

CALTEX AUSTRALIA LIMITED

ACN 004 201 307

2005 HALF YEAR REPORT



CALTEX

CALTEX AUSTRALIA LIMITED
LEVEL 12, MLC CENTRE, 19-29 MARTIN PLACE
SYDNEY NSW 2000 AUSTRALIA

Results for Announcement to the Market (in accordance with A-IFRS)

Key Results (Millions of dollars)			Half year ended 30 June	
			2005	2004 ¹
Revenues from ordinary activities	↑	23%	7,616	6,178
Profit from ordinary activities after tax/net profit for the period attributable to members:				
Replacement cost basis ² (excluding significant items)	↓	15%	150	176
Historical cost basis (excluding significant items)	↑	4%	232	223
Historical cost basis (including significant items)	↓	25%	253	336

Dividend	2005	2004
Dividends declared:		
Interim dividend:		
- Amount per security (fully franked)	15¢	14¢
Final dividend		
- Amount per security (fully franked)	N/A	25¢
Record date for determining entitlement to 2005 interim dividend		9 September 2005
Date 2005 interim dividend is payable		30 September 2005

Comments

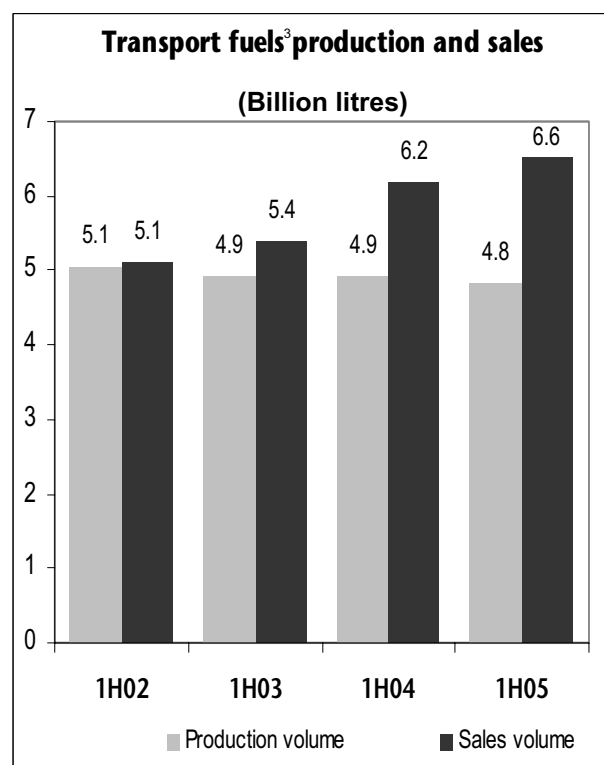
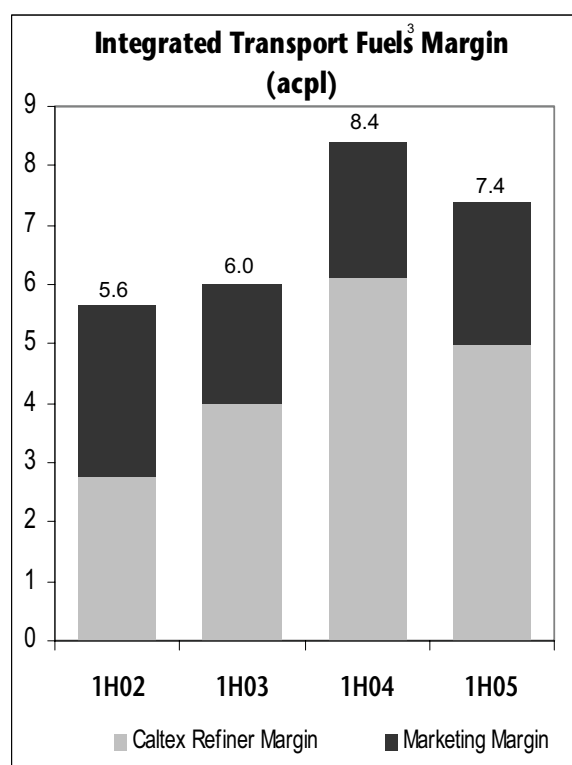
- Profit after tax (excluding significant items) on a replacement cost of sales operating profit (RCOP)² basis of \$149.6 million for the first half of 2005, compared with \$176.1 million for the first half of 2004.
- These results reflect the continued strong underlying financial performance of the business, reflecting increased sales volumes and margins across all marketing channels. High refinery production rates were achieved outside planned maintenance shutdowns. Refiner margins remain strong, offset by market pricing lags and a stronger Australian dollar.
- On an historical cost basis (including inventory gains, but excluding significant items), Caltex recorded an after tax profit of \$231.8 million for the first half of 2005 compared with \$222.9 million for the first half of 2004. This included inventory gains of \$82.2 million after tax, compared with inventory gains of \$46.8 million after tax in the first half of 2004.
- As a result of tax consolidation legislation passed in 2005, Caltex recognised a significant one-off tax credit of \$20.9 million, with a corresponding reduction in deferred tax liabilities. The initial legislation, passed in 2004, resulted in a one-off tax credit of \$113.5 million in the first half of 2004.
- Net debt at 30 June 2005 was \$533 million, up from \$447 million at 31 December 2004. The increase was due to higher working capital requirements driven by crude oil price increases and funding requirements for the Clean Fuels Project. It had been anticipated that net debt would temporarily exceed \$500 million during 2005, returning to target levels in 2006.
- The Board declared an interim fully franked dividend of \$40.5 million, or 15 cents a share compared with 14 cents per share declared for the first half 2004.

¹ 2004 comparative numbers have been adjusted for the transition to A-IFRS (Australian equivalents to International Financial Reporting Standards).

² The replacement cost of sales operating profit excludes the impact of international oil price movements and therefore provides a clearer picture of the company's underlying business performance. It is calculated by restating the cost of sales using the replacement cost of goods sold rather than the historical cost, including the effect of revenue lags.

Key Performance Indicators

	Half year ended 30 June				
	2005 ¹	2004 ¹	2003	2002	2001
Profit before interest and tax (\$m)					
- Replacement cost basis (excluding significant items)	226	275	154	129	36
- Historical cost basis (including significant items)	344	342	139	228	31
Profit/(Loss) after interest and tax (\$m)					
- Replacement cost basis (excluding significant items)	150	176	86	64	(1)
- Historical cost basis (including significant items) ²	253	336	76	130	1
Inventory gains/(losses) before tax (\$m)	117	67	(14)	106	(20)
Basic earnings per share (cents)					
- Replacement cost basis (excluding significant items)	55.4	65.2	31.9	23.6	(0.2)
- Historical cost basis (including significant items)	93.6	124.6	28.2	48.3	0.5
Return on equity attributable to members of the parent entity after tax, annualised (%)					
- Replacement cost basis (excluding significant items)	17	25	16	13	(0)
- Historical cost basis (including significant items)	28	47	14	28	0
Net tangible asset backing per share (\$)	6.58	5.22	4.04	3.49	3.14
Net debt (\$m)	533	536	855	1,036	1,284
Gearing (net debt to net debt plus equity) (%)	23	27	43	52	56



¹ Only 2005 and 2004 comparative numbers have been adjusted for the transition to A-IFRS.

² Includes a significant item of \$20.9 million in 2005 (\$113.5 million in 2004) relating to an income tax benefit upon entry into the new tax consolidation regime.

³ Transport fuels comprise petrol, diesel and jet.

Profit and Loss

for the half year ended 30 June 2005

Millions of dollars	2005	2004
1 Total revenue ¹	7,614	6,177
2 Total expenses ²	(7,388)	(5,902)
3 Replacement cost EBIT	226	275
4 Net borrowing costs	(20)	(24)
Income tax expense	(56)	(75)
Replacement cost profit	150	176
5 Inventory gain – after tax	82	47
6 Significant items	21	113
Historical cost net profit	253	336
7 Interim dividend per share	15c	14c
Final dividend per share	N/A	25c
Basic earnings per share		
- Replacement cost – excluding significant items	55c	65c
- Historical cost – including significant items	94c	125c

Discussion and Analysis

<p>1 Total revenue</p> <p>↑ 23%</p>	<p>Total revenue increased primarily due to:</p> <ul style="list-style-type: none"> • Higher product prices, driven by higher crude prices and strong refiner margins; • Improved marketing margins; and • Significant growth in marketing sales volumes of transport fuels and lubricants.
<p>2 Total expenses – replacement cost basis</p> <p>↑ 25%</p>	<p>Total expenses increased primarily due to:</p> <ul style="list-style-type: none"> • Higher cost of sales, reflecting higher sales volumes and higher crude prices; and • Higher operating expenses in absolute terms due to : <ul style="list-style-type: none"> - increased maintenance-related costs due to higher shutdown activity; - higher shipping costs; and - increased employee costs due to additional resources for the Refinery Performance Improvement Project. <p>However, on a per litre sold basis, operating expenses decreased by 3% compared with the same period in 2004, reflecting a 7% increase in total sales volume.</p>

¹ Excludes interest revenue and significant items (if applicable)

² Excludes interest expense, inventory gains/(losses) and significant items (if applicable)

Discussion and Analysis cont'd

<p>3 Replacement cost EBIT</p> <p>↓ 18%</p>	<p>Reduction in Caltex's underlying performance resulted primarily from:</p> <ul style="list-style-type: none"> • lower AUD-denominated refiner margins, driven by a stronger AUD; • lower production as a result of higher planned refinery shutdown activity; • the unfavourable effect of time lags in recovering significantly higher crude prices from the market. <p>This profit reduction was partially offset by stronger marketing margins and significant growth in sales volumes of transport fuels and lubricants.</p> <p>Breakdown of replacement cost EBIT is detailed below:</p>
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RCOP EBIT breakdown

<p>Caltex refiner margin (CRM)</p> <p style="text-align: right;">\$240m</p>	<p>CRM represents the difference between the cost of importing a standard Caltex basket of products to eastern Australia and the cost of importing the crude oil required to make that product basket. The CRM calculation basically represents: average Singapore refiner margin + product quality premium + crude discount / (premium) + product freight – crude freight – yield loss.</p> <p>CRM was in line with 1H04 at US\$7.28/bbl (US\$7.33/bbl for 1H04). However, margins were negatively affected by timing lags between a US\$15 a barrel (or 39%) rise in the Tapis crude oil price during the six months ended June 2005 and prices for refined product in the Australian market. The reverse effect occurs when crude oil and therefore product prices fall. The financial impact during the period of these pricing lags equates to approximately A\$45 million before tax. In addition to the pricing lags, the CRM was impacted by the stronger Australian Dollar in 2005 versus 2004, an impact of approximately A\$16 million before tax. Higher planned refinery shutdown activity resulted in production of transport fuels falling from 4.9 billion litres in 1H04 to 4.8 billion litres in 1H05.</p>
<p>Transport fuels marketing margin</p> <p style="text-align: right;">\$156m</p>	<p>Transport fuels comprise petrol, diesel and jet. The transport fuels marketing margin is based on the average net margin over Import Parity Price in Australia.</p> <ul style="list-style-type: none"> • The average transport fuels marketing margin was 5% higher than 1H04. Additionally, transport fuels sales volumes increased overall by 6% across all products.
<p>Lubricants and specialties margin</p> <p style="text-align: right;">\$53m</p>	<p>Lubricants and specialties products include finished lubricants, base oils, liquified petroleum gas, petrochemicals, bitumen, wax and marine fuels.</p> <ul style="list-style-type: none"> • Specialties volumes grew overall by 17% mainly due to improved demand for refinery grade propylene and marine fuels.
<p>Non fuel income</p> <p style="text-align: right;">\$62m</p>	<p>Non fuel income includes convenience store income, franchise income, royalties, property, plant and equipment rentals, Starcard income and share of profits from non controlled equity distributors.</p> <ul style="list-style-type: none"> • Non fuel income increased by almost 10% compared with the same period last year.
<p>Operating expenses</p> <p style="text-align: right;">(\$296m)</p>	<p>Operating expenses in this caption include refining and supply, marketing, corporate and other operating expenditure.</p> <ul style="list-style-type: none"> • Operating expenses increased in absolute terms, but on a per litre sold basis, decreased by 3% compared with 1H04.
<p>Other</p> <p style="text-align: right;">\$11m</p>	<p>Other comprises a number of components including miscellaneous income, pipeline and charter revenue and net exchange impacts.</p>
<p>Total RCOP EBIT</p> <p style="text-align: right;">\$226m</p>	

