which ultimately owns 100% of the ordinary shares.

The accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to the year presented, unless otherwise stated.

(a) Basis of preparation

This general purpose financial report for the year ended 31 December 2013 has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards - Reduced Disclosure Requirements and other authoritative pronouncements of the Australian Accounting Standards Board.

All amounts are expressed in millions of Australian Dollars, unless otherwise stated, consistent with the functional currency of the Group.

Historical cost convention

The financial statements have been prepared in accordance with the historical cost convention except where otherwise stated.

Statement of compliance

The Group has early adopted AASB 1053 *Application of Tiers of Australian Accounting Standards* (AASB 1053) and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (AASB 2010-2) for the financial year beginning 1 January 2012.

The Group is a for-profit, private sector entity which is not publicly accountable. Therefore the consolidated financial statements of the Group are tier 2 general purpose financial statements which have been prepared in accordance with Australian Accounting standards - Reduced Disclosure requirements (AASB - RDRs) including Australian Interpretations adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

Changes in accounting policy and disclosures

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 January 2012:

- > AASB10 Consolidated Financial Statements
- > AASB11 Joint Arrangements
- > AASB12 Disclosure of Interests in Other Entities
- > AASB13 Fair Value Measurements

The adoption of AASB 1053 and AASB 2010-2 as of 1 January 2012 allowed the Group to remove a number of disclosures. There was no other impact on the current or prior year financial statements.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of BP Australia Investments Pty Ltd and the entities it controls for the year ended 31 December 2013 ('the Group'). Interests in associates are equity accounted and are not part of the consolidated Group.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and continue to be consolidated until the date that such control ceases.

(c) Critical accounting estimates

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains resulting from intra-group transactions and dividends have been eliminated in full. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred.

Dividends received from subsidiaries are recorded as a component of other revenues in the separate statement of comprehensive income of the parent entity, and do not impact the recorded cost of the investment.

Non-controlling interests are allocated after their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

The accounting policies and areas that require the most significant judgements and estimates used in the preparation of the consolidated financial statements are in relation to oil and natural gas accounting, including the estimation of reserves, the recoverability of asset carrying values, taxation, provisions and contingencies, and pensions and other post-retirement benefits.

Oil and natural gas accounting

The Group follows the successful efforts method of accounting for its oil and natural gas exploration and production activities. Exploration licence and leasehold property acquisition costs are capitalised within intangible assets and are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned or that it has been determined, or work is under way to determine, that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing. If no future activity is planned, the remaining balance of the licence and property acquisition costs is written off. Lower value licences are pooled and amortised on a straight-line basis over the estimated period of exploration.

Exploration and appraisal expenditure

Geographical and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are initially capitalised as an intangible asset until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If potentially commercial quantities of hydrocarbons are not found, the exploration well is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, are likely to be capable of commercial development, the costs continue to be carried as an asset.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Critical accounting estimates (continued)

Costs directly associated with appraisal activity, undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the cost of appraisal wells where hydrocarbons were not found, are initially capitalised as an intangible asset.

All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. When proved reserves of oil and natural gas are determined and development is approved by management, the relevant expenditure is transferred to property plant and equipment.

Development expenditure

Expenditure on the construction, installation and completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including services and unsuccessful development or delineation wells, is capitalised within property, plant and equipment and is depreciated from the commencement of production as described below in the accounting policy for property, plant and equipment.

Recoverability of asset carrying values

The Group assesses its fixed assets, including goodwill, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable and, as a result, charges for impairment are recognised in the Group's results from time to time. For example, low price or margins for an extended period or, for oil and gas assets, significant downward revision of estimated volumes or increase in estimated future development expenditure.

Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

The assessment for impairment entails comparing the carrying value of such cash-generating unit with its recoverable amount, that is, the higher of fair value less costs to sell and value in use. Value in use is usually determined on the basis of discounted estimated future net cash flows.

Provisions and contingencies

The Group holds provisions for the future decommissioning of oil and natural gas production facilities and pipelines at the end of their economic lives. The estimated discounted costs of dismantling and removing these facilities are accrued on the installation of those facilities, reflecting our legal obligations at that time. A corresponding asset of an amount equivalent to the provision is also created within property, plant and equipment. This asset is depreciated over the expected life of the production facility or pipeline. Most of these removal events are many years in the future and the precise requirements that will have to be met when the removal event actually occurs are uncertain. Asset removal technologies and costs are constantly changing, as well as political, environmental, safety and public expectations. Consequently, the timing and amounts of future cash flows are subject to significant uncertainty. Changes in the expected future costs are reflected in both the provision and the asset.

Decommissioning provisions associated with downstream and petrochemicals facilities are generally not provided for, as such potential obligations cannot be measured, given their indeterminate settlement dates. The Group performs periodic reviews of its downstream and petrochemicals long-lived assets for any changes in facts and circumstances that might require the recognition of a decommissioning provision.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Critical accounting estimates (continued)

Provisions and contingencies (continued)

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The timing of recognition requires the application of judgment to existing facts and circumstances, which can be subject to change. Since the actual cash outflows can take place many years in the future, the carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take account of changing facts and circumstances.

Provisions for environmental clean-up and remediation costs are based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, prices, discovery and analysis of site conditions and changes in clean-up technology.

Pensions and other post-retirement benefits

Accounting for pensions and other post-retirement benefits involves judgment about uncertain events, including estimated retirement dates, salary levels at retirement, mortality rates, rates of return on plan assets, healthcare cost trend rates and rates of utilisation of healthcare services by retirees.

These assumptions are based on the environment in Australia. Determination of the projected benefit obligations for the Group's defined benefit pension and post-retirement plans is important to the recorded amounts for such obligations on the statement of financial position and to the amount of benefit expense in the statement of comprehensive income. The assumptions used may vary from year to year, which will affect future results of operations. Any differences between these assumptions and the actual outcome also affect future results of operations. Discount rates used to determine the present value of the liability reflect current market assessments of the time value of money and the risks specific to the liability.

Pension and other post-retirement benefit assumptions are reviewed by management at the end of each year. These assumptions are used to determine the projected benefit obligation at the year-end and hence the surpluses and deficits recorded on the Group's statement of financial position, and pension and other post-retirement benefit expense for the following year.

Petroleum Resource Rent Tax (PRRT)

Generally, a deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. For PRRT purposes the impact of future augmentation on expenditure is included in the determination of future taxable profits when assessing the extent to which a deferred tax asset can be recognised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(d) Joint ventures

A joint venture is a contractual arrangement whereby two or more parties (venturers) undertake an economic activity that is subject to joint control. Joint control exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers. A jointly controlled entity is a joint venture that involves the establishment of a company, partnership or other entity to engage in economic activity that the Group jointly controls with its fellow venturers.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Joint ventures (continued)

Joint venture operations

Certain part of the Group's activities, particularly in the exploration and production segment, are conducted through joint ventures where the venturers have a direct ownership interest in, and jointly control, the assets of the venture.

The Group's interest in its joint venture operations are accounted for in recognising the Group's share of assets, liabilities, revenue and expenses of the joint venture operations. These amounts have been incorporated in the financial statements on a line-by-line basis. Details of the joint ventures are set out in note 11.

Joint venture entities

The interest in a joint venture partnership is accounted for in the consolidated financial statements using the equity method and is carried at cost in the balance sheet. Under the equity method, the share of the profits or losses of the partnerships are recognised in the statement of comprehensive income, and the share of movements in reserves is recognised in reserves in the balance sheet.

Profits or losses on transactions establishing the joint venture partnership and transactions with the joint venture are eliminated to the extent of the Group's ownership interest until such time as they are realised by the joint venture partnership on consumption or sale, unless they relate to an unrealised loss that provides evidence of the impairment of an asset transferred.

(e) Foreign currency translation

Functional and presentation currency

The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

The functional and presentation currency of the Group's entities is the Australian dollar, except for BP Australia Group Pty Ltd and BP Development Australia Pty Ltd whose functional currency is the US dollar, which is translated into presentation currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Translation of Group company's functional currency to presentation currency

The results of BP Developments Australia Pty Ltd and BP Australia Group Pty Ltd are translated into Australian dollar as at the date of each transaction. Assets and liabilities are translated at exchange rates prevailing at the reporting date. Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Revenue recognition

Revenue arising from the sale of goods is recognised when the significant risks and rewards of ownership have passed to the buyer, which is typically at the point that title passes, and the revenue can be reliably measured.

Sale of goods

Revenue from sale of goods is recognised when there is persuasive evidence, usually in the form of an executed sales agreement at the time of delivery of the goods to customer, indicating that there has been a transfer of risks and rewards to the customer, no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed and generally title has passed (for shipped goods this is the bill of lading date).

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction should be recognised by reference to the stage of completion of the transaction at the balance sheet date. The outcome of a transaction can be estimated reliably when all of the following conditions are satisfied:

- (i) the amount of revenue can be measured reliably;
- (ii) it is probable that the economic benefits associated with the transaction will flow to the Group;
- (iii) the stage of completion of the transaction at the balance sheet date can be measured reliably; and
- (iv) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Interest

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of financial assets and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the Group's right to receive the payment is established.

(g) Deferred income

Amounts received for gas volumes not yet taken in accordance with take-or-pay contracts are recorded as deferred income. These amounts will be recognised as sales revenue when the gas to which the payments relate is delivered to the purchaser.

(h) Income tax

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authority.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Income tax (continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses to the extent it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Tax consolidation legislation

The consolidated entity has implemented the tax consolidation legislation with BP Regional Australasia Holdings Pty Ltd being the head entity of the tax consolidation Group.

The tax consolidated entities in the tax consolidated Group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated Group continues to be a stand-alone taxpayer in its own right.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

(i) Other taxes

Other taxes include GST, excise tax and petroleum resource rent tax.

Revenue, expenses and other assets are measured net of the amount of GST and excise tax.

Cash flows are included in the statement of cash flows on a gross GST basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from or payable to the taxation authority.

Petroleum resource rent tax (PRRT)

PRRT is considered, for accounting purposes, to be a tax on income. Accordingly, current and deferred PRRT expense is measured and disclosed on the same basis as income tax.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Other taxes (continued)

From 1 July 2012, the existing PRRT regime was extended to apply to all Australian petroleum projects located onshore, in State coastal waters and the North West Shelf project area. On transition to the extended PRRT regime, a starting base is immediately available for deduction against the relevant project profits, giving rise to a potential deferred tax asset.

(j) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss. Capitalised leased assets are depreciated over the lease term.

(k) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. The company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the company makes an estimate of its recoverable amount.

An asset group's recoverable amount is the higher of its net realisable value and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Impairment losses recognised for goodwill are not subsequently reversed.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Cash and cash equivalents

Cash and cash equivalents in the financial statement of position comprise cash on hand and in banks and short-term deposits with an original maturity of three months or less and are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash includes cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(m) Trade and other receivables

Trade and other receivables, which generally have 30 to 60 day terms, are recognised initially at fair value and subsequently measured at amortised cost, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off when identified. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the impairment is recognised in the statement of comprehensive income.

(n) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned on the basis of "first-in first-out". Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(o) Financial assets

Financial assets are classified as financial assets at fair value through profit and loss; loans and receivables; or assets available for sale financial assets as appropriate.

Management determines the classification of its investments at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are those assets where there exists the possibility it will be sold in the short-term or the asset is subject to frequent changes in fair value. Derivatives are also categorised as held for trading unless they are designated as hedges. These assets are carried on the balance sheet at the fair value with gains or losses recognised in the income statement.

Loans and receivables

Receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classed as non-current assets. Loans and receivables are included in receivables in the balance sheet and are carried at amortised cost using the effective interest method if the time value of money is significant.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are not classified as loans and receivables. After the initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised within other comprehensive income. Accumulated changes in fair value are recorded as a separate component of equity until the investment is derecognised or impaired.

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques.

Where fair value cannot be reliably measured, assets are carried at cost.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or a group of financial assets is impaired.

Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognised in the income statement.

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, the cumulative loss previously recognised in equity is transferred to the income statement. Any subsequent recovery in the fair value of the asset is recognised within other comprehensive income.

If there is objective evidence that an impairment loss on an unquoted equity instrument that is carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

(p) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

For those assets with an expected life that are associated with specific production, amortisation is determined on a unit of production basis. At current production levels, the maximum useful life of the assets depreciated on a unit of production basis (including buildings and plant and equipment) is 23 years.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013
NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(p) Property, plant and equipment (continued)**

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

Freehold buildings	20 - 30 years
Plant and equipment	2.5 - 30 years
Plant and equipment under finance lease	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

(q) Intangible assets*Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets at the date of acquisition.

Goodwill on acquisitions of subsidiaries is included in intangible assets with an indefinite useful life. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite is made on a prospective basis. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment.

Retention lease

Retention lease or exploration licence costs are initially capitalised within intangible fixed assets. Upon determination of economically recoverable reserves ('proved reserves' or 'commercial reserves'), the costs are aggregated with exploration expenditure and held on a field-by-field basis as proved properties awaiting approval within intangible assets. When development is sanctioned, the relevant expenditure is transferred to tangible production assets.

Each property is reviewed on an annual basis to confirm that drilling activity is planned and the property is not impaired. If no future activity is planned, the remaining balance of the licence is written off.

Development costs

Internally generated intangible assets arising from developing cost e.g. computer software costs are capitalised as intangible assets and when the development has obtained internal sanction, the relevant expenditure is transferred to tangible assets. These have a useful life of three to five years.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Intangible assets (continued)

Work-In-Progress

Work-In-Progress mainly relates to the IT projects that are still not completed as at the year end, and will be transferred to the respective intangible assets category upon completion.

(r) Trade and other payables

Trade and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

(s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the loan using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(t) Borrowing costs

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(u) Provisions

Provisions are recognised when:

- The Group has a present legal or constructive obligation as a result of past events;
- It is probable that an outflow of resources will be required to settle the obligation; and
- The obligation can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

The provision for restoration represents the provision for environmental clean up of refineries, terminals and retail sites. This includes provisions for terminals that have been sold, are planned to be sold or are operating where there is a known problem that requires attention.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Exploration, evaluation, development and restoration costs

Costs carried forward

Costs arising from exploration and evaluation activities are carried forward provided such costs are expected to be recouped through successful development, or by sale, or where exploration and evaluation activities have not, at balance date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

Restoration costs

Restoration costs that are expected to be incurred are provided for as part of the cost of the exploration, evaluation, development, construction or production phases that give rise to the need for restoration.

At the date a provision for rehabilitation is required to be recognised, the present value of the provision and an asset is recognised at that date. The asset is depreciated over the term of its useful life and the discount on the associated provision is released to the statement of comprehensive income over the term. Any changes in the estimates are adjusted on a prospective basis. In determining the restoration obligations, the entity had assumed no significant changes will occur in the relevant federal and state legislation in relation to restoration in the future.

(w) Employee entitlements

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted to their present value using a discount rate which reflects current market assessments of the time value of money and the risks specific to the liability.

Retirement benefit obligations

All employees of the Group are entitled to benefits on retirement, disability or death from the Group's superannuation plan. The Group has a defined benefit section and defined contribution section within its plan. The defined benefit section provides defined lump sum benefits based on years of service and final average salary. The defined contribution section receives fixed contributions from the Group companies and the Group's legal or constructive obligation is limited to these contributions:

Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments available.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Employee entitlements (continued)

A liability or asset in respect of defined benefit superannuation plans is recognised in the statement of financial position, and is measured as the present value of the defined benefit obligation at the reporting date adjusted for unrecognised actuarial gains and losses less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted to their present value using a discount rate which reflects current market assessments of the time value of money and the risks specific to the liability at the balance date.

Actuarial expenses such as current service costs and interest are taken directly to the statement of comprehensive income. The difference between the actuarial assessment and the liability sitting in the books of BP is taken directly to equity.

Past service costs are recognised immediately in income, unless the changes to the superannuation fund are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Future taxes that are funded by the entity and are part of the provision of the existing benefit obligation (e.g. taxes on investment income and employer contributions) are taken into account in measuring the net liability or asset.

Share-based payments

The Group provides benefits to employees (including senior executives) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. The fair value is determined by using an appropriate valuation model.

(x) Contributed equity

Ordinary shares and preference shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

(y) Carbon emissions

The initial cost of carbon emission allowances, acquired and controlled by the Group to meet the Group's emission obligations, is capitalised as an intangible asset at historical cost. Carbon emission units granted by the Australian Government are recognised at nominal value (nil value) and capitalised as an intangible asset. Where an allowance is purchased to be redeemed within one year of purchase, the cost is booked as a current intangible asset. At the point at which the Group's actual gases exceed its allowance, a provision is recognised. The provision is measured at the best estimate of the expenditure required to settle the present obligation at the balance date.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	Millions of dollars Consolidated	
		2013	2012
NOTE 2 REVENUE, INCOME AND EXPENSES			
Other revenue			
Rent		7	6
Dividends			
- other corporations		4	4
Interest			
- related parties - common controlled entities		152	101
- other person/corporations		-	-
Cost recoveries		133	77
Other revenue			
- carbon tax related receipts		53	39
- other revenue		31	37
		<u>380</u>	<u>264</u>
Other income			
Net profit on sale of non-current assets		29	2
Cost of sales			
<i>Upstream</i>			
Costs of production			
Production costs		351	368
Impairment		249	-
Royalty		258	239
Depreciation		539	574
		<u>1,397</u>	<u>1,181</u>
<i>Downstream</i>			
Depreciation		82	98
Impairment		281	265
Raw materials and consumables used		16,681	17,555
		<u>17,044</u>	<u>17,918</u>
Total cost of sales		<u>18,441</u>	<u>19,099</u>
Total depreciation forming part of cost of sales		621	672

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	Millions of dollars Consolidated	
		2013	2012
NOTE 2 REVENUE, INCOME AND EXPENSES (continued)			
Administration Expenses			
<i>Downstream</i>			
Depreciation		122	117
Amortisation of intangible assets		11	16
Total non-production depreciation and amortisation		<u>133</u>	<u>133</u>
Employee benefit expenses			
- Wages, salaries and superannuation		888	849
- Defined contribution superannuation expense		46	47
- Defined benefit superannuation expense		22	16
- Share-based payment expense		11	7
		<u>967</u>	<u>919</u>
Foreign exchange losses/(gains)		1,271	71
Fair value change on derivatives		(1,210)	(45)
		<u>61</u>	<u>26</u>
Marketing & Distribution Expenses			
Freight		528	578
Advertising		13	17
Bad and doubtful debts - trade receivables			
- Bad debt written off		(5)	(3)
- Provision for doubtful debts		12	10
		<u>548</u>	<u>602</u>
Occupancy Expenses			
Electricity		120	100
<i>Rent</i>			
Operating lease rental		92	90
Total operating lease rental		<u>212</u>	<u>190</u>
Other Expenses			
Fees and commissions		173	105
Royalties		18	31
Travel		23	27
Repairs and maintenance		130	131
Other expenses		565	445
		<u>909</u>	<u>739</u>
Finance costs - net			
Interest expense			
Other related parties - common controlled entities		410	446
Other persons/corporations		(12)	(12)
Total finance costs		<u>398</u>	<u>434</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 3	INCOME TAX	Notes	Millions of dollars Consolidated	
			2013	2012
The major components of income tax expense for the years ended 31 December 2013 and 2012 are:				
Statement of comprehensive income				
<i>Current income tax</i>				
	Current income tax charge/(benefit)		543	414
	Adjustments in respect of current income tax of previous years		(46)	(39)
<i>Deferred income tax</i>				
	Relating to origination and reversal of temporary differences		(270)	(101)
	Income tax expense reported in statement of comprehensive income		<u>227</u>	<u>274</u>
Recognised in other comprehensive income				
<i>Deferred income tax</i>				
	Deferred tax relating to investments denominated in other currencies		122	3
	Tax on actuarial (loss)/gain on defined benefit plan		22	(2)
	Income tax benefit forming part of other comprehensive income		<u>144</u>	<u>1</u>
A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 31 December 2013 and 2012 is as follows:				
	Accounting profit before tax from continuing operations		910	915
	At the statutory income tax rate of 30% (2012: 30%)		273	275
	Adjustments in respect of current income tax of previous years		(46)	(39)
	Non-taxable gain/loss on disposal		-	-
	Research and development		(2)	(7)
	Non-deductible expenditure		1	1
	Unrealised exchange (gain)/loss		6	(1)
	Other		(5)	45
	Income tax expense reported in statement of comprehensive income		<u>227</u>	<u>274</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2013****NOTE 3 INCOME TAX (continued)**

		Millions of dollars	
		Consolidated	
	Notes	2013	2012
Deferred income tax			
Deferred income tax at 31 December relates to the following:			
<i>Deferred income tax liabilities</i>			
Accelerated depreciation for tax purposes		(397)	(512)
Foreign exchange		(11)	(10)
Prepayments		(23)	(19)
Other		-	(6)
Gross deferred income tax liabilities		<u>(431)</u>	<u>(547)</u>
<i>Deferred income tax assets</i>			
Foreign exchange		-	-
Provisions		132	125
Accruals		21	2
Other		-	15
Gross deferred income tax assets		<u>153</u>	<u>142</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

		Millions of dollars Consolidated	
	Notes	2013	2012
NOTE 4 TRADE AND OTHER RECEIVABLES			
CURRENT			
Trade receivables		1,700	1,679
Allowance for impairment loss		(22)	(20)
		<u>1,678</u>	<u>1,659</u>
Sundry receivables	(a)	42	31
Amounts other than trade debts receivable from related parties:			
Related parties – common controlled entities	(b)	3,142	1,683
		<u>3,184</u>	<u>1,714</u>
		<u>4,862</u>	<u>3,373</u>
NON-CURRENT			
Customer loans		35	32
		<u>35</u>	<u>32</u>
Movement in the provision for impairment loss			
At 1 January		20	16
Charge for the year		7	10
Amount utilised		(5)	(6)
At 31 December		<u>22</u>	<u>20</u>

(a) Sundry debtors and other receivables are due under normal commercial terms and conditions.

(b) Details of the terms and conditions of related party receivables are set out in note 24.

NOTE 5 INVENTORIES

Project stores		32	35
Raw materials and stores		676	756
Finished goods		1,109	1,014
Other inventory		31	31
Provision for stores write-off		(2)	(3)
Total inventories at lower of cost and net realisable value		<u>1,846</u>	<u>1,833</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

		Millions of dollars Consolidated	
	Notes	2013	2012
NOTE 6	OTHER CURRENT ASSETS		
Prepayments		<u>24</u>	<u>19</u>
NOTE 7	OTHER FINANCIAL ASSETS		
Other assets		10	11
Cross currency and interest rate swaps		<u>1,255</u>	<u>45</u>
Other assets		<u>1,265</u>	<u>56</u>

BP AUSTRALIA INVESTMENTS PTY LTD

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	Millions of dollars	
		2013	2012
NOTE 8	INFORMATION RELATING TO		
	BP AUSTRALIA INVESTMENTS PTY LTD		
	('the parent entity')		
Current assets		8,260	6,505
Total assets		14,776	12,730
Current liabilities		7,935	6,873
Total liabilities		14,675	12,530
Issued capital		998	998
Retained earnings		(681)	(408)
Reserves		(216)	(390)
		<u>101</u>	<u>200</u>
Profit of the parent entity		(273)	(179)
Total comprehensive income of the parent entity		(99)	(184)

Pursuant to Class Order 98/1418, BP Australia Group Pty Ltd, BP Australia Pty Ltd, BP Developments Australia Pty Ltd, BP Refinery (Bulwer Island) Pty Ltd, BP Refinery (Kwinana) Pty Ltd, Central Pty Ltd and Elite Customer Solutions Pty Ltd (the "Closed Group") entered into a Deed of Cross Guarantee on 19 December 2012. West Kimberley Fuels Pty Ltd became a member of the Closed Group. The effect of the deed is that BP Australia Group Pty Ltd has guaranteed to pay any deficiency in the event of winding up any of these controlled entities and any other of the controlled entities that are party to the Deed of Cross Guarantee. The controlled entities have also given a similar guarantee in the event that BP Australia Group Pty Ltd is wound up.

The Company is not part of the Class Order or Deed of Cross Guarantee.

The parent has no significant contingent liabilities or contractual obligations.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013
NOTE 9 PROPERTY, PLANT AND EQUIPMENT

Consolidated	Millions of dollars			Total
	Land and buildings	Plant and equipment	Work in progress	
At 31 December 2012				
Cost	498	13,113	368	13,979
Accumulated depreciation and impairment	(102)	(7,642)	-	(7,744)
Net book amount	<u>396</u>	<u>5,471</u>	<u>368</u>	<u>6,235</u>
At 31 December 2013				
Cost	499	14,331	364	15,194
Accumulated depreciation and impairment	(113)	(9,029)	-	(9,142)
Net book amount	<u>386</u>	<u>5,302</u>	<u>364</u>	<u>6,052</u>
Year ended 31 December 2013				
Opening net book amount	396	5,471	368	6,235
Exchange translation	-	403	-	403
Additions	-	220	270	490
Disposals	(18)	(9)	-	(27)
Transfers	23	226	(274)	(25)
Impairment charge	-	(281)	-	(281)
Depreciation charge	(15)	(728)	-	(743)
Closing net book amount	<u>386</u>	<u>5,302</u>	<u>364</u>	<u>6,052</u>

(a) The group does not have any assets included in plant and equipment which relate to leased assets.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013
NOTE 10 INTANGIBLE ASSETS

	Millions of dollars			Total
	Goodwill	Retention lease	Development costs	
At 31 December 2012				
Cost	240	710	157	1,107
Accumulated impairment and amortisation	(14)	-	(111)	(125)
Net book amount	<u>226</u>	<u>710</u>	<u>46</u>	<u>982</u>
At 31 December 2013				
Cost	234	825	164	1,223
Accumulated impairment and amortisation	(14)	(284)	(121)	(419)
Net book amount	<u>220</u>	<u>541</u>	<u>43</u>	<u>804</u>
Year ended 31 December 2013				
Opening net book amount	226	710	46	982
Exchange translation	-	26	-	26
Additions	-	54	2	56
Transfer	-	20	6	26
Disposals	(6)	(20)	-	(26)
Impairment charge	-	(249)	-	(249)
Amortisation	-	-	(11)	(11)
Closing net book amount	<u>220</u>	<u>541</u>	<u>43</u>	<u>804</u>

Goodwill

Goodwill acquired through business combinations have been allocated to 2 individual cash generating units for impairment testing as follows:

- Marketing Australia
- Exploration and Production

For the purpose of annual impairment testing, goodwill is allocated to the above cash generating units as follows:

	Millions of dollars	
	2013	2012
Marketing Australia - opening balance	85	85
Marketing Australia - disposal	(6)	-
Exploration and production	141	141
	<u>220</u>	<u>226</u>

Retention lease

Retention leases comprise gas discoveries and are granted for 5 years in anticipation of future developments and are renewable. These relate to exploration permits in the Browse Basin that are undeveloped at this stage.

Development costs

Development costs are capitalised at cost. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over its expected useful life. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013
NOTE 11 INTEREST IN JOINT VENTURE OPERATIONS

The Group has a 16.67% interest in the assets, liabilities and output of the North West Shelf joint venture operation, which produces liquefied natural gas, domestic gas, condensate, liquefied petroleum gas, and oil in Western Australia.

The Group holds a 16.67% and 20% interests in the East Browse JV and West Browse JV respectively. The other partners are Shell, BHP and Woodside (operator).

The Group holds a 70% (2012 100%) interest in four deepwater exploration blocks in the Ceduna Sub Basin. A 30% interest was farmed down to Statoil in August 2013.

	Notes	Millions of dollars Consolidated	
		2013	2012
NOTE 12 TRADE AND OTHER PAYABLES			
CURRENT			
<i>Unsecured liabilities</i>			
Trade payables		715	612
Other payables	(a)	275	317
Amounts other than trade debts payable to related parties:			
Related parties - common controlled entities	(b)	648	738
Deferred income - take-or-pay contracts		17	17
		<u>1,655</u>	<u>1,684</u>
NON-CURRENT			
<i>Unsecured liabilities</i>			
Deferred income - take-or-pay contracts		130	113
Other payables		-	1
		<u>130</u>	<u>114</u>

(a) Other payables are settled on normal commercial terms and conditions.

(b) Details of the terms and conditions of related party payables are set out in note 24.

NOTE 13 BORROWINGS

CURRENT			
<i>Unsecured</i>			
Related parties - common controlled entities		157	154
		<u>157</u>	<u>154</u>
NON-CURRENT			
<i>Unsecured</i>			
Related parties - common controlled entities		8,606	7,119
		<u>8,606</u>	<u>7,119</u>

Details of the terms and conditions of related party borrowings are set out in note 24.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	Millions of dollars Consolidated	
		2013	2012
NOTE 14 PROVISIONS			
CURRENT			
Employee entitlements	20	130	115
Others	(c)	-	1
		<u>130</u>	<u>116</u>
NON-CURRENT			
Employee entitlements	20	59	100
Restoration costs	(a)(c)	175	169
Environmental provision	(a)(c)	36	38
Athena	(b)(c)	6	7
Others	(c)	48	6
		<u>324</u>	<u>320</u>

(a) Restoration costs

Decommissioning is accounted for by recognising an asset and liability based on the present value of the future decommissioning provision. Over time, the decommissioning asset will be depreciated based on a Unit of Production basis and the decommissioning provision will increase as the discount associated with present value calculation is unwound. The majority of the upstream decommissioning work is estimated to be conducted post 2030.

Provisions for environmental remediation are made when a cleanup is probable and the amount is reliably determinable. Generally, this coincides with a commitment to a formal plan of action or, if earlier, on divestment or closure of inactive sites.

The provision for environmental liabilities has been estimated using existing technology, at current prices and discounted using a real discount rate of 1% (2012: 0.5%). The majority of these costs are expected to be incurred over the next ten years.

The extent and cost of future remediation programmes are inherently difficult to estimate. They depend on the scale of any possible contamination, the timing and extent of corrective actions, and also the Group's share of the liability.

(b) Athena

The total provision for Athena Reserves (2013: \$6m; 2012: \$7m) relates to the Athena Gas acquisition. At the Perseus producing field it was discovered that Perseus extends into another licence area owned by Mobil and Conoco Phillips. The extension into this licence area is known as Athena. Production at the Perseus field is ultimately also producing from the Athena field. An agreement was reached between the North West Shelf JV and Mobil and Conoco Phillips for compensation for production of their field. The structure of the agreement is such that the North West Shelf JV will pay for a stream of future cash payments up until 2020. The price is determined quarterly via a base price plus/minus movements in the Japanese Crude Cocktail price.

(c) Movements in provisions

	Millions of dollars Consolidated			
	Restoration	Environmental	Athena	Others
Carrying amount at 1 January 2013	169	38	7	7
Additional provision	26	15	-	46
Amounts utilised during the year	(20)	(17)	(1)	(5)
Carrying amount at 31 December 2013	<u>175</u>	<u>36</u>	<u>6</u>	<u>48</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	Millions of dollars Consolidated	
		2013	2012
NOTE 15	CONTRIBUTED EQUITY		
998,317,446 ordinary shares, fully paid (2012: 998,317,446)		<u>998</u>	<u>998</u>
<p>Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts of paid-up shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.</p>			
NOTE 16	RETAINED EARNINGS AND RESERVES		
RETAINED EARNINGS			
Balance at 1 January		1,036	772
Net profit		374	270
Dividends paid		-	-
Actuarial losses, net of tax		51	(6)
Others		-	-
Balance at 31 December		<u>1,461</u>	<u>1,036</u>
RESERVES			
<i>Employee equity benefits reserve</i>			
Balance at 1 January		12	5
Share-based payments		11	7
Balance at 31 December		<u>23</u>	<u>12</u>
<i>Foreign currency translation reserve</i>			
Balance at 1 January		(297)	(312)
Currency translation differences		278	15
Balance at 31 December		<u>(19)</u>	<u>(297)</u>
<i>Common control reserve</i>			
Balance at 1 January		(3,715)	(3,294)
Premium paid on preference share buyback		-	(421)
Balance at 31 December		<u>(3,715)</u>	<u>(3,715)</u>
TOTAL RESERVES		<u>(3,711)</u>	<u>(4,000)</u>
NOTE 17	NON-CONTROLLING INTEREST		
Contributed equity		2,176	2,176
Retained earnings		2,728	2,419
		<u>4,904</u>	<u>4,595</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	Millions of dollars Consolidated	
		2013	2012
NOTE 18			
CASH FLOW STATEMENT RECONCILIATION			
(a) Financing facilities available			
The total facilities available at balance date were as follows:			
Bank overdraft		153	153
Inter group financing (AUD)		11,288	9,688
		<u>11,441</u>	<u>9,841</u>
Used at balance date:			
Bank overdraft		-	-
Inter group financing (AUD)		8,763	7,273
		<u>8,763</u>	<u>7,273</u>
Available at balance date:			
Bank overdraft		153	153
Inter group financing (AUD)		2,525	2,415
		<u>2,678</u>	<u>2,568</u>

The bank overdraft facilities disclosed above are local facilities. Further bank overdraft facilities are available to the consolidated entity through overseas accounts held by other related companies within the BP worldwide group.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	Millions of dollars Consolidated	
		2013	2012
NOTE 19			
COMMITMENTS			
(a) Capital expenditure commitments			
Estimated capital expenditure contracted for at balance date, but not provided for, payable:			
- not later than one year			
- joint venture operations		63	80
- others		151	122
- later than one year and not later than five years			
- joint venture operations		15	18
- others		54	82
- later than five years		2	2
(b) Purchase & Lease expenditure commitments			
Purchase Commitments & Operating leases (non-cancellable)	(c)		
- not later than one year		328	232
- later than one year and not later than five years		525	462
- later than five years		376	218
Aggregate lease expenditure contracted for at balance date		<u>1,229</u>	<u>912</u>
Amounts not provided for:			
- Lease commitments		<u>1,229</u>	<u>912</u>
Total not provided for		<u>1,229</u>	<u>912</u>

(c) Operating leases

Operating leases have an average lease term of 2-3 years and an average implicit interest rate ranging between 7% and 9%.

Assets that are the subject of operating leases include motor vehicles and items of office equipment, office space, pipeline rental and vessel charter.

Also included are long term contractual commitments of the Kwinana and Bulwer refineries. The average lease term of these commitments is 9 years. The nature of these contractual commitments includes gas, oxygen supply, utilities and use of facilities and services.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	Millions of dollars	
		2013	2012
Consolidated			
NOTE 20			
EMPLOYEE BENEFITS			
Employee entitlements			
The aggregate employee entitlement liability is comprised of:			
Provisions (current)	14	130	115
Provisions (non-current)	14	28	100
Provisions - Restructuring (non-current)	14	31	-
		189	215

The Group participates in BP p.l.c Group pension plans covering all employees of the consolidated entity.

Employee share scheme

The share-based payment plans that existed during the year are detailed below.

Plans for senior employees
Medium term performance plan (MTPP)

An equity-settled incentive share plan for senior employees driven by two performance measures over a three-year performance period. The award of shares is determined by comparing BP p.l.c's Total Shareholder Return (TSR) against the other oil majors and, additionally, by comparing free cash flow against a threshold established for the period. For a small group of particularly senior employees, only the TSR measure is applicable in determining the award.

The number of shares awarded is increased to take account of the net dividends that would have been received during the performance period assuming that such dividends had been reinvested. With regard to leaver provisions, the general rule is that leaving employment during the performance period will preclude an award of shares. However, special arrangements apply where the participant leaves for a qualifying reason and employment ceases after completion of the first year of the performance period.

BP share option plan (BPSOP)

An equity-settled share option plan that applies to certain categories of employees. Participants are granted share options with an exercise price no lower than market price of a share immediately preceding the date of grant. There are no performance conditions and the options are exercisable between the third and tenth anniversaries of the grant date. The general rule is that the options will lapse if the participant leaves employment before the end of the third calendar year from the date of grant (and that vested options are exercisable within 3 ½ years from the date of leaving). However, special arrangements apply where the participant leaves for a qualifying reason and employment ceases after the end of the calendar year of the date of grant. Share options are no longer offered to the most senior employees.

Savings and matching plans for all employees
BP ShareMatch Plans

Matching share plans under which BP matches employees' own contributions of shares up to a predetermined limit. The plans are run in the UK and in over 70 other countries, including Australia, where the plan is run on an annual basis with shares being held in trust for three years. On leaving BP, all shares must be removed from trust.

Pensions and other post-employment benefit plans

All employees are entitled to varying benefits on retirement, disability or death. The Plum Superannuation Fund provides defined benefits based on years of service and final average salary. It also provides accumulation type benefits. The Group remains committed to making contributions to the fund on the basis of actuarial advice and in amounts to adequately fund the retirement benefits provided for in the rules of the Fund. Expatriate employees are members of overseas pension funds. Some employees are members of other externally managed superannuation arrangements which they have chosen pursuant to the Federal Government's Choice of Fund legislation. The other arrangements only provide accumulation type benefits.

The following table summarises the components of net benefit expense recognised in the consolidated statement of comprehensive income and the funded status and amounts recognised in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	Millions of dollars	
		2013	2012
NOTE 20 EMPLOYEE BENEFITS (continued)			
<i>Net benefit expense</i>			
Current service cost		21	18
Interest cost on benefit obligation		17	20
Expected return on plan assets		(16)	(22)
Net benefit expense		22	16
Actual return on plan assets		68	49
Cumulative actuarial losses recognised		147	118
<i>Benefit liability</i>			
Present value of benefit obligation		(402)	(409)
Fair value of plan assets		445	378
Net benefit liability - non-current		43	(31)
<i>Movements in:</i>			
		Benefit obligation	Plan assets
At 1 January		(409)	378
Benefits paid		24	(24)
Contributions		-	-
Net actuarial (loss)/gain recognised in the year		22	51
Other movements		(39)	40
At 31 December		(402)	445

The principal actuarial assumptions used in determining pension obligations for the Group's plan are shown below (expressed as weighted averages):

Discount rate	4.40%	5.60%
Expected rate of return on assets	4.40%	6.70%
Future salary increases	4.50%	4.50%
Future pension increases	2.50%	2.50%

The major categories of plan assets as a percentage of total plan assets are as follows:

Equity securities	62.00%	65.00%
Debt securities	10.00%	15.00%
Property	10.00%	10.00%
Other	18.00%	10.00%

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 21	CONTINGENT LIABILITIES	Notes	Millions of dollars Consolidated	
			2013	2012
Contingent liabilities are categorised as follows:				
<i>Bank guarantees</i>				
- Government				
	VIC Workcover Authority	(a)	3	3
	WA Workcover Authority	(b)	7	6
	NSW Workcover Authority	(c)	11	9
	Others		3	3
- Non-government				
	Others		5	4

(a) The *Accident Compensation Act 1985*, section 146, subsection (5) requires that either one and a half times the sum of the actuarial value of the current, non-current and contingent liabilities for workcover liabilities or \$3 million, whichever the greater, be held as a guarantee. An amount of \$3 million is held as a bank guarantee with the ANZ bank at year-end.

(b) The *Workers' Compensation and Injury Management Act 1981*, section 164(1) requires that exempt employers provide securities approved by WorkCover WA to cover all payments that become due under the employer's liability insurance which would, if there was no exemption, be required by the Act. Section 165(2) advises that the Minister may annually review and increase or decrease the value of the securities given to the state pursuant to s164(1). An amount of \$7 million is held as a bank guarantee with the ANZ bank at year-end.

(c) As a participant of the optional alternative method of calculating premiums, as defined in section 168A of the *Workers Compensation Act 1987* (the Act), the employer is required to deposit with the nominated insurer a security deposit as required by s172A of the Act. The nominal insurer determines the security deposit amount, pursuant to the insurance premiums order (Retro-Paid Loss Premium Method) 2009-2010, being an amount equal to the maximum premium payable minus premium paid for the period of insurance. An amount of \$11 million is held as a bank guarantee with the ANZ Bank at year-end.

Deed of Cross Guarantee

Details of the deed of cross guarantee are disclosed in note 8. No liabilities are expected to arise in relation to BP Australia Group Pty Ltd and the entities it controlled to the Deed of Cross Guarantee taking the benefit of the Class Order in respect of that Deed of Cross Guarantee.

Legal actions

Entities within the Group are defendants from time to time in legal proceedings arising from the conduct of their business. The Group does not consider that the outcome of any proceedings ongoing at balance date, either individually or in aggregate, is likely to have a material effect on its financial position. Where appropriate, provisions have been made.

NOTE 22 EVENTS AFTER THE BALANCE SHEET DATE

During the year ended 31 December 2013, refinery assets at the Bulwer Island Refinery located in Brisbane were impaired to the value of \$281m. On 2nd April 2014, BP Australia announced the planned closure of the Bulwer Island Refinery, with the plan being to convert the facility into a Jet Terminal. This will result in some assets being decommissioned and mothballed, and other assets being retained for use in the Jet Terminal. As at the date of reporting, an estimate of the financial effect is not able to be made due to the complex nature and early stage of the site conversion project.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 23 KEY MANAGEMENT PERSONNEL

Details of the remuneration of the directors and executives of BP Australia Investments Pty Ltd are set out in the following table:

Compensation for key management personnel	Total
2013	14,645,788
2012	5,888,908

During 2013, management reviewed their assessment of which executives are captured by the definition of key management personnel. This led to an increase in the number of executives reported in this disclosure.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013
NOTE 24 RELATED PARTY DISCLOSURES**(a) Parent entity**

BP Global Investments (UK) Ltd is the parent entity of the group and the ultimate controlling entity is BP p.l.c (incorporated in England and Wales)

(b) Deed of Cross Guarantee

Pursuant to Class Order 98/1418, relief has been granted to BP Australia Pty Ltd, BP Developments Australia Pty Ltd, BP Refinery (Bulwer Island) Pty Ltd, BP Refinery (Kwinana) Pty Ltd, Centrel Pty Ltd, Elite Customer Solutions Pty Ltd and West Kimberley Fuels Pty Ltd from the Corporations Act 2001 requirements for preparation, audit and lodgement of their financial reports.

As a condition of the Class Order, BP Australia Group Pty Ltd, BP Australia Pty Ltd, BP Developments Australia Pty Ltd, BP Refinery (Bulwer Island) Pty Ltd, BP Refinery (Kwinana) Pty Ltd, Centrel Pty Ltd and Elite Customer Solutions Pty Ltd (the "Closed Group"), entered into a Deed of Cross Guarantee on 19 December 2012. West Kimberley Fuels Pty Ltd became a member of the Closed Group on 30 April 2013.

The effect of the Deed is that BP Australia Group Pty Ltd has guaranteed to pay any deficiency in the event of winding up any of these controlled entities and any other of the controlled entities that are party to the Deed of Cross Guarantee. The controlled entities have also given a similar guarantee in the event that BP Australia Group Pty Ltd is wound up.

The Company is not part of the Class Order or Deed of Cross Guarantee.

(c) Key management personnel

Details relating to key management personnel, including remuneration paid, are included in note 23.

(d) Transactions and balances with related parties

The following related party transactions occurred during the financial year:

	Millions of dollars	
	Consolidated	
	2013	2012
Sales goods and services (common controlled entities)		
- Sales of fuel and lubricants	1,340	43
Interest revenue		
- common controlled entities	152	101
Finance costs		
- common controlled entities	410	446
Current receivables		
- common controlled entities	3,142	1,683
Current payables		
- common controlled entities	648	738
Current liabilities - Borrowings		
- common controlled entities	157	154
Non-current liabilities - Borrowings		
- common controlled entities	8,606	7,119

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 24 RELATED PARTY DISCLOSURES (continued)

(i) Transactions with related parties in a wholly-owned group

Subsidiaries within the wholly-owned group have received loans and have provided interest free loans during the period from entities under common control.

Sales of fuels and lubricants are made under normal commercial terms and conditions.

Sales of solar components are made at cost.

Purchases are made under normal commercial terms and conditions.

Consulting fees are received under normal commercial terms and conditions.

Foreign exchange transactions are made under normal commercial terms and conditions.

For the year ended 31 December 2013, the group has not raised any provisions for doubtful debts related to amounts owed by related parties.

The average interest rate on loans during the year was 1.35%

There have been no guarantees provided or received for any related party receivable.

(ii) Transactions with the directors of BP Australia Investment Ltd and the Group

Nil

DIRECTOR'S DECLARATION
FOR THE YEAR ENDED 31 DECEMBER 2013

In accordance with a resolution of the director of BP Australia Investment Pty Ltd, I state that:

1. In the opinion of the director:
 - (a) the financial statements and notes of the Company and of the Group are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's and the Group's financial position as at 31 December 2013 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards - Reduced Disclosure Requirements (including Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
 - (b) there are reasonable grounds to believe that the Company and the Group will be able to pay their debts as and when they become due and payable.
2. In the opinion of the director, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 24 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

A F HOLMES
Melbourne

23 April, 2014

Independent auditor's report to the members of BP Australia Investments Pty Ltd

Report on the financial report

We have audited the accompanying financial report of BP Australia Investments Pty Ltd, which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards - Reduced Disclosure Requirements and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion the financial report of BP Australia Investments Pty Ltd is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the financial position of the consolidated entity at 31 December 2013 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards - Reduced Disclosure Requirements and the *Corporations Regulations 2001*.

Ernst & Young

Fiona Campbell
Partner
Melbourne
23 April 2014

BP REGIONAL AUSTRALASIA HOLDINGS PTY LTD

ACN 092 495 700

Financial report for the year ended 31 December 2013



BP REGIONAL AUSTRALASIA HOLDINGS PTY LTD

CORPORATE INFORMATION

ACN 092 495 700

DIRECTORS

A F Holmes (appointed 01/07/2013)
B A Miller (appointed 21/08/2013)
L P Waterman (resigned 01/07/2013)

COMPANY SECRETARY

S C Broe

PRINCIPAL PLACE OF BUSINESS

Level 17, 717 Bourke Street
Docklands, Victoria, 3008
Phone: +61 3 9268 4111

REGISTERED OFFICE

Level 17, 717 Bourke Street
Docklands, Victoria, 3008
Phone: +61 3 9268 4111

BANKERS TO THE GROUP

Australia and New Zealand Banking Group Limited
National Australia Bank Limited

SOLICITORS

Corrs Chambers Westgarth

AUDITORS

Ernst & Young
Australia

DIRECTORS' REPORT

The Directors present their report on the BP Regional Australasia Holdings Pty Ltd (the Company) financial statements for the year ended 31 December 2013.

DIRECTORS

The following were directors of the Company during the whole of the financial year and up to the date of this report, unless otherwise stated:

A F Holmes (appointed 01/07/2013)
B A Miller (appointed 21/08/2013)
L P Waterman (resigned 01/07/2013)

PRINCIPAL ACTIVITIES

During the year, the Company had no operations other than being the preference share holder in BP Australia Group Pty Ltd and acting as the head entity of the Consolidated tax group for BP Australia for income tax purposes.

DIVIDENDS

No dividends were paid or provided for during the year ending 31 December 2013 (2012: \$2,216 million).

REVIEW AND RESULTS OF OPERATIONS

Preference shares in BP Australia Group Pty Ltd have been measured at fair value with the loss before tax of \$333 million recognised within other comprehensive income (2012: \$1,056 million gain).

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters or circumstances have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company, in subsequent years.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Company.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company is not currently active through any form of operations and this is not expected to change.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company's ultimate holding company, BP p.l.c., maintains insurance for directors and officers of all its group companies insuring them against the financial consequences of actions brought against them for acts or omissions in the performance of their duties, subject to certain exemptions and exclusions.

ENVIRONMENTAL REGULATION AND PERFORMANCE

As the Company had no operations during the year it is not subject to environmental regulation during the reporting period.

ROUNDING

Amounts in these financial statements have, unless otherwise indicated, been rounded to the nearest million dollars.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

A copy of the auditor's independence declaration as required under section 370C of the *Corporations Act 2001* is attached.

Signed in accordance with a resolution of the director.

A F Holmes
Director
Melbourne

Date: 23 April 2014



Building a better
working world

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Auditor's Independence Declaration to the Directors of BP Regional Australasia Holdings Pty Ltd

In relation to our audit of the financial report of BP Regional Australasia Holdings Pty Ltd for the financial year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Fiona Campbell
Partner
23 April 2014

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

Millions of dollars

	Notes	2013	2012
CURRENT ASSETS			
Trade and other receivables	4	123	79
Current tax asset		-	113
Total current assets		123	192
NON-CURRENT ASSETS			
Other financial assets	5	6,153	5,591
Deferred tax asset	3	17	34
Total non-current assets		6,170	5,625
TOTAL ASSETS		6,293	5,817
CURRENT LIABILITIES			
Trade and other payables	6	155	250
Current tax liabilities		7	-
Total current liabilities		162	250
NON-CURRENT LIABILITIES			
Deferred tax liabilities	3	629	491
Total non-current liabilities		629	491
TOTAL LIABILITIES		791	741
NET ASSETS		5,502	5,076
EQUITY			
Contributed equity	7	3,631	3,631
Retained earnings	8	405	403
Reserves	8	1,466	1,042
TOTAL EQUITY		5,502	5,076

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

Millions of dollars

	Notes	2013	2012
Other revenue	2	-	622
Revenue		-	622
Foreign exchange gains/(losses)		2	5
Finance costs	2	1	4
Profit/(loss) before income tax		3	631
Income tax (expense)/benefit	3	(1)	(3)
Profit/(loss) after income tax		2	628
OTHER COMPREHENSIVE INCOME			
Valuation gains(losses) on available for sale assets	8	(333)	1,056
Currency translation differences	8	895	(162)
Tax recognised within other comprehensive income	8	(138)	(299)
Other comprehensive income for the period, net of tax		424	595
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		426	1,223

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

Millions of dollars

	Notes	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income tax paid		(357)	(560)
Net cash flows from operating activities		(357)	(560)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of financial assets		-	2,216
Interest received		1	4
Net cash flows used in investing activities		1	2,220
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to Company's shareholder		-	(2,216)
Net movement in deposit balances		356	556
Net cash flows from financing activities		356	(1,660)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS HELD		-	-
Cash and cash equivalents at the beginning of the year		-	-
Disposal of AGPL group		-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR		-	-
Cash and cash equivalents at the year end comprising:			
Cash in bank		-	-
		-	-

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

BP REGIONAL AUSTRALASIA HOLDINGS PTY LTD

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	Millions of dollars				Total equity
		Contributed equity	Retained earnings	Foreign currency translation	Financial Assets reserve	
Balance at 1 January 2012		3,631	1,991	-	447	6,069
Profit for the year, after tax		-	628	-	-	628
Net valuation gains taken to equity		-	-	-	1,144	1,144
Net valuation gains transferred to the statement of comprehensive income		-	-	-	(436)	(436)
Net foreign currency translation taken to equity		-	-	(113)	-	(113)
Total comprehensive income for the year		-	628	(113)	708	1,223
Transactions with owners in their capacity as owners:						
Dividends paid	8	-	(2,216)	-	-	(2,216)
Balance at 31 December 2012		3,631	403	(113)	1,155	5,076
Balance at 1 January 2013		3,631	403	(113)	1,155	5,076
Profit for the year, after tax		-	2	-	-	2
Net valuation gains taken to equity		-	-	-	(202)	(202)
Net valuation gains transferred to the statement of comprehensive income		-	-	-	-	-
Net foreign currency translation taken to equity		-	-	626	-	626
Total comprehensive income for the year		-	2	626	(202)	426
Transactions with owners in their capacity as owners:						
Dividends paid	8	-	-	-	-	-
Balance at 31 December 2013		3,631	405	513	953	5,502

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.
Page 8 of 18

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of BP Regional Australasia Holdings Pty Ltd for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the director on 23 April 2013.

The ultimate parent of BP Regional Australasia Holdings Pty Ltd is BP p.l.c which ultimately owns 100% of the ordinary shares.

The accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to the year presented, unless otherwise stated.

(a) Basis of preparation

This general purpose financial report for the year ended 31 December 2013 has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards - Reduced Disclosure Requirements and other authoritative pronouncements of the Australian Accounting Standards Board.

All amounts are expressed in millions of Australian Dollars, unless otherwise stated, consistent with the functional currency of the Group.

Historical Cost Convention

The financial statements have been prepared in accordance with the historical cost convention unless otherwise stated in these financial statements.

Statement of compliance

The Group has early adopted AASB 1053 *Application of Tiers of Australian Accounting Standards (AASB 1053)* and AASB 2010-2 *amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (AASB 2010-2)* for the financial year beginning 1 January 2012.

The Group is a for-profit, private sector entity which is not publicly accountable. Therefore the consolidated financial statements of the Group are tier 2 general purpose financial statements which have been prepared in accordance with Australian Accounting standards - Reduced Disclosure requirements (AASB - RDRs) including Australian Interpretations adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

The adoption of AASB 1053 and AASB 2010-2 allowed the Group to remove a number of disclosures. There was no other impact on the current or prior year financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Foreign currency translation

Functional and presentation currency

The functional currency of the Company is United States dollar, which is translated in to presentation currency which is the Australian dollar.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Translation of Company's functional currency to presentation currency

The results of the Company are translated into Australian dollars as at the date of each transaction. Assets and liabilities are translated at exchange rates prevailing at the reporting date. Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

(c) Critical accounting estimates and judgements

The accounting policies and areas that require the most significant judgements and estimates used in the preparation of the financial statements are detailed below.

Estimated fair value of available-for-sale financial assets

The company carries its retained investment in BP Australia Group Pty Ltd at fair value with changes in the fair value recognised in reserves (available for sale financial assets). When the fair value of financial assets recognised in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The judgments include considerations of liquidity and model inputs such as credit risk, correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The models are reviewed regularly and tested for validity using prices from any observable current market transactions in the same instrument (without modification or repackaging) or based on any available observable market data.

(d) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

The Company is dormant from an operational perspective and only receives interest payments on a loan from a related party.

The following specific recognition criteria must also be met before revenue is recognised:

Interest

Control of the right to receive the interest payment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Income tax

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authority.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Tax consolidation legislation

BP Regional Australasia Holdings Pty Ltd and all Australian registered BP companies have implemented the tax consolidation legislation.

The head entity, BP Regional Australasia Holdings Pty Ltd, in the tax consolidated group accounts for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group.

(f) Other taxes

Revenues, expenses and assets are measured net of the amount of Goods and Services Tax (GST).

(g) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and in banks and short-term deposits with an original maturity of three months or less and are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash includes cash and cash equivalents as defined above, net of outstanding bank overdrafts.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Trade and other receivables

Trade and other receivables, which generally have 30 to 60 day terms, are recognised initially at fair value and subsequently measured at amortised cost, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off when identified. A provision for impairment is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the transactions. The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the impairment is recognised in the statement of comprehensive income.

(i) Financial assets

Financial assets are classified as financial assets at fair value through profit and loss; loans and receivables; or assets available for sale financial assets as appropriate.

Management determines the classification of its investments at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are those assets where the possibility exists it will be sold in the short-term or the asset is subject to frequent changes in fair value. Derivatives are also categorised as held for trading unless they are designated as hedges. These assets are carried on the balance sheet at the fair value with gains or losses recognised in the income statement.

Loans and receivables

Receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet and are carried at amortised cost using the effective interest method if the time value of money is significant.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are not classified as loans and receivables. After the initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised within other comprehensive income. Accumulated changes in fair value are recorded as a separate component of equity until the investment is derecognised or impaired.

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques.

Where fair value cannot be reliably measured, assets are carried at cost.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial assets (continued)

Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or a group of financial assets is impaired.

Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognised in the income statement.

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, the cumulative loss previously recognised in equity is transferred to the income statement. Any subsequent recovery in the fair value of the asset is recognised within other comprehensive income.

If there is objective evidence that an impairment loss on an unquoted equity instrument that is carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

(j) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

(k) Comparative figures

Comparative figures have been reclassified to conform to the current year's presentation.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

Millions of dollars

	Notes	2013	2012
NOTE 2			
REVENUE, INCOME AND EXPENSES			
Other revenue			
Interest			
- related parties - common controlled entities		-	-
Profit on sale of investment		-	622
Other Revenue			
		<u>-</u>	<u>622</u>
Finance costs - net			
Interest expense			
Related parties - common controlled entities		-	-
Other persons/corporations		1	4
		<u>1</u>	<u>4</u>
NOTE 3			
INCOME TAX			
The major components of income tax expense for the years ended 31 December 2013 and 2012 are:			
Statement of comprehensive income			
<i>Current income tax</i>			
Current income tax charge/(benefit)		(16)	172
<i>Deferred income tax</i>			
Relating to origination and reversal of temporary differences		17	(169)
Income tax charge/(benefit) expense reported in income statement		<u>1</u>	<u>3</u>
Statement of changes in equity			
Fair value gain on available for sale financial assets		(131)	348
Foreign Currency Translation Reserve		269	(49)
Income tax charge reported in equity		<u>138</u>	<u>299</u>
A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Company's rate for the years ended 31 December 2013 and 2012 is as follows:			
Accounting profit/(loss) before tax from continuing operations		3	631
At the statutory income tax rate of 30% (2012: 30%)		1	189
Adjustments in respect of current income tax of previous years		-	-
Non-Assessable gain on disposal of preference shares		-	(186)
Others		-	-
		<u>1</u>	<u>3</u>
Deferred income tax			
Deferred income tax at 31 December relates to the following:			
<i>Deferred income tax liabilities</i>			
Fair value gain on available for sale financial assets		(629)	(491)
Gross deferred income tax liabilities		<u>(629)</u>	<u>(491)</u>
<i>Deferred income tax assets</i>			
Others		17	34
Gross deferred income tax assets		<u>17</u>	<u>34</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

Millions of dollars

	Notes	2013	2012
NOTE 4			
TRADE AND OTHER RECEIVABLES			
CURRENT			
Amounts other than trade debts receivable from related parties:			
Related parties - common controlled entities		<u>123</u>	<u>79</u>
		<u>123</u>	<u>79</u>
NOTE 5			
OTHER FINANCIAL ASSETS			
NON-CURRENT			
Unlisted shares - available for sale financial assets		<u>6,153</u>	<u>5,591</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

		Millions of dollars	
	Notes	2013	2012
NOTE 6	TRADE AND OTHER PAYABLES		
CURRENT			
<i>Unsecured liabilities</i>			
Amounts other than trade debts payable to related parties:			
Related parties - common controlled entities		<u>155</u>	<u>250</u>
		<u>155</u>	<u>250</u>
NOTE 7	CONTRIBUTED EQUITY		
Ordinary shares, fully paid - 3,631,220,435 shares		<u>3,631</u>	<u>3,631</u>
		<u>3,631</u>	<u>3,631</u>
Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts of paid up shares held.			
Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.			
NOTE 8	RETAINED EARNINGS AND RESERVES		
RETAINED EARNINGS			
Balance at 1 January		403	1,991
Net profit		2	628
Dividends paid		-	(2,216)
Actuarial (losses)/gains, net of tax		-	-
Increase in Fairvalue of Available-For-Sale asset, net of taxes		-	-
Balance at 31 December		<u>405</u>	<u>403</u>
<i>Foreign currency translation reserve</i>			
Balance at 1 January		(113)	-
Currency translation differences		895	(162)
Deferred tax on currency translation differences		(269)	49
Balance at 31 December		<u>513</u>	<u>(113)</u>
<i>Financial assets reserve</i>			
Balance at 1 January		1,155	447
Unrealised valuation gains/(losses) during the year		(333)	1,678
Realised valuation gains during the year		-	(622)
Total valuation gains recognised in the Statement of Comprehensive Income		(333)	1,056
Deferred tax on unrealised valuation gains		131	(534)
Deferred tax on realised valuation gains		-	186
Balance at 31 December		<u>953</u>	<u>1,155</u>
TOTAL RESERVES		<u>1,466</u>	<u>1,042</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 9 RELATED PARTY DISCLOSURES**(a) Parent entity**

The immediate parent entity of BP Regional Australasia Holdings Pty Ltd is 200 PS Overseas Holding Inc (incorporated in the US). The ultimate controlling entity of BP Regional Australasia Holdings Pty Ltd is BP p.l.c. (incorporated in England and Wales).

(b) Controlled entities

BP Regional Australasia Holdings Pty Ltd has no controlled entities as at 31 December 2013.

