

**CALTEX AUSTRALIA LIMITED**

**ACN 004 201 307**

**2003 PRELIMINARY  
FINAL REPORT**



**CALTEX**

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

## Results for announcement to the market:

Key Results (Thousands of dollars)			Year ended 31 December	
			2003	2002
Revenues from ordinary activities	↑	13.7%	10,633,259	9,348,626
<b>Profit from ordinary activities after tax attributable to members:</b>				
Replacement cost basis <sup>1</sup> (excluding significant items)	↑	88.2%	199,668	106,106
Historical cost basis (including significant items)	↓	(8.2%)	197,497	215,170
<b>Net profit for the period attributable to members:</b>				
Replacement cost basis (excluding significant items)	↑	88.2%	199,668	106,106
Historical cost basis (including significant items)	↓	(8.2%)	197,497	215,170

Dividend	2003	2002
<b>Dividends declared:</b>		
Interim dividend:		
- Amount per security	4¢	Nil
- Franked amount per security	4¢	Nil
Final dividend and special dividend		
- Amount per security	14¢	Nil
- Franked amount per security	14¢	Nil
<b>Record date for determining entitlement to 2003 final dividend</b>	12 March 2004	
<b>Date 2003 final dividend is payable</b>	2 April 2004	

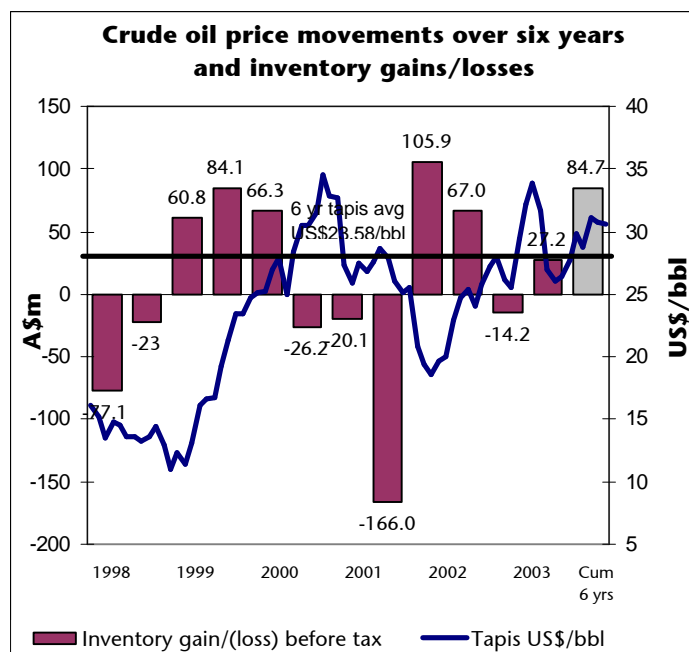
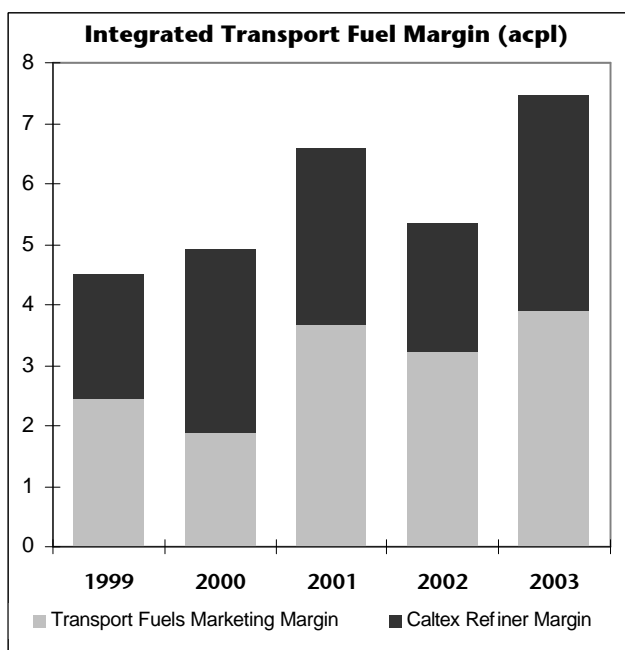
## Highlights

- Replacement cost of sales operating profit after tax profit of \$199.7 million, up 88.2%, mainly due to stronger refiner margins and continued robust marketing margins.
- Singapore refiner margins strengthened in 2003 due to an increase in demand in China and the United States resulting in increased Caltex refiner margins. The Caltex refiner margin averaged US\$3.68/bbl in 2003 (2002: US\$1.82/bbl).
- On a historical cost basis, Caltex made an after tax profit of \$197.5 million for the 2003 full year compared to \$215.2 million for 2002. This included inventory gains of \$13.0 million this year (before tax) compared to inventory gains of \$172.9 million (before tax) in 2002.
- Final dividend payment of 8 cents per share, and a special dividend of 6 cents per share.
- Debt down to \$624.4 million, 33.8% gearing (December 2002: \$954m, 47.9% gearing).
- Clean fuels investment under way as Caltex will invest about \$250 million over the next two years in refinery upgrades. The estimated total project cost (2002-2005) will be \$295 million +/-10%, which includes \$43 million expenditure to date.

<sup>1</sup> Replacement cost of sales profit (RCOP) - Caltex's results are significantly affected by external factors that are outside the company's control, such as crude oil price movements. With historical cost basis accounting, rising crude oil prices will generally result in increased profits for Caltex, while falling crude oil prices will generally result in decreased profits. This movement in profit, often referred to as inventory gain or loss, can create large variations in Caltex's results. The RCOP basis for calculating profit excludes gains or losses from inventory in the profit calculation. It is calculated by restating cost of sales using the replacement cost of goods sold rather than the historical cost. Since crude oil is purchased in US dollars, net inventory gains and losses are calculated before taking into account any foreign exchange impacts.

## Key Performance Indicators

	Year ended 31 December				
	2003	2002	2001	2000	1999
<b>Profit before interest and tax (\$m)</b>					
- Replacement cost basis (excluding significant items)	339.8	215.2	200.9	115.7	71.8
- Historical cost basis (including significant items)	340.4	376.1	158.2	155.8	238.3
<b>Profit after interest and tax (\$m)</b>					
- Replacement cost basis (excluding significant items)	199.7	106.1	83.7	9.5	23.7
- Historical cost basis (including significant items)	197.5	215.2	(186.1)	36.1	102.6
<b>Inventory (losses)/gains before tax (\$m)</b>	13.0	172.9	(186.1)	40.1	144.9
<b>Basic earnings per share (cents)</b>					
- Replacement cost basis (excluding significant items)	74.0	39.3	31.0	3.5	8.8
- Historical cost basis (including significant items)	73.1	79.7	(68.9)	13.4	38.0
<b>Return on equity attributable to members of the parent entity after tax (%)</b>					
- Replacement cost basis (excluding significant items)	16.4	10.3	10.3	1.0	2.4
- Historical cost basis (including significant items)	16.3	20.9	(22.8)	3.6	10.1
<b>Net tangible asset backing per share (\$)</b>	4.46	3.76	3.01	3.12	3.10
<b>Net debt (\$m)</b>	624.4	954.2	1,264.7	1,241.2	1,106.9
<b>Gearing (net debt to net debt plus equity) (%)</b>	33.8	47.9	60.6	55.2	52.1



## Profit and Loss

### for the year ended 31 December 2003

Millions of dollars	2003	2002	% change
1 Total revenue <sup>1</sup>	7,014.2	5,900.7	18.8
2 Total expenses <sup>2</sup>	(6,674.4)	(5,685.5)	17.4
3 Replacement cost EBIT	339.8	215.2	57.9
4 Borrowing costs	(61.4)	(75.6)	(18.8)
Income tax expense	(78.7)	(33.5)	134.9
<b>Replacement cost profit</b>	<b>199.7</b>	<b>106.1</b>	<b>88.2</b>
5 Inventory gains – after tax	9.1	121.1	(92.5)
6 Significant items – after tax	(11.3)	(12.0)	(5.8)
<b>Historical cost net profit</b>	<b>197.5</b>	<b>215.2</b>	<b>(8.2)</b>
7 Interim dividend per share	4c	-	
7 Final and special dividend per share	14c	-	
Basic earnings per share			
- Replacement cost – excluding significant items	74.0c	39.3c	
- Historical cost	73.1c	79.7c	

## Discussion and Analysis

<p><b>1 Total revenue</b></p> <p><b>↑ 18.8%</b></p>	<p>Total revenue increased primarily due to:</p> <ul style="list-style-type: none"> <li>• Strong refiner margins together with robust marketing margins</li> <li>• Increased petrol and diesel volumes including sales to competitors</li> <li>• Higher crude prices partially offset by the</li> <li>• Strengthening of the AUD against the USD.</li> </ul>
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<p><b>2 Total expenses – replacement cost basis</b></p> <p><b>↑ 17.4%</b></p>	<p>The increase in total expenses is primarily caused by:</p> <ul style="list-style-type: none"> <li>• Higher cost of goods sold, consistent with the increase in sales volumes, purchases from competitors and higher crude prices</li> <li>• Refining and supply expenses not directly attributable to products have increased – mainly due to higher maintenance and employee costs and provision for the superannuation fund vested benefits deficiency</li> <li>• Higher marketing expenses due to an increase in employee, freight and remediation expenses.</li> </ul>
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<sup>1</sup> Excludes interest revenue and significant items (if applicable)

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

## Discussion and Analysis cont'd

<p><b>3 Replacement cost EBIT (RCOP)</b></p> <p><b>↑ 57.9%</b></p>	<p>Improvement in Caltex's underlying performance was primarily driven by strong refiner margins and continued robust marketing margins.</p> <p>Breakdown of replacement cost EBIT is detailed below:</p>
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### RCOP EBIT Breakdown

<p><b>Caltex Refiner Margin (CRM)</b></p> <p style="text-align: right;"><b>\$370.6m</b></p>	<p>CRM is the difference between the cost of importing a standard basket of products to Eastern Australia and the cost of importing the crude required to make that product basket. It is a proxy for the gross margin available to refineries in Eastern Australia before processing costs. Because it is based on a standard basket of products it does not include any premiums that may be paid for product that complies with specific state or national quality regulations. It is calculated as follows:</p> <p>Singapore refiner margins + Crude Discount/(Premium) + Product Freight – Crude Freight – Yield Loss</p> <ul style="list-style-type: none"> <li>CRM strengthened significantly from an average of US\$1.82/bbl in 2002 to US\$3.68/bbl in 2003 as the Singapore refiner margin increased from US\$2.27/bbl in 2002 to US\$3.88/bbl in 2003. This was partially offset by the strengthening Australian dollar.</li> </ul>
<p><b>Transport Fuels Marketing Margin</b></p> <p style="text-align: right;"><b>\$432.0m</b></p>	<p>Transport fuels comprises petrol, diesel and jet. The transport fuels marketing margin is the average net margin over Import Parity Price in Australia.</p> <ul style="list-style-type: none"> <li>Marketing margins remained strong at the same time as Caltex had record transport fuel sales, up 3.3% on the previous year, primarily driven by petrol sales up 5.4%.</li> </ul>
<p><b>Lubricants &amp; Specialties Margin</b></p> <p style="text-align: right;"><b>\$90.9m</b></p>	<p>Lubricants and Specialties products include finished lubricants, base oils, low pressure gas, petrochemicals, bitumen, wax and marine fuels.</p> <ul style="list-style-type: none"> <li>Lubricants and base oils sales and margins grew, with base oils volume increasing 40% and Caltex's largest selling lubricant, Delo 400, volume was up 43%.</li> </ul>
<p><b>Non Fuel Income</b></p> <p style="text-align: right;"><b>\$106.5m</b></p>	<p>Non fuel income includes convenience store income, non controlled equities, franchise income, royalties, property, plant and equipment rentals and starcard income.</p> <ul style="list-style-type: none"> <li>Average Star Mart convenience store sales increased by 5.4% and Star Shop sales by 6.4% on a like for like basis compared with the previous year.</li> </ul>
<p><b>Operating Expenses</b></p> <p style="text-align: right;"><b>(\$629.9m)</b></p>	<p>Operating expenses include those costs not related to the cost of production such as finance and administration, marketing and other operating expenditure.</p> <ul style="list-style-type: none"> <li>Operating expenses increased in 2003 from 2002 primarily due to higher volumes, higher planned maintenance costs and one off items primarily consisting of provisions for the defined benefits funds vested deficiency and remediation costs.</li> </ul>
<p><b>Other Expenses</b></p> <p style="text-align: right;"><b>(\$30.3m)</b></p>	<p>Other is made up of a number of components, the main factor being:</p> <ul style="list-style-type: none"> <li>Exchange impact was higher in 2003 due to significant movement in the exchange rate over 2003 compared to 2002.</li> </ul>
<p><b>Total EBIT</b></p> <p style="text-align: right;"><b>339.8m</b></p>	<p>Replacement cost profit before interest, tax and significant items.</p>

<p><b>4 Borrowing costs</b></p> <p><b>↓ 18.8 %</b></p>	<p>Net debt has reduced to \$624.4 million at 31 December 2003, compared to \$954.2 million at 31 December 2002. This has contributed to a decrease in borrowing costs.</p>
<p><b>5 Inventory gains</b></p> <p><b>↓ 92.5%</b></p>	<p>Though regional crude oil prices fell in the first half, they rose during the second half (averaging US\$29.47 a barrel in December 2002 and US\$30.56 a barrel in December 2003). This pattern resulted in a net inventory gain of \$13.0 million before tax (\$9.1 million after tax) compared with an inventory gain of \$172.9 million before tax (\$121.1 million after tax) in 2002.</p>
<p><b>6 Significant items</b></p> <p><b>↓ 5.8%</b></p>	<p>The Directors' valuation at 30 June 2003 determined Caltex's land and buildings' value was \$411 million above its net book value. However, certain land, buildings and related plant and equipment had recoverable amounts less than their net book value, and in accordance with accounting standards, a write down of \$12.5 million before tax (\$11.3 million after tax) was incurred. This has been included in the 2003 full year profit as a significant item. In 2002, Caltex recognised as a significant item, a payment of \$12 million (before and after tax), to be made to Hanson Australia relating to the purchase of its 50% interest in Caltex Australia Petroleum Pty Limited in 1997.</p>
<p><b>7 Dividend</b></p> <p><b>↑ Final dividend 8 cps, and special dividend of 6 cps</b></p>	<p>The Board declared a final dividend of \$21.6 million or 8 cents per share. In addition, the progress made in improving the financial strength of the company together with the strong replacement cost result for 2003 led the Board to declare a special dividend of \$16.2 million or 6 cents per share, bringing the total dividends for 2003 to 18 cents per share. The dividends have a franking credit of 100%. The record date is 12 March 2004, with the dividend payable on 2 April 2004.</p>

