Income statements

FOR THE YEAR ENDED 31 DECEMBER 2005

THOUSANDS OF DOLLARS	NOTE	CONSOLIDATED 2005	CONSOLIDATED 2004	PARENT ENTITY 2005	PARENT ENTITY 2004
Gross sales revenue from sale of goods		**16,621,451**	13,447,872	**–**	–
Replacement cost of goods sold (excluding product duties and taxes and inventory gains)		**(11,266,594)**	(8,318,484)	**–**	–
Product duties and taxes		**(4,371,659)**	(4,242,080)	**–**	–
Inventory gains		**228,068**	151,758	**–**	–
Cost of goods sold – historical cost		**(15,410,185)**	(12,408,806)	**–**	–
Gross profit		**1,211,266**	1,039,066	**–**	–
Other revenue	3	**198,411**	177,222	**92,917**	97,359
Refining and supply expenses		**(26,084)**	(25,675)	**–**	–
Marketing expenses		**(484,046)**	(451,219)	**–**	–
Borrowing costs	4	**(27,307)**	(41,995)	**(41,419)**	(44,235)
Other expenses		**(88,807)**	(53,268)	**(5,531)**	(1,809)
Share of net profit of entities accounted for using the equity method		**4,601**	3,302	**–**	–
Profit before income tax expense		**788,034**	647,433	**45,967**	51,315
Income tax expense	6	**(193,081)**	(76,336)	**(1,940)**	(3,275)
Net profit		**594,953**	571,097	**44,027**	48,040
Net profit attributable to minority interest		**(381)**	(1,061)	**–**	–
Net profit attributable to members of the parent entity		**594,572**	570,036	**44,027**	48,040
Basic and diluted earnings per share:					
Historical cost including significant items – cents per share (i)	8	**220.2**	211.1		

(i) Replacement cost excluding significant items earnings per share is disclosed in note 8.

The income statements are to be read in conjunction with the notes to the financial statements.

Balance sheets

AS AT 31 DECEMBER 2005

THOUSANDS OF DOLLARS	NOTE	CONSOLIDATED 2005	CONSOLIDATED 2004	PARENT ENTITY 2005	PARENT ENTITY 2004
CURRENT ASSETS					
Cash and cash equivalents		**28,484**	14,196	**437**	–
Receivables	9	**826,075**	635,282	**56,286**	108,159
Inventories	10	**1,044,805**	822,083	**–**	–
Other	11	**25,451**	17,765	**720**	1,444
Total current assets		**1,924,815**	1,489,326	**57,443**	109,603
NON-CURRENT ASSETS					
Receivables	9	**5,134**	5,894	**380,882**	424,422
Investments accounted for using the equity method	26	**26,016**	24,346	**–**	–
Other investments	12	**21**	16	**941,375**	941,375
Intangibles	13	**41,656**	21,664	**–**	–
Property, plant and equipment	14	**2,076,279**	1,697,507	**–**	–
Deferred tax assets	6	**–**	–	**131**	131
Other	11	**4,627**	6,015	**–**	–
Total non-current assets		**2,153,733**	1,755,442	**1,322,388**	1,365,928
Total assets		**4,078,548**	3,244,768	**1,379,831**	1,475,531
CURRENT LIABILITIES					
Payables	15	**1,230,895**	856,932	**12,514**	12,394
Interest bearing liabilities	16	**68,829**	27,761	**68,000**	38,612
Current tax liabilities		**97,888**	116,635	**98,036**	115,980
Provisions	17	**80,427**	50,735	**–**	–
Total current liabilities		**1,478,039**	1,052,063	**178,550**	166,986
NON-CURRENT LIABILITIES					
Payables	15	**5,509**	3,493	**–**	–
Interest bearing liabilities	16	**389,130**	433,681	**380,882**	424,422
Deferred tax liabilities	6	**10,042**	47,613	**–**	–
Provisions	17	**57,373**	62,599	**437**	437
Total non-current liabilities		**462,054**	547,386	**381,319**	424,859
Total liabilities		**1,940,093**	1,599,449	**559,869**	591,845
Net assets		**2,138,455**	1,645,319	**819,962**	883,686
EQUITY					
Issued capital	18	**543,415**	543,415	**543,415**	543,415
Treasury stock	19	**(2,664)**	(2,219)	**(2,664)**	(2,219)
Reserves	19	**4,205**	3,595	**4,289**	3,595
Retained earnings	19	**1,583,835**	1,090,245	**274,922**	338,895
Total parent entity interest		**2,128,791**	1,635,036	**819,962**	883,686
Minority interest	19	**9,664**	10,283	**–**	–
Total equity		**2,138,455**	1,645,319	**819,962**	883,686

The balance sheets are to be read in conjunction with the notes to the financial statements.

Statements of recognised income and expense

FOR THE YEAR ENDED 31 DECEMBER 2005

THOUSANDS OF DOLLARS	NOTE	CONSOLIDATED 2005	CONSOLIDATED 2004	PARENT ENTITY 2005	PARENT ENTITY 2004
Net profit		**594,953**	571,097	**44,027**	48,040
Actuarial gains on defined benefit plans	21	**6,452**	11,704	**–**	–
Adjustment on change of accounting policy	2	**566**	–	**–**	–
Cash flow hedge fair value gains		**16**	–	**–**	–
Total recognised income for the year		**601,987**	582,801	**44,027**	48,040
Attributable to:					
Equity holders of the parent entity		**601,606**	581,740	**44,027**	48,040
Minority interest		**381**	1,061	**–**	–
Total recognised income for the year		**601,987**	582,801	**44,027**	48,040
Total equity at the beginning of the year		**1,645,319**	1,140,255	**883,686**	911,265
Total recognised income for the year		**601,987**	582,801	**44,027**	48,040
Adjustment on change of accounting policy	2	**(100)**	–	**–**	–
Own shares acquired		**(2,716)**	(2,562)	**(2,716)**	(2,562)
Expense on equity-settled transactions		**2,965**	2,543	**2,965**	2,543
Dividends to minority interest		**(1,000)**	(2,118)	**–**	–
Dividends to shareholders		**(108,000)**	(75,600)	**(108,000)**	(75,600)
Total equity at the end of the year		**2,138,455**	1,645,319	**819,962**	883,686

The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements.

Cash flow statements

FOR THE YEAR ENDED 31 DECEMBER 2005

THOUSANDS OF DOLLARS	NOTE	CONSOLIDATED 2005	CONSOLIDATED 2004	PARENT ENTITY 2005	PARENT ENTITY 2004
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		**18,467,315**	14,846,848	**–**	–
Receipts from subsidiaries		**–**	–	**325,417**	187,668
Payments to suppliers, employees and governments		**(17,561,038)**	(14,186,011)	**–**	–
Dividends and disbursements received		**2,931**	3,533	**39,500**	39,626
Interest received		**3,887**	2,135	**53,349**	58,715
Interest and other borrowing costs paid		**(42,862)**	(49,144)	**(44,329)**	(47,429)
Income taxes paid		**(252,484)**	(160,851)	**(253,888)**	(160,439)
Net operating cash inflows	28	**617,749**	456,510	**120,049**	78,141
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of businesses net of cash acquired		**115**	(2,225)	**–**	–
Deferred payment for purchase of controlled entities		**(333)**	(3,879)	**–**	–
Payment for investments, net of cash acquired		**–**	(5,607)	**–**	–
Purchases of property, plant and equipment		**(457,362)**	(190,996)	**–**	–
Major cyclical maintenance		**(41,917)**	(24,841)	**–**	–
Purchases of intangibles		**(7,088)**	(6,554)	**–**	–
Net proceeds from sale of property, plant and equipment		**15,441**	28,297	**–**	–
Loans repaid from controlled entities		**–**	–	**4,000**	197,000
Loans repaid from associated entities		**2,250**	2,500	**–**	–
Net investing cash (outflows)/inflows		**(488,894)**	(203,305)	**4,000**	197,000
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		**5,954,386**	5,650,879	**5,952,000**	5,650,000
Repayments of borrowings		**(5,958,385)**	(5,847,879)	**(5,956,000)**	(5,847,000)
Repayment of finance lease principal		**(1,368)**	(807)	**–**	–
Dividends paid to minority interest		**(1,200)**	(1,920)	**–**	–
Dividends paid		**(108,000)**	(75,600)	**(108,000)**	(75,600)
Net financing cash outflows		**(114,567)**	(275,327)	**(112,000)**	(272,600)
Net increase/(decrease) in cash and cash equivalents		**14,288**	(22,122)	**12,049**	2,541
Cash at the beginning of the year		**14,196**	36,318	**(11,612)**	(14,153)
Cash at the end of the year	28	**28,484**	14,196	**437**	(11,612)

The cash flow statements are to be read in conjunction with the notes to the financial statements.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005

1. SIGNIFICANT ACCOUNTING POLICIES

Caltex Australia Limited (Company) is a company domiciled in Australia. The financial statements for the year ended 31 December 2005 comprise the Company and its controlled entities (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 24 February 2006.

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. 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.

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

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 (Cth), and Australian Accounting Standards 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 Australian Accounting Standards 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-IFRS on issue that are effective or available for early adoption at the Group's first A-IFRS annual reporting date, being 31 December 2005.

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

- AASB 119 Employee Benefits (Dec 2004);
- AASB 2004-3 Amendments to Australian Accounting Standards amending AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (Jul 2004), AASB 101 Presentation of Financial Statements and AASB 124 Related Party Disclosures;
- AASB 2005-1 Amendments to Australian Accounting Standard amending AASB 139 Financial Instruments: Recognition and Measurement;
- AASB 2005-3 Amendments to Australian Accounting Standards amending AASB 119 Employee Benefits (Dec 2004);
- AASB 2005-4 Amendments to Australian Accounting Standards amending 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;
- AASB 2005-5 Amendments to Australian Accounting Standards amending AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards and AASB 139 Financial Instruments: Recognition and Measurement;
- AASB 2005-6 Amendments to Australian Accounting Standards amending AASB 3 Business Combinations;

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

- AASB 2005-8 Amendments to Australian Accounting Standards amending AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards;
- AASB 2005-9 Amendments to Australian Accounting Standards amending AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts, AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement; and
- AASB 2005-11 Amendments to Australian Accounting Standards amending AASB 101 Presentation of Financial Statements, AASB 112 Income Taxes, AASB 132 Financial Instruments: Disclosure and Presentation, AASB 139 Financial Instruments: Recognition and Measurement and AASB 141 Agriculture.

The AASB has released the following:

- AASB 7 Financial Instruments: Disclosures; and
- AASB 2005-10 Amendments to Australian Accounting Standards amending AASB 132 Financial Instruments: Disclosure and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts, and AASB 1038 Life Insurance Contracts.

These statements will be effective for the Group as of 1 January 2007. The Group is currently in the process of assessing the impact of the adoption of these standards.

The accounting policies set out below have been applied consistently to all periods presented in the 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(iv)).

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.

Investments in subsidiaries are carried at the cost of acquisition in the Company's financial statements.

Associates

Associates are those entities over 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 jointly controlled 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.

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group 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 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(y) provides key sources of estimation, uncertainty and assumptions used in regard to estimation of provisions.

E. REVENUE

Sales revenue
Sales revenue comprises revenue earned (net of rebates, discounts and allowances) from the provision of products to entities outside the 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 completely 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.

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. Royalties are recognised as they accrue in accordance with the substance of the agreement.

Profit/loss on disposal of property assets
The revenue and profit on disposal of property assets is brought to account at the date a contract of sale is settled, because it is at this time that:

- the costs incurred or to be incurred in respect of the sale can be measured reliably; and
- the significant risks and rewards of ownership of the property have been transferred to the buyer.

Assets that are held for sale are carried at the lower of the net book value and fair value less cost to sell.

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 are included in cost of goods sold.

Product duties and taxes include fuel excise, which is a cents per litre impost on products used as fuels, and the product stewardship levy, which is a cents per litre impost on all lubricant products sold. Excise is recognised as part of the cost of inventory, and therefore forms part of cost of goods sold.

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 cash flow statement 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.

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amounts of borrowing costs capitalised are those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

J. FUNCTIONAL CURRENCY AND CURRENCY OF PRESENTATION

For all entities in the Group the 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 Australian dollars by applying the exchange rate at the date of the transaction. Amounts receivable and payable in foreign currencies at reporting date are translated to Australian dollars 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 taking into account current interest rates.

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 as at reporting date.

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

Crude and 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.

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Hedging

Cash flow hedges

Interest rate instruments, forward exchange contracts and crude 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 recognised in the income statement, together with the change to the carrying amount of the hedged item.

The 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 borrowing expenses 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

Income tax on the profit or loss for the year 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, 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.

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.

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Tax consolidation

The Company and its wholly-owned Australian resident entities formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Caltex Australia Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'group allocation' approach.

Current tax expense/income is allocated based on the net profit/loss before tax of each separate member of the tax-consolidated group adjusted for permanent differences and intra-group dividends, tax-effected using tax rates enacted or substantially enacted at the balance sheet date.

Any current tax liabilities and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised as amounts payable to/receivable from other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with the other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity payable (receivable) equal in amount to the tax liability (asset) assumed. The inter-entity payables (receivables) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity, in conjunction with the other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

N. RECEIVABLES

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 cost 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.

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 fair value less costs to sell 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).

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(y).

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. 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 liability 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. Lease incentives received are recognised in the income statement as an integral part of the total lease expense on a straight-line basis over the lease term.

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 is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be reliably measured. All other expenditure is recognised in the income statement as an expense as incurred.

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 lesser of the additional useful life of the asset or the period until the next major cyclical maintenance is scheduled to occur.

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 – 10%
Plant and equipment	3 – 20%
Leased plant and equipment	3 – 20%

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. INTANGIBLES

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 AGAAP. The classification and accounting treatment of business combinations that occurred prior to 1 January 2004 have 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 intangibles

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 intangibles unless such lives are indefinite. Goodwill and intangibles with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangibles 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 cash flow statements.

T. 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 30 days.

Payables are measured at amortised cost.

Payables related to statutory obligations are measured at cost.

U. INTEREST BEARING LIABILITIES

Current period policy

Interest bearing bank loans

Interest bearing bank loans are recognised when issued at fair value, less transaction costs, using the amortised cost method. Any difference between the amortised cost and the principal value is recognised in the income statement over the period of the interest bearing liability on an effective interest basis.

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Short-term notes
Short-term notes are recognised when issued at fair value, less transaction costs, using the amortised cost method. Any difference between the amortised cost and the principal value is recognised in the income statement over the period of the interest bearing liability on an effective interest basis.

Medium-term notes
Medium-term notes are recognised when issued at fair value, less transaction costs, using the amortised cost method. Any difference between the amortised cost and the principal value is recognised in the income statement over the period of the interest bearing liability on an effective interest basis.

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 to the extent that an effective hedge exists (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. Any difference between the amortised cost and the principal value is recognised in the income statement over the period of the interest bearing liability on an effective interest basis.

Comparative period policy
Interest bearing bank loans
Bank loans are carried on the balance sheet at their principal amount. Interest expense is accrued at the contracted rate and included in other creditors and accrued expenses. Prepaid interest is included in prepaid and deferred expenditure.

Short-term notes
Short-term notes are recognised when issued at the face value, with the discount on issuance amortised over the period to maturity.

US notes
US notes are recognised when issued at principal value. Interest expense is accrued at the contracted rate and included in other creditors and accrued expenses.

V. EMPLOYEE BENEFITS

Wages and salaries
The provision for employee benefits for 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 benefits for annual leave, long service leave and retirement benefits which are expected to be settled within 12 months represent the undiscounted amount 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 benefits 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 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 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.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the specified service period 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. No expense is recognised for awards that do not ultimately vest.

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

In the Company's financial statements the transactions of the Company sponsored employee share plan trust are treated as being executed directly by the Company (as the trust acts as the Company's agent). Accordingly, shares held by the trust are recognised 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 2004.

X. 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 provisons accounting policy.

Costs incurred to prevent future contamination or costs that are otherwise of a capital nature are capitalised to the extent there is a future economic benefit. 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 virtually certain.

Y. 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 incurred through the use of the land is recognised when the land is contaminated.

The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Site restoration costs are reviewed annually and any changes are reflected in the restoration provision at the end of the reporting period through the income statement.

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 upon initial construction of the asset, where an obligation to incur such costs arises. The present value of the expected future cash flows required to settle these obligations is 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.

For further details on areas of uncertainty and assumptions used, see note 23.

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 benefits.

2. EXPLANATION OF TRANSITION TO A-IFRS

As stated in note 1, these are the Group's first full 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 year ended 31 December 2005. The comparative information presented in the financial statements has been restated as follows:

– income statement comparatives are restated for the year ended 31 December 2004; and
– balance sheet comparatives are restated as at 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 AGAAP). An explanation of how the transition from the previous AGAAP to A-IFRS has affected the Group's income statement and balance sheet is set out in the following tables and the notes that accompany the tables.

I. RECONCILIATION OF EQUITY (CONSOLIDATED)

		1 JANUARY 2004				31 DECEMBER 2004		
THOUSANDS OF DOLLARS	NOTE	PREVIOUS AGAAP	EFFECT OF TRANSITION TO A-IFRS	A-IFRS	NOTE	PREVIOUS AGAAP	EFFECT OF TRANSITION TO A-IFRS	A-IFRS
ASSETS								
Cash and cash equivalents		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	(1,633)	17,765
Total current assets		**1,100,801**	**(2,418)**	**1,098,383**		**1,492,049**	**(2,723)**	**1,489,326**
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 investments	e	2,340	(2,325)	15	e	6,783	(6,767)	16
Property, plant and equipment	f	1,615,321	(10,670)	1,604,651	f	1,709,728	(12,221)	1,697,507
Intangibles	g	12,592	5,805	18,397	g	14,004	7,660	21,664
Deferred tax assets		–		–	h	17,196	(17,196)	–
Other		7,125		7,125		6,015		6,015
Total non-current assets		**1,672,845**	**(9,304)**	**1,663,541**		**1,785,676**	**(30,234)**	**1,755,442**
Total assets		**2,773,646**	**(11,722)**	**2,761,924**		**3,277,725**	**(32,957)**	**3,244,768**
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
Current 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**

2. EXPLANATION OF TRANSITION TO A-IFRS CONTINUED

THOUSANDS OF DOLLARS	NOTE	1 JANUARY 2004 PREVIOUS AGAAP	1 JANUARY 2004 EFFECT OF TRANSITION TO A-IFRS	1 JANUARY 2004 A-IFRS	NOTE	31 DECEMBER 2004 PREVIOUS AGAAP	31 DECEMBER 2004 EFFECT OF TRANSITION TO A-IFRS	31 DECEMBER 2004 A-IFRS
Payables	l	1,300	3,655	4,955	l	–	3,493	3,493
Interest bearing liabilities		564,094		564,094		433,681		433,681
Deferred tax liabilities	m	128,623	41,853	170,476	m	–	47,613	47,613
Provisions	n	37,978	37,723	75,701	n	41,945	20,654	62,599
Total non-current liabilities		**731,995**	**83,231**	**815,226**		**475,626**	**71,760**	**547,386**
Total liabilities		**1,549,987**	**71,682**	**1,621,669**		**1,558,506**	**40,943**	**1,599,449**
Net assets		**1,223,659**	**(83,404)**	**1,140,255**		**1,719,219**	**(73,900)**	**1,645,319**
EQUITY								
Issued capital		543,415		543,415		543,415		543,415
Treasury stock	o	–	(1,073)	(1,073)	o	–	(2,219)	(2,219)
Reserves	p	–	2,468	2,468	p	–	3,595	3,595
Retained earnings	q	671,884	(87,779)	584,105	q	1,168,558	(78,313)	1,090,245
Total parent entity interest		1,215,299	(86,384)	1,128,915		1,711,973	(76,937)	1,635,036
Minority interest	r	8,360	2,980	11,340	r	7,246	3,037	10,283
Total equity		**1,223,659**	**(83,404)**	**1,140,255**		**1,719,219**	**(73,900)**	**1,645,319**

II. RECONCILIATION OF NET PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY FOR 2004 (CONSOLIDATED)

THOUSANDS OF DOLLARS	NOTE	PREVIOUS AGAAP	EFFECT OF TRANSITION TO A-IFRS	A-IFRS
Gross sales revenue		13,447,872		13,447,872
Cost of goods sold (excluding product duties and taxes and inventory gains)		(8,318,484)		(8,318,484)
Inventory gains		151,758		151,758
Product duties and taxes		(4,242,080)		(4,242,080)
Cost of goods sold – historical cost		**(12,408,806)**		**(12,408,806)**
Gross profit		**1,039,066**		**1,039,066**
Other revenue	s	221,791	(44,569)	177,222
Refining and supply expenses		(25,675)		(25,675)
Marketing expenses	t	(492,055)	40,836	(451,219)
Other expenses	u	(48,292)	(4,976)	(53,268)
Borrowing costs	v	(42,185)	190	(41,995)
Share of net profit of entities accounted for using the equity method		3,302		3,302
Profit before income tax expense		**655,952**	**(8,519)**	**647,433**
Income tax expense	w	(82,674)	6,338	(76,336)
Net profit		**573,278**	**(2,181)**	**571,097**
Net profit attributable to minority interest	x	(1,004)	(57)	(1,061)
Net profit attributable to members of the parent entity		**572,274**	**(2,238)**	**570,036**
Basic and diluted earnings per share				
Historical cost including significant items – cents per share		**212.0**		**211.1**

2. EXPLANATION OF TRANSITION TO A-IFRS CONTINUED

III. NOTES TO ADJUSTMENTS (CONSOLIDATED)

a. Current receivables

Current receivables such as trade receivables and receivables from associates and related entities are present valued, with the exception of trade receivables less than six 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 a joint venture, Australasian Lubricants Manufacturing Company Pty Ltd (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 31 December 2004	(16,763,000)

Additionally, non-current receivables 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 a joint venture, Australasian Lubricants Manufacturing Company Pty Ltd (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 31 December 2004	16,763,000

e. Other investments

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 investments and retained earnings.

f. Property, plant and equipment

Assets such as software 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 intangibles 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 31 December 2004	(12,221,000)

g. Intangibles

Assets such as software 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 intangibles 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 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 intangibles. Refer to note 13 for further details:

Impact on intangibles as at 1 January 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 the opening balance on 1 January 2004. Therefore, goodwill amortisation expense incurred during 2004 previous AGAAP has been reversed.