(c) Transactions with related parties

	Millions of dollars	
	2013	2012
Interest revenue		
- common controlled entities	-	-
Other transactions		
- Dividends paid to parent entity	-	2,216
Current receivables		
- common controlled entities	123	79
Current payables		
- common controlled entities	155	250

DIRECTOR'S DECLARATION

FOR THE YEAR ENDED 31 DECEMBER 2013

In accordance with a resolution of the directors of BP Regional Australasia Holdings Pty Ltd, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the Company are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's financial position as at 31 December 2013 and of performance for the year ended on that date; and
 - (ii) complying with Accounting Standards - Reduced Disclosure Requirements (including Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

A F HOLMES
Melbourne

23 April 2014

Independent auditor's report to the members of BP Regional Australasia Holdings Pty Ltd

Report on the financial report

We have audited the accompanying financial report of BP Regional Australasia Holdings Pty Ltd, which comprises the statement of financial position as at 31 December 2013, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards - Reduced Disclosure Requirements and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion the financial report of BP Regional Australasia Holdings Pty Ltd is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the financial position of the consolidated entity at 31 December 2013 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards - Reduced Disclosure Requirements and the *Corporations Regulations 2001*.

Ernst & Young

Fiona Campbell
Partner
Melbourne
23 April 2014

Senate inquiry into Australia's transport energy resilience and sustainability

Caltex Australia Limited response to questions on notice from 2 February 2015 hearing

Question on notice - Victorian regional and Tasmanian fuel prices

Senator MUIR: I have one very last question, which I think a lot of people want to know the answer to. Why is fuel up to 20-plus cents per litre more expensive in rural and regional areas at the moment in comparison to our city counterparts?

Senator LAMBIE: And why are we paying 30c more in Tasmania? You are killing us down there. So, I would like to know too, and I am sure Tasmanians would.

Mr Warrell: These are four competitors sitting around the table. I will not—and neither will anyone else sitting here—get into any price-specific discussion in a location. We are not going to do anything that could be construed as price signalling.

Senator LAMBIE: Do you know what? That is a cop-out.

Mr Warrell: No, it is not; I am sorry, Senator—

Senator LAMBIE: Answer your own question then. For every company you represent that puts fuel down to Tasmania, maybe you could give me that answer. That would be great. Why is it costing us 30c more?

Mr Warrell: You can come to us separately and ask that question. It is inappropriate for you to ask that question when we have four competitors sitting here. If you want to put that question on notice, we can respond to you individually, but we will not be responding while we are all sitting here.

Senator LAMBIE: I will put it on notice and we will see.

Question: Why is fuel up to 20-plus cents per litre more expensive in rural and regional areas at the moment in comparison to our city counterparts? And why are we paying 30c more in Tasmania?

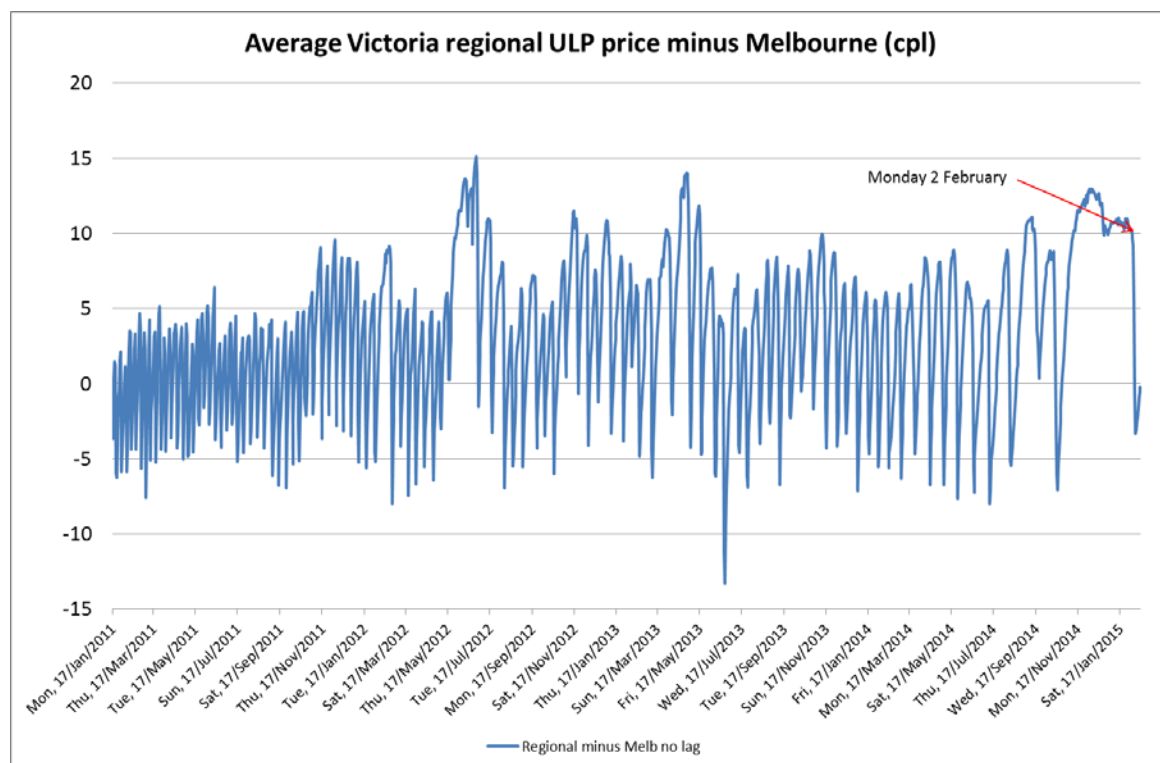
1. Victorian prices

The first question was asked on 2 February 2015 by Senator Muir, at a time when the difference between regional and city prices was near a historic high.

The following chart is for Victoria from 2011 to early 2015 and shows the difference between the average ULP price in Victorian regional areas and Melbourne. It can be seen that the difference is very volatile but generally lies within a band of plus 10 to minus 5 cpl. The average difference is about 3 cpl i.e. the average regional price is 3 cpl higher than Melbourne. Peaks similar to the recent peak – in the 10 to 15 cpl range - were experienced in mid-2012 and mid-2013.

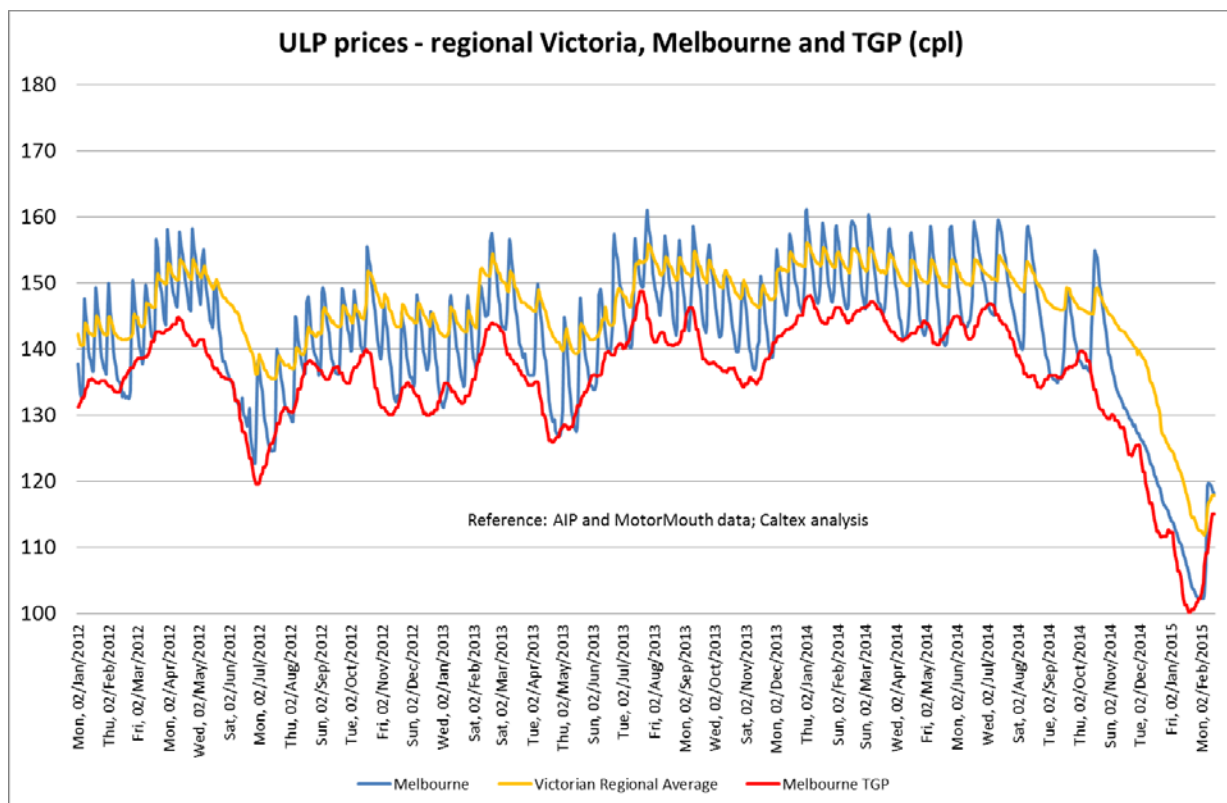
The chart shows average regional Victorian prices, not individual towns. Some towns in Victoria had larger differences from Melbourne than the average shown on the chart. For example, prices in Mildura and Swan Hill in late January 2015 were 20 cents or more greater than Melbourne, although these were not typical of regional prices.

Chart 1



The key question is why these differences occur, whether they are of concern from a competition point of view and whether consumers should be concerned that these prices are somehow unfair. The following chart shows the data underlying the price differences shown in the above chart.

Chart 2



The chart shows the average Melbourne terminal gate price for ULP (TGP is the spot wholesale price; ULP is regular grade petrol), Melbourne average retail price for ULP and average Victorian regional ULP price.

It can be seen the Melbourne price follows the TGP very closely with a lag of a few days. Melbourne price cycles are clearly visible, with the retail price at the bottom of the price cycle at about TGP. Regional prices also track TGPs closely, with a lag of one to two weeks.

Lags are most likely due to a number of factors, including: time taken to distribute fuel from seaboard terminals; time to sell fuel stock purchased at previous wholesale prices; and time to adjust retail prices in response to competition and perception of future market conditions, including perceptions of future movements in wholesale prices. Each competitor will have an individual pricing strategy.

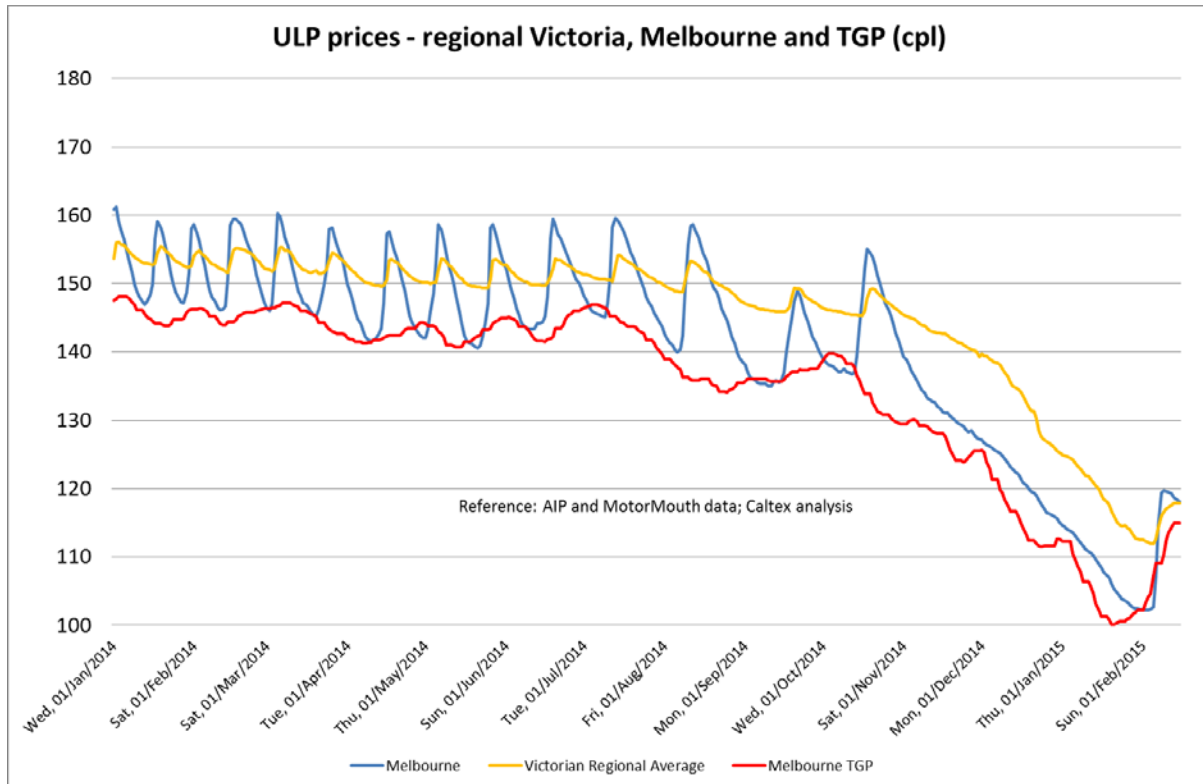
Because of lags in the response of retail prices to wholesale price changes, when TGPs fall sharply – as in mid-2012, mid-2013 and late 2014 - a gap opens up between Melbourne prices and TGP, and between regional prices and Melbourne prices. In addition, the gap can increase if Melbourne prices are in the downward phase of a price cycle.

From Chart 2, it can be seen that the volatility in Chart 1 is the result of two factors:

- The lag between regional and Melbourne prices
- The Melbourne petrol price cycle.

The following chart is the same as Chart 2 but covers a shorter period so the impact of petrol price cycles is easier to see.

Chart 3



It can be seen that the Victorian regional average price follows the TGP with a lag but the Melbourne price falls faster than TGP because of the aggressive discount cycle that is often representative of metropolitan areas with greater competition than regional areas. This increases the difference between regional and Melbourne prices. If regional and Melbourne prices are compared peak to peak, or trough to trough, it can be seen the relativity in prices is fairly constant.

Previous analysis by Caltex (not shown in this response) suggests Melbourne retail prices follow TGPs with a lag of about one week but regional prices on average follow TGPs with a lag of about 2 weeks. (This lag may vary between regional towns). The longer lag in response to TGP decreases would tend to increase the difference between regional and Melbourne prices.

It is apparent from the charts that the large difference between regional and city prices observed by Senator Muir was the result of market forces and typical of historical price movements. The difference was the result of two market factors:

- the lag between regional and Melbourne prices
- the Melbourne petrol price cycle.

2. Tasmanian prices

Publicly available price data from AIP shows that prices in Hobart and regional Tasmanian towns are fairly similar: movements in prices are highly correlated and averages over the past four years are similar. Therefore, for the purpose of addressing the question, examination of Hobart prices should also serve to provide information about regional prices in Tasmania.

The implication of Senator Lambie's question, in the context of Senator Muir's question, is that Tasmanians are paying 30 cpl more than larger capital cities, such as Melbourne. The following analysis compares Hobart (which is fairly representative of Tasmanian prices) with Melbourne, which has price data similar to other large capital cities. In addition, Tasmanians would be more familiar with Melbourne prices than other capitals as a result of travel, so using Melbourne as a point of comparison is more relevant.

Chart 4

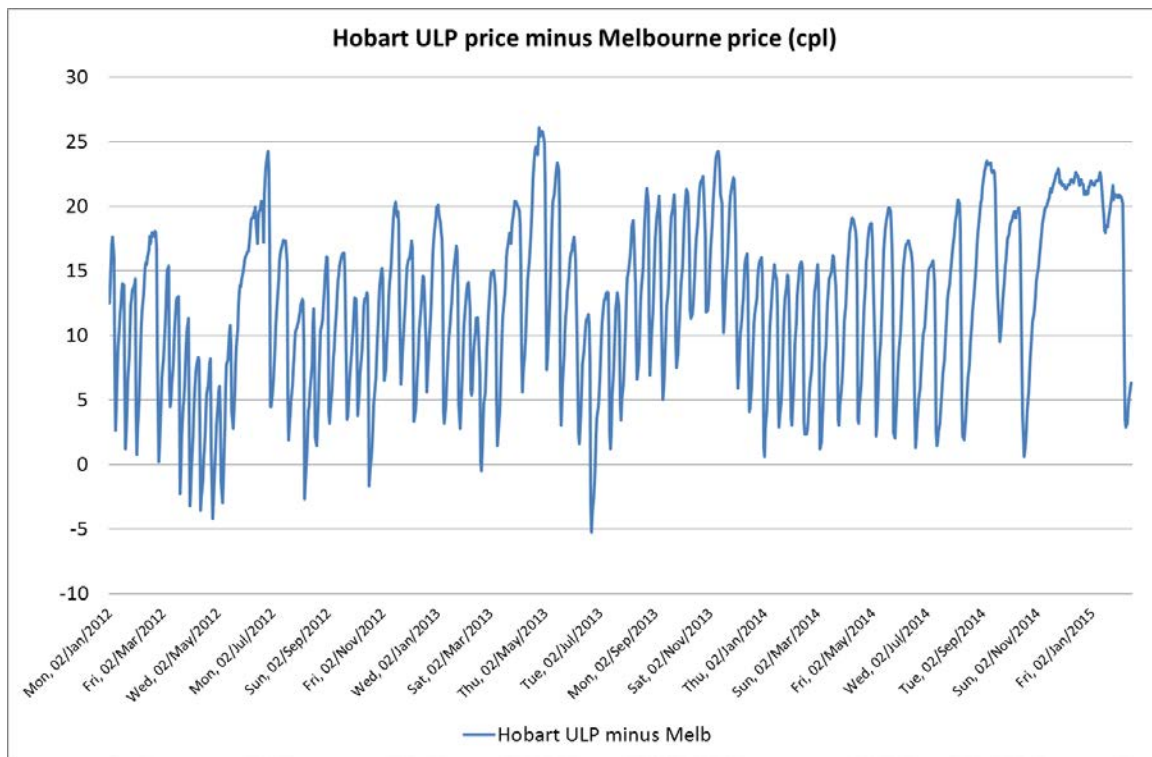


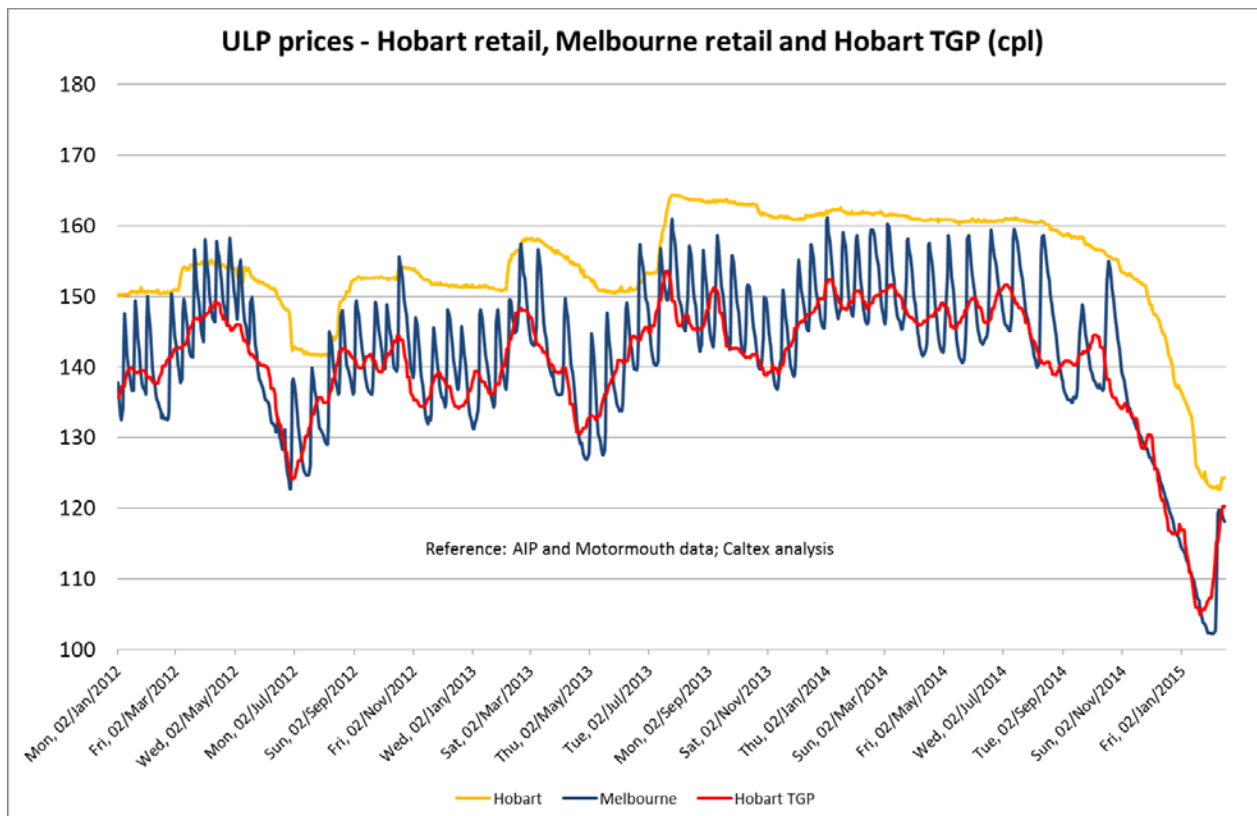
Chart 4 is very similar to Chart 1. Hobart retail prices relative to Melbourne typically vary in the range plus 20 cpl to minus 5 cpl. Some Tasmanian towns are more expensive than Hobart, and retail prices were up to about 30 cpl more than Melbourne in early February. Hobart was a maximum of 22 cpl greater than Melbourne.

The average difference in retail prices over the three year period was 12.5 cpl. The average difference in terminal gate prices was about 4 cpl; in early February 2015 the difference was about 5 cpl. It follows that of the 12.5 cpl average Hobart-Melbourne price difference, about 4 cpl was

notional wholesale margin and about 8.5 cpl was notional retail margin. (The term “notional” is used because the data is industry average and does not relate to a particular competitor.)

When Senator Lambie asked her question on 2 February, the difference between Hobart and Melbourne prices was historically high but similar differences had been experienced in the past three years. This suggests the market behaviour was not unusual. Chart 5 examines the price data underlying the differences in Chart 4.

Chart 5



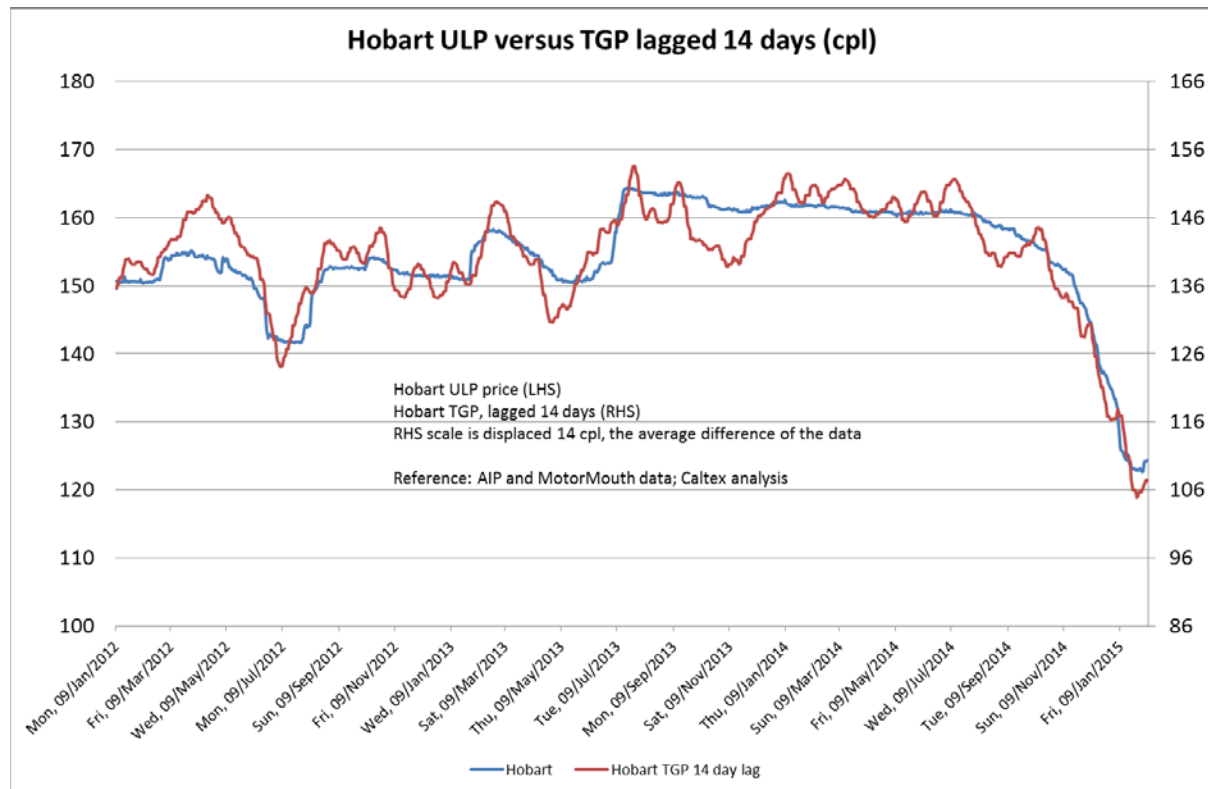
It can be seen the average Hobart ULP price follows the average Hobart TGP with a lag of about two weeks. (This is examined further in Chart 6.) This lag is similar to regional Victoria, suggesting the Hobart market has characteristics similar to larger regional towns.

Hobart prices are also similar to peaks of the Melbourne price cycle, although they tend not to follow the troughs as far downwards. However, Melbourne retail prices did not cycle between October 2014 and February 2015 because of the rapidly falling wholesale price. This increased the difference between Hobart and Melbourne prices. The last few points on the chart show Hobart prices once again similar to peak Melbourne prices, as in the past.

The difference up to 30 cpl between Tasmanian and Melbourne retail petrol prices was therefore mainly to the timing of the Melbourne price cycle and the greater lag of Hobart retail price changes to wholesale price changes. About 5 cpl of the difference was due to a higher terminal gate price than Melbourne.

The final chart shown below examines the relationship between Hobart average retail prices for ULP and average TGPs. This addresses the question of whether Hobart retail prices track wholesale prices and therefore international price movements. (There is substantial data to show a very close relationship between TGPs and international price benchmarks.)

Chart 6



In order to demonstrate the close relationship between Hobart prices and TGPs, retail prices and TGPs are shown on different scales: the TGP scale is displaced by 14 cpl (the average retail price/TGP difference over the period) so it overlies the retail data; and the TGP data is lagged 14 days. This gives a visual best fit of the two data series.

The very close relationship of the two data series shows the retail price for ULP follows the wholesale price with about a two week lag. It can also be seen that the TGP is more volatile than the retail price, so retailers don't follow the TGP exactly upwards or downwards but the variation in retail prices is less volatile. This has been observed by Caltex in studies of towns in regional Australia and is consistent with normal competitive behaviour.

3. Regional versus large capital city prices

3.1 Notional retail margins for Hobart, regional Victoria and Melbourne

The preceding discussion examines why Victorian regional and Hobart prices were much higher than average compared with Melbourne prices at the time of the 2 February 2015 committee hearing.

A further question could be why prices in these areas on average are higher than Melbourne. Hobart has similar pricing characteristics to regional towns in other parts of Australia, so the following discussion applies to both Hobart and regional areas in general.

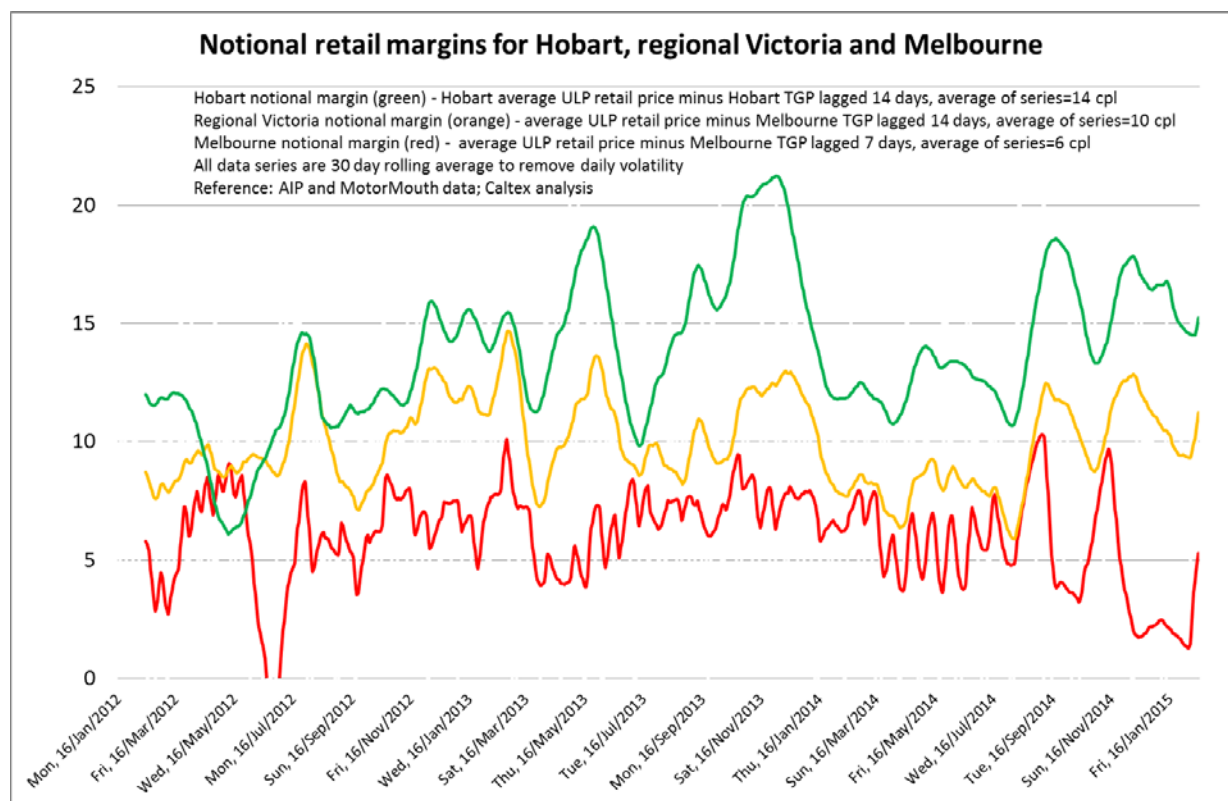
Previous charts showed average retail prices for ULP in Hobart, regional Victoria and Melbourne, and terminal gate prices for Hobart and Melbourne, and examined the relationships between these prices. Chart 7 below examines price differences between Hobart, regional Victoria and Melbourne by looking at notional retail margins over the past three years.