Discussion and Analysis cont'd

<p>4 Net borrowing costs</p> <p>↓ 16%</p>	<p>While net debt increased to \$533 million at 30 June 2005 (compared with \$447 million at 31 December 2004), average net debt over the course of 1H05 was almost 15% lower than for 1H04. The lower average net debt level resulted in borrowing costs decreasing by 16%.</p>
<p>5 Inventory gain after tax</p> <p>↑ 74%</p>	<p>Regional crude oil prices rose significantly in 2005, (averaging US\$54.14/bbl in June 2005 compared with US\$39.03/bbl in December 2004). This increase resulted in net inventory gains of \$82 million (after tax) compared with net inventory gains of \$47 million (after tax) in 1H04.</p>
<p>6 Significant items</p> <p>\$21m gain</p>	<p>As a result of tax consolidation legislation passed in 2005, Caltex recognised a significant one-off tax credit of \$21 million with a corresponding reduction in deferred tax liabilities. The initial legislation, passed in 2004, resulted in a one-off tax credit of \$113 million in the first half of 2004.</p>
<p>7 Interim dividend</p> <p>15 cps</p>	<p>The Board declared an interim fully franked dividend of \$40.5 million or 15 cents per share. The dividends have a franking credit of 100%. The record date is 9 September 2005, with the dividend payable on 30 September 2005.</p>

Balance Sheet

as at 30 June 2005

Millions of dollars	June 2005	December 2004	change \$m
1 Working capital	559	451	108
2 Property, plant and equipment (PP&E)	1,813	1,684	129
3 Net debt	(533)	(447)	(86)
4 Other non-current assets and liabilities	(24)	(52)	28
Total equity	1,815	1,636	179

Discussion and Analysis

1 Working capital

 **\$108m**

The increase in working capital is primarily due to:

- Higher crude and product prices; and
- Lower income tax liability because current year tax instalments have increased at a higher rate than the underlying earnings.

2 PP&E

 **\$129m**


The increase in property, plant and equipment is due to:

- Capital expenditure and major cyclical maintenance of \$201 million, including \$117 million relating to the Clean Fuels Project for Caltex's two refineries;

Partly offset by:

- Depreciation of \$61 million; and
- Net disposals of \$11 million.


3 Net debt

 **\$86m**

Net debt has increased to \$533 million at 30 June 2005, an increase of \$86 million from 31 December 2004. As a result, Caltex's gearing (net debt to net debt plus equity) was 22.7%, slightly up from 21.5% at 31 December 2004.

The increase is due primarily to higher working capital requirements driven by crude oil price increases and funding requirements for the Clean Fuels Project.

4 Other non-current assets and liabilities

 **\$28m**





Other non-current assets and liabilities have decreased primarily as a consequence of entry into the new tax consolidation regime which resulted in a \$21 million decrease in deferred tax liabilities. For more information refer to the Profit and Loss, Discussion and Analysis, Item 6: "Significant items".

Cash Flows

for the half year ended 30 June 2005

Millions of dollars		2005	2004	change
	Receipts from customers	8,353	6,594	1,759
	Payments to suppliers and employees	(5,841)	(4,235)	(1,606)
	Payments for excise and GST	(2,170)	(2,060)	(110)
1	Borrowing costs paid	(22)	(27)	5
2	Other net operating activities	(145)	(90)	(55)
	Net operating cash inflows	175	182	(7)
3	Purchases of property, plant and equipment (PP&E) and major cyclical maintenance	(186)	(56)	(130)
	Other investing cash flows	(7)	1	(8)
	Net investing cash outflows	(193)	(55)	(138)
4	Net financing cash inflows/(outflows)	35	(153)	188
	Net increase/(decrease) in cash held	17	(26)	43

Discussion and Analysis

<p>1 Borrowing costs</p> <p> \$5m</p>	<p>While net debt increased to \$533 million at 30 June 2005 (compared with \$447 million at 31 December 2004), average net debt for 1H05 was almost 15% lower than for 1H04. The lower average net debt level resulted in decreased borrowing costs (\$5 million).</p>
<p>2 Other operating activities</p> <p> \$55m</p>	<p>Income tax instalments are increasing in line with higher profitability.</p>
<p>3 Purchases of PP&E and major cyclical maintenance</p> <p> \$130m</p>	<p>The increase in capital expenditure in 2005 related primarily to the Clean Fuels Project and higher turnaround and inspection reflecting higher shutdown activity for 1H05.</p>
<p>4 Net financing cash inflows</p> <p> \$188m</p>	<p>The increase in net financing cash inflows reflects the increase in net debt, which is driven by:</p> <ul style="list-style-type: none"> • Higher Clean Fuels Project expenditure; • Higher cyclical maintenance work due to higher shutdown activity.

2005 HALF YEAR FINANCIAL REPORT

FOR

CALTEX AUSTRALIA LIMITED

ACN 004 201 307

The 2005 Half Year Financial Report for Caltex Australia Limited includes the:

- Directors' Report
- Directors' Declaration
- Independent Review Report (KPMG)
- Condensed Half Year Financial Statements

for the half year ended 30 June 2005

Caltex Australia Group

For the purposes of this report, the Caltex Australia Group consists of:

- Caltex Australia Limited, which is the parent company of the Caltex Australia Group
- our major operating companies, including Caltex Australia Petroleum Pty Ltd, Caltex Refineries (NSW) Pty Ltd, Caltex Refineries (Qld) Pty Ltd, Caltex Petroleum Distributors Pty Ltd, and Caltex Lubricating Oil Refinery Pty Ltd
- a number of wholly owned entities and other companies that are controlled by the group

Please note that terms such as Caltex and Caltex Australia have the same meaning in this report as the Caltex Australia Group, unless the context requires otherwise.

*THE 2005 HALF YEAR FINANCIAL REPORT SHOULD BE READ IN
CONJUNCTION WITH THE 2004 FINANCIAL REPORT*

Directors' Report

Introduction

The Board of Caltex Australia Limited presents this Directors' Report and the 2005 Half Year Financial Report for the Caltex Australia Group for the half year ended 30 June 2005 to shareholders. An Independent Review Report from KPMG, Caltex's external auditor, is also provided.

Board of Directors

The Board of Caltex Australia Limited comprises Richard (Dick) Warburton (Chairman), Dave Reeves (Managing Director and Chief Executive Officer), Elizabeth Bryan, William (Bill) Hauschildt, John Thorn, Ken Watson and Peter Wissel.

Directors' Profiles

Dick Warburton AO **Chairman (Non-executive / Independent)**

Dick has served as a director of Caltex Australia Limited since 29 July 1999 and as Chairman of the Board from 26 April 2001. Dick is a member of the Human Resources & Nomination Committee and attends meetings of the Audit Committee in an ex-officio capacity.

Dick is one of Australia's most prominent company directors. Prior to becoming a professional director, Dick was the Chairman & Chief Executive Officer of DuPont Australia & New Zealand, where he was responsible for DuPont's petro-chemical business operations in Australia and New Zealand.

Dick is a Fellow (and a former National President) of the Australian Institute of Company Directors.

Current directorships of listed companies

- Tandou Limited (Chairman) (appointed 6 April 2004)
- Nufarm Limited (appointed 22 October 1993)
- Tabcorp Holdings Limited (appointed 28 June 2000)

Previous directorships of listed companies in last three years

- David Jones Limited (former Chairman) (6 October 1995 – 17 July 2003)
- Southcorp Limited (11 June 1993 – 14 October 2003)
- AurionGold Limited (former Chairman) (22 February 1995 – 30 October 2002)

Dave Reeves **Managing Director and Chief Executive Officer**

Bachelor of Civil Engineering (University of Washington, USA)

Dave was appointed as Managing Director and Chief Executive Officer with effect from 11 August 2003.

Before joining Caltex Australia, Dave was the President of North America Products at Chevron Corporation with responsibility for refining and product marketing activities, pipeline transportation operations and energy management solutions within North America, and Chevron's global aviation fuels marketing.

Dave has previously held a number of senior marketing and retail roles with companies in the Chevron Group.

Directors' Report cont'd

Elizabeth Bryan **Director (Non-executive / Independent)**

Bachelor of Arts (Australian National University, Australia) & Master of Economics (University of Hawaii, USA)

Elizabeth was appointed as a director of Caltex Australia Limited on 18 July 2002 and is Chair of the Human Resources & Nomination Committee.

In her most recent corporate role before joining the Board, Elizabeth served as the Chief Executive Officer of Deutsche Asset Management (Australia).

Current directorships of listed companies

- Ridley Corporation Limited (appointed 7 September 2001)

Previous directorships of listed companies in last three years

- Western Metals Limited (17 October 2000 – 2 November 2002)

Bill Hauschildt **Director (Non-executive)**

Bachelor of Science (Chemical Engineering) (Ohio State University, USA) & Master of Science (Chemical Engineering) (Illinois Institute of Technology, USA)

Bill was appointed as a director with effect from 21 September 2004 and is a member of the Human Resources & Nomination Committee.

Bill serves as Vice President – Refining Operations (Global Refining) with Chevron Corporation in San Ramon, California (USA). In this role, Bill is responsible for the overall financial and operating performance of Chevron's refineries in Salt Lake City (Utah, USA), Honolulu (Hawaii, USA), Burnaby (British Columbia, Canada) and Cape Town (South Africa).

Bill has served in senior management roles with Amoco and BP in research and development, refining, health, safety, security and environment, and upstream. He has previously served as the General Manager & Chief Executive Officer of the Singapore Refining Company (at the time a joint venture between Chevron, BP and the Singapore Petroleum Company).

John Thorn **Director (Non-executive / Independent)**

Fellow of the Institute of Chartered Accountants

John was appointed as a director with effect from 2 June 2004 and is a member of the Audit Committee.

John had over 37 years professional experience with PricewaterhouseCoopers, where he was a partner from 1982 to 2003 undertaking work for major international and local companies and serving on global firm management groups. He was the Managing Partner of the Assurance & Business Advisory Service practice from 1998 to 2001 and the National Managing Partner from 2001 to 2003.