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(iii)(m) to determine the total impact on deferred tax accounts due to the adoption of A-IFRS.

2. EXPLANATION OF TRANSITION TO A-IFRS CONTINUED

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 31 December 2004	(9,600,000)

Additionally, current payables 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 six 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)

k. Current provisions

Under A-IFRS, equity based compensation in the form of shares is 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 Limited. OIL Insurance Limited 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 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 31 December 2004	(2,080,000)

l. Non-current payables

Payables 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 the increase occurred. The effect of this is to recognise an accrual for future known increases of rent accumulated on a straight-line basis to date:

Impact on non-current payables as at 1 January 2004	3,897,000
Impact on non-current payables as at 31 December 2004	3,493,000

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	41,853,000
Impact on deferred tax liabilities as at 31 December 2004	47,613,000

2. EXPLANATION OF TRANSITION TO A-IFRS CONTINUED

n. Non-current provisions

On adoption of A-IFRS, recognition of the net surplus or deficit on an actuarial basis in the defined benefit plan 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 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 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 31 December 2004	(2,219,000)

p. Reserves

Under A-IFRS, equity based compensation in the form of shares is 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 31 December 2004	3,595,000

q. Retained earnings

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

THOUSANDS OF DOLLARS	1 JANUARY 2004 RETAINED EARNINGS INCREASE / (DECREASE)	31 DECEMBER 2004 RETAINED EARNINGS INCREASE / (DECREASE)
Current receivables	(2,418)	(1,090)
Other current assets	–	(1,633)
Non-current receivables	(2,114)	(1,710)
Other investments	(2,325)	(6,767)
Intangibles	(4,865)	(4,561)
Current payables	2,767	1,686
Current provisions	(718)	(4,608)
Non-current payables	(3,655)	(3,493)
Deferred tax assets	–	(17,196)
Deferred tax liabilities	(41,853)	(23,474)
Non-current provisions	(28,223)	(11,054)
Treasury stock	1,073	2,219
Reserves	(2,468)	(3,595)
Minority interest	(2,980)	(3,037)
Total adjustments	**(87,779)**	**(78,313)**

2. EXPLANATION OF TRANSITION TO A-IFRS CONTINUED

r. Minority interest

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

s. Other revenue

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 were disclosed in other revenue, and written down value and selling costs disclosed in other operating expenses.

Impact on other revenue as at 31 December 2004	(44,569,000)

t. Marketing 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 revenue, and written down value and selling costs disclosed in marketing expenses.

Impact on marketing expenses as at 31 December 2004	44,569,000

Additionally, marketing expenses are impacted by adjustments 2(iii)(e,g,l,n).

u. Other expenses

Other expenses are impacted by adjustments 2(iii)(k,n,p).

v. Borrowing costs

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

w. Income tax expense

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

x. Minority interest

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

IV. CHANGES IN ACCOUNTING POLICY

In the current financial year, the Group adopted AASB 132 Financial Instruments: Disclosure and 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, reserves, current payables, and non-current interest bearing liabilities as at 1 January 2005. The impact of this change to accounting policy is not material. The transitional provisions will not have an effect in future reporting periods.

2. EXPLANATION OF TRANSITION TO A-IFRS CONTINUED

V. RECONCILIATION OF EQUITY (PARENT ENTITY)

THOUSANDS OF DOLLARS	NOTE	1 JANUARY 2004 PREVIOUS AGAAP	1 JANUARY 2004 EFFECT OF TRANSITION TO A-IFRS	1 JANUARY 2004 A-IFRS	NOTE	31 DECEMBER 2004 PREVIOUS AGAAP	31 DECEMBER 2004 EFFECT OF TRANSITION TO A-IFRS	31 DECEMBER 2004 A-IFRS
ASSETS								
Cash and cash equivalents		–		–		–		–
Receivables		103,657		103,657	aa	127,189	(19,030)	108,159
Inventories		–		–		–		–
Other		1,931		1,931		1,444		1,444
Total current assets		**105,588**		**105,588**		**128,633**	**(19,030)**	**109,603**
Receivables		554,422		554,422		424,422		424,422
Investments accounted for using the equity method		–		–		–		–
Other investments		928,734		928,734	bb	928,734	12,641	941,375
Property, plant and equipment		–		–		–		–
Intangibles		–		–		–		–
Deferred tax assets		131		131	cc	17,304	(17,173)	131
Other		–		–		–		–
Total non-current assets		**1,483,287**		**1,483,287**		**1,370,460**	**(4,532)**	**1,365,928**
Total assets		**1,588,875**		**1,588,875**		**1,499,093**	**(23,562)**	**1,475,531**
LIABILITIES								
Payables		13,324		13,324		12,394		12,394
Interest bearing liabilities		108,153		108,153		38,612		38,612
Current tax liabilities		1,274		1,274	dd	140,120	(24,140)	115,980
Provisions		–		–		–		–
Total current liabilities		**122,751**		**122,751**		**191,126**	**(24,140)**	**166,986**
Payables		–		–		–		–
Interest bearing liabilities		554,422		554,422		424,422		424,422
Deferred tax liabilities		–		–		–		–
Provisions		437		437		437		437
Total non-current liabilities		**554,859**		**554,859**		**424,859**		**424,859**
Total liabilities		**677,610**		**677,610**		**615,985**	**(24,140)**	**591,845**
Net assets		**911,265**		**911,265**		**883,108**	**578**	**883,686**

2. EXPLANATION OF TRANSITION TO A-IFRS CONTINUED

THOUSANDS OF DOLLARS	NOTE	1 JANUARY 2004 PREVIOUS AGAAP	1 JANUARY 2004 EFFECT OF TRANSITION TO A-IFRS	1 JANUARY 2004 A-IFRS	NOTE	31 DECEMBER 2004 PREVIOUS AGAAP	31 DECEMBER 2004 EFFECT OF TRANSITION TO A-IFRS	31 DECEMBER 2004 A-IFRS
EQUITY								
Issued capital		543,415		543,415		543,415		543,415
Treasury stock	ee	–	(1,073)	(1,073)	ee	–	(2,219)	(2,219)
Reserves	ff	–	2,468	2,468	ff	–	3,595	3,595
Retained earnings		367,850	(1,395)	366,455		339,693	(798)	338,895
Total parent entity interest		911,265		911,265		883,108	578	883,686
Minority interest		–		–		–		–
Total equity		**911,265**		**911,265**		**883,108**	**578**	**883,686**

VI. RECONCILIATION OF NET PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY FOR 2004 (PARENT ENTITY)

THOUSANDS OF DOLLARS	NOTE	31 DECEMBER 2004 PREVIOUS AGAAP	31 DECEMBER 2004 EFFECT OF TRANSITION TO A-IFRS	31 DECEMBER 2004 A-IFRS
Gross sales revenue		–		–
Cost of goods sold (excluding product duties and taxes and inventory gains)		–		–
Inventory gains		–		–
Product duties and taxes		–		–
Cost of goods sold – historical cost		–		–
Gross profit		–		–
Other revenue		97,359		97,359
Refining and supply expenses		–		–
Marketing expenses		–		–
Other expenses	gg	(1,634)	(175)	(1,809)
Borrowing costs	hh	(44,370)	135	(44,235)
Share of net profit of entities accounted for using the equity method		–		–
Profit before income tax expense		**51,355**	**(40)**	**51,315**
Income tax expense	ii	(3,912)	637	(3,275)
Net profit		**47,443**	**597**	**48,040**
Net profit attributable to minority interest		–		–
Net profit attributable to members of the parent entity		**47,443**	**597**	**48,040**

2. EXPLANATION OF TRANSITION TO A-IFRS CONTINUED

VII. NOTES TO ADJUSTMENTS PARENT ENTITY

aa. Current receivables
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, which are fully recorded in the parent entity, to deferred tax liabilities, which are recorded in various subsidiaries. The transfer was processed through current receivables:

Impact on current receivables as at 31 December 2004	(18,971,000)

Additionally, current receivables are impacted by other minor adjustments.

bb. Other investments
Under A-IFRS, deferred tax balances are allocated via the group allocation method. Under previous AGAAP deferred tax balances were held by the parent entity:
The transitional adjustment which impacts the parent entity's deferred tax assets impacts upon other investments:

Impact on other investments as at 31 December 2004	12,641,000

cc. Deferred tax assets
Under A-IFRS, deferred tax balances are allocated via the group allocation method. Under previous AGAAP deferred tax balances were held by the parent entity.

Impact on deferred tax assets as at 31 December 2004	(12,004,000)

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 assets:

Impact on deferred tax assets as at 31 December 2004	(5,169,000)

dd. 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, which are fully recorded in the parent entity, to deferred tax liabilities, which are recorded in various subsidiaries:

Impact on current tax liabilities as at 31 December 2004	(18,971,000)

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 assets:

Impact on current tax liabilities as at 31 December 2004	(5,169,000)

ee. 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 31 December 2004	(2,219,000)

ff. Reserves
Under A-IFRS, equity based compensation in the form of shares is 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 31 December 2004	3,595,000

gg. Other expenses
Other expenses are impacted by adjustments 2(vii)(ee,ff).

hh. Borrowing costs
Borrowings costs is impacted by the above adjustments.

ii. Income tax expense
Income tax expense is impacted by adjustments 2(vii)(bb,cc).

3. OTHER REVENUE

THOUSANDS OF DOLLARS	CONSOLIDATED 2005	CONSOLIDATED 2004	PARENT ENTITY 2005	PARENT ENTITY 2004
Dividends received or due and receivable from controlled entities	–	–	39,500	39,626
Rental income	32,172	33,864	–	–
Royalties and franchise income	92,262	85,995	–	–
Net foreign exchange gains	–	15,356	–	–
Other income	70,007	40,880	–	–
	194,441	176,095	39,500	39,626
BORROWING INCOME				
Controlled entities	–	–	53,352	57,688
Other corporations	2,382	556	65	45
Unwinding of discount on receivables	1,588	571	–	–
	3,970	1,127	53,417	57,733
	198,411	177,222	92,917	97,359

4. COSTS AND EXPENSES

THOUSANDS OF DOLLARS	CONSOLIDATED 2005	CONSOLIDATED 2004	PARENT ENTITY 2005	PARENT ENTITY 2004
BORROWING COSTS				
Interest paid or due and payable to other corporations	40,041	43,889	39,959	44,235
Finance charges on capitalised leases	1,942	1,995	–	–
Unwinding of discounting on provisions	1,358	219	–	–
Unwinding of discounting on payables	(241)	163	–	–
Loss on fair value derivative	1,460	–	1,460	–
Less:				
Capitalised borrowing costs	(17,253)	(4,271)	–	–
Borrowing costs	27,307	41,995	41,419	44,235
DEPRECIATION AND AMORTISATION				
Depreciation of:				
Buildings	8,208	7,587	–	–
Plant and equipment	108,971	103,854	–	–
	117,179	111,441	–	–
Amortisation of:				
Leasehold property	5,818	5,274	–	–
Leased plant and equipment	703	707	–	–
Intangibles	3,099	4,767	–	–
	9,620	10,748	–	–
Total depreciation and amortisation	126,799	122,189	–	–

4. COSTS AND EXPENSES CONTINUED

	CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	**2005**	2004	**2005**	2004
SELECTED EXPENSES				
Total personnel expenses	**187,356**	173,577	**–**	–
Impairment on goodwill	**32**	1,178	**–**	–
Provision for write-down in value of buildings and related plant and equipment to recoverable amount	**2,500**	7,267	**–**	–
Impairment in value of buildings and related plant and equipment to recoverable amount	**–**	4,938	**–**	–
Operating leases rental expense	**79,485**	78,135	**–**	–
Net foreign exchange losses	**36,957**	–	**–**	–
Finance lease contingent rentals	**424**	137	**422**	135
Bad and doubtful debts	**(697)**	(685)	**–**	–
Loss/(gain) on disposal of non-current assets	**10,271**	(12,284)	**–**	–

5. INDIVIDUALLY SIGNIFICANT ITEMS

A. INDIVIDUALLY SIGNIFICANT ITEM IN 2005

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 $378,410,000. This resulted in a reduction of $113,523,000 in the deferred tax liability and a corresponding reduction in income tax expense in the year ended 31 December 2004.

Following the passing of Tax Law Amendment Bill (2004 Measures No. 6) by the Senate in early 2005, further allowable depreciable deductions of $69,513,000 are available to Caltex. This resulted in a reduction of $20,854,000 in the deferred tax liability and income tax expense for the year ended 31 December 2005.

B. INDIVIDUALLY SIGNIFICANT ITEM IN 2004

Caltex chose to implement tax consolidation effective from 1 July 2003. Caltex Australia Limited, as the head entity in the tax consolidated group, has applied UIG 1052 Tax Consolidation Accounting.

Where assets have had their tax value reset under tax consolidation, the subsidiary related deferred tax balances recognised in the Caltex Australia Group have been determined based on the tax consolidated group carrying amount for the subsidiaries' assets less the reset tax bases. For other assets and liabilities, the subsidiary related deferred tax balances recognised in the Caltex Australia Group have been determined based on the previous timing differences at the level of the tax consolidated group. The Caltex Australia Group has reflected all adjustments in income tax expense as it has elected not to open past acquisition accounting. Future acquisition accounting will take deferred tax balances into account.

In the Caltex Australia Group, the effect of implementing tax consolidation and of applying UIG 1052 at 1 July 2003 was:

- an increase in deferred tax assets of $113,523,000 from resetting the tax cost base of specific items of property, plant and equipment; and
- a corresponding decrease in income tax expense of $113,523,000.

The effect represents the amount recorded in the year ended 31 December 2004.

6. INCOME TAX EXPENSE

THOUSANDS OF DOLLARS	CONSOLIDATED 2005	CONSOLIDATED 2004	PARENT ENTITY 2005	PARENT ENTITY 2004
A. RECOGNISED IN THE INCOME STATEMENTS				
Current tax expense				
Current year	**246,358**	212,212	**1,940**	3,275
Adjustments for prior years	**(12,935)**	(7,997)	**–**	–
	233,423	204,215	**1,940**	3,275
Deferred tax expense				
Origination and reversal of temporary differences	**(40,342)**	(127,879)	**–**	–
Total income tax expense in the income statements	**193,081**	76,336	**1,940**	3,275
B. NUMERICAL RECONCILIATION BETWEEN INCOME TAX EXPENSE AND PROFIT BEFORE INCOME TAX EXPENSE				
Profit before income tax expense	**788,034**	647,433	**45,967**	51,315
Income tax using the domestic corporate tax rate of 30% (2004: 30%)	**236,410**	194,230	**13,790**	15,395
Increase in income tax expense due to:				
Imputation gross-up on dividends received	**855**	689	**–**	–
Impairment of goodwill	**–**	479	**–**	–
Net capital gains tax	**2,171**	1,500	**–**	–
Other non-allowable items	**–**	4,285	**–**	–
Decrease in income tax expense due to:				
Share of net profit of associated entities	**(1,380)**	(991)	**–**	–
Research and development allowances	**(375)**	(38)	**–**	–
Depreciable repairs and maintenance	**(2,008)**	–		
Origination of temporary differences	**(7,680)**	–	**–**	–
Dividends received from subsidiaries	**–**	–	**(11,850)**	(11,888)
Other non-allowable items	**(1,006)**	–	**–**	(232)
Franking credits on dividends received	**(117)**	(2,298)	**–**	–
Income tax expense on the profit before income tax expense before individually significant income tax items	**226,870**	197,856	**1,940**	3,275
Individually significant income tax items:				
Net deferred tax balances recognised upon implementation of tax consolidation	**(20,854)**	(113,523)	**–**	–
	206,016	84,333	**1,940**	3,275
Income tax over-provided in prior years	**(12,935)**	(7,997)	**–**	–
Income tax expense on profit before income tax expense	**193,081**	76,336	**1,940**	3,275
C. DEFERRED TAX RECOGNISED DIRECTLY IN EQUITY				
Related to actuarial gains	**(2,765)**	(5,016)	**–**	–
Related to financial instruments	**(6)**	–	**–**	–
	(2,771)	(5,016)	**–**	–

6. INCOME TAX EXPENSE CONTINUED

D. RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable the following:

THOUSANDS OF DOLLARS	ASSETS		LIABILITIES		NET	
CONSOLIDATED	**2005**	2004	**2005**	2004	**2005**	2004
Receivables	**1,668**	2,388	**–**	–	**1,668**	2,388
Inventories	**–**	–	**(914)**	(1,442)	**(914)**	(1,442)
Property, plant and equipment	**–**	–	**(77,390)**	(101,095)	**(77,390)**	(101,095)
Payables	**23,313**	16,228	**–**	–	**23,313**	16,228
Interest bearing liabilities	**2,876**	2,637	**–**	–	**2,876**	2,637
Provisions	**41,349**	33,850	**–**	–	**41,349**	33,850
Other	**–**	–	**(944)**	(179)	**(944)**	(179)
Net tax assets/(liabilities)	**69,206**	55,103	**(79,248)**	(102,716)	**(10,042)**	(47,613)

	ASSETS		LIABILITIES		NET	
PARENT ENTITY	**2005**	2004	**2005**	2004	**2005**	2004
Provisions	**131**	131	**–**	–	**131**	131
Net tax assets	**131**	131	**–**	–	**131**	131

E. UNRECOGNISED DEFERRED TAX ASSETS

The Group and parent entity do not have any unrecognised deferred tax assets.

F. MOVEMENT IN TEMPORARY DIFFERENCES DURING THE YEAR

CONSOLIDATED	**BALANCE AT 1 JAN 05**	**RECOGNISED IN INCOME**	**RECOGNISED IN EQUITY**	**BALANCE AT 31 DEC 05**
Receivables	**2,388**	**(720)**	**–**	**1,668**
Inventories	**(1,442)**	**528**	**–**	**(914)**
Property, plant and equipment	**(101,095)**	**23,705**	**–**	**(77,390)**
Payables	**16,228**	**7,085**	**–**	**23,313**
Interest bearing liabilities	**2,637**	**245**	**(6)**	**2,876**
Provisions	**33,850**	**10,264**	**(2,765)**	**41,349**
Other	**(179)**	**(765)**	**–**	**(944)**
	(47,613)	**40,342**	**(2,771)**	**(10,042)**

CONSOLIDATED	BALANCE AT 1 JAN 04	RECOGNISED IN INCOME	RECOGNISED IN EQUITY	BALANCE AT 31 DEC 04
Receivables	4,008	(1,620)	–	2,388
Inventories	(1,262)	(180)	–	(1,442)
Property, plant and equipment	(222,545)	121,450	–	(101,095)
Payables	11,220	5,008	–	16,228
Interest bearing liabilities	2,902	(265)	–	2,637
Provisions	36,663	2,203	(5,016)	33,850
Other	(1,462)	1,283	–	(179)
	(170,476)	127,879	(5,016)	(47,613)

7. DIVIDENDS

A. 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
2005				
Interim 2005	30 September 2005	Franked	15	40,500
Final 2004	1 April 2005	Franked	25	67,500
Total amount				108,000
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%.

All dividends have been paid out of previous AGAAP profits.

Subsequent events

Since 31 December 2005, the directors declared the following dividend. The dividend has not been provided for and there are no income tax consequences.

Final 2005	31 March 2006	Franked	31	83,700

The financial effect of this final dividend has not been reflected in the financial statements for the year ended 31 December 2005 and will be recognised in subsequent financial reports.

	PARENT ENTITY	
THOUSANDS OF DOLLARS	**2005**	2004
B. DIVIDEND FRANKING ACCOUNT		
30% franking credits available to shareholders of Caltex Australia Limited for subsequent financial years	**441,445**	237,668

i. The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

ii. Entries in the franking account are recorded on a tax paid basis rather than on a grossed-up basis.

The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by $35,871,000 (2004: $28,929,000).

In accordance with the tax consolidation legislation, the Company as the head entity in the tax consolidated group has also assumed the benefit of $441,445,000 (2004: $237,668,000) franking credits.

8. BASIC AND DILUTED EARNINGS PER SHARE

	CONSOLIDATED		PARENT ENTITY	
	2005	2004	**2005**	2004
Historical cost including significant items – cents per share	**220.2**	211.1	**–**	–
Replacement cost excluding significant items – cents per share	**153.4**	129.7	**–**	–

The calculation of historical cost basic earnings per share for the year ended 31 December 2005 was based on the net profit attributable to ordinary shareholders of the parent entity of $594,572,000 (2004: $570,036,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2005 of 270 million shares (2004: 270 million shares).

The calculation of replacement cost basic earnings per share for the year ended 31 December 2005 was based on the net replacement cost profit attributable to ordinary shareholders of the parent entity of $414,071,000 (2004: $350,282,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2005 of 270 million shares (2004: 270 million shares).

