

CALTEX AUSTRALIA LIMITED

ACN 004 201 307

**2004 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			
			2004	2003
Revenues from ordinary activities	↑	28.6%	13,669,663	10,633,259
Profit from ordinary activities after tax/net profit for the period attributable to members:				
Replacement cost basis ¹ (excluding significant items)	↑	76.6%	352,520	199,668
Historical cost basis (including significant items)	↑	189.8%	572,274	197,497

Dividend	2004	2003
Dividends declared:		
Interim dividend:		
- Amount per security (fully franked)	14¢	4¢
Final dividend and special dividend		
- Amount per security (fully franked)	25¢	14¢
Record date for determining entitlement to 2004 final dividend		11 March 2005
Date 2004 final dividend is payable		1 April 2005

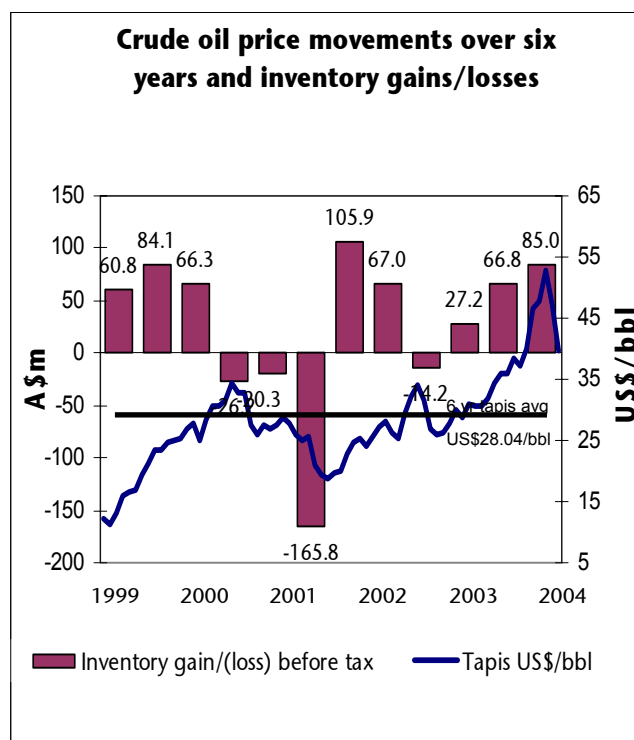
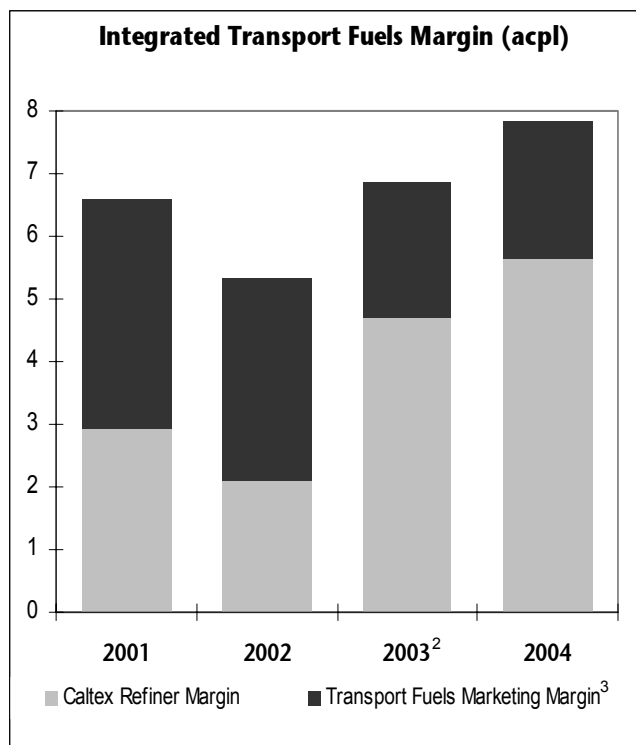
Highlights

- Replacement cost of sales operating profit (RCOP)¹ after tax was \$352.5 million, up 77% on 2003, primarily due to stronger refiner margins, higher refinery utilisation, record marketing transport fuels sales volumes, increased lubricants sales volumes and stable marketing margins.
- When oil-price driven inventory gains and a significant gain are included, profit after tax for the year ended 31 December 2004 on an historical cost basis was \$572.3 million (2003: \$197.5 million). Inventory gains were \$106.3 million (after tax) for the year ended 31 December 2004 compared with inventory gains of \$9.1 million (after tax) in 2003. The significant gain in 2004 amounted to \$113.5 million (after tax) and arose as a consequence of the company's entry into the new tax consolidation regime (2003: significant expense item of \$11.3 million after tax).
- The stronger refiner margins reflect the continued rapid growth in demand for refined products in the region, particularly in China. The record marketing transport fuels sales volumes were achieved in a mature market and reflected Caltex's expanding presence across retail, reseller and commercial channels.
- Net debt further reduced to \$447.2 million and reflected gearing of 20.6% (December 2003: \$624.4m, gearing 33.8%).
- The final dividend declared was \$67.5 million or 25 cents a share, adding to the interim dividend of 14 cents per share paid in October 2004.

¹ The replacement cost of sales operating profit excludes the impact of international oil price movements and therefore provides a clearer picture of the company's underlying business performance. It is calculated by restating the cost of sales using the replacement cost of goods sold rather than the historical cost, including the effect of revenue lags.