Current directorships of listed companies

- Salmat Limited (appointed 1 September 2003)
- National Australia Bank Limited (appointed 16 October 2003)
- Amcor Limited (appointed 8 December 2004)

Directors' Report cont'd

Previous Director

Leo Lonergan **Director (Non-executive)**

Bachelor of Science (Victoria University, New Zealand)

Leo was appointed a director on 1 July 2001, having previously served on the Board from 30 April 1998 to 29 July 1999 (after serving as an alternate director from 29 January 1998 to 30 April 1998). He resigned as a director with effect from 23 February 2005.

Mitch Rubinstein **Director (Non-executive)**

Bachelor of Arts in Political Science / Asian Studies (University of Michigan, USA), Master of Arts in International Relations (Columbia University, USA) & Master of Business Administration – Finance (New York University, USA)

Mitch was appointed a director effective from 24 February 2005, having previously served as an alternate director from 25 February 2004 to 23 February 2005. He resigned as a director with effect from 23 August 2005.

Directors' Report cont'd

Review of Results and Operations

General Overview

Caltex Australia recorded a profit after tax (excluding significant items) on a replacement cost of sales operating profit (RCOP) basis of \$149.6 million for the first half of 2005 compared with \$176.1 million for the first half of 2004.

Caltex recorded significant gains in market sales volume and marketing margins compared with the first half of 2004. Petrol sales increased 5%, benefiting from the rollout of the Caltex Woolworths jointly branded network, and diesel and jet sales rose by almost 7%. Non-fuel income increased by 10%. The results were achieved despite the negative pressure of a stronger Australian dollar and the effect of time lags in recovering significantly higher crude prices from the market.

The Caltex first half 2005 result reflected a strong operational performance across the business, with marketing strategies and refining improvement programs delivering further benefits. This result also reflected the continued strong underlying financial performance of the business. Sales volumes and margins increased across all marketing channels. High refinery production rates were achieved outside planned maintenance shutdowns. Refiner margins remain strong, offset by market pricing lags and a stronger Australian dollar.

In Refining, utilisation rates continued to increase, enabling production to be maintained in a year of significant planned shutdowns for both normal maintenance as well as for the Clean Fuels Project. During the first half of 2005, Lytton refinery successfully executed a total refinery shutdown of seven weeks, while Kurnell refinery undertook a 26-day maintenance shutdown of one of its two crude units. Despite the shutdowns, Caltex's production of transport fuels for the first half of 2005 was marginally lower at 4.8 billion litres (1H04: 4.9 billion litres). The financial impact of the lower production was approximately A\$7 million before tax.

On a US dollar basis, the Caltex Refiner Margin (CRM)¹ was in line with the first half of 2004 at approximately US\$7.28 per barrel (versus US\$7.33 in 1H04). However, margins were negatively affected in the period by timing lags between a US\$15 a barrel (or 39%) rise in the Tapis crude oil price during the six months ended June 2005 and the prices for refined product in the Australian market. The reverse effect occurs when crude oil and therefore product prices fall. The financial impact during the period of these pricing lags was about US\$1.15 per barrel, which equates to approximately A\$45 million before tax. In addition to the pricing lags, the Caltex Refiner Margin was impacted by the stronger Australian dollar in 2005 versus 2004, an impact of approximately A\$16 million before tax.

Petrol refining margins were lower, offset by record diesel refining margins as a result of stronger global demand. Singapore diesel refining margins were almost double those of the same period last year, averaging US\$10.76 per barrel in the first half of 2005 (1H04: US\$5.85).

On an historical cost basis (including inventory gains, but excluding significant items), Caltex recorded an after tax profit of \$231.8 million for the first half of 2005 compared with \$222.9 million for the first half of 2004. This included inventory gains of \$82.2 million after tax, compared with inventory gains of \$46.8 million after tax in the first half of 2004.

As a result of tax consolidation legislation passed in 2005, Caltex recognised a significant one-off tax credit of \$20.9 million, with a corresponding reduction in deferred tax liabilities. The initial legislation, passed in 2004, resulted in a one-off tax credit of \$113.5 million in the first half of 2004.

The results to 30 June 2004 and 30 June 2005 have been reported in compliance with A-IFRS (Australian equivalent of International Financial Reporting Standards) and, as such, are comparable. The impact of the adoption of A-IFRS on the results to 30 June 2004 and 30 June 2005 is not material.

¹ The Caltex Refiner Margin (CRM) represents the difference between the cost of importing a standard Caltex basket of products to Eastern Australia and the cost of importing the crude oil required to make that product basket. The CRM calculation represents: average Singapore refiner margin + product quality premium + crude discount/(premium) + product freight - crude freight - yield loss.

Directors' Report cont'd

The company's balance sheet remains strong, with core debt remaining within the gearing target of 20-25%. Net debt at 30 June 2005 was \$533 million, up from \$447 million at 31 December 2004. The increase was due to higher working capital requirements driven by crude oil price increases and funding requirements for the Clean Fuels Project. It had been anticipated that net debt would temporarily exceed \$500 million during 2005, returning to target levels in 2006.

Marketing

The Marketing department promotes and sells Caltex fuels, lubricants, specialties and convenience store goods through a national network of 1,859 Caltex, Caltex Woolworths and Ampol branded service stations and 63 branded resellers. Marketing also sells directly to a large number of commercial customers.

Caltex is seeing excellent results from strategies launched last year to enhance its market leadership position by improved performance across all business segments.

Total transport fuels sales volume continued to expand and was 5.8% higher in the first half of 2005 compared with the first half of 2004. This was partly driven by the rollout of the Caltex Woolworths jointly branded network which marked its first anniversary on 1 May. It currently stands at 458 sites, 118 contributed by Caltex, with a potential further 7 Caltex sites to be converted by the end of the year. There has been an average 80% increase in fuel sales at Caltex contributed sites.

Diesel sales volume grew by 6.8% in the first half of 2005, compared with the same period for the previous year. Jet fuel sales increased by 6.0%.

Premium fuel sales increased by 34.4% compared with the first half of 2004 boosted by the NSW rollout of Caltex's new high octane premium unleaded petrol Vortex 98.

There was also growth in base oils sales volume, which were 4.7% higher in the first six months of 2005 compared with the first half of 2004. Non-fuel income increased by almost 10% compared with the same period last year. Caltex is now the number one convenience retailer in Australia with a 31% market share and shop sales that continue to grow.

Refining and Supply

Caltex's Refining and Supply functions purchase crude oil, arrange its transportation to the company's refineries, refine the crude into petrol, diesel, jet and specialty products, distribute the products to a network of terminals around Australia and buy and sell products and schedule product movements to meet marketing sales.

2005 is a significant year for the company's refining operations, with a high level of planned shutdown activity for routine maintenance and preparation for clean fuels. Improved operational efficiencies substantially offset the impact of the shutdowns on production levels.

Caltex's previously announced investment to expand production of high value products is yielding good results. The crude unit capacity has been re-rated by demonstrating record levels of throughput at both refineries which has previously been a major constraint. In addition to operating improvements, project planning for the previously announced capital investments is progressing.

One of the two crude units at the company's Kurnell refinery was shut down for 26 days in February for planned maintenance and the Lytton refinery successfully completed a 50-day full refinery shutdown in May/June, the first in four years.

The diesel hydrotreating units at both refineries will undergo major rebuilds during the second half of 2005 in preparation for the transition to cleaner fuels.

Directors' Report cont'd

As announced on 12 August 2005, the company has applied to the Australian Government for a short-term variation to the clean fuels standards deadline of 1 January 2006, as part of a contingency plan to ensure certainty of supply to customers. Caltex currently has the most significant clean fuels investment in the Australian industry, with four major processing units either being significantly modified or newly constructed.

Outlook

In 2005, we are focussed on further progress in strengthening the company's refining capabilities and market position. Confidence in market conditions is underscored by the level of capital investment, which this year will total more than the previous four years combined.

Caltex has made progress in lifting its safety performance with improvements in the key area of total treatment injury frequency rate for employees compared with the first half of 2004. There is a strong focus on improving risk management processes through a number of activities, including the company-wide Loss Prevention System and safe driving programs for employees.

The coming months will see critical developments with the completion of the Clean Fuels Project and progress with improvement projects linked to higher refinery utilisation and a reliable crude oil and fuel supply chain. The company has confidence that these will be managed successfully and develop capabilities to capitalise on favourable markets.

The outlook for refiner margins for the remainder of 2005 is positive as global refining capacity remains tight.

Dividends declared

The Board declared an interim fully franked dividend of \$40.5 million, or 15 cents a share. The record date is 9 September 2005 with the dividend payable on 30 September 2005.

This is in line with our stated policy of declaring ordinary dividends of 20% to 30% of the RCOP after tax excluding significant items in 2005 while the company meets the high capital commitments of the Clean Fuels Project. After 2005, the company intends to increase the payout ratio to a range of 40% to 60% of the RCOP after tax, excluding significant items.

The company's share price continued to perform well, increasing 46% in the first six months of 2005. Caltex's share price performance was recognised in May by its inclusion in the Morgan Stanley Capital International's (MSCI) global share index for Asia Pacific (excluding Japan).

Significant Events after Balance Date

No items, transactions or events of a material or unusual nature that, in the opinion of the Board, are likely to significantly affect the operations of Caltex, the results of those operations or the state of affairs of the group in subsequent financial years, have arisen in the period from 30 June 2005 to the date of this report.

Likely Developments

Business Operations

Caltex will continue to purchase, refine, distribute and market petroleum products and operate convenience stores throughout Australia. Caltex's investment in clean fuels at Kurnell and Lytton will further enable it to successfully compete in the marketplace.

Directors' Report cont'd

Lead Auditor's Independence Declaration under Section 307C of the Corporation Act 2001 to the directors of Caltex Australia Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 30 June 2005 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG



Trent van Veen
Partner

Sydney, 26 August 2005

Rounding of Amounts

Caltex Australia Limited is an entity to which the Australian Securities and Investments Commission (ASIC) Class Order CO 98/100 applies and, in accordance with the relief afforded by the class order, amounts have been rounded off to the nearest thousand dollars (unless otherwise stated).

The Directors' Report is made in accordance with a resolution of the Board of Caltex Australia Limited:

RFE (Dick) Warburton AO

.....
RFE (Dick) Warburton AO
Chairman

Sydney, 26 August 2005

DC (Dave) Reeves

.....
DC (Dave) Reeves
Managing Director and
Chief Executive Officer

Directors' Declaration

The Board of Caltex Australia Limited has declared that:

- in the directors' opinion, there are reasonable grounds to believe that Caltex Australia Limited will be able to pay its debts as and when they become due and payable; and
- in the directors' opinion, the financial statements for the half year ended 30 June 2005 and notes are in accordance with the Corporations Act 2001 (Cth), including:
 - section 304 (compliance with Accounting Standards); and
 - section 305 (true and fair view).

The Directors' Declaration is made in accordance with a resolution of the Board of Caltex Australia Limited:



.....
RFE (Dick) Warburton AO
Chairman

Sydney, 26 August 2005



.....
DC (Dave) Reeves
Managing Director and
Chief Executive Officer

Independent Review Report

Independent review report to the members of Caltex Australia Limited

Scope

We have reviewed the financial report of Caltex Australia Limited ("the Company") for the half-year ended 30 June 2005, consisting of the income statement, balance sheet, recognised income and expense, reconciliation of equity, cash flows, accompanying notes 1 to 18 and the directors' declaration set out in the 2005 Half Year Financial Report. The financial report includes the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at the end of the half-year or from time to time during the half-year. The Company's directors are responsible for the financial report including the relevant reconciling information regarding adjustments required under the Australian Accounting Standard AASB 1 First-Time Adoption of Australian equivalents to International Financial Reporting Standards.