## Balance Sheet

as at 31 December 2003

Millions of dollars	2003	2002	change
1 Working capital	343.1	488.5	(145.4)
2 Property, plant and equipment	1,615.3	1,625.3	(10.0)
3 Net debt	(624.4)	(954.2)	329.8
Other non current assets and liabilities	(110.3)	(123.3)	13.0
Total equity	1,223.7	1,036.3	187.4

## Discussion and Analysis

<p><b>1 Working capital</b></p> <p><b>↓ \$145.4m</b></p>	<p>The reduction in working capital is due to:</p> <ul style="list-style-type: none"> <li>• Reduction in receivables consistent with the impact of the strengthening Australian dollar against the US dollar, partially offset by an increase in crude prices.</li> <li>• Lower inventories again reflecting strengthening of the Australian dollar, partially offset by higher inventory holdings compared to December 2002 and the rise in crude prices in inventory.</li> <li>• Increase in payables reflecting the increase in crude purchases together with an additional day accrual for excise taxes. These increases were partially offset by the strengthening of the Australian dollar against the US dollar.</li> </ul>
<p><b>2 Property, plant and equipment</b></p> <p><b>↓ \$10.0m</b></p>	<p>The decrease in property, plant and equipment is due to:</p> <ul style="list-style-type: none"> <li>• Depreciation of \$128.3 million</li> <li>• Disposals of \$38.8 million</li> <li>• Write down to recoverable amount of \$12.5 million (see significant item note 4)</li> </ul> <p>Partially offset by:</p> <ul style="list-style-type: none"> <li>• Capital expenditure and major cyclical maintenance of \$147.6 million, including \$30.3 million for clean fuels.</li> </ul>
<p><b>3 Net debt</b></p> <p><b>↓ \$329.8m</b></p>	<p>Net debt has reduced to \$624.4 million at 31 December 2003, a decrease of \$329.8 million from 31 December 2002. As a result, Caltex's gearing (net debt, to net debt plus equity) was 33.8%, down from 47.9% at the end of the prior year.</p>

## Summary of Cash Flows

for the year ended 31 December 2003

Millions of dollars		2003	2002	change
	Receipts from customers	11,500.7	10,043.5	1,457.2
	Payments to suppliers and employees	(6,831.2)	(5,744.2)	(1,087.0)
	Payments for excise and GST	(4,046.0)	(3,829.6)	(216.4)
1	Borrowing costs paid	(61.5)	(64.5)	3.0
2	Other operating activities	(75.3)	(10.4)	(64.9)
	<b>Net operating cash inflows</b>	<b>486.7</b>	<b>394.8</b>	<b>91.9</b>
	Purchases of property, plant and equipment and major cyclical maintenance	(147.6)	(99.9)	(47.7)
	Other investing cash flows	1.7	18.2	(16.5)
	<b>Net investing cash outflows</b>	<b>(145.9)</b>	<b>(81.7)</b>	<b>(64.2)</b>
3	<b>Net financing cash outflows</b>	<b>(322.5)</b>	<b>(286.9)</b>	<b>(35.6)</b>
	<b>Net (decrease)/increase in cash held</b>	<b>18.3</b>	<b>26.2</b>	<b>(7.9)</b>

## Discussion and Analysis

<p><b>1 Borrowing costs paid</b></p> <p><b>↓ \$3.0m</b></p>	<p>Net debt fell \$329.8 million during 2003, compared to a fall of \$310.5 million for the corresponding period in 2002. This reduction in net debt combined with the timing of coupon payments resulted in an overall borrowing cost saving of \$3.0 million.</p>
<p><b>2 Other operating activities</b></p> <p><b>↑ \$64.9m</b></p>	<p>Income tax payments increased substantially in 2003. This increase is due to current year tax instalments being based on prior year historical cost profit and the final prior year tax payment falling due in the current year.</p>
<p><b>3 Net financing cash outflows</b></p> <p>Repaid</p> <p><b>\$322.5m</b></p>	<p>This repayment is consistent with the reduction in gross debt from a net debt of \$954.2 million at 31 December 2002 to \$624.4 million at 31 December 2003.</p>

**2003 FULL YEAR**  
**PRELIMINARY FINANCIAL REPORT**  
  
**FOR**  
  
**CALTEX AUSTRALIA LIMITED**  
**ACN 004 201 307**

The 2003 Preliminary Financial Report for Caltex Australia Limited includes the:

- Directors' Review
- Directors' Statement
- Audit Report on the Full Financial Report (attached for information purposes)
- Extracts of the Full Year Financial Statements and accompanying notes

for the year ended 31 December 2003

The financial statements are based on the audited accounts of Caltex Australia Limited.

***Caltex Australia Group***

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

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

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

# Directors' Review

## Introduction

The Board of Caltex Australia Limited presents this Directors' Review and the 2003 Preliminary Financial Report for the Caltex Australia Group for the year ended 31 December 2003 as part of Caltex's full year preliminary results announcement.

## Board of Directors

The Board of Caltex Australia Limited comprises Dick Warburton (Chairman), Dave Reeves (Managing Director & Chief Executive Officer), Elizabeth Bryan, Leo Lonergan, Martin B Southern and Ken Watson.

## Directors' Profiles

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

Date of birth: 14 December 1940 (Age: 63 years)

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

Dick is one of Australia's most prominent company directors. Prior to becoming a professional director, Dick was the Chairman and Chief Executive Officer of DuPont Australia and New Zealand.

#### **External directorships**

- The Board of Taxation (Chairman)
- Note Printing Australia Limited
- Nufarm Limited
- Tabcorp Holdings Limited

#### **Previous directorships**

- David Jones Limited (1995 – 2003) (former Chairman)
- Southcorp Limited (1993 – 2003)
- Reserve Bank Board (1992 – 2002)
- AurionGold Limited (1995 – 2002) (former Chairman)

### **Dave Reeves** **Managing Director & Chief Executive Officer**

Bachelor of Civil Engineering (University of Washington, USA)

Date of birth: 26 May 1955 (Age: 48 years)

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

Before joining Caltex Australia, Dave was the President of North America Products at ChevronTexaco with responsibility for refining and product marketing activities, pipeline transportation operations and energy management solutions within North America, and ChevronTexaco's global aviation fuels marketing. He has previously held a number of senior marketing and retail roles with companies in the ChevronTexaco Group.

Dave has a degree in civil engineering from the University of Washington and joined Chevron in 1978 as an associate engineer in the marketing department in San Francisco.

#### **External directorship**

- Australian Institute of Petroleum Limited

## **Elizabeth Bryan**

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

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

Date of birth: 19 October 1946 (Age: 57 years)

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

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

### **External directorships**

- The Institute for Health Research (Chair)
- Ridley Corporation Limited
- UniSuper Limited
- Australasian Medical Insurance Limited
- St Hilliers Holdings Pty Ltd

### **Previous directorship**

- Western Metals Limited (2000 – 2002)

## **Ken Watson**

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

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

Date of birth: 6 July 1943 (Age: 60 years)

Ken has been a director of Caltex Australia Limited since 9 February 1996 and is currently the longest serving member of the Board. Ken is the Chairman of the Audit Committee.

Ken is a partner of the law firm Minter Ellison and works in the firm's Sydney office. He is admitted to practise as a solicitor in New South Wales, Victoria and Queensland.

Ken is a member of the Australian Mining & Petroleum Law Association and the Australian & New Zealand Institute of Insurance & Finance.