Key Performance Indicators

	Year ended 31 December				
	2004	2003	2002	2001	2000
Profit before interest and tax (\$m)					
- Replacement cost basis (excluding significant items)	544.2	339.8	215.2	200.9	115.7
- Historical cost basis (including significant items)	696.0	340.4	376.1	(128.6)	155.8
Profit/(Loss) after interest and tax (\$m)					
- Replacement cost basis (excluding significant items)	352.5	199.7	106.1	83.7	9.5
- Historical cost basis (including significant items)	¹ 572.3	197.5	215.2	(186.1)	36.1
Inventory gains/(losses) before tax (\$m)	151.8	13.0	172.9	(186.1)	40.1
Basic earnings per share (cents)					
- Replacement cost basis (excluding significant items)	130.6	74.0	39.3	31.0	3.5
- Historical cost basis (including significant items)	212.0	73.1	79.7	(68.9)	13.4
Return on equity attributable to members of the parent entity after tax (%)					
- Replacement cost basis (excluding significant items)	20.6	16.4	10.3	10.3	1.0
- Historical cost basis (including significant items)	33.4	16.3	20.9	(22.8)	3.6
Net tangible asset backing per share (\$)	6.29	4.46	3.76	3.01	3.12
Net debt (\$m)	447.2	624.4	954.2	1,264.7	1,241.2
Gearing (net debt to net debt plus equity) (%)	20.6	33.8	47.9	60.6	55.2



¹ Includes a significant item of \$113.5 million in the first half of 2004 relating to an income tax benefit upon entry into the new tax consolidation regime.

² In 2004, Caltex refined the integrated transport fuels margin primarily to more accurately reflect the quality of petrol used in Australia. The 2003 comparative is restated to reflect this change.

³ Transport fuels comprise petrol, diesel and jet.

Profit and Loss

for the year ended 31 December 2004

Millions of dollars	2004	2003	% change
1 Total revenue ¹	9,426	7,014	34
2 Total expenses ²	(8,882)	(6,674)	33
3 Replacement cost EBIT	544	340	60
4 Net borrowing costs	(40)	(61)	(34)
Income tax expense	(151)	(79)	91
Replacement cost profit	353	200	77
5 Inventory gain/(loss) – after tax	106	9	1,078
6 Significant items	113	(11)	-
Historical cost net profit	572	198	189
7 Interim dividend per share	14c	4c	
7 Final (and special dividend in 2003) per share	25c	14c	
Basic earnings per share			
- Replacement cost – excluding significant items	131c	74c	
- Historical cost – including significant items	212c	73c	

Discussion and Analysis

<p>1 Total revenue</p> <p>↑ 34%</p>	<p>Total revenue increased primarily due to:</p> <ul style="list-style-type: none"> • Higher crude prices; • Strong refiner margins and stable marketing margins; and • Significant growth in marketing sales volumes of transport fuels and lubricants.
<p>2 Total expenses – replacement cost basis</p> <p>↑ 33%</p>	<p>Total expenses increased primarily due to:</p> <ul style="list-style-type: none"> • Higher cost of sales, reflecting higher sales volumes and higher crude prices; and • Higher operating expenses in absolute terms but, on a per litre sold basis, operating expenses decreased by 4% compared with 2003.

¹ Excludes interest revenue, product duties and taxes and significant items (if applicable)

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

Discussion and Analysis cont'd

<p>3 Replacement cost EBIT</p> <p>↑ 60%</p>	<p>Improvement in Caltex's underlying performance was driven primarily by strong refiner margins, stable marketing margins and significant growth in sales volumes of transport fuels and lubricants.</p> <p>Breakdown of replacement cost EBIT is detailed below:</p>
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RCOP EBIT breakdown

<p>Caltex refiner margin (CRM)</p> <p style="text-align: right;">\$594m</p>	<p>CRM represents the difference between the cost of importing a standard Caltex basket of products to eastern Australia and the cost of importing the crude oil required to make that product basket. The CRM calculation basically represents:</p> <p>Average Singapore refiner margin + product quality premium + crude discount/(premium) + product freight – crude freight – yield loss</p> <p>CRM strengthened significantly from an average of US\$4.91/bbl in 2003 to US\$6.60bbl in 2004 as Singapore refiner margins increased from an average of US\$4.45/bbl in 2003 to an average of US\$6.15/bbl in 2004. However, the increase in refiner margins was dampened by a higher AUD (against the USD) compared with 2003.</p>
<p>Transport fuels marketing margin</p> <p style="text-align: right;">\$277m</p>	<p>Transport fuels comprise petrol, diesel and jet. The transport fuels marketing margin is based on the average net margin over Import Parity Price in Australia.</p> <ul style="list-style-type: none"> The average transport fuels marketing margin (revised basis excluding distribution costs) was stable compared with 2003. Transport fuels sales volumes increased overall by 15% across all products.
<p>Lubricants and specialties margin</p> <p style="text-align: right;">\$103m</p>	<p>Lubricants and specialties products include finished lubricants, base oils, liquified petroleum gas, petrochemicals, bitumen, wax and marine fuels.</p> <ul style="list-style-type: none"> Lubricants volumes grew overall by almost 30% mainly due to additional base oil volume, following the closure of the Mobil Port Stanvac refinery.
<p>Non fuel income</p> <p style="text-align: right;">\$114m</p>	<p>Non fuel income includes convenience store income, franchise income, royalties, property, plant and equipment rentals, Starcard income and share of profits from non controlled equity distributors.</p> <ul style="list-style-type: none"> Like for like sales at Star Marts and Star Shops increased by 5.1% and 5.6% respectively compared with 2003.
<p>Operating expenses</p> <p style="text-align: right;">(\$616m)</p>	<p>Operating expenses include those costs not related to the cost of production including finance and administration, marketing, refining and other operating expenditure.</p> <ul style="list-style-type: none"> Operating expenses increased in absolute terms, but on a per litre sold basis, decreased by 4% compared with 2003.
<p>Other</p> <p style="text-align: right;">\$72m</p>	<p>Other comprises a number of components including miscellaneous income, pipeline and charter revenue and net exchange impacts.</p>
<p>Total replacement cost EBIT</p> <p style="text-align: right;">\$544m</p>	<p>Replacement cost of sales operating profit before interest, tax and significant items.</p>