On average over the three years, the notional retail margin for ULP in Hobart (i.e. retail price minus TGP) was 14 cpl; regional Victoria was 10 cpl; and Melbourne was 6 cpl.

Daily margins are very volatile so the chart uses a 30 day rolling average (i.e. each data point is the average of the most recent 30 days). It can be seen that while retail margins may vary, they are fairly well correlated and do not show any trends away from the average over time.

It is therefore reasonable to say that Hobart notional retail margins are typically 8cpl more than Melbourne and 4cpl more than the average of regional Victoria, while recognising there may be considerable variability in these typical values.

Chart 7



What are the reasons for the differences in retail prices? According to the ACCC:

Petrol prices in regional locations are generally higher than in the five largest cities for a number of reasons, including:

- a lower level of local competition, often reflecting the lower number of retail sites
- lower volumes of petrol sold
- distance/location factors
- lower convenience store sales (ACCC, *Monitoring of the Australian petroleum industry December 2014*, p73).

3.2 Lower volumes of petrol sold

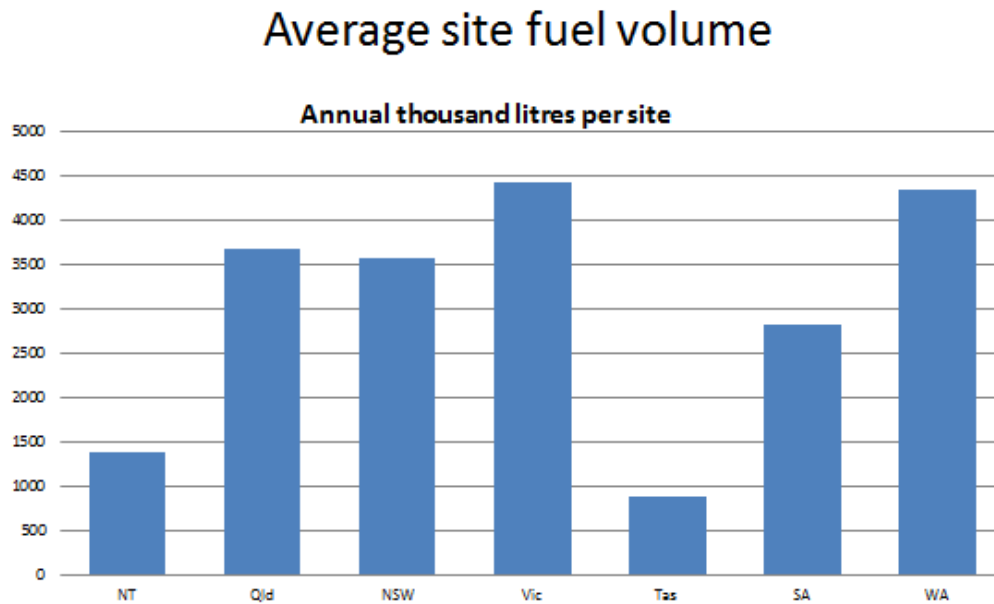
Three of these factors are fairly easy to understand: the costs of operating a service station are mostly fixed so lower fuel volumes and convenience store sales require higher prices (relative to city sites) to cover these costs and make a reasonable return on investment. As the ACCC explains:

The volume of petrol sold at any particular retail site can significantly influence the price. Generally, the greater the volume of petrol sold the lower the price. Certain costs of running a retail site (such as rent and maintenance) remain unchanged irrespective of the volume of petrol sold. However, retail sites in regional locations generally sell lower volumes of petrol than retail sites in larger cities because they have fewer customers. Retail sites with higher volume sales can spread their fixed costs over this greater volume, which reduces the unit cost of supplying their petrol compared with retail sites with lower volumes of sales (ACCC, *Monitoring of the Australian petroleum industry December 2014*. p74).

Regional service stations vary greatly in fuel volumes, from volumes similar to larger city sites to very small. These small volume sites may be sustained by relatively high retail margins or income streams from other businesses on the site. Some small country sites may see one fuel tanker (up to 40,000 litres of fuel) making a delivery every 2 to 3 weeks versus one tanker per day at some city sites. Storage and handling costs may be significant for some country areas where fuel must be stored in depots and "double handled" rather than delivered directly from coastal terminals; this adds to distribution costs which must be passed on to retailers.

The following chart shows average annual volumes of petrol sold per site in Australian states and territories.

Chart 8



3.3 Lower convenience store sales

Similarly, for convenience sales, the ACCC explains:

The margin on convenience store sales is usually significantly higher than on fuel sales. In the five largest cities convenience store sales generally make a greater contribution to the overall returns of a retail site than they do in regional locations. These retail sites can remain profitable on much lower margins on fuel sales. As a result, upward pressure is put on retail petrol prices in retail sites with lower convenience store sales, such as in regional locations (ACCC, *Monitoring of the Australian petroleum industry December 2014*, p74).

3.4 Distance/location factors

Distance (and thereby freight costs) is a factor in higher regional and rural prices but is generally not a significant factor in explaining town to town differences. Freight is typically around 1.5 to 4 cents per litre greater for country than city delivery. (Note that Chart 7 removes the impact of sea freight as it is based on TGPs but does not take account on inland freight.)

In relation to location and distance factors, the ACCC explains:

It generally costs more to deliver fuel to regional locations than it does to the largest capital cities. In regional locations, fuel needs to be moved further from the fuel terminals, leading to higher freight costs. Additional storage costs may also be necessary if the fuel is stored in a local storage facility before being supplied to retail sites. Regional locations which are situated along a major highway may have lower prices due to increased competition. This is because they may sell higher volumes due to the passing traffic on the highway, and may also have lower delivery and storage costs (ACCC, *Monitoring of the Australian petroleum industry December 2014*, p74).

3.5 A lower level of local competition

Competition in actual markets is very different from text-book models of perfect competition, in which individual competitors face the same costs and the actions of one competitor do not affect others. In most markets, costs vary between competitors and there are varying degrees of interdependence, meaning that the actions of one competitor may influence, and be influenced by, the independent decisions of other competitors. Such markets with a limited number of sellers are known as oligopolies and are well known and extensively studied in economics literature. This is well understood in Australian competition law, so that oligopolies are legal but any agreements, arrangements or understandings between competitors that substantially lessen competition are illegal.

There are often consumer complaints about high prices, very similar prices across the market, and slowness in reducing prices, which assert collusion between competitors, so understanding the oligopolistic nature of petrol markets is important. The operation of actual markets also explains why ACCC investigations of market behaviour resulting from consumer complaints fail (with extremely rare exceptions) to find any illegal conduct: the pricing behaviour that is observed is in fact competition in the real world, not collusion.

Some regional and rural prices may be “sticky” but competition is still present. The ACCC observes:

Furthermore, retail prices in some regional locations are ‘sticky’, i.e. they are less responsive—both upwards and downwards—to movements in international prices (ACCC, *Monitoring of the Australian petroleum industry December 2014*, p75).

An example of such pricing behaviour is the Hobart market, as shown in Chart 6. It can be seen that Hobart retail prices track TGP (with a two week lag) but the volatility in prices is much less. This means that notional retail margins are compressed when TGPs increase and expand when TGPs decrease. It also seems that, in general, retailers only change prices substantially when a change in TGP is also substantial. Given the historical volatility in wholesale prices, this would be rational behaviour.

Why are prices in some markets “sticky”? The ACCC offers an explanation:

In small country towns with a small number of retail sites there may be little incentive to reduce prices. This is because competitors will also quickly reduce their prices and the net result is the same volume of petrol sold at each retail site but with a lower margin (ACCC, *Monitoring of the Australian petroleum industry December 2014*, p74).

While the ACCC’s comments are in relation to “small country towns”, there is clearly a degree of stickiness in larger towns. “Stickiness” is generally not observed in the largest urban areas because some competitors can secure permanent increases in site volume by positioning themselves as “price discounters” or “budget sites”. Sufficient numbers of city motorists are willing to reward this pricing strategy by shifting their purchases from site to site. Such a discount strategy is more likely to succeed where there are high traffic flows, hence large potential markets, and a discount competitor’s action has relatively less impact on other competitors’ volumes. Where such a strategy

has a significant volume impact on competitors—as would be the case in most country towns due to the small number of sites—those competitors are more likely to react quickly to cut prices and avoid the potential loss of volume.

The lack of “stickiness” in large urban areas tends to increase city-country price differences when there are large falls in wholesale prices, and decrease the differences when prices increase.

So what leads eventually to price decreases in “sticky” markets? There is no information publicly available on this matter other than what can be observed from price boards, which is not surprising given the confidential nature of such key business decisions and the legal sanctions against the exchange of pricing information between competitors.

However, one can speculate on business and reputational reasons: some competitors may wish to remain being seen as “discounters” or generally under the typical market price; other competitors may wish to maintain a brand image as charging fair prices; others may see a competitive opportunity to drive an increase in market share; and others may continue to apply simple price mark-up rules but need to be convinced that a wholesale price change is unlikely to be reversed in the short term.

Senate inquiry into Australia's transport energy resilience and sustainability

Caltex Australia Limited response to questions on notice from 2 February 2015 hearing

Question on notice - political donations

Senator LAMBIE: And could you guys please tell me how much money over the last 10 years you have given to political donations in Australia? Do you think I could have a cut-down of that, from all of you—over the last 10 years, how much you have given in political donations, and to each party? That would be great.

...

Senator LAMBIE: I would like to put on notice the question on political donations as well. I would like to make that quite clear.

...

Senator LAMBIE: On political donations, when I asked if you had given political donations in the past 10 years, you did not say no, did you?

Mr Warrell: No.

CHAIR: As we all know, that is readily obtainable on the AEC website, but there you go.

Caltex response

Caltex makes payments to political parties that are required to be disclosed as donations under Commonwealth and state laws.

These donations are mostly for: business observer programs at political conferences; business liaison programs involving regular or ad hoc meetings; and political lunches, dinners or similar events. Caltex does not make political contributions that are unrelated to some kind of event.

The following summary is derived from public disclosure documentation covering the period from 2003-04 to 2013-14.

Liberals - Federal	\$22,000
Liberals - NSW	\$21,334
Nationals - Federal	\$15,188
Nationals - NSW	\$48,147
LNP	\$71,562
ALP	\$42,660

Senate inquiry into Australia's transport energy resilience and sustainability

Caltex Australia Limited response to questions on notice from 2 February 2015 hearing

Question: taxation arrangements and corporate structure

Senator LAMBIE: And the other thing is: how much more profit do the fuel companies make by refining fuel overseas rather than refining it here? What I am trying to get to is: by refining the fuels here, do you pay more tax in this country than what you would if you were doing it elsewhere, in another country? That is what I am asking you.

...

Senator HEFFERNAN: I would just like to know the major oil companies' structural corporate arrangements and their tax arrangements.

CHAIR: Mr Brewer, did you want to clarify something?

Mr Brewer: There was a question about operations in Australia and outside. Caltex Australia is a publicly listed company in Australia. We do not operate any manufacturing facilities outside of Australia.

CHAIR: So yours is all in Australia?

Mr Brewer: No manufacturing facilities outside Australia.

Senator HEFFERNAN: No corporate structures outside Australia?

Mr Brewer: That was an answer to a question from Senator Lambie earlier on.

Caltex response

As an Australian company listed on the ASX, Caltex's financial statements and other published material provide extensive information on the company's taxation arrangements and corporate structure. These can be found on the ASX website and at www.caltex.com.au.

Caltex would be pleased to answer any specific questions on the company's taxation arrangements and corporate structure.

**SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT
REFERENCES COMMITTEE**

Inquiry into Australia's transport energy resilience and sustainability

Public Hearing

Monday, 2 February 2015

Sydney, NSW

Response to Questions Taken on Notice – Mobil Oil Australia

1. HANSARD, PG 24 – 25 (directed to AIP but for Mobil response)

Senator HEFFERNAN: Can you give us the details of your protocols?

AIP RESPONSE:

The Australian Institute of Petroleum is an industry association representing its member companies who supply petroleum fuels to the Australian market. This question was taken on notice by Mr Andrew Warrell in his capacity as a Director of ExxonMobil Pty Ltd and Mr Warrell will respond to the Committee in that capacity and in relation to his company's "quality control and testing protocols" to ensure the quality and integrity of fuel supply to their customers.

ExxonMobil is committed to providing high quality, fit-for-purpose fuel to its customers, and robust certification and testing procedures are in place throughout the supply chain to guarantee the quality of fuel at the point of sale (in our case, as we do not have a retail network, this is generally at the Terminal gate).

Fuel is certified at the origin manufacturing point (chiefly refineries although there are some fuel blenders that also become primary certification point) – including international refineries and fuel blenders for imported fuel.

- Refinery certification consists of a specific number of test properties performed on every batch of fuel to verify compliance with the required specification. There is also a subset of test properties that are tested on a specified frequency where the consistency of the refining operation assures that the results of these properties will be compliant with a very high degree of confidence.
- Certification for fuel batches from all fuel blenders and/or imports of fuel batches from new refiners with whom we have little experience will typically have all specified properties tested by batch to assure the same level of confidence as that of our own refineries certification

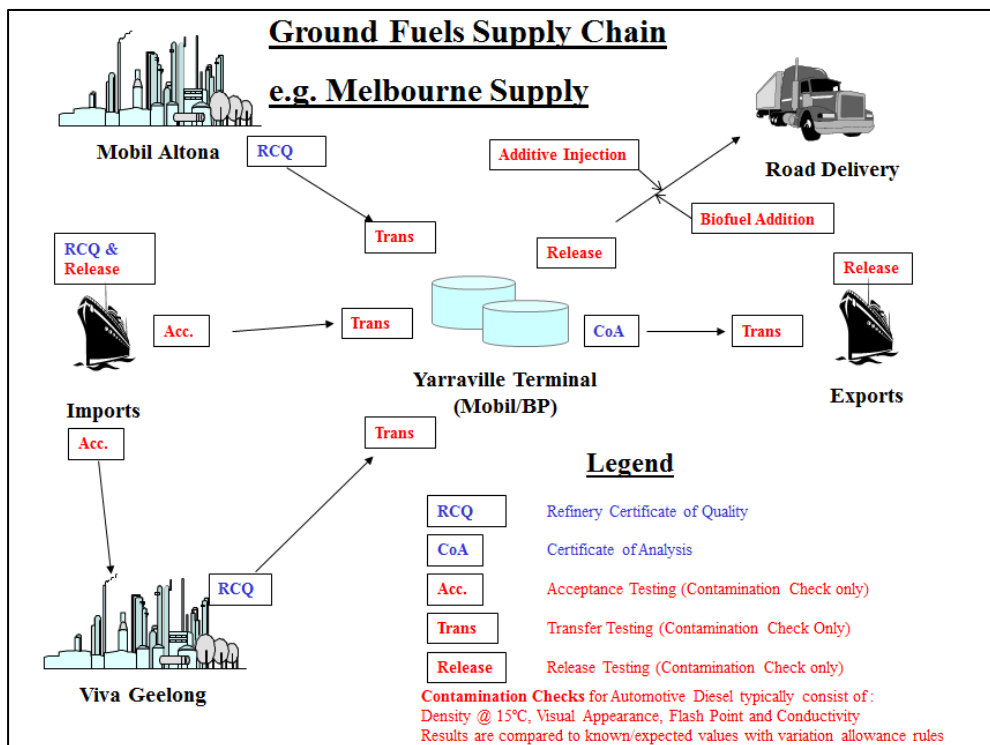
Downstream of the primary certification, further testing is carried out to identify any possible contamination. This testing is performed at multiple points along the supply chain such as entry and exit from pipelines, loading and discharge of marine vessels, in intermediate storage tanks in terminals, and where necessary at the truck loading rack. For example Petrol is tested for Visual Appearance, Visual Colour, Density and Distillation, Automotive Diesel is tested for Visual Appearance, ASTM Colour, Flash Point and Conductivity.

- These contamination check tests work in conjunction with controlled procedures aimed at preventing contamination between products. Confirming a lack of

contamination assures the continued compliance of the fuel as commingled in intermediate storage through to the load rack and into the bulk customer's tanker barrel.

- If the contamination testing (or identified atypical operation / suspicion of contamination) does occur, procedures in place at terminals trigger response with additional testing requirements ranging from focused testing targeted towards the suspected issue through to full recertification where there is a need to re-establish the compliance with the specification.

Once the fuel leaves the terminal, (e.g. truck delivery to retail service stations and then on to the end consumer) there is no formal product testing/sampling, but instead the process relies upon strict adherence to procedures and the verification of volumes received. Service stations also regularly test for water bottoms in underground storage tanks to prevent against water contamination of fuels in storage. Once fuel is in storage tanks at the service station, proper management procedures are essential to continue to guarantee product quality –and this is the responsibility of the station operator.



2. HANSARD, PG 33

Senator LAMBIE: And why are we paying 30c more in Tasmania? You are killing us down there. So, I would like to know too, and I am sure Tasmanians would.

Mr Warrell: These are four competitors sitting around the table. I will not—and neither will anyone else sitting here—get into any price-specific discussion in a location. We are not going to do anything that could be construed as price signalling.

Senator LAMBIE: Do you know what? That is a cop-out.

Mr Warrell: No, it is not; I am sorry, Senator—

Senator LAMBIE: Answer your own question then. For every company you represent that puts fuel down to Tasmania, maybe you could give me that answer. That would be great. Why is it costing us 30c more?

Mr Warrell: You can come to us separately and ask that question. It is inappropriate for you to ask that question when we have four competitors sitting here. If you want to put that question on notice, we can respond to you individually, but we will not be responding while we are all sitting here.

Senator LAMBIE: I will put it on notice and we will see.

As you will appreciate costs and cost structures and pricing and pricing strategies are competitively and commercially sensitive for each fuel company, therefore were unable to comment on any specific cost or price question at the Hearing, in the presence of other fuel companies. As the Committee will be aware, the ACCC strictly enforces Competition Law provisions on the sharing of information between competitors in a market.

Mobil's primary business activities are the refining, distribution and wholesaling of fuel products. Mobil Oil Australia does not own or operate retail service stations in Australia. We do not currently supply motor fuels to the Tasmanian market (at either retail or wholesale levels), and therefore we are not in a position to comment on fuel prices in Tasmania.

As a general comment, the wholesale market for fuel in Australia is open and competitive, delivering value to Australian customers including those in regional areas - that is, a competitively priced, reliable supply of high quality fuel. As noted by the ACCC in their 2013 Annual Monitoring Report.

"With imports providing the marginal source of supply, prices in Australia are set with reference to import parity. As such, Australian refiners (and suppliers) have little scope to pass on costs that are out of line with international best practice. The emergence of more efficient and low-cost refineries in Asia able to produce Australian standard fuel potentially available to independent importers, limits domestic refineries' discretion over prices they charge to wholesalers."

3. HANSARD, PG 34

Senator LAMBIE: I would like to put on notice the question on political donations as well. I would like to make that quite clear.

In accordance with our longstanding Corporate policy, Mobil does not make political donations in Australia. To be absolutely clear, there have been no political donations, to any party, by ExxonMobil affiliates in Australia, nor is there any intention to make any donations in the future.

4. HANSARD, PG 36

Senator HEFFERNAN: We will see. Next question: could you individually provide me with your corporate structure, your financing structure and financing capitalisation arrangements, because I am actually researching you for tax purposes.

Financial Statements

A copy of our Statutory Accounts are attached for your reference. These are lodged with ASIC in accordance with regulation. The 2014 accounts will be available in April and we would be happy to provide a copy to the Committee upon request.

As a major supplier of energy with significant Australian operations, ExxonMobil is a net investor in Australia and makes a major ongoing contribution to the economy. The accounts should be read in the context of current and ongoing capital investments in our Australian operations. Although we have paid over \$6.4 billion in tax (income tax and PRRT) over the past 10 years, significant capital investments in recent years have negatively impacted on our financial results. Capital expenditure includes -

- Our share of the \$54B Gorgon LNG project in W.A. - Australia's biggest LNG project (EM has a 25% interest)
- EM share of investments in Bass Strait gas production – for example, KTT \$4.5B (50%), Gas Conditioning Plant \$1B (50%)
- \$300 million invested in the Downstream business over the past 5 years for safety, reliability and efficiency improvements supporting fuel supply in Victoria.

Corporate Structure

A chart showing the corporate structure for ExxonMobil Australia Pty Ltd is provided as an attachment.

Comments re Financing

Financing for ExxonMobil Australia's significant capital investment program has been provided by a combination of re-investment of profits from its ongoing operations and loans from ExxonMobil finance companies. The total of the loans is set out in Note 13 to the accounts. Financing and tax arrangements for ExxonMobil and related companies in Australia are fully compliant with all Australian laws and regulations.

5. HANSARD, PG 32

Senator LAMBIE: I was just wondering whether you would be able to supply to the committee the risk assessment and the management plan that you have in place for cyber warfare and a terrorist attack on your refineries in Australia. That is the first thing. Are you able to do that? I am assuming that you have a management plan for both cyber warfare and a terrorist attack on your refineries.

Mr Warrell: We absolutely have those plans. What I do not know is whether or not we are able to share them with you. Every refinery business has been tested. I will just have to take it on notice and go back and see whether or not we are allowed to share that.

Senator LAMBIE: If you cannot give me the full content of that, you can give me a brief.

Senator HEFFERNAN: Through you, Chair: I think we would be happy to receive an answer in camera if necessary.

Security of our facilities and the safety of our people are an absolute core value of ExxonMobil's, and we make a major investment in both time and money to keep our people

and facilities safe. ExxonMobil has a detailed security program that is applied to all facilities and operations worldwide. It is a robust and graduated system that addresses security in a threat/consequence approach and includes ongoing security risk assessments. Each facility is required to implement countermeasures based on the risk assessed exposure to a number of security threats. Periodic reviews are conducted at all facilities to ensure that plans are contemporary and to identify gaps with regard to non-compliance and new threat and risk. Annual country threat levels are reviewed and prepared in addition to any immediate response to an emerging threat or actual event to the wider environment to proactively manage security risk. These programs address all security risks from low level criminality, information loss, cyber security, personnel security and terrorism.

The Altona Refinery is designated at both a State and Commonwealth level as “critical infrastructure”. Our security plans and internal processes cover all guidance that is found in the relevant reference document, “National Guidelines for Protecting Critical Infrastructure from Terrorism” (produced by the National Counter Terrorism Committee). In addition, under Commonwealth legislation, we prepare and submit a security plan for our oil import facilities at Gellibrand Pier in Victoria (the relevant legislation is the Maritime Transport and Offshore Facilities Security Act (MTOFSA) and relevant Regulations, administered by the Dept. of Infrastructure – Office of Transport Security) which has been based on the International Maritime Organisations ISPS code.

International Shipping is also governed by the International Maritime Organisation under ISPS Code (the ISPS code covers shipping and wharves). We don’t own or operate the vessels so those specific requirements don’t apply strictly to us. Nonetheless we ensure our contractors meet all ExxonMobil Security requirements and International standards. Equally, shipping is risk assessed and plans are made to increase security and reduce security risk for journeys considered high risk.

As the Committee will appreciate, our Security plans are highly sensitive and proprietary and are restricted in distribution to those with a direct role in security risk management. To share those plans more broadly would create a significant security risk in itself. However we would be happy to have an in-camera meeting to discuss the information we have provided here if the Committee has further questions.

It is worth noting that the National Threat Assessment Centre – NTAC - has not communicated a threat assessment to ExxonMobil indicating that there is an increased threat to the oil and gas sector, in fact the opposite. In areas of threat from terrorism for the oil and gas sector some of the levels have decreased in recent years. The higher threat has been identified for public places, police and military and passenger transport – be it maritime, aviation and land surface mass transport.

ExxonMobil Australia Pty Ltd

ABN 48 091 561 198

Annual Report

For the Year Ended 31 December, 2013

ExxonMobil Australia Pty Ltd
ABN 48 091 561 198

Contents

For the Year Ended 31 December, 2013

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These financial statements are the consolidated financial statements of the consolidated entity consisting of ExxonMobil Australia Pty Ltd and its subsidiaries. The financial statements are presented in the Australian currency.

The financial statements were authorised for issue by the directors on 16 April 2014. The directors have the power to amend and reissue the financial statements.

ExxonMobil Australia Pty Ltd

Directors' Report

31 December, 2013

Your directors present their report on the consolidated entity consisting of ExxonMobil Australia Pty Ltd ("the company" or "the parent entity") and the entities it controlled at the end of, or during, the year ended 31 December 2013.

Directors

The following persons were directors of ExxonMobil Australia Pty Ltd during the whole of the financial year and up to the date of this report:

J.R. Dashwood was a director from the beginning of the financial year until his resignation on 15 June 2013.

R.J. Owen was appointed a director on 15 June 2013 and continues in office at the date of this report

K.A. Lanigan

C.D. Hardgrove

A.T. Warrell

Principal activities

The principal activities of the consolidated entity during the financial year were oil and gas exploration, development and production and refining, marketing, supply and distribution of petroleum products.

Dividends - ExxonMobil Australia Pty Ltd

The directors have determined that no dividends will be payable in 2013 (2012: Nil).

Review of operations

For the year ended 31 December 2013, the operating result for the consolidated entity was an operating profit after tax of \$553 million (2012: \$454 million).

Revenue from continuing operations for 2013 was \$10,203 million (2012: \$8,683 million).

Significant changes in state of affairs

Gorgon Liquefied Natural Gas Project

Project construction and development drilling activity for the co-venturer operated Gorgon liquefied natural gas (LNG) project progressed in 2013. The project consists of a subsea infrastructure for offshore production and transportation of the gas, and a 15.6 million tonnes per year LNG facility and a 280 million cubic feet per day domestic gas plant located on Barrow Island, Western Australia (project participants: ExxonMobil 25%, Shell 25%, Osaka Gas 1.25%, Tokyo Gas 1%, Chubu Electric 0.417% and Chevron 47.333% (Operator)).

Kipper Tuna Turrum Project

First gas was achieved on 4 July 2013, first oil was achieved on 14 October 2013. The offshore commissioning phase was completed on 31 January 2014. Handover of punchlist/minor scope planned through 1Q2014, with the project team focused on efficient close-out and demobilization. [Project participants: Kipper – ExxonMobil 32.5% and Operator, BHP Billiton 32.5%, Santos 35%; Tuna and Turrum – ExxonMobil 50% (Operator), BHP Billiton 50%].

Directors' Report

31 December, 2013

Significant changes in state of affairs (continued)

Longford Gas Conditioning Project

The Project was fully funded in December 2012. Engineering and Procurement activities are well underway and Longford site construction commenced in December 2013. The Longford Gas Conditioning Plant (GCP) will enable gas processing through existing Longford Gas Plants from higher CO₂ resources developed by the Kipper Tuna Turrum Project. The GCP is expected to be online in 2016 for production volumes of up to 400MCFD of wet gas. [Project participants: Exxon Mobil 50% (Operator), BHP Billiton 50%].

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 31 December 2013 that has significantly affected, or may significantly affect:

- a) the consolidated entity's operations in future financial years, or
- b) the results of those operations in future financial years, or
- c) the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation

The consolidated entity is subject to significant environmental regulations in the various countries in which it operates including Australia, under Commonwealth and state legislation in respect of its principal activities as set out below.

Environmental management components of ExxonMobil's Operations Integrity Management System (OIMS) are consistent with the intent and requirement of the ISO 14001 Environmental Management System Standard.

Petroleum Exploration & Production

The legal entities which conduct the petroleum exploration & production activities of the consolidated entity hold relevant licences issued by various government and environmental agencies in the countries in which they operate. These licences deal with matters such as authorised emission levels and waste disposal, storage, transport and handling of dangerous goods.

In 2013, the Victorian Environment Protection Authority (EPA) was satisfied that Esso Australia had complied with a pollution abatement notice relating to an odour-causing incident at Longford in late 2012.

In discussion with the EPA, Esso Australia is continuing to close actions associated with recommendations from an environmental audit completed at Barry Beach Marine Terminal (BBMT) in 2010. Esso Australia has also been engaging with an adjacent land owner on management of historic contamination on their occupied land.

Those sites which are subject to environmental licences submit Annual Performance Statements to the EPA which report any non-compliances with the site operating licences. Longford, Long Island Point and BBMT's 2012-2013 Annual Performance Statements demonstrate that we have complied with all discharge limits but report other non-compliances.

Following the establishment of a new environmental regulator, the National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA), Esso Australia was asked to update existing environmental plans for approval. The West Tuna Environmental Plan is being assessed by NOPSEMA, with a further nine environmental plans to be progressively submitted in 2014-15.

ExxonMobil Australia Pty Ltd

Directors' Report

31 December, 2013

Environmental regulation (continued)

During 2013, Esso Australia completed activities associated with the Kipper Tuna Turrum project which allowed the associated Environmental Plan to be closed. Esso Australia was also granted an EPA Works Approval for the construction of the Longford Gas Conditioning Plant. Application for a Works Approval relating to the handling of mercury in Kipper gas streams was submitted in 2013 and is currently being assessed by the EPA.

Petroleum Refining, Marketing, Supply and Distribution

The legal entities, which comprise the petroleum refining and marketing activities of the consolidated entity, hold relevant licences issued by various governmental and environmental agencies in the countries in which they operate. These licences deal with matters such as authorised emission levels and waste disposal at refineries and terminals and the storage, transport and handling of dangerous goods.

In October 2011, the EPA issued Altona Refinery a clean-up notice requiring it to engage an auditor to assess the extent of actual or potential environmental harm and recommend measures to reduce risks to beneficial receptors to acceptable levels with the auditor's report due to the EPA in October 2014 and the refinery's clean-up plan being due four months later. The notice was amended during 2012 to clarify the expectations of the auditor's report.