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

9. RECEIVABLES

THOUSANDS OF DOLLARS				
CURRENT				
Trade debtors	**697,599**	565,816	**–**	–
Allowance for impairment	**(1,994)**	(1,955)	**–**	–
	695,605	563,861	**–**	–
Associated entities	**36,338**	33,327	**–**	–
Controlled entities	**–**	–	**56,286**	108,159
Other related entities	**47,657**	–	**–**	–
Other debtors	**46,475**	38,094	**–**	–
	826,075	635,282	**56,286**	108,159
NON-CURRENT				
Loans to associated entities	**956**	3,206	**–**	–
Allowance for impairment	**(956)**	(3,206)	**–**	–
	–	–	**–**	–
Loans to controlled entities	**–**	–	**380,882**	424,422
Other loans	**5,134**	5,894	**–**	–
	5,134	5,894	**380,882**	424,422

10. INVENTORIES

Crude oil and raw materials, at cost	**425,438**	323,847	**–**	–
Inventory in process, at cost	**111,332**	100,995	**–**	–
Finished goods, at cost	**477,790**	368,302	**–**	–
Materials and supplies, at cost	**30,245**	28,939	**–**	–
	1,044,805	822,083	**–**	–

11. OTHER ASSETS

	CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	**2005**	2004	**2005**	2004
CURRENT				
Prepayments	**25,451**	17,765	**720**	1,444
NON-CURRENT				
Other	**4,627**	6,015	**–**	–
	4,627	6,015	**–**	–

12. OTHER INVESTMENTS

Investment in other entities	**21**	16	**–**	–
Investment in controlled entities	**–**	–	**941,375**	941,375
	21	16	**941,375**	941,375

13. INTANGIBLES

CONSOLIDATED	GOODWILL	RIGHTS	SOFTWARE	TOTAL
COST				
Balance at 1 January 2004	16,362	958	31,187	48,507
Acquisitions through business combinations	4,216	–	–	4,216
Additions	–	367	5,950	6,317
Balance at 31 December 2004	20,578	1,325	37,137	59,040
COST				
Balance at 1 January 2005	**20,578**	**1,325**	**37,137**	**59,040**
Acquisitions through business combinations	**12,552**	**3,452**	**–**	**16,004**
Additions	**–**	**1**	**7,118**	**7,119**
Balance at 31 December 2005	**33,130**	**4,778**	**44,255**	**82,163**
AMORTISATION AND IMPAIRMENT LOSSES				
Balance at 1 January 2004	(8,636)	–	(21,475)	(30,111)
Amortisation for the year	–	–	(4,767)	(4,767)
Acquisitions through business combinations	(1,320)	–	–	(1,320)
Impairment losses for the year	(1,178)	–	–	(1,178)
Balance at 31 December 2004	(11,134)	–	(26,242)	(37,376)
AMORTISATION AND IMPAIRMENT LOSSES				
Balance at 1 January 2005	**(11,134)**	**–**	**(26,242)**	**(37,376)**
Amortisation for the year	**–**	**–**	**(3,099)**	**(3,099)**
Impairment losses for the year	**(32)**	**–**	**–**	**(32)**
Balance at 31 December 2005	**(11,166)**	**–**	**(29,341)**	**(40,507)**
CARRYING AMOUNT				
At 1 January 2004	7,726	958	9,712	18,396
At 31 December 2004	9,444	1,325	10,895	21,664
At 1 January 2005	**9,444**	**1,325**	**10,895**	**21,664**
At 31 December 2005	**21,964**	**4,778**	**14,914**	**41,656**

13. INTANGIBLES CONTINUED

AMORTISATION AND IMPAIRMENT LOSSES

The amortisation and impairment charge of $3,131,000 (2004: $5,945,000) is recognised in refining and supply expenses, marketing expenses, and other expenses on the income statement.

IMPAIRMENT TESTS FOR CASH-GENERATING UNITS CONTAINING GOODWILL

Goodwill acquired through business combinations has been allocated to the cash-generating units, for impairment testing as follows.

	CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	**2005**	2004	**2005**	2004
Barry Petroleum	**1,660**	1,659	**–**	–
Access Fuels & Lubricants	**824**	–	**–**	–
Cooper & Dysart	**1,646**	1,678	**–**	–
Auer Petroleum	**1,000**	–	**–**	–
Petro Fuels and Lubricants	**10,727**	–	**–**	–
Access Energy	**1,218**	1,218	**–**	–
Bowen Petroleum	**4,889**	4,889	**–**	–
	21,964	9,444	**–**	–

BARRY PETROLEUM

The recoverable amount of Barry Petroleum has been determined based on a "value in use" calculation. That calculation uses cash flow projections based on an extrapolation of the year end cash flows over 10 years. The cash flows have been discounted using the pre-tax discount rate of 14.6% p.a. No growth rate has been factored in. Goodwill is not impaired at reporting date. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause Barry Petroleum's carrying amount to exceed its recoverable amount.

ACCESS FUELS & LUBRICANTS

Access Fuels & Lubricants comprises the business of Dunning Petroleum, a distributor of fuel products. Goodwill was acquired in relation to the Dunning Petroleum business. The recoverable amount has been determined based on a "value in use" calculation. That calculation uses cash flow projections based on an extrapolation of the year end cash flows over 10 years. The cash flows have been discounted using the pre-tax discount rate of 14.6% p.a. No growth rate has been factored in. Goodwill is not impaired at reporting date. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause Dunning Petroleum's carrying amount to exceed its recoverable amount.

Access Fuels & Lubricants also comprises the Tonkin business, which contributes approximately 15% to profit before income tax expense. The recoverable amount has been determined based on a "value in use" calculation. That calculation uses cash flow projections based on an extrapolation of the year end cash flows over 10 years. The cash flows have been discounted using the pre-tax discount rate of 14.6% p.a. No growth rate has been factored in. Goodwill relating to the Tonkin business was impaired at transition to A-IFRS as a result of the rationalisation of the industry due to market factors, such as the supermarket redemption discount. The full amount of goodwill of $2 million was written off to opening retained earnings as at 1 January 2004.

COOPER & DYSART

The recoverable amount of Cooper & Dysart has been determined based on a "value in use" calculation. That calculation uses cash flow projections based on an extrapolation of the year end cash flows over 10 years. The cash flows have been discounted using the pre-tax discount rate of 14.6% p.a. No growth rate has been factored in. Goodwill relating to Cooper and Dysart was impaired at transition to A-IFRS as a result of the rationalisation of the industry due to market factors, such as the supermarket redemption discount. As at 31 December 2004, a $1.2 million impairment loss has been recognised in the income statement.

AUER PETROLEUM

The recoverable amount of Auer Petroleum has been determined based on a "value in use" calculation. That calculation uses cash flow projections based on an extrapolation of the year end cash flows over 10 years. The cash flows have been discounted using the pre-tax discount rate of 14.6% p.a. No growth rate has been factored in. Goodwill is not impaired at reporting date. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause Auer Petroleum's carrying amount to exceed its recoverable amount.

13. INTANGIBLES CONTINUED

PETRO FUELS AND LUBRICANTS

The recoverable amount of Petro Fuels and Lubricants has been determined based on a "value in use" calculation. That calculation uses cash flow projections based on an extrapolation of the year end cash flows over 10 years. The cash flows have been discounted using the pre-tax discount rate of 14.6% p.a. No growth rate has been factored in. Goodwill is not impaired at reporting date. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause Petro Fuels and Lubricants' carrying amount to exceed its recoverable amount.

ACCESS ENERGY

The recoverable amount of Access Energy has been determined based on a "value in use" calculation. That calculation uses cash flow projections based on an extrapolation of the year end cash flows over 10 years. The cash flows have been discounted using the pre-tax discount rate of 14.6% p.a. No growth rate has been factored in. Goodwill is not impaired at reporting date. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause Access Energy's carrying amount to exceed its recoverable amount.

BOWEN PETROLEUM

The recoverable amount of Bowen Petroleum has been determined based on a "value in use" calculation. That calculation uses cash flow projections based on an extrapolation of the year end cash flows over 10 years. The cash flows have been discounted using the pre-tax discount rate of 14.6% p.a. No growth rate has been factored in. Goodwill is not impaired at reporting date. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause Bowen Petroleum's carrying amount to exceed its recoverable amount.

KEY ASSUMPTIONS USED IN "VALUE IN USE" CALCULATIONS

Key assumption	Basis for determining value in use assigned to key assumption
Gross profit	Earnings before interest, tax, depreciation and amortisation (EBITDA)
Estimated long-term average growth rate	No forecasted growth
Discount period	Represents expected payback period of acquisitions
Discount rate	The risk specific to the asset.

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 accounting standards. The classification and accounting treatment of business combinations that occurred prior to 1 January 2004 have not been reconsidered in preparing Caltex's consolidated 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. 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.

RIGHTS

Rights include licences capitalised at cost that relate to purchases of engineering process licences for the Clean Fuels Project. These assets were capitalised to capital projects in progress under previous AGAAP. These intangibles have a finite life of between 10 and 15 years. Amortisation of the licences has not started because the Clean Fuels Project is not complete.

Rights also include contracts acquired as part of business combinations, such as trade restrictions and customer supply contracts. These intangible assets have a finite life of between two and seven years.

This asset is tested for impairment annually, and when an indicator of impairment arises.

13. INTANGIBLES CONTINUED

SOFTWARE

Software capitalised as an intangible includes internally generated software development and purchased software not integrated with hardware. These intagibles were capitalised at cost to the fixed asset category, plant and equipment, under previous AGAAP. These intangibles have a finite life of between five and 20 years and are amortised on a straight-line basis. The amortisation method is reviewed at each balance sheet date. This asset is tested for impairment when an indicator of impairment arises.

14. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	**2005**	2004	**2005**	2004
FREEHOLD LAND				
At cost	**395,997**	406,114	**–**	–
Net carrying amount	**395,997**	406,114	**–**	–
BUILDINGS				
At cost	**282,085**	282,399	**–**	–
Accumulated depreciation	**(116,213)**	(114,618)	**–**	–
Net carrying amount	**165,872**	167,781	**–**	–
LEASEHOLD PROPERTY				
At cost	**83,177**	84,695	**–**	–
Accumulated amortisation	**(52,751)**	(52,478)	**–**	–
Net carrying amount	**30,426**	32,217	**–**	–
PLANT AND EQUIPMENT				
At cost	**2,139,919**	2,098,047	**–**	–
Accumulated depreciation	**(1,262,749)**	(1,231,622)	**–**	–
Net carrying amount	**877,170**	866,425	**–**	–
LEASED PLANT AND EQUIPMENT				
At capitalised cost	**14,170**	14,200	**–**	–
Accumulated amortisation	**(9,200)**	(8,522)	**–**	–
Net carrying amount	**4,970**	5,678	**–**	–
CAPITAL PROJECTS IN PROGRESS				
At cost	**601,844**	219,292	**–**	–
Total net carrying amount	**2,076,279**	1,697,507	**–**	–

SECURITY

As at 31 December 2005, none of the property, plant and equipment was pledged for security.

14. PROPERTY, PLANT AND EQUIPMENT CONTINUED

THOUSANDS OF DOLLARS	CONSOLIDATED 2005	CONSOLIDATED 2004	PARENT ENTITY 2005	PARENT ENTITY 2004
RECONCILIATIONS				
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:				
FREEHOLD LAND				
Carrying amount at the beginning of the year	**406,114**	401,352	**–**	–
Acquisition through entity acquired	**–**	282	**–**	–
Disposals	**(10,117)**	(9,893)	**–**	–
Transfer from buildings	**–**	14,373	**–**	–
Carrying amount at the end of the year	**395,997**	406,114	**–**	–
BUILDINGS				
Carrying amount at the beginning of the year	**167,781**	183,595	**–**	–
Additions	**53**	–	**–**	–
Impairment loss	**–**	(1,259)	**–**	–
Disposals	**(5,492)**	(3,856)	**–**	–
Transfer to freehold land	**–**	(14,373)	**–**	–
Transfers from capital projects in progress	**11,738**	11,261	**–**	–
Depreciation	**(8,208)**	(7,587)	**–**	–
Carrying amount at the end of the year	**165,872**	167,781	**–**	–
LEASEHOLD PROPERTY				
Carrying amount at the beginning of the year	**32,217**	31,793	**–**	–
Additions	**109**	106	**–**	–
Disposals	**(411)**	(697)	**–**	–
Transfers from capital projects in progress	**4,329**	6,289	**–**	–
Amortisation	**(5,818)**	(5,274)	**–**	–
Carrying amount at the end of the year	**30,426**	32,217	**–**	–
PLANT AND EQUIPMENT				
Carrying amount at the beginning of the year	**866,425**	888,613	**–**	–
Additions	**58,643**	30,130	**–**	–
Acquisition through entity acquired	**–**	2,668	**–**	–
Write-offs	**(4,327)**	(3,607)	**–**	–
Disposals	**(6,583)**	(7,247)	**–**	–
Transfers from capital projects in progress	**71,983**	59,722	**–**	–
Depreciation	**(108,971)**	(103,854)	**–**	–
Carrying amount at the end of the year	**877,170**	866,425	**–**	–

14. PROPERTY, PLANT AND EQUIPMENT CONTINUED

THOUSANDS OF DOLLARS	CONSOLIDATED 2005	CONSOLIDATED 2004	PARENT ENTITY 2005	PARENT ENTITY 2004
LEASED PLANT AND EQUIPMENT				
Carrying amount at the beginning of the year	**5,678**	6,387	**–**	–
Disposals	**(5)**	(2)	**–**	–
Amortisation	**(703)**	(707)	**–**	–
Carrying amount at the end of the year	**4,970**	5,678	**–**	–
CAPITAL PROJECTS IN PROGRESS				
Carrying amount at the beginning of the year	**219,292**	92,911	**–**	–
Additions	**453,349**	199,382	**–**	–
Borrowing costs capitalised	**17,253**	4,271	**–**	–
Transfers to property, plant and equipment	**(88,050)**	(77,272)	**–**	–
Carrying amount at the end of the year	**601,844**	219,292	**–**	–

15. PAYABLES

	CONSOLIDATED 2005	CONSOLIDATED 2004	PARENT ENTITY 2005	PARENT ENTITY 2004
CURRENT				
Trade creditors – unsecured (a)				
Related entities	**466,862**	23,882	**–**	–
Other corporations and persons	**282,145**	452,347	**–**	–
Other creditors and accrued expenses	**481,888**	380,703	**12,514**	12,394
	1,230,895	856,932	**12,514**	12,394
NON-CURRENT				
Other creditors and accrued expenses	**5,509**	3,493	**–**	–

(a) Trade creditors are non-interest bearing and are normally settled on 30 day terms.
Other payables are non-interest bearing and have an average term of three months.

16. INTEREST BEARING LIABILITIES

	CONSOLIDATED 2005	CONSOLIDATED 2004	PARENT ENTITY 2005	PARENT ENTITY 2004
CURRENT – UNSECURED				
Bank overdrafts (i)	**–**	–	**–**	11,612
Bank loans (ii)	**68,000**	27,000	**68,000**	27,000
Lease liabilities (iv)	**829**	761	**–**	–
	68,829	27,761	**68,000**	38,612
NON-CURRENT – UNSECURED				
US notes (ii)	**296,360**	288,132	**296,360**	288,133
Bank loans (ii)	**25,000**	70,000	**25,000**	70,000
Hedge payable (iii)	**59,522**	66,289	**59,522**	66,289
Lease liabilities (iv)	**8,248**	9,260	**–**	–
	389,130	433,681	**380,882**	424,422

This note provides information about the contractual terms of Caltex's interest bearing loans and other liabilities. For more information about Caltex's exposure to interest rate and foreign currency risk, see note 20.

(i) Interest on bank overdrafts is charged at prevailing market rates. The weighted average interest rate for all overdrafts as at 31 December 2005 was 8.75% p.a. (2004: 8.5% p.a.).

16. INTEREST BEARING LIABILITIES CONTINUED

(ii) 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 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 the US notes. The bank loans are denominated in Australian dollars, and the US notes are denominated in Australian and US dollars.

(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. 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 31 December 2005 (USD exchange rate 0.7325), on the amount hedged (USD136 million).

(iv) The implicit rate of interest on finance leases is 14.0% p.a. (2004: 14.0% p.a.). Refer to note 22 for details on the timing and amount of future lease payments.

17. PROVISIONS

THOUSANDS OF DOLLARS

CONSOLIDATED	EMPLOYEE AND DIRECTOR BENEFITS	SITE REMEDIATION	OIL INSURANCE	OTHER	TOTAL
Balance at 1 January 2005	87,899	7,380	8,383	9,672	113,334
Provisions made during the year	32,810	22,188	9,760	19,904	84,662
Provisions used during the year	(36,307)	(1,927)	(2,563)	(20,757)	(61,554)
Unwind of discount	–	1,358	–	–	1,358
Balance at 31 December 2005	**84,402**	**28,999**	**15,580**	**8,819**	**137,800**
Current	38,910	17,563	15,580	8,374	80,427
Non-current	45,492	11,436	–	445	57,373
	84,402	**28,999**	**15,580**	**8,819**	**137,800**

PARENT ENTITY	EMPLOYEE AND DIRECTOR BENEFITS	SITE REMEDIATION	OIL INSURANCE	OTHER	TOTAL
Balance at 1 January 2005	437	–	–	–	437
Balance at 31 December 2005	**437**	**–**	**–**	**–**	**437**
Non-current	437	–	–	–	437
	437	**–**	**–**	**–**	**437**

EMPLOYEE AND DIRECTOR BENEFITS

The current provisions for employee and director benefits, which includes annual leave, long service leave, employee bonus and retirement benefits, represents the present value of the estimated future cash outflows to be made by Caltex Australia resulting from employees' services provided up to the balance date.

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

SITE REMEDIATION

Provision is made for the remediation of oil refining, distribution and marketing activities. The estimation of the cost of future remediation activities is subject to potentially significant uncertainties. These uncertainties include the legal and regulatory framework, the magnitude of possible contamination, and the timing and extent of remediation activities required.

OIL INSURANCE

Caltex is a shareholder of OIL Insurance Limited (OIL). OIL is a Bermuda company that was formed to insure catastrophic risk such as oil and gas fires and pollution control. Contributing members of OIL include large companies such as Chevron, Shell, EOM, and BHP. The premium charged utilises loss information from the entire shareholder base as the pricing mechanism to determine a rate per US$1,000 of insured assets.

If the shareholder was to leave OIL, they would be required to pay for their unpaid portion of their allocated five year incurred loss. This amount is advised annually by OIL.

17. PROVISIONS CONTINUED

OTHER

Other includes the legal provision and other provisions.

18. ISSUED CAPITAL

THOUSANDS OF DOLLARS	CONSOLIDATED 2005	CONSOLIDATED 2004	PARENT ENTITY 2005	PARENT ENTITY 2004
ORDINARY SHARES				
Issued capital 270 million (2004: 270 million) ordinary shares, fully paid	**543,415**	543,415	**543,415**	543,415

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.

Ordinary shares are issued at par value.

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.

19. RECONCILIATION OF EQUITY

THOUSANDS OF DOLLARS

CONSOLIDATED	ISSUED CAPITAL	TREASURY STOCK	HEDGING RESERVE	EQUITY COMPENSATION RESERVE	RETAINED EARNINGS	TOTAL	MINORITY INTEREST	TOTAL EQUITY
Balance at 1 January 2004	543,415	(1,073)	–	2,468	584,105	1,128,915	11,340	1,140,255
Total recognised income for the year	–	–	–	–	581,740	581,740	1,061	582,801
Own shares acquired	–	(2,562)	–	–	–	(2,562)	–	(2,562)
Shares vested to employees	–	1,416	–	(1,416)	–	–	–	–
Expense on equity-settled transactions	–	–	–	2,543	–	2,543	–	2,543
Dividends to shareholders	–	–	–	–	(75,600)	(75,600)	(2,118)	(77,718)
Balance at 31 December 2004	543,415	(2,219)	–	3,595	1,090,245	1,635,036	10,283	1,645,319
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)**
Balance at 31 December 2005	**543,415**	**(2,664)**	**(84)**	**4,289**	**1,583,835**	**2,128,791**	**9,664**	**2,138,455**

19. RECONCILIATION OF EQUITY CONTINUED

THOUSANDS OF DOLLARS

PARENT ENTITY	ISSUED CAPITAL	TREASURY STOCK	HEDGING RESERVE	EQUITY COMPENSATION RESERVE	RETAINED EARNINGS	TOTAL	MINORITY INTEREST	TOTAL EQUITY
Balance at 1 January 2004	543,415	(1,073)	–	2,468	366,455	911,265	–	911,265
Total recognised income for the year	–	–	–	–	48,040	48,040	–	48,040
Own shares acquired	–	(2,562)	–	–	–	(2,562)	–	(2,562)
Shares vested to employees	–	1,416	–	(1,416)	–	–	–	–
Expense on equity-settled transactions	–	–	–	2,543	–	2,543	–	2,543
Dividends to shareholders	–	–	–	–	(75,600)	(75,600)	–	(75,600)
Balance at 31 December 2004	543,415	(2,219)	–	3,595	338,895	883,686	–	883,686
Balance at 1 January 2005	**543,415**	**(2,219)**	**–**	**3,595**	**338,895**	**883,686**	**–**	**883,686**
Total recognised income for the year	**–**	**–**	**–**	**–**	**44,027**	**44,027**	**–**	**44,027**
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)**	**–**	**(108,000)**
Balance at 31 December 2005	**543,415**	**(2,664)**	**–**	**4,289**	**274,922**	**819,962**	**–**	**819,962**

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.

20. FINANCIAL INSTRUMENTS

The Caltex Australia Group's principal financial instruments, other than derivatives, comprise bank loans, US notes, finance leases, cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The Group also enters into derivative transactions, principally interest rate swaps, forward currency contracts, refiner margin swaps and commodity pricing swaps. The purpose is to manage the interest rate, currency risks, refiner margin risks and commodity pricing risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

The Group also monitors the market price risk arising from all financial instruments. The magnitude of this risk that has arisen over the year is discussed below.