Discussion and Analysis cont'd

<p>4 Net borrowing costs</p> <p>↓ 34%</p>	<p>Net debt reduced to \$447 million at 31 December 2004. This compares with \$624 million at 31 December 2003. The lower net debt level resulted in decreased borrowing costs.</p>
<p>5 Inventory gain after tax</p> <p>↑ \$97m</p>	<p>Regional crude oil prices rose significantly in 2004, (averaging US\$39.03/bbl in December 2004 compared with US\$30.59/bbl in December 2003). This increase resulted in net inventory gains of \$106 million (after tax) compared with net inventory gains of \$9 million (after tax) in 2003.</p>
<p>6 Significant items</p> <p>\$113m gain</p>	<p>As a consequence of entry into the new tax consolidation regime, the value of refining and pipeline assets has been reset for tax purposes. This has resulted in a \$113 million decrease in deferred tax liabilities, with the offset being a non-recurring tax credit to current year earnings. The cash flow benefit will be achieved over some 20-25 years, which is the effective life of revalued assets. In 2003, Caltex recognised as a significant item, an expense of \$12 million before tax (\$11 million after tax) for writedown of land, buildings and related plant & equipment.</p>
<p>7 Final dividend</p> <p>25 cps</p>	<p>The Board declared a final dividend of \$67.5 million or 25 cents per share. This brings the total dividends for 2004 to 39 cents per share. The dividends have a franking credit of 100%. The record date is 11 March 2005, with the dividend payable on 1 April 2005.</p>


Balance Sheet

as at 31 December 2004

Millions of dollars	2004	2003	change
1 Working capital	422	343	79
2 Property, plant and equipment (PP&E)	1,710	1,615	95
3 Net debt	(447)	(624)	177
4 Other non current assets and liabilities	34	(110)	144
Total equity	1,719	1,224	495

Discussion and Analysis

1 Working capital

 **\$79m**

The increase in working capital is primarily due to:

- Higher crude and product prices; and
- Stronger Marketing volumes resulting in higher receivables.

Offset to some extent by:

- Higher income tax liability due to higher profits earned; and
- Higher payables due to increased volumes purchased from competitors and Clean Fuels capital expenditure.

2 PP&E

 **\$95m**

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

- Capital expenditure and major cyclical maintenance of \$243 million, including \$81 million relating to the Clean Fuels Project for Caltex's two refineries; partly offset by
- Depreciation of \$122 million; and
- Net disposals of \$26 million.

3 Net debt

 **\$177m**

Net debt has reduced to \$447 million at 31 December 2004, a decrease of \$177 million from 31 December 2003. As a result, Caltex's gearing (net debt to net debt plus equity) was 21%, down from 34% at 31 December 2003.

4 Other non current assets and liabilities

 **\$144m**





Other non current assets and liabilities have decreased primarily as a consequence of entry into the new tax consolidation regime which resulted in a \$113 million decrease in deferred tax liabilities. For more information refer to the Profit and Loss, Discussion and Analysis, Item 6: "Significant items".

Cash Flows

for the year ended 31 December 2004

Millions of dollars		2004	2003	change
	Receipts from customers	14,847	11,501	3,346
	Payments to suppliers and employees	(9,944)	(6,831)	(3,113)
	Payments for excise and GST	(4,242)	(4,046)	(196)
1	Borrowing costs paid	(49)	(62)	13
2	Other net operating activities	(156)	(75)	(81)
	Net operating cash inflows	456	487	(31)
3	Purchases of property, plant and equipment (PP&E) and major cyclical maintenance	(222)	(148)	(74)
	Other investing cash flows	19	2	17
	Net investing cash outflows	(203)	(146)	(57)
4	Net financing cash outflows	(275)	(323)	48
	Net (decrease)/increase in cash held	(22)	18	(40)

Discussion and Analysis

<p>1 Borrowing costs</p> <p> \$13m</p>	<p>Net debt reduced to \$447 million at 31 December 2004. This compares with \$624 million at 31 December 2003. The lower net debt level resulted in lower borrowing costs (\$13 million). Borrowing costs paid includes capitalised borrowing costs relating to the Clean Fuels Project of \$4 million (2003: \$1 million).</p>
<p>2 Other operating activities</p> <p> \$81m</p>	<p>Income tax payments increased in 2004. This increase is primarily due to current year tax instalments being based on current year gross revenues which were higher than in 2003.</p>
<p>3 Purchases of PP&E and major cyclical maintenance</p> <p> \$74m</p>	<p>The increase in capital expenditure in 2004 related primarily to the Clean Fuels Project (\$64 million).</p>
<p>4 Net financing cash outflows</p> <p> \$48m</p>	<p>The decrease in net financing cash outflows is primarily due to lower loan repayments (\$197 million) in 2004 (2003: \$311 million). This was partly offset by higher dividend payments in 2004, comprising a 2004 interim dividend (\$37.8 million) and 2003 final dividend (\$37.8 million) (2003: interim dividend of \$10.8 million).</p>

2004
PRELIMINARY FINANCIAL REPORT

FOR

CALTEX AUSTRALIA LIMITED
ACN 004 201 307

The 2004 Preliminary Financial Report for Caltex Australia Limited includes the:

- Directors' Review
- Directors' Statement
- Extracts of the 2004 Year Financial Statements and accompanying notes

for the year ended 31 December 2004.

The financial statements included herein 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) Pty Ltd, Caltex Petroleum Distributors Pty Ltd and Caltex Lubricating Oil Refinery Pty Ltd; and
- 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 2004 Preliminary Financial Report for the Caltex Australia Group for the year ended 31 December 2004 as part of Caltex's 2004 preliminary results announcement.

Board of directors

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

Directors' profiles

Dick Warburton

Chairman (Non-executive/Independent)

Date of birth: 14 December 1940 (Age: 64 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 where he was responsible for Du Pont's petro-chemical business operations in Australia and New Zealand.

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

Current directorships of listed companies

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

Previous directorships of listed companies in last three years

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

Dave Reeves

Managing Director and Chief Executive Officer

Bachelor of Civil Engineering (University of Washington, USA)

Date of birth: 26 May 1955 (Age: 49 years)

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

Before joining Caltex Australia, Dave was the President of North America Products at 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.

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: 58 years)

Elizabeth was appointed as a director of Caltex Australia Limited on 18 July 2002 and is a member of the Human Resources & Nomination Committee. She was also a member of the Audit Committee during 2004 until 22 July 2004.

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

Current directorships of listed companies

- Ridley Corporation Limited (appointed 7 September 2001)

Previous directorships of listed companies in last three years

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

Bill Hauschildt

Director (Non-executive)

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

Date of birth: 20 May 1944 (Age: 60 years)

Bill was appointed as a director with effect from 21 September 2004 and has served as a member of the Human Resources & Nomination Committee since 1 January 2005.

Bill serves as Vice President – Refining Operations (Global Refining) with ChevronTexaco in San Ramon, California (USA). In this role, Bill is responsible for the overall financial and operating performance of ChevronTexaco's refineries in Salt Lake City (Utah, USA), Honolulu (Hawaii, USA), Burnaby (British Columbia, Canada) and Cape Town (South Africa). He is also responsible for ChevronTexaco's technology marketing operations and technical service contracts for Kuwait and Bahrain.

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

Mitch Rubinstein

Director (Non-executive)

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

Date of birth: 21 April 1960 (Age: 44 years)

Mitch was appointed a director effective from 24 February 2005. Mitch previously served as an alternate director from 25 February 2004 to 23 February 2005 for Leo Lonergan, from 25 February 2004 to 1 July 2004 for Martin Southern, and from 21 September 2004 to 23 February 2005 for Bill Hauschildt.

Mitch serves as General Manager, Crude Supply and Trading, Asia Pacific with Chevron U.S.A. Inc. (a company in the ChevronTexaco Group) based in Singapore. He has responsibility for all crude oil trading activity in the Middle East and the Far East for ChevronTexaco.

Mitch joined Texaco in 1989 and has held positions of increasing responsibility in refined products trading and crude oil trading. He has had responsibility for trading in the Asia Pacific, the Middle East, Latin America, Europe, West Africa, and the Russian/Caspian area.

John Thorn

Director (Non-executive/Independent)

FCA

Date of birth: 28 June 1948 (Age: 56 years)

John was appointed as a director with effect from 2 June 2004 and has been a member of the Audit Committee since 22 July 2004.

John had over 37 years professional experience with PricewaterhouseCoopers, where he was a partner from 1982 to 2003 undertaking work for major international and local companies. During this period, he served as Managing Partner of PricewaterhouseCoopers' Assurance and Business Advisory Services practice (from 1988 to 2001) and as National Managing Partner (from 2001 to 2003). After leaving professional practice, John has embarked on a career as a company director.

Current directorships of listed companies

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

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: 61 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.

Previous directors

Leo Lonergan

Director (Non-executive)

Leo was appointed a director on 1 July 2001, having previously served on the Board from 30 April 1998 to 29 July 1999 (after serving as an alternate director from 29 January 1998 to 30 April 1998). He resigned as a director with effect from 23 February 2005. Leo is relocating from Singapore to California, USA to take up a new position with ChevronTexaco.

Martin Southern

Director (Non-executive)

Martin was appointed as a director on 25 February 2004 to fill a casual vacancy on the Board. He resigned as a director on 1 July 2004 for health reasons.

Johannes (Steve) de Bruyn

Alternate Director

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

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

General overview

Caltex Australia achieved record earnings in 2004 with profits after tax (excluding significant items) on a replacement cost of sales operating profit (RCOP) basis up 77% on 2003. Stronger refiner margins, higher refinery utilisation, record marketing transport fuels sales volumes, increased lubricants sales volumes and stable marketing margins all contributed to the outstanding result.

RCOP after tax (excluding significant items) was \$352.5 million for the year ended 31 December 2004, up from \$199.7 million for 2003. This result excludes the impact of international oil price movements and therefore provides a clearer picture of the company's underlying business performance.

When oil-price driven inventory gains are included, profit after tax for the year ended 31 December 2004 on an historical cost basis (excluding significant items) was \$458.8 million (2003: \$208.8 million).

Inventory gains were \$106.3 million (after tax) for the year ended 31 December 2004 compared with inventory gains of \$9.1 million (after tax) in 2003. This increase in inventory gains reflects crude oil price increases during 2004 (averaging US\$39.03 a barrel in December 2004 compared with US\$30.59 a barrel in December 2003).

In addition, a significant gain of \$113.5 million (after tax) arose in 2004 as a consequence of the company's entry into the new tax consolidation regime (2003: significant expense item of \$11.3 million after tax). The value of refining and pipeline assets was reset for tax purposes which resulted in a \$113.5 million decrease in

deferred tax liabilities, with the offset being a non-recurring tax credit to current year earnings. The cash flow benefit will be realised over 20-25 years, which is the effective life of the revalued assets.

The stronger refiner margins reflect the continued rapid growth in demand for refined products in the region, particularly in China. The Singapore weighted average refiner margin^{1,2} (for Caltex's basket of products) was US\$6.15 a barrel in 2004 (2003: US\$4.45 a barrel). An internal measure, the Caltex Refiner Margin (CRM), is a more accurate measure of the refiner margins achieved by the company and includes crude premiums, crude freight, product yields achieved by the Caltex refineries, product freight and product quality premiums. CRM strengthened significantly from an average of US\$4.91 a barrel in 2003 to US\$6.60 a barrel in 2004, although the impact on earnings was partially offset by a stronger Australian dollar which averaged 74 US cents in 2004 (2003: 65 US cents). Because refiner margins are denominated in US dollars, Caltex receives less refiner margin in Australia if the Australian dollar strengthens.

The improved earnings enabled Caltex to further reduce its net debt to \$447.2 million at 31 December 2004 (31 December 2003: \$624.4 million) and gearing to around 21% (31 December 2003: 34%). This resulted in lower net borrowing costs of \$41.1 million compared with \$61.4 million in 2003.

Refining and Supply

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

The refineries in 2004 launched an intensive Refining performance improvement program to lift utilisation and production, capturing the benefits of strong refiner margins at a time when Australian domestic demand exceeds production.

Improved reliability in 2004 enabled Refining to achieve higher production volumes of 11.8 billion litres in 2004 (2003: 11.1 billion litres) and average utilisation overall of 74.4% (2003: 71.4%). Supply reliability significantly improved in 2004. Increased production and sales were supported by the supply system successfully meeting demand for record volumes of 16 billion litres of transport fuels.