## **Leo Lonergan**

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

Bachelor of Science (Victoria University, New Zealand)

Date of birth: 18 July 1953 (Age: 50 years)

Leo has served as a director of Caltex Australia Limited since 1 July 2001 and is a member of the Audit Committee and the Human Resources & Nomination Committee. Leo previously served on the Board from 30 April 1998 to 29 July 1999 (after serving as an alternate director from 29 January 1998 to 30 April 1998).

Leo is Vice President - Joint Ventures & New Business Development for ChevronTexaco. He is currently based in Singapore and has responsibility for the Corporation's downstream joint ventures and their business development activities.

Leo has held a number of senior management positions with companies in the ChevronTexaco Group and has worked for the Group in New Zealand, Australia, United States, Middle East and Asia.

## **Martin B. Southern**

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

Incorporated Engineer

Date of birth: 23 June 1959 (Age: 44 years)

Martin was appointed as a director on 25 February 2004 to fill a casual vacancy on the Board.

Martin is Vice President – Asia Pacific Region for ChevronTexaco Global Lubricants, which is a business unit in the ChevronTexaco Group. In this role, Martin is responsible for lubricant sales, marketing, manufacturing and distribution in the Asia Pacific Region.

Martin has held a number of senior management positions with companies in the ChevronTexaco Group since starting as a marine engineer cadet in 1976 and he has worked in Singapore, the United States and the United Kingdom.

### **External directorship**

- Caltex Lubricants Lanka Ltd (Chairman)

## Directors' Review cont'd

### **Mitchell Rubinstein**

#### **Alternate Director**

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

Date of birth: 21 April 1960 (Age: 43 years)

Mitch was appointed as an alternative director for Leo Lonergan and Martin B Southern on 25 February 2004. Mitch is the General Manager – Crude Supply & Trading, Asia Pacific with ChevronTexaco Global Trading, a division of Chevron U.S.A. Inc (a company in the ChevronTexaco Group).

### **Previous Directors**

#### **Jeet Bindra**

#### **(Managing Director & Chief Executive Officer)**

Bachelor of Chemical Engineering (Indian Institute of Technology, Kanpur, India), Master of Chemical Engineering (University of Washington, USA) and Master of Business Administration (St Mary's College, California, USA)

Jeet resigned as a director of Caltex Australia Limited, and as Managing Director & Chief Executive Officer, with effect from 10 August 2003 after his appointment as President, Global Refining at ChevronTexaco in San Ramon.

Jeet had served as a director, and as Managing Director & Chief Executive Officer, of Caltex Australia from 2 May 2002. Prior to joining Caltex, Jeet was President of ChevronTexaco's pipeline company in Houston.

#### **Michael Wirth**

#### **(Non-executive)**

Bachelor of Science (Chemical Engineering) (University of Colorado, USA)

Michael Wirth resigned as a director of Caltex Australia Limited on 5 December 2003 after his appointment as President, Global Supply & Trading at ChevronTexaco in San Ramon.

Michael had served as a director from 1 July 2001 and was a member of the Human Resources & Nomination Committee until 28 August 2003.

#### **Johannes (Steve) de Bruyn**

#### **(Alternate Director)**

Steve was appointed as an alternate director for Leo Lonergan and Michael Wirth from 21 February 2002.

Steve's appointment as an alternate director for Michael Wirth automatically ceased on 5 December 2003 as a result of Michael Wirth's resignation as a director.

Steve resigned as an alternative director for Leo Lonergan with effect from 25 February 2004.

# Directors' Review cont'd

## General Overview

Caltex Australia continued to increase its profits on a replacement cost basis (RCOP) in 2003, due to stronger refiner margins from improving regional and domestic market dynamics, and continued robust marketing margins.

Replacement cost of sales profit (RCOP) after tax and excluding significant items was \$199.7 million, a 88% increase compared to last year's profit of \$106.1 million.

The consolidated historical cost net profit after tax was \$197.5 million (2002: net profit after tax \$215.2 million). This included \$13.0 million (before tax) of inventory gains, compared to \$172.9 million (before tax) of inventory gains during 2002. Though regional crude oil prices fell in the first half of the year, they increased in the second half to end at a similar level as at the beginning of the year (averaging US\$30.59 a barrel in December 2003 to US\$29.47 a barrel in December 2002). This pattern led to a minor inventory gain in 2003.

A Directors' valuation at 30 June 2003, which is primarily based on an independent valuation done every three years, determined Caltex's land and buildings' value was \$411 million above its net book value. However, certain land, buildings and related plant and equipment had recoverable amounts less than their net book value, and in accordance with accounting standards, a write down of \$12.5 million before tax (\$11.3 million after tax) was incurred. This has been included in the 2003 full year profit as a significant item. In 2002 Caltex recognised as a significant item, a payment of \$12 million (before and after tax) to be made to Hanson Australia relating to the purchase of its 50% interest in Caltex Australia Petroleum Pty Limited in 1997.

Rising demand in Asia and Australia, as well as reduced Chinese exports have led to higher Singapore refiner margins<sup>1</sup> averaging US\$3.88 a barrel in 2003 (2002: US\$2.27 a barrel). An internal measure, the Caltex Refiner Margin (CRM), is a more accurate measure of the refining margins achieved by the company and includes premiums paid on crude oil, crude freight, product yields achieved by the Caltex refineries and product freight. Caltex's CRM strengthened from an average US\$1.82 a barrel in 2002 to average US\$3.68 a barrel in 2003, offset by the appreciating Australian dollar.

Strong results helped Caltex successfully reduce its net debt to \$624 million, 33.8% gearing (net debt to net debt plus equity) at 31 December 2003, from \$954 million, 47.9% gearing at December 2002. Caltex spent \$116.7 million on capital expenditure during 2003, compared with \$78.0 million during 2002. This includes \$30.3 million of capital expenditure relating to the clean fuels project.

The Board declared a final dividend of \$21.6 million or 8 cents per share. In addition, in recognition of the debt reduction and significant improvement in the financial strength of the company, the Board has declared a special dividend of 16.2 million or 6 cents per share, bringing the total dividends for 2003 to 18 cents per share. The dividends have an attached franking credit of 100%.

## Refining and Supply

The refineries produce petrol, diesel, jet fuel, a range of lubricants and various specialty products including petrochemical feedstocks, LPG, wax and bitumen. Many of these products are distributed via ship, road or pipeline to the group's finished product terminals, then on to retail, commercial and wholesale customers.

Caltex has made significant progress on its Clean Fuels Project to meet new national clean fuels standards requiring a reduction of sulfur in diesel to less than 50 parts per million (ppm) and 1% benzene in petrol from January 2006. Existing hydro-treating facilities at both refineries will be revamped to reduce diesel sulphur content.

Safe and reliable operations are Refining's key priorities. There were strong improvements in safety performance at both refineries. However, overall operational reliability was less than last year, with an operating availability of 94.4% compared to 95.6% in 2002, primarily due to one planned and one unplanned outage at a major unit at Kurnell. Lytton's operational availability was better than last year's. Costs increased due to reliability improvement programs and unplanned outages, particularly at Kurnell.

Caltex continued to work towards its goal of incident free operations with the rollout of the Loss Prevention System (LPS).

<sup>1</sup> The Singapore refiner margin is the difference between the price of the regional benchmark Tapis crude oil feedstock and the quoted Singapore ex-refinery price of petroleum products.

## **Directors' Review cont'd**

### **Marketing**

The Marketing department promotes and sells Caltex fuels, lubricants, speciality and convenience store products through a national network of approximately 1,625 Caltex and Ampol branded service stations and 67 distributors, combined with a significant level of direct sales to commercial end users.