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Australian Accounting Standard AASB 134 Interim Financial Reporting and other mandatory financial reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows and in order for the Company to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Caltex Australia Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2005 and of its performance for the half-year ended on that date; and
 - ii. complying with Australian Accounting Standard AASB 134 Interim Financial Reporting, and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

KPMG

Trent van Veen
Partner

Sydney, 26 August 2005

Condensed Consolidated Income Statement

for the half year ended 30 June 2005

Thousands of dollars	Note	Consolidated	
		30 June 2005	30 June 2004
Gross sales revenue from sale of goods		7,523,343	6,100,142
Cost of goods sold - replacement cost		(4,955,487)	(3,565,433)
Product duties and taxes		(2,170,169)	(2,059,848)
Inventory gains		117,400	66,808
Cost of goods sold - historical cost		(7,008,256)	(5,558,473)
Gross profit		515,087	541,669
Other revenue from ordinary activities	3	92,243	77,452
Refining and supply expenses		(13,492)	(10,941)
Marketing expenses		(223,718)	(231,553)
Borrowing costs	4	(22,074)	(24,648)
Other expenses	4	(25,302)	(35,667)
Share of net profit of associated entities accounted for using the equity method		1,575	2,052
Profit from ordinary activities before income tax expense		324,319	318,364
Income tax (expense)/benefit relating to ordinary activities	6	(70,947)	18,564
Net profit		253,372	336,928
Net profit attributable to minority interests		(767)	(517)
Net profit attributable to members of the parent entity		252,605	336,411
Basic and diluted earnings per share			
Historical cost including significant items - cents per share	8	93.6	124.6
Replacement cost excluding significant items - cents per share	8	55.4	65.2

The consolidated income statement is to be read in conjunction with the 2004 Financial Report and the notes to the financial statements.

Condensed Consolidated Balance Sheet

as at 30 June 2005

Thousands of dollars	Note	Consolidated	
		30 June 2005	31 December 2004
Current assets			
Cash and cash equivalents		31,265	14,196
Receivables		743,506	635,282
Inventories		874,123	822,083
Other		30,250	17,687
Total current assets		1,679,144	1,489,248
Non-current assets			
Receivables		6,067	5,894
Investments accounted for using the equity method		24,273	24,346
Other financial assets		15	16
Property, plant and equipment		1,812,889	1,683,789
Intangibles		26,405	21,664
Other		4,599	6,015
Total non-current assets		1,874,248	1,741,724
Total assets		3,553,392	3,230,972
Current liabilities			
Payables		959,472	856,932
Interest bearing liabilities	9	49,774	27,761
Current tax liabilities		71,615	116,635
Provisions		57,370	50,735
Total current liabilities		1,138,231	1,052,063
Non-current liabilities			
Payables		4,903	3,493
Interest bearing liabilities	9	514,740	433,681
Deferred tax liabilities		8,908	43,498
Provisions		71,149	62,599
Total non-current liabilities		599,700	543,271
Total liabilities		1,737,931	1,595,334
Net assets		1,815,461	1,635,638
Equity			
Issued capital	10	543,415	543,415
Treasury stock		(2,664)	(2,219)
Reserves		2,701	3,595
Retained profits		1,260,959	1,080,564
Total parent entity interest		1,804,411	1,625,355
Minority interests		11,050	10,283
Total equity		1,815,461	1,635,638

The consolidated balance sheet is to be read in conjunction with the 2004 Financial Report and the notes to the financial statements.

Condensed Consolidated Statement of Recognised Income and Expense

for the half year ended 30 June 2005

Thousands of dollars	Consolidated	
	30 June 2005	30 June 2004
Profit for the period	253,372	336,928
Actuarial gains/(losses) on defined benefit plans	(5,276)	7,373
Cash flow hedge fair value gains	32	-
Cash flow hedge gains transferred to the initial carrying amount of hedged item	303	-
Total recognised income for the year	248,431	344,301

The consolidated statement of recognised income and expense is to be read in conjunction with the 2004 Financial Report and the notes to the financial statements.

Condensed Consolidated Reconciliation of Equity

for the half year ended 30 June 2005

Thousands of dollars	Note	Issued Capital	Treasury Stock	Reserves	Retained Earnings	Minority Interest	Total Equity
Balance at 1 January 2004		543,415	(1,073)	2,468	576,871	11,340	1,133,021
Total recognised income for the year		-	-	-	343,784	517	344,301
Own shares acquired		-	(2,562)	-	-	-	(2,562)
Shares vested to employees		-	1,416	(1,416)	-	-	-
Cost of share based payments		-	-	1,271	-	-	1,271
Dividends to shareholders		-	-	-	(37,800)	(720)	(38,520)
Balance at 30 June 2004		543,415	(2,219)	2,323	882,855	11,137	1,437,511
Balance at 1 January 2005		543,415	(2,219)	3,595	1,080,564	10,283	1,635,638
Changes in accounting policy	2(v)	-	-	(100)	566	-	466
Restated balance		543,415	(2,219)	3,495	1,081,130	10,283	1,636,104
Total recognised income for the year		-	-	335	247,329	767	248,431
Own shares acquired		-	(2,716)	-	-	-	(2,716)
Shares vested to employees		-	2,271	(2,271)	-	-	-
Cost of share based payments		-	-	1,142	-	-	1,142
Dividends to shareholders		-	-	-	(67,500)	-	(67,500)
Balance at 30 June 2005		543,415	(2,664)	2,701	1,260,959	11,050	1,815,461

The consolidated reconciliation of equity is to be read in conjunction with the 2004 Financial Report and the notes to the financial statements.

Condensed Consolidated Statement of Cash Flows

for the half year ended 30 June 2005

Thousands of dollars	Consolidated	
	30 June 2005	30 June 2004
Cash flows from operating activities		
Receipts from customers	8,353,253	6,594,038
Payments to suppliers, employees and governments	(8,010,960)	(6,294,964)
Dividends received	1,649	873
Interest received	1,805	1,542
Interest and other borrowing costs paid	(21,860)	(26,704)
Income taxes paid	(148,608)	(92,787)
Net operating cash inflows	175,279	181,998
Cash flows from investing activities		
Deferred payment for purchase of controlled entities	(333)	(1,833)
Payment for investment	-	(4,761)
Purchases of property, plant and equipment	(158,175)	(53,043)
Major cyclical maintenance	(28,277)	(2,972)
Purchase of intangibles	(5,912)	(371)
(Loss)/Proceeds from sale of property, plant and equipment	(1,975)	7,085
Loans repaid from associated entities	1,000	1,250
Net investing cash outflows	(193,672)	(54,645)
Cash flows from financing activities		
Proceeds from borrowings	2,623,761	2,825,902
Repayments of borrowings	(2,519,690)	(2,939,933)
Repayment of finance lease principal	(909)	(370)
Dividends paid to minority interests	(200)	(719)
Dividends paid	(67,500)	(37,800)
Net financing cash inflows/(outflows)	35,462	(152,920)
Net increase/(decrease) in cash held	17,069	(25,567)
Cash at the beginning of the year	14,196	36,318
Cash at the end of the year	31,265	10,751

The consolidated statement of cash flows is to be read in conjunction with the 2004 Financial Report and the notes to the financial statements.

Notes to the Financial Statements

for the half year ended 30 June 2005

1. Significant accounting policies

Caltex Australia Limited (the "Company") is a company domiciled in Australia. The consolidated financial statements for the half year ended 30 June 2005 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities. The financial statements were authorised for issue by the directors on 26 August 2005.

Caltex Australia Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian stock exchange.

(a) Statement of compliance

International Financial Reporting Standards (IFRS) form the basis of Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB), being Australian Equivalents to IFRS (A-IFRS).

This is the Group's first consolidated financial report prepared in accordance with A-IFRS. This financial report does not include all of the information required for an annual financial report. The rules for first time adoption of A-IFRS are set out in AASB 1 *First-time adoption of Australian Equivalents to International Financial Reporting Standards*. In general, a company is required to determine its A-IFRS accounting policies and apply these retrospectively to determine its opening balance sheet under A-IFRS. The standard allows a number of exceptions to this general principle to assist companies as they transition to reporting under A-IFRS.

The financial report is to be read in conjunction with the most recent annual financial report. However, the basis of its preparation is different from that of the most recent annual financial report due to the first time adoption of A-IFRS.

Comparatives for the year ended 31 December 2004 have been restated accordingly. Reconciliations of A-IFRS equity and profit for 30 June 2004 and 31 December 2004 to the balances reported in the 30 June 2004 and 31 December 2004 financial reports are detailed in note 2 below.

(b) Basis of preparation

The financial report has been prepared as a general purpose financial report and complies with the requirements of the Corporations Act 2001, Australian Accounting Standards and Urgent Issues Group Interpretations adopted by the AASB.

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments held for trading.

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

The preparation of a financial report in conformity with AASB 134 *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the group.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 1(d).

This financial report has been prepared on the basis of A-IFRSs on issue that are effective or available for early adoption at the Group's first A-IFRS annual reporting date, 31 December 2005. Based on these A-IFRSs, the Board of Directors have made assumptions about the accounting policies expected to be adopted when the first A-IFRS annual financial report is prepared for the year-ended 31 December 2005.

The entity has elected to early adopt the following revised accounting standards:

- AASB 119 *Employee Benefits* (Dec 2004);
- Amendments to AASB 1 *First-time Adoption of Australian Equivalents to International Financial*

Reporting Standards (July 2004) , AASB 101 *Presentation of Financial Statements* and AASB 124 *Related Party Disclosures* made in AASB 2004-3 *Amendments to Australian Accounting Standards*;

- Amendments to AASB 139 *Financial Instruments: Recognition and Measurement* made in AASB 2005-1 *Amendments to Australian Accounting Standard*;
- Amendments to AASB 119 *Employee Benefits* (Dec 2004) made in AASB 2005-3 *Amendments to Australian Accounting Standards*;
- Amendments to AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 132 *Financial Instruments: Disclosure and Presentation*, and AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* made in AASB 2005-4 *Amendments to Australian Accounting Standards*;
- Amendments to AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* and AASB 139 *Financial Instruments: Recognition and Measurement* made in AASB 2005-5 *Amendments to Australian Accounting Standards*;
- Amendments to AASB 3 *Business Combinations* made in AASB 2005-6 *Amendments to Australian Accounting Standards*.

The Australian Accounting Standards and UIG Interpretations that will be effective or available for voluntary early adoption in the annual financial report for the period ended 31 December 2005 are still subject to change and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this financial report will be determined only when the first A-IFRS financial report is prepared at 31 December 2005.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening A-IFRS balance sheet at 1 January 2004 for the purposes of the transition to A-IFRS. However, AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* have been applied from 1 January 2005, as the entity has elected not to restate comparative information for these standards, as is permitted by AASB 1 *First-time adoption of Australian Equivalents to International Financial Reporting Standards* (see note 2(v)).

Where relevant, the accounting policies applied to the period have been disclosed if they differ from the current period policy. The accounting policies have been applied consistently throughout the group for the purpose of this report.