The Group's accounting policies in relation to derivatives are set out in note 1.

A. INTEREST RATE RISK

Interest rate instruments

The Caltex Australia Group enters into fixed interest rate instruments to manage cash flow risks associated with the interest rates on borrowings that are floating. Interest rate instruments allow Caltex to swap floating rate borrowings into fixed rates. Maturities of swap contracts are principally between one and two years.

Each contract involves periodic payment or receipt of the net amount of interest. At 31 December 2005, the fixed rates varied from 4.5% p.a. to 4.9% p.a. (2004: 4.5% p.a. to 5.9% p.a.), with a weighted average rate of 4.7% p.a. (2004: 5.1% p.a.). The floating rates were at bank bill rates. The Group classifies interest rate swap contracts as cash flow hedges and states them at fair value.

The Caltex Australia Group has entered into cross currency swap contracts maturing in two and four years to manage interest rate and currency risks on the US dollar denominated borrowings.

The net fair value of cross currency swap contracts at 31 December 2005 was $59,522,000 (2004: $70,266,000). The Group classifies cross currency swap contracts as fair value hedges.

The net fair value of interest rate swap contracts at 31 December 2005 was $630,000. The Group classifies qualifying interest rate swap contracts as cash flow hedges.

Interest rate risk exposure

The Caltex Australia Group's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities are set out as follows:

20. FINANCIAL INSTRUMENTS CONTINUED

THOUSANDS OF DOLLARS

31 DECEMBER 2005	NOTE	FLOATING INTEREST RATE	FIXED INTEREST MATURING IN: LESS THAN ONE YEAR	BETWEEN ONE TO FIVE YEARS	GREATER THAN FIVE YEARS	NON-INTEREST BEARING	TOTAL	EFFECTIVE INTEREST RATE P.A.
CONSOLIDATED								
Financial assets								
Cash at bank and on hand		–	–	–	–	28,484	28,484	–
Receivables	9	–	–	–	–	831,209	831,209	–
Other investments	12	–	–	–	–	21	21	–
		–	–	–	–	859,714	859,714	
Financial liabilities								
Payables	15	–	–	–	–	1,236,404	1,236,404	–
Bank loans	16	93,000	–	–	–	–	93,000	5.7%
US notes	16	–	–	182,945	113,415	–	296,360	7.1%
Hedge payable	16	–	–	59,522	–	–	59,522	7.1%
Lease liabilities	16	–	829	4,495	3,753	–	9,077	14.0%
Employee and director benefits provisions	21	–	38,910	13,990	31,502	–	84,402	5.2%
		93,000	39,739	260,952	148,670	1,236,404	1,778,765	

THOUSANDS OF DOLLARS

31 DECEMBER 2004	NOTE	FLOATING INTEREST RATE	FIXED INTEREST MATURING IN: LESS THAN ONE YEAR	BETWEEN ONE TO FIVE YEARS	GREATER THAN FIVE YEARS	NON-INTEREST BEARING	TOTAL	EFFECTIVE INTEREST RATE P.A.
CONSOLIDATED								
Financial assets								
Cash at bank and on hand		(1,670)	–	–	–	15,866	14,196	8.5%
Receivables	9	–	–	–	–	641,176	641,176	–
Other investments	12	–	–	–	–	16	16	–
		(1,670)	–	–	–	657,058	655,388	
Financial liabilities								
Payables	15	–	–	–	–	860,425	860,425	–
Bank and other loans	16	97,000	–	–	–	–	97,000	5.7%
US notes	16	–	–	174,717	113,415	–	288,132	7.1%
Hedge payable	16	–	–	66,289	–	–	66,289	7.1%
Lease liabilities	16	–	761	4,333	4,927	–	10,021	14.0%
Employee and director benefits provisions	21	–	35,204	13,280	39,415	–	87,899	5.3%
		97,000	35,965	258,619	157,757	860,425	1,409,766	

20. FINANCIAL INSTRUMENTS CONTINUED

THOUSANDS OF DOLLARS

31 DECEMBER 2005	NOTE	FLOATING INTEREST RATE	FIXED INTEREST MATURING IN: LESS THAN ONE YEAR	BETWEEN ONE TO FIVE YEARS	GREATER THAN FIVE YEARS	NON-INTEREST BEARING	TOTAL	EFFECTIVE INTEREST RATE P.A.
PARENT ENTITY								
Financial assets								
Cash at bank and on hand		–	–	–	–	437	437	–
Receivables	9	–	–	–	–	437,168	437,168	–
Other investments	12	–	–	–	–	941,375	941,375	–
		–	–	–	–	1,378,980	1,378,980	
Financial liabilities								
Payables	15	–	–	–	–	12,514	12,514	–
Bank and other loans	16	93,000	–	–	–	–	93,000	5.7%
US notes	16	–	–	182,945	113,415	–	296,360	7.1%
Hedge payable	16	–	–	59,522	–	–	59,522	7.1%
Employee and director benefits provisions	21	–	–	–	–	437	437	–
		93,000	–	242,467	113,415	12,951	461,833	

THOUSANDS OF DOLLARS

31 DECEMBER 2004	NOTE	FLOATING INTEREST RATE	FIXED INTEREST MATURING IN: LESS THAN ONE YEAR	BETWEEN ONE TO FIVE YEARS	GREATER THAN FIVE YEARS	NON-INTEREST BEARING	TOTAL	EFFECTIVE INTEREST RATE P.A.
PARENT ENTITY								
Financial assets								
Cash at bank and on hand		(11,612)	–	–	–	–	(11,612)	8.5%
Receivables	9	–	–	–	–	532,581	532,581	–
Other investments	12	–	–	–	–	941,375	941,375	–
		(11,612)	–	–	–	1,473,956	1,462,344	
Financial liabilities								
Payables	15	–	–	–	–	12,394	12,394	–
Bank and other loans	16	97,000	–	–	–	–	97,000	5.7%
US notes	16	–	–	174,718	113,415	–	288,133	7.1%
Hedge payable	16	–	–	66,289	–	–	66,289	7.1%
Employee and director benefits provisions	21	–	–	–	–	437	437	–
		97,000	–	241,007	113,415	12,831	464,253	

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year.

Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument.

20. FINANCIAL INSTRUMENTS CONTINUED

B. FOREIGN EXCHANGE RISK

The Caltex Australia Group is exposed to the effect of changes in exchange rates on the operations of the Group. In particular, at least in the short term, the refiner margin is determined principally with reference to the US dollar Singapore spot product price. The Caltex Australia Group does not use financial instruments to hedge the foreign exchange exposure, except for forward foreign exchange contracts to cover major capital expenditure. The hedges mature in one to three months.

All trade transactions which require the sale or purchase of foreign currencies are covered on a spot basis. As at 31 December 2005, the total fair value of all outstanding forward contracts amounted to $323,000.

US dollar denominated borrowings are swapped into Australian dollar exposure; as a result, there were no net foreign currency gains or losses arising from translation of these borrowings.

C. COMMODITY PRICE RISK

The Caltex Australia Group uses refiner margin hedges from time to time as a hedge against movements in refiner margins, and specific cargo hedges to eliminate the risk of adverse price movements. Both hedges are in strict compliance with the Board approved Caltex Hedging Policy and the terms of these hedges are never more than 12 months. During the year, the Group did not hedge any of its finished product using refiner margin hedges (2004: 0.8%). There were no cargo hedges covering the basis risk (2004: 0.6%).

D. CREDIT RISK

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The credit risk on financial assets of the Caltex Australia Group which have been recognised on the balance sheet, is the carrying amount of trade debtors, net of allowances for doubtful debts.

The Caltex Australia Group minimises concentrations of credit risk by undertaking transactions with a large number of customers.

Credit risk on derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency.

Swap and foreign exchange contracts are subject to credit risk in relation to the relevant counterparties, which are principally large banks. Credit risk on refiner margin hedges is minimised as counterparties are principally Chevron or large banks.

The maximum credit risk exposure on foreign currency contracts is the full amount of the foreign currency the Caltex Australia Group pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the Group. The full amount of the exposure is disclosed at note 20(b).

The credit risk on interest rate swaps is limited to the positive mark to market amount to be received from counterparties over the life of contracts that are favourable to the Caltex Australia Group. As at 31 December 2005, there is no expected credit risk on any financial instruments (2004: Nil).

E. NET FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Net fair values of recognised financial assets and liabilities with their carrying amounts shown in the balance sheet are as follows:

	ASSET/(LIABILITY)		ASSET/(LIABILITY)	
THOUSANDS OF DOLLARS	CARRYING AMOUNT 2005	FAIR VALUE 2005	CARRYING AMOUNT 2004	FAIR VALUE 2004
Consolidated				
Receivables	**831,209**	**831,209**	641,176	641,176
Cash and cash equivalents	**28,484**	**28,484**	14,196	14,196
Other investments	**21**	**21**	16	16
Interest bearing liabilities				
Bank loans	**(93,000)**	**(93,000)**	(97,000)	(97,000)
US notes	**(296,360)**	**(300,375)**	(288,132)	(288,132)
Cross currency swaps	**(59,522)**	**(59,522)**	(66,289)	(70,266)
Lease liabilities	**(9,077)**	**(9,920)**	(10,021)	(10,021)

20. FINANCIAL INSTRUMENTS CONTINUED

	ASSET/(LIABILITY)		ASSET/(LIABILITY)	
THOUSANDS OF DOLLARS	**CARRYING AMOUNT 2005**	**FAIR VALUE 2005**	CARRYING AMOUNT 2004	FAIR VALUE 2004
Payables				
Interest rate swaps	**630**	**630**	–	–
Forward foreign exchange contracts	**(323)**	**(323)**	–	–
Payables	**(1,236,711)**	**(1,236,711)**	(860,425)	(860,425)
	(834,649)	**(839,507)**	(666,479)	(670,456)
Unrecognised loss		**(4,858)**		(3,977)
Parent entity				
Receivables	**437,168**	**437,168**	532,581	532,581
Cash and cash equivalents	**437**	**437**	(11,612)	(11,612)
Other investments	**941,375**	**941,375**	941,375	941,375
Interest bearing liabilities				
Bank loans	**(93,000)**	**(93,000)**	(97,000)	(97,000)
US notes	**(296,360)**	**(300,375)**	(288,133)	(288,133)
Cross currency swaps	**(59,522)**	**(59,522)**	(66,289)	(66,289)
Payables	**(12,514)**	**(12,514)**	(12,394)	(12,394)
	917,584	**913,569**	998,528	998,528
Unrecognised loss		**(4,015)**		–

Estimation of fair values
The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

Derivatives
Forward exchange contracts are marked to market using listed market prices.
Interest rate swaps use the discounted cash flow technique.
Estimated future cash flows used in the discounted cash flow technique are based on management's best estimates, and the discount rate is a market related rate for a similar instrument at the balance sheet date.

Interest bearing loans and borrowings
Fair value is calculated based on discounted expected future principal and interest cash flows.

Lease liabilities
The fair value is estimated as the present value of future cash flows, discounted at the rate implicit in the lease agreement.

Receivables/payables
For receivables/payables with a remaining life of less than six months, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value, if the effect of discounting is material.

Interest rates used for determining fair value
Caltex used the government bond rate as of 31 December 2005 plus an adequate constant credit spread to discount financial instruments. The annual interest rates used are as follows:

	2005
Bank loans	8%
Lease liabilities	8%
Receivables	6%
Payables	3 – 6%

21. EMPLOYEE AND DIRECTOR BENEFITS

A. PROVISION FOR EMPLOYEE AND DIRECTOR BENEFITS

		CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	NOTE	**2005**	2004	**2005**	2004
Current					
Liability for annual leave		**17,465**	15,788	**–**	–
Liability for long service leave		**1,150**	1,150	**–**	–
Bonus accrued		**18,755**	17,092	**–**	–
Other		**1,540**	1,174	**–**	–
		38,910	35,204	**–**	–
Non-current					
Liability for long service leave		**44,135**	41,063	**–**	–
Liability for deficit in defined benefit plan		**920**	11,195	**–**	–
Other		**437**	437	**437**	437
		45,492	52,695	**437**	437
Total provision for employee and director benefits	17	**84,402**	87,899	**437**	437

B. NUMBER OF EMPLOYEES

Number of employees at year end		**3,046**	2,986

C. SUPERANNUATION COMMITMENTS

The Caltex Australia Group contributes to superannuation plans to provide benefits to employees and directors and their dependants 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:

Caltex Australia Superannuation Plan – CSP Division

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

The last actuarial review of the defined benefit plan was made as at 1 January 2003 by Peter R Hughes FIA, FIAA, Actuary, Mercer Human Resources Consulting Pty Ltd. The review concluded that the assets of the plan were insufficient to meet all benefits payable in the event of termination of the plan or the voluntary or compulsory termination of employment of each employee in the plan.

The Group's net obligation in respect of the defined benefit plan is calculated 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 its present value, and the fair value of any plan assets is deducted.

The discount rate is the rate attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities.

When the benefits of the plan are improved, the proportion of the increased benefit relating to past service by employees is recognised directly in retained earnings on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in retained earnings.

Where the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Caltex has used the AASB 1.20A exemption and disclosed amounts under AASB 1.20A(p) for each annual reporting period prospectively from the transition date.

21. EMPLOYEE AND DIRECTOR BENEFITS CONTINUED

Information from the most recent actuarial valuation for the defined benefit plan at 31 December 2005 follows:

	CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	**2005**	2004	**2005**	2004
Movements in the net liability for defined benefit obligation recognised in the balance sheet				
Net liability for defined benefit obligation at the beginning of the year	**11,195**	30,661	–	–
Expense recognised in the income statement	**4,133**	6,140	–	–
Actuarial gains recognised in retained earnings	**(9,217)**	(17,326)	–	–
Employer contributions	**(5,191)**	(8,280)	–	–
Net liability for defined benefit obligation at the end of the year	**920**	11,195	–	–
Reconciliation of the present value of the defined benefit obligation				
Present value of defined benefit obligation at the beginning of the year	**164,734**	160,990	**–**	–
Current service cost	**7,499**	7,806	**–**	–
Interest cost	**6,862**	7,033	**–**	–
Contributions by plan participants	**2,531**	–	**–**	–
Actuarial losses/(gains)	**10,537**	(11,095)	**–**	–
Benefits paid	**(14,263)**	–	**–**	–
Present value of defined benefit obligation at the end of the year	**177,900**	164,734	**–**	–
Reconciliation of the fair value of plan assets				
Fair value of plan assets at the beginning of the year	**153,539**	130,329	**–**	–
Expected return on plan assets	**10,228**	8,699	**–**	–
Actuarial gains	**19,754**	6,231	**–**	–
Employer contributions	**5,191**	8,280	**–**	–
Contributions by plan participants	**2,531**	–	**–**	–
Benefits paid	**(14,263)**	–	**–**	–
Fair value of plan assets at the end of the year	**176,980**	153,539	**–**	–
Reconciliation of the net liability recognised in the balance sheet				
Defined benefit obligation	**177,900**	164,734	**–**	–
Fair value of plan assets	**(176,980)**	(153,539)	**–**	–
Net liability	**920**	11,195	**–**	–
Expense recognised in the income statement				
The expense is recognised in refining and supply expenses, marketing expenses, and other expenses in the income statement.				
Current service cost	**7,499**	7,806	**–**	–
Interest cost	**6,862**	7,033	**–**	–
Expected return on plan assets	**(10,228)**	(8,699)	**–**	–
Superannuation expense	**4,133**	6,140	**–**	–
Amounts recognised in the statement of recognised income and expense				
Actuarial gains	**9,217**	17,326	**–**	–
Cumulative actuarial gains	**26,543**	17,326	**–**	–

21. EMPLOYEE AND DIRECTOR BENEFITS CONTINUED

	CONSOLIDATED		PARENT ENTITY	
	2005	2004	**2005**	2004
Plan assets				
The percentage invested in each asset class at the balance sheet date was:				
Australian equity	**35%**	32%	**–**	–
International equity	**30%**	30%	**–**	–
Fixed income	**24%**	25%	**–**	–
Property	**9%**	8%	**–**	–
Cash	**2%**	5%	**–**	–

The fair value of plan assets includes no amounts relating to any of the Company's own financial instruments, and any property occupied by, or other assets used by, the Company.

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class. The returns used for each asset class are net of investment tax and investment fees.

THOUSANDS OF DOLLARS				
Actual return on plan assets				
Actual return on plan assets	**29,982**	14,930	**–**	–
Principal actuarial assumptions at the balance sheet date (% p.a.)				
Discount rate (active members)	**4%**	5%	**–**	–
Discount rate (pensioners)	**5%**	5%	**–**	–
Expected rate of return on plan assets (active members)	**7%**	7%	**–**	–
Expected rate of return on plan assets (pensioners)	**8%**	8%	**–**	–
Expected salary increase rate	**4%**	4%	**–**	–
Expected pension increase rate	**0%**	0%	**–**	–

THOUSANDS OF DOLLARS				
Historical information				
Present value of defined benefit obligation	**177,900**	164,734	**–**	–
Fair value of plan assets	**176,980**	153,539	**–**	–
Net deficit	**920**	11,195	**–**	–
Experience adjustments on plan assets – gain	**19,754**	6,231	**–**	–
Experience adjustments on plan liabilities – gain/(loss)	**(10,537)**	11,095	**–**	–

Expected employer contributions for the reporting year to 31 December 2006 is $4,097,000.

Information from last actuarial review on the plan as at 1 January 2003

The last actuarial review was performed before A-IFRS was adopted.

Accrued benefits	153,390
Net market value of plan assets	141,150
Net deficit	12,240

The contribution recommendation is 10.7% of superable salaries. The Group is currently contributing at these rates. The method used to determine the employer contribution recommendations at the last actuarial review was the projected unit cost method. The method adopted affects the timing of the cost to the Group.

21. EMPLOYEE AND DIRECTOR BENEFITS CONTINUED

The long-term economic assumptions adopted for the last actuarial review of the plan as at 1 January 2003 were (% p.a.):

Expected rate of return on assets (discount rate)	7%
Expected salary increase rate	4%

THOUSANDS OF DOLLARS	CONSOLIDATED 2005	CONSOLIDATED 2004	PARENT ENTITY 2005	PARENT ENTITY 2004
Caltex Australia Superannuation Plan – APF Division				
As this is a defined contribution 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.				
Employer contributions to the plan during the year	**9,188**	7,251	**–**	–

D. OTHER BENEFITS

The Caltex Australia Limited employee share plan is open to all full-time and permanent part-time employees of the Caltex Australia Group. The plan takes advantage of the concessions available under the tax provisions and uses a salary sacrifice arrangement to acquire the shares on behalf of the employees. The incidental costs of the purchases met by Caltex Australia during the year were $2,000 (2004: $2,000).

All employees of the Caltex Australia Group are entitled to receive a discount on private fuel purchases.

22. COMMITMENTS

A. CAPITAL EXPENDITURE

THOUSANDS OF DOLLARS	CONSOLIDATED 2005	CONSOLIDATED 2004	PARENT ENTITY 2005	PARENT ENTITY 2004
Capital expenditure contracted but not provided for in the financial report and payable:				
Within one year	**46,833**	13,113	**–**	–
	46,833	13,113	**–**	–

B. LEASES

Finance leases

	31 DECEMBER 2005			31 DECEMBER 2004		
	MINIMUM LEASE PAYMENTS	INTEREST	PRINCIPAL	MINIMUM LEASE PAYMENTS	INTEREST	PRINCIPAL
CONSOLIDATED						
Within one year	**1,997**	**1,168**	**829**	2,052	1,291	761
Between one to five years	**7,802**	**3,307**	**4,495**	8,065	3,732	4,333
After five years	**4,309**	**556**	**3,753**	6,241	1,314	4,927
	14,108	**5,031**	**9,077**	16,358	6,337	10,021

The Company has no finance leases.

The Caltex Australia Group leases production plant and equipment under finance leases expiring from one to eight years. At the end of the lease term, the Group has the option of extending the leases for a further five year period. Some leases involve lease payments comprising a base amount plus an incremental rental. Contingent rentals are based on operating performance criteria. The amount of contingent rentals paid during the year is disclosed in note 4.

22. COMMITMENTS CONTINUED

Operating leases

	CONSOLIDATED		PARENT	
THOUSANDS OF DOLLARS	**2005**	2004	**2005**	2004
Non-cancellable operating leases and other financial commitments – Group as lessee				
Future minimum rentals payable:				
Within one year	**87,185**	95,650	**–**	–
Between one to five years	**282,375**	289,049	**–**	–
After five years	**54,787**	68,836	**–**	–
	424,347	453,535	**–**	–

The Company has no operating leases as lessee.

The Caltex Australia Group leases property under operating leases expiring from one to 45 years. Leases generally provide the Group with a right of renewal at which time all terms are renegotiated. Lease payments comprise mainly of a base amount; however, in a few cases, they include a base amount and incremental contingent rental. Contingent rentals are based on operating performance criteria. No contingent rentals were paid during the year (2004: nil).

There are no restrictions placed upon the Group by entering into these leases. Renewals are at the option of the specific entity that holds the lease.

	CONSOLIDATED		PARENT	
Non-cancellable operating leases and other financial commitments – Group as lessor				
Future minimum rentals receivable:				
Within one year	**17,397**	12,338	**–**	–
Between one to five years	**32,725**	45,435	**–**	–
After five years	**36,410**	48,163	**–**	–
	86,532	105,936	**–**	–

The Company has no operating leases as lessor.

The Caltex Australia Group leases property under operating leases expiring from one to 17 years.

Some of the leased properties have been sublet by Caltex. The lease and sublease expire between 2006 to 2022.

During the year ended 31 December 2005, $79,485,000 was recognised as an expense in the income statement in respect of operating leases (2004: $78,135,000).

23. 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.

	CONSOLIDATED		PARENT	
THOUSANDS OF DOLLARS	**2005**	2004	**2005**	2004
A. CONTINGENT ASSETS – LEGAL AND OTHER CLAIMS	–	–	–	–
B. CONTINGENT LIABILITIES – LEGAL AND OTHER CLAIMS	**1,000**	5,360	**–**	–

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 is 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.

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 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 one 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.

C. BANK GUARANTEES

Caltex Australia Limited has granted indemnities to banks to cover bank guarantees given on behalf of controlled entities to a maximum exposure of $4,869,000 (2004: $4,516,000).

D. DEED OF CROSS GUARANTEE AND CLASS ORDER RELIEF

Note 25(a) lists the companies in the Caltex Australia Group that are parties to a Deed of Cross Guarantee dated 22 December 1992 with Caltex Australia Limited and each other.

As parties to the Deed of Cross Guarantee, and by virtue of ASIC Class Order CO 98/1418, these companies are relieved from complying with certain requirements of the Corporations Act 2001 (Cth). Under the Deed of Cross Guarantee, each company agrees to guarantee all of the debts (in full) of all companies that are parties to the deed in accordance with the terms set out in the deed.

On 9 December 2005, a number of the companies as indicated in Note 25(a), entered into a Deed of Revocation to be released from the Deed of Cross Guarantee. If the conditions are satisfied, these companies will be released from the Deed of Cross Guarantee with effect from 19 June 2006.

23. CONTINGENT ASSETS AND LIABILITIES CONTINUED

E. ENVIRONMENTAL MATTERS

In addition to the environmental exposures already provided for in the financial statements in accordance with the Caltex Australia Group's accounting policy, the Group may be subject to contingent liabilities as a result of environmental laws that at some time in the future may require the Group to take action to correct the environmental effect of past disposal or release of petroleum substances by the Group or by others. The amount of future cost is indeterminable due to such factors as the unknown nature of new laws, the magnitude of possible contamination, the unknown timing and extent of corrective factors that may be required, the determination of the Group's possible liability in proportion to other possible responsible parties and the extent to which such costs are recoverable from insurers.

The Group is a member of the Cristal Fund and the International Oil Pollution Compensation Fund and as such may be called upon to meet a share of the cost of future claims made to the two funds. There are no calls outstanding which the Group has not provided for and there is no indication of when future claims will occur or the amount of future claims.

24. AUDITORS' REMUNERATION

	CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	**2005**	2004	**2005**	2004
Payment to KPMG for audit services	**640**	652	**–**	31
Payment to KPMG for other services:				
Transaction services	**60**	20	**–**	–
Other assurance services	**231**	207	**–**	–
Taxation services	**111**	78	**–**	–
	402	305	**–**	–

25. PARTICULARS IN RELATION TO CONTROLLED ENTITIES

A. NAME

		% INTEREST	
	NOTE	**2005**	2004
Companies			
Caltex Australia Finance Pty Ltd	(iii)	**100**	100
Caltex Australia Investments Pty Ltd	(iii)	**100**	100
Caltex Fuel Services Pty Ltd	(iii)	**100**	100
Caltex Australia Custodians Pty Ltd		**100**	100
Caltex Australia Petroleum Pty Ltd	(iii), (vi)	**100**	100
Ampol Lending Pty Ltd	(iii), (iv)	**100**	100
Ampol Metro Fuels Pty Ltd	(iii), (iv)	**100**	100
Ampol Property (Holdings) Pty Ltd	(iii)	**100**	100
Ampol Bendigo Pty Ltd	(iii)	**100**	100
Ampol Realty Pty Ltd	(iii), (iv)	**100**	100
Ampol Refineries (Matraville) Pty Ltd	(iii), (iv)	**100**	100
Ampol Road Pantry Pty Ltd	(iii), (iv)	**100**	100
Ampol Workshops Pty Ltd	(iii), (iv)	**100**	100
B&S Distributors Pty Ltd	(ii)	**50**	50
Big Country Oils Pty Ltd	(iii), (iv)	**100**	100
Brisbane Airport Fuel Services Pty Ltd		**100**	100
Calstores Pty Ltd	(iii)	**100**	100
Caltex Australia Management Pty Ltd		**100**	100

25. PARTICULARS IN RELATION TO CONTROLLED ENTITIES CONTINUED

	NOTE	% INTEREST 2005	2004
Companies			
Caltex Australia Nominees Pty Ltd		**100**	100
Caltex Lubricating Oil Refinery Pty Ltd	(iii), (vi)	**100**	100
Caltex Petroleum Pty Ltd	(iii)	**100**	100
Australian Petroleum Marine Pty Ltd	(iii)	**100**	100
Sydney Metropolitan Pipeline Pty Ltd	(ii)	**60**	60
Caltex Petroleum Distributors Pty Ltd	(iii)	**100**	100
Australian Petroleum Holdings Pty Ltd	(iii), (iv)	**100**	100
Bowen Petroleum Services Pty Ltd		**100**	100
Caltex Petroleum (Qld) Pty Ltd	(iii)	**100**	100
Caltex Petroleum (Victoria) Pty Ltd	(iii)	**100**	100
R&T Lubricants Pty Ltd	(iii)	**100**	100
Caltex Refineries (NSW) Pty Ltd	(iii), (vi)	**100**	100
Caltex Refineries (Qld) Pty Ltd	(iii), (vi)	**100**	100
Circle Petroleum (Q'land) Pty Ltd	(iii), (iv)	**100**	100
Cooper & Dysart Pty Ltd		**100**	100
Hayport Pty Ltd	(iii), (iv)	**100**	100
Hunter Pipe Line Company Pty Ltd	(iii)	**100**	100
Jayvee Petroleum Pty Ltd		**100**	100
Jet Fuels Petroleum Distributors Pty Ltd	(iii)	**100**	100
Northern Marketing Pty Ltd	(iii)	**100**	100
Hanietee Pty Ltd	(iii)	**100**	100
Newcastle Pipe Line Company Pty Ltd	(iii)	**100**	100
Security Computer Services Pty Ltd	(iii), (iv)	**100**	100
Solo Oil Investments Pty Ltd	(iii)	**100**	100
Devorant Pty Ltd	(iii), (iv)	**100**	100
Manworth Pty Ltd	(iii), (iv)	**100**	100
Metdale Pty Ltd	(iii), (iv)	**100**	100
Solo Oil Leasing Pty Ltd	(iii), (iv)	**100**	100
Southern Cross Petroleum Pty Ltd	(iii), (iv)	**100**	100
Solo Oil Pty Ltd	(iii)	**100**	100
Brooklyn Bagel (Systems) Pty Ltd	(iii), (iv)	**100**	100
Carmonott Constructions Pty Ltd	(iii), (iv)	**100**	100
Chapmore Pty Ltd	(iii), (iv)	**100**	100
Ditta (Service Station) Pty Ltd	(iii), (iv)	**100**	100
First Bildarama Pty Ltd	(iii), (iv)	**100**	100
Grosvenor Constructions Pty Ltd	(iii), (iv)	**100**	100
Kanegood Pty Ltd	(iii), (iv)	**100**	100
Leberg Holdings Pty Ltd	(iii), (iv)	**100**	100
Liglen Pty Ltd	(iii), (iv)	**100**	100
Matland Holdings Pty Ltd	(iii), (iv)	**100**	100
Pagold Holdings Pty Ltd	(iii), (iv)	**100**	100
Pruland Holdings Pty Ltd	(iii), (iv)	**100**	100

25. PARTICULARS IN RELATION TO CONTROLLED ENTITIES CONTINUED

	NOTE	% INTEREST 2005	% INTEREST 2004
Companies			
Ruzack Nominees Pty Ltd	(iii), (iv)	**100**	100
Solo Oil Australia Pty Ltd	(iii), (iv)	**100**	100
Solo Oil Corporation Pty Ltd	(iii), (iv)	**100**	100
Solo Petroleum Pty Ltd	(iii), (iv)	**100**	100
Solo Rent A Car Pty Ltd	(iii), (iv)	**100**	100
Sunrise Transport Pty Ltd	(iii), (iv)	**100**	100
Wildbank Pty Ltd	(iii), (iv)	**100**	100
South Coast Oils Pty Ltd	(iii), (iv)	**100**	100
Southern Cross Service Pty Ltd	(iii), (iv)	**100**	100
Teraco Pty Ltd	(ii)	**50**	50
Travelmate.com.au Pty Ltd	(iii)	**100**	100
Tulloch Petroleum Services Pty Ltd	(iii)	**100**	100
Western Fuel Distributors Pty Ltd	(ii)	**50**	50
Unit trusts			
Petroleum Leasing Unit Trust	(v)	**100**	100
Petroleum Property Unit Trust	(v)	**100**	100

(i) All companies were incorporated in Australia. The unit trusts were formed in Australia.

(ii) These entities have been included as controlled entities in accordance with AASB 127 Consolidated and Separate Financial Statements. Control exists because a company within the Caltex Australia Group has the ability to dominate the composition of their boards of directors, or enjoys the majority of the benefits and is exposed to the majority of the risks of these entities.

(iii) These companies are parties to a Deed of Cross Guarantee dated 22 December 1992 with Caltex Australia Limited and each other. As parties to the Deed of Cross Guarantee, and by virtue of ASIC Class Order CO 98/1418, these companies are relieved from complying with certain requirements of the Corporations Act 2001 (Cth). Under the Deed of Cross Guarantee, each company agrees to guarantee all of the debts (in full) of all companies that are parties to the deed in accordance with the terms set out in the deed. No companies have been added to the Deed of Cross Guarantee during the year ended 31 December 2005, or since 1 January 2006.

(iv) These companies entered into a Deed of Revocation dated 9 December 2005 to be released from the Deed of Cross Guarantee (if all conditions are satisfied) with effect from 19 June 2006.

(v) Solo Oil Pty Ltd is the sole unitholder of these trusts.

(vi) Employees of these companies may be eligible to participate in the Caltex Australia Limited employee share plan (refer note 21(d)).

B. INCOME STATEMENT FOR ENTITIES COVERED BY THE DEED OF CROSS GUARANTEE

THOUSANDS OF DOLLARS	2005	2004
Profit before income tax expense	**782,936**	643,062
Income tax expense	**(190,938)**	(73,748)
Net profit	**591,998**	569,314
Retained earnings at the beginning of the year	**1,092,715**	596,464
Movement in reserves	**7,018**	–
Dividends provided for or paid	**(108,000)**	(75,600)
Retained earnings at the end of the year	**1,583,731**	1,090,178

25. PARTICULARS IN RELATION TO CONTROLLED ENTITIES CONTINUED

THOUSANDS OF DOLLARS	2005	2004
C. BALANCE SHEET FOR ENTITIES COVERED BY THE DEED OF CROSS GUARANTEE		
Current assets		
Cash and cash equivalents	**25,443**	8,813
Receivables	**786,763**	544,333
Inventories	**1,042,690**	820,583
Other	**25,282**	17,418
Total current assets	**1,880,178**	1,391,147
Non-current assets		
Receivables	**5,567**	6,327
Investments accounted for using the equity method	**26,016**	24,346
Other investments	**21**	–
Property, plant and equipment	**2,061,717**	1,682,466
Intangibles	**32,472**	11,442
Deferred tax assets	**1,764**	107
Other	**43,133**	44,537
Total non-current assets	**2,170,690**	1,769,225
Total assets	**4,050,868**	3,160,372
Current liabilities		
Payables	**1,214,601**	784,409
Interest bearing liabilities	**68,599**	29,860
Current tax liabilities	**97,340**	115,983
Provisions	**80,083**	49,882
Total current liabilities	**1,460,623**	980,134
Non-current liabilities		
Payables	**5,509**	3,493
Interest bearing liabilities	**388,998**	433,282
Deferred tax liabilities	**10,042**	46,248
Provisions	**57,009**	62,246
Total non-current liabilities	**461,558**	545,269
Total liabilities	**1,922,181**	1,525,403
Net assets	**2,128,687**	1,634,969
Equity		
Issued capital	**543,415**	543,415
Treasury stock	**(2,664)**	(2,219)
Reserves	**4,205**	3,595
Retained earnings	**1,583,731**	1,090,178
Total equity	**2,128,687**	1,634,969

26. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

A. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

THOUSANDS OF DOLLARS	% INTEREST 2005	2004	BALANCE DATE	INVESTMENT CARRYING AMOUNT 2005	2004
Airport Fuel Services Pty Ltd	**40**	40	31 December	**769**	769
Australasian Lubricants Manufacturing Company Pty Ltd	**50**	50	31 December	**16,527**	16,606
Cairns Airport Refuelling Services Pty Ltd	**25**	25	31 December	**–**	–
Geraldton Fuel Company Pty Ltd	**50**	50	31 December	**1,588**	1,458
JVC1 Pty Ltd (i)	**–**	50	30 June	**–**	–
JVC2 Pty Ltd (i)	**–**	50	30 June	**–**	–
Link Energy Pty Ltd	**50**	50	30 June	**3,324**	2,743
Jenessa Holdings Pty Ltd	**50**	50	31 December	**–**	–
Northern Marketing Management Pty Ltd	**37.5**	37.5	30 June	**–**	–
Northern Marketing Partnership	**37.5**	37.5	30 June	**2,162**	1,867
R&JK Petroleum Pty Ltd	**50**	50	31 December	**–**	–
South Coast Fuels Pty Ltd	**50**	50	31 December	**450**	450
South East Queensland Fuels Pty Ltd	**50**	50	31 December	**1,196**	453
South East Queensland Fuels Unit Trust	**50**	50	31 December	**–**	–
Vitalgas Pty Ltd	**50**	50	31 December	**–**	–
				26,016	24,346

All above companies are incorporated in Australia.

With the exception of R&JK Petroleum Pty Ltd, these entities are principally concerned with the sale, marketing and/or distribution of fuel products. The operations of R&JK Petroleum Pty Ltd were sold on 1 April 2004.

(i) JVC1 Pty Ltd and JVC2 Pty Ltd were deregistered on 31 July 2004.

B. INVESTMENTS IN ASSOCIATES

THOUSANDS OF DOLLARS	REVENUE (100%)	NET PROFIT (100%)	SHARE OF ASSOCIATES' NET ASSETS RECOGNISED	TOTAL ASSETS (100%)	TOTAL LIABILITIES (100%)	NET ASSETS AS REPORTED BY ASSOCIATES (100%)	SHARE OF ASSOCIATES' NET ASSETS EQUITY ACCOUNTED
2005							
Cairns Airport Refuelling Services Pty Ltd	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Geraldton Fuel Company Pty Ltd	**60,841**	**696**	**348**	**11,414**	**8,238**	**3,176**	**1,588**
Link Energy Pty Ltd	**163,296**	**1,264**	**632**	**27,487**	**20,839**	**6,648**	**3,324**
Jenessa Holdings Pty Ltd	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Northern Marketing Management Pty Ltd	**149,935**	**–**	**–**	**–**	**–**	**–**	**–**
Northern Marketing Partnership	**–**	**2,976**	**1,116**	**31,312**	**25,547**	**5,765**	**2,162**
R&JK Petroleum Pty Ltd	**–**	**–**	**–**	**–**	**–**	**–**	**–**
South Coast Fuels Pty Ltd	**–**	**–**	**–**	**900**	**–**	**900**	**450**
South East Queensland Fuels Pty Ltd	**313,940**	**5,168**	**2,584**	**33,388**	**30,996**	**2,392**	**1,196**
South East Queensland Fuels Unit Trust	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	688,012	**10,104**	**4,680**	**104,501**	**85,620**	**18,881**	**8,720**

26. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD CONTINUED

THOUSANDS OF DOLLARS	REVENUE (100%)	PROFIT (100%)	SHARE OF ASSOCIATES' NET ASSETS RECOGNISED	TOTAL ASSETS (100%)	TOTAL LIABILITIES (100%)	NET ASSETS AS REPORTED BY ASSOCIATES (100%)	SHARE OF ASSOCIATES' NET ASSETS EQUITY ACCOUNTED
2004							
Cairns Airport Refuelling Services Pty Ltd	–	–	–	–	–	–	–
Geraldton Fuel Company Pty Ltd	56,619	674	337	8,317	5,401	2,916	1,458
Link Energy Pty Ltd	170,569	1,252	626	19,387	13,901	5,486	2,743
Jenessa Holdings Pty Ltd	–	–	–	–	–	–	–
Northern Marketing Management Pty Ltd	–	–	–	–	–	–	–
Northern Marketing Partnership	131,488	2,131	799	28,682	23,703	4,979	1,867
R&JK Petroleum Pty Ltd	–	–	–	–	–	–	–
South Coast Fuels Pty Ltd	–	–	–	900	–	900	450
South East Queensland Fuels Pty Ltd	274,166	1,690	845	26,121	25,215	906	453
South East Queensland Fuels Unit Trust	–	–	–	–	–	–	–
	632,842	5,747	2,607	82,407	68,220	15,187	6,971

	CONSOLIDATED		PARENT	
	2005	2004	**2005**	2004
Results of associates				
Share of associates' profit before income tax expense	**4,425**	3,909	**–**	–
Share of associates' income tax expense	**330**	(1,220)	**–**	–
Share of associates' net profit	**4,755**	2,689	**–**	–
Unrealised profit in inventories	**(75)**	(82)	**–**	–
Share of associates' net profit – equity accounted	**4,680**	2,607	**–**	–
Movement in the carrying amount of investments in associated entities				
Investments in associated entities at the beginning of the year	**6,971**	9,912	**–**	–
Share of associates' net profit	**4,680**	2,607	**–**	–
Dividends and disbursements from associated entities	**(2,931)**	(3,533)	**–**	–
Investment in Cooper & Dysart Pty Ltd transferred to controlled entities	**–**	(2,015)	**–**	–
Investments in associated entities at the end of the year	**8,720**	6,971	**–**	–
Commitments				
Share of associates' capital expenditure contracted but not provided for in the financial report and payable:				
Within one year	**330**	283	**–**	–
Share of associates' operating lease commitments not provided for in the financial report and payable:				
Within one year	**69**	99	**–**	–
Between one to five years	**29**	87	**–**	–
	98	186	**–**	–

26. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD CONTINUED

	CONSOLIDATED		PARENT	
THOUSANDS OF DOLLARS	**2005**	2004	**2005**	2004
Share of associates' finance lease commitments not provided for in the financial report and payable:				
Within one year	**834**	1,256	**–**	–
Between one to five years	**4,876**	4,206	**–**	–
	5,710	5,462	**–**	–
Future finance charges	**(705)**	(598)	**–**	–
	5,005	4,864	**–**	–

C. INVESTMENTS IN JOINT VENTURES

THOUSANDS OF DOLLARS	REVENUE (100%)	NET PROFIT/ (LOSS) (100%)	SHARE OF JOINT VENTURES' NET (LOSS) PROFIT RECOGNISED	TOTAL ASSETS (100%)	TOTAL LIABILITIES (100%)	NET ASSETS AS REPORTED BY JOINT VENTURE (100%)	SHARE OF JOINT VENTURES' NET ASSETS EQUITY ACCOUNTED
2005							
Airport Fuel Services Pty Ltd	**3,772**	**–**	**–**	**3,319**	**1,396**	**1,923**	**769**
Australasian Lubricants Manufacturing Company Pty Ltd	**196,393**	**(158)**	**(79)**	**232,630**	**199,576**	**33,054**	**16,527**
Vitalgas Pty Ltd	**96,616**	**3,325**	**–**	**18,531**	**19,521**	**(990)**	**–**
	296,781	**3,167**	**(79)**	**254,480**	**220,493**	**33,987**	**17,296**
2004							
Airport Fuel Services Pty Ltd	3,899	–	–	2,930	1,007	1,923	769
Australasian Lubricants Manufacturing Company Pty Ltd	163,167	1,390	695	180,146	146,934	33,212	16,606
JVC1 Pty Ltd	–	–	–	–	–	–	–
JVC2 Pty Ltd	–	–	–	–	–	–	–
Vitalgas Pty Ltd	89,398	3,881	–	26,224	30,725	(4,501)	–
	256,464	5,271	695	209,300	178,666	30,634	17,375

	CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	**2005**	2004	**2005**	2004
Results of joint ventures				
Share of joint ventures' profit before income tax expense	**373**	893	**–**	–
Share of joint ventures' income tax expense	**(55)**	(11)	**–**	–
Share of joint ventures' net profit	**318**	882	**–**	–
Unrealised profit in inventories	**(397)**	(187)	**–**	–
Share of joint ventures' net loss – equity accounted	**(79)**	695	**–**	–

26. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD CONTINUED

	CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	**2005**	2004	**2005**	2004
Movement in the carrying amount of investment in joint ventures				
Investments in joint ventures at the beginning of the year	**17,375**	16,680	**–**	–
Share of joint ventures' net loss	**(79)**	695	**–**	–
Investments in joint ventures at the end of the year	**17,296**	17,375	**–**	–
Commitments				
Share of joint ventures' capital expenditure contracted but not provided for in the financial report and payable:				
Within one year	**4,160**	1,800	**–**	–
Share of joint ventures' operating lease commitments not provided for in the financial report and payable:				
Within one year	**629**	615	**–**	–
Between one to five years	**1,368**	1,329	**–**	–
	1,997	1,944	**–**	–

27. INTEREST IN JOINT VENTURE OPERATIONS

	CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	**2005**	2004	**2005**	2004