A clean up notice issued to the Altona Refinery in 2007 in relation to a pipeline release in the Champion Road area of Williamstown continues to be in place with all obligations being met. In 2012, a second notice was issued in relation to the operation of the remediation system, the obligations of which are also being complied with.

A clean up notice was issued to Altona Refinery by EPA Victoria in 2013 in relation to a pipeline release in the Churchill Street area of Altona North. All requirements of this notice have been met and the notice has been revoked.

The entities are subject to a number of other existing clean up notices which are being appropriately managed relating principally to former service station sites, the Spotswood and Yarraville fuels terminals, and a former hot mix asphalt site.

All conditions relating to the Pollution Abatement Notice issued to the Yarraville Terminal by EPA Victoria in 2012 requiring that it divert all effluent water to the trade waste sewer by 30 June 2013 have been complied with and the notice has been revoked.

Those sites which are subject to environmental licences submit Annual Performance Statements to the state environmental authorities which report any non-compliances with the site operating licences. Altona Refinery's 2012-2013 Annual Performance Statement (APS) reports that the refinery had a number of non-compliances. The APS also advises that the refinery is engaged in ongoing negotiations with the EPA to approve a Noise Environmental Improvement Plan. The Gellibrand Pier APS reported a discharge of waste non-compliance.

Rounding of amounts

The consolidated entity is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest million dollars.

Indemnification of officers

To the extent permitted by law, the company may indemnify any person who is or has been a director or officer of the company or a related body corporate against expenses incurred defending any proceeding to which they are a party by virtue of being or having been a director or officer of the company or a related body corporate, except if the director or officer is found liable for negligence or misconduct in the performance of duty.

ExxonMobil Australia Pty Ltd

Directors' Report

31 December, 2013

Proceedings on behalf of consolidated entity

No person has applied to the Court under section 237 of the *Corporations Act 2001*(Cth) for leave to bring proceedings on behalf of the consolidated entity, or to intervene in any proceedings to which the consolidated entity is a party, for the purpose of taking responsibility on behalf of the consolidated entity for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the consolidated entity with leave of the Court under section 237 of the *Corporations Act 2001*(Cth).

Corporate Separateness

For convenience and simplicity, in this report the terms *ExxonMobil*, *Exxon*, *Esso* and *Mobil*, as well as terms like *Corporation*, *Company*, *our*, *we* and *its*, are sometimes used as abbreviated references to specific affiliates or groups of affiliates. The precise meaning depends on the context in question.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001*(Cth) is set out on Page 5.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001* (Cth).

This report is made in accordance with a resolution of directors:

Director:
R.J. Owen

Director:
C.D. Hardgrove

16 April 2014

Melbourne



Auditor's Independence Declaration

As lead auditor for the audit of ExxonMobil Australia Pty Ltd for the year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of ExxonMobil Australia Pty Ltd and the entities it controlled during the period.

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
16 April 2014

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ExxonMobil Australia Pty Ltd

Statement of Profit or Loss and Other Comprehensive Income
For the Year Ended 31 December, 2013

	Note	Consolidated	
		2013	2012
		M	M
		\$	\$
Revenue from continuing operations	3	10,203	8,683
Other income	3	38	4
Changes in inventories of finished goods		140	(35)
Raw materials and consumables used		(6,097)	(4,577)
Employee benefits expense		(478)	(511)
Depreciation and amortisation expense		(535)	(486)
Government and other royalties		(41)	(40)
Customs Duty		(1,359)	(1,293)
Other expenses		(818)	(548)
Finance costs	4	(135)	(225)
Foreign exchange gains/(losses)	4	(341)	69
Share of net profits of equity-accounted associates and joint ventures		1	(6)
Profit before income tax		578	1,035
Income Tax (expense) / credit	5	259	(111)
Petroleum resource rent tax	5	(284)	(470)
Total taxes		(25)	(581)
Profit from continuing operations		553	454
Other comprehensive income			
Exchange differences on translation of foreign operations	19	169	(79)
Pension remeasurement effects recognised in Other Comprehensive Income		139	(70)
Other comprehensive income for the year, net of tax		308	(149)
Total comprehensive income for the year		861	305
Profit attributable to:			
Members of the parent entity		553	454
Total comprehensive income attributable to:			
Members of the parent entity		861	305

The accompanying notes form part of these financial statements.

ExxonMobil Australia Pty Ltd

Statement of Financial Position

31 December, 2013

	Note	Consolidated	
		2013	2012
		M	M
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	141	135
Trade and other receivables	7	1,122	984
Inventories	8	971	826
Current tax receivable	16	52	-
Non-current assets held for sale	9	5	9
TOTAL CURRENT ASSETS		2,291	1,954
NON-CURRENT ASSETS			
Trade and other receivables	7	835	806
Investments in associates	25	21	-
Property, plant and equipment	10	19,252	15,492
Deferred tax assets	16	641	605
Intangible assets	11	636	636
TOTAL NON-CURRENT ASSETS		21,385	17,539
TOTAL ASSETS		23,676	19,493
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	12	1,711	1,667
Interest bearing liabilities	13	7	1,299
Current tax liabilities	16	110	34
Provisions	14	150	164
Other liabilities	15	870	828
TOTAL CURRENT LIABILITIES		2,848	3,992
NON-CURRENT LIABILITIES			
Interest bearing liabilities	13	13,211	8,467
Deferred tax liabilities	16	3,089	3,354
Provisions	14	1,373	1,248
Retirement Benefit Obligations	17	362	511
TOTAL NON-CURRENT LIABILITIES		18,035	13,580
TOTAL LIABILITIES		20,883	17,572
NET ASSETS		2,793	1,921
EQUITY			
Issued capital	18	3,835	3,835
Foreign Currency Translation Reserves	19(a)	(182)	(351)
Retained earnings	19(b)	(926)	(1,618)
Total equity attributable to equity holders of the Company		2,727	1,866
Non-controlling interest		66	55
TOTAL EQUITY		2,793	1,921

The accompanying notes form part of these financial statements.

ExxonMobil Australia Pty Ltd

Statement of Changes in Equity

For the Year Ended 31 December, 2013

2012

Attributable to owners of ExxonMobil Australia Pty Ltd

	Contributed equity	Reserves	Retained Earnings	Non- controlling Interests	Total
	M	M	M	M	M
	\$	\$	\$	\$	\$
Balance at 1 January 2012	3,835	(272)	(2,002)	44	1,605
Total comprehensive income for the year	-	(79)	384	-	305
Transactions with owners in their capacity as owners					
Contribution of equity, net of transaction costs	-	-	-	11	11
Balance at 31 December 2012	3,835	(351)	(1,618)	55	1,921

2013

Consolidated

	Contributed equity	Reserves	Retained Earnings	Non- controlling Interests	Total
	M	M	M	M	M
	\$	\$	\$	\$	\$
Balance at 1 January 2013	3,835	(351)	(1,618)	55	1,921
Total comprehensive income for the year	-	169	692	-	861
Transactions with owners in their capacity as owners					
Contribution of equity, net of transaction costs	-	-	-	11	11
Balance at 31 December 2013	3,835	(182)	(926)	66	2,793

The accompanying notes form part of these financial statements.

ExxonMobil Australia Pty Ltd

Statement of Cash Flows

For the Year Ended 31 December, 2013

	Consolidated	
	2013	2012
	M	M
Note	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers (inclusive of goods and services tax)	12,471	10,323
Payments to suppliers and employees (inclusive of goods and services tax)	(11,080)	(8,472)
Interest received	28	64
Borrowing costs	(583)	(231)
Taxes paid	(338)	(492)
Other revenue	78	79
Net cash provided by (used in) operating activities	<u>576</u>	<u>1,271</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of non-current assets	23	7
Proceeds from sale of investments	2	-
Purchase of property, plant and equipment	(3,724)	(4,400)
Net cash used by investing activities	<u>(3,699)</u>	<u>(4,393)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issue of shares	11	11
Net receipts (payments) from related party financing	3,118	3,118
Net cash used by financing activities	<u>3,129</u>	<u>3,129</u>
Net increase (decrease) in cash and cash equivalents held	6	7
Cash and cash equivalents at beginning of year	135	128
Cash and cash equivalents at end of financial year	<u>6</u> <u>141</u>	<u>135</u>

The accompanying notes form part of these financial statements.

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Notes to the Financial Statements

For the Year Ended 31 December, 2013

1 Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of ExxonMobil Australia Pty Ltd and its subsidiaries.

(a) Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards - Reduced Disclosure Requirements, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001* (Cth).

The financial statements have been prepared on the going concern basis, notwithstanding that there is a deficiency in net current assets at balance date. The directors believe that this is appropriate on the basis that the company has long term financing arrangements in place.

Compliance with Australian Accounting Standards – Reduced Disclosure Requirements

The consolidated financial statements of the ExxonMobil Australia Pty Ltd Group comply with Australian Accounting Standards - Reduced Disclosure Requirements as issued by the Australian Accounting Standards Board (AASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by financial assets and liabilities at fair value through profit or loss.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2 .

Change in accounting policies

The accounting policies adopted are consistent with those of the previous year, unless otherwise stated. Where necessary comparative amounts have been represented or reclassified to ensure compatibility with the current year.

The following new standards, amendments and interpretations are mandatory for the first time for the financial year beginning 1 January 2013, but did not have a significant impact on the entity:

- AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, AASB 128 Investments in Associates and Joint Ventures, AASB 127 Separate Financial Statements and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards
- AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and other Amendments which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current period
- AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

Notes to the Financial Statements

For the Year Ended 31 December, 2013

1 Summary of Significant Accounting Policies (continued)

(a) Basis of Preparation (continued)

Change in accounting policies (continued)

- AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle, and
- AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities

The adoption of AASB 119 Employee Benefits (September 2011) resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The impact of these adjustments are disclosed in Note 1 (ab).

(b) Principles of Consolidation

(i) *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of ExxonMobil Australia Pty Ltd ("company" or "parent entity") as at 31 December 2013 and the results of all subsidiaries for the year then ended. ExxonMobil Australia Pty Ltd and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the consolidated entity controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the consolidated entity (refer to note 1(e)).

Intercompany transactions, balances and unrealised gains on transactions between consolidated entity companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of comprehensive income and statement of financial position respectively.

(ii) *Associates*

Associates are all entities over which the consolidated entity has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The consolidated entity's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. (Refer to note 25).

Notes to the Financial Statements

For the Year Ended 31 December, 2013

1 Summary of Significant Accounting Policies (continued)

(b) Principles of Consolidation (continued)

(ii) Associates (continued)

The consolidated entity's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the consolidated entity's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the consolidated entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the consolidated entity and its associates are eliminated to the extent of the consolidated entity's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

(iii) Joint arrangements

Joint operations

The share in the assets, liabilities and expenses of joint venture operations have been incorporated in the financial statements.

Joint ventures

The interest in a joint venture partnership is accounted for using the equity method after initially being recognised at cost. Under the equity method, the share of the profits or losses of the partnership is recognised in the statement of comprehensive income, and the share of movements in reserves is recognised in reserves in the statement of financial position.

Notes to the Financial Statements

For the Year Ended 31 December, 2013

1 Summary of Significant Accounting Policies (continued)

(c) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Petroleum Resource Rent Tax (PRRT)

PRRT is considered, for accounting purposes, to be a tax based on income. Accordingly, current and deferred PRRT expense is measured and disclosed on the same basis as income tax which is described above.

Tax consolidation legislation

ExxonMobil Australia Pty Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, ExxonMobil Australia Pty Ltd, as the head entity in the tax consolidated group, recognises current tax amounts relating to transactions, events and balances of the wholly-owned Australian controlled entities in this group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under an accounting tax sharing agreement with the tax consolidated entities are recognised separately as tax-related amounts receivable or payable. Expenses and revenues arising under the tax funding agreement are recognised as a component of income tax expense (revenue).

(d) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the consolidated entity's operations are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The financial statements are presented in Australian dollars, which is the consolidated entity's functional and presentation currency.

Notes to the Financial Statements

For the Year Ended 31 December, 2013

1 Summary of Significant Accounting Policies (continued)

(d) Foreign currency translation (continued)

(ii) Transaction and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

(iii) Group companies

The results and financial position of all consolidated entities in the Group (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(e) Acquisition of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, fair market value of assets acquired is used for the valuation.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the consolidated entity's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(o)). If the cost of acquisition is less than the consolidated entity's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

Notes to the Financial Statements

For the Year Ended 31 December, 2013

1 Summary of Significant Accounting Policies (continued)

(f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and goods and services tax. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods

Sales revenue represents the sale of the consolidated entity's products and services and is recognised when control of the goods has passed to the buyer.

(ii) Interest

Control of a right to receive consideration for the provision of, or investment in, assets has been attained.

(iii) Dividends

Control of a right to receive consideration for the investment in assets is attained, usually evidenced by approval of the dividend at a meeting of shareholders.

(iv) Lease income

Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

(g) Trade receivables

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less allowance for impairment. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written-off against the allowance account. An allowance account for trade receivable is established where there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of receivables.

Receivables from related parties are recognised and carried at the nominal amount due less allowance for receivables. Interest is taken up as income on an accrual basis.

(h) Inventories

Crude oil, natural gas, petroleum and chemical products are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost is determined under the first in first out method. Inventories of materials and supplies are stated at the lower of average invoiced cost and net realisable value.

Notes to the Financial Statements

For the Year Ended 31 December, 2013

1 Summary of Significant Accounting Policies (continued)

(i) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(j) Investments and other financial assets

The consolidated entity classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. The policy of management is to designate a financial asset if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the statement of financial position date.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the consolidated entity provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the statement of financial position date which are classified as non-current assets. Loans and receivables are included in receivables in the statement of financial position (note 7).

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the consolidated entity's management has the positive intention and ability to hold to maturity.

Notes to the Financial Statements

For the Year Ended 31 December, 2013

1 Summary of Significant Accounting Policies (continued)

(j) Investments and other financial assets (continued)

(iv) *Available-for-sale financial assets*

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long-term.

Regular purchases and sales of investments are recognised on trade-date - the date on which the consolidated entity commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the statement of comprehensive income within other income or other expenses in the period in which they arise.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The consolidated entity assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss, is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments classified as available-for-sale are not reversed through the statement of comprehensive income.

Notes to the Financial Statements

For the Year Ended 31 December, 2013

1 Summary of Significant Accounting Policies (continued)

(k) Property, Plant and Equipment

Property, plant and equipment are measured on a cost basis, either at cost or deemed cost.

Assets other than freehold land, are depreciated at rates based upon their expected useful economic lives taking obsolescence and estimated salvage value into account.

Gains and losses arising from retirements or sales are included in net profit or loss as they occur. Maintenance and repairs are charged to income as incurred. Major renewals and improvements are capitalised and the assets replaced, if any, are retired.

Depreciation method and rates used for each class of asset are as follows:

	Depreciation basis	Rate
Buildings	Straight line	20 - 50 years
Production wells and other facilities	Units of production	Average of 10%
Plant and equipment	Straight line	3 -25 years

(l) Exploration and evaluation expenditure

Exploration, evaluation and development costs related to current areas of interest are carried forward to the extent that:

- such costs are expected to be recouped through successful development and production of the area or by its sale; or,
- exploration and/or evaluation activities in the area have not reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves.

Other exploration and development expenditures comprise acquisition and capitalised pre-development expenditures. The expenditures which relate directly to reserves are amortised over the economic life of the reserves on a unit of production basis. Assets of a tangible nature that can be removed and used for other purposes are depreciated on a straight line basis.

In the event that an area of interest is abandoned, or if the directors consider the expenditure to be of no value, accumulated costs carried forward are written off in the year in which that assessment is made.

(m) Development expenditure

Where commercial production in an area of interest has commenced, the expenditures which relate directly to reserves are amortised over the economic life of the reserves on a unit of production basis. Assets of a tangible nature that can be used for other purposes are depreciated on a straight line basis.

Once the Final Investment Decision has been reached for a project, carried forward exploration and evaluation expenditure is transferred to the development expenditure category. Capitalisation of costs to the development expenditure category ceases once the project reaches a commercial level of production.

(n) Leases

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and rewards of ownership of leased non current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits (note 10).

Notes to the Financial Statements

For the Year Ended 31 December, 2013

1 Summary of Significant Accounting Policies (continued)

(n) Leases (continued)

Finance leases are capitalised. A lease asset and liability are established at the lease's inception at the lower of the fair-value of the leased property and the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense (note 21).

The leased asset is amortised on a straight line basis over the term of the lease, or where it is likely that the company will obtain ownership of the asset, the life of the asset.

Other operating lease payments (net of incentives received from the lessee) are charged to the statement of comprehensive income on a straight line basis over the period of the lease.

(o) Intangible Assets

Goodwill

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as goodwill. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates.

Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(p) Trade and other payables

Trade accounts payable, including accruals not yet billed, are recognised when the consolidated entity becomes obliged to make future payments as a result of a purchase of assets or services. Trade accounts payable are generally settled within 30 days. Loans are recognised when issued at the amount of the net proceeds received.

(q) Goods and Services Tax (GST)

A Goods and Services Tax (GST) applies at a rate of 10% for supply of all goods and services. In compliance with Urgent Issues Group Abstract 31 "Accounting for Goods and Services Tax (GST)", revenues, expenses and assets are recognised net of GST, except where GST is not recoverable; receivables and payables are stated with the amount of GST included; and, disclosures of receipts from customers and payments to suppliers in the statement of cash flows are on a gross basis, that is, inclusive of GST.

(r) Employee benefits

(i) *Wages and salaries and annual leave*

Liabilities for wages and salaries and annual leave are recognised in respect of employees' services up to the reporting date and are measured at the amount expected to be paid when the liabilities are settled.

Notes to the Financial Statements

For the Year Ended 31 December, 2013

1 Summary of Significant Accounting Policies (continued)

(r) Employee benefits (continued)

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

Employees who commenced before 1 August 2005 are members of a defined benefit plan. The defined benefit plan has a defined benefit section and a defined contribution section. Employees are entitled to benefits on retirement or death from the consolidated entity's Superannuation Plan. The defined benefit section provides defined lump sum benefits based on years of service and final average salary. The defined contribution section receives fixed contributions from consolidated entity companies and the consolidated entity's legal or constructive obligation is limited to these contributions.

The liability or asset recognised in the balance sheet in respect of defined benefit superannuation plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market yields of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is a deep market in high-quality corporate bonds, the market rates on those bonds are used rather than government bonds.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in equity and in the balance sheet.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

Future taxes, such as taxes on investment income and employer contributions, are taken into account in the actuarial assumptions used to determine the relevant components of the employer's defined benefit liability or asset.

Employees hired after 1 August 2005 are members of a defined contribution plan. Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(s) Borrowings

Borrowings are recognised at fair value, net of transaction costs incurred.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the statement of comprehensive income as finance costs.

Notes to the Financial Statements

For the Year Ended 31 December, 2013

1 Summary of Significant Accounting Policies (continued)

(s) Borrowings (continued)

Borrowings are classified as current liabilities unless the consolidated entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(t) Finance costs

Finance costs are recognised as expenses in the period in which they are incurred, except where they are included in the costs of qualifying assets. Finance costs include certain exchange differences arising from foreign currency borrowings.

(u) Cash and cash equivalents

For purposes of the statement of cash flows, cash includes deposits at call with financial institutions and other highly liquid investments with short periods to maturity which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(v) Restoration, rehabilitation and environmental expenditure

The fair values of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred, which is typically at the time the assets are installed. Amounts recorded for the related assets will be increased by the amount of these obligations. Over time the liabilities will be accreted for the change in their present value and the initial capitalised costs will be depreciated over the useful lives of the related assets.

The amount of restoration obligation includes costs related to petroleum exploration and production activities for platform removal, plant closure and removal, decommissioning of pipelines and reclamation of sites.

Environmental costs related to known obligations, constructive and legal are accrued when they are probable and can be reliably estimated. Accruals are based on best available information and adjusted when information develops or circumstances change.

(w) Contributed equity

Ordinary share capital is recognised at the fair value of the consideration received by the company. Mandatory redeemable preference shares are classified as liabilities.

(x) Dividends

Provision is made for the amount of any dividend declared and approved on or before the end of the financial year, but not distributed at balance date.

(y) Rounding of amounts

The consolidated entity is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest million dollars.

ExxonMobil Australia Pty Ltd

Notes to the Financial Statements

For the Year Ended 31 December, 2013

1 Summary of Significant Accounting Policies (continued)

(z) Non-current assets (or disposal groups) held-for-sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held-for-sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held-for-sale continue to be recognised.

Non-current assets classified as held-for-sale and the assets of a disposal group classified as held-for-sale are presented separately from the other assets in the consolidated statement of financial position. The liabilities of a disposal group classified as held-for-sale are presented separately from other liabilities in the consolidated statement of financial position.

(aa) Parent entity financial information

The financial information for the parent entity, ExxonMobil Australia Pty Ltd, disclosed in note 27 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of ExxonMobil Australia Pty Ltd. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Tax consolidation legislation

ExxonMobil Australia Pty Ltd and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, ExxonMobil Australia Pty Ltd, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, ExxonMobil Australia Pty Ltd also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate ExxonMobil Australia Pty Ltd for any current tax payable assumed and are compensated by ExxonMobil Australia Pty Ltd for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to ExxonMobil Australia Pty Ltd under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the consolidated entity.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

Notes to the Financial Statements

For the Year Ended 31 December, 2013

1 Summary of Significant Accounting Policies (continued)

(aa) Parent entity financial information (continued)

(iii) *Financial guarantees*

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

Notes to the Financial Statements

For the Year Ended 31 December, 2013

1 Summary of Significant Accounting Policies (continued)

(ab) Restatement of 2012 comparisons

As a result of the adoption of the revised *AASB119 Employee Benefits*, the prior year financial statements were restated. This resulted in a negative \$355M impact on the 2012 opening retained earnings. In addition, a review of the company's pension accounting resulted in a positive \$82M adjustment to 2012 opening retained earnings. The total restatement impact to 2012 opening retained earnings was negative \$273M. The following table shows the adjustments recognised for each individual line item in 2012. Line items not affected by the change have not been included.

	2012 (Prev. stated) \$M	2012 Employee Benefits \$M	2012 (Re-stated) \$M
Income statement (extract)			
Employee benefit expenses	(561)	50	(511)
Profit before tax	985	50	1,035
Income tax	(96)	(15)	(111)
Total tax	(566)	(15)	(581)
Profit from continuing operations	419	35	454
Other comprehensive income			
Pension remeasurement effects	-	(100)	(100)
Income tax on other comprehensive income	-	30	30
Total comprehensive income for the year	340	(35)	305

	31 Dec 2012 (Prev. stated) \$M	Employee Benefits \$M	31 Dec 2012 (Re-stated) \$M	1 Jan 2012 (Prev. stated) \$M	Employee Benefits \$M	1 Jan 2012 (Re-stated) \$M
Balance sheet (extract)						
Trade and other receivables	826	158	984	922	117	1,039
Retirement benefit obligations	87	(87)	-	61	(61)	-
Deferred Tax Assets	473	132	605	345	117	462
Total assets	19,290	203	19,493	15,401	173	15,574
Retirement benefit obligations	-	(511)	(511)	-	(446)	(446)
Total liabilities	(17,061)	(511)	(17,572)	(13,523)	(446)	(13,969)
Net assets	2,229	(308)	1,921	1,878	(273)	1,605
Retained Earnings	(1,310)	(308)	(1,618)	(1,729)	(273)	(2,002)
Total equity	2,229	(308)	1,921	1,878	(273)	1,605

Notes to the Financial Statements

For the Year Ended 31 December, 2013

2 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The resulting accounting estimates may differ from the related actual results.

The consolidated entity estimates and provides for the future removal costs of oil and gas platforms, production facilities, wells and pipelines at the time of installation of the assets. This requires judgemental assumptions regarding removal date, future environmental legislation, and future removal technologies amongst others.

The consolidated entity also estimates the quantity of proven hydrocarbon reserves that are integral to the calculation of depletion and depreciation expense and to the assessments of possible impairment of assets. Assumptions are made on commodity prices, development costs and removal costs. The reserve estimates are prepared in accordance with company policies and procedures for reserve estimation. These policies and procedures are consistently applied over time.

The estimates and assumptions do not have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

3 Revenue and Other Income

Revenue from continuing operations

	Consolidated	
	2013	2012
	M	M
	\$	\$
Sales revenue		
Sale of goods	10,098	8,542
	<u>10,098</u>	<u>8,542</u>
Other revenue		
Rents and sub-lease rentals	4	5
Interest received	28	64
Other revenue	73	72
	<u>105</u>	<u>141</u>
Revenue from continuing operations	<u>10,203</u>	<u>8,683</u>

Other Income

	Consolidated	
	2013	2012
	M	M
	\$	\$
Other Income		
Net gain on disposal of property, plant and equipment	13	4
Other income	25	-
Total other income	<u>38</u>	<u>4</u>

ExxonMobil Australia Pty Ltd

Notes to the Financial Statements
For the Year Ended 31 December, 2013

4 Expenses

	Consolidated	
	2013	2012
	M	M
	\$	\$
Profit before income tax includes the following specific expenses:		
<i>Finance costs</i>		
Interest and finance charges paid/payable:		
-Related parties	130	223
-Unrelated parties	5	2
Finance costs expensed	<u>135</u>	<u>225</u>
<i>Finance costs</i>		
Interest and finance charges	629	525
Amount capitalised	(494)	(300)
Finance costs expensed (as above)	<u>135</u>	<u>225</u>
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	254	286
<i>Foreign exchange gains and losses</i>		
Net foreign exchange losses	159	15
Exchange (gains) / losses on foreign currency borrowings included in finance costs	182	(84)
Net foreign exchange losses recognised in profit before income tax for the year (as either other income or expense)	<u>341</u>	<u>(69)</u>
Defined contribution superannuation expense	12	12

ExxonMobil Australia Pty Ltd

**Notes to the Financial Statements
For the Year Ended 31 December, 2013**

5 Income Tax Expense

(a) Income tax expense

	Consolidated	
	2013	2012
	M	M
	\$	\$
Current income tax expense		
Income tax	(44)	46
Petroleum resource rent tax	393	504
Deferred tax		
Income tax	(191)	135
Petroleum resource rent tax	(110)	(34)
Under (over) provided in prior years	(23)	(70)
	<u>25</u>	<u>581</u>
Deferred income tax (revenue) expense included in income tax expense comprises:		
(Increase) / decrease in deferred tax assets (Note 16)	(36)	(143)
(Increase) / decrease in deferred tax liabilities (Note 16)	(265)	244
	<u>(301)</u>	<u>101</u>

ExxonMobil Australia Pty Ltd

Notes to the Financial Statements
For the Year Ended 31 December, 2013

5 Income Tax Expense (continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Consolidated	
	2013	2012
	M	M
	\$	\$
Profit (loss) from continuing operations before income tax expense	578	1,035
Petroleum resource rent tax	(284)	(470)
Profit / (loss) after PRRT expense from operations	294	565
Tax at the Australian Tax Rate of 30% (2012 - 30%)	88	170
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Overseas tax differential	15	19
Rebasing borrowings	(335)	-
Non-deductible foreign exchange items	-	3
Sundry items	3	(14)
	(229)	178
Under / (over) provision in prior years	(30)	(67)
Total income tax expense / (credit)	(259)	111
Petroleum resource rent tax expense	284	470
Total income tax expense	25	581

6 Cash and cash equivalents

	Consolidated	
	2013	2012
	M	M
	\$	\$
Cash at bank and in hand	141	135

Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	Consolidated	
	2013	2012
	M	M
	\$	\$
Balance as per above	141	135
Balance as per statement of cash flows	141	135

Notes to the Financial Statements
For the Year Ended 31 December, 2013

7 Trade and other receivables

(a) Current assets - Trade and other receivables

	Consolidated	
	2013	2012
	M	M
Note	\$	\$
Trade receivables	572	598
Provision for impairment	-	(1)
	<u>572</u>	<u>597</u>
Prepayments	41	57
Related party receivables	203	186
Other receivables	306	144
Total current trade and other receivables	<u>1,122</u>	<u>984</u>

(b) Impaired trade receivables

Movements in the provision for impairment of receivables are as follows:

	Consolidated	
	2013	2012
	M	M
	\$	\$
Balance at beginning of the year	(1)	(1)
Receivables written off during the year as uncollectible	1	-
Balance at end of the year	<u>-</u>	<u>(1)</u>

The creation and any release of the provision for impaired receivables are included in 'other expenses' in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(c) Non-current assets - Trade and other receivables

	Consolidated	
	2013	2012
	M	M
	\$	\$
Prepayments	14	4
Related party receivables	819	799
Other receivables	2	3
Total non-current trade and other receivables	<u>835</u>	<u>806</u>

Further information relating to loans to related parties and key management personnel is set out in note 22.

ExxonMobil Australia Pty Ltd

Notes to the Financial Statements
For the Year Ended 31 December, 2013

8 Inventories

	Consolidated	
	2013	2012
	M	M
	\$	\$
At cost:		
Crude oil and petroleum products	876	745
Materials and supplies	95	81
	<u>971</u>	<u>826</u>

Write downs of inventories to net realisable value during the year were \$ NIL (2012: \$ NIL).

9 Assets of a disposal group held for sale

	Consolidated	
	2013	2012
	M	M
	\$	\$
Non-current assets held for sale		
Land	5	8
Plant and equipment	-	1
Total non-current assets held for sale	<u>5</u>	<u>9</u>

The Petroleum, Marketing, Supply and Distribution entities hold land and a number of depots and sites which are expected to be sold before the end of December 2014.