(c) Basis of consolidation

Subsidiaries

Subsidiaries are those entities controlled by the Company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of subsidiaries of the Company are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of future losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Joint ventures

Joint ventures are those entities or operations over whose activities the Group has joint control, established by contractual agreement.

Jointly controlled entities

In the consolidated financial statements, investments in jointly controlled entities, including partnerships, are accounted for using equity accounting principles. Investments in joint venture entities are carried at the lower of the equity accounted amount and recoverable amount.

The Group's share of the jointly controlled entity's net profit or loss is recognised in the consolidated income statement from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly in the consolidated reserves.

Jointly controlled operations and assets

The interest of the Group in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls and the liabilities that it incurs,

and the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised gains and losses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses arising from transactions with associates are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

Key sources of estimation uncertainty

Note 1(p) contains information about the assumptions and their risk factors relating to goodwill impairment.

In note 1(l) explanation is given of the foreign exchange exposure of the Group and risks in relation to foreign exchange movements.

Note 1(v) contains information about the principal actuarial assumptions used in determining pension obligations for the Group's defined benefit plan.

Note 1(z) provides key sources of estimation, uncertainty and assumptions used in regard to estimation of provisions.

(e) Revenue

Sales revenue

Net sales revenue comprises revenue earned (net of rebates, discounts and allowances) from the provision of products to entities outside the Caltex Australia Group. Gross sales revenue excludes amounts collected on behalf of third parties such as goods and services tax. Sales revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, or when the services have been provided.

Exchanges of goods or services of the same nature and value are not recognised as revenues regardless of whether the transaction involves cash consideration.

Other revenue

Dividend revenue is recognised at the date the right to receive payment is established. Interest revenue is recognised on a time proportionate basis taking

into account the effective yield on the financial asset. Royalties are recognised as they accrue in accordance with the substance of the agreement.

The revenue and profit on disposal of property assets is brought to account at the date a contract of sale is settled. Losses on disposal of property assets are recognised immediately. Rental income from leased sites is recognised in the income statement on a straight-line basis over the term of the lease. Franchise fees income is recognised in accordance with the substance of the agreement.

(f) Cost of goods sold measured on a replacement cost basis

Cost of goods sold measured on a replacement cost basis excludes the effect of inventory gains and losses. Inventory gains or losses arise due to movements in the landed price of crude oil, and represent the difference between the actual historic cost of sales and the current replacement value of that inventory.

The net inventory gain or loss is adjusted to reflect the impact of revenue lags.

(g) Product duties and taxes

Product duties and taxes include Fuel Excise and the Product Stewardship Levy, where the product is "Entered for Home Consumption". These amounts are included in cost of goods sold. Products manufactured, imported, or purchased from competitors and held at bonded locations do not attract excise until they leave the bonded location.

Fuel Excise is a cents per litre impost on products used as fuels. The amount imposed is dependent on the specifications of the product and whether it is used in an internal combustion engine. Product Stewardship Levy is a cents per litre impost on all lubricant products sold regardless of use.

(h) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the item of expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(i) Borrowing costs

Borrowing costs include interest payable on borrowings calculated using the effective interest rate method, finance charges in respect of finance leases, exchange differences arising from foreign currency borrowing to the extent that they are regarded as an adjustment to interest costs and differences relating to the unwinding of the discount of assets and liabilities measured at amortised cost.

Borrowing costs are recognised as an expense in the period in which they are incurred.

(j) Functional currency and currency of presentation

The Group's functional currency and presentation currency is Australian Dollars as this is the principal currency in which the Caltex Australia Group operates.

(k) Foreign currencies

Foreign currency transactions are recorded, on initial recognition, in the Group's functional currency by applying the exchange rate at the date of the transaction. Amounts receivable and payable in foreign currencies at reporting date are translated to AUD at the rates of exchange ruling on that date.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(l) Derivative Financial Instruments

Current period policy

The Caltex Australia Group is exposed to changes in interest rates, foreign exchange rates and commodity prices from its activities. The Group may use interest rate instruments, forward foreign exchange contracts, cross currency swaps, crude swap contracts and refiner margin swap contracts to hedge these risks.

The Group does not enter into derivative financial instrument transactions for trading purposes. However, financial instruments entered into to hedge an underlying exposure which does not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Interest rate instruments

The fair value of interest rate swap contracts is the estimated amount that the group would receive or pay to terminate the swap at balance date.

Foreign exchange contracts

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Spot foreign exchange contracts are recorded at fair value, being the quoted market price at balance date.

Refiner margin swap contracts

Tapis crude and product swap contracts are used to reduce exposure to falls in refiner margins and their fair values are calculated by reference to market prices. There are no exchanges of principal amounts involved in these contracts.

The carrying amount of all derivatives, other than those meeting the normal purchases and sales exception, are measured using market prices. Those derivatives qualifying and designated as hedges are either fair value or cash flow hedges.

Hedging

Cash Flow Hedges

Interest rate instruments, forward exchange contracts, and refiner margin swap contracts are cash flow hedges.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the anticipated transaction results in the recognition of a non-financial asset or non-financial liability, the cumulative gain or loss is removed from equity and included in the initial measurement of the non-financial asset or non-financial liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i.e. when interest income or

expense is recognised). For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss in the carrying amount of a cash flow hedge is recognised in the income statement immediately. When a hedging instrument or hedge relationship is terminated, but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Fair Value Hedges

Cross currency swaps are fair value hedges.

A change in the carrying amount of a fair value hedge is taken to income, together with the consequential adjustment to the carrying amount of the hedged item.

Caltex Australia Group formally documents all relationships between hedging instruments and hedged items, as well as risk management objectives and strategies for undertaking various hedge transactions. When effectiveness ceases, hedge accounting is discontinued.

Comparative period policy

Derivative financial instruments designated as hedges are accounted for on the same basis as the underlying exposure.

Interest rate instruments

Interest payments and receipts under interest rate instrument contracts are recognised on an accrual basis as an adjustment to interest expense during the period.

Hedging

Where hedge transactions are designed to hedge the purchase or sale of goods or services, exchange differences arising up to the date of purchase or sale, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the purchase or sale. Except as outlined above, any exchange differences on the hedge transaction after that date are included in the income statement.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur, the deferred gains and losses that arose on the foreign currency hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale value when it

occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur, deferred gains and losses that arose on the foreign currency hedge prior to its termination are included in the income statement for the period.

Non-specific hedge transactions are initially recorded at the spot rate at the date of the transaction. Hedges outstanding at balance date are translated at the rates of exchange ruling on that date and any exchange differences are brought to account in the income statement. Costs or gains at the time of entering into the hedge are deferred and amortised over the life of the hedge.

(m) Income tax

Tax consolidation

The Company is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries. The implementation date for the tax-consolidated group was 1 July 2003. The head entity recognises all of the current tax assets and liabilities of the tax-consolidated group (after elimination of intra-group transactions). Current tax liabilities and assets of wholly-owned subsidiaries are recorded in "other trade payables/receivables" to reflect that the transactions giving rise to the tax are in the subsidiaries. The tax-consolidated group has entered into a tax funding agreement that requires wholly owned subsidiaries to make contributions to the head entity of 100% of current tax assets and liabilities arising from external transactions. The contribution is recorded as an intercompany receivable/payable.

Income tax disclosed in the income statement comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of

assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities associated with indefinite life assets such as land should be measured based on the tax consequences that would follow from the sale of that asset.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(n) Trade and other receivables

Trade and other receivables are measured at amortised cost less impairment losses.

Impairment testing is performed at reporting date. A provision for doubtful debts is raised if there is a specific indicator that an impairment loss on receivables has been incurred.

An impairment loss is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

(o) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is based on the weighted average costing principle and includes direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure incurred in acquiring the inventories and bringing them into the existing location and condition.

The amount of any write-down or loss of inventory is recognised as an expense in the period it is incurred.

Inventory write-downs may be reversed when net realisable value increases subsequent to initial write-down. The reversal is limited to the original write-down amount.

(p) Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in

which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of the Group's investments in held to maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets).

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a held to maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(q) Property, Plant and Equipment

Owned Assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Assessment of impairment is made in accordance with the impairment policy in note 1(p) above.

The cost of property, plant and equipment includes the cost of decommissioning and restoration costs at the end of their economic lives if a present legal or constructive obligation exists. More details of how this cost is estimated and recognised is contained in note 1(z).

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Leased assets

Leases of property, plant and equipment under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance lease payments

Assets of the Caltex Australia Group acquired under finance leases are capitalised and included in property, plant and equipment at the lesser of fair value or present value of the minimum lease payments and any unguaranteed residual value. Contingent rentals are written off as an expense of the period in which they are incurred. Capitalised lease assets are depreciated over the shorter of the lease term and its useful life.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The interest components of lease payments are charged to the income statement to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period.

Operating lease payments

Payments made under operating leases are charged against net profit or loss in equal instalments over the accounting period covered by the lease term, except where an alternative basis is more representative of the benefits to be derived from the leased property. Contingent rentals are recognised as an expense in the period in which they are incurred.

Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

Depreciation

Items of property, plant and equipment, including buildings and leasehold property but excluding

freehold land, are depreciated using the straight line method over their expected useful lives. Leasehold improvements are amortised over the shorter of the lease term or useful life.

The depreciation rates used, in the current and prior year, for each class of asset are as follows:

Freehold buildings	2 %	
Leasehold property	2 %	or the lease period
Plant and equipment	3 -20 %	
Leased plant and equipment	3 -20 %	or the lease period.

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

(r) Intangible assets

Goodwill

Business combinations prior to 1 January 2004

Goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 January 2004 has not been reconsidered in preparing the Group's opening A-IFRS balance sheet at 1 January 2004.

Business combinations since 1 January 2004

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment (see note 1(p)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the

income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see note 1(p)).

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (see note 1(p)).

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it related. All other expenditure is expensed as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives in the current and comparative periods are as follows:

- Software development 5 -20 %
- Software not integrated with hardware 5 -20 %
- Licences 6 -10 %

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(t) Trade and other payables

Payables are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Caltex Australia Group. Trade accounts payable are normally settled within 60 days.

Trade and other payables are measured at amortised cost.

Payables related to statutory obligations are measured at cost.

(u) Borrowings

Interest bearing bank loans

Interest bearing bank loans are accounted for using the amortised cost method. Interest expense is accrued at the contracted rate and included in other creditors and accrued expenses.

Short-term notes

Short-term notes are recognised when issued at fair value using the amortised cost method, with the discount on issuance amortised using the effective interest rate method to maturity.

Medium-term notes

Medium-term notes are recognised when issued at fair value using the amortised cost method. Interest expense is accrued at the contracted rate and included in other creditors and accrued expenses.

US notes

US notes hedged by cross currency swaps are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, these US notes are accounted for using fair value hedge accounting (see note 1(l)).

US notes issued in Australian dollars are recognised when issued at fair value, less transaction costs, using the amortised cost method. Interest expense is accrued at the contracted rate and included in other creditors and accrued expenses.

(v) Employee entitlements

Wages and salaries

The provision for employee entitlements to wages and salaries represents the amount which the Caltex Australia Group has a present obligation to pay resulting from employees' services provided up to the balance date.

Annual leave, long service leave and retirement benefits

The provisions for employee entitlements to annual leave, long service leave and retirement benefits represent the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to the balance date.