The Group has joint interests in multiple Joint User Hydrant Installations (JUHIs), which are based at airports across Australia. The principle activity of the JUHIs is refuelling aircrafts at the airports. For the year ended 31 December 2005, the contribution of the JUHIs to the net profit of the Group was Nil (2004: Nil), and of the parent entity was Nil (2004: Nil). Included in the assets and liabilities of the Group are the Group's interests in the assets and liabilities employed in the joint venture operation:

	CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	**2005**	2004	**2005**	2004
Non-current assets				
Plant and equipment expenditure	**28,026**	27,630	**–**	–
Accumulated amortisation	**(18,793)**	(17,820)	**–**	–
Total non-current assets	**9,233**	9,810	**–**	–
Total assets	**9,233**	9,810	**–**	–

28. NOTES TO THE CASH FLOW STATEMENTS

A. RECONCILIATION OF CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statements, cash and cash equivalents includes:

	CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	**2005**	2004	**2005**	2004
Cash at bank	**28,484**	14,196	**437**	–
Bank overdrafts	**–**	–	**–**	(11,612)
Total cash and cash equivalents	**28,484**	14,196	**437**	(11,612)

28. NOTES TO THE CASH FLOW STATEMENTS CONTINUED

THOUSANDS OF DOLLARS	CONSOLIDATED 2005	CONSOLIDATED 2004	PARENT ENTITY 2005	PARENT ENTITY 2004
B. RECONCILIATION OF NET PROFIT TO NET OPERATING CASH INFLOWS				
Net profit	**594,572**	570,036	**44,027**	48,040
Add/(less) items classified as investing/financing activities:				
(Loss)/profit on sale of non-current assets and intangibles	**10,271**	(12,284)	**–**	–
Finance charges on finance leases	**2,366**	2,132		
Interest paid capitalised	**(17,253)**	(4,271)	**–**	–
Loan repaid from associate	**(2,250)**	(2,500)	**–**	–
Loss on fair value derivative	**1,460**	–	**1,460**	–
Add/(less) non-cash items:				
Depreciation of property, plant and equipment	**123,700**	117,422	**–**	–
Amortisation of intangibles	**3,099**	4,767	**–**	–
Write-down in value of land and buildings and related plant and equipment to recoverable amount	**2,532**	13,383	**–**	–
Share of associates' and joint ventures' net profit	**(4,601)**	(3,302)	**–**	–
Net cash from operating activities before changes in assets and liabilities	**713,896**	685,383	**45,487**	48,040
Changes in assets and liabilities net of the effects of acquisitions:				
(Increase)/decrease in receivables	**(207,822)**	(90,379)	**91,662**	(90,532)
(Increase)/decrease in inventories	**(216,707)**	(317,412)	**–**	–
(Increase)/decrease in other current assets	**(6,186)**	7,848	**724**	487
Increase/(decrease) in payables	**366,236**	259,219	**120**	(1,527)
Increase/(decrease) in current tax liabilities	**(18,747)**	43,877	**(17,944)**	138,846
(Decrease)/increase in deferred tax liabilities/assets	**(37,571)**	(122,857)		(17,173)
(Decrease)/increase in provisions	**24,650**	(9,169)	**–**	–
Net operating cash inflows	**617,749**	456,510	**120,049**	78,141

29. ACQUISITIONS

2005

A. AUER PETROLEUM

On 1 July 2005, the Group acquired the business of Auer Petroleum for $2,285,000, satisfied by reducing Auer Petroleum's accounts payable to Caltex on 1 July 2005. The business of Auer Petroleum is to distribute petroleum. In the six months to 31 December 2005, the business contributed a net profit of $13,000 to the consolidated net profit for the year. If the acquisition had occurred on 1 January 2005, the Group's gross sales revenue would have been $16,650,013,000 and net profit would have been $594,661,000.

29. ACQUISITIONS CONTINUED

The acquisition had the following effect on the Group's assets and liabilities:

THOUSANDS OF DOLLARS	RECOGNISED VALUES
Property, plant and equipment	691
Inventories	508
Cash and cash equivalents	42
Other current assets	112
Provisions	(68)
Net identifiable assets and liabilities	1,285
Goodwill on acquisition	1,000
Consideration paid, satisfied by reducing accounts payable	2,285
Cash acquired	42
Net cash inflow	42

Goodwill has arisen on acquisition of the business of Auer Petroleum because of future business synergies and customer relationships that did not meet the criteria for recognition as a seperately identifiable intangible at the date of acquisition.

B. DUNNING PETROLEUM

On 30 September 2005, the Group acquired the business of Dunning Petroleum for $6,493,000, satisfied by reducing Dunning Petroleum's accounts payable to Caltex by $4,493,000 on 30 September 2005. The deferral of $2,000,000 is payable by cash on 31 January 2006. The business of Dunning Petroleum is to distribute petroleum. In the three months to 31 December 2005, the business contributed net profit of $238,000 to the consolidated net profit for the year. If the acquisition had occurred on 1 January 2005, the Group's gross sales revenue would have been $16,699,777,000 and net profit would have been $595,744,000.

The acquisition had the following effect on the Group's assets and liabilities:

THOUSANDS OF DOLLARS	RECOGNISED VALUES
Property, plant and equipment	1,724
Inventories	2,177
Cash and cash equivalents	10
Intangibles	1,952
Provisions	(194)
Net identifiable assets and liabilities	5,669
Goodwill on acquisition	824
Consideration paid, satisfied by reducing accounts payable	4,493
Consideration deferred	2,000
Cash acquired	10
Net cash inflow	10

Goodwill has arisen on acquisition of the business of Dunning Petroleum because of future business synergies and customer relationships that did not meet the criteria for recognition as a seperately identifiable intangible at the date of acquisition.

29. ACQUISITIONS CONTINUED

C. PETRO FUELS AND LUBRICANTS

On 1 December 2005, the Group acquired the business of Petro Fuels and Lubricants for $16,408,000, satisfied by reducing Petro Fuels and Lubricants' accounts payable to Caltex by $13,108,000 on 1 December 2005. The deferral of $3,300,000 is payable by cash on 31 January 2006. The business of Petro Fuels and Lubricants is to distribute petroleum. In the one month to 31 December 2005, the business contributed a net loss of $8,000 to the consolidated net profit for the year. If the acquisition had occurred on 1 January 2005, the Group's gross sales revenue would have been $16,821,139,000 and net profit would have been $597,163,000.

The acquisition had the following effect on the Group's assets and liabilities.

THOUSANDS OF DOLLARS	RECOGNISED VALUES
Property, plant and equipment	1,073
Inventories	3,330
Cash and cash equivalents	64
Intangibles	1,505
Other current assets	25
Provisions	(311)
Net identifiable assets and liabilities	5,686
Goodwill on acquisition	10,722
Consideration paid, satisfied by reducing accounts payable	13,108
Consideration deferred	3,300
Cash acquired	64
Net cash inflow	64

Goodwill has arisen on acquisition of the business of Petro Fuels and Lubricants because of future business synergies and customer relationships that did not meet the criteria for recognition as a seperately identifiable intangible asset at the date of acquisition.

2004

D. COOPER & DYSART PTY LTD

On 12 August 2004, the Group acquired the remaining 50% of Cooper & Dysart Pty Ltd for $2,842,000, satisfied in cash. The company distributes petroleum. In the five months to 31 December 2004, the subsidiary contributed a net profit of $24,000 to the consolidated net profit for the year. If the acquisition had occurred on 1 January 2004, the Group's gross sales revenue would have been $13,502,003,000 and net profit would have been $570,601,000.

The acquisition had the following effect on the Group's assets and liabilities:

THOUSANDS OF DOLLARS	RECOGNISED VALUES
Cash and cash equivalents	617
Receivables	8,068
Inventories	1,939
Other current assets	242
Property, plant and equipment	2,668
Intangibles	2,190
Payables	(10,557)
Interest bearing liabilities	(631)
Current tax liabilities	(107)
Deferred tax liabilities	(6)
Provisions	(293)
Net identifiable assets and liabilities	4,130

29. ACQUISITIONS CONTINUED

THOUSANDS OF DOLLARS	RECOGNISED VALUES
Net assets acquired – 50%	2,065
Goodwill on acquisition	777
Consideration paid, satisfied in cash	2,842
Cash acquired	(617)
Net cash outflow	2,225

Goodwill has arisen on acquisition of the business of Cooper & Dysart because of future business synergies and customer relationships that did not meet the criteria for recognition as a seperately identifiable intangible asset at the date of acquisition.

30. FINANCING ARRANGEMENTS

	CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	**2005**	2004	**2005**	2004
The Caltex Australia Group has access to the following lines of credit:				
Total facilities available:				
Bank overdrafts	**30,000**	30,000	**30,000**	30,000
Bank loans and capital markets	**1,004,400**	999,400	**1,004,400**	999,400
	1,034,400	1,029,400	**1,034,400**	1,029,400
Facilities utilised at balance date:				
Bank overdrafts	**10,928**	1,670	**–**	11,612
Bank loans and capital markets	**379,400**	424,422	**424,422**	424,422
	390,328	426,092	**424,422**	436,034
Facilities not utilised at balance date:				
Bank overdrafts	**19,072**	28,330	**30,000**	18,388
Bank loans and capital markets	**625,000**	574,978	**579,978**	574,978
	644,072	603,308	**609,978**	593,366

These facilities are unsecured and have an average maturity of 3.3 years (2004: 2.8 years).

31. RELATED PARTY INFORMATION

A. DIRECTORS

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

Leo Lonergan served on the Board until his resignation on 23 February 2005. Mitch Rubinstein served as a director from 24 February 2005 to 23 August 2005. He also served as an alternate director to Leo Lonergan and Bill Hauschildt in 2005, until 23 February 2005.

Brant Fish served as an alternate director from 27 April 2005 to 23 August 2005 for Mitch Rubinstein, from 26 May 2005 for Bill Hauschildt and from 21 September 2005 for Peter Wissel.

31. RELATED PARTY INFORMATION CONTINUED

B. DIRECTORS' HOLDINGS OF SHARES

At 31 December 2005, the directors of Caltex Australia Limited had relevant interests in 29,344 (2004: 29,500) shares in Caltex Australia Limited (in total). Since 31 December 2005, Dick Warburton has acquired 266 shares, and John Thorn has acquired 88 shares, via the Non-Executive Directors' Share Acquisition Plan. The directors have not disposed of any shares since 31 December 2005.

Leo Lonergan held 2,000 shares in Caltex Australia Limited when he resigned. Mitch Rubinstein did not hold any shares in Caltex Australia Limited when he resigned.

C. OTHER DIRECTOR TRANSACTIONS

No director had entered into a material contract, loan or other transaction with any entity in the Caltex Australia Group during the year ended 31 December 2005.

During the 2005 financial year, Dick Warburton was a director of Caltex Australia Limited and Citibank Pty Ltd. The banking relationship with Citibank Pty Ltd has been in place for many years and facilities are on normal commercial terms.

During the 2005 financial year, John Thorn was a director of Caltex Australia Limited and National Australia Bank Limited. The banking relationship with National Australia Bank Limited has been in place for many years and facilities are on normal commercial terms.

Minter Ellison, to which Ken Watson is a consultant, provides legal advice and services to the Caltex Australia Group. For the year ended 31 December 2005, Minter Ellison received, or was due to receive, legal fees totalling $962,000 (less than 20% of the total legal expenditure). Minter Ellison received fees of $808,000 (less than 20% of the total legal expenditure) in respect of the year ended 31 December 2004.

Malcolm Irving, a former director, entered into a consultancy services agreement with Caltex Australia Limited after leaving office. For the year ended 31 December 2005, he received service fees of $41,250 (2004: $22,000), and no further payment is due for services provided (2004: $14,000).

Willis Australia Limited, a company associated with Malcolm Irving, received insurance consulting fees and insurance premiums of $5,127,000 (2004: $5,344,000).

During the 2005 financial year, no consultancy services fees were paid or payable to Blackburne Consulting Pty Ltd (2004: $92,000), a company related to a former director, Ian Blackburne, in accordance with the terms of a consultancy services agreement.

All services have been provided on arm's length terms.

D. CONTROLLED ENTITIES

Details of dividends and interest received or receivable from controlled entities are set out in note 3.

The amounts receivable by and payable to Caltex Australia Limited and its controlled entities are included in note 9. Details of controlled entities are set out in note 25.

E. OTHER RELATED ENTITIES

Chevron Global Energy Inc. holds a 50% interest in Caltex Australia Limited. Transactions with the Chevron Group are summarised below.

The Caltex Australia Group paid $5,475,000 (2004: $3,873,000) to the Chevron Group for technical service fees. The Group received $10,775,000 (2004: $9,080,000) for technical service fees from the Chevron Group. These fees are in the ordinary course of business and on normal commercial terms and conditions.

The Caltex Australia Group paid $761,000 (2004: $1,244,000) to the Chevron Group, including Traders Insurance Limited, for insurance coverage. Dealings with Traders Insurance Limited are in the ordinary course of business and on normal commercial terms and conditions.

The Caltex Australia Group purchased crude, other refinery feedstocks and petroleum products from the Chevron Group of $4,559,592,000 (2004: $2,908,580,000). The Caltex Australia Group sold crude, other refinery feedstocks and petroleum products to the Chevron Group of $348,296,000 (2004: $228,554,000). These purchases and sales are in the ordinary course of business and on normal commercial terms and conditions.

31. RELATED PARTY INFORMATION CONTINUED

Certain payments are made to the Chevron Group in respect of the secondment of Dave Reeves. Details of these payments are shown in note 33.

In addition to Dave Reeves, the Chevron Group seconded one executive (2004: three executives) primarily to provide specialist expertise in refineries. The cost borne by Caltex Australia was $400,000 (2004: $1,134,482). This cost includes salary and bonuses, allowances including relocation, and indirect payroll related expenses. In addition to this cost, the executive may be entitled to receive remuneration and bonuses from the Chevron Group.

Amounts receivable from and payable to other related entities are set out in notes 9 and 15 respectively.

F. ASSOCIATES

The Caltex Australia Group sold petroleum products to associates totalling $592,344,000 (2004: $478,956,000). The Caltex Australia Group received income from associates for rental income of $1,485,000 (2004: $1,449,000).

Details of associates are set out in note 26. Amounts receivable from associates are set out in note 9. Dividend and disbursement income from associates is shown in note 26.

Caltex has interests in associates primarily for the marketing, sale and distribution of fuel products. Details of Caltex's interest are in note 26.

G. JOINT VENTURES

The Caltex Australia Group sold petroleum products to joint ventures totalling $49,254,000 (2004: $23,777,000). The Caltex Australia Group received income from joint ventures for service fees, site fees, operating leases and licence fees of $10,760,000 (2004: $9,557,000).

The Caltex Australia Group purchased petroleum products from joint ventures of $94,795,000 (2004: $85,141,000). The Caltex Australia Group paid service fee income to joint ventures of $130,000 (2004: $130,000).

During the year ended 31 December 2005, the Caltex Australia Group had a provision of $956,000 (2004: $3,206,000) against receivables from Vitalgas Pty Ltd. Transactions with joint ventures are in the ordinary course of business and on normal commercial terms and conditions.

Caltex has interests in joint ventures primarily for the marketing, sale and distribution of fuel products. Details of Caltex's interest are in note 26.

32. 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.

33. KEY MANAGEMENT PERSONNEL DISCLOSURES

A. REMUNERATION POLICIES

To realise its vision to be the Australian oil refining and marketing company most admired for its people, partnership and performance, Caltex needs to attract, motivate and retain the right people for our business. Our people make the real difference – they create the company's future as well as their own. Caltex rewards its people through transparent performance management and reward systems which closely link employee rewards to company performance and the interests of shareholders.

Our performance-based reward system focuses on company, department and individual elements, with individual performance having a significant impact on employee remuneration. For all employees, including senior executives, individual performance is measured and assessed regularly with assessment outcomes driving reward levels.

33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

Caltex's Reward Policy

High performance at individual and team levels is required to deliver the Total Shareholder Return (TSR) expectations established by the Caltex Business Plan and as translated into individual performance agreements. The Reward Policy at Caltex is structured to appropriately reward performance from motivated, highly skilled and results-orientated people.

The key principles of the Reward Policy of Caltex (which includes senior executives) are:

- financial and non-financial performance criteria are applied to deliver long-term creation of value to shareholders, consistent with Caltex's strategic objectives and values;
- company, department and individual performance determines reward outcomes;
- market competitive rewards are delivered commensurate with employee duties, responsibilities, accountabilities, competencies and behaviours; and
- attract, motivate and retain highly skilled people who are aligned to Caltex's vision and values.

The application of these principles results in a clear link being demonstrated between employee reward and performance that delivers Total Shareholder Return.

Governance of the Caltex Reward Policy and System

Governance of the Caltex Reward Policy and System are undertaken by the Human Resources and Nomination Committee. It reviews our systems and approves outcomes, ensuring the Reward policy achieves its stated objectives of contributing to Total Shareholder Return. It has this role because it is independent of management and it can use independent external advisors as necessary.

The Committee has delegated authority from the Board to act on its behalf and approve:

- the annual Caltex employee reward program;
- remuneration of the members of the Caltex Leadership Team;
- the annual Performance Incentive Plan and the long-term incentive plan; and
- the Caltex Australia Limited employee tax exempt and tax deferred share plans.

The Committee also advises the Board on:

- the remuneration of non-executive directors, including remuneration for Board Committee memberships;
- the remuneration of the Managing Director & Chief Executive Officer; and
- general remuneration matters including superannuation.

The Committee is comprised of two independent directors, Elizabeth Bryan (Chair) and Dick Warburton, and one non-executive director, Bill Hauschildt. Mr Hauschildt is not considered an independent director because he is a senior executive of Chevron, a 50% shareholder in Caltex Australia Limited. The Committee meets a minimum of four times each year to undertake its governance functions and member attendance at Committee meetings is set out in the Directors' Report.

Delivering Total Shareholder Return through performance and reward

The Caltex Reward System applies to all employees including senior executives but excludes employees covered by enterprise bargaining agreements and Australian Workplace Agreements.

The key drivers of Total Shareholder Return for Caltex are identified as profitability, capital structure and market expectations. The major drivers that are within senior executive control and provide the inputs for managing and rewarding performance are:

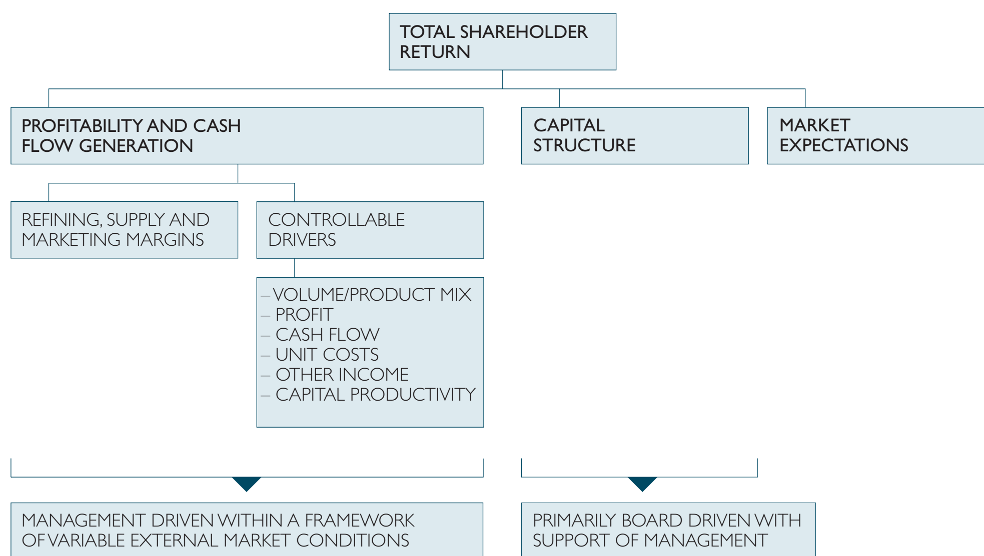
- volume/product mix;
- profit;
- cash flow;
- unit costs;
- other income; and
- capital productivity.

In addition, there are a range of variable external market conditions that vary with global market dynamics including margins in refining and marketing. As demonstrated in Figure 1 below, senior executives must deliver profitability and generate cash flow in the context of these conditions.

The Reward System recognises performance that delivers against the profitability expectations of Total Shareholder Return in our volatile, cyclical industry.

33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

FIGURE 1: KEY DRIVERS OF TOTAL SHAREHOLDER RETURN

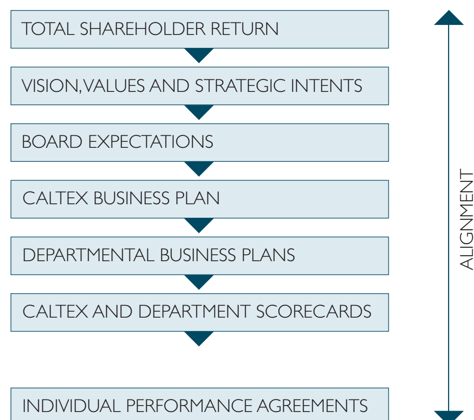


To ensure focus on Total Shareholder Return, each year the Board establishes a clear framework and approves the Caltex Business Plan. Progress against this plan is regularly reviewed and monitored by the Board.

The approved Caltex Business Plan is then translated into Department and Business Unit Plans and scorecards that incorporate the Total Shareholder Return drivers.

Within departments, specific performance agreements are developed for individual employees, thus completing the link between themselves and delivery of Total Shareholder Return as shown in Figure 2.

