



## 2004 Half Year Results Making Progress

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- Good morning, welcome everybody and thank you for attending today. I would especially like to welcome those who are participating via link in Brisbane and Melbourne.
- I would also like to welcome those in Perth, Hong Kong and Singapore who are taking a feed via webcast for the first time. Please note that a copy of the webcast will be available on [www.Caltex.com.au](http://www.Caltex.com.au) by close of business today.
- The video you have just seen titled 24/7 was a view of the typical day in the operations of Caltex. It captures the diversity of our operations, as well as the geographic reach and complexity of our business that goes to make Caltex the largest refining and marketing company in Australia.
- You will have received a package this morning containing our half year results, media release and Australian Stock Exchange announcement, together with the PowerPoint overheads I will talk through this morning.



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- I plan to run through the major highlights of 1H 2004 set out on these slides which will take about 35 minutes, then open up the floor for your questions
- I propose that we start with questions from Sydney, before rotating to both Brisbane and Melbourne.



## Drive To Survive



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- It is the custom at Caltex to commence every meeting involving 5 or more people with an Incident Free Operations Topic.
- At the full year 2003 results discussion, I made the point that a culture that can produce excellent safety performance also has a higher likelihood of reliable and efficient operations.
- Pictured here is Lisa Reid, a Retail Business Manager in WA and an early adopter of our initiative to ban the use of mobile phones while driving. Lisa would typically run up about 40,000 km per year in her vehicle.
- This year we introduced a program called "Drive to Survive". A company wide driver safety initiative targeted to eliminate motor vehicle accidents
- The program involves trip planning, intensive training and banning the use of mobile phone while driving. We want to make sure our people understand what it takes to remain safe and have the skills necessary. While we are still in the early days, we have reduced our rate of accidents by nearly 50% in 2004.



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- On slides 5-9 I intend to take you through the financial highlights that made 1H 2004 a positive start for Caltex Australia.



## 1H04 - profit doubles : debt declines further

<b>Replacement Cost</b>	1H04	1H03	1H04 Vs 1H03
EBIT (\$ millions)	278.8	153.5	Up 82 %
NPAT (\$ millions)	180.3*	86.1	Up 109 %
EPS (CPS)	66.8	31.9	Up 109 %

	30 June 2004	31 December 2003	2004 Vs 2003
Debt (\$ millions)	536	624	Reduced \$ 88.3 Million
Gearing (%)	26%	33.8%	Reduced 7.8 % Points

<b>Historic Cost</b>	1H04	1H03	1H04 Vs 1H03
EBIT (\$ millions)	345.6	139.4	Up 148 %
NPAT (\$ millions)	227.1*	76.2	Up 198 %
EPS (CPS)	84.1 *	28.2	Up 198 %

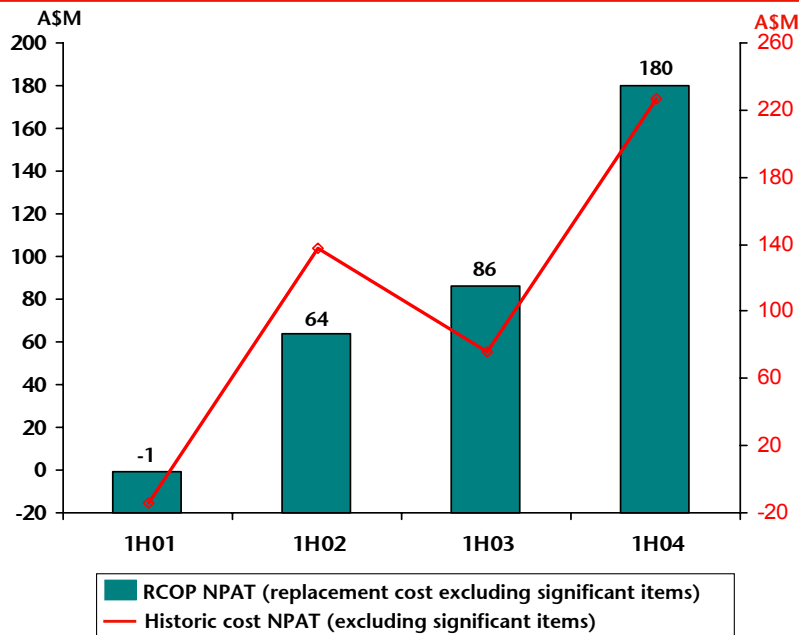
\* Both the replacement cost and historic cost result excludes a credit to 1H04 earnings of \$113.5 million which occurred on entry into the new tax consolidation regime. The cash flow benefit will be realised over 20-25 years, being the effective life of the revalued assets that gave rise to the deferred tax credit

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- For the period ended 30 June 2004, Replacement Cost EBIT, excluding significant items, was \$278.8 million, which represents an 82% improvement over the same period last year.
- Replacement Cost Net Profit After Tax, excluding significant items, was \$180.3 million, representing an improvement of 109% over the same period last year.
- The significant item in the 1H04 relates to a \$113.5 million gain in respect of entry into the new tax consolidation regime.
- Historic cost profit after tax, excluding the tax significant item was \$227.1, representing an improvement of nearly 200% over same the period last year.
- Please note cashflow is materially the same under both replacement cost and historic cost accounting conventions.
- Clearly, the most important takeaway on this slide is the improvