

# Simplified financial report

## Profit and loss

For the year ended 31 December 2005

MILLIONS OF DOLLARS	2005	2004
1 Total revenue <sup>1</sup>	16,816	13,624
2 Total expenses – replacement cost basis <sup>2</sup>	(16,233)	(13,088)
<b>3 Replacement cost EBIT</b>	<b>583</b>	<b>536</b>
4 Net borrowing costs	(23)	(41)
Income tax expense	(146)	(145)
<b>Replacement cost net profit</b>	<b>414</b>	<b>350</b>
5 Inventory gain – after tax	160	106
6 Significant items	21	114
<b>Historical cost net profit</b>	<b>595</b>	<b>570</b>
Interim dividend per share	15c	14c
7 Final dividend per share	31c	25c
<b>Basic earnings per share</b>		
– Replacement cost – excluding significant items	153c	130c
– Historical cost – including significant items	220c	211c

<sup>1</sup> Excludes interest revenue and significant items (if applicable)

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

## Discussion and analysis

### 1 Total revenue

**23%**

Total revenue increased due to:

- higher product prices, driven by rising crude prices and, to a lesser extent, by stronger refiner margins on transport fuels; and
- growth in marketing sales volumes of transport fuels and specialty products.

### 2 Total expenses – replacement cost basis

**24%**

Total expenses increased due to a higher cost of sales, which reflected higher sales volumes and higher crude prices.

Operating expenses were also higher, in absolute terms, due to:

- a change in strategy to perform more maintenance while units are operating (costs expensed) rather than while they are shutdown (costs capitalised) – the benefit is reduced unit shut down time; and
- increased property insurance costs reflecting the impact of industry insurance losses from US hurricanes in 2005.

However, on a per litre sold basis, operating expenses decreased by 2% compared with 2004, reflecting a 6% increase in total sales volume.

### 3 Replacement cost EBIT

**9%**

The improvement in Caltex's underlying performance reflected:

- higher refiner margins on transport fuels; and
- higher marketing sales volumes and margins on transport fuels.

This improvement was partially offset by:

- higher operating expenses; and
- losses on exports and imports.

Breakdown of replacement cost EBIT is detailed as follows:

## RCOP EBIT breakdown

<p>Caltex refiner margin (CRM)</p> <p><b>\$708m</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 higher in 2005 at US\$8.40/bbl, compared with US\$6.60/bbl in 2004. However, the increase in CRM was dampened by a stronger Australian dollar compared with 2004. Additionally, higher planned refinery shutdown activity resulted in production volume of transport fuels falling from 10.5 billion litres in 2004 to 10.1 billion litres in 2005.</p>
<p>Transport fuels marketing margin</p> <p><b>\$315m</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. The average transport fuels marketing margin was 9% higher than in 2004. Additionally, transport fuels sales volumes increased overall by 4% across all products.</p>
<p>Lubricants and specialties margin</p> <p><b>\$108m</b></p>	<p>Lubricants and specialties products include finished lubricants, base oils, gases, petrochemicals, bitumen, waxes and marine fuels. Specialties volumes grew overall by 20% mainly due to stronger demand for refinery grade propylene and marine fuels.</p>
<p>Non-fuel income</p> <p><b>\$127m</b></p>	<p>Non-fuel income includes convenience store income, franchise income, royalties, rentals of property, plant and equipment, StarCard income and the share of profits from non-controlled equity resellers. Non-fuel income increased by 11% compared with 2004.</p>
<p>Operating expenses</p> <p><b>(\$646m)</b></p>	<p>Operating expenses in this caption include refining and supply, marketing, corporate and other operating expenditure. Operating expenses increased in absolute terms, but on a per litre sold basis, decreased by 2% compared with 2004.</p>
<p>Other</p> <p><b>(\$29m)</b></p>	<p>Other includes exchange impacts and pipeline and charter income. Other also includes losses on exports and imports, the majority of which were related to the period of Clean Fuels construction.</p>
<p>Total RCOP EBIT</p> <p><b>\$583m</b></p>	

## Discussion and analysis continued

### 4 Net borrowing costs

**44%**

The reduction in net borrowing costs reflects a higher proportion of borrowing costs, attributable to the Clean Fuels Project, capitalised to the balance sheet. Net debt was \$429 million at 31 December 2005, compared with \$447 million at 31 December 2004.