FIGURE 2: ALIGNING INDIVIDUAL PERFORMANCE AGREEMENTS TO TOTAL SHAREHOLDER RETURN



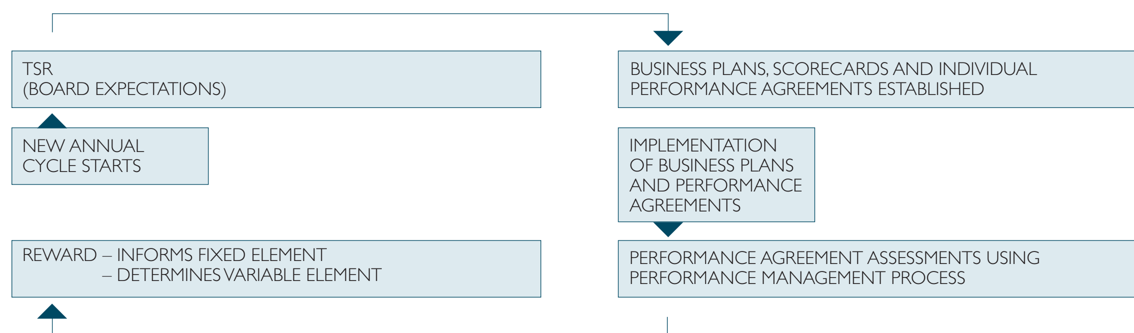
33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

Performance management

The integrity of the Reward System is contingent on the integrity of the performance management process.

The Caltex performance management process ensures employees know what is expected of them, how they are performing and how that will impact on their reward outcomes. As shown in Figure 3, this also provides employees with an understanding of how they are personally contributing to the delivery of Total Shareholder Return because their performance expectations are aligned to the delivery of the Caltex Business Plan.

FIGURE 3: RELATIONSHIP BETWEEN TOTAL SHAREHOLDER RETURN, PERFORMANCE AND REWARD

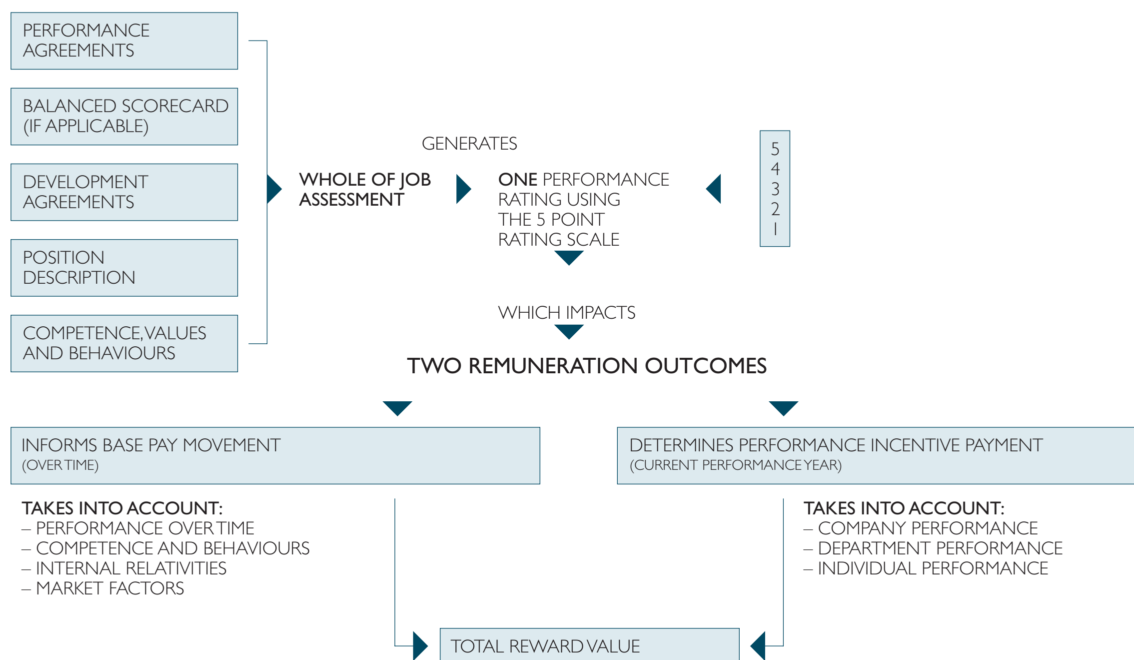


The assessment of individual performance covers specific performance agreements, relevant department and individual scorecards, development agreements and demonstration of Caltex values and appropriate behaviours, as well as overall performance against the individual job descriptions – that is, assessment is against the whole of job expectations. Regular whole of job assessment occurs during the course of the year resulting in a ranking at year end.

Figure 4 demonstrates how an employee's whole of job performance assessment ultimately informs their base pay (fixed remuneration) movement over time and determines their variable remuneration through the Performance Incentive Plan for the current performance year.

33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

FIGURE 4: WHOLE OF JOB ASSESSMENT AND OUTCOMES



Determining reward

Total Reward Value

Caltex uses a Total Reward Value approach for award free employees. The core elements of the Total Reward Value are fixed remuneration including any allowances individuals are eligible to receive (base pay), variable remuneration and superannuation contributions. Variable remuneration comprises the cash based Performance Incentive Plan (short-term incentive plan) and the long-term incentive plan (LTI) (for eligible senior executives). The Total Reward Value is designed to ensure an appropriate mix of fixed and variable remuneration. The relative weighting of fixed and variable components for target performance varies with role level and complexity.

The Total Reward Value approach enables comparison and accurate monitoring of the market competitiveness of each employee's Total Reward Value package. Market comparisons of Total Reward Value are undertaken regularly to ensure that Caltex is in line with market median when rewarding its people.

While annual reviews are conducted, there are no guaranteed increases in either fixed or variable remuneration and any increases are determined by individual performance, company performance, economic indicators, and market data and the company's ability to pay.

Employees have some flexibility in packaging the delivery of their fixed and variable remuneration in accordance with Australian Taxation Office guidelines.

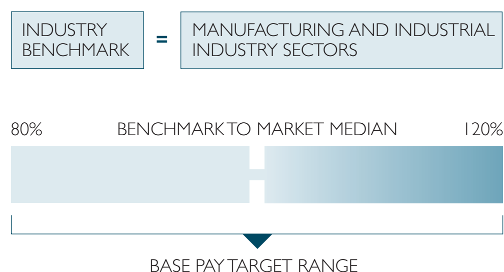
Fixed remuneration

The fixed remuneration is the component of Total Reward Value received for applying skills and competencies and demonstrating the appropriate behaviours to meet performance objectives as outlined in position descriptions.

Caltex aims to reward competitively with roles being benchmarked to the market median (refer to Figure 5). An individual's fixed remuneration is targeted at 80 – 120% of the market median with their position in this range determined by assessment of sustained performance over time and internal relativities.

33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

FIGURE 5: BENCHMARKING AND FIXED REMUNERATION

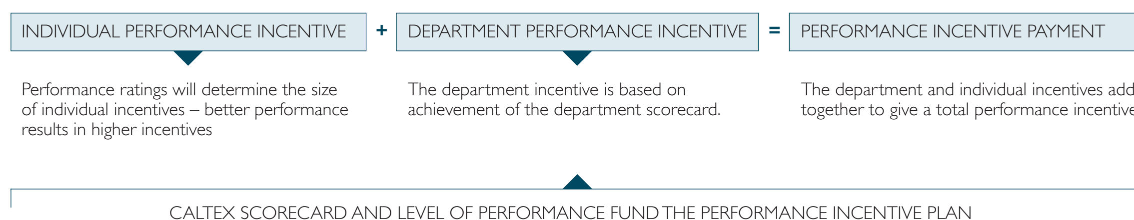


Variable remuneration – annual Performance Incentive Plan

Remuneration that is variable and directly dependent upon performance is delivered through the Performance Incentive Plan and the long-term incentive plan.

The annual Performance Incentive Plan is structured so that incentive payments reward employees based on individual, department and company performance (refer to Figure 6). Incentive opportunities increase as performance targets are exceeded at each level across the company. The greatest emphasis and weight are on individual performance, so that individuals have more control over their incentive outcome, with high performance resulting in higher incentives. The whole of job performance assessment includes consideration of behaviours that reinforce the values of Caltex and the importance of teamwork.

FIGURE 6: PERFORMANCE INCENTIVE PLAN AND TOTAL PERFORMANCE



The incentive potential within the Performance Incentive Plan ranges from 0% of base salary when performance expectations are not met, to a maximum of 40% of base salary for exceptional performance. The maximum is determined by the employee's level in the company, with senior executives qualifying for a maximum of 40% subject to achieving excellence against individual and department performance targets.

Overall performance against the total Caltex scorecard determines the size of the funding pool for the Performance Incentive Plan. If the Caltex scorecard does not meet the threshold, then there is no funding to support the department performance incentive component of the Performance Incentive Plan. The threshold for payment under the Performance Incentive Plan is the simultaneous achievement of 80% of the RCOP NPAT target and a company scorecard result of greater than or equal to 50 points. Should the threshold not be met, a maximum budget of 6.08% is available to fund individual performance outcomes as determined by annual performance review ratings.

Performance against the department scorecards will determine the level of funding available for the department performance incentive component of the Performance Incentive Plan.

The total incentive opportunity increases or decreases relative to company and department scorecard results and individual performance outcomes.

33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

The key Caltex scorecard measures for 2005 included:

Sustained and strong profitability (60% weighting)

- Replacement Cost Net Profit After Tax (RCOP NPAT) – annual performance against forecast (80% threshold to be achieved)
- free cash flow (after Clean Fuels investment)

Operational excellence (30% weighting)

- Total Treated Injury Frequency rate (per million work hours) score based on annual rate
- refinery utilisation (based on actual performance against forecast)

Cost management (10% weighting)

- unit operating expenditure cost per litre (total operating expenditure divided by total sales volume).

Actual scorecard performance is measured against the targets set and any payouts available under the Performance Incentive Plan are determined by the Human Resources and Nomination Committee. Each year, the Human Resources and Nomination Committee reviews the ongoing appropriateness of the Performance Incentive Plan including the scorecards and their measures and weightings, and performance assessment and reward outcomes. Caltex's financial results are confirmed by the Board Audit Committee and approved by the Board at the end of the assessment period before incentive payments are awarded.

The Human Resources and Nomination Committee has the overriding discretion to review and adjust the Performance Incentive Plan outcomes where there are unforeseen impacts on the scorecard elements. This discretion can be exercised through review of the scorecards and the adjustment of the scorecards as appropriate from time to time.

Variable remuneration – long-term incentive plan for 2005

The long-term incentive plan was approved by shareholders in 1999 and is only available to nominated senior executives as determined by the Human Resources and Nomination Committee. The long-term incentive plan delivers incentives via a restricted share plan, where any bonus received is paid to a trustee to purchase Caltex Australia Limited shares on market. The objectives of the plan are to:

- reward senior executives for the performance of the company arising from them delivering against objectives designed to enhance delivery of Total Shareholder Return;
- align senior executives reward with longer-term shareholder gain through the vesting period of shares awarded; and
- facilitate retention of senior executive talent.

Participation is at two tiers:

- Tier 1 – includes senior executive direct reports to the Managing Director & Chief Executive Officer; and
- Tier 2 – includes direct reports to the Managing Director and Chief Executive Officer not qualifying for Tier 1 participation, and key managerial roles with a significant strategic impact.

Tier 2 participants qualify for an allocation of shares equivalent to 75% of the scale that applies to Tier 1 participants. The award quantum is calculated as a percentage of total pay, being base pay plus cash incentive.

Fourteen Caltex senior executives participated in the plan in 2005 – five in Tier 1 and nine in Tier 2.

The award is determined on Caltex's performance versus two measures, namely:

- Return on Capital Employed (ROCE) – a target approved by the Board for the relevant financial year equating to the ratio of total earnings before interest and tax to the total of borrowings and shareholders' equity of Caltex.

  ROCE is an appropriate metric for the long-term incentive plan of Caltex. The refining and marketing industry is a volatile and cyclical industry whose margins are largely set by global and regional supply balances. It is a capital intensive industry whose asset base is constantly in a state of renewal and reinvestment. By rewarding senior executives for achieving ROCE targets, the long-term incentive plan reinforces sound capital investment strategies, conservation of working capital and excellence in operational execution to maximise earnings. The financial results are confirmed by the Board at the end of the assessment period, assuring independence from management in measuring results; and
- a one year Total Shareholder Return measure calculated as at 31 December of each year relative to the Total Shareholder Return of the members of a peer group of companies for the same period. Total Shareholder Return measures movements in a company's share price and dividend payments over the relevant period. The peer group of companies used in calculating shareholder return is based on the S&P/ASX 200 Accumulation Index, excluding bancassurance and the telecommunication indices. The monitoring of the performance of Total Shareholder Return is undertaken by remuneration consultants retained by Caltex who ensure independence from management in measurement of the target.

33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

The two measures above were chosen as they are key drivers of shareholder value and they closely reflect Caltex's financial and operational performance.

The interaction between these two measures and the award to executives is summarised in Table 1 below:

TABLE 1: STRUCTURE OF EXECUTIVE LONG-TERM INCENTIVE PROGRAM (2005) FOR TIER 1 PARTICIPANTS [a]

ROCE \ SHAREHOLDER RETURN	BOTTOM QUINTILE	SECOND QUINTILE	MEDIAN QUINTILE	FOURTH QUINTILE	TOP QUINTILE
0.80 – 0.89T	Nil	0 – 9	10 – 19	20 – 29	30 – 39
0.90 – 0.99T	0 – 9	10 – 19	20 – 29	30 – 39	40 – 49
T[b]	10	20	30	40	50
1.01 – 1.10T	11 – 20	21 – 30	31 – 40	41 – 50	51 – 60
1.11 – 1.20T	21 – 30	31 – 40	41 – 50	51 – 60	61 – 70

(a) The matrix above details the LTI grants for Tier 1 participants as a percentage of total cash for varying levels of ROCE and TSR performance. For example, if the Target ROCE was achieved and Shareholder Return was at the 50th percentile, a Tier 1 participant would receive an LTI payout equal to 30% of their total cash. A Tier 2 participant receives 75% of the payout to a Tier 1 participant.

(b) T is the target ROCE: The target is set annually by the Board, which reserves the right to adjust the target where justified.

At the end of the financial year, actual performance is measured against the preliminary targets set at the beginning of the year. Payouts, if any, are determined by the Human Resources and Nomination Committee.

The shares awarded vest to participants in three equal tranches:
- one third soon after the financial year for which the shares were acquired by the Trustee;
- one third on 1 January in the year following the date the Trustee acquires the shares; and
- one third on 1 January in the second year following the date the Trustee acquires the shares.

The growth in value of each grant over the three year vesting period is an important factor aligning shareholder and executive gain as senior executives have an incentive to maintain a high share price over time.

Where a participant ceases employment prior to the vesting of their shares, shares are not available to the participant unless cessation of employment is due to retirement or death.

Senior executives participating in the program are entitled to receive any declared dividend payments and capital returns that are made available to any Caltex shareholder on unvested shares.

Conclusion

The Caltex Reward Policy and System are designed to deliver the maximum return to shareholders while appropriately recognising the importance of the contributions of our people to the company's success.

Our Reward Policy and System are supported by a rigorous, transparent performance management process and are key elements in an integrated people management approach to delivering a high performance, motivated and engaged workforce.

Remuneration details for key management personnel

The following sections provide detailed information on the remuneration paid to, and how that remuneration was calculated, for key management personnel at Caltex. For Caltex, key management personnel are those persons who have authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director.

Senior executive remuneration structure

The Caltex Reward Policy and System apply to senior executives as they do for all other award free employees, with the addition of one component – the long-term incentive plan for incumbents of eligible senior executive positions. Therefore, senior executives receive both fixed and variable components (Performance Incentive Plan and long-term incentive plan) expressed as Total Reward Value. As with all other award free employees market comparisons of Total Reward Value are regularly undertaken to ensure Caltex is in line with the market median for target performance. Table 2 summarises the core senior executive reward components.

33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

TABLE 2: THE SENIOR EXECUTIVE REWARD COMPONENTS AND RELATIONSHIP TO TOTAL SHAREHOLDER RETURN

COMPONENTS	INPUTS	APPROVALS
Fixed remuneration (base pay)	– Performance against Performance Agreement which includes: – performance targets – where applicable, individual scorecard (including the performance targets, success measures and weightings) – relevant department scorecard – leadership behaviours – relativity of performance against other Caltex senior executives – Assessment of sustained performance over time – Position against market median (range of 80 – 120%) established for position and in accordance with Caltex guidelines – Performance Agreements are agreed with the Managing Director and CEO prior to the commencement of each year with results measured and tracked regularly by the Managing Director and CEO and approved by the Human Resources and Nomination Committee	– Movements for senior executives recommended by Managing Director and CEO and approved by the Human Resources and Nominations Committee – Adjusted annually within Board approved limits
Variable remuneration (Performance Incentive Plan) **– all award free employees eligible to participate**	– Caltex scorecard performance versus goal (this determines funding for the plan) – Department scorecard performance versus goal – Individual performance against Performance Agreement (refer above) – Individual's role within the company (determines range of earning potential)	– Incentives for senior executives recommended by Managing Director and CEO and approved by the Human Resources and Nominations Committee – Calculated and paid annually within Board approved limits
Variable remuneration (2005 long-term incentive plan) **– key senior management roles identified for participation**	– Total Shareholder Return performance versus ASX 200 peer group subset (as assessed by independent remuneration consultants to ensure impartiality and objectivity) – Return On Capital Employed (ROCE) versus Plan	– TSR and ROCE targets approved by the Human Resources and Nominations Committee at commencement of performance year – Awarded annually based on achievement of TSR and ROCE targets – Key senior management roles recommended for participation by Managing Director and CEO and approved by the Human Resources and Nominations Committee annually – Awards to incumbents of key senior management roles by invitation of the Human Resources and Nominations Committee annually

33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

Senior executive reward is aligned to the achievement of strategic objectives, the creation of shareholder value and delivery of the Vision, Values and Strategic Intents.

Fixed remuneration

For senior executives fixed remuneration is calculated on the cost to Caltex of base salary, superannuation contributions, fringe benefits tax and gross-up in relation to costs that do not qualify as company income tax deductions.

Fixed remuneration for executives is compared with the median of a subset of companies from the S&P/ASX 200 index. The subset excludes the financials sector from the index. The comparators are selected annually based on the scale of business and the executive's role and accountabilities.

Variable remuneration – Performance Incentive Plan

In relation to the short-term cash incentive, 100% of the bonus vests in 2005, and will be paid in 2006.

Variable remuneration – long-term incentive plan

Table 3 details senior executive unvested shareholdings for 2005. One third of the long-term incentive was paid to the above executives in 2006. No amount was forfeited.

TABLE 3: UNVESTED SHAREHOLDINGS OF SENIOR EXECUTIVES FOR YEAR ENDED 31 DECEMBER 2005

SENIOR EXECUTIVES	POSITION	SHARES UNVESTED AT 1 JAN 2005 FOR 2002 AND 2003 PERFORMANCE YEARS AND CALESP	SHARES GRANTED AS REMUNERATION IN 2005 FOR THE 2004 PERFORMANCE YEAR (i)	SHARES VESTED FROM THE 2002, 2003 AND 2004 PERFORMANCE YEARS AND CALESP	OTHER CHANGES (CALESP)	UNVESTED SHARES AT 31 DEC 2005 FROM THE 2003 AND 2004 PERFORMANCE YEARS (ii)
Richard Beattie	Group Manager – Corporate Affairs	33,570	11,913	(29,378)	–	16,105
Mark Burrowes	General Manager – Marketing	17,007	24,402	(16,563)	–	24,846
Helen Conway	Company Secretary and General Counsel	53,252	19,653	(46,805)	–	26,100
Simon Hepworth	Chief Financial Officer	63,815	23,070	(57,302)	–	29,583
Lisbeth Long	Group Manager – Human Resources	8,339	10,407	(7,564)	–	11,182
Mike McMenamin	Group Manager – Strategy and Planning	24	–	–	50	74
Alex Strang	General Manager – Supply and Corporate Services	65,798	23,166	(58,272)	–	30,692
Eion Turnbull	General Manager – Refining	49,370	19,941	(43,953)	–	25,358
Peter Wilkinson	Group Manager – Operational Excellence and Risk	–	–	–	–	–

Notes:

(i) Grant date was 4 March 2005.

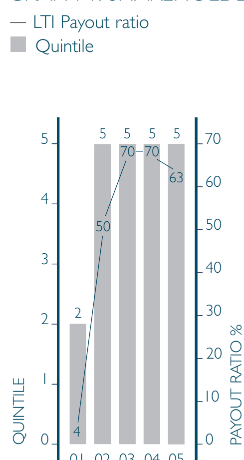
(ii) If the executive meets the service conditions, amounts will vest in 2006 and 2007 in accordance with the vesting conditions of the long-term incentive plan.

33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

Graph 1 below shows the relationship between the long-term incentive (LTI) payout ratio paid to senior executives during the year, compared to the Total Shareholder Return performance quintile achieved over the past five years. It clearly demonstrates that the long-term incentive plan awards have been strongly correlated with shareholder value creation.

GRAPH 1: SHAREHOLDER VALUE CREATION IN THE CONTEXT OF THE LTI PLAN OUTCOMES

— LTI Payout ratio
Quintile



Summary of Total Remuneration Value of senior executives in 2005

The proportion of each senior executives' remuneration for 2005 that was fixed, and the proportion that was subject to a performance condition, is shown in Table 4 below.