In February 2004, the company announced a \$295 million Clean Fuels Project to meet new clean fuel standards. The project, scheduled for completion in the fourth quarter 2005, will upgrade the refineries to reduce the benzene content of petrol to no more than 1% and produce diesel with a sulfur content of 50 parts per million or less.

Marketing

The Marketing department promotes and sells Caltex fuels, lubricants, specialties and convenience store goods through a national network of 1,813 Caltex, Caltex Woolworths and Ampol branded service stations and 64 branded resellers. Marketing also sells directly to a large number of commercial customers.

In 2004, Caltex had its strongest growth in transport fuels sales on record with volumes up 14.7% compared with 2003. This was achieved in a mature market and reflected Caltex's expanding presence across retail, reseller and commercial channels. Caltex also achieved sales volume growth of 29.4% in lubricants and 4.3% in specialties compared with 2003, with an increase in direct sales to commercial customers and higher sales in the reseller channel.

The steady rollout of the Caltex Woolworths venture helped lift petrol sales volumes by 18.5% in 2004. By 31 December 2004, there were 348 jointly branded sites, of which 106 were contributed by Caltex. Caltex-contributed sites recorded an average 80% increase in fuel sales. The jointly branded network will have up to 470 sites and the majority of the rollout will be completed by mid-2005.

Caltex strengthened its focus on the fast-growing premium fuels sector with sales of 95 octane Vortex unleaded petrol growing by 32.9% in 2004. In November 2004, the company launched Vortex 98, a new high octane premium unleaded petrol which has enjoyed sales that exceeded expectations in its initial rollout in Sydney.

¹ 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.

² The basis of Singapore refiner margins and CRM changed in 2004 to more accurately reflect a higher grade of petrol used in Australia. The 2003 comparatives have been restated to reflect this change.

There was continued growth in non-fuel income, with benefits gained from growth in store sales, site upgrades and divestment of uneconomic sites. In the convenience store network of 492 Star Marts and Star Shops, like for like sales grew 5.1% and 5.6% respectively.

A major review of our marketing operations resulted in a stronger customer focus and strategies to enhance our market leadership position focusing on areas that include lubricants and specialties, the StarCard, StarFleet and StarCash business and the reseller channel. The Caltex brand was also relaunched to make our image more relevant and meaningful to customers with a new advertising campaign.

Outlook

This is an important time for Caltex's future development. During 2004, we further extended our position as Australia's leading oil refiner and marketer and strengthened our platform for growth. This will continue in 2005, with the completion of the Clean Fuels Project, implementation of our marketing growth strategies and investment in lifting the productivity of our operations and supply chain.

The outlook for refiner and marketing margins remains sound. Market opportunities have emerged from changes in the dynamics of supply and demand in Australia and the Asian region and we are taking steps to further grow shareholder value. A review of our supply planning systems and refinery configuration has shown that certain initiatives are expected to result in annual benefits in excess of \$150 million (before interest and tax), with full benefits being realised during 2008. Preliminary estimates indicate an incremental investment in the order of \$300 million over the next three years. Additionally, in our marketing business, a review of the market in 2004 has determined a number of initiatives to capture future growth.

It is likely that net debt will temporarily exceed \$500 million during 2005, but we expect it to return to target levels during 2006. As a result, our announced dividend policy will not be impacted by these initiatives.

Our commitment to shareholders is to both secure and grow the value of Caltex. Caltex has been and is being recognised by investors as a company with a positive outlook. Much of the improvement over the past two years in our performance has come from changing industry fundamentals and we are now laying the foundations to ensure that Caltex captures as much value from the improving market place as possible. Ultimately, Caltex's success will be determined by our focus on the key controllables of safety, customer focus, utilisation and operational excellence.

Dividends declared and paid

The Board declared a final dividend of \$67.5 million or 25 cents a share adding to the interim dividend of 14 cents per share paid in October 2004.

This is in line with the company's dividend policy announced by the Board in August 2004. The Board stated that its intention was to declare ordinary dividends of 20% to 30% of RCOP after tax (excluding significant items) in 2004 and 2005 while the company meets the high capital commitments of the Clean Fuels Project. After 2005, the company intends to increase the payout ratio to a range of 40% to 60% of RCOP after tax (excluding significant items). If there is surplus cash flow above the target payout ratio, the Board will consider a further distribution in the form of a fully franked special dividend and/or other capital management initiatives.

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

Significant events after balance date

No items, transactions or events of a material or unusual nature that, in the opinion of the Board, are likely to significantly affect the operations of Caltex, the results of those operations or the state of affairs of the group in subsequent financial years, have arisen in the period from 31 December 2004 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.

Rounding of Amounts

Amounts in the 2004 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 and
Chief Executive Officer

Sydney, 25 February 2005

Directors' Statement

The Board of Caltex Australia Limited states that, in the opinion of the directors, the 2004 Preliminary Final Report:

- complies with Caltex Australia Limited's disclosure obligations for the year ended 31 December 2004 under ASX Listing Rule 4.3A; and
- has been derived from disclosures to be made in the 2004 Financial Report for the Caltex Australia Group for the year ended 31 December 2004.

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, 25 February 2005

The accompanying financial statements and notes to the financial statements are derived from the 2004 Financial Report. The 2004 Financial Report was audited by an independent auditor, KPMG, who have issued an unqualified independent audit report.