### 5 Inventory gain after tax

**51%**

Regional crude oil prices rose significantly in 2005, (averaging US\$57.24/bbl in December 2005 compared with US\$39.03/bbl in December 2004). This increase resulted in net after-tax inventory gain of \$160 million compared with \$106 million in 2004.

### 6 Significant items

**\$21m gain**

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 \$114 million in the first half of 2004.

### 7 Final dividend

**31 cps**

The Board declared a final fully franked dividend of \$83.7 million or 31 cents per share. This brings the total dividends for 2005 to 46 cents per share. The dividends have a franking credit of 100%. The record date is 10 March 2006, with the dividend payable on 31 March 2006.

## Balance sheet

As at 31 December 2005

MILLIONS OF DOLLARS	2005	2004
1 Working capital	487	451
2 Property, plant and equipment (PP&E)	2,076	1,698
3 Net debt	(429)	(447)
Other non-current assets/(liabilities)	4	(57)
<b>Total equity</b>	<b>2,138</b>	<b>1,645</b>

## Discussion and analysis

### 1 Working capital

**\$36m**

Working capital increased due to:

- higher crude and product prices, which were particularly reflected in higher net inventory and receivables balances; and
- higher income tax instalment payments relative to income tax provided (hence reducing current tax liabilities).

### 2 PP&E

**\$378m**

PP&E increased due to:

- capital expenditure and major cyclical maintenance of \$530 million, including \$302 million relating to the Clean Fuels Project;

Partly offset by:

- depreciation and amortisation of \$124 million;
- net disposals of \$23 million; and
- asset impairment write-downs of \$5 million.

### 3 Net debt

**\$18m**

Net debt decreased to \$429 million at 31 December 2005 compared with \$447 million at 31 December 2004. Caltex's gearing (net debt to net debt plus equity) reduced to 17% from 21% at 31 December 2004.

The decrease in net debt reflects strong historical cost earnings, partially offset by higher capital expenditure. Lower crude oil purchases prior to year end due to clean fuels constraints resulted in net debt being temporarily low at 31 December 2005.

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## Cash flows

For the year ended 31 December 2005

MILLIONS OF DOLLARS	2005	2004
Receipts from customers	18,467	14,847
Payments to suppliers and employees	(13,189)	(9,944)
Payments for excise and GST	(4,372)	(4,242)
1 Borrowing costs paid	(43)	(49)
2 Other net operating activities	(245)	(155)
<b>Net operating cash inflows</b>	<b>618</b>	<b>457</b>
3 Purchases of property, plant and equipment (PP&E) and major cyclical maintenance	(499)	(216)
Other investing cash flows	10	13
<b>Net investing cash outflows</b>	<b>(489)</b>	<b>(203)</b>
4 <b>Net financing cash outflows</b>	<b>(115)</b>	<b>(276)</b>
<b>Net increase/(decrease) in cash held</b>	<b>14</b>	<b>(22)</b>

## Discussion and analysis

### 1 Borrowing costs

**\$6m**

The reduction in borrowing costs reflects a \$54 million reduction in average daily borrowings compared with 2004. Borrowing costs paid includes capitalised borrowing costs relating to the Clean Fuels Project of \$17 million (2004: \$4 million).

### 2 Other net operating activities

**\$90m**

Cash outflows from other net operating activities increased due to higher income tax payments. Income tax payments were higher because current year income tax instalments are based on a percentage of current year gross revenues, which were higher than in 2004 (driven by higher product prices).

### 3 Purchases of PP&E and major cyclical maintenance

**\$283m**

Purchases of PP&E and major cyclical maintenance increased due to increased investment in the Clean Fuels Project and also due to higher levels of major cyclical maintenance than in 2004.

### 4 Net financing cash outflows

**\$161m**

Net financing cash outflows decreased due to lower net loan repayments (\$4 million) compared with 2004 (\$197 million). This was partly offset by higher dividend payments (\$108 million), comprising a 2005 interim dividend (\$40.5 million) and 2004 final dividend (\$67.5 million). Total dividend payments in 2004 amounted to \$75.6 million.