

**CALTEX AUSTRALIA LIMITED**

**ACN 004 201 307**

**2006 HALF YEAR REPORT**



**CALTEX**

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

## Results for Announcement to the Market

Key Results (Millions of dollars)			Half year ended 30 June	
			2006	2005 <sup>2</sup>
Revenues from ordinary activities	↑	31%	9,970	7,614
Profit from ordinary activities after tax/net profit for the period attributable to members:				
Replacement cost basis <sup>1</sup> (excluding individually material tax item)	↑	13%	175	155
Historical cost basis (excluding individually material tax item)	↑	17%	277	237
Historical cost basis (including individually material tax item)	↑	7%	277	258

Dividend	2006	2005
Dividends declared:		
Interim dividend:		
- Amount per security (fully franked)	32¢	15¢
Final dividend		
- Amount per security (fully franked)	N/A	31¢
Record date for determining entitlement to 2006 interim dividend	8 September 2006	
Date 2006 interim dividend is payable	29 September 2006	

## Comments

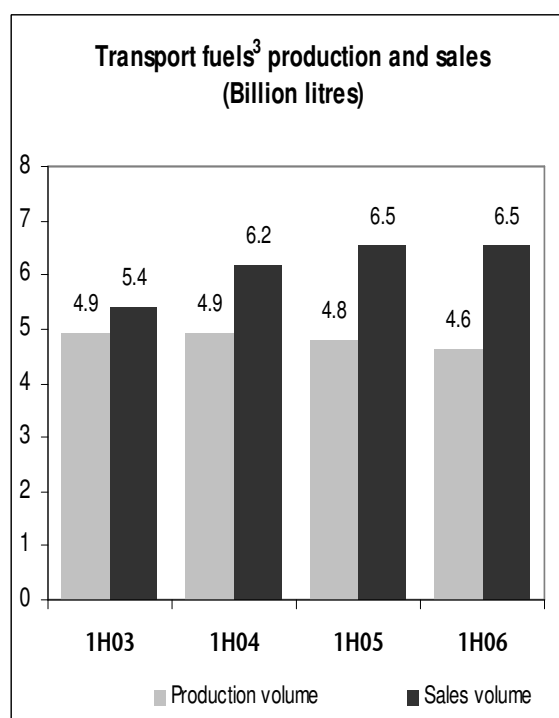
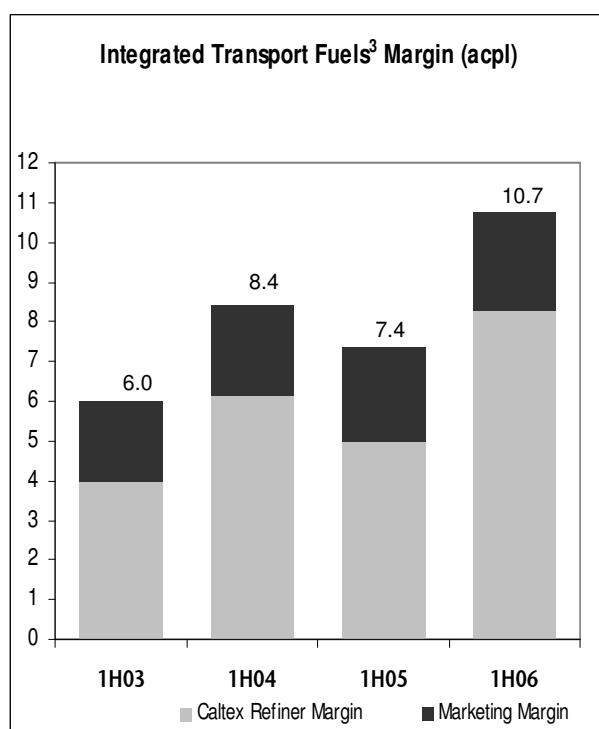
- Profit after tax (excluding individually material tax item) on a replacement cost of sales operating profit (RCOP)<sup>1</sup> basis of \$174.7 million for the first half of 2006, compared with \$155.2 million for the first half of 2005. RCOP earnings per litre on average for all petroleum products sold was 1.8cpl for the first half of 2006 compared with 1.7cpl for the first half of 2005.
- These results have been achieved as a result of strong refiner margins which have been partly offset by the impact of the delay in the now completed Clean Fuels Project. Marketing sales volumes have remained flat as a result of increasing product prices.
- On an historical cost basis (including inventory gains, but excluding individually material tax item), Caltex recorded an after tax profit of \$276.7 million for the first half of 2006 compared with \$237.4 million for the first half of 2005. This included inventory gains of \$102.0 million after tax, compared with inventory gains of \$82.2 million after tax in the first half of 2005.
- As a result of tax consolidation legislation, Caltex recognised a material one-off tax credit of \$20.9 million in 2005, with a corresponding reduction in deferred tax liabilities.
- Net debt at 30 June 2006 was \$721 million, up from \$429 million at 31 December 2005. The increase was due to higher working capital requirements driven by crude oil price increases and a planned shutdown at Kurnell refinery in May/June, as well as funding requirements for the Clean Fuels Project. A temporary rise in net debt was anticipated. It is expected debt will return to target levels by the year end.
- The Board declared an interim fully franked dividend of \$86 million, or 32 cents a share compared with 15 cents per share declared for the first half 2005.

<sup>1</sup> The replacement cost of sales operating profit (RCOP) excludes the impact of the rise or fall in oil prices (a key external factor) and presents 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 contract-based revenue lags.

<sup>2</sup> The first half result for 2005 has been adjusted to reflect the A-IFRS transition consistent with the 2005 full year financial report accounting policies.

## Key Performance Indicators

	Half year ended 30 June				
	2006	2005	2004	2003 <sup>1</sup>	2002 <sup>1</sup>
Profit before interest and tax (\$m)					
- Replacement cost basis (excluding individually material tax item)	270	226	275	154	129
- Historical cost basis (including individually material tax item)	416	344	342	139	228
Profit after interest and tax (\$m)					
- Replacement cost basis (excluding individually material tax item)	175	155	176	86	64
- Historical cost basis (including individually material tax item) <sup>2</sup>	277	258	336	76	130
Inventory gains/(losses) before tax (\$m)	146	117	67	(14)	106
Basic earnings per share (cents)					
- Replacement cost basis (excluding individually material tax item)	64.7	57.5	65.2	31.9	23.6
- Historical cost basis (including individually material tax item) <sup>2</sup>	102.5	95.7	124.6	28.2	48.3
Return on equity attributable to members of the parent entity after tax, annualised (%)					
- Replacement cost basis (excluding individually material tax item)	15	17	25	16	13
- Historical cost basis (including individually material tax item) <sup>2</sup>	24	29	47	14	28
Net tangible asset backing per share (\$)	8.45	6.60	5.22	4.04	3.49
Net debt (\$m)	721	533	536	855	1,036
Gearing (net debt to net debt plus equity) (%)	24	23	27	43	52



<sup>1</sup> 2003 and 2002 comparative numbers have not been adjusted for the transition to A-IFRS.

<sup>2</sup> Includes an individually material tax item of \$20.9 million in 2005 relating to an income tax benefit upon entry into the new tax consolidation regime.

<sup>3</sup> Transport fuels comprise petrol, diesel and jet.

## Profit and Loss

for the half year ended 30 June 2006

Millions of dollars	2006	2005 <sup>3</sup>
1 Total revenue <sup>1</sup>	9,970	7,614
2 Total expenses <sup>2</sup>	(9,700)	(7,388)
<b>3 Replacement cost EBIT</b>	<b>270</b>	<b>226</b>
4 Net borrowing costs	(19)	(15)
Income tax expense	(76)	(56)
<b>Replacement cost profit (RCOP)</b>	<b>175</b>	<b>155</b>
5 Inventory gain – after tax	102	82
Individually material tax item	-	21
<b>Historical cost net profit</b>	<b>277</b>	<b>258</b>
6 Interim dividend per share	32c	15c
Final dividend per share	N/A	31c
<b>Basic earnings per share</b>		
- Replacement cost	64.7c	57.5c
- Historical cost	102.5c	95.7c
<b>RCOP earnings per litre</b>	<b>1.8c</b>	<b>1.7c</b>

## Discussion and Analysis

<p><b>1 Total revenue</b></p> <p><b>↑ 31%</b></p>	<p>Total revenue increased primarily due to:</p> <ul style="list-style-type: none"> <li>• Higher product prices driven by higher crude prices and higher refiner margins;</li> <li>• Marketing margins and volumes are in line with prior year.</li> </ul>
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<p><b>2 Total expenses – replacement cost basis</b></p> <p><b>↑ 31%</b></p>	<p>Total expenses increased primarily due to:</p> <ul style="list-style-type: none"> <li>• Higher cost of sales, reflecting higher crude prices; and</li> <li>• Higher operating expenses due to : <ul style="list-style-type: none"> <li>- increased depreciation due to completion of the Clean Fuels Project;</li> <li>- higher shipping costs; and</li> <li>- increased infrastructure maintenance-related costs.</li> </ul> </li> </ul>
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<sup>1</sup> Excludes interest revenue and individually material tax item (if applicable)

<sup>2</sup> Excludes interest expense, inventory gains/(losses) and individually material tax item (if applicable)

<sup>3</sup> The first half result for 2005 has been adjusted to reflect the A-IFRS transition consistent with the 2005 full year financial report accounting policies.

## Discussion and Analysis cont'd

<p><b>3 Replacement cost EBIT</b></p> <p><b>↑ 19%</b></p>	<p>Increase in Caltex's underlying performance resulted primarily from:</p> <ul style="list-style-type: none"> <li>• Significantly higher refiner margins, driven by continuing strong product demand and increased refinery maintenance in the region;</li> <li>• Partially offset by the impact of the delay of now completed Clean Fuels Project, which resulted in a lower ratio of high value production to total production, increased imports of 2006-standard products and increased exports of non-2006-standard products.</li> </ul> <p>Breakdown of replacement cost EBIT is detailed below <sup>1</sup>:</p>
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### RCOP EBIT breakdown

<p><b>Caltex refiner margin (CRM)</b></p> <p style="text-align: right;"><b>\$412m</b></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 significantly higher in 1H06 at US\$10.62/bbl compared with US\$7.28/bbl for 1H05. However, margins were also negatively affected by timing lags between a US\$14bbl (or 24%) rise in the Tapis crude oil price during the six months ended June 2006 and rising prices for refined product in the Australian market. The financial impact during the period of these pricing lags equates to approximately A\$37 million before tax. Lower planned refinery shutdown activity, resulted in sales from production increasing from 4.8 billion litres in 1H05 to 5.1 billion litres in 1H06.</p>
<p><b>Transport fuels marketing margin</b></p> <p style="text-align: right;"><b>\$162m</b></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"> <li>• The average transport fuels marketing margin was 3% higher than 1H05. Additionally, transport fuels sales volume slightly increased (0.4%) driven by increased demand for diesel offset by the decline in overall gasoline demand as a result of higher prices.</li> </ul>
<p><b>Lubricants and specialties margin</b></p> <p style="text-align: right;"><b>\$54m</b></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"> <li>• Specialties volumes grew overall by 10% mainly due to higher production of refinery grade propylene and marine fuels.</li> </ul>
<p><b>Non fuel income</b></p> <p style="text-align: right;"><b>\$70m</b></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"> <li>• Non fuel income increased by 12% compared with the same period last year due to increased card income, royalties and strong Calstores results.</li> </ul>
<p><b>Operating expenses</b></p> <p style="text-align: right;"><b>(\$336m)</b></p>	<p>Operating expenses in this caption include refining and supply, marketing, corporate and other operating expenditure.</p> <ul style="list-style-type: none"> <li>• Higher operating expenses due to increased depreciation (completion of the Clean Fuels Project) and a change in maintenance practices to undertake more work on a rolling basis than in shutdown periods.</li> </ul>
<p><b>Other</b></p> <p style="text-align: right;"><b>(\$92m)</b></p>	<p>Other includes foreign exchange impacts, pipeline and charter revenue. In addition, losses on exports and imports and other refinery losses occurred due to the delay in the ability to produce products that comply with the new Clean Fuels standards.</p>
<p><b>Total RCOP EBIT</b></p> <p style="text-align: right;"><b>\$270m</b></p>	

<sup>1</sup> The breakdown of RCOP shown here represents management reporting view of the breakdown and as such individual components may not reconcile to statutory accounts.

## Discussion and Analysis cont'd

<p><b>4 Net borrowing costs</b></p> <p><b>↑ 27%</b></p>	<p>Net debt increased to \$721 million at 30 June 2006 (compared with \$429 million at 31 December 2005) due to rising crude and product prices, a planned shutdown at Kurnell Refinery in May/June and the increased imports in the 1H06 due to delays in the Clean Fuels Project.</p>
<p><b>5 Inventory gain after tax</b></p> <p><b>↑ 24%</b></p>	<p>Regional crude oil prices rose significantly in 2006, (averaging US\$70.86/bbl in June 2006 compared with US\$57.24/bbl in December 2005). This increase resulted in net inventory gains of \$146 million ( \$102 million after tax) compared with net inventory gains of \$117 million (\$82 million after tax) in 1H05.</p>
<p><b>6 Interim dividend</b></p>	<p>The Board declared an interim fully franked dividend of \$86 million or 32 cents per share. The dividends have a franking credit of 100%. The record date is 8 September 2006, with the dividend payable on 29 September 2006.</p>


## Balance Sheet

as at 30 June 2006

Millions of dollars	June 2006	December 2005	change \$m
1 Working capital	863	487	376
2 Property, plant and equipment (PP&E)	2,194	2,076	118
3 Net debt	(721)	(429)	(292)
4 Other non-current assets and liabilities	(1)	4	(5)
Total equity	2,335	2,138	197

## Discussion and Analysis

### 1 Working capital

 **\$376m**

The increase in working capital is primarily due to:

- Higher crude and product prices (Tapis average June 06 US\$70.86/bbl vs. Dec 05 US\$57.24/bbl);
- Higher inventory volumes due to delay of the Clean Fuels Project and a planned shutdown at Kurnell Refinery in May/June.

### 2 PP&E

 **\$118m**

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

- Capital expenditure and major cyclical maintenance of \$200 million, including \$81 million relating to the Clean Fuels Project for Caltex's two refineries;

Partly offset by:

- Depreciation of \$68 million; and
- Net disposals of \$15 million.

### 3 Net debt

 **\$292m**

Net debt has increased to \$721 million at 30 June 2006, an increase of \$292 million from 31 December 2005. As a result, Caltex's gearing (net debt to net debt plus equity) was 23.6%, increased from 16.7% at 31 December 2005.

The increase is primarily due to higher working capital requirements driven by crude oil price increases, and a planned shutdown at Kurnell Refinery in May/June as well as funding requirements for the Clean Fuels Project.

### 4 Other non-current assets and liabilities

 **\$5m**





Other non-current assets and liabilities have decreased primarily due to increase in deferred tax liabilities.

## Cash Flows

for the half year ended 30 June 2006

Millions of dollars		2006	2005	change
	Receipts from customers	11,156	8,353	2,803
	Payments to suppliers and employees	(8,796)	(5,841)	(2,955)
	Payments for excise	(2,155)	(2,170)	15
1	Borrowing costs paid	(28)	(22)	(6)
2	Other net operating activities	(166)	(145)	(21)
	<b>Net operating cash inflows</b>	<b>11</b>	<b>175</b>	<b>(164)</b>
3	Purchases of property, plant and equipment (PP&E) and major cyclical maintenance	(222)	(186)	(36)
	Other investing cash flows	4	(7)	11
	<b>Net investing cash outflows</b>	<b>(218)</b>	<b>(193)</b>	<b>(25)</b>
4	<b>Net financing cash inflows</b>	<b>213</b>	<b>35</b>	<b>178</b>
	<b>Net increase in cash held</b>	<b>6</b>	<b>17</b>	<b>(11)</b>

## Discussion and Analysis

<p><b>1 Borrowing costs</b></p> <p> <b>\$6m</b></p>	<p>Net debt increased to \$721 million at 30 June 2006 (compared with \$429 million at 31 December 2005). Average net debt for 1H06 was 44% higher than for 1H05. The higher average net debt level resulted in increased borrowing costs (\$6 million).</p>
<p><b>2 Other operating activities</b></p> <p> <b>\$21m</b></p>	<p>Cash outflows from other net operating activities increased due to higher income tax instalments which are increasing in line with higher profitability.</p>
<p><b>3 Purchases of PP&amp;E and major cyclical maintenance</b></p> <p> <b>\$36m</b></p>	<p>The increase in capital expenditure in the first half of 2006 related primarily to the Clean Fuels Project.</p>
<p><b>4 Net financing cash inflows</b></p> <p> <b>\$178m</b></p>	<p>Net financing cash inflows increased due to higher net borrowings of \$298 million compared with \$104 million in 2005 (reflecting the increase in net debt, which is driven by higher crude and product prices). This was partly offset by higher 2005 final dividend of \$84million (2004 final dividend \$68million).</p>

# 2006 HALF YEAR FINANCIAL REPORT

FOR

## CALTEX AUSTRALIA LIMITED

ACN 004 201 307

The 2006 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 2006

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 Services 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 2006 HALF YEAR FINANCIAL REPORT SHOULD BE READ IN  
CONJUNCTION WITH THE 2005 FINANCIAL REPORT*

# Directors' Report

## Introduction

The Board of Caltex Australia Limited presents this Directors' Report and the 2006 Half Year Financial Report for the Caltex Australia Group for the half year ended 30 June 2006 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), Des King (Managing Director and Chief Executive Officer), Trevor Bourne, Elizabeth Bryan, Brant Fish, John Thorn 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)

### **Des King                                      Managing Director and Chief Executive Officer**

*Bachelor of Chemical Engineering (University of London, UK) & Doctor of Philosophy (University of Cambridge, UK)*

Des was appointed as Managing Director & Chief Executive Officer with effect from 1 May 2006.

Before joining Caltex Australia, Des was responsible for the management of the 220,000 barrels a day Chevron Pembroke refinery in Wales, UK and a director of Texaco UK. He has previously held senior roles in Chevron including General Manager Strategic Planning responsible for developing the corporate strategy for both oil and gas exploration and production, refining and marketing for Chevron Corporation. Other previous roles included general management responsibility for technology marketing. Des joined Chevron in 1981, having previously been a Professor of Chemical Engineering at West Virginia University in Morgantown, West Virginia, USA.

## Directors' Report cont'd

### **Trevor Bourne**                      **Director (Non-executive / Independent)**

*Bachelor of Mechanical Engineering (University of New South Wales, Australia) & Master of Business Administration (University of Newcastle, Australia)*

Trevor was appointed as a director of Caltex Australia Limited with effect from 2 March 2006 and as a member of the Audit Committee from 1 May 2006.

Trevor brings to the Board broad management experience acquired in industrial and capital intensive industries. He also has engineering and supply chain skills and experience. From 1999 to 2003, Trevor served as Chief Executive Officer of Tenix Industries Limited. Prior to Tenix Industries Limited, he spent 15 years at Brambles Industries Limited, six as Managing Director of Brambles Australasia. Before that he worked for Incitec Ltd and BHP Limited.

Current directorships of listed companies

- Hastie Group Limited (Chairman) (appointed 4 February 2005)
- Origin Energy Limited (appointed 18 February 2000)
- Lighting Corporation Limited (appointed 12 February 2004)
- Coates Hire Limited (appointed 26 February 2004)

### **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 on 18 July 2002 and is Chair of the Human Resources & Nomination Committee.

Elizabeth has over 30 years experience in the financial services industry, government policy and administration, and on boards of companies and statutory organisations. Prior to becoming a professional director she served for six years as Managing Director of Deutsche Assets Management and its predecessor organisation, NSW State Superannuation Investment and Management Corporation.

Current directorships of listed companies

- Ridley Corporation Limited (appointed 7 September 2001)

### **Brant Fish**                              **Director (Non-executive)**

*Bachelor of Mechanical Engineering (University of Florida, USA)*

Brant was appointed a director with effect from 27 July 2006 and is a member of the Human Resources & Nomination Committee.

Brant is the General Manager Joint Venture Refineries with Chevron Global Refining. Prior to 1 August 2006, he was the General Manager of Supply Optimization - Asia Pacific for Chevron USA Inc, with accountability for overall refining and marketing earnings, commercial decision making and optimisation across the Asia Pacific fuel supply chain - from refinery crude supply to consumer or export sale. Brant is based in Singapore.

Brant was previously an alternate director for Peter Wissel and for the former directors, Bill Hauschildt and Mitch Rubinstein.



# Directors' Report cont'd

## **Alternate Director**

### **Colleen Jones-Cervantes    Alternate Director**

*Bachelor of Mechanical Engineering (Michigan Technological University, USA)*

Colleen was appointed an alternate director for Brant Fish and Peter Wissel on 27 July 2006.

Colleen serves as the Vice President – Global Marketing, Asia Pacific Region with Chevron USA Inc., based in Singapore. In this role, she is responsible for retail sales for the Caltex brand, commercial and industrial sales, asphalt and LPG sales and company operated stores in eleven countries.

## **Previous Directors**

### **Dave Reeves**

*Bachelor of Civil Engineering (University of Washington, USA)*

Dave was the Managing Director & Chief Executive Officer from 11 August 2003 to 30 April 2006. He resigned as the Managing Director & Chief Executive Officer to take on the most senior crude oil and petroleum product supply and trading role in Chevron.

### **Bill Hauschildt**

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

Bill was appointed a director on 21 September 2004 and served as a member of the Human Resources & Nomination Committee from 1 January 2005. He resigned as a director with effect from 22 May 2006.

### **Ken Watson**

*Bachelor of Laws (The University of Sydney, Australia) & Master of Laws (University of Virginia, USA)*

Ken was appointed a director of Caltex Australia Limited on 9 February 1996. He was a member of the Audit Committee from 29 January 1998 and served as its Chairman from 18 July 2002. Ken retired as a director with effect from the conclusion of the Annual General Meeting on 27 April 2006.