ExxonMobil Australia Pty Ltd

Notes to the Financial Statements

For the Year Ended 31 December, 2013

10 Property, plant and equipment

	Land & Buildings	Plant & Equipment	Production Wells & Facilities	Exploration	Development LNG	Other Projects	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
At 1 January 2012							
Cost or fair value	261	2,327	10,127	790	4,629	2,115	20,249
Accumulated depreciation	(117)	(1,546)	(6,920)	(78)	-	-	(8,661)
Net book amount	144	781	3,207	712	4,629	2,115	11,588
Year ended 31 December 2012							
Opening net book amount	144	781	3,207	712	4,629	2,115	11,588
Additions	1	42	579	48	2,978	752	4,400
Disposals	(1)	(1)	1	-	-	-	(1)
Movements in assets held for sale	2	1	-	-	-	-	3
Transfers	1	11	316	(199)	-	(129)	-
Depreciation charge	(8)	(84)	(392)	(2)	-	-	(486)
Foreign currency exchange differences	-	-	33	(37)	-	(8)	(12)
Closing net book amount	139	750	3,744	522	7,607	2,730	15,492
At 31 December 2012							
Cost	262	2,338	11,071	573	7,607	2,730	24,581
Accumulated Depreciation	(123)	(1,588)	(7,327)	(51)	-	-	(9,089)
Net book amount	139	750	3,744	522	7,607	2,730	15,492
Year ended 31 December 2013							
Opening net book amount	139	750	3,744	522	7,607	2,730	15,492
Additions	12	56	304	14	3,370	416	4,172
Disposals	(8)	(3)	-	-	-	-	(11)
Movements in assets held for sale	3	1	-	-	-	-	4
Transfers	3	38	1,801	-	-	(1,842)	-
Depreciation charge	(8)	(72)	(455)	-	-	-	(535)
Foreign currency exchange differences	-	6	33	-	-	91	130
Closing net book amount	141	776	5,427	536	10,977	1,395	19,252
At 31 December 2013							
Cost	267	2,029	13,267	587	10,977	1,395	28,522
Accumulated Depreciation	(126)	(1,253)	(7,840)	(51)	-	-	(9,270)
Net book amount	141	776	5,427	536	10,977	1,395	19,252

Notes to the Financial Statements
For the Year Ended 31 December, 2013

10 Property, plant and equipment (continued)

(a) Leased assets

Plant and equipment includes the following amounts where the consolidated entity is a lessee under a finance lease:

	Consolidated	
	2013	2012
	M \$	M \$
Leasehold equipment		
Cost	37	33
Accumulated depreciation	(29)	(20)
Net book amount	<u>8</u>	<u>13</u>

11 Intangible assets

	Goodwill	Patents, trademarks and other rights	Total
	M \$	M \$	M \$
	Year ended 31 December 2012		
Opening net book amount	634	1	635
Additions	-	1	1
Closing net book amount	<u>634</u>	<u>2</u>	<u>636</u>
At 31 December 2012			
Cost	<u>634</u>	<u>2</u>	<u>636</u>
Net book amount	<u>634</u>	<u>2</u>	<u>636</u>
Year ended 31 December 2013			
Opening net book amount	634	2	636
Additions	-	-	-
Closing net book amount	<u>634</u>	<u>2</u>	<u>636</u>
At 31 December 2013			
Cost	<u>634</u>	<u>2</u>	<u>636</u>
Net book amount	<u>634</u>	<u>2</u>	<u>636</u>

ExxonMobil Australia Pty Ltd

Notes to the Financial Statements
For the Year Ended 31 December, 2013

12 Trade and other payables

	Consolidated	
	2013	2012
	M	M
	\$	\$
Trade payables	1,598	1,484
Other payables	113	183
	<u>1,711</u>	<u>1,667</u>

13 Interest bearing liabilities

(a) Current

	Consolidated	
	2013	2012
	M	M
	\$	\$
Unsecured:		
Loans - related parties	-	1,294
Finance leases	7	5
Total current interest bearing liabilities	<u>7</u>	<u>1,299</u>

During the year, a related party loan of \$1.5 billion was refinanced with a non-call period of five years. This loan was previously classified as current in 2012 as the loan was due to expire at 1 October 2013. This loan has been reclassified from current to non-current due to this change.

(b) Non-Current

	Consolidated	
	2013	2012
	M	M
	\$	\$
Secured:		
Loans - related parties	211	137
Unsecured		
Loans - related parties	13,000	8,324
Finance leases	-	6
Total non-current interest bearing liabilities	<u>13,211</u>	<u>8,467</u>

The loan of the subsidiary is secured by first ranking security interest over the subsidiary's assets.

Notes to the Financial Statements
For the Year Ended 31 December, 2013

14 Provisions

(a) Current provisions

	Consolidated	
	2013	2012
	M	M
	\$	\$
Remediation and restoration	18	39
Provision for employee benefits	126	115
Other provisions	6	10
	<u>150</u>	<u>164</u>

(b) Movements in current provisions

	Employee	Remediation	Other	Total
	benefits	and restoration	provisions	
	M	M	M	
	\$	\$	\$	\$
Carrying amount at start of the year	115	39	10	164
Net movement in provision during the year	10	(21)	-	(11)
Payments/other sacrifices of economic benefits	-	(26)	(4)	(30)
Other transfer LT to ST	1	26	-	27
Carrying amount at end of year	<u>126</u>	<u>18</u>	<u>6</u>	<u>150</u>

(c) Non-current provisions

	Consolidated	
	2013	2012
	M	M
	\$	\$
Remediation and restoration	1,178	1,077
Provision for employee benefits	34	35
Other provisions	161	136
	<u>1,373</u>	<u>1,248</u>

ExxonMobil Australia Pty Ltd

Notes to the Financial Statements

For the Year Ended 31 December, 2013

14 Provisions (continued)

(d) Movements in non-current provisions

	Employee benefits	Remediation and restoration	Other provisions	Total
	M	M	M	M
	\$	\$	\$	\$
Carrying amount at start of year	35	1,077	136	1,248
Accretion expense	-	58	-	58
Additional provision recognised during the year	-	82	57	139
Payments/other sacrifices of economic benefits	-	(13)	(32)	(45)
Other transfer LT to ST	(1)	(26)	-	(27)
Carrying amount at end of year	34	1,178	161	1,373

15 Other liabilities

	Consolidated	
	2013	2012
	M	M
	\$	\$
Payable to related parties	865	824
Other-Deferred credits	5	4
	870	828

16 Tax

(a) Current Tax Asset

	Consolidated	
	2013	2012
	M	M
	\$	\$
Current tax receivable	52	-
Current tax receivable	52	-

(b) Current Tax Liabilities

	Consolidated	
	2013	2012
	M	M
	\$	\$
Income tax payable	18	(8)
Petroleum resource rent tax	92	42
Current tax liabilities	110	34

ExxonMobil Australia Pty Ltd

Notes to the Financial Statements

For the Year Ended 31 December, 2013

16 Tax (continued)

(c) Deferred Tax Assets

	Consolidated	
	2013	2012
	M	M
	\$	\$
The balance comprises temporary differences attributable to:		
Employee benefits	46	175
Site restoration	354	324
PRRT instalments	33	11
Other provisions	29	39
Depreciation	29	15
Others	11	14
Defined benefit liabilities	115	27
Unrealised foreign exchange	24	-
Net deferred tax assets	641	605
Movements:		
Opening balance at 1 January	605	462
Credited / (charged) to the statement of comprehensive income (Note 5)	36	143
Closing balance at 31 December	641	605

ExxonMobil Australia Pty Ltd

Notes to the Financial Statements

For the Year Ended 31 December, 2013

16 Tax (continued)

(d) Deferred Tax Liabilities

	Consolidated	
	2013	2012
	M	M
	\$	\$
The balance comprises temporary differences attributable to:		
Inventories	19	25
Unrealised foreign exchange gains	-	376
Depreciation	672	553
Exploration expenditure and potential	748	789
Petroleum resource rent tax	1,361	1,470
Capitalised interest	289	141
	3,089	3,354
Movements		
Opening balance at 1 January	3,354	3,110
Charged/(credited) to the statement of comprehensive income (Note 5)	(265)	244
Closing balance at 31 December	3,089	3,354

Notes to the Financial Statements
For the Year Ended 31 December, 2013

17 Retirement benefit obligations

(a) Superannuation plan

Description of Plan Characteristics and Associated Risks

ExxonMobil Super, a sub-plan of the Plum Superannuation Fund (previously ExxonMobil Superannuation Plan) provides defined benefits to a large number of members, where the benefits are defined by final average salary and period of membership. The defined benefit section is currently closed and has a total of 1117 Defined Benefit members at the date of reporting.

The company transferred out the benefits for all Plan members to a separate plan known as ExxonMobil Super, a sub-plan of the Plum Superannuation Fund, effective 1 July 2013. All current members will accrue ongoing benefits within ExxonMobil Super.

The plan design means that the risks not commonly affecting the reported financial results are expected to be:

- Investment risk (strong investment returns tending to improve the balance sheet position, whilst poor or negative investment returns tending to weaken the position)
- Interest rate risk (the defined benefit obligation calculated under AASB119 uses a discount rate based on bond yields. If bond yields fall, the defined benefit obligation will tend to increase whilst if bond yields rise, the defined benefit obligation will tend to decrease).
- Salary inflation risk (higher than expected increases in salary will increase the defined benefit obligation, whilst expected decreases in salary will decrease the defined benefit obligation).
- Longevity risk (around 11% of the liabilities are lifetime pensioners and any increase in longevity of pensioners will tend to increase the defined benefit obligation. The option to opt to Pension is available to existing members which may increase the exposure to this risk).

(b) Balance Sheet Amounts

	Present value of Obligations	Fair value of Assets	Net amount
	M \$	M \$	M \$
Balance Sheet as at 31 December 2012	1,469	(958)	511
Total amount recognised in profit or loss	107	(22)	85
Total amount recognised in OCI	(77)	(121)	(198)
Contributions	-	(36)	(36)
Benefit Payments	(72)	72	-
Balance Sheet as at 31 December 2013	1,427	(1,065)	362

(c) Description of Funding Arrangements and Policies

The company has adopted a contribution policy under which regular Employer contributions are paid at a rate determined in consultation with the actuary, and additional Employer contributions are made as necessary based on 30 June plan funding status to return the plan to a satisfactory financial position.

Notes to the Financial Statements

For the Year Ended 31 December, 2013

17 Retirement benefit obligations (continued)

(d) **Change in accounting policy**

The group has applied the revised accounting standard for employee benefits from 1 January 2013. This has affected some of the amounts recognised and disclosed in the financial statements. The information shown in this note has been restated based on the new rules. The adjustments made are explained in note 1 (ab). The group has elected to recognise rereasurement gains and losses directly in retained earnings.

(e) **Categories of plan assets**

(i) The major categories of plan assets are as follows:

	2013	2012
	M	M
	\$	\$
Equity instruments	502	546
Debt instruments	527	374
Cash and cash equivalents	3	16
Other	33	22
Total	1,065	958

(f) **Actuarial Assumptions**

	2013	2012
	%	%
Used to determine Benefit Obligations:		
Discount rate	4.20	3.30
Rate of Salary Increases	5.50	5.50

18 Contributed equity

(a) **Share capital**

	2013	2012	2013	2012
	Shares	Shares	\$M	\$M
Ordinary shares				
Fully paid	3,834,543,423	3,834,543,423	3,835	3,835
Total contributed equity- parent entity			3,835	3,835

(b) **Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

Ordinary shares have no par value.

ExxonMobil Australia Pty Ltd

Notes to the Financial Statements
For the Year Ended 31 December, 2013

19 Reserves and retained profits

(a) Reserves

	Consolidated	
	2013	2012
	M	M
	\$	\$
Foreign Currency Translation Reserves	(182)	(351)
Movements		
Balance 1 January	(351)	(272)
Currency translation differences arising during the year	169	(79)
Balance 31 December	(182)	(351)

(b) (Accumulated losses) / retained profits

Movements in (accumulated losses) / retained profits were as follows:

	Consolidated	
	2013	2012
	M	M
	\$	\$
Balance 1 January	(1,618)	(2,002)
Profit / (loss) for the year	553	454
Items of other comprehensive income recognised directly in retained earnings:		
Pension remeasurement effects	139	(70)
Balance 31 December	(926)	(1,618)

20 Contingencies

Guarantees

Guarantees given by the consolidated entity in respect of bank guarantees amounting to \$15 million (2012 - \$16 million), and other guarantees amounting to \$69 million (2012 - \$60 million).

Guarantees given by the parent entity in respect of bank guarantees amount to \$5 million (2012 - \$5 million).

Cross guarantees by ExxonMobil Australia Pty Ltd and those entities listed in note 23, are described in note 24. Under the terms of the Deeds of Cross Guarantee referred to in note 24, ExxonMobil Australia Pty Ltd has an obligation to satisfy any deficiency of funds of applicable Australian controlled entities participating in the deed if they cannot meet their obligations.

ExxonMobil Australia Pty Ltd

Notes to the Financial Statements

For the Year Ended 31 December, 2013

20 Contingencies (continued)

Indemnity

Mobil Australia Finance Company Pty Ltd (MAFCO) and A-P Olefins Holdings Pty Ltd (APOH) entered into an "Environmental Management and Indemnity Deed 2005" on 9 December 2005 (which was subsequently amended by the "Deed of Amendment of Environmental Deed" dated 14 February 2006) in connection with the share sale of Qenos. Subject to the terms of the Deed (which includes provisions relating to financial caps and land use by Qenos), for the period of 15 years after the Completion Date of the share sale (i.e. 16 February 2006), MAFCO and APOH are responsible for and indemnify the buyer and Qenos from environmental liabilities arising from contamination of Qenos land at Altona which existed prior to the Completion Date.

21 Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	Consolidated	
	2013	2012
	M	M
	\$	\$
Payable:		
Within one year	2,386	2,752
Later than one year but not later than five years	1,530	2,547
	<u>3,916</u>	<u>5,299</u>

(b) Lease commitments: Consolidated Entity company as lessee

	Consolidated	
	2013	2012
	M	M
	\$	\$
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	109	243
Later than one year but not later than five years	42	75
Later than five years	10	5
	<u>161</u>	<u>323</u>
Representing:		
Non-cancellable operating leases	154	311
Finance leases	7	12
	<u>161</u>	<u>323</u>

Notes to the Financial Statements
For the Year Ended 31 December, 2013

21 Commitments (continued)

(b) Lease commitments: Consolidated Entity company as lessee (continued)

(i) Non-cancellable operating leases

	Consolidated	
	2013	2012
	M	M
	\$	\$
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	102	237
Later than one year but not later than five years	42	69
Later than five years	10	5
	<u>154</u>	<u>311</u>

(ii) Finance leases

	Consolidated	
	2013	2012
	M	M
	\$	\$
Commitments in relation to finance leases are payable as follows:		
Within one year	7	6
Later than one year but not later than five years	-	6
Minimum lease payments	<u>7</u>	<u>12</u>

(c) Other commitments - Purchase obligations

	Consolidated	
	2013	2012
	M	M
	\$	\$
Payable:		
Within one year	24	25
Later than one year but not later than five years	98	58
Later than five years	80	-
	<u>202</u>	<u>83</u>

ExxonMobil Australia Pty Ltd

Notes to the Financial Statements For the Year Ended 31 December, 2013

22 Related Party transactions

(a) Parent entities

The ultimate Australian parent entity for the consolidated group is ExxonMobil Australia Pty Ltd. The ultimate parent entity is Exxon Mobil Corporation (incorporated in the USA) which at 31 December 2013 owns indirectly 100% (2012: 100%) of the issued ordinary shares of ExxonMobil Australia Pty Ltd.

The wholly owned group consists of ExxonMobil Australia Pty Ltd and its wholly owned controlled entities. Ownership interests in these controlled entities are set out in note 23.

(b) Directors and specified executives

The names of persons who were directors of ExxonMobil Australia Pty Ltd at any time during the financial year are J.R. Dashwood, R.J.Owen, C.D. Hardgrove, K.A.Lanigan and A.T. Warrell.

(c) Subsidiaries

Interests in subsidiaries are set out in note 23 .

(d) Key management personnel

The remuneration and benefits earned by directors and other key management personnel for the year ended 31 December 2013, including termination benefits of \$Nil (2012: \$Nil), amounted to \$5,375,324 (2012: \$5,487,007).

(e) Transactions with related parties

Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with each class of other related parties:

	Consolidated	
	2013	2012
	M	M
	\$	\$
Other related parties:		
Sales of petroleum	1,041	497
Interest revenue	-	1
Interest expenses	130	223
Miscellaneous services provided	19	20
Miscellaneous services (received)	(47)	(31)

Notes to the Financial Statements

For the Year Ended 31 December, 2013

22 Related Party transactions (continued)

(f) Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated	
	2013	2012
	M	M
	\$	\$
Other related parties		
Current receivable - sales of goods and services	203	186
Non-current receivables and loan receivables	819	799
Current payables - purchases of goods and services	865	2,119
Non-current payables - borrowings	13,211	8,461

ExxonMobil Australia Pty Ltd

Notes to the Financial Statements

For the Year Ended 31 December, 2013

23 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity:	Country of Incorporation	Percentage Owned (%)	Percentage Owned (%)
		2013	2012
Ampolex (AE) Pty. Limited (iii)	Australia	100.0	100.0
Ampolex (Indonesia) Pty. Limited (ii)	Australia	100.0	100.0
Ampolex (PPL) Pty. Limited (iii)	Australia	100.0	100.0
A-P Olefins Finance Pty Limited (i)	Australia	100.0	100.0
A-P Olefins Holdings Pty Limited (i)	Australia	100.0	100.0
Distributorship JV Pty Ltd (iii)	Australia	100.0	100.0
Esso Australia Pty Ltd (i)	Australia	100.0	100.0
Esso Australia Resources Pty Ltd (i)	Australia	100.0	100.0
Euphoric Pty. Limited (iii)	Australia	100.0	100.0
ExxonMobil Chemical Australia Pty Ltd (iii)	Australia	100.0	100.0
ExxonMobil Superannuation Plan Pty Ltd (iii)	Australia	100.0	100.0
Mobil (Legendre) Pty Ltd (ii)	Australia	100.0	100.0
Mobil Australia Finance Company Pty Ltd (i)	Australia	100.0	100.0
Mobil Australia Resources Company Pty Limited (ii)	Australia	100.0	100.0
Mobil Exploration & Producing Australia Pty Ltd (ii)	Australia	100.0	100.0
Mobil Oil Australia Pty Ltd (i)	Australia	100.0	100.0
Mobil PNG Gas Holdings Pty Ltd (iv)	Australia	-	100.0
Mobil PNG Pty Limited (ii)	Australia	100.0	100.0
Mobil Refining Australia Pty Ltd (i)	Australia	100.0	100.0
Mount Cable Pty. Ltd (iii)	Australia	100.0	100.0
Rundle Queensland Pty Ltd (iii)	Australia	100.0	100.0
Vacuum Oil Company Proprietary Limited (i)	Australia	100.0	100.0
VOC (Properties) Pty Ltd (iii)	Australia	100.0	100.0
Ampolex (Highlands) Limited	PNG	100.0	100.0
Ampolex (Pandora Reef) Limited	PNG	100.0	100.0
Ampolex (Papua New Guinea) Limited	PNG	99.3	99.4
Merlin Pacific Oil Company Limited	PNG	100.0	100.0
Mobil Oil New Guinea Limited	PNG	100.0	100.0
Ampolex (Cepu) Pte Ltd	Singapore	100.0	100.0
Ampolex (PNG Holdings) Inc.	USA	100.0	100.0
Ampolex (PNG Petroleum) Inc.	USA	100.0	100.0
Ampolex (Venezuela) Inc	USA	100.0	100.0

ExxonMobil Australia Pty Ltd

Notes to the Financial Statements

For the Year Ended 31 December, 2013

23 Subsidiaries (continued)

(i) Pursuant to the Australian Securities & Investments Commission Class Order 98/1418, the accounts have been prepared on the basis of the controlled entities having been granted relief from the necessity to prepare financial reports. As a condition of the Class Order, ExxonMobil Australia Pty Ltd and these wholly owned entities executed a Deed of Cross Guarantee dated 22 December 2000. A P Olefins Holdings Pty Ltd and A P Olefins Finance Pty Ltd executed a Deed of Assumption dated 24 December 2001.

(ii) Pursuant to the Australian Securities & Investments Commission Class Order 98/1418, these controlled entities have been granted relief from the necessity to prepare financial reports. As a condition of the Class Order, ExxonMobil Australia Pty Ltd and these wholly owned entities executed a Deed of Cross Guarantee dated 15 December 2005.

(iii) These Australian entities are not required to prepare statutory annual reports as they qualify as small proprietary companies under the *Corporations Act 2001* (Cth) in Australia.

(iv) Mobil PNG Gas Holdings Pty Ltd ceased to be a subsidiary of the parent entity on 16 July 2013.

ExxonMobil Australia Pty Ltd

Notes to the Financial Statements

For the Year Ended 31 December, 2013

24 Deed of Cross-Guarantee

ExxonMobil Australia Pty Ltd and those controlled entities (i) and (ii) listed in note 23 are parties to one or more Deed/s of Cross Guarantee under which each company guarantees the debts of the others (Deed). By entering into the Deed, the wholly owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended by Class Orders 98/2017, 00/0321, 01/1087, 02/0248 and 02/1017) issued by the Australian Securities & Investments Commission.

Set out below is a consolidated statement of financial performance for the year ended 31 December 2013 of the Closed Group in relation to the ExxonMobil Australia Pty Ltd Deeds of Cross Guarantee and a consolidated statement of financial position as at 31 December 2013.

	2013	2012
	M	M
	\$	\$
Condensed Statement of Comprehensive Income		
Profit before income tax	511	935
Income tax expense	21	(532)
Profit after income tax	<u>532</u>	<u>403</u>
Other comprehensive income		
Pension remeasurement	139	(70)
Exchange differences on translation of foreign operations	116	(67)
Total other comprehensive income, net of tax	<u>255</u>	<u>(137)</u>
Total other comprehensive income	<u>787</u>	<u>266</u>
	2013	2012
	M	M
	\$	\$
Summary of movements in consolidated retained earnings:		
Retained earnings at the beginning of the year	(1,839)	(2,172)
Profit after income tax	671	333
Retained earnings at the end of the year	<u>(1,168)</u>	<u>(1,839)</u>

ExxonMobil Australia Pty Ltd

Notes to the Financial Statements
For the Year Ended 31 December, 2013

24 Deed of Cross-Guarantee (continued)

(a) Consolidated Statement of Financial Position

	2013	2012
	M	M
	\$	\$
Current Assets		
Cash and cash equivalents	120	87
Trade and other receivables	515	679
Current tax receivable	52	-
Inventories	893	779
Assets held for sale	5	9
Total Current Assets	1,585	1,554
Non-Current Assets		
Receivables	835	806
Other financial assets	1,023	978
Property, plant and equipment	17,896	14,503
Deferred tax assets	620	597
Intangible assets	635	635
Total Non-Current Assets	21,009	17,519
Total Assets	22,594	19,073
Current Liabilities		
Trade and other payables	1,667	1,617
Interest bearing liabilities	7	1,299
Current tax liabilities	100	29
Provisions	149	161
Other	641	1,028
Total Current Liabilities	2,564	4,134
Non-Current Liabilities		
Interest bearing liabilities	13,211	8,461
Deferred tax liabilities	2,909	3,192
Provisions	1,353	1,231
Retirement benefit obligations	362	511
Total Non-Current Liabilities	17,835	13,395
Total Liabilities	20,399	17,529
Net Assets	2,195	1,544
Equity		
Contributed equity	3,835	3,835
(Accumulated losses) and Retained Earnings	(1,640)	(2,291)
Total Equity	2,195	1,544

ExxonMobil Australia Pty Ltd

Notes to the Financial Statements
For the Year Ended 31 December, 2013

25 Investments accounted for using the equity method

(a) Movements in carrying amounts

	Consolidated	
	2013	2012
	M	M
	\$	\$
Carrying amount at the beginning of the financial year	-	3
Share of profit/ (loss) from ordinary activities after income tax	-	(7)
Other movement	21	4
Carrying amount at the end of the financial year	21	-

26 Events Occurring After the Reporting Date

No matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the company or economic entity, the results of those operations or the state of affairs of the consolidated entity or economic entity in subsequent financial years.

ExxonMobil Australia Pty Ltd

Notes to the Financial Statements
For the Year Ended 31 December, 2013

27 Parent entity

(a) Summary financial information

	2013	2012
	M	M
	\$	\$
Statement of Financial Position		
Assets		
Current assets	147	286
Total assets	20,581	17,292
Liabilities		
Current liabilities	4,946	5,898
Total liabilities	17,855	14,600
Shareholder's Equity		
Issued capital	3,835	3,835
Retained profits	(1,109)	(1,143)
	<u>2,726</u>	<u>2,692</u>
Statement of Profit or Loss and Other Comprehensive Income		
Profit or loss for the year	36	(208)
Total comprehensive income	<u>36</u>	<u>(208)</u>

(b) Contingent liabilities of the parent entity

Guarantees given by the parent entity in respect of bank guarantees amount to \$5 million (2012: \$5 million).

(c) Contractual commitments for the acquisition of property, plant and equipment

As at 31 December 2013, the parent entity did not have any contractual commitments for the acquisition of property, plant or equipment.

ExxonMobil Australia Pty Ltd

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes for the year ended 31 December, 2013 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2013 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 23 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 24.

This declaration is made in accordance with a resolution of the Directors.

Director
R.J. Owen

Director
C.D. Hardgrove

16 April, 2014

Melbourne



Independent auditor's report to the members of ExxonMobil Australia Pty Ltd

Report on the financial report

We have audited the accompanying financial report of ExxonMobil Australia Pty Ltd (the company), which comprises the statement of financial position as at 31 December 2013, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for ExxonMobil Australia Pty Ltd (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.



Auditor's opinion

In our opinion, the financial report of ExxonMobil Australia Pty Ltd is in accordance with the *Corporations Act 2001*, including:

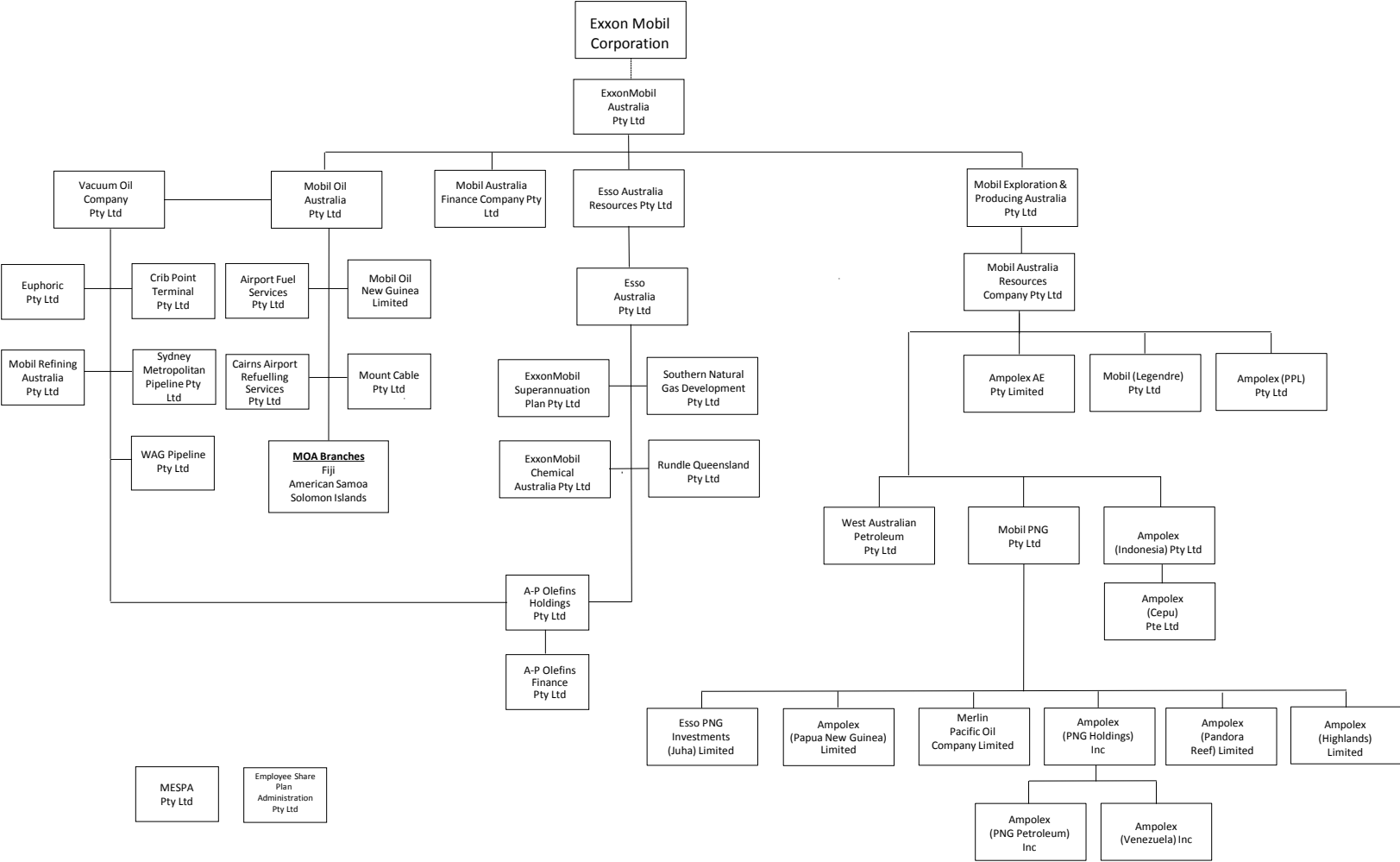
- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Charles Christie
Partner

Melbourne
16 April 2014

ExxonMobil Australia Pty Ltd



**SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT
REFERENCES COMMITTEE**

Inquiry into Australia's transport energy resilience and sustainability

Public Hearing

Monday, 2 February 2015

Sydney, NSW

Questions Taken on Notice – VIVA Energy Australia

1. HANSARD, PG 33

Senator MUIR: I have one very last question, which I think a lot of people want to know the answer to. Why is fuel up to 20-plus cents per litre more expensive in rural and regional areas at the moment in comparison to our city counterparts?

Senator LAMBIE: And why are we paying 30c more in Tasmania? You are killing us down there. So, I would like to know too, and I am sure Tasmanians would.

Mr Warrell: These are four competitors sitting around the table. I will not—and neither will anyone else sitting here—get into any price-specific discussion in a location. We are not going to do anything that could be construed as price signalling.

Senator LAMBIE: Do you know what? That is a cop-out.

Mr Warrell: No, it is not; I am sorry, Senator—

Senator LAMBIE: Answer your own question then. For every company you represent that puts fuel down to Tasmania, maybe you could give me that answer. That would be great. Why is it costing us 30c more?

Mr Warrell: You can come to us separately and ask that question. It is inappropriate for you to ask that question when we have four competitors sitting here. If you want to put that question on notice, we can respond to you individually, but we will not be responding while we are all sitting here.