Transport fuel sales rose to record levels in 2003, up 3.3% on the previous year and market leadership was successfully retained and improved despite operating in a highly competitive and shifting market environment. Vigorous growth continued in the sale of Caltex premium unleaded fuel, up by 48% on 2002. Lubricants, base oils and other specialities continued on the path of strong growth with sales volumes of base oils increasing by 40% and Delo 400 heavy-duty diesel engine oil by 43%.

Non fuel income also experienced strong growth, due mainly to strong performance in Caltex's convenience store network. Store sales continued to improve with average Star Mart sales increasing by 5.4% on the previous year and smaller Star Shop store sales increasing by 6.4%.

The Caltex brand profited from an extensive positioning review, combined with exceptional success in Motorsport sponsorship. Caltex made a significant move to increase retail fuel sales and its presence in a tough and evolving market with a proposed retail venture with Woolworths. There were thirty co-branded sites in operation by the end of 2003.

### **Outlook**

Domestic and regional market dynamics have been changing in favour of Caltex and other Australian refiners and marketers. Rising demand is catching up with refining capacity and is having a positive effect on refiner margins.

The outlook for crude oil prices remains high relative to the average for the past five years of US\$25.52 a barrel. Refiner margins since the latter part of 2003 and the start of 2004 have been strong. The average year-to-date Singapore refiner margin is around US\$7.50 a barrel. This higher margin is expected to ease. However, it is expected the average margin will continue to be higher than it has been over the past 5 years. Caltex anticipates there is likely to be a higher level of volatility in Singapore refiner margins in 2004 than in recent years because of the tightening of petroleum product supply and demand conditions in Asia.

To ensure Caltex captures value from the changing marketplace there will be a focused drive across the company to achieve operational excellence in safety, environment, efficiency and reliability.

The focus will remain on cash flow and achieving a strong long term capital structure. The priorities will be to continue to reduce unit operating expenses, improve supply reliability, implement new marketing strategies and complete the Clean Fuels Project on time and on budget.

### **Significant Events after Balance Date**

On 25 February 2004, the Board approved the commitment of capital funding for Caltex to invest in its Kurnell and Lytton refineries to meet new clean fuel standards that will take effect from 1 January 2006. Caltex will invest about \$250 million over the next two years. The estimated total project cost (2002-2005) is \$295 million +/-10%, which includes \$43 million expenditure incurred to date.

No other items, transactions or events of a material or unusual nature that, in the opinion of the Board, are likely to significantly affect the operations of Caltex, the results of those operations or the state of affairs of the group in subsequent financial years, have arisen in the period from 31 December 2003 to the date of this report.

### **Likely Developments**

#### ***Business Operations***

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

**Venture with Woolworths**

On 21 August 2003, Caltex announced that it proposed to enter into a venture with Woolworths to operate up to 450 co-branded Caltex and Woolworths sites around Australia. On 21 November 2003, Caltex and Woolworths commenced rolling out an interim retail venture for a limited number of sites in a simpler arrangement than that announced in August 2003. Negotiations of the terms of the proposed final arrangements between Caltex and Woolworths are continuing and any final arrangements are subject to regulatory review, third party consents and execution of transaction documentation.

**Rounding of Amounts**

Amounts in the 2003 Preliminary Financial Report have been rounded off to the nearest thousand dollars (unless otherwise stated).

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

.....  
RFE (Dick) Warburton  
Chairman

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

Sydney, 27 February 2004

# Directors' Statement

The Board of Caltex Australia Limited states that, in the opinion of the directors, the 2003 Preliminary Final Report:

- complies with Caltex Australia Limited's disclosure obligations for the year ended 31 December 2003 under ASX Listing Rule 4.3A; and
- has been derived from disclosures to be made in the 2003 Full Financial Report for the Caltex Australia Group for the year ended 31 December 2003.

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

RFE (Dick) Warburton  
Chairman

DC (Dave) Reeves  
Managing Director &  
Chief Executive Officer

Sydney, 27 February 2004

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**The independent audit report in relation to the 2003 Full Financial Report is attached below – this independent report does not cover this 2003 Preliminary Financial Report. The 2003 Full Financial Report will be lodged with the Australian Stock Exchange on 26 March 2004.**

## Audit Report

Independent audit report to the members of Caltex Australia Limited

### Scope

We have audited the financial report of Caltex Australia Limited ("the Company") for the financial year ended 31 December 2003, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes 1 to 31, and the directors' declaration, as set out in the 2003 Full Financial Report. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and

other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

### Audit opinion

In our opinion, the financial report of Caltex Australia Limited is in accordance with:

- a) the Corporations Act 2001, including:
  - i. giving a true and fair view of the Company's and the consolidated entity's financial position as at 31 December 2003 and of their performance for the financial year ended on that date; and
  - ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

KPMG

SA Gatt  
Partner

Sydney, 27 February 2004

# Statement of Financial Performance

## for the year ended 31 December 2003

Thousands of dollars	Note	Consolidated	
		2003	2002
Gross sales revenue		<b>10,385,878</b>	9,133,366
Product duties and taxes		<b>(3,617,743)</b>	(3,447,378)
Net sales revenue		<b>6,768,135</b>	5,685,988
Cost of goods sold - replacement cost		<b>(6,169,278)</b>	(5,216,668)
Inventory gains		<b>13,048</b>	172,948
Cost of goods sold - historical cost		<b>(6,156,230)</b>	(5,043,720)
Gross profit		<b>611,905</b>	642,268
Other revenue from ordinary activities	3	<b>247,381</b>	215,260
Refining and supply expenses		<b>(23,326)</b>	(14,356)
Marketing expenses		<b>(453,539)</b>	(415,176)
Borrowing costs	4	<b>(62,804)</b>	(76,067)
Other expenses	4	<b>(43,800)</b>	(52,965)
Share of net profit or loss of associated entities accounted for using the equity method		<b>3,986</b>	2,181
<b>Profit from ordinary activities before income tax expense</b>		<b>279,803</b>	301,145
Income tax expense relating to ordinary activities		<b>(81,464)</b>	(85,429)
<b>Net profit</b>		<b>198,339</b>	215,716
Net profit attributable to outside equity interests		<b>(842)</b>	(546)
<b>Net profit attributable to members of the parent entity</b>		<b>197,497</b>	215,170
Basic and diluted earnings per share			
Historical cost including significant items - cents per share	5	<b>73.1</b>	79.7
Replacement cost excluding significant items - cents per share	5	<b>74.0</b>	39.3

The statement of financial performance is to be read in conjunction with the discussion and analysis on the following page and the notes to the financial statements.