Statement of Financial Performance

for the year ended 31 December 2004

Thousands of dollars	Note	Consolidated	
		2004	2003
Gross sales revenue from sale of goods		13,447,872	10,385,878
Product duties and taxes		(4,242,080)	(3,617,743)
Net sales revenue		9,205,792	6,768,135
Cost of goods sold - replacement cost		(8,318,484)	(6,169,278)
Inventory gains		151,758	13,048
Cost of goods sold - historical cost		(8,166,726)	(6,156,230)
Gross profit		1,039,066	611,905
Other revenue from ordinary activities	3	221,791	247,381
Refining and supply expenses		(25,675)	(23,326)
Marketing expenses		(492,055)	(453,539)
Borrowing costs	4	(42,185)	(62,804)
Other expenses	4	(48,292)	(43,800)
Share of net profit or loss of associated entities accounted for using the equity method		3,302	3,986
Profit from ordinary activities before income tax expense		655,952	279,803
Income tax expense relating to ordinary activities		(82,674)	(81,464)
Net profit		573,278	198,339
Net profit attributable to outside equity interests		(1,004)	(842)
Net profit attributable to members of the parent entity		572,274	197,497
Basic and diluted earnings per share			
Historical cost including significant items - cents per share	5	212.0	73.1
Replacement cost excluding significant items - cents per share	5	130.6	74.0

The statement of financial performance is to be read in conjunction with the notes to the financial statements.

Statement of Financial Position

as at 31 December 2004

Thousands of dollars	Note	Consolidated	
		2004	2003
Current assets			
Cash at bank and on hand		14,196	36,318
Receivables		636,372	540,990
Inventories		822,083	502,732
Other		19,398	20,761
Total current assets		1,492,049	1,100,801
Non-current assets			
Receivables		24,367	25,638
Investments accounted for using the equity method		7,583	9,829
Other financial assets		6,783	2,340
Property, plant and equipment		1,709,728	1,615,321
Intangibles		14,004	12,592
Deferred tax asset		17,196	-
Other		6,015	7,125
Total non-current assets		1,785,676	1,672,845
Total assets		3,277,725	2,773,646
Current liabilities			
Payables		868,218	602,684
Interest bearing liabilities	7	27,761	96,652
Current tax liabilities		140,774	72,865
Provisions		46,127	45,791
Total current liabilities		1,082,880	817,992
Non-current liabilities			
Payables		-	1,300
Interest bearing liabilities	7	433,681	564,094
Deferred tax liabilities		-	128,623
Provisions		41,945	37,978
Total non-current liabilities		475,626	731,995
Total liabilities		1,558,506	1,549,987
Net assets		1,719,219	1,223,659
Equity			
Contributed equity	8	543,415	543,415
Retained profits	9	1,168,558	671,884
Total parent entity interest		1,711,973	1,215,299
Outside equity interest		7,246	8,360
Total equity	10	1,719,219	1,223,659

The statement of financial position is to be read in conjunction with the notes to the financial statements.

Statement of Cash Flows

for the year ended 31 December 2004

Thousands of dollars	Note	Consolidated	
		2004	2003
Cash flows from operating activities			
Receipts from customers		14,846,848	11,500,656
Payments to suppliers, employees and governments		(14,186,011)	(10,877,185)
Dividends received		3,533	2,250
Interest received		2,135	1,996
Interest and other borrowing costs paid		(49,144)	(61,490)
Income taxes paid		(160,851)	(79,553)
Net operating cash inflows	17	456,510	486,674
Cash flows from investing activities			
Purchases of controlled entities, net of cash acquired	14	(2,225)	-
Deferred payment for purchase of controlled entities		(3,879)	(3,833)
Payment for investment		(5,607)	(2,325)
Hanson Australia consideration		-	(12,000)
Purchases of property, plant and equipment		(197,550)	(117,966)
Maintenance and shutdown expenditure capitalised		(24,841)	(29,675)
Proceeds from sale of property, plant and equipment		28,297	17,108
Loans repaid from associated companies		2,500	2,750
Net investing cash outflows		(203,305)	(145,941)
Cash flows from financing activities			
Proceeds from borrowings		5,650,879	5,626,916
Repayments of borrowings		(5,847,879)	(5,937,690)
Repayment of finance lease principal		(807)	(810)
Dividends paid to outside equity interests		(1,920)	-
Dividends paid		(75,600)	(10,800)
Net financing cash outflows		(275,327)	(322,384)
Net increase/(decrease) in cash held		(22,122)	18,349
Cash at the beginning of the year		36,318	17,969
Cash at the end of the year	17	14,196	36,318

The statement of cash flows is to be read in conjunction with the notes to the financial statements.

Notes to the Financial Statements for the year ended 31 December 2004

1. Statement of significant accounting policies

(a) Basis of preparation of the preliminary final report

The Preliminary Financial Report has been prepared in accordance with ASX listing rule 4.3A and has been derived from the Financial Report. The 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).

The Preliminary Financial Report 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 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

There have been no significant changes in the accounting policies applied by the Caltex Australia Group during 2004.

Notes to the Financial Statements

for the year ended 31 December 2004 cont'd

Thousands of dollars	Consolidated	
	2004	2003
3. Other revenue		
From operating activities		
Interest received or due and receivable from:		
Other corporations	1,127	1,361
Rental income	33,864	34,871
Royalties and franchise income	85,995	81,012
Net foreign exchange gains	15,356	67,419
Other income	40,880	38,034
From outside operating activities		
Gross proceeds from the sale of property, plant and equipment	44,569	24,684
	221,791	247,381
4. Costs and expenses		
Borrowing costs:		
Interest paid or due and payable to other corporations	44,461	61,647
Finance charges on capitalised leases	1,995	1,962
Less:		
Capitalised borrowing costs (i)	(4,271)	(805)
	42,185	62,804
Depreciation of:		
Freehold buildings	7,587	9,071
Plant and equipment	108,620	113,701
	116,207	122,772
Amortisation of:		
Leasehold property	5,274	4,837
Leased plant and equipment	707	713
Intangibles	1,596	1,459
	7,577	7,009
Total depreciation and amortisation	123,784	129,781
Provision for write-down in value of buildings and related plant and equipment to recoverable amount	7,267	-
Write-down in value of land and buildings and related plant and equipment to recoverable amount (ii)	4,938	12,482
Operating leases rental expense	78,135	78,012
Finance lease contingent rentals	137	128
Net expense from movement in provision for:		
Bad and doubtful debts	(685)	(1,460)
Employee entitlements	32,631	20,545
Gain on disposal of non current assets	(12,284)	(220)

Notes to the Financial Statements

for the year ended 31 December 2004 cont'd

Thousands of dollars	Consolidated	
	2004	2003
4. Costs and expenses cont'd		
Reconciliation of other expenses in the statement of financial performance:		
Other	48,292	43,800
	48,292	43,800

(i) Borrowing costs were capitalised to capital projects in progress at a weighted average rate of 7.30% p.a. (2003: 7.35%)

(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 was included in the 2003 full year profit as a significant item.