TABLE 4: DISTRIBUTION OF FIXED AND VARIABLE ELEMENTS OF SENIOR EXECUTIVE REMUNERATION FOR 2005

SENIOR EXECUTIVES	POSITION	FIXED	VARIABLE (INCLUDING SHORT AND LONG-TERM INCENTIVE PAYMENTS, CALCULATED AS COST TO CALTEX)
Richard Beattie	Group Manager – Corporate Affairs	59%	41%
Mark Burrowes	General Manager – Marketing	53%	47%
Helen Conway	Company Secretary and General Counsel	53%	47%
Simon Hepworth	Chief Financial Officer	54%	46%
Lisbeth Long	Group Manager – Human Resources	54%	46%
Mike McMenamin	Group Manager – Strategy and Planning	73%	27%
Alex Strang	General Manager – Supply and Corporate Services	54%	46%
Eion Turnbull	General Manager – Refining	56%	44%
Peter Wilkinson	Group Manager – Operational Excellence and Risk	71%	29%

33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

Notes on senior executives

– All of the above people have been in their positions for the whole year, with the exception of Peter Wilkinson who was appointed on 11 July 2005.
– Mike McMenamin commenced on 3 May 2004 and was appointed to a senior executive position on 1 December 2004.
– Lisbeth Long was on unpaid maternity leave from 26 July 2005 to 11 October 2005.

Contracts of employment

The senior executives of Caltex (other than Dave Reeves, the Managing Director and Chief Executive Officer) are appointed as permanent Caltex employees. Their employment contracts require both the company and the senior executive to give a notice period within a range of one to three months as stipulated by their individual contracts should they resign or have their service terminated by Caltex. The terms and conditions of the executives reflect market conditions at the time of their contract negotiation and appointment.

If a senior executive were to resign, entitlement to unvested shares payable through the long-term incentive plan would be forfeited, and if resignation was on or before 31 December of the year, payment from the Performance Incentive Plan would also be forfeited. The details of the contracts of the senior executives of Caltex (other than Dave Reeves, which are provided later in this report) are set out below:

TABLE 5: SUMMARY OF CONTRACTS OF EMPLOYMENT FOR SENIOR EXECUTIVES

SENIOR EXECUTIVES	POSITION	APPOINTED TO CURRENT ROLE	CONTRACT	TERMINATION NOTICE
Richard Beattie	Group Manager – Corporate Affairs	8 August 1995	Open ended	One month
Mark Burrowes	General Manager – Marketing	1 May 2003	Open ended	One month
Helen Conway	Company Secretary and General Counsel	13 September 1999	Open ended	Three months
Simon Hepworth	Chief Financial Officer	1 January 2001	Open ended	Three months
Lisbeth Long	Group Manager – Human Resources	18 March 2003	Open ended	One month
Mike McMenamin	Group Manager – Strategy and Planning	1 December 2004	Open ended	One month
Alex Strang	General Manager – Supply and Corporate Services	1 August 2002	Open ended	One month
Eion Turnbull	General Manager – Refining	19 December 2003	Open ended	Three months
Peter Wilkinson	Group Manager – Operational Excellence and Risk	11 July 2005	Open ended	One month

33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

Directors' remuneration structure

Determination of non-executive directors' fees

Non-executive directors' fees are determined annually by the Board, based on a recommendation from the Human Resources and Nomination Committee. The fees are set within the aggregate remuneration pool approved by shareholders. No directors' fees are paid to executive directors.

The level of non-executive directors' fees is based on the scope of director responsibility and the size and complexity of Caltex. In making recommendations to the Board, the Human Resources and Nomination Committee takes into account survey data on the level of directors' fees being paid to directors of companies of comparative size and complexity. The Human Resources and Nomination Committee also obtains external professional advice as necessary.

Non-executive directors do not receive any bonus payment or participate in any incentive plan. Accordingly, 100% of the remuneration of non-executive directors is fixed.

The Board does not operate a directors' retirement scheme but non-executive directors resident in Australia are entitled to statutory superannuation. Prior to 1 January 2004, Dick Warburton and Ken Watson did participate in a directors' retirement scheme and amounts that had accrued under the scheme for them have been frozen and paid into a separate interest bearing account pending their retirement.

Non-executive directors' fees

In 2005, fees paid to non-executive directors were subject to a maximum Board remuneration pool of $900,000 per annum, exclusive of statutory entitlements. The remuneration pool for non-executive directors applicable to 2005 was approved by shareholders of Caltex Australia Limited at the Annual General Meeting held in April 2004. This amount was increased to $1,150,000 per annum, inclusive of statutory entitlements, at the 2005 Annual General Meeting with effect from 1 January 2006. This increase was sought to allow fee increases in line with the market and to accommodate director succession plans.

Table 6 outlines the fees payable to the directors effective 1 January 2005 and 1 January 2006.

TABLE 6: FEES PAYABLE TO DIRECTORS

	EFFECTIVE 1 JANUARY 2005	EFFECTIVE 1 JANUARY 2006
Chairman's fees (Inclusive of all Committee fees)	$275,000	$310,000
Non-executive directors' fees	$100,000	$115,000
Audit Committee fees		
– Chairman	$20,000	$30,000
– Member	$10,000	$15,000
Human Resources & Nomination Committee Fees		
– Chairman	$15,000	$20,000
– Member	$10,000	$10,000

As Elizabeth Bryan has elected not to receive any superannuation guarantee contributions, the fees which are paid to her are increased by 9%, being the current rate of the superannuation guarantee contribution.

From 2005, non-executive directors could elect to forgo part of their fees, with the amount foregone to be contributed to fund the acquisition, on market, of Caltex Australia Limited shares via a non-executive directors' share acquisition plan. Participation in the share acquisition plan is not open to directors who are employed in the Chevron Corporation Group. The acquisition of shares under this plan is not subject to any performance conditions as they are acquired on a fee sacrifice basis.

33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

Remuneration for Managing Director and Chief Executive Officer

Dave Reeves, the Managing Director and Chief Executive Officer, is seconded from Chevron Corporation (Chevron) to Caltex. Chevron Global Energy Inc. holds 50% of the shares in Caltex Australia Limited.

Under the terms of the secondment arrangements, Caltex pays a maximum of $1,200,000 per annum to Chevron. Caltex has no obligation to pay any additional amounts to Chevron beyond $1,200,000 per annum or to pay any amount to Dave. The terms of these arrangements are considered to be no less favourable to Caltex than arm's length terms.

Chevron incurred additional costs being $1,238,806 (2004: $1,530,166), in relation to Dave. These costs may include performance-based short-term and long-term incentives, housing allowances, and other non-monetary items. In determining the additional amounts paid to Dave, Chevron considers Caltex's performance and Dave's contribution to that performance as assessed by Caltex's Chairman.

Contract of employment for Managing Director and Chief Executive Officer

The secondment is for a period of three years ending on 28 July 2006 and Caltex and Chevron may agree to vary the contract term by early termination or extension. The secondment arrangement may also be terminated by Caltex if Dave:

- commits a wilful breach or wilfully neglects to perform or observe any of his statutory or contractual duties;
- fails to perform or observe any of his statutory or contractual duties and does not correct or rectify the failure within seven days of being requested to do so; or
- ceases to hold the office of director of Caltex Australia Limited.

On termination Dave has no rights against Caltex for payment of any amounts or claims.

The terms of these arrangements are considered by Caltex to be no less favourable to Caltex than arm's length terms.

Notes on directors

- Dave Reeves served as the Managing Director and Chief Executive Officer for the whole of 2005.
- Dick Warburton served as the Chairman for the whole of 2005. He was the Chair of the Human Resources and Nomination Committee until 30 April 2005, after which time he was a member of the Human Resources and Nomination Committee. He attends Audit Committee meetings in an ex-officio capacity.
- Elizabeth Bryan served as a director throughout 2005 and was appointed as Chair of the Human Resources and Nomination Committee from 1 May 2005. Accordingly, Elizabeth received Committee fees at the rate applying to the Chair of that Committee from that date. Prior to 1 May 2005, Elizabeth served as a member of the Human Resources and Nomination Committee. Elizabeth is also paid an additional 9% in director fees, following her election not to receive superannuation guarantee contributions. The payment of these additional fees was backdated to the date that Caltex ceased making superannuation guarantee contributions to her.
- Bill Hauschildt served as a director and a member of the Human Resources and Nomination Committee throughout 2005.
- John Thorn served as a director and a member of the Audit Committee throughout 2005.
- Ken Watson served as a director and Chair of the Audit Committee throughout 2005.
- Peter Wissel was appointed as a director on 23 August 2005 and as a member of the Audit Committee on 1 September 2005. His director's fee in 2005 is a pro-rata amount.
- Leo Lonergan resigned as a director on 23 February 2005. Until that date, he also served as a member of the Audit Committee.
- Mitch Rubinstein served a director between 24 February 2005 and 23 August 2005 and as a member of the Audit Committee from 1 May 2005 to 23 August 2005. His director's fee in 2005 is a pro rata amount. Mitch Rubinstein also served as an alternate director in 2005 until 23 February 2005, but did not receive any remuneration for acting as an alternate director.
- Brant Fish, who served as an alternate director in 2005, did not receive any remuneration from Caltex in 2005.

33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

B. SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL

The movement during the reporting period in the number of shares of Caltex Australia Limited held, directly, indirectly or beneficially, by each key management personnel, including their personally related entities, is as follows:

	HELD AT 1 JANUARY 2005	PURCHASED	VESTED	SOLD	HELD AT 31 DECEMBER 2005
CURRENT DIRECTORS					
Dick Warburton	10,000	633	–	–	10,633
Dave Reeves	5,000	–	–	–	5,000
Elizabeth Bryan	5,000	–	–	–	5,000
Bill Hauschildt	–	–	–	–	–
John Thorn	–	211	–	–	211
Ken Watson	7,500	–	–	–	7,500
Peter Wissel	–	1,000	–	–	1,000
FORMER DIRECTORS					
Leo Lonergan	2,000	–	–	(2,000)	–
Mitch Rubinstein	–	–	–	–	–
SENIOR EXECUTIVES					
Richard Beattie	25,721	–	29,378	(17,560)	37,539
Mark Burrowes	18,929	–	16,563	(21,258)	14,234
Helen Conway	36,466	–	46,805	(25,000)	58,271
Simon Hepworth	54,004	–	57,302	(80,000)	31,306
Lisbeth Long	4,095	–	7,564	–	11,659
Mike McMenamin	–	–	–	–	–
Alex Strang	53,748	–	58,272	(45,000)	67,020
Eion Turnbull	39,215	–	43,953	(62,000)	21,168
Peter Wilkinson	–	–	–	–	–

33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

C. EXECUTIVE SHARE PLAN

Senior executives may receive shares under Caltex Australia Limited's executive share plan, based on the achievement of specific targets related to the performance of the Caltex Australia Group (including Return On Capital Employed and Total Shareholder Return). The terms and conditions of this plan were approved by shareholders at the Annual General Meeting held in April 1999.

Executives in the executive share plan for 2005 are entitled to receive shares in three equal instalments as their shares vest, although dividend and voting entitlements vest immediately. The first instalment vested at the end of 2005, with the second and third instalments vesting at the end of 2006 and 2007. Shares are included as part of bonuses upon vesting.

The executive share plan purchases the shares on market for the 2005-2007 obligation in 2006, and distributes the portion related to the 2005 obligation in 2006.

The fair value of services received in return for shares granted is measured by reference to the market price of shares on the grant date.

The summary of share movements in the plan is:

OPENING BALANCE	ISSUED TO PLAN			VESTED DURING THE YEAR			CLOSING BALANCE	
NUMBER OF SHARES	GRANT DATE	NUMBER OF SHARES	WEIGHTED AVERAGE FAIR VALUE PER SHARE ($)	VESTING DATE	NUMBER OF SHARES	WEIGHTED AVERAGE FAIR VALUE PER SHARE ($)	NUMBER OF SHARES	FAIR VALUE ($)
2005								
484,262	28 Feb –	190,107	14.29	5 Jan 05	(319,132)	10.80	291,983	5,658,631
	4 Mar 05			8 Mar 05	(63,254)	14.19		
484,262		190,107			(382,386)		291,983	5,658,631
2004								
516,718	1 Mar –	353,973	7.23	2 Jan 04	(268,392)	4.67	484,262	5,259,085
	17 Mar 04			17 Mar 04	(118,037)	6.95		
516,718		353,973			(386,429)		484,262	5,259,085
2003								
86,913	3 Mar –	750,313	2.04	3 Jan 03	(49,632)	2.16	516,718	2,387,237
	13 Mar 03			28 Mar 03	(270,876)	2.31		
86,913		750,313			(320,508)		516,718	2,387,237
2002								
66,749	25 Feb –	92,291	1.63	4 Jan 02	(33,376)	1.38	86,913	185,994
	1 Mar 02			11 Apr 02	(25,698)	1.72		
				26 Sep 02	(13,053)	1.65		
66,749		92,291			(72,127)		86,913	185,994

	CONSOLIDATED	
THOUSANDS OF DOLLARS	**2005**	2004
Executive share plan expense	**2,965**	2,543

33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

D. REMUNERATION OF KEY MANAGEMENT PERSONNEL

		SHORT-TERM				POST-EMPLOYMENT	OTHER LONG-TERM	SHARE BASED PAYMENTS	
DOLLARS		SALARY AND FEES	BONUS	NON-MONETARY BENEFITS	TOTAL	SUPER-ANNUATION	LONG SERVICE LEAVE	SHARE BENEFITS	TOTAL
DIRECTORS									
Executive									
Dave Reeves, Managing Director and Chief Executive Officer	**2005**	**1,200,000**	**–**	**–**	**1,200,000**	**–**	**–**	**–**	**1,200,000**
	2004	1,200,000	–	–	1,200,000	–	–	–	1,200,000
Non-executive									
Dick Warburton, Chairman	**2005**	**275,000**	**–**	**–**	**275,000**	**24,750**	**–**	**–**	**299,750**
	2004	232,000	–	–	232,000	20,880	–	–	252,880
Elizabeth Bryan	**2005**	**133,284**	**–**	**–**	**133,284**	**–**	**–**	**–**	**133,284**
	2004	90,337	–	–	90,337	–	–	–	90,337
Bill Hauschildt	**2005**	**110,000**	**–**	**–**	**110,000**	**–**	**–**	**–**	**110,000**
	2004	22,636	–	–	22,636	–	–	–	22,636
John Thorn	**2005**	**110,000**	**–**	**–**	**110,000**	**9,900**	**–**	**–**	**119,900**
	2004	49,948	–	–	49,948	4,495	–	–	54,443
Ken Watson	**2005**	**120,000**	**–**	**–**	**120,000**	**10,800**	**–**	**–**	**130,800**
	2004	93,000	–	–	93,000	8,370	–	–	101,370
Peter Wissel (appointed 23 August 2005)	**2005**	**39,086**	**–**	**–**	**39,086**	**–**	**–**	**–**	**39,086**
	2004	–	–	–	–	–	–	–	–
Leo Lonergan (resigned 23 February 2005)	**2005**	**16,274**	**–**	**–**	**16,274**	**–**	**–**	**–**	**16,274**
	2004	93,000	–	–	93,000	–	–	–	93,000
Mitch Rubinstein (appointed 24 February 2005) (resigned 23 August 2005)	**2005**	**52,497**	**–**	**–**	**52,497**	**–**	**–**	**–**	**52,497**
	2004	–	–	–	–	–	–	–	–

33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

		SHORT-TERM				POST-EMPLOYMENT	OTHER LONG-TERM	SHARE BASED PAYMENTS	
DOLLARS		SALARY AND FEES	BONUS	NON-MONETARY BENEFITS	TOTAL	SUPER-ANNUATION	LONG SERVICE LEAVE	SHARE BENEFITS	TOTAL
SENIOR EXECUTIVES									
Richard Beattie, Group Manager – Corporate Affairs	**2005**	**248,573**	**47,707**	**9,258**	**305,538**	**28,362**	**3,810**	**156,042**	**493,752**
	2004	249,277	57,885	–	307,162	18,671	23,172	160,405	509,410
Mark Burrowes, General Manager – Marketing	**2005**	**457,909**	**125,580**	**14,944**	**598,433**	**52,163**	**2,714**	**340,108**	**993,418**
	2004	453,858	127,372	14,811	596,041	29,830	1,106	263,392	890,369
Helen Conway, Company Secretary and General Counsel	**2005**	**312,467**	**88,754**	**28,979**	**430,200**	**36,208**	**10,450**	**262,246**	**739,104**
	2004	324,277	80,184	14,811	419,272	23,222	7,888	263,797	714,179
Simon Hepworth, Chief Financial Officer	**2005**	**402,179**	**111,386**	**14,944**	**528,509**	**45,814**	**43,055**	**321,111**	**938,489**
	2004	388,170	110,039	14,811	513,020	27,001	30,792	309,636	880,449
Lisbeth Long, Group Manager – Human Resources	**2005**	**224,014**	**59,044**	**–**	**283,058**	**24,218**	**1,542**	**154,683**	**463,501**
	2004	244,788	59,250	–	304,038	17,464	696	115,346	437,544
Mike McMenamin, Group Manager – Strategy and Planning	**2005**	**239,438**	**24,221**	**–**	**263,659**	**22,735**	**596**	**72,929**	**359,919**
	2004	124,790	24,615	42,998	192,403	8,862	–	–	201,265
Alex Strang, General Manager – Supply and Corporate Services	**2005**	**385,204**	**105,796**	**47,707**	**538,707**	**39,000**	**17,603**	**305,085**	**900,395**
	2004	381,304	79,076	13,340	473,720	18,000	19,063	313,457	824,240
Eion Turnbull, General Manager – Refining	**2005**	**350,646**	**83,283**	**54,056**	**487,985**	**37,757**	**9,299**	**267,771**	**802,812**
	2004	334,692	71,020	39,288	445,000	23,687	6,326	259,320	734,333
Peter Wilkinson, Group Manager – Operational Excellence and Risk (appointed 11 July 2005)	**2005**	**118,901**	**21,156**	**5,130**	**145,187**	**10,286**	**–**	**32,994**	**188,467**
	2004	–	–	–	–	–	–	–	–
Total compensation: key management personnel (Group and parent entity)	**2005**	**4,795,472**	**666,927**	**175,018**	**5,637,417**	**341,993**	**89,069**	**1,912,969**	**7,981,448**
	2004	4,282,077	609,441	140,059	5,031,577	200,482	89,043	1,685,353	7,006,455

Comparative financial information

CALTEX AUSTRALIA LIMITED CONSOLIDATED RESULTS	2005	2004	2003	2002	2001
PROFIT AND LOSS ($MILLION)					
Historical cost operating profit before significant items, interest and income tax expense	811	687	353	388	15
Interest income	4	1	1	1	1
Borrowing costs	(27)	(41)	(63)	(76)	(91)
Historical cost income tax (expense)/benefit before significant items	(214)[(i)]	(190)[(i)]	(83)	(85)	29
Historical cost operating profit after tax and before significant items	574	457	209	227	(46)
Significant items (net of tax)	21[(i)]	113[(i)]	(11)	(12)	(140)
Historical cost operating profit/(loss) after income tax	595	570	197	215	(186)
DIVIDENDS					
Amount paid and payable ($/share)	0.46	0.39	0.18	–	–
Times covered (excl. significant items)	4.62	4.34	4.30	–	–
OTHER DATA					
Equity attributable to members of the company ($m)	2,129	1,635	1,215	1,029	813
Total equity ($m)	2,138	1,645	1,224	1,036	821
Return on equity attributable to members of the parent entity after tax, excluding significant items (%)	27	28	17	22	(6)
Total assets ($m)	4,079	3,245	2,774	2,837	2,747
Net tangible asset backing ($/share)	7.73	5.98	4.46	3.76	3.01
Debt ($m)	458	461	661	972	1,265
Net debt ($m)	429	447	624	954	1,265
Net debt to net debt plus equity (%)	17	21	34	48	61

(i) Includes a significant item of $21 million in 2005 ($113 million in 2004) relating to an income tax benefit upon entry into the tax consolidation regime.

Replacement cost of sales basis of accounting

– To assist in understanding the group's operating performance, the directors have provided additional disclosure of the group's results for the year on a replacement cost of sales basis (i), which excludes net inventory gains and losses.

– On a replacement cost of sales basis, the group's net profit after income tax for the year was $414 million, compared to a profit of $350 million in 2004.

– 2005 net profit before interest, income tax and significant items on a replacement cost of sales basis was $583 million, (2004: $536 million).

$ MILLION	FIVE YEARS	2005	2004	2003	2002	2001
Historical cost net profit before interest, income tax and significant items	1,443	811	687	353	388	15
(Deduct)/add inventory (gains)/losses (ii)	(151)	(228)	(151)	(13)	(173)	186
Replacement cost net profit before interest, income tax and significant items	1,292	583	536	340	215	201
Net borrowing costs	(267)	(23)	(40)	(61)	(76)	(90)
Historical cost tax (expense)/benefit	(329)	(214)	(190)	(83)	(85)	29
Add/(deduct) tax effect of inventory (losses)/gains	44	68	44	4	52	(56)
Replacement cost profit after income tax (iii)	740	414	350	200	106	84

(i) Caltex Australia's results are significantly impacted by external factors such as crude oil price movements that are outside the company's control. With historical cost basis accounting, rising crude prices will generally result in increased profits for Caltex, while falling crude prices will generally result in decreased profits. The replacement cost of sales basis excludes gains or losses from inventories and is calculated by restating cost of sales using the replacement cost of goods sold rather than historical cost.

(ii) Historical cost results include gross inventory gains or losses from the movement in crude oil prices. In 2005, the historical cost result includes $228 million inventory gain (2004: $151 million inventory gain). Net inventory gain/(loss) is adjusted to reflect impact of revenue lags.

(iii) Replacement cost profit after income tax is calculated before taking into account any significant items over the five years. The total effect of these significant items in each year was:
2001: $143 million loss before tax ($140 million after tax)
2002: $12 million loss before and after tax
2003: $13 million loss before tax ($11 million loss after tax)
2004: $113 million gain before and after tax
2005: $21 million gain before and after tax