Senator LAMBIE: I will put it on notice and we will see.

Viva Energy Response: Viva Energy is not a retailer of fuel in Australia but is a fuel wholesaler to Coles Express, independently owned dealers with Shell branded service stations and other commercial customers. As such, Viva Energy does not set the retail price at service stations in Australia.

As a fuels wholesaler Viva Energy sets a Terminal Gate Price (in essence a wholesale price) based on international prices – in this case the Asia Pacific market - as Australian refineries must compete against imported fuel from the Asia Pacific market.

Viva Energy sets a Terminal Gate Price for petrol and diesel in each location where it has or supplies from a major terminal (such as Hobart and Devonport), and these are updated and posted on the company's [website](#) five days per week. This price closely reflects the current

import parity price of petrol or diesel, which is essentially the cost of importing fuels, including freight and wharfage, to Australia. Government can therefore be confident that changes in these international prices are being passed on fully to our wholesale customers.

There are additional costs to take into consideration including transport costs. The majority of wholesale customers pay for additional services beyond the Terminal Gate Price, including delivery, branding, equipment, and credit terms. These customers are typically supplied under a supply agreement based on the Terminal Gate Price plus additional charges to reflect the additional services offered. Many are also offered a discount.

Viva Energy's TGP for all fuel products are transparent and are updated and published five out of seven days a week on our website. Therefore, customers, motorists and regulators can clearly see the price at which our Tasmanian wholesale customers are purchasing fuel from Viva Energy (subject to terms and conditions as outlined on our website).

It is then the decision for the retail site operator to set the eventual retail price and to respond to the local retail competition as they see fit.

For more detail regarding retail prices and the factors that impact this highly competitive sector, I encourage you to refer to either the [AIP website](#) or the [ACCC annual report](#) into the prices, costs and profits of unleaded petrol in Australia. There are sections in this report that relate to the retail fuel market, price cycles and regional fuel pricing and some of the factors that influence prices in these areas.

2. HANSARD, PG 34

Senator LAMBIE: I would like to put on notice the question on political donations as well. I would like to make that quite clear.

Viva Energy Response: It is a company policy that Viva Energy does not make political donations.

3. HANSARD, PG 35 - 36

Senator HEFFERNAN: Recently I chaired an inquiry into the market power of Coles and Woolworths and the \$1 milk. Coles and Woolies said that, no, they were not selling it at a loss. We discovered that they were offering a 40 per cent wholesale discount—that is, the processors forced it on them by Coles and Woolies. So we are getting a 40 per cent wholesale discount compared to anyone else in the market, so they could sell it at \$1 a litre. How do you work out of your gate terminals? Do you have different wholesale prices for different customers?

Mr Wyatt: There are pricing reports—

Senator HEFFERNAN: If you want to do that in detail could you take it on notice? Would it be fair to say that some customers wholesaling out of your terminals get a different price to others?

Mr Wyatt: We will provide you with all that detail. There is a pricing report the AIP publishes. Everyone has access to it. It is on our web site. You can get all the information—

Senator HEFFERNAN: Just to pause there, yes or no, is there a variation in the price out of your terminals to different customers?

Mr Wyatt: There are incentives given to people for larger volumes.

Senator HEFFERNAN: That is code for there being differences in price. You have made it clear—

Mr Wyatt: It comes back to the same concern raised earlier. I think every company will have its own pricing arrangements. It is probably better to have those—

Senator HEFFERNAN: Will you on notice give us your terminal pricing arrangements. I discovered the Coles and Woolies 40 per cent wholesale discount. I would be very interested to know—

Please note - we have requested an amendment to Hansard in this section as comments attributed to Scott Wyatt were actually made by Andrew Warrell (apart from the final comment).

Viva Energy Response: As a fuels wholesaler Viva Energy sets a Terminal Gate Price (in essence a wholesale price) based on international prices – in this case the Asia Pacific market - as Australian refineries must compete against imported fuel from the Asia Pacific market.

Viva Energy sets a Terminal Gate Price for petrol and diesel in each location where it has or supplies from a major terminal and these are updated and posted on the company's [website](#) five days per week. This price closely reflects the import parity price of petrol or diesel, which is essentially the cost of importing fuels, including freight and wharfage, to Australia. Government can therefore be confident that changes in these international prices are being passed on fully to our wholesale customers.

There are additional costs to take into consideration including transport costs. The majority of wholesale customers pay for additional services beyond the Terminal Gate Price, including delivery, branding, equipment, and credit terms. These customers are typically supplied under a supply agreement based on the Terminal Gate Price plus additional charges to reflect the additional services offered. Many are also offered a discount which varies depending on the volume purchased and the terms of their supply contract, however the majority of fuel is supplied at a price greater than the published TGP as a result of the additional services offered to our customers.

Viva Energy's TGP for all fuel products are transparent and are updated and published five out of seven days a week on our website. Therefore, customers, motorists and regulators can clearly see the price at which our wholesale customers are purchasing fuel from Viva Energy (subject to terms and conditions as outlined on our website).

4. HANSARD, PG 36

Senator HEFFERNAN: We will see. Next question: could you individually provide me with your corporate structure, your financing structure and financing capitalisation arrangements, because I am actually researching you for tax purposes.

Viva Energy Response:

Corporate Structure - The following lists those companies 100% owned (directly or indirectly) by Viva Energy Holding Pty Ltd (ACN 167 883 525):

- Viva Energy Australia Group Ltd (ACN 004 400 220) – formerly Shell Australia Limited
- Viva Energy Australia Ltd (ACN 004 610 459) – formerly The Shell Company of Australia Limited
- Viva Energy Refining Pty Ltd (ACN 004 303 842) – formerly Shell Refining (Australia) Pty Ltd
- Viva Energy Gas Pty Ltd (ACN 005 012 715) – formerly Shell Gas (LPG) Australia Pty Ltd.

Financing Structure and Financing Capitalisation Structure - The Viva Energy Group has commercial loan facilities which were principally arranged by one of Australia's leading commercial banks. The debt is syndicated and placed with commercial lending organisations, all of which are third parties and on commercial terms.

The principal borrower under the facilities is Viva Energy Holding Pty Ltd (**Viva Holding**), with certain subsidiaries of Viva Holding being obligors.

These facilities are commercial lending arrangements, negotiated with sophisticated financing counterparties, and as such are on commercial market terms.

The Viva Energy Group does not have any other principal funding or borrowing arrangements. Particularly, no financing is separately provided by related parties or shareholders. As is available from ASIC, Viva Holding has one class of issued shares, being ordinary shares.

**SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT
REFERENCES COMMITTEE**

Inquiry into Australia's transport energy resilience and sustainability

Public Hearing

Monday, 2 February 2015

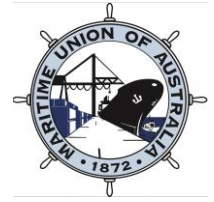
Sydney, NSW

Questions Taken on Notice – Maritime Union Australia

1. HANSARD, PG 38

CHAIR: Very good mates. I would trust him in a blue before I would trust most people in Australia and those beside me. From Senator Bullock and I, I can say that we are foremost interested in Australian jobs. There is absolutely no argument about that, and I would like to think that my colleagues around the table have the same view as me. Mr Bray, you talked about the example of the Vietnamese crewed ship on less than \$2 a day. You will probably be asked about the proof you have, and I have no doubt you will be able to supply that. How much money are we actually talking about by exterminating Australian jobs out there on the ocean and replacing them with crews from other countries? Is it a significant amount of money? Are we talking peanuts when we divide the difference in the cost over a litre of fuel, and we sell billions and billions of litres a year?

Mr Bray: Our view is: if crews are open to exploitation and there is no regulation on what their minimum wage would be, obviously it is a greater gap. However, it is a question that we have asked ourselves, and we are currently undertaking that research. We would like to take that on notice as we seek to get some expertise in terms of the costings that we have done, but we believe it is less than one cent per litre to employ Australian crews.



Paddy Crumlin - National Secretary | **Mick Doleman** - Deputy National Secretary
Ian Bray and Warren Smith - Assistant National Secretaries

Ref:

2 June 2015

Committee Secretary
Senate Standing Committees on Rural and Regional Affairs and Transport
PO Box 6100
Parliament House
Canberra ACT 2600

rrat.sen@aph.gov.au

**Re: Question on Notice:
Inquiry into Australia's transport energy resilience and sustainability**

Dear Mr. Watling,

At the Committee hearing of 2 February, we were asked a question on notice by Senator Sterle (attached), about the difference in the cost of employing Australian and international crew when divided over a litre of fuel. We subsequently completed a report into the Senator's question, titled *Australian Fuel Security and the Increasing Need for Clean Petroleum Tankers*. It is attached and was provided to the Committee at its hearing on 9 April.

The findings of the report are listed below, with points 8 and 9 speaking directly to the cost per litre of employing Australians on a ship, or across the entire fleet.

Since that hearing, we carried out further analysis of the cost of Australian crewing on a portion of the refined petroleum import fleet, projected by Department of Industry consultants to be the equivalent of 57 full-time ships by 2016-17. The results are in Table 1. To take one example, crewing 10 out of 57 import ships with Australians would cost only 0.16 cents per litre of fuel if the cost was spread across all import ships. In other words, the cost is sixteen one-hundredths of one cent per litre, which would provide Australia with a fleet of import tankers it could control for its future fuel security, and which could be used to maintain Australia's maritime skill base and quality jobs for Australian seafarers.

Table 1: Cost of employing Australian crew across a portion of the Australian refined petroleum import fleet, projected to be 57 ships carrying 37,420 ML by 2016-17.

Number of Australian crewed tankers	Australian Crew Premium per ML based on annual international import of 37,420 ML	Australian Crew Premium in cents per litre spread across a fleet of 57 international import tankers
5 ships	\$ 801	0.08 ¢
10 ships	\$ 1,603	0.16 ¢
15 ships	\$ 2,405	0.24 ¢
20 ships	\$ 3,207	0.32 ¢
57 ships	\$ 9,139	0.91 ¢

Source: Volume of imports in 2016-17: Hale and Twomey 2012, NESI Identified Issues: Competitive Pressures on Domestic Refining, p.33. Number of full-time equivalent import tankers in 2016-17: Hale and Twomey 2013, Australia's Maritime Petroleum Supply Chain, p.30.

Please let us know if you have any further questions. We look forward to the Committee's completed report.

Yours sincerely,

Ian Bray
Assistant National Secretary

cc: Senator Glen Sterle, Committee Chair

Attachment A:

Findings of the report *Australian Fuel Security and the Increasing Need for Clean Petroleum Tankers.*

1. Australia has an increasing reliance on tanker shipments for its supply of clean petroleum products, but significantly reduced opportunities for training people to operate these facilities due to the significant reduction in Australian-crewed coastal tankers.
2. Australian coastal clean product shipments involve multiple grades of cargo, particularly to smaller and regional ports. Current Australian-crewed tankers are specially modified and crew are trained to simultaneously deal with multi-grade loads and discharges without cross contamination.
3. Depending on the size of tanker used, based on current and announced refinery closures, the equivalent of between 53 and 64 full-time tankers will be required for clean petroleum imports by 2016/17.
4. Due to the use of the spot market, the actual number of tankers visiting Australia is much higher – we estimate over 600 tankers visited Australia in 2013. Approximately 54% of these tankers are inspected by the Australian Maritime Safety Authority.
5. Inquiries should be made with the Maritime Trade Office of the Royal Australian Navy in relation to their assessment of the extent to which the closure of Australian refineries and increased reliance on international spot market shipping affects the security of Australian fuel supply chains.
6. The analysis undertaken by Air Vice Marshall John Blackburn for the NRMA indicates that a thorough review of all the vulnerabilities the petroleum supply chain should be undertaken. In discussion, Blackburn confirmed that this should include the ownership, management and crewing of tankers.
7. The analysis in para 6 above could contribute to Blackburn's recommended benchmarking of Australian national and international supply chain security arrangements with that of comparable nations.
8. The cost per litre of cargo carried per ship by employing Australian crew on clean petroleum import cargoes ranges from 0.49 cents per litre to 1.40 cents per litre, and depends on the size of the ship, the supply country, and the import port. If a portion of the import fleet were crewed with Australians, the additional cost could be spread across the entire import volume to provide a modest cost per litre.
9. In 2016/17, projections show that 69% of total clean petroleum product imports will be to NSW and Queensland. With cargo sizes of 45,000 tonnes to Sydney and Brisbane, employing Australian crew costs only 0.87 to 1.06 the cents per litre. If LR1 tankers with 80,000 tonne cargoes are used, the cost drops to 0.49 to 0.59 cents per litre.

Attachment B:

Question on Notice put to the MUA

**SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT
REFERENCES COMMITTEE**

Inquiry into Australia's transport energy resilience and sustainability

Public Hearing

Monday, 2 February 2015

Sydney, NSW

Questions Taken on Notice – Maritime Union Australia

1. HANSARD, PG 38

CHAIR: Very good mates. I would trust him in a blue before I would trust most people in Australia and those beside me. From Senator Bullock and I, I can say that we are foremost interested in Australian jobs. There is absolutely no argument about that, and I would like to think that my colleagues around the table have the same view as me. Mr Bray, you talked about the example of the Vietnamese crewed ship on less than \$2 a day. You will probably be asked about the proof you have, and I have no doubt you will be able to supply that. How much money are we actually talking about by exterminating Australian jobs out there on the ocean and replacing them with crews from other countries? Is it a significant amount of money? Are we talking peanuts when we divide the difference in the cost over a litre of fuel, and we sell billions and billions of litres a year?

Mr Bray: Our view is: if crews are open to exploitation and there is no regulation on what their minimum wage would be, obviously it is a greater gap. However, it is a question that we have asked ourselves, and we are currently undertaking that research. We would like to take that on notice as we seek to get some expertise in terms of the costings that we have done, but we believe it is less than one cent per litre to employ Australian crews.

Senator Glenn Sterle
Chair
Rural and Regional Affairs and Transport Reference Committee
rrat.sen@aph.gov.au

9 February 2015

Re: Questions on Notice – Australia’s transport energy resilience and sustainability

Dear Senator,

Thank you for the opportunity to present to the committee on this most important topic. As indicated at the hearing I would be more than happy to present again before the committee and provide more detail if required.

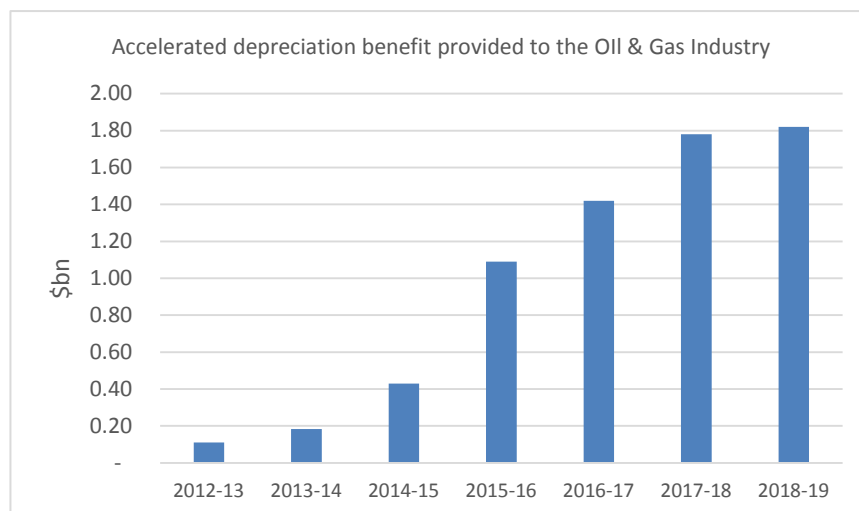
With reference to the questions on notice, BAA provides the following responses.

Question 1: Please provide details about the level of government subsidy provided to the oil & gas sector and clarify the support provided to the biofuel sector.

The biofuel sector currently receives financial support only from the federal government in the form of grants. Both biodiesel and ethanol receive grants that off-set their excise obligations. In the May 2014 budget it was announced by the government that this support would cease in 2015 and that over a 5 year period excise would be phased in resulting in ethanol paying 12.5cpl (cents per litre) (indexed from Nov 2014) and biodiesel paying 19.1cpl (also indexed). In the 12 month period to July 2014 the total grant assistance provided to Australian biofuel producers totaled \$126M¹.

Calculating the subsidies provided to the oil and gas sector from state and federal governments is a much harder task, as the forms of effective subsidisation have changed greatly over the years. However two easily discernable subsidy mechanisms are provided in the form of an excise break for LPG and accelerated depreciation that is afforded to the oil and gas projects.

In the year to July 2014, the federal government provided \$940M² of excise relief for LPG use alone. According to a report compiled by the Australian Conservation Foundation³ over a billion dollars was forecasted to be provided to the oil and gas industry in the 2015-6 financial year.

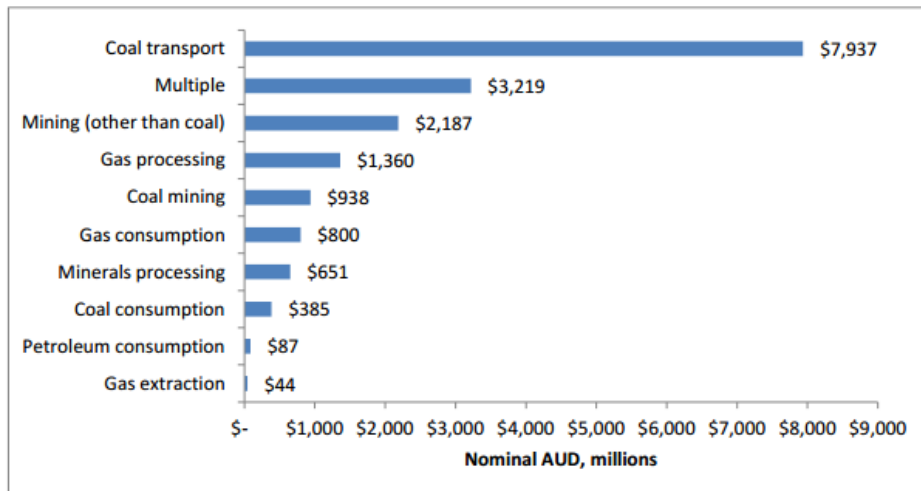


¹ Calculated based on sales data collected from producers for the 2013/14 financial year

² Calculated based on data provided in the Australian Petroleum Statistics, Issue 220, November 2014. (Office of the Chief Economist)

³ Australian Conservation Foundation, "Drill Now Pay Later – The growing cost of tax breaks for the oil and gas industry in Australia" 2011

In addition to the Federal subsidies, extensive state subsidies are also provided to the Oil & Gas industry. According to a report published by the Australian Institute⁴ in June 2014, over \$2.2 billion was provided in subsidies to the sector.



The Overseas Development Institute November 2014 report suggests that the total national subsidies in 2014 ranged from \$2,897 to \$3,543 million where payments are made up of direct spending and tax relief.

Subsidy	Subsidy type	Targeted fossil-fuels	Estimated annual amount (million \$)	Timeframe for subsidy-value estimate	Stage
Direct spending					
Supplementary exploration funding for Geoscience Australia beginning in 2013/14: this agency within the Department of Interior provides exploration data to oil companies, especially in frontier and offshore areas (Geoscience Australia, 2014)	Direct spending	Oil	\$30 to \$100	FY 2012/13 and 2013/14	Exploration
Competitive tender process for offshore petroleum exploration permits: the Government of Australia assumes the risk for exploration costs through cash-bids and work-bids (Parliament of Australia, 2014)	Direct spending / liability	Oil	N/A*	N/A*	Exploration
Tax expenditure					
Exploration and prospecting deduction: allows companies to fully deduct some exploration costs from tax payments (Environment Victoria and Market Forces, 2014)	Tax deduction	Oil, gas and coal	0	Phased out	Exploration
Exploration development incentive: small exploration companies with no taxable income can provide exploration tax credits to shareholders (ATO, 2013)	Tax deduction	Oil, gas and coal	\$23 to \$37	FY 2014/15 – 2016/17	Exploration
Fuel tax credits to mining companies for fuel consumption (Environment Victoria and Market Forces Grundoff, 2013)	Tax deduction	Oil, gas and Coal	\$2,135 to \$2,300	FY 2011/12, 2013/14 – 2016/17	Extraction (including exploration)
Deduction for capital works expenditure (Grundoff, 2013)	Tax deduction	Oil, gas and coal	\$464	FY 2012/13	Extraction (including exploration)
Accelerated depreciation for fossil-fuel assets (Environment Victoria and Market Forces Grundoff, 2013)	Tax deduction	Oil and gas	\$225 to \$460	FY 2012/13 – 2016/17	Extraction (including exploration)
Capital expenditure deduction for mining, quarrying, and petroleum operations (Environment Victoria and Market Forces Grundoff, 2013)	Tax deduction	Oil, gas and coal	\$2	FY 2012/13 – 2016/17	Extraction (including exploration)
150% deduction of exploration expenditures from PRRT in 'frontier' areas** (Department of Industry, 2013)	Tax deduction	Oil and gas	0	Phased out	Exploration
Favourable uplift rate for Petroleum Resource Rent Tax (PRRT) for exploration and other expenditures and losses (Environment Victoria and Market Forces, 2014)	Tax deduction	Oil and gas	\$18 to \$180	FY 2013/14 – 2016/17	Extraction (including exploration)
Total annual national subsidies			\$2,897 to \$3,543		Extraction (including exploration)

Australia is not alone in providing significant incentives to oil and gas exploration and production. Fossil fuel subsidies totaled \$550 billion in 2013 according to the IEA, more than 4 times that of global subsidies to renewable energy⁵. The multiple difference in Australia is very much out of step with global support where by fossil fuel subsidies are between 15-30 times higher than that afforded to the renewable fuel sector.

⁴ Australia Institute, Peel; Campbell; & Dennis, "Mining the Age of Entitlement – State government assistance to the mineral & fossil fuel sector", June 2014

⁵ International Energy Agency (IEA), "World Energy Outlook 2014", November 2014

Question 2: Can you provide evidence that gravimetric rather than volumetric analysis of a fuel's "Energy Content" is internationally accepted?

The measurement of Energy content, (sometimes also referred to as Heating value, calorific value or Heat of Combustion) is governed by standard test methods globally. The standards most often quoted are the American National Standards – ASTM D240 and D4809. In these standards it is stated that the Standard International (SI) units of mega-joules/kilogram are to be used in quantifying energy content. This is the standard test method also utilized by Intertek who deliver services to the oil industry with respect to independent fuel testing.

The reason that mass (or gravimetric) analysis is used in this determination is because the density of liquids change with temperature and pressure. Therefore, if energy content is ever specified for a liquid, both temperature and pressure are also specified. This is so the measure can be converted to an equivalent mass and enable comparisons between different fuel types.

As further evidence of the acceptance of this as a standard way in which energy contents are compared across fuels, I have included an excerpt from a study performed by the University of Toledo⁶ in the US: *Combustion Chemistry of Biodiesel for Use in Urban Transport Buses: Experiment and Modeling* where Ultra Low-Sulphur Diesel (ULSD) is compared to Biodiesel. The table (see below) clearly shows that the energy contents are compared on a mega-joule/kilogram basis.

Table 1. Key Physical and Chemical Properties of ULSD and Biodiesel

Physical/Chemical Property	ULSD	Biodiesel (B100) ^b
Density/15 °C (kg/m ³)	820-850	870-890
Kinematic viscosity/40 °C (cSt)	1.9	1.9-6.0
Cetane number (CN)	40	47 min
Heating value (kJ/kg)	~43000	36500-39500
Oxygen content (% weight)	0	10-12
Sulfur content (ppm)	11 max	0.05 max
Air fuel equivalence ratio	~15	12.5 ^a
Latent heat of evaporation (kJ/kg)	265	230 ^a
Molecular weight (kg/kmol)	~170	290 ^a
Surface tension/40 °C (N/m)	0.026	0.0285 ^a
Boiling point (°C)	180-360	345 ^a
Bulk modulus of elasticity (bar)	16000	17500 ^a
Flash point (°C)	55	130 min
Ash wt. %	0.01 max	0.02 max
Ca and Mg combined	NR ^c	5ppm max

^a Average values.

^b SME.

^c Not reported.

Commercial shipping of liquid product is also measured in tonnes as evidenced by the attached bill of lading for a commercial ship load of biodiesel product and ethanol product where it can be clearly seen that tonnes have been quoted as the measure for the product. Where litres are shown on a Bill of Lading, they are quoted as L15 litres, meaning litres at 15oC, this volume is generally calculated from the loaded mass. I have attached copies of two bill of lading for your information.

If the committee have any further questions or would like further clarification, I would be more than happy to provide them with the details requested.

Yours sincerely,

Gavin Hughes
CEO
Biofuels Association of Australia

⁶ Mineta Transportation Institute – University of Toledo, Combustion chemistry of biodiesel for use in urban transport buses: Experiment and modelling, Ashok Kumar, Ph.D.; Dong-Shik Kim, Ph.D.; Hamid Omidvarborna; Sudheer Kumar Kuppilli; October 2014

PM generated from regular diesel.¹¹⁻²⁶ There are few studies that show an increase in PM emitted from vehicles running on biodiesel.²⁶⁻²⁸ The USEPA reported PM reduction when using a B20 biodiesel fuel, which is composed of 20 vol% biodiesel and 80% ULSD.⁴ In addition, biodiesel emitted less carbon monoxide (CO), total unburned hydrocarbon, soot (solid carbon fraction of PM), and total PM mass than conventional fuels. Table 1 presents the physical and chemical properties of pure biodiesel (B100) and ULSD.

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^a Average values.

^b SME.

^c Not reported.

As shown in Table 1, one of the most important differences between biodiesel and ULSD is the relatively high CN of biodiesel. CN is one of the parameters that determine the quality of fuel, and is the equivalent of octane number for gasoline. A high CN means a fuel ignites rapidly with a short ignition delay after injecting the fuel into an engine. The high oxygen content of biodiesel is another important difference. Other properties, such as flash point and viscosity, have significant effects on engine performance as well as on emissions. More details on these physical properties and their effects on emissions are discussed later. Biodiesel has lower sulfur than most petroleum-based diesel, including ULSD. Sulfur content in biodiesel is very low (<1%), and virtually no SO_x is produced during combustion.²⁹⁻³¹ The high oxygen content of biodiesel allows it to burn more completely; as a result, fewer unburned fuel emissions are produced. Due to the small number of carbon atoms in biodiesel, the heating value of biodiesel is lower than that of ULSD.

Biodiesel has received considerable attention for its potential as an alternative source of fuel for the transportation sector. The consumption of biodiesel has increased dramatically since early 2000, as biodiesel was considered ready-to-use renewable energy, providing a solution to decrease greenhouse gas emissions. It helps stabilize the price of fossil fuel

**SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT
REFERENCES COMMITTEE**

Inquiry into Australia's transport energy resilience and sustainability

Public Hearing

Monday, 2 February 2015

Sydney, NSW

Questions Taken on Notice – Gas Energy Australia

1. HANSARD, PG 55

Senator HEFFERNAN: At what price for diesel does gas fall out of the sky?

Mr Moore: I would have to come back to you on notice.

Senator HEFFERNAN: I was sure you would know the answer.

Mr Moore: Not off the top of my head.

Senator HEFFERNAN: It is the most basic, important question. When does it become unviable? We know the price of gas is going to treble. You can dream as much as you like, but at the end of the day Caltex and those fellows will drive it through you. It comes down to price.

Mr Carmody: Surely this meeting is about more than just the price of diesel.

Senator HEFFERNAN: I am going to get to some more in a minute. We can fantasise about a fuel, but the proposition has to be marketable.

Mr Moore: Absolutely.

Senator HEFFERNAN: So you will come back to me on the cut-off point—

Mr Moore: We will come back to you.

Gas Energy Australia response

Despite the benefits of lower fuel costs, natural gas powered trucks using Liquefied Natural Gas (LNG) or Compressed Natural Gas (CNG) carry some form of initial price premium prior to use, the same as vehicles powered by most other alternatives to crude oil based fuels. This is true whether buying a factory fitted natural gas truck or converting an existing petrol or diesel truck.

Consequently, truck owners or fleet operators contemplating using a natural gas powered truck must carefully assess the length of time before lower fuel costs recoup or 'payback' the price premium of a factory fitted or converted natural gas truck. Ideally, this period or 'break-even' point will be no more than two years.

In practice, the 'break-even' point of a particular natural gas powered truck will depend on a number of factors including:

- a. its natural gas vehicle price premium;

- b. how much fuel it uses (which in turn depends on the distances it will travel and its fuel economy with various loads);
- c. the relative price of the natural gas fuel it uses (eg, LNG or CNG) and diesel and the extent to which it can substitute gas for diesel;
- d. its relative non-fuel running costs (eg, servicing and maintenance) of natural gas and diesel trucks; and
- e. the relative tax and other government charges imposed on particular natural gas and diesel trucks and the fuel they use.

For example and to help answer the question above, a selection of typical long haul trucks converted to run on LNG and operated by a large fleet operator would require a wholesale diesel price of somewhere between \$1.30 and \$1.50 per litre to 'break-even' after two years given current LNG prices and tax arrangements. CNG trucks would require similar wholesale diesel prices to 'break-even' after two years given current CNG prices and tax arrangements.

An LNG fleet operator prepared to accept the higher risk and reduced profitability associated with breaking even after three years could survive with a wholesale diesel price of somewhere between \$1.20 and \$1.40 per litre. A fleet operator that values the non-financial benefits of natural gas vehicles such as lower greenhouse gas emissions, less tailpipe pollution, less noise, regional development and energy security would be more likely to accept a longer 'payback' period.

Nevertheless, the current wholesale diesel price of around \$1.10 per litre is not much different than the current price of LNG or CNG. As a result, a fleet operator would have no prospect of being able to recoup a natural gas vehicle's price premium unless they expected current low oil prices to be a short term phenomenon.

A key contributor to the current difficulty natural gas fuels face in competing with diesel is the scaled program to impose excise on gaseous fuels over a four year period that began in 2011. For example, in the absence of excise on LNG, a large fleet operator would require a wholesale diesel price of somewhere between \$1.10 and \$1.30 per litre to 'break-even' after two years given current LNG prices. This range suggests some LNG trucks might be able to 'break-even' even if current low oil prices were to persist.