5. Basic Earnings per share		
Historical cost including significant items - cents per share	212.0	73.1
Replacement cost excluding significant items - cents per share	130.6	74.0

Weighted average number of shares used in the calculation of earnings per share was 270 million shares.
(2003: 270 million)

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

6. Dividends

Dividends declared or paid

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

	Franked/ unfranked	Cents per share	Total amount \$'000
2004			
Interim 2004 (paid on 1 October 2004)	Franked	14	37,800
Final 2003 (paid on 1 April 2004)	Franked	14	37,800
Total amount			75,600
2003			
Interim 2003 (paid on 3 October 2003)	Franked	4	10,800

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

Subsequent events

Since the end of the financial year, the directors declared the following dividend:

Final 2004 (due to be paid on 1 April 2005)	Franked	25	67,500
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The financial effect of the final dividend has not been reflected in the financial statements for the year ended 31 December 2004 and will be recognised in subsequent financial reports.

Notes to the Financial Statements

for the year ended 31 December 2004 cont'd

Thousands of dollars	Note	Consolidated	
		2004	2003
7. Interest bearing liabilities			
Current - unsecured			
Bank loans (i)		27,000	94,000
Other loans		-	2,264
Lease liabilities (iii)		761	388
		27,761	96,652
Non-current - unsecured			
US notes (i)		288,132	295,039
Bank loans (i)		70,000	200,000
Hedge payable (ii)		66,289	59,383
Lease liabilities (iii)		9,260	9,672
		433,681	564,094
(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 February 2006 to July 2012. Under the loan and note agreements, the Caltex Australia Group is required to comply with certain financial covenants.			
(ii) 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 date of inception (30 July 2002, USD exchange rate 0.5643) to 31 December 2004 (USD exchange rate 0.7784), on the amount hedged (AUD: \$241 million, USD \$136 million).			
(iii) The implicit rate of interest on finance leases is 14.0% (2003: 14.0%).			
8. Contributed equity			
Issued capital			
270 million (2003: 270 million) ordinary shares, fully paid		543,415	543,415
9. Retained profits			
Retained profits at the beginning of the year		671,884	485,187
Net profit attributable to members of Caltex Australia Limited		572,274	197,497
Dividends recognised during the year	6	(75,600)	(10,800)
Retained profits at the end of the year		1,168,558	671,884
10. Total equity reconciliation			
Total equity at the beginning of the year		1,223,659	1,036,326
Total changes in Caltex Australia Ltd's interest recognised in the statement of financial performance		572,274	197,497
Dividends recognised during the year	6	(75,600)	(10,800)
Total changes in outside equity interest		(1,114)	636
Total equity at the end of the year		1,719,219	1,223,659

Notes to the Financial Statements

for the year ended 31 December 2004 cont'd

Thousands of dollars	Note	Consolidated	
		2004	2003
11. Investments accounted for using the equity method			% interest
Airport Fuel Services Pty Ltd		40	40
Australasian Lubricants Manufacturing Company Pty Ltd		50	50
Cairns Airport Refuelling Services Pty Ltd		25	25
Cooper & Dysart Pty Ltd	14	100	50
Geraldton Fuel Company Pty Ltd		50	50
JVC1 Pty Ltd		50	50
JVC2 Pty Ltd		50	50
Link Energy Pty Ltd		50	50
Jenessa Holdings Pty Ltd		50	50
Northern Marketing Management Pty Ltd		37.5	37.5
Northern Marketing Partnership		37.5	37.5
R&JK Petroleum Pty Ltd		50	50
South Coast Fuels Pty Ltd		50	50
South East Queensland Fuels Pty Ltd		50	50
South East Queensland Fuels Unit Trust Pty Ltd		50	50
Vitalgas Pty Ltd		50	50

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.

12. Net tangible assets per share

Net tangible assets per share (dollars)	6.29	4.46
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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 (2003: 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 2004 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

	Net market value of plan assets	Accrued benefits (i)	Vested benefits	Shortfall of plan assets over accrued benefits	Shortfall of plan assets over 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

No provision for contributions has been made as the Caltex Australia Group has received advice from Mercer that there is a likely surplus of planned assets over vested benefits in the plan as at 31 December 2004.

	Consolidated	
	2004	2003
Employer contributions to the plan during the year	13,727	10,855
Employer contributions provided at year end	-	4,600

(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	12,066	6,494
Employer contributions provided at year end	-	-

Notes to the Financial Statements

for the year ended 31 December 2004 cont'd

Thousands of dollars Consolidated
2004 2003

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

On 12 August 2004, the Caltex Australia Group's ownership interest in Cooper & Dysart Pty Ltd increased from 50% to 100%. The operating results of this entity has been included in the consolidated operating profit from the acquisition date. There were no entities over which Caltex lost control in 2004. There were no entities over which control was gained or lost in 2003.

Details of the acquisitions are as follows:

Consideration paid	(2,842)	-
Cash balance included in net assets acquired	617	-
Outflow of cash	(2,225)	-
Fair value of net assets acquired		
Cash at bank and on hand	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)	-
Tax liabilities	(107)	-
Deferred tax liabilities	(6)	-
Provisions	(293)	-
Other liabilities	-	-
Fair value of net assets acquired	4,130	-
Net assets acquired - 50%	2,065	-
Goodwill on acquisition	777	-
Consideration	2,842	-

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.

(b) Contingent liabilities - legal and other claims

5,360 4,500

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 2004 Financial Report.