## Discussion and Analysis of the Statement of Financial Performance

- The 2003 result was primarily driven by strong refiner margins, robust marketing margins, higher sales, and a concentrated effort across the business to reduce debt and enhance profits.
- Caltex's replacement cost net profit (RCOP), excluding significant items, for the year was \$199.7 million up \$93.6 million from the \$106.1 million replacement cost net profit for 2002.
- Caltex's historical cost net profit, including significant items, attributable to members of Caltex Australia Limited for the year was \$197.5 million, down \$17.7 million from the \$215.2 million recorded in 2002.
- The Directors' valuation at 30 June 2003 determined Caltex's land and buildings' value was \$411 million above its net book value. However, certain land, buildings and related plant and equipment had recoverable amounts less than their net book value, and in accordance with accounting standards, a write down of \$12.5 million before tax (\$11.3 million after tax) was incurred. This has been included in the 2003 full year profit as a significant item. In 2002 Caltex recognised as a significant item, a payment of \$12 million (before and after tax) to be made to Hanson Australia relating to the purchase of its 50% interest in Caltex Australia Petroleum Pty Limited in 1997.
- Gross sales revenue increased due to stronger refiner margins and continued robust marketing margins together with increased volumes. These factors led to an increase in the cost of goods sold together with higher volumes and the cost of imports and crude prices.
- In 2003 there was an inventory gain of \$13.0 million before tax (\$9.1 million after tax) compared to \$172.9 million before tax (\$121.1 million after tax) in 2002. Though regional crude oil prices fell in the first half of the year, they increased in the second half to end at about the same level as at the beginning of the year (averaging US\$30.59 a barrel in December 2003 to US\$29.47 a barrel in December 2002).
- Borrowing costs have fallen mainly due to net debt being reduced to \$624.4 million at 31 December 2003 compared with \$954.2 million at 31 December 2002.
- Earnings per share on a historical cost basis including significant items decreased to 73.1 cents per share from 79.7 cents per share in 2002. Earnings per share on a RCOP basis excluding significant items increased significantly to 74.0 cents per share in 2003 from 39.3 cents per share in 2002.
- The return on equity on a historical cost basis (historical cost net profit or loss attributable to members of the parent entity, after tax including significant items, on parent entity interest in equity) fell to 16.3% in 2003 from 20.9% at December 2002.
- The return on equity on a RCOP basis, excluding significant items, increased to 16.4% from 10.3% in 2002.

# Statement of Financial Position

## as at 31 December 2003

Thousands of dollars	Note	Consolidated	
		2003	2002
<b>Current assets</b>			
Cash at bank and on hand		36,318	17,969
Receivables		540,990	585,462
Inventories		502,732	525,546
Other		20,761	28,816
<b>Total current assets</b>		<b>1,100,801</b>	<b>1,157,793</b>
<b>Non current assets</b>			
Receivables		25,638	31,875
Investments accounted for using the equity method		9,829	8,093
Property, plant and equipment		1,615,321	1,625,327
Intangibles		12,592	14,049
Other		9,465	15
<b>Total non current assets</b>		<b>1,672,845</b>	<b>1,679,359</b>
<b>Total assets</b>		<b>2,773,646</b>	<b>2,837,152</b>
<b>Current liabilities</b>			
Payables		602,684	546,233
Interest bearing liabilities	7	96,652	257,553
Tax liability		72,865	59,292
Provisions		45,791	45,849
<b>Total current liabilities</b>		<b>817,992</b>	<b>908,927</b>
<b>Non current liabilities</b>			
Payables		1,300	3,463
Interest bearing liabilities	7	564,094	714,649
Deferred tax liabilities		128,623	139,354
Provisions		37,978	34,433
<b>Total non current liabilities</b>		<b>731,995</b>	<b>891,899</b>
<b>Total liabilities</b>		<b>1,549,987</b>	<b>1,800,826</b>
<b>Net assets</b>		<b>1,223,659</b>	<b>1,036,326</b>
<b>Equity</b>			
Contributed equity	8	543,415	543,415
Retained profits	9	671,884	485,187
<b>Parent entity interest</b>		<b>1,215,299</b>	<b>1,028,602</b>
Outside equity interest		8,360	7,724
<b>Total equity</b>	10	<b>1,223,659</b>	<b>1,036,326</b>

The statement of financial position is to be read in conjunction with the discussion and analysis on the following page and the notes to the financial statements.

## Discussion and Analysis of the Statement of Financial Position

- Caltex's net assets increased by \$187.3 million during the year to \$1,223.7 million.
- Caltex's total assets decreased by \$63.5 million, during the year to \$2,773.6 million primarily due to movements in the following specific asset groups:
  - a decrease in receivables consistent with the favourable movement in the exchange rate partially offset by an increase in the average tapis price;
  - a decrease in inventory due to the favourable movement in the exchange rate partially offset by higher inventory holdings; and

the decrease in receivables and inventory was partially offset by

- an increase in cash at bank and on hand of \$18.3 million

The decrease in property, plant and equipment is due to an increase in capital and major cyclical expenditure of \$147.6 million offset by depreciation of \$128.3 million, disposals of \$38.8 million and a write down to recoverable amount of \$12.5 million.

- The increase in payables of \$54.3 million reflects the increase in crude purchases together with an additional day accrual for excise. These increases were partially offset by the strengthening of the Australian dollar against the US dollar.
- Caltex had a current tax liability of \$72.9 million at 31 December 2003 consistent with the timing of instalments. This liability will be paid during 2004 subject to lodgement of the Group's tax return for 2003.
- Net debt has been reduced to \$624.4 million at 31 December 2003, a decrease of \$329.8 million from 31 December 2002. As a result, the Caltex's gearing (net debt, to net debt plus equity) was 33.8%, down from 47.9% at the end of the prior year.
- Net tangible asset backing per share (net assets attributable to members of the company less intangible assets, on number of shares on issue) increased from \$3.76 to \$4.46.

# Statement of Cash Flows

## for the year ended 31 December 2003

Thousands of dollars	Consolidated	
	2003	2002
<b>Cash flows from operating activities</b>		
Receipts from customers	11,500,656	10,043,485
Payments to suppliers, employees and governments	(10,877,186)	(9,573,773)
Dividends received	2,250	1,541
Interest received	1,996	506
Interest and other borrowing costs paid	(61,490)	(64,494)
Income taxes paid	(79,553)	(12,434)
<b>Net operating cash inflows</b>	17	394,831
<b>Cash flows from investing activities</b>		
Purchases of controlled entities, net of cash acquired	-	2,027
Deferred payment for purchase of controlled entities	(3,833)	-
Proceeds from sale of controlled entity	(2,325)	-
Hanson Australia consideration	(12,000)	-
Purchases of businesses	-	(10,338)
Purchases of property, plant and equipment	(117,966)	(78,919)
Maintenance and shutdown expenditure capitalised	(29,675)	(20,992)
Proceeds from sale of property, plant and equipment	17,108	26,477
Loans repaid from associated companies	2,750	-
<b>Net investing cash outflows</b>	(145,941)	(81,745)
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	5,626,916	5,377,352
Repayments of borrowings	(5,937,690)	(5,661,423)
Repayment of finance lease principal	(810)	(2,822)
Dividends paid	(10,800)	-
<b>Net financing cash outflows</b>	(322,384)	(286,893)
Net increase in cash held	18,349	26,193
Cash/(overdraft) at the beginning of the financial year	17,969	(8,224)
<b>Cash at the end of the period</b>	<b>36,318</b>	<b>17,969</b>

The statement of financial position is to be read in conjunction with the discussion and analysis on the following page and the notes to the financial statements.

## **Discussion and Analysis of the Statement of Cash Flows**

- Net operating cash flows increased \$91.8 million to \$486.7 million, for the year ended 31 December 2003, largely due to lower working capital levels. Interest and other borrowing costs paid decreased due to a reduction in debt. Income taxes paid increased with the final 2002 instalment paid in 2003.
- Capital expenditure increased \$39.0 million to \$118.0 million for the year ended 31 December 2003 mainly due to clean fuels expenditure of \$30.3 million. In addition, divestment proceeds from the sale of property, plant and equipment were marginally lower than 2002.
- Major cyclical maintenance increased \$8.7 million due to investment in reliability improvement programs and unplanned outages. With a solid platform for reliable operations now established, reducing costs to a long term sustainable level is a priority for 2004 and beyond.
- Investing cash flows during 2003 also included a \$12.0 million payment to Hanson Australia (formerly Pioneer International) relating to its purchase of its 50% interest in Caltex Australia Petroleum Pty Ltd in 1997 which had been accrued in 2002.
- Net debt fell during 2003 as strong operating cash flows were channelled towards the repayment of debt.
- The interim fully franked dividend of \$10.8 million, or 4c a share was paid on 3 October 2003.