Provisions for employee entitlements which are not expected to be settled within 12 months are calculated using expected future increases in wage and salary rates, including related oncosts, and expected settlement dates based on turnover history and are discounted using the rates attaching to national government securities at balance date, which most closely match the terms of maturity of the related liabilities.

Superannuation

The Caltex Australia Group contributes to several defined benefit and defined contribution superannuation plans.

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined Benefit Plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at balance date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses as at 1 January 2004, the date of transition to A-IFRS, were recognised. All actuarial gains and losses that arise subsequent to 1 January 2004 in calculating the Group's obligation in respect of the plan are recognised directly in retained earnings.

When the calculation results in plan assets exceeding liabilities to the Group, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

(w) Share based payments

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

The cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing the equity-settled transactions, the market price of the shares of Caltex Australia Limited is used.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which achievement of specific targets related to the performance of the Caltex Australia Group and ending on the date on which the relevant employees become fully entitled to the award ("vesting date").

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired. This opinion is formed based on the best available information at balance date. No expense is recognised for awards that do not ultimately vest.

Shares in the Company held by the executive share plan are classified and disclosed as treasury stock and deducted from equity.

The Group has applied the requirements of AASB 1 *First-time Adoption of Australian Equivalents to*

International Financial Reporting Standards in respect of equity-settled transactions and has applied AASB 2 *Share Based Payments* only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

(x) Major cyclical maintenance

Major cyclical maintenance expenditure is separately capitalised as an asset component to the extent that it is probable that future economic benefits, in excess of the originally assessed standard of performance, will eventuate. All other such costs are expensed as incurred. Capitalised cyclical maintenance expenditure is depreciated over the additional useful life of the assets.

(y) Environmental costs

Environmental costs related to known environmental obligations under existing law are accrued when they can be reasonably estimated. Accruals are based on best available information and are adjusted as further information develops or circumstances change. Environmental provisions are accounted for in accordance with the Provisions accounting policy.

Costs incurred to prevent future contamination or costs that are otherwise of a capital nature are capitalised. Costs incurred to prepare a property for resale are accounted for as part of the profit or loss on sale of a property and expensed accordingly. All other costs, including costs of compliance with environmental regulations and ongoing maintenance and monitoring, are expensed as incurred. Recoveries from third parties are recorded as assets when their realisation is probable.

(z) Provisions

A provision is recognised when there is a present legal or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Subsequent accretion to the amount of a provision due to unwinding of the discount is recognised as a borrowing cost.

Estimate of the amount of an obligation is based on current legal and constructive obligations, technology and price levels. Actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices

and conditions and can take place many years in the future. The carrying amounts of provisions and liabilities are regularly reviewed and adjusted to take account of such change.

In general, the further in the future that a cash outflow for a liability is expected to occur, the greater the degree of uncertainty around the amount and timing of that cash outflow. Examples of cash outflows that are expected to occur a number of years in the future and, as a result, about which there is uncertainty of the amounts involved, include asset decommissioning and restoration obligations and employee pension obligations.

A change in the estimate of a recognised provision or liability would result in a charge or credit to the income statement, in the period in which the change occurs, with the exception of decommissioning and certain restoration costs that relate to the initial construction of an asset.

Site restoration

In accordance with legal requirements, a provision for restoration in respect of contaminated land is recognised when the land is contaminated.

Asset retirement obligations

Costs for the future dismantling and removal of assets, and restoration of the site on which the assets are located, are provided for and capitalised where an obligation to incur such costs arises. The present value of the expected future cash flows required to settle these obligations are capitalised and depreciated over the useful life of the asset. Subsequent accretion to the amount of a provision due to unwinding of the discount is recognised as a borrowing cost. A change in estimate of the provision is added to or deducted from the cost of the related asset in the period of the change, to the extent that any amount of deduction does not exceed the carrying amount of the asset. Any deduction in excess of the carrying amount is recognised in the income statement immediately. If an adjustment results in an addition to the cost of the related asset, consideration will be given to whether an indication of impairment exists and the impairment policy will be applied.

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount.

Restructuring and employee termination benefits

Provisions for restructuring or termination benefits are only recognised when a detailed plan has been approved and the restructuring or termination benefits have either commenced or been publicly announced, or when firm contracts related to the restructuring or termination benefits have been entered into. The liabilities for termination benefits have been included in the provision for employee and director entitlements.

Notes to the Financial Statements

for the half year ended 30 June 2005 cont'd

2. Explanation of transition to A-IFRS

As stated in note 1, these are the Group's first consolidated half year financial statements prepared in accordance with A-IFRS.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the half year ended 30 June 2005. The comparative information presented in the financial statements has been restated as follows:

Income Statement comparatives are restated for the interim period to 30 June 2004 and the annual period to 31 December 2004; and Balance Sheet comparatives are restated for the year ended 31 December 2004 and in the preparation of an opening A-IFRS balance sheet at 1 January 2004 (the Group's date of transition).

In preparing its opening A-IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from the previous GAAP to A-IFRS has affected the Group's income statement, balance sheet and cash flows is set out in the following tables and the notes that accompany the tables.

(i) Reconciliation of equity

Thousands of dollars	Notes	1 January 2004			31 December 2004			
		Previous GAAP	Effect of transition to A-IFRS	A-IFRS	Previous GAAP	Effect of transition to A-IFRS	A-IFRS	
Assets								
Cash at bank on hand		36,318		36,318		14,196	14,196	
Receivables	a	540,990	(2,418)	538,572	a	636,372	(1,090)	635,282
Inventories		502,732		502,732		822,083		822,083
Other		20,761		20,761	b	19,398	(1,711)	17,687
Total current assets		1,100,801	(2,418)	1,098,383		1,492,049	(2,801)	1,489,248
Receivables	c	25,638	(18,877)	6,761	c	24,367	(18,473)	5,894
Investments accounted for using the equity method	d	9,829	16,763	26,592	d	7,583	16,763	24,346
Other financial assets	e	2,340	(2,325)	15	e	6,783	(6,767)	16
Property, plant and equipment	f	1,615,321	(21,005)	1,594,316	f	1,709,728	(25,939)	1,683,789
Intangibles	g	12,592	5,805	18,397	g	14,004	7,660	21,664
Deferred tax assets		-		0	h	17,196	(17,196)	0
Other		7,125		7,125		6,015		6,015
Total non-current assets		1,672,845	(19,639)	1,653,206		1,785,676	(43,952)	1,741,724
Total Assets		2,773,646	(22,057)	2,751,589		3,277,725	(46,753)	3,230,972
Liabilities								
Payables	i	602,684	(12,267)	590,417	i	868,218	(11,286)	856,932
Interest bearing liabilities		96,652		96,652		27,761		27,761
Tax liabilities		72,865		72,865	j	140,774	(24,139)	116,635
Provisions	k	45,791	718	46,509	k	46,127	4,608	50,735
Total current liabilities		817,992	(11,549)	806,443		1,082,880	(30,817)	1,052,063
Payables	l	1,300	3,655	4,955	l	0	3,493	3,493
Interest bearing liabilities		564,094		564,094		433,681		433,681
Deferred tax liabilities	m	128,623	38,752	167,375	m	0	43,498	43,498
Provisions	n	37,978	37,723	75,701	n	41,945	20,654	62,599
Total non-current liabilities		731,995	80,130	812,125		475,626	67,645	543,271
Total Liabilities		1,549,987	68,581	1,618,568		1,558,506	36,828	1,595,334
Net Assets		1,223,659	(90,638)	1,133,021		1,719,219	(83,581)	1,635,638
Equity								
Issued capital		543,415		543,415		543,415		543,415
Treasury stock	o	-	(1,073)	(1,073)	o	0	(2,219)	(2,219)
Reserves	p	-	2,468	2,468	p	0	3,595	3,595
Retained profits	q	671,884	(95,013)	576,871	q	1,168,558	(87,994)	1,080,564
Parent entity interest		1,215,299	(93,618)	1,121,681		1,711,973	(86,618)	1,625,355
Minority interest	r	8,360	2,980	11,340	r	7,246	3,037	10,283
Total equity		1,223,659	(90,638)	1,133,021		1,719,219	(83,581)	1,635,638

Notes to the Financial Statements

for the half year ended 30 June 2005 cont'd

2. Explanation of transition to A-IFRS (cont)
(ii) Reconciliation of net profit for 2004

Thousands of dollars	Notes	30 June 2004			31 December 2004			
		Previous GAAP	Effect of transition to A-IFRS	A-IFRS	Previous GAAP	Effect of transition to A-IFRS	A-IFRS	
Gross sales revenue		6,100,142		6,100,142		13,447,872		13,447,872
Cost of goods sold - replacement cost		(3,565,433)		(3,565,433)		(8,318,484)		(8,318,484)
Inventory gains		66,808		66,808		151,758		151,758
Product duties and taxes		(2,059,848)		(2,059,848)		(4,242,080)		(4,242,080)
Cost of goods sold - historical cost		(5,558,473)		(5,558,473)		(12,408,806)		(12,408,806)
Gross profit		541,669		541,669		1,039,066		1,039,066
Other operating income	s	91,553	(14,101)	77,452	s	221,791	(44,569)	177,222
Refining and supply expenses	t	(11,322)	381	(10,941)	t	(25,675)	827	(24,848)
Marketing expenses	u	(227,798)	(3,755)	(231,553)	u	(492,055)	(3,672)	(495,727)
Other operating expenses	v	(49,394)	13,727	(35,667)	v	(48,292)	39,654	(8,638)
Profit from operations		(196,961)	(3,748)	(200,709)		(344,231)	(7,760)	(351,991)
Borrowing costs	w	(22,401)	(2,247)	(24,648)	w	(42,185)	(4,081)	(46,266)
Income from associates		2,052		2,052		3,302		3,302
Profit before tax		324,359	(5,995)	318,364		655,952	(11,841)	644,111
Income tax expense	x	16,766	1,798	18,564	x	(82,674)	7,353	(75,321)
Profit after tax		341,125	(4,197)	336,928		573,278	(4,488)	568,790
Minority interest		(517)		(517)	y	(1,004)	(57)	(1,061)
Net profit attributable to members of the parent entity		340,608	(4,197)	336,411		572,274	(4,545)	567,729
Basic and diluted earnings per share								
Historical cost including significant items - cents per share		126.2		124.6		212.0		210.3

(iii) Notes to adjustments

a) Current receivables

Current receivables that are classified as financial instruments, such as trade receivables, receivables from associates and related entities are present valued, with the exception of trade receivables less than 6 months due as the effect of discounting is immaterial. The net effect is to reduce the balance of current receivables.

b) Other current assets

Under A-IFRS, shares held on behalf of employees that have not been vested at balance date are classified as treasury stock and offset against equity. Under previous AGAAP, unvested shares were recognised as a prepayment.

c) Non-current receivables

On transition to A-IFRS, there is a decrease to non-current receivables representing a loan to an associate, Australasian Lubricants Manufacturing Company (ALMC). This non-current receivable is deemed to be an extension of Caltex's investment in ALMC and thus has been reclassified to investments accounted for using the equity method.