Further, in the absence of excise on LNG, an LNG fleet operator prepared to break even after three years could survive with a wholesale diesel price of somewhere between \$1.00 and \$1.20 per litre which suggests even more LNG trucks might be able to 'break-even' in a low oil price world.

From a public policy perspective, the relatively small amounts of revenue collected as a result of the imposition of excise on transport fuel LNG and CNG need to be assessed against the forgone community benefits in terms of reduced greenhouse gas emissions, tailpipe pollution, noise and increased regional development and energy security, that would flow from greater displacement of diesel trucks by natural gas trucks.

In addition, it is critical that governments take a long term perspective when framing energy policies – the infrastructure needed to deliver fuel diversity and energy resilience cannot be built overnight in response to a sudden disruption to supplies or hike in prices. In this context it is worth noting that the Bureau of Resources and Energy Economics' *2014 Australian Liquid*

Fuels Technology Assessment concluded that gaseous fuels offer the lowest production costs now and over most of the report's projection period to 2050 and are expected to be cost competitive with lower cost renewable technologies over the same time-frame.

2. HANSARD, PG 55

Senator HEFFERNAN: Have you modelled the price of gas going forward?

Unidentified speaker: There are various models.

Senator HEFFERNAN: Can you do that and bring that back to us?

Unidentified speaker: We will certainly try, but your guess on what is going to happen—

Gas Energy Australia response

Industry draws on a variety of sources such as forecasts of natural gas supply and demand, oil prices and exchange rates when modelling future downstream transport LNG and CNG prices.

Page 11 of the Grattan Institute's Report No. 2014-12 – *Gas at the crossroads* – released in October 2014, provides wholesale natural gas price forecasts broadly consistent with current industry expectations.

It is important to note that the wholesale price of natural gas accounts for around 14 per cent of the bowser price of LNG along with fuel excise and the costs of liquefaction, delivery and running refuelling stations. Consequently, a 125 per cent rise in the wholesale price of natural gas from \$4/ gigajoule (GJ) to \$9/GJ as cited in the Grattan Institute Report would, all other things equal, increase the bowser price of LNG by roughly 18 per cent. Nevertheless, such a rise would increase the diesel break-even price by around \$0.25 per litre which would make very few LNG powered trucks a commercial proposition. Moreover, LNG suppliers would still need to be able to ensure they could secure long term wholesale natural gas supply contracts.

**SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT
REFERENCES COMMITTEE**
Inquiry into Australia's transport energy resilience and sustainability
Public Hearing
Monday, 2 February 2015
Sydney, NSW
Questions Taken on Notice – National Roads and Motorists' Association

1. HANSARD, PG 71

CHAIR: I suppose it would not be unfair while we are at it—not now but you can take it on notice—to see how Australia's trading partners fare compared to us.

Air Vice Marshal Blackburn: They are all far better off.

CHAIR: Yes, I understand. I do not expect you to answer it now, but if you want to give an example, fair enough.

NRMA RESPONSE

In 2014 NRMA conducted a comparative analysis of IEA member nations stockholding requirements and Government mandates to inform the development of the recently published Benchmarking Report¹. This analysis explored the split between industry and public stocks and the regulatory, compliance and reporting frameworks of those nations. Attachment 1 is a summary of this information for a selection of Australia's trading partners who are also IEA member nations.

Detailed analysis was not undertaken with regard to other key trading partners such as China and India, however, a snapshot / quick-view of these countries revealed activist government involvement throughout the oil / fuel life cycle. For example:

China

- China's national oil companies dominate the oil and gas upstream and downstream sectors, although the government has granted international oil companies more access to technically challenging onshore and deep water offshore fields.
- China's 10th Five-Year Plan (2000-2005) called for the establishment of a government-administered strategic oil reserve program to help shield the country from potential oil supply disruptions. The plan calls for China to construct facilities that can hold 500 million barrels of crude oil by 2020 with a goal to hold at least 90 days net imports by this date.

India

- India's upstream petroleum liquids industry is still mainly owned by state-owned firms, although the sector is open for competition and attracts some level of private and foreign investment. Also note that Indian national oil companies are purchasing more upstream stakes in overseas oil fields to increase supply security from imported crude oil.

¹ Blackburn J., *Benchmarking Australia's Transport Energy Policies*, December 2014 (previously tabled to the Inquiry)

- Note that in 2005, the Indian Government decided to set up strategic storage of 37 million barrels of crude oil at three locations. The Indian Strategic Petroleum Reserves Limited, a special purpose legal entity owned by the Oil Industry Development Board, would manage the proposed facilities, which are expected to be completed by 2015. The country anticipates having crude oil stocks to cover 90 days of the country's oil demand by 2020

The integrity of the information in relation to China cannot be guaranteed as this type of information is not something that is readily in the public domain.

The information above is based on an assessment by the US Energy Information Administration (EIA).

World Context

The report *Benchmarking Australia's Energy Transport Policies*² (previously tabled) observed that Australia is the only developed oil / fuel importing country in the world that has no mandated industry stockholdings, no Government owned stockholdings nor Government control over any part of the oil / fuel infrastructure.

G7 and European Union

More broadly, the G7 and EU, which comprise nations with whom Australia undertakes regular trade, are less sanguine than Australia when it comes to energy security.

The G7 Energy Ministers and the EU Commission for Energy met in Rome on 5-6 May 2014. The resulting Rome G7 Energy Initiative for Energy Security Joint Statement identified core principles for energy security which include the need for:

- Development of flexible, transparent and competitive energy markets, including gas markets.
- Diversification of energy fuels, sources and routes, and encouragement of indigenous sources of energy supply.
- Reducing greenhouse gas emissions, and accelerating the transition to a low carbon economy, as a key contribution to enduring energy security.
- Enhancing energy efficiency in demand and supply, and demand response management.
- Promoting deployment of clean and sustainable energy technologies and continued investment in research and innovation.
- Improving energy systems resilience by promoting infrastructure modernization and supply and demand policies that help withstand systemic shocks.
- Putting in place emergency response systems, including reserves and fuel substitution for importing countries, in case of major energy disruptions.

In particular, Paragraph 8 of the Joint Statement noted:

- **'Energy security must include timely investment to supply energy in line with economic developments and environmental needs. Some investments in infrastructure, needed to**

² Blackburn J., *Benchmarking Australia's Transport Energy Policies*, December 2014

increase security of supply, and that cannot be built according to market rules, could be supported by regulatory frameworks or by means of public funding.’

At the subsequent 4-5 June 2014 G7 Leaders summit in Brussels, the Leaders issued a Declaration which addressed the outcomes of the Rome energy ministers meeting by stating their support for the G7 Energy Initiative’s 7-principles as well as their commitments to ‘identify and implement concrete domestic policies ... to build a more competitive, diversified, resilient and low-carbon energy system.’ Based on the 7-principles, the Declaration also articulated immediate actions upon member nations including to ‘conduct assessments of our energy security resilience and enhance joint efforts, including on critical infrastructure, transit routes, supply chains and transport.’

Australia is out of step with our trading partners and our historical allies when it comes to addressing energy security.

2. HANSARD, PG 77

Senator BACK: Firstly, can you provide the secretariat with the link to the ClimateWorks report that you commented on. Secondly, with regard to the IEA, we have four countries in our region—Korea, Japan, ourselves and New Zealand—who are signatories. An enormous number of countries are not—China obviously, Indonesia, Malaysia, Thailand, Vietnam, Singapore. You have had discussions with them. Is this 90-day figure, which has been quoted, relevant to our region? Is it of itself adequate? What are the other countries doing? As you explained today, the fuel consumption these days is in our region. It is not in Europe; Europe’s consumption is declining. What sort of storages have these other countries got? What lessons have they got that we can take?

NRMA RESPONSE

ClimateWorks Report:

Improving Australia’s Light Vehicle Fuel Efficiency

http://climateworks.com.au/sites/default/files/documents/publications/climateworks_vehicle_efficiency_standards_briefing_paper_feb2014_0.pdf

The committee may also choose to review the subsequent report from the Climate Change Authority

Light vehicle emissions standards for Australia

<http://www.climatechangeauthority.gov.au/Node/224>

Regional Situation

NRMA will address the remaining elements of Question 2 by briefly looking at China specifically, and then the rest of the region under the umbrella of ASEAN and ASEAN+3, with general comments regarding storage and lessons to be learned.

China

As indicated at Question 1, information about China's intentions and strategic stockholdings is not necessarily easily sourced or indeed reliable, however, the US EIA assessments referred to in the response to Question 1, are probably the most reliable of the publically available information. (The Australian Department of Industry and Science may have access to additional information that could address the intent of this Question.)

Regardless of the questionable integrity of hard data about China's energy security intentions, what is clear is that they are actively engaging with the IEA. The IEA website categorises China as a 'key partner country'. Lending weight to the seriousness of this engagement and partner status, in January 2015, China hosted more than 70 participants to engage in simulated oil supply disruptions as part of an IEA Emergency Response Exercise (ERE). The IEA and its members regularly conduct such preparedness exercises at its headquarters in Paris, but the January event marked the first time the IEA had run an ERE in China.

The two-day exercise drew participants from 13 countries, including representatives of Chinese government and industry. During the event, the IEA stressed the importance of transparency, advance planning, and the need for international cooperation and co-ordination in oil supply emergencies.

The exercise began with a training session in which participants were briefed on IEA emergency response procedures during a supply crisis. Following the training session, participants worked together to develop strategies to respond to a pair of hypothetical supply disruption scenarios.

It could be extrapolated from this engagement, and IEA partner status, that China is looking to the IEA model to inform its future energy security requirements. The US EIA observation that China is aiming to a 90 day net import stockholding by 2020 gives support to this proposition.

ASEAN and ASEAN +3

With regard to the South East Asian region more generally, ASEAN has been moving towards a regional energy framework which will include voluntary oil stockpiling.

The ASEAN Petroleum Security Agreement (APSA) 2009 states under its medium to long term measures '... oil stockpiling, whether individually or jointly by ASEAN member states, shall be on a voluntary and commercial basis. The joint stockpiling may be commenced by ASEAN member states that are ready and willing to make the commitments and cooperation.'³

In 2010, Japan helped develop ASEAN's first oil stockpiling roadmap. The endorsement of the roadmap came after the ASEAN +3 - Japan, China and South Korea - agreed in 2008 to jointly prepare a regional oil stockpiling plan to prevent shortages and reduce the impact of future oil price surges.

The ASEAN +3 held another Oil Stockpiling Roadmap (OSR) Workshop in Feb 14 to discuss the economic benefits of investing in a joint stockpile. Subsequent to the (OSR) workshop, the Japanese Ministry of Economy, Trade and Industry (METI) planned a further meeting (May 2014) to

³ ASEAN ratified the APSA in 2013.

propose a framework to cooperate to enhance strategic petroleum reserves (SPR) and crisis management systems for emerging countries in Asia.

A final report is expected in June 2015. Japan's latest moves will come as part of its ongoing efforts to help emerging economies in Asia to develop their SPRs based on its belief that such developments would also be beneficial for its energy security.

In September 2014, the 11th ASEAN Energy Ministers meeting was held in Laos. Following are excerpts from the Joint Statement that are pertinent to the Australian situation and again reflect the disconnect between what is occurring in our region and the position being taken by successive Australian Governments. It is worth pointing out that ASEAN+3 are actively undertaking a range of needs analyses to fully understand their individual and joint stockholding requirements. (NRMA has consistently advocated for Australia to undertake such a process of analysis and assessment to determine our 'real' needs.)

'... the Ministers expressed their appreciation to Japan for leading the Energy Security Forum in ASEAN+3 energy cooperation, and to China and Korea for supporting the energy security cooperation. **The Ministers emphasized the importance of the Energy Security Forum in ASEAN+3 energy cooperation to serve as a platform to strengthen energy security and sustainable development within the region...**

'Commending the continuous conduct of ASEAN+3 Study on Oil Product Information and ASEAN+3 Oil Price Database as the references in helping identify policy options to ensure energy security, the Ministers encouraged the ASEAN+3 countries to continue their valued contributions to the collection and submission of oil product quality information, oil price and energy data under the auspices of the ASEAN Centre for Energy (ACE) and the Institute of Energy Economics, Japan (IEEJ) to bolster the robustness of the reports.

'On oil stockpiling, the Ministers appreciated the efforts of Oil Stockpiling Road Map (OSRM) Secretariat: ACE and Japan Oil, Gas and Metals National Corporation (JOGMEC), for organizing the 2nd Workshop of OSRM for ASEAN+3 held on 25 February 2014 in Siem Reap, Cambodia ... As the way forward, the Ministers welcomed the follow-up activities for 2014-2015, namely: (a) Continue to organise the Workshop of OSRM based on the Result of Country Needs by **taking into consideration the specific needs of the various countries;** (b) **Conduct a detailed assessment of the oil stockpiling situation in ASEAN Member States (AMS),** by conducting one day meeting/discussion with respective officials in each country for on-site data discussion; (c) **Develop guidelines for the Development of Oil Stockpiling at National Level through a joint study;** and (d) Conduct joint study with ASEAN Council on Petroleum (ASCOPE) on Impact of OSRM on ASEAN Petroleum Security Agreement (APSA)...'⁴

In other words, the countries from which we source the majority of our refined fuels are sufficiently concerned about regional fuel supply security to initiate national and collective fuel stockholding measures. Australia remains nonplussed.

⁴ Joint Ministerial Statement, the 11th ASEAN+3 (China, Japan and Korea) Ministers on Energy Meeting, 23 September 2014, http://www.asean.org/images/Statement/2014/Sept/Joint_Ministerial_Statement_The_11th_ASEAN3_China_Japan_and_Korea_Ministers_on_Energy_Meeting.pdf

Stockholding Observations

The adequacy of the IEA 90 days net imports minimum stockholding for nations of the region is not something NRMA is able to comment on. However, we do believe that it is worth highlighting that the nations of the region, through ASEAN and ASEAN+3, are actively engaging with the IEA as they develop their individual and joint energy security frameworks. The conversations are being had both domestically and regionally, frameworks are being proposed, roadmaps are being developed and governments are investing resources (of varying quanta and nature) in recognition of the fact that energy supply security is a national priority and cannot be left to the market alone.

Additionally, and from the Australian perspective, NRMA does not believe storage in and of itself will guarantee fuel security – it's about end-to-end supply continuity – the 'flow' of oil and fuel. The only way this can be achieved effectively is to have part of 'flow' controlled from the source – whether it is Australian oil or alternative transport fuels – with the commensurate level of storage to ensure resilience and sustainability and therefore energy security. This is where Government needs to intervene to set the boundaries and policies.

But first and foremost, the Government must understand what Australia 'needs' to ensure resilience, sustainability and security. Therefore, as the nations of ASEAN and ASEAN+3 are doing, comprehensive analysis and assessment is required so we can baseline our requirements and then realistically test and evaluate the impacts of a range of disruptions and mitigations.

'Storage' information in relation to regional nations was provided in the discussion and in Attachment 1 submitted in our answer to Question 1.

Lessons for Australia

As discussed above, Australia must learn from the region and undertake a thorough and whole-of-Government analysis of the nation's energy 'needs'.

Perhaps a bigger challenge for Australia is a cultural one – the 'she'll be right' approach. And while 'she may be right,' right now, history tells us this will not always be so! A regional example of where a cultural tendency contributed to a national calamity can be seen in Japan and the Fukushima disaster.

The Japanese *Strategic Energy Plan*⁵ released in April 2014 is informed quite significantly by the Fukushima disaster and the societal, economic and preparedness impacts of the accident. Of particular note from a cultural perspective was the identification of a cultural tendency termed the 'safety myth'. The myth of safety 'created the impression that if the criteria and requirements set by the GOJ [Government of Japan] and business operators were satisfied, there would be no risk, requiring no further consideration of it'. The Japanese people (including the Government) were complacent, and assumed the extant checks and balances were satisfactory. She'll be right?

⁵ Government of Japan, *4th Strategic Energy Plan*, Provisional Translation, April 2014, http://www.enecho.meti.go.jp/en/category/others/basic_plan/pdf/4th_strategic_energy_plan.pdf

The Japanese government is adamant not to fall victim to this cultural blindspot again. The *Strategic Energy Plan* acknowledges that overcoming this 'myth' is a major obstacle and has dedicated a chapter to exploring what might need to be done. The Plan acknowledges that the government must 'play a more proactive role in implementing preventive and multi-layered measures ...'

Consider this observation in the *Strategic Energy Plan*:

'It is not easy to find a solution to the question of how to create an optimal energy supply-demand structure for Japan. We can find a solution only by assessing the situation in detail and making strategic and pragmatic efforts to resolve strategic issues.'

This is a lesson for Australia from one of our major trading partners and ally. The past is not always a reliable indicator of the future.

Unfortunately, the Australian Institute of Petroleum in their submission to this inquiry observed:

'There is no evidence that the substantial cost of an emergency stockpile is justified on energy security grounds, given industry's efficient and reliable performance to date with no widespread or prolonged fuel shortages being experienced in Australia for decades.'⁶

⁶ Australian Institute of Petroleum, submission No. 17 to Senate Inquiry, November 2014, p. 12

Attachment 1 to NRMA QoN – Inquiry into Australia’s transport energy resilience and sustainability

Country	Holdings*	Industry**	Public	Stockholding obligation / policies
Australia	60	60	0	<ul style="list-style-type: none"> ▪ No public stocks. ▪ No minimum stockholding requirement on oil companies ▪ Australian government relies on the normal stockholding practices of the domestic oil industry to meet its IEA obligation. Reporting of these stockholdings is not mandatory.
Germany	143	37	106	<ul style="list-style-type: none"> ▪ Stockholding agency, Erdölbevorratungsverband (EBV) holds all compulsory stocks. Oil Stockholding Law requires EBV to hold stocks equivalent to 90 days of net imports and of processed volumes of main products (gasolines, middle distillates and fuel oils). ▪ Membership in EBV is compulsory for refiners and importer ▪ EBV holds 45% stocks in crude oil and 55% as product. EBV owns more than 90% of its stocks. ▪ By law, EBV stocks must be distributed throughout the regions of Germany with a minimum of 15 days’ supply of finished product in each region. ▪ Almost 100% of Germany’s compulsory stocks are held within its national territory although occasionally the EBV allows very small holdings in other countries.
Japan	149	64	85	<ul style="list-style-type: none"> ▪ Holds public stocks and places a minimum stockholding obligation on industry. ▪ Strategic reserves held by the government are all in crude oil form. ▪ Private stocks are mandatory for the industry with an obligation to maintain 70 days of stockholding proportional to the volume of imports, production and sales for each company. ▪ By law, all government / compulsory stocks must be held domestically
Korea	241	117	123	<ul style="list-style-type: none"> ▪ Holds public stocks ▪ Crude refiners and oil product importers are obliged to hold at least 40 days of stocks

Country	Holdings*	Industry**	Public	Stockholding obligation / policies
New Zealand	100	90	10	<ul style="list-style-type: none"> ▪ Private companies holding emergency oil stocks can co-mingle compulsory and commercial stocks. ▪ No minimum stockholding obligation on industry ▪ From 2007 acquired ticket reservations for stocks held in other IEA countries. ▪ All tickets are held by the government ▪ Public stocks held in other countries are a mix of refined and crude
United Kingdom	224	224	0	<ul style="list-style-type: none"> ▪ A major oil producer with minimal reliance on imports however declining production is shifting the balance ▪ Minimum stockholding obligations on industry. Companies who supply over 50 Kt of oil to the UK market in a year are required to hold stocks to meet EU and IEA obligations ▪ Refiners are obligated at 67.5 days' supply (approx 10 companies in this category) ▪ Importers and financiers (i.e. non-producers) are obligated at 58 days' supply (approx 12 companies in this category) ▪ Significant traders (other companies who will hold oil stocks but not supply direct to retailers) are obligated at 58 days' supply (approx 8 companies in this category) ▪ Government is exploring an industry-owned industry-operated Compulsory Stocking Entity to ensure future management of stockholding requirements ▪ No restrictions on locations of compulsory stocks however companies must report monthly on the location of those stocks ▪ Companies holding stocks outside the UK must have plans in place to repatriate those stocks in case of an emergency ▪ All companies subject to a stockholding obligation are required to report levels of stock monthly to the Department of Energy and Climate Change (DECC)
USA	205	114	91	<ul style="list-style-type: none"> ▪ The US holds public stocks and places no separate compulsory stock obligation on industry.

Country	Holdings*	Industry**	Public	Stockholding obligation / policies
				<ul style="list-style-type: none"> ▪ The Strategic Petroleum Reserve (SPR) holds reserves of up to 1 billion barrels. The US government has exclusive authority over the drawdown and distribution of oil from the SPR. ▪ It has no powers over industry stocks. ▪ The Government also holds a 2-million barrel supply of emergency fuel oil for homes and businesses.



Senate Rural and Regional Affairs and Transport References Committee
ANSWERS TO QUESTIONS ON NOTICE
Industry and Science Portfolio
Public Hearing
Monday, 2 February 2015

AGENCY/DEPARTMENT: DEPARTMENT OF INDUSTRY AND SCIENCE

TOPIC: Inquiry into Australia's transport energy resilience and sustainability

REFERENCE: Question on Notice (Hansard, 2 February 2015, PG 89-96)

QUESTION No.: 1 HANSARD, PG 89

Senator MADIGAN: Does the government accept the ultimate position that no refining capacity leaves us at risk? The government's policy is no onshore refining capacity for Australian oil; it is not part of the government's policy. Does the department see that as a risk?

Mr Ryan: We assess the risk in terms of where we are going to get our supply of refined oil from and that is a mixture of imports and refining that we do locally. At this point in time, we have a mixture of both and we continue to do our assessments on that basis. We do not have a target for the minimum refining we might require in this country.

Senator HEFFERNAN: Is that because you do not know? You do not appear to have an answer.

Mr Ryan: We do the assessments on the available mechanisms that we have for delivering—

Senator HEFFERNAN: You do not appear to have a straight answer. Can you give us the working paper that allows you to make that bureaucratic answer with no detail? You give an assessment. That is meaningless.

ANSWER

The Australian Government position is that refinery closures are a commercial decision to be determined by the owners/operators of refineries. The key concern for the Government is that any refinery closures and conversion to import terminals that do occur are done so in an orderly manner with a smooth transition to minimise any potential impacts on motorists and industry.

The Government and the Department of Industry and Science accept there are risks, as identified in the 2009 and 2011 National Energy Security Assessments (NESA), associated with the declining refinery capacity. As such, experts were commissioned in 2012 to assess the risks. The *National Energy Security Assessment (NESA) Identified Issues: Competitive Pressures on Domestic Refining in 2012* report assessed and tested Australian refining closure scenarios. The main finding was that Australia was well placed to maintain domestic energy security through access to the large Asian refining system with significant excess capacity and producing Australia specification fuels in the next decade. The current excess refinery capacity in the Asia Pacific is around 16-18%. Australia's current total refining capacity would represent around 1% of this surplus refinery capacity in the Asia Pacific.

The report is available on the Department's website at: http://www.industry.gov.au/Energy/Documents/Energy-Security/nesa/NESA_IdentifiedIssuesCompetitivePressuresRefining.pdf.

QUESTION No.: 2 HANSARD, PG 90 – 91

Senator MADIGAN: Mr Ryan, can the department inform the committee how much fuel oil there is held in industry stocks at this point in time? Do you have any idea of what is onshore in the country at the present time, Mr Ryan or the department?

Dr Grassia: We do have statistics that are collected by the department through a voluntary data collection system. That gives us a sense of how much fuel is in the system including crude oil.

Senator MADIGAN: How often are they collected, Dr Grassia? How up to date are they?

Dr Grassia: The statistical collection is done on a monthly basis.

Senator MADIGAN: Right. And the figures that you have on hand are a month old, are they—six months old, one month old?

Dr Grassia: They are collected on a monthly basis. They are usually collected at the end of the month for that month, so they are a month old.

Senator MADIGAN: A month old. So they are up to date within a month. Why is Australia different?

.....

CHAIR: Senator Madigan has the call. We all want to hear the information. Senator Madigan, please go back to your original question. The original question was: how much have you got?

Senator MADIGAN: So you cannot give us a specific answer to that at the moment, Dr Grassia?

Dr Grassia: I do not have a figure in front of me, no.

Senator MADIGAN: Does the department see that as an important issue?

Dr Grassia: It does, and it is working on improving our data collection. So there is a process going on at the moment to move towards data collection using the Australian Taxation Office and Customs data, which is based on mandatory collection, and that will be the basis of reporting.

Senator MADIGAN: Can I just clarify this. So the industry department, which is charged with industry, fuel security et cetera, has to improve its data collection. The department is charged with looking after this. You are telling me the data collection has to be improved.

Dr Grassia: Because there are some areas where companies are not reporting, because it is a voluntary system at the moment.

Senator: Can you describe the areas where that is happening.

Dr Grassia: Which companies?

Senator HEFFERNAN: What you just said, yes. Which companies are not reporting?

Dr Grassia: There are some independent fuel companies that do not report.

Senator HEFFERNAN: Can you provide that in written form to this committee, or don't you know?

Dr Grassia: As I said, I would have to take that on notice.

ANSWER

While fuel oil is a very specific product used as fuel in ships, the discussion indicates that the question relates to a broader interpretation of fuel. On this basis, using the most up-to-date figures for December 2014 from the Australian Petroleum Statistics (APS), Australia had 4,275 kilo tonnes crude oil equivalent representing 52 days cover of daily net imports. This represents about 34 days of historical average daily consumption.

The Department of Industry and Science collects petroleum industry information on production, refining, sales and stock of all petroleum (covers crude oil, refined products and additives such as biofuels) from market participants on a voluntary basis. Aggregated trade (imports and exports) data

is currently sourced from Customs via the Australian Bureau of Statistics. This data set is seen as an important part of informing Australia's liquid fuel security and its collection predates Australia joining the International Energy Agency (IEA).

This data is collected in a form that reflects the requirements of IEA reporting on a monthly basis, one month in arrears on the 19th of each month. The Department of Industry and Science publishes an aggregated subset of this data as the APS publication at <http://www.industry.gov.au/industry/Office-of-the-Chief-Economist/Publications/Pages/Australian-petroleum-statistics.aspx>.

Due to the voluntary nature of the APS, there are several smaller independent upstream and downstream market participants that do not always provide data to the department for a range of reasons. In particular the exposure of commercially sensitive information that could affect the company's competitiveness and operations. While it is possible to identify the companies that do not respond, this may confirm the concerns regarding confidentiality.

As a result of less than full data coverage, the Department is striving to further improve the APS through the use of existing mandatorily collected data. It should be noted that the Office of the Chief Economist currently considers the APS to be accurate within a five per cent margin of error following a substantial program to improve the data over the last two years. Further improvements may be realised by accessing existing mandatory data collections.

Several government agencies including the Australian Taxation Office (ATO), Australian Customs Border and Protection Service (ACBPS) and the National Offshore Petroleum Titles Administrator (NOPTA) collect relevant data on a confidential mandatory basis. The Department is working with these agencies to develop inter-agency information sharing arrangements, which will maintain confidentiality and result in more accurate petroleum data.

QUESTION No.: 3 HANSARD, PG 96

Senator RICE: Perhaps the question to take on notice when they are called back is this: putting two and two together, you are saying that we have either got 34 or 55 days supply. You are also saying that that is sufficient. I want to see the assessment that says that that is sufficient and that makes Australia so different from all the member countries of the IEA that have the 60 to 150 days.

Senator BACK: 224.

Senator RICE: Perhaps you could take that on notice for when we call you back.

ANSWER

As noted in Question 2, stocks of fuel can be expressed in either days of net imports and/or historical average daily consumption.

The Department has published several assessments of Australia's liquid fuel security. These include:

- regular NESA's to provide a high level overview of Australia's energy security position and in particular identify issues which need further monitoring and assessment;
- an examination of historical oil market responses to global oil market crises to determine how Australian and international oil markets have responded to different oil shocks in the past; and
- oil supply shock scenarios to determine the impact on physical oil supply to Australia.

These assessments have consistently shown that global markets would continue to supply Australia's requirement during supply disruptions albeit at higher prices. In the 2011 NESA a

scenario of a 30 day disruption to supply from Singapore was tested, which showed that Australia would be able to quickly draw on the spot market and switch to arrange of alternative supplies while using available onshore stocks and stock on water. The reports can be found on the Department's website at: <http://www.industry.gov.au/Energy/EnergySecurity/Liquid-fuels-security/Pages/default.aspx>.

Australia is one of only four Organisation for Economic Co-operation and Development (OECD) countries in the IEA that is a net energy exporter. Canada, Norway and Denmark are the other net oil exporters. Under the IEAs International Energy Program, net energy (oil) exporters have an exemption from holding stocks.

Due to historical and cultural reasons, all other IEA members meet the stock holding requirement. IEA members who are also a part of the European Union are bound by the European Union Council Directive, which obligates the establishment and maintenance of minimum petroleum reserve. Similarly, the USA has obligations under the United States Strategic Petroleum Reserve, which requires emergency fuel storage of oil maintained by the United States Department of Energy. Japan has historical reasons for holding significant amounts of stocks, while South Korea has stocks to feed its national oil and gas company, Korea National Oil Corporation (KNOC). Canada is a net oil exporter and under the IEAs International Energy Program, net energy (oil) exporters have an exemption from holding stocks. Many of these countries already had these arrangements when they joined the IEA.

Australia was an occasional oil exporter when it joined the IEA in 1979, as such, Australia is unique whereby is the only net oil importing IEA member to rely solely on commercial stocks to meet the IEA obligation. Commercial stocks and our oil production had until recently met Australia compliance requirement.

QUESTION No.: 4 HANSARD, PG 96

Senator XENOPHON – I have a question to put on notice to the department, in relation to the IEA's report back in 2012, the executive summary and key recommendations in respect of Australia. It referred to oil stocks and data quality at page 11. It referred to Australia not complying with sufficient data accuracy and information. Can the department advise whether the recommendations and concerns of the IEA have now been fulfilled?

ANSWER

As indicated in Question 2, Australian Government agencies are working collaboratively to progress further improvement of the quality of Australia's liquid fuels data. The 11-12 February 2015 meeting of the IEA Governing Board noted that "*the mandatory reporting recommendation by the data review team in July 2014 is being addressed*". This is the same recommendation made by the IEA review of Australia's energy policy in 2012.