# Notes to the Financial Statements

## for the year ended 31 December 2003

### 1. Statement of significant accounting policies

#### (a) Basis of preparation of the preliminary financial report

The Preliminary Final Report has been prepared in accordance with ASX listing rule 4.3A and has been derived from the Full Financial Report. The Full Financial Report has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001 (Cth).

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair value of assets.

These accounting policies have been consistently applied by each entity in the Caltex Australia Group and, except where there is a change in accounting policy, are consistent with those of the previous year and those of the full financial report.

#### (b) Accounting policy for superannuation

Caltex contributes to several defined benefit and defined contribution superannuation plans. Contributions are charged against net profit or loss as they are made. In addition Caltex provides for any deficiency of vested benefits compared to plan assets. No provision is made for any deficiency in excess of the vested benefits deficiency on the basis that no legal or constructive obligation exists.

### 2. Changes in accounting policies

#### Provisions, contingent liabilities and contingent assets

Caltex has applied AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" (issued in October 2001) for the first time from 1 January 2003.

Dividends are now recognised at the time they are declared, determined or publicly recommended. Previously, final dividends were recognised in the financial year to which they related, even though the dividends were announced after the end of the financial period.

There has been no adjustment to Caltex's financial report as at 1 January 2003. However, there was an impact on the financial report for the year ending 31 December 2003, as the dividend declared after reporting date was not provided for in the period to which it related.

Contingent assets are now to be disclosed when the probability of receipt is not remote. Contingent assets have been disclosed, with comparative figures, in the 2003 Preliminary Financial Report.

#### Employee Benefits

Caltex has applied the revised AASB 1028 "Employee Benefits" (issued in June 2001) for the first time from 1 January 2003.

The liability for wages and salaries, annual leave and sick leave is now calculated using the remuneration rates Caltex expects to pay as at each reporting date, not wage and salary rates current at reporting date.

There has been no adjustment to Caltex's financial report as at 1 January 2003 or in the year ended 31 December 2003.

# Notes to the Financial Statements

for the year ended 31 December 2003 cont'd

Thousands of dollars	Consolidated	
	2003	2002
<b>3. Other revenue</b>		
<b>From operating activities</b>		
Interest received or due and receivable from:		
Other corporations	1,361	506
Rental income	34,871	35,777
Royalties and franchise income	81,012	73,609
Net foreign exchange gains	67,419	19,579
Other income	38,034	52,453
<b>From outside operating activities</b>		
Gross proceeds from the sale of property, plant and equipment	24,684	33,336
	<b>247,381</b>	<b>215,260</b>
<b>4. Costs and expenses</b>		
Borrowing costs:		
Interest paid or due and payable to other corporations	61,647	74,108
Finance charges on capitalised leases	1,962	1,959
Less:		
Capitalised borrowing costs (i)	(805)	-
	<b>62,804</b>	<b>76,067</b>
Depreciation of:		
Freehold buildings	9,071	8,444
Plant and equipment	113,701	114,023
	<b>122,772</b>	<b>122,467</b>
Amortisation of:		
Leasehold property	4,837	4,964
Leased plant and equipment	713	786
Intangibles	1,459	829
	<b>7,009</b>	<b>6,579</b>
Total depreciation and amortisation	<b>129,781</b>	<b>129,046</b>
Write down in value of land and buildings and related plant and equipment to recoverable amount (ii)	12,482	-
Operating leases rental expense	78,012	76,794
Finance lease contingent rentals	128	229
Net expense from movement in provision for:		
Bad and doubtful debts	(1,460)	(727)
Employee entitlements	20,545	18,877
Loss/(Gain) on disposal of non current assets	(220)	(7,561)

# Notes to the Financial Statements

## for the year ended 31 December 2003 cont'd

### 4. Costs and expenses cont'd

Thousands of dollars

	Consolidated	
	2003	2002
Reconciliation of other expenses in the statement of financial performance:		
Hanson Australia consideration (ii)	-	12,000
Other	<b>43,800</b>	40,965
	<b>43,800</b>	52,965

- (i) Borrowing costs were capitalised to capital projects in progress at a weighted average rate of 7.35%. (2002: no amounts were capitalised).
- (ii) The Directors' valuation at 30 June 2003 determined Caltex's land and buildings' value was \$411 million above its net book value. However, certain land, buildings and related plant and equipment had recoverable amounts less than their net book value, and in accordance with accounting standards, a write down of \$12.5 million before tax (\$11.3 million after tax) was incurred. This has been included in the 2003 full year profit as a significant item. In 2002 Caltex recognised as a significant item, a payment of \$12.0 million (before and after tax) to be made to Hanson Australia relating to the purchase of its 50% interest in Caltex Australia Petroleum Pty Limited in 1997.

### 5. Basic Earnings per share

Historical cost including significant items - cents per share	<b>73.1</b>	79.7
Replacement cost excluding significant items - cents per share	<b>74.0</b>	39.3

Weighted average number of shares used in the calculation of earnings per share was 270 million shares. (2002: 270 million)

There are no dilutive potential ordinary shares, and therefore diluted earnings per share has not been calculated or disclosed.

### 6. Dividends

#### Dividends declared or paid

Dividends provided for or paid by the company are:

#### Interim dividend declared

4 cents per share fully franked at 30% (2002: no interim dividend declared)

	<b>10,800</b>	-
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#### Subsequent events - final dividend

Since the end of the financial year, the directors declared a final dividend of 8 cents per share and an additional 6 cents per share as a special dividend. Both dividends were fully franked at 30% (2002: no final dividend declared)

	<b>37,800</b>	-
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The financial effect of the final dividend has not been brought into account in the financial statements for the year ended 31 December 2003 and will be recognised in subsequent financial reports (refer Note 1 (b) "Changes in accounting policy").

# Notes to the Financial Statements

for the year ended 31 December 2003 cont'd

Thousands of dollars

	Consolidated	
	2003	2002
<b>7. Interest bearing liabilities</b>		
Current - unsecured		
Medium term notes (i)	-	200,000
Bank loans (i) and (ii)	<b>94,000</b>	55,000
Other loans	<b>2,264</b>	2,038
Lease liabilities (iv)	<b>388</b>	515
	<b>96,652</b>	257,553
Non current - unsecured		
US notes	<b>295,039</b>	354,422
Bank loans (i) and (ii)	<b>200,000</b>	350,000
Hedge payable (iii)	<b>59,383</b>	-
Lease liabilities (iv)	<b>9,672</b>	10,227
	<b>564,094</b>	714,649
(i) The bank loans and the US term 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 December 2004 to July 2012. Under the loan and note agreements, Caltex is required to comply with certain financial covenants.		
(ii) In the current year, \$200 million bank loans were classified as non current as they were supported by undrawn long term committed facilities.		
(iii) The hedge payable, with no interest bearing component, 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 represents the impact of the movement in the exchange rate from the inception (30 July 2002, USD exchange rate 0.5643) to 31 December 2003 (USD exchange rate 0.7488), on the amount hedged (AUD: \$241 million, USD \$136 million).		
(iv) The implicit rate of interest on finance leases is 14.0% (2002: 14.0%).		
<b>8. Contributed equity</b>		
Issued capital		
270 million (2002: 270 million) ordinary shares, fully paid	<b>543,415</b>	543,415
<b>9. Retained profits</b>		
Retained profits at the beginning of the year	<b>485,187</b>	270,017
Net profit attributable to members of Caltex Australia Limited	<b>197,497</b>	215,170
Dividends recognised during the year	<b>(10,800)</b>	-
Retained profits at the end of the year	<b>671,884</b>	485,187
<b>10. Total equity reconciliation</b>		
Total equity at the beginning of the year	<b>1,036,326</b>	821,210
Total changes in Caltex Australia Ltd's interest recognised in the statement of financial performance	<b>197,497</b>	215,170
Dividends recognised during the year	6 <b>(10,800)</b>	-
Total changes in outside equity interest	<b>636</b>	(54)
Total equity at the end of the period	<b>1,223,659</b>	1,036,326