Notes to the Financial Statements

for the year ended 31 December 2004 cont'd

Thousands of dollars	Consolidated	
	2004	2003
16. Significant events after balance 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 2004 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	14,196	36,318
(b) Reconciliation of net profit after income tax to net operating cash flows		
Net profit after income tax	572,274	197,497
Add/(less) items classified as investing/financing activities:		
(Profit)/loss on sale of non current assets and intangibles	(12,284)	(220)
Finance charges and contingent rentals on capitalised leases	2,132	2,090
Interest paid capitalised	(4,271)	-
Loan repaid from associated entity	(2,500)	-
Add/(less) non-cash items		
Depreciation	122,188	128,322
Amortisation	1,596	1,459
Write-down in value of land and buildings and related plant and equipment to recoverable amount	12,205	12,482
Amounts set aside to provisions	31,946	19,085
Unrealised exchange (gain)/loss	(3,139)	(1,872)
Share of associated entities net profit	(3,302)	(1,736)
(Decrease)/increase in deferred tax liability/asset	(145,819)	(10,731)
Net cash from operating activities before changes in assets and liabilities	571,026	346,376
Changes in assets and liabilities net of the effects of the purchase of controlled entities:		
(Increase)/decrease in trade and other debtors	(86,043)	46,748
(Increase)/decrease in inventories	(317,412)	22,814
(Increase)/decrease in prepayments	2,663	930
Increase/(decrease) in trade and other creditors	253,677	71,831
Increase/(decrease) in income tax payable	67,802	13,573
(Decrease)/increase in provisions	(35,203)	(15,598)
Net operating cash flows	456,510	486,674

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.

Notes to the Financial Statements
for the year ended 31 December 2004 cont'd

19. Significant events after balance date

International Financial Reporting Standards

For reporting periods on or after 1 January 2005, Caltex will comply with Australian equivalents to International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ending on 31 December 2004. The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the Caltex financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

Caltex has not completed its project to assess the impact of adoption of IFRS and has not quantified the effects of all the differences discussed below.

The Board established a formal project to prepare the Caltex Australia Group for the introduction of IFRS. This project commenced in early 2003 with an objective of achieving transition to IFRS reporting, beginning with the half year ended 30 June 2005. The Company's implementation project consists of three phases as described below.

Awareness and assessment phase:

The awareness and assessment phase produced a high level overview of the impacts of conversion to IFRS reporting on existing accounting and reporting policies and procedures, systems, business structures and staff. This phase included:

- high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting IFRS;
- assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes; and
- evaluation of the implications for staff including training requirements.

Caltex considers that the awareness and assessment phase was complete in most respects as at 30 June 2004.

Build and design phase:

The build and design phase aims to formulate the changes required to existing accounting policies and procedures and systems and processes in order to transition to IFRS. This phase includes:

- preparation of a conversion plan for expected changes to accounting policies, reporting structures systems, accounting and business process for staff training;
- formulating revised accounting policies and procedures for compliance with IFRS requirements;
- identifying potential impacts as at the transition date and for subsequent reporting periods prior to adoption of IFRS;
- developing revised IFRS disclosures; and
- designing accounting and business processes to support IFRS reporting obligations.

Caltex has commenced its build and design phase, with work progressing in each of the areas described above. The build and design phase is expected to be substantially completed by 15 April 2005.

Notes to the Financial Statements
for the year ended 31 December 2004 cont'd

19. Significant events after balance date (continued)

Implementation phase:

The implementation phase will include implementation of identified changes to accounting and business procedures, processes, and systems and operational training for staff.

Caltex expects this phase to be substantially complete by 30 April 2005.

The key potential implications of the conversion to IFRS on Caltex identified to date are as follows:

- (i) **Employee Benefits (AASB 119):** The current policy for superannuation commitments for the defined benefit plan is to provide for the shortfall of plan assets over vested benefits. On adoption of Australian standards that comply with IFRS, Caltex will recognise actuarial gains and losses in full, but directly through equity.
- (ii) **Intangible assets (AASB 136):** Expenditure on research type activities must be expensed. Development phase expenditure, in certain circumstances, must be capitalised and subsequently amortised over its useful life. Goodwill acquired in a business combination will not require amortisation. Impairment testing, at least annually, will be required to determine the appropriate carrying value.
- (iii) **Borrowing costs (AASB 123):** Caltex currently expenses borrowing costs as they are incurred unless they relate to qualifying assets, in which case they are capitalised to the cost of the assets. Under IFRS, Caltex will expense all borrowing costs as they are incurred.
- (iv) **Provisions (AASB 137):** Currently provisions are not required to be discounted to present value. Under IFRS, Caltex must discount certain non current provisions to present value.
- (v) **Impairment (AASB 136):** Impairment of assets will be determined on a discounted cash flow basis, with strict tests for determining whether cash-generating operations have been impaired.
- (vi) **Functional currency (AASB 121):** Caltex will use the Australian dollar as its functional currency. There will be no impact from this standard.
- (vii) **Share based payments (AASB 2):** Equity based compensation in the form of shares will be recognised as expenses over the relevant vesting periods. Caltex currently expenses equity based compensation on a pro rata basis over the periods during which employees provide related services.
- (viii) **Provision for initial estimate of dismantling costs, remediation and restoration (AASB 137 and AASB 116):** Under IFRS, the initial estimate of the provision for dismantling costs, remediation and restoration must be raised, and capitalised and amortised over the life of the asset. Caltex currently doesn't provide nor capitalise the initial estimate of the provision for dismantling costs, remediation and restoration.
- (ix) **Financial instruments (AASB 132 and AASB 139):** Financial instruments must be recognised in the Statement of Financial Position. All derivatives used as hedging instruments or otherwise, and most financial assets, will be carried at fair value. IFRS introduces strict tests, including effectiveness tests, for determining and accounting for hedge transactions.
- (x) **Income Tax (AASB 112):** Income tax will be calculated based on the balance sheet method, which will replace the income statement method. The balance sheet method recognises deferred tax balances based on the difference between the carrying value of an asset or a liability and its tax base. Under the income statement method, items are only tax-effected if they are included in the determination of the pre-tax accounting result and/or taxable income/(loss).