Impact on non-current receivables as at 1 January 2004	(16,763,000)
Impact on non-current receivables as at 30 June 2004	(16,763,000)
Impact on non-current receivables as at 31 December 2004	(16,763,000)

Additionally, non-current receivables that are classified as financial instruments, such as loans to dealers and formula grants, are measured at present value.

d) Investments accounted for using the equity method

On transition to A-IFRS, there is a decrease to non-current receivables representing a loan to an associate, Australasian Lubricants Manufacturing Company (ALMC). This non-current receivable is deemed to be an extension of Caltex's investment in ALMC and thus has been reclassified to investments accounted for using the equity method.

Impact on investments accounted for using the equity method as at 1 January 2004	16,763,000
Impact on investments accounted for using the equity method as at 30 June 2004	16,763,000
Impact on investments accounted for using the equity method as at 31 December 2004	16,763,000

e) Other financial assets

Under A-IFRS, start up costs are expensed when incurred. Accordingly, start up costs arising from the Caltex Woolworths joint venture are expensed under A-IFRS. These amounts were capitalised under previous AGAAP. The effect on transition to A-IFRS is to reduce other financial assets.

Notes to the Financial Statements

for the half year ended 30 June 2005 cont'd

2. Explanation of transition to A-IFRS (cont)

(iii) Notes to adjustments (cont)

f) Property, plant and equipment

Under A-IFRS, Caltex will expense borrowing costs as they are incurred. Under previous AGAAP, borrowing costs were capitalised in respect of internally constructed property, plant and equipment and software assets that met the criteria of qualifying assets. On transition to A-IFRS, the capitalised amount included in property, plant and equipment has been transferred to retained earnings.

Impact on property, plant and equipment as at 1 January 2004	(10,335,000)
Impact on property, plant and equipment as at 30 June 2004	(11,569,000)
Impact on property, plant and equipment as at 31 December 2004	(13,718,000)

Additionally, assets such as software assets developed for internal use, software acquired that is not integral to hardware, and licences and patents for processes used in the Clean Fuels Project are reclassified as intangible assets under A-IFRS from property, plant and equipment under previous AGAAP.

Impact on property, plant and equipment as at 1 January 2004	(10,670,000)
Impact on property, plant and equipment as at 30 June 2004	(8,180,000)
Impact on property, plant and equipment as at 31 December 2004	(12,221,000)

g) Intangibles

Assets such as software assets developed for internal use, software acquired that is not integral to hardware, and licences and patents for processes used in the Clean Fuels Project are reclassified as intangible assets under A-IFRS from property, plant and equipment under previous AGAAP.

Impact on intangibles as at 1 January 2004	10,670,000
Impact on intangibles as at 30 June 2004	8,180,000
Impact on intangibles as at 31 December 2004	12,221,000

Additionally, the carrying value of goodwill related to cash generating units is tested for impairment using discounted cash flow analysis. The effect of this is to reduce retained earnings and reduce intangible assets.

Impact on intangibles as at 1 January 2004	(4,865,000)
Impact on intangibles as at 30 June 2004	(4,865,000)
Impact on intangibles as at 31 December 2004	(6,116,000)

Additionally, on adoption of A-IFRS, book value of goodwill is frozen at opening balance 1 January 2004. Therefore, a reversal of amortisation of goodwill during 2004 is effected.

h) Deferred tax assets

On adoption of A-IFRS, the "balance sheet" approach is used to calculate deferred tax assets or deferred tax liabilities. Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their book carrying amounts. This note should be read in conjunction with note 2(m) to determine the total impact on deferred tax accounts due to the adoption of A-IFRS.

i) Current payables

A remediation provision has been reclassified from current payables to non-current provisions, as this classification more accurately reflects the nature of the amount.

Impact on current payables as at 1 January 2004	(9,500,000)
Impact on current payables as at 30 June 2004	(9,500,000)
Impact on current payables as at 31 December 2004	(9,600,000)

Additionally, current payables that are classified as financial liabilities, such as trade creditors, payables and accrued expenses are measured at present value with the exception of payables relating to tax and excise, and creditors due in less than 6 months as this is not material.

j) Current tax liabilities

On adoption of A-IFRS, the "balance sheet" approach is used to calculate current tax liabilities, and deferred tax assets or deferred tax liabilities. This has resulted in a transfer from current tax liabilities to deferred tax liabilities.

Impact on current tax liabilities as at 31 December 2004	(24,139,000)
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k) Current provisions

Under A-IFRS, equity based compensation in the form of shares are recognised as an expense over the periods when the service is received from the employees. Under previous AGAAP, equity based compensation was expensed on a straight line basis over three years. Shares held on behalf of employees that have not been vested at balance date are classified as treasury stock and offset against equity. A current provision for equity based compensation has been reclassified to reserves.

Additionally, under A-IFRS, a current provision for an avoided premium surcharge is recognised in relation to an insurance policy held with Oil Insurance. Oil Insurance is a company that was formed to insure for catastrophic risk such as oil and gas fires and pollution control. The avoided premium surcharge will be payable if Caltex decides to exit the insurance policy.

Impact on current provisions as at 1 January 2004	6,133,000
Impact on current provisions as at 30 June 2004	7,258,000
Impact on current provisions as at 31 December 2004	8,383,000

Additionally, the current provision for the net deficit on a vested basis in the defined benefit plan has been transferred to retained earnings in line with the new treatment under A-IFRS.

Impact on current provisions as at 1 January 2004	(4,600,000)
Impact on current provisions as at 30 June 2004	(3,340,000)
Impact on current provisions as at 31 December 2004	(2,080,000)

l) Non-current payables

Payables that are classified as financial liabilities, such as payables to related entities, associates and suppliers are measured at present value.

Additionally, operating lease rental expenses are amortised on a straight line basis including the effect of known fixed rate increases over the life of the lease. Previously, operating lease rentals were expensed as incurred with fixed rate increases in rent recognised as an expense in the year with the increase occurs. The effect of this is to recognise an accrual for future known increases of rent accumulated on a straight line basis to date.

Notes to the Financial Statements for the half year ended 30 June 2005 cont'd

2. Explanation of transition to A-IFRS (cont) (iii) Notes to adjustments (cont)

m) Deferred tax liabilities

On adoption of A-IFRS, the "balance sheet" approach is used to calculate deferred tax assets or deferred tax liabilities. Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts.

Impact on deferred tax liabilities as at 1 January 2004	38,752,000
Impact on deferred tax liabilities as at 30 June 2004	40,113,000
Impact on deferred tax liabilities as at 31 December 2004	43,498,000

n) Non-current provisions

On adoption of A-IFRS, recognition of the net surplus or deficit on an actuarial basis in defined benefit plans is required with a corresponding entry to retained earnings. The transitional adjustment is based on actuarial valuation of the defined benefit plan.

Impact on non-current provisions as at 1 January 2004	30,661,000
Impact on non-current provisions as at 30 June 2004	19,180,000
Impact on non-current provisions as at 31 December 2004	11,194,000

Additionally, a remediation provision has been reclassified from current payables to non-current provisions, as this classification more accurately reflects the nature of the amount.

Impact on non-current provisions as at 1 January 2004	9,500,000
Impact on non-current provisions as at 30 June 2004	9,500,000
Impact on non-current provisions as at 31 December 2004	9,600,000

Additionally, on transition to A-IFRS, the non-current provision for remediation of tanks has been discounted to present value.

o) Treasury stock

Under A-IFRS, shares held on behalf of employees that have not been vested at balance date are classified as treasury stock and offset against equity.

Impact on treasury stock as at 1 January 2004	(1,073,000)
Impact on treasury stock as at 30 June 2004	(2,219,000)
Impact on treasury stock as at 31 December 2004	(2,219,000)

p) Reserves

Under A-IFRS, equity based compensation in the form of shares are recognised as an expense over the periods when the service is received from the employees. Under previous AGAAP, equity based compensation was expensed on a straight line basis over three years.

Impact on reserves as at 1 January 2004	2,468,000
Impact on reserves as at 30 June 2004	2,323,000
Impact on reserves as at 31 December 2004	3,595,000

q) Retained profits

The effect of the adjustments on retained earnings are as follows:

Thousands of dollars	1 January 2004	30 June 2004	31 December 2004
	Retained profits Increase / (decrease)	Retained profits Increase / (decrease)	Retained profits Increase / (decrease)
Current receivables	(2,418)	(2,758)	(1,090)
Other current assets	-	(1,711)	(1,711)
Non-current receivables	(2,114)	(2,114)	(1,710)
Other financial assets	(2,325)	(7,086)	(6,767)
Property, plant and equipment	(10,335)	(11,569)	(13,718)
Intangibles	(4,865)	(4,115)	(4,561)
Current Payables	2,767	2,437	1,686
Current provisions	(718)	(1,622)	(4,608)
Non-current Payables	(3,655)	(3,454)	(3,493)
Deferred tax asset	-	-	(17,196)
Deferred tax liability	(38,752)	(36,954)	(19,359)
Non-current provisions	(28,223)	(19,807)	(11,054)
Treasury stock	1,073	2,219	2,219
Reserves	(2,468)	(2,323)	(3,595)
Minority interest	(2,980)	(2,980)	(3,037)
Total adjustments	(95,013)	(91,837)	(87,994)

r) Minority interest

Minority interest is increased, representing recognition of additional interest in companies upon consolidation.

s) Other operating income

Under A-IFRS, net profit or loss on sale of fixed assets is disclosed in one section of the income statement. Under previous AGAAP, proceeds from sale of fixed assets was disclosed in other operating revenue, and written down value and selling costs disclosed in other operating expenses.

Impact on other operating income as at 30 June 2004	(14,101,000)
Impact on other operating income as at 31 December 2004	(44,569,000)

t) Refining and supply expenses

Refining and supply expenses are impacted by adjustment 2(f).

u) Marketing expenses

Marketing expenses are impacted by adjustments 2(e,f,g,i,n).

Notes to the Financial Statements

for the half year ended 30 June 2005 cont'd

2. Explanation of transition to A-IFRS (cont)
(iii) Notes to adjustments (cont)

v) Other operating expenses

Under A-IFRS, net profit or loss on sale of fixed assets is disclosed in one section of the income statement. Under previous AGAAP, proceeds from sale of fixed assets was disclosed in other operating revenue, and written down value and selling costs disclosed in other operating expenses.

Impact on other operating expenses as at 30 June 2004	14,101,000
Impact on other operating expenses as at 31 December 2004	44,569,000

Additionally, other operating expenses are impacted by adjustments 2(k,n,p).

w) Borrowing costs

Borrowing costs are impacted by adjustments 2(a,c,f,i,l,n).

x) Income tax expense

Income tax expense is impacted by the above adjustments to the income statement.

y) Minority interest

Minority interest is increased representing recognition of additional interest in companies upon consolidation under A-IFRS.

(iv) Reconciliation of equity at 30 June 2004

Thousands of dollars	30 June 2004
Previous GAAP at 30 June 2004	1,526,265
Effect on equity of transition to A-IFRS at 1 January 2004	(90,638)
Effect on retained profits of transition to A-IFRS for the half year ended 30 June 2004	(4,197)
Actuarial gains on defined benefit plans for the half year ended 30 June 2004	7,372
Own shares acquired for the half year ended 30 June 2004	(2,562)
Cost of share based payments for the half year ended 30 June 2004	1,271
Total equity under A-IFRS at 30 June 2004	1,437,511

The impact on the balance sheet relating to the A-IFRS adjustment to total equity at 30 June 2004 is discussed in Note 2(iii).