# Notes to the Financial Statements

## for the year ended 31 December 2003 cont'd

<b>11. Investments accounted for using the equity method</b>	<b>% interest</b>	
Airport Fuel Services Pty Ltd	<b>40</b>	40
Australasian Lubricants Manufacturing Company Pty Ltd	<b>50</b>	50
Cairns Airport Refuelling Services Pty Ltd	<b>25</b>	25
Cooper & Dysart Pty Ltd	<b>50</b>	50
Geraldton Fuel Company Pty Ltd	<b>50</b>	50
JVC1 Pty Ltd (i)	<b>50</b>	-
JVC2 Pty Ltd (ii)	<b>50</b>	-
Link Energy Pty Ltd	<b>50</b>	50
Jenessa Holdings Pty Ltd	<b>50</b>	50
Northern Marketing Management Pty Ltd	<b>37.5</b>	37.5
Northern Marketing Partnership	<b>37.5</b>	37.5
R&JK Petroleum Pty Ltd	<b>50</b>	50
South Coast Fuels Pty Ltd	<b>50</b>	50
South East Queensland Fuels Pty Ltd	<b>50</b>	50
South East Queensland Fuels Unit Trust Pty Ltd	<b>50</b>	50
Vitalgas Pty Ltd	<b>50</b>	50

The entities are principally concerned with the sale, marketing and/or distribution of fuel products.

- (i) JVC1 Pty Ltd was registered as a company on 9 October 2003. Caltex Australia Petroleum Pty Ltd holds one \$1 ordinary share in JVC1 Pty Ltd.
- (ii) JVC2 Pty Ltd was registered as a company on 10 October 2003. Caltex Australia Petroleum Pty Ltd holds one \$1 ordinary share in JVC2 Pty Ltd.

### 12. Net tangible assets per share

Net tangible assets per share (dollars)	<b>4.46</b>	3.76
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Net tangible assets are net assets attributable to members of Caltex less intangible assets. The weighted average number of ordinary shares used in the calculation of net tangible assets per share was 270 million (2002: 270 million).

### 13. Superannuation Commitments

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

#### **Caltex Superannuation Plan - CSP Division**

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

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 (Mercer). 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.

# Notes to the Financial Statements

## for the year ended 31 December 2003 cont'd

### 13. Superannuation Commitments cont'd

Information from the most recent actuarial review for the defined benefits superannuation plan at 1 January 2003 follows:

Thousands of dollars

	Consolidated			Shortfall of plan assets over accrued benefits (i)	Shortfall of plan assets over vested benefits
	Net market value of plan assets	Accrued benefits (i)	Vested benefits		
Caltex Superannuation Plan - CSP Division	141,150	153,390	146,911	(12,240)	(5,761)

(i) Accrued benefits includes vested and non vested benefits

The Caltex Australia Group has received advice from Mercer that there is a likely shortfall of planned assets over vested benefits of \$4.6 million in the plan as at 31 December 2003. The Caltex Australia Group has taken up a provision of \$4.6 million to fund this vested benefit shortfall, of which \$2.5 million will be contributed in 2004.

	Consolidated	
	2003	2002
Employer contributions to the plan during the year	10,855	959
Employer contributions provided at year end	4,600	5,195

#### (b) Caltex 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	6,494	5,622
Employer contributions provided at year end	-	-

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

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

### 15. Contingent assets and liabilities

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

#### (a) Contingent assets - legal and other claims

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

# Notes to the Financial Statements

for the year ended 31 December 2003 cont'd

Thousands of dollars	Consolidated	
	2003	2002
<b>15. Contingent assets and liabilities cont'd</b>		
<b>(b) Contingent liabilities - legal and other claims</b>	<b>4,500</b>	<b>2,000</b>

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.

(c) All other contingent liabilities are consistent with the 2003 Full Financial Report.

## 16. Significant events after balance date

On 25 February 2004, the Board approved the commitment of capital funding for Caltex to invest in its Kurnell and Lytton refineries to meet new clean fuel standards that will take effect from 1 January 2006. Based on current estimates, Caltex will invest approximately \$250 million over the next two years. The estimated total project cost is \$295 million, and \$43 million has been incurred to date.

No other items, transactions or events of a material or unusual nature that, in the opinion of the Board, are likely to significantly affect the operations of Caltex, the results of those operations or the state of affairs of the group in subsequent financial years, have arisen in the period from 31 December 2003 to the date of this report.

## 17. Notes to the statement of cash flows

### (a) Reconciliation of cash

For the purposes of the statements of cash flows, cash includes:

Cash at bank and on hand, net of bank overdrafts offset	<b>36,318</b>	17,969
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### (b) Reconciliation of net profit after income tax to net operating cash flows

Net profit after income tax	<b>197,497</b>	215,716
Add/(less) items classified as investing/financing activities:		
(Profit)/loss on sale of non current assets and intangibles	<b>(220)</b>	(7,561)
Finance charges and contingent rentals on capitalised leases	<b>2,090</b>	2,188
Add/(less) non-cash items	-	-
Depreciation	<b>128,322</b>	125,902
Amortisation	<b>1,459</b>	1,292
Writedown in value of land and buildings and related plant and equipment to recoverable amount	<b>12,482</b>	-
Amounts set aside to provisions	<b>19,085</b>	18,150
Unrealised exchange (gain)/loss	<b>(1,872)</b>	(4,551)
Share of associated entities net (profit)/loss net of dividend received	<b>(1,736)</b>	(54)
(Decrease)/increase in deferred tax liability/asset	<b>(10,731)</b>	(8,793)
Net cash from operating activities before changes in assets and liabilities	<b>346,376</b>	342,289
Changes in assets and liabilities net of the effects of the purchase of controlled entities:		
(Increase)/decrease in trade and other debtors	<b>46,748</b>	(64,060)
(Increase)/decrease in inventories	<b>22,814</b>	(25,653)
(Increase)/decrease in prepayments	<b>930</b>	(3,893)
Increase/(decrease) in trade and other creditors	<b>71,831</b>	64,284
Increase/(decrease) in income tax payable	<b>13,573</b>	64,643
Increase/(decrease) in provisions	<b>(15,598)</b>	17,221
Net operating cash flows	<b>486,674</b>	394,831

# Notes to the Financial Statements

for the year ended 31 December 2003 cont'd

## 18. Segment Reporting

The Caltex Australia Group operates as a vertically integrated refiner and marketer of petroleum products.

The Caltex Australia Group operates within one geographic region - Australia.