# Directors' Report cont'd

## Review of Results and Operations

### General Overview

Caltex Australia recorded a profit after tax (excluding individually material tax item) on a replacement cost of sales operating profit (RCOP) basis of \$174.7 million for the first half of 2006 compared with \$155.2 million for the first half of 2005. RCOP earnings per litre on average for all petroleum products sold was 1.8cpl for the first half of 2006 compared with 1.7cpl for the first half of 2005.

The Caltex first half 2006 profit has been achieved as a result of strong refining margins which were partly offset by the impact of the delay in the now completed Clean Fuels Project. Refining and Marketing improvement programs delivered further benefits. This result reflected a strong operational performance across the business, sales volumes remained steady in a contracting market and reliable supply was maintained to our customers through the Clean Fuels transition period.

In Refining, during the first half of 2006 the diesel hydrotreating units at both refineries underwent major rebuilds (Lytton completed in March and Kurnell completed in May) in preparation for the transition to cleaner fuels. However, lower planned refinery shutdown activity, compared to 2005, resulted in sales from production higher at 5.1 billion litres (1H05: 4.8 billion litres). The financial impact of the higher production was approximately A\$26 million before tax.

On a US dollar basis, the Caltex Refiner Margin (CRM)<sup>1</sup> was significantly higher in the first half of 2006 at approximately US\$10.62 per barrel (versus US\$7.28 in 1H05). However, margins were negatively affected by timing lags between a US\$14 a barrel (or 24%) rise in the Tapis crude oil price during the six months ended June 2006 and prices for refined product in the Australian market. The financial impact during the period of these pricing lags equates to approximately A\$37 million before tax.

Record refining margins across Petrol (1H06: US\$6.72/bbl, 1H05: US\$4.61/bbl), Diesel (1H06: US\$16.07/bbl based on 50ppm, 1H05: US\$10.76/bbl based on 500ppm) and Jet (1H06: US\$11.48/bbl, 1H05: US\$10.61/bbl) were a reflection of strong global demand, limited regional refining capacity due to maintenance programs and reduction in Chinese exports compared to the first half of 2005.

On an historical cost basis (including inventory gains, but excluding individually material tax item), Caltex recorded an after tax profit of \$276.7 million for the first half of 2006 compared with \$237.4 million for the first half of 2005. This included inventory gains of \$102.0 million after tax, compared with inventory gains of \$82.2 million after tax in the first half of 2005.

Net debt at 30 June 2006 was \$721 million, up from \$429 million at 31 December 2005. The increase was due to higher working capital requirements driven by crude oil price increases and a planned shutdown at Kurnell Refinery in May/June, as well as funding requirements for the Clean Fuels Project. A temporary rise in net debt was anticipated. It is expected that net debt will return to target levels by year end.

<sup>1</sup> 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

### Marketing

The Marketing department promotes and sells Caltex fuels, lubricants, specialties and convenience store goods through a national network of 1,842 Caltex, Caltex Woolworths and Ampol branded service stations and 61 branded resellers. Marketing also sells directly to a large number of commercial customers.

Caltex maintained sales and market leadership position despite the petrol market contracting slightly due to higher prices. Total transport fuels sales volume for first half of 2006 was in line with first half of 2005.

Diesel sales volume grew by 2.4% in the first half of 2006, compared with the same period for the previous year driven by economic activity.

Premium fuel sales volume decreased by 9.6% compared with the first half of 2005, due to higher product prices depressing customer demands. Caltex continues to rollout high octane premium unleaded petrol Vortex 98 in QLD, NSW and Victoria.

There was also growth in specialty sales volume, which was 9.6% higher in the first six months of 2006 compared with the first half of 2005, with fuel oil representing a significant portion of this increase. Non-fuel income increased by 12% compared with the same period last year. Caltex is now the number one convenience retailer in Australia with a 31.9% 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.

The Clean Fuels Project has been completed in the first half of 2006. This involved the construction or re-building of four major processing units which produce cleaner fuels with reduced benzene in petrol and sulphur in diesel thereby cutting air pollution and meeting the standards required by the Australian government. The delay in the completion of this project from 2005 impacted on the operation of the refineries resulting in refining utilisation and transport fuel production being restricted to near first half 2005 levels which were limited by major shutdown activities. Caltex maintained reliable supply to our customers through this transition period thanks to excellent planning and scheduling functions within Refining and Supply. Record numbers of shipping movements with additional imports and exports were handled without incident.

Caltex's refinery improvement program launched in late 2004 to lift the productivity of refining operations has continued. An additional bitumen tank has been completed at the Kurnell refinery enhancing service to our customers.

One of the two catalytic cracker units at the company's Kurnell refinery was shut down for 53 days from late April to early June for planned maintenance.

In February, a series of events were held at the Kurnell refinery to celebrate 50 years of Caltex refining in Australia.

## Directors' Report cont'd

### Outlook

The first half of 2006 was quite volatile. In Refining, completion of our Clean Fuels Project occurred as refiner margins moved across a wide range, while higher product prices created a difficult operating environment in the market place.

Over the coming months, we will continue to drive towards zero incidents with the safety of our employees and contractors paramount in everything we do. In addition, we continue to be focused on meeting and exceeding our customers' requirements.

Operationally, the continued growth in demand in the Asian region will continue to support robust refiner margins. However we can expect the volatility that we have experienced over the past 12 months to persist. In the Australian market, continuation of high product prices will provide an increasingly competitive environment, but our Marketing operations have proven their resilience in these conditions.