(v) Changes in accounting policy

In the current financial year the Group adopted AASB 132: Financial Instruments: Disclosure & Presentation and AASB 139: Financial Instruments: Recognition and Measurement. This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

The adoption of AASB 139 has resulted in the Group recognising all derivative financial instruments as assets or liabilities at fair value. This change has been accounted for by adjusting the opening balance of retained earnings and reserves at 1 January 2005, as disclosed in the condensed consolidated reconciliation of equity.

The impact on the balance sheet in the comparative period is not material. The transitional provisions will not have an effect in future reporting periods.

Notes to the Financial Statements

for the half year ended 30 June 2005 cont'd

Thousands of dollars	Consolidated	
	30 June 2005	30 June 2004
3. Other revenue		
From operating activities		
Interest received or due and receivable	1,834	625
Rental income	16,157	17,087
Royalties and franchise income	45,717	42,640
Other income	28,535	17,100
	92,243	77,452
4. Costs and expenses		
Borrowing costs:		
Interest paid or due and payable to other corporations	20,147	23,050
Finance charges on capitalised leases	973	995
Discounting on provisions and other liabilities	954	603
Borrowing costs charged against net profit from ordinary activities	22,074	24,648
Amortisation of intangibles	1,171	615
Depreciation and amortisation (excluding intangibles)	60,813	58,548
Total amortisation and depreciation expense	61,984	59,163
Operating leases rental expense	40,365	37,820
Net loss on disposal of non current assets	10,044	2,361
Reconciliation of other expenses in the income statement:		
Net foreign exchange losses	11,312	28,807
Other	13,990	6,860
	25,302	35,667

5. Individually significant item Deferred tax balances

Caltex elected to enter the Tax Consolidation regime from 1 July 2003. The financial impact of this was an increase to allowable depreciable deductions of \$378 million. This resulted in a reduction of \$114 million in the deferred tax liability and a corresponding reduction in income tax expense in the period ended 30 June 2004.

Following the passing of Tax Law Amendment Bill (2004 Measures No. 6) by the Senate in early 2005, further allowable depreciable deductions of \$70 million are available to Caltex. This resulted in a further reduction of \$21 million in the deferred tax liability and income tax expense for the period ended 30 June 2005.

Thousands of dollars	Consolidated	
	30 June 2005	30 June 2004
6. Income tax (expense)/benefit relating to ordinary activities		
Income tax expense attributable to net profit before significant items	(91,801)	(94,959)
Individually significant income tax item:		
Net deferred tax balances recognised by head entity in relation to wholly owned subsidiaries with the tax consolidated group upon implementation of tax consolidation	20,854	113,523
	(70,947)	18,564

7. Dividends paid

(a) Dividends declared or paid

Dividends provided for or paid by Caltex are:

	Date of payment	Franked/ unfranked	Cents per share	Total amount \$'000
2005				
Final 2004	1 April 2005	franked	25	67,500
Total amount				67,500
2004				
Interim 2004	1 October 2004	franked	14	37,800
Final 2003	1 April 2004	franked	14	37,800
Total amount				75,600

Franked dividends paid during the year were franked at the tax rate of 30%.

Subsequent events

Since 30 June 2005, the directors declared the following interim dividend fully franked at 30% (2004: 14 cents per share fully franked at 30%). The interim dividend has not been provided for and there are no income tax consequences.

Interim 2005	30 September 2005	franked	15	40,500
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Notes to the Financial Statements

for the half year ended 30 June 2005 cont'd

Thousands of dollars	Consolidated	
	30 June 2005	30 June 2004
8. Basic and diluted earnings per share		
Historical cost including significant items - cents per share	93.6	124.6
Replacement cost excluding significant items - cents per share	55.4	65.2

Weighted average number of ordinary shares used in the calculation of earnings per share was 270 million shares. (2004: 270 million)

There are no dilutive potential ordinary shares, and therefore diluted earnings per share equals basic earnings per share.

Thousands of dollars	Consolidated	
	30 June 2005	31 December 2004
9. Interest bearing liabilities		
Current - unsecured		
Bank loans (i)	49,000	27,000
Lease liabilities (iv)	774	761
	49,774	27,761
Non-current - unsecured		
US notes (i)	292,163	288,132
Bank loans (i), (ii)	150,000	70,000
Hedge payable (iii)	63,863	66,289
Lease liabilities (iv)	8,714	9,260
	514,740	433,681

(i) The bank loans and the US notes are provided by a number of banks and the capital markets. The majority of interest rates on these loans and notes are on a floating rate basis. Maturity dates of the loans and notes vary from January 2008 to July 2012. Under the loan and note agreements, Caltex is required to comply with certain financial covenants.

(ii) In the current period, \$150 million of bank loans maturing in less than twelve months were classified as non-current as they were supported by undrawn long term committed facilities.

(iii) The hedge payable, is disclosed within interest bearing liabilities as the hedge was entered into solely as a result of the US dollar borrowings and is inextricably linked to the debt. This amount represents the fair value of the cross currency swap derivative and has been accounted for as a fair value hedge.

(iv) The implicit rate of interest on finance leases is 14.0% (2004: 14.0%).

10. Issued capital

Ordinary shares

270 million (2004: 270 million) ordinary shares, fully paid	543,415	543,415
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Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of the winding up of Caltex Australia Limited, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

Notes to the Financial Statements

for the half year ended 30 June 2005 cont'd

11. Employee and director benefits

The Caltex Australia Group contributes to superannuation plans to provide benefits to employees and directors and their dependents upon retirement, disability or death. Employer contributions (where applicable) are based on a percentage of salary or directors' fees. The employer is committed to contribute to the plans as prescribed by the relevant trust deeds and relevant legislation. Details of the plans are outlined below.

(a) Caltex Australia Superannuation Plan - CSP Division

The Caltex Australia Superannuation Plan - CSP Division is predominantly a defined benefits plan, but it also includes the retirement account which is a defined contribution payable by the Caltex Australia Group.

Information from the most recent actuarial review for the defined benefits superannuation plan at 1 January 2005, and an estimate provided by Mercer Human Resource Consulting at 30 June 2005, is as follows:

Thousands of dollars	Consolidated	
	30 June 2005	31 December 2004
Employee Benefits		
Present value of funded obligations	208,962	192,054
Fair value of plan assets	(191,069)	(180,860)
Present value of net obligations	17,893	11,194
Long service leave provision	44,189	41,500
Non current employee benefits	62,082	52,694

Expense recognised in the consolidated interim income statement

The expense recognised in the consolidated interim income statement consists of the current service costs, interest on the obligation for employee benefits, the expected return on plan assets and past service cost. For the six months ended 30 June 2005, the consolidated entity recognised expense of \$1,681,000 (six months ended 30 June 2004: \$2,767,000).

Liability for defined benefit obligations

Principal actuarial assumptions at the date of the most recent actuarial valuations:

	1 January 2005	1 January 2004
Discount rate (net of tax effect)	4.50%	4.80%
Expected return on plan assets	7.00%	7.00%
Future salary increases	4.00%	4.00%
Proportion of employees opting for early retirement	0.25%	0.25%

(b) Caltex Australia Superannuation Plan - APF Division

As this is an accumulation plan, no actuarial review has been performed on this plan. The plan benefits to members are as described in the trust deed. Funds are available to satisfy all vested benefits in the event of termination of the fund or the voluntary or compulsory termination of employment of each employee of the participating employers.

Thousands of dollars	Consolidated	
	30 June 2005	31 December 2004
12. Commitments		
Capital expenditure		
Capital expenditure contracted but not provided for in the financial report and payable:		
Within one year	70,307	13,113

13. Contingent assets and liabilities

The details and estimated maximum amounts of contingent assets and liabilities (for which no provisions are included in the financial report) are set out below. The directors are not aware of any circumstance or information which would lead them to believe that these assets and liabilities will crystallise and consequently no provisions are included in the financial report in respect of these matters.

(a) Contingent assets - legal and other claims

In the ordinary course of business Caltex is involved as a plaintiff in legal proceedings. Where appropriate, Caltex takes legal advice. The group does not consider that the outcome of any current proceedings are likely to have a material effect on its operations or financial position.

(b) Contingent liabilities - legal and other claims

In the ordinary course of business, Caltex is involved as a defendant in legal proceedings. Where appropriate, Caltex takes legal advice. The group does not consider that the outcome of any current proceedings is likely to have a material effect on its operations or financial position.

A liability has been recognised for any known losses expected to be incurred where such losses are capable of reliable measurement.

Notes to the Financial Statements

for the half year ended 30 June 2005 cont'd

13. Contingent assets and liabilities (cont)

(c) Asset retirement obligations

Costs for the future dismantling and removal of assets and restoration of the site on which the assets are located, are provided for and capitalised where an obligation to incur such costs arises. An assessment is made at each balance date of the obligation and its discounted cost as a result of currently existing circumstances.

At balance date, Caltex has a legal obligation related to the dismantling and removal of certain pipelines and the restoration of the wharves at the Kurnell and Lytton refineries, which are located on land leased from the government. There is an obligation at the end of these leases to dismantle and remove the pipelines and restore the wharves. The term of the current lease agreements vary from 1 to 99 years and Caltex has an expectation that existing lease agreements will be renewed indefinitely given the nature of the assets and their integral role in the refinery operations. The cost of this obligation has not been recognised in the financial statements because the settlement date for this obligation cannot be reliably estimated.

The current estimate of the legal obligation at today's costs is in the range of \$5 to \$20 million. Due to changes in technology over time, it is likely that the methods and estimates of costs to discharge the obligations will change.

At each future balance date, an assessment will be made as to the sufficiency of information available to determine the likely settlement date and, therefore a reliable estimate of the cost to discharge the obligations. Should future assessments support the recognition of such obligations, the effect on the financial statements would be to increase the net book value of fixed assets and increase non-current provisions by the same amount.

(d) All other contingent liabilities are consistent with the 2004 financial report.

14. Investments accounted for using the equity method

	% interest	
	30 June 2005	31 December 2004
Airport Fuel Services Pty Ltd	40	40
Australasian Lubricants Manufacturing Company Pty Ltd	50	50
Cairns Airport Refuelling Services Pty Ltd	25	25
Geraldton Fuel Company Pty Ltd	50	50
JVC1 Pty Ltd	50	50
JVC2 Pty Ltd	50	50
Link Energy Pty Ltd	50	50
Jenessa Holdings Pty Ltd	50	50
Northern Marketing Management Pty Ltd	37.5	37.5
Northern Marketing Partnership	37.5	37.5
R&JK Petroleum Pty Ltd	50	50
South Coast Fuels Pty Ltd	50	50
South East Queensland Fuels Pty Ltd	50	50
South East Queensland Fuels Unit Trust Pty Ltd	50	50
Vitalgas Pty Ltd	50	50

15. Net tangible assets per share

Net tangible assets per share (dollars)	6.58	5.94
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Net tangible assets are net assets attributable to members of Caltex less intangible assets. The weighted average number of ordinary shares used in the calculation of net tangible assets per share was 270 million (2004: 270 million).

16. Details of entities over which control has been gained or lost during the period

There were no entities over which control was gained or lost during the period.

17. Related party information

Arrangements with related parties continue to be in place. For details on these arrangements refer to the 2004 financial report.

18. Segment reporting

The Caltex Australia Group operates as a vertically integrated refiner and marketer of petroleum products. The Caltex Australia Group operates within one geographic region - Australia.