We have commenced work on further developing a long-term vision for Caltex. A project team is examining opportunities to expand refining operations to process a broader range of crude oils, meet the strong increase in the demand for diesel with an increase in production capacity, and increase the use of biofuels. The project team will work over the next 12 to 18 months to develop the strategy to position Caltex even better for the future

### Dividends declared

The Board declared an interim fully franked dividend of \$86 million or 32 cents per share. The record date will be 8 September 2006 with the dividend payable on 29 September 2006.

This dividend is in line with our stated policy to maintain a payout ratio of 40 – 60% of RCOP after tax, excluding individually material tax item.

However, the declaration and the amount of any dividends are at the sole discretion of the Board and are dependent on the company's earnings, cash flow requirements, financial conditions at that time and available franking credits.

### 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 2006 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.

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## 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 2006 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



Steven Gatt  
Partner

Sydney, 25 August 2006

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### 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).

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



RFE (Dick) Warburton AO  
Chairman

Sydney, 25 August 2006



DF (Des) King  
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 2006 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, 25 August 2006



.....  
DF (Des) King  
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 2006, consisting of the condensed consolidated income statement, balance sheet, statement of recognised income and expense, cash flows, accompanying notes 1 to 16 and the directors' declaration set out in the 2006 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.

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 2006 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



Steven Gatt  
Partner

Sydney, 25 August 2006

# Condensed Consolidated Income Statement

for the half year ended 30 June 2006

Thousands of dollars	Note	Consolidated	
		30 June 2006	30 June 2005
Revenue from sale of goods		9,874,891	7,523,343
Replacement cost of goods sold (excluding product duties and taxes and inventory gains)		(7,255,974)	(4,955,487)
Product duties and taxes		(2,154,689)	(2,170,169)
Inventory gains		145,654	117,400
Cost of goods sold - historical cost		(9,265,009)	(7,008,256)
Gross profit		609,882	515,087
Other revenue	2	96,659	92,243
Refining and supply expenses		(7,838)	(13,492)
Marketing expenses		(259,783)	(223,718)
Borrowing costs	3	(20,322)	(16,403)
Other expenses		(23,997)	(25,302)
Share of net profit of entities accounted for using the equity method		2,543	1,575
<b>Profit before income tax expense</b>		<b>397,144</b>	<b>329,990</b>
Income tax expense		(120,092)	(70,947)
<b>Net profit</b>		<b>277,052</b>	<b>259,043</b>
Net profit attributable to minority interest		(383)	(767)
<b>Net profit attributable to members of the parent entity</b>		<b>276,669</b>	<b>258,276</b>

Basic and diluted earnings per share:

<b>Historical cost - cents per share (i)</b>	5	<b>102.5</b>	95.7
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(i) Replacement cost excluding individually material tax item earnings per share is disclosed in note 5.

The consolidated income statement is to be read in conjunction with the 2005 Financial Report and the notes to the financial statements.

# Condensed Consolidated Balance Sheet

as at 30 June 2006

Thousands of dollars	Note	Consolidated	
		30 June 2006	31 December 2005
<b>Current assets</b>			
Cash and cash equivalents		34,390	28,484
Receivables		906,160	826,075
Inventories		1,249,692	1,044,805
Other		32,749	25,451
<b>Total current assets</b>		<b>2,222,991</b>	<b>1,924,815</b>
<b>Non-current assets</b>			
Receivables		4,095	5,134
Investments accounted for using the equity method		27,179	26,016
Other investments		15	21
Intangibles		42,631	41,656
Property, plant and equipment		2,193,902	2,076,279
Other		10,790	4,627
<b>Total non-current assets</b>		<b>2,278,612</b>	<b>2,153,733</b>
<b>Total assets</b>		<b>4,501,603</b>	<b>4,078,548</b>
<b>Current liabilities</b>			
Payables		1,210,796	1,230,895
Interest bearing liabilities	7	41,889	68,829
Current tax liabilities		39,980	97,888
Provisions		74,706	80,427
<b>Total current liabilities</b>		<b>1,367,371</b>	<b>1,478,039</b>
<b>Non-current liabilities</b>			
Payables		5,132	5,509
Interest bearing liabilities	7	713,390	389,130
Deferred tax liabilities		21,963	10,042
Provisions		58,611	57,373
<b>Total non-current liabilities</b>		<b>799,096</b>	<b>462,054</b>
<b>Total liabilities</b>		<b>2,166,467</b>	<b>1,940,093</b>
<b>Net assets</b>		<b>2,335,136</b>	<b>2,138,455</b>
<b>Equity</b>			
Issued capital	8	543,415	543,415
Treasury stock	16	(2,801)	(2,664)
Reserves	16	3,757	4,205
Retained earnings	16	1,780,918	1,583,835
Total parent entity interest		2,325,289	2,128,791
Minority interest	16	9,847	9,664
<b>Total equity</b>		<b>2,335,136</b>	<b>2,138,455</b>

The consolidated balance sheet is to be read in conjunction with the 2005 Financial Report and the notes to the financial statements.

# Condensed Consolidated Statement of Recognised Income and Expense

for the half year ended 30 June 2006

Thousands of dollars	Consolidated	
	30 June 2006	30 June 2005
Net profit	277,052	259,043
Actuarial gain/(loss) on defined benefit plans	4,114	(5,276)
Adjustment on change of accounting policy	-	566
Cash flow hedge fair value gains	165	335
<b>Total recognised income for the period</b>	<b>281,331</b>	<b>254,668</b>
<b>Attributable to:</b>		
Equity holders of the parent entity	280,948	253,901
Minority interest	383	767
<b>Total recognised income for the period</b>	<b>281,331</b>	<b>254,668</b>
Total equity at the beginning of the year	2,138,455	1,645,319
Total recognised income for the year	281,331	254,668
Adjustment on change of accounting policy	-	(100)
Own shares acquired	(2,843)	(2,716)
Expense on equity settled transactions	2,093	1,142
Dividends to minority interest	(200)	-
Dividends to shareholders	(83,700)	(67,500)
<b>Total equity at the end of the period</b>	<b>2,335,136</b>	<b>1,830,813</b>

The consolidated statement of recognised income and expense is to be read in conjunction with the 2005 Financial Report and the notes to the financial statements.

# Condensed Consolidated Cash Flow Statement

for the half year ended 30 June 2006

Thousands of dollars	Consolidated	
	30 June 2006	30 June 2005
<b>Cash flows from operating activities</b>		
Receipts from customers	11,156,160	8,353,253
Payments to suppliers, employees and governments	(10,951,092)	(8,010,960)
Dividends and disbursements received	1,073	1,649
Interest received	1,236	1,805
Interest and other borrowing costs paid	(28,125)	(21,860)
Income taxes paid	(168,227)	(148,608)
<b>Net operating cash inflows</b>	<b>11,025</b>	<b>175,279</b>
<b>Cash flows from investing activities</b>		
Deferred payment for purchase of controlled entities	-	(333)
Purchases of property, plant and equipment	(198,235)	(158,175)
Major cyclical maintenance	(23,346)	(28,277)
Purchase of intangibles	(3,608)	(5,912)
Proceeds/(Loss) from sale of property, plant and equipment	5,950	(1,975)
Loans repaid from associated entities	956	1,000
<b>Net investing cash outflows</b>	<b>(218,283)</b>	<b>(193,672)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	4,827,660	2,623,761
Repayments of borrowings	(4,530,130)	(2,519,690)
Repayment of finance lease principal	(466)	(909)
Dividends paid to minority interest	(200)	(200)
Dividends paid	(83,700)	(67,500)
<b>Net financing cash outflows</b>	<b>213,164</b>	<b>35,462</b>
Net increase in cash and cash equivalents	5,906	17,069
Cash and cash equivalents at the beginning of the year	28,484	14,196
<b>Cash and cash equivalents at the end of the period</b>	<b>34,390</b>	<b>31,265</b>

The consolidated cash flow statement is to be read in conjunction with the 2005 Financial Report and the notes to the financial statements.

# Notes to the Financial Statements

for the half year ended 30 June 2006

## 1 Statement of significant accounting policies

The 2006 Half Year Financial Report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 (Cth), Accounting Standard AASB 134 "Interim Financial Reporting", the recognition and measurement requirements of applicable AASB standards, other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group Consensus Views. This half year financial report is to be read in conjunction with the 2005 Financial Report and any public announcements by Caltex Australia Limited during the half year in accordance with continuous disclosure obligations under the Corporations Act 2001 (Cth) and the Australian Stock Exchange (ASX) listing rules. The 2006 Half Year Financial Report was authorised for issue by the directors on 25 August 2006.

The 2006 Half Year Financial Report has been prepared on an 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 accounting policies have been consistently applied by each entity in the Caltex Australia Group. These are consistent with those applied as part of the 31 December annual financial report and are in accordance with the Australian equivalents to International Financial Reporting Standards (A-IFRS). The half year financial report does not include full note disclosures of the type normally included in an annual financial report.

Thousands of dollars	Consolidated	
	30 June 2006	30 June 2005
<b>2. Other revenue</b>		
Rental income	15,126	16,157
Royalties and franchise income	48,154	45,717
Other income	31,986	28,535
	<b>95,266</b>	<b>90,409</b>
<b>Borrowing income</b>		
Other corporations	1,393	1,834
	<b>96,659</b>	<b>92,243</b>
<b>3. Costs and expenses</b>		
Borrowing costs:		
Interest expense	28,617	19,497
Finance charges on capitalised leases	932	973
Gain on fair value derivative	(236)	1,604
Less:		
Capitalised borrowing costs	(8,991)	(5,671)
Borrowing costs	<b>20,322</b>	<b>16,403</b>
Depreciation and amortisation:		
Amortisation of intangibles	2,633	1,171
Depreciation and amortisation (excluding intangibles)	68,209	60,813
Total amortisation and depreciation expense	<b>70,842</b>	<b>61,984</b>
Selected expenses:		
Operating leases rental expense	35,934	40,365
Net loss/ (gain) on disposal of non current assets	2,793	10,044

## 4. Dividends

### Dividends declared or paid

Dividends recognised in the current year by Caltex Australia Limited are:

	Date of payment	Franked/ unfranked	Cents per share	Total amount \$'000
<b>2006</b>				
Final 2005	31 March 2006	Franked	31	<b>83,700</b>
Total amount				<b>83,700</b>
2005				
Interim 2005	30 September 2005	Franked	15	<b>40,500</b>
Final 2004	1 April 2005	Franked	25	<b>67,500</b>
Total amount				<b>108,000</b>

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

### Subsequent events

Since 30 June 2006, the directors declared the following interim dividend.

The interim dividend has not been provided.

Interim 2006	29 September 2006	Franked	32	<b>86,400</b>
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# Notes to the Financial Statements

for the half year ended 30 June 2006 cont'd

	Consolidated	
	30 June 2006	30 June 2005
<b>5. Basic and diluted earnings per share</b>		
Historical cost - cents per share	102.5	95.7
Replacement cost excluding individually material tax item - cents per share	64.7	57.5

The calculation of historical cost basic earnings per share for the half year ended 30 June 2006 was based on the net profit attributable to ordinary shareholders of the parent entity of \$276,699,000 (2005: \$258,276,000) and a weighted average number of ordinary shares outstanding during the half year ended 30 June 2006 of 270 million shares (2005: 270 million shares).

The calculation of replacement cost basic earnings per share for the half year ended 30 June 2006 was based on the net replacement cost profit attributable to ordinary shareholders of the parent entity of \$174,711,000 (2005: \$155,242,000) and a weighted average number of ordinary shares outstanding during the half year ended 30 June 2006 of 270 million shares (2005: 270 million shares).

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

## 6. Individually material tax item

Deferred tax balances

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 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 2006	31 December 2005
<b>7. Interest bearing liabilities</b>		
<b>Current - unsecured</b>		
Bank loans (i)	41,000	68,000
Lease liabilities (iii)	889	829
	<b>41,889</b>	<b>68,829</b>
<b>Non-current - unsecured</b>		
US notes (i)	292,297	296,360
Bank loans (i)	350,000	25,000
Hedge payable (ii)	63,350	59,522
Lease liabilities (iii)	7,743	8,248
	<b>713,390</b>	<b>389,130</b>

- (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 committed loans and notes vary from July 2007 to July 2012. Under the loan and note agreements, the Caltex Australia Group is required to comply with certain financial covenants. There is no security or demand placed on the bank loans and US notes. The bank loans are denominated in Australian dollars, and US notes are denominated in Australian and US dollars.
- (ii) 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. The amount mainly represents the impact of the movement in the exchange rate from the date of inception (30 July 2002, USD exchange rate 0.5643) to 30 June 2006 (USD exchange rate 0.7394), on the amount hedged (USD136 million).
- (iii) The implicit rate of interest on finance leases is 14.0% p.a. (2005: 14.0% p.a.).

## 8. Issued capital

### Ordinary shares

270 million (2005: 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 2006 cont'd

### 9. Contingent liabilities

The details and estimated maximum amounts of contingent 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 liabilities will crystallise and consequently no provisions are included in the financial report in respect of these matters.

#### a Contingent liabilities - legal and other claims 1,000 1,000

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.

#### Taxation

The Australian Taxation Office has served a statutory demand on Caltex to pay an amount of \$48.7 million in excise duty.

This sum would be tax deductible to Caltex. The ATO has formed the view that the excise duty should be paid in relation to certain liquid fuel by-products used in the refining process and that Caltex should have paid the excise duty on such fuel usage over the past four years. Caltex is of the strong view that the excise duty legislation does not apply to the refineries' own use of such fuels in the refining process and has instituted legal proceedings in the Federal Court against the ATO in this regard. No liability has been recognised as at 30 June 2006, as Caltex is of the view that this legislation is not applicable to this type of fuel usage.

Due to a change in the excise legislation any future purported excise duty on this type of fuel usage ceased from 1 July 2006.

#### b All other contingent liabilities are consistent with the 2005 financial report.

	Consolidated	
	30 June 2006	31 December 2005
<b>10. Investments accounted for using the equity method</b>	<b>% interest</b>	
	<b>2006</b>	<b>2005</b>
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
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
<b>11. Net tangible assets per share</b>		
Net tangible assets per share (dollars)	8.45	7.73

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 (2005: 270 million).

### 12. 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.

### 13. Related Party Information

Arrangements with related parties continue to be in place. For details on these arrangements refer to the 2005 financial report.

### 14. 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.

### 15. Commitments

	Consolidated	
	30 June 2006	31 December 2005
<b>Thousands of dollars</b>		
<b>Capital expenditure</b>		
Capital expenditure contracted but not provided for in the financial report and payable:		
Within one year	11,820	46,833

## Notes to the Financial Statements

for the year ended 31 December 2005 cont'd

Thousands of dollars

### 16. Reconciliation of equity

Consolidated	Issued capital	Treasury stock	Hedging reserve	Equity compensation reserve	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2005	543,415	(2,219)	-	3,595	1,090,245	1,635,036	10,283	1,645,319
Total recognised income for the year	-	-	16	-	601,590	601,606	381	601,987
Adjustment on change of accounting policy	-	-	(100)	-	-	(100)	-	(100)
Own shares acquired	-	(2,716)	-	-	-	(2,716)	-	(2,716)
Shares vested to employees	-	2,271	-	(2,271)	-	-	-	-
Expense on equity settled transactions	-	-	-	2,965	-	2,965	-	2,965
Dividends to shareholders	-	-	-	-	(108,000)	(108,000)	(1,000)	(109,000)
<b>Balance at 31 December 2005</b>	<b>543,415</b>	<b>(2,664)</b>	<b>(84)</b>	<b>4,289</b>	<b>1,583,835</b>	<b>2,128,791</b>	<b>9,664</b>	<b>2,138,455</b>
Balance at 1 January 2006	543,415	(2,664)	(84)	4,289	1,583,835	2,128,791	9,664	2,138,455
Total recognised income for the year	-	-	165	-	280,783	280,948	383	281,331
Adjustment on change of accounting policy	-	-	-	-	-	-	-	-
Own shares acquired	-	(2,843)	-	-	-	(2,843)	-	(2,843)
Shares vested to employees	-	2,706	-	(2,706)	-	-	-	-
Expense on equity settled transactions	-	-	-	2,093	-	2,093	-	2,093
Dividends to shareholders	-	-	-	-	(83,700)	(83,700)	(200)	(83,900)
<b>Balance at 30 June 2006</b>	<b>543,415</b>	<b>(2,801)</b>	<b>81</b>	<b>3,676</b>	<b>1,780,918</b>	<b>2,325,289</b>	<b>9,847</b>	<b>2,335,136</b>

#### Reserves

##### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

##### Equity compensation reserve

The equity compensation reserve represents the value of shares held by an equity compensation plan that the group is required to include in the consolidated financial statements. Such accounts will reverse when the underlying shares vest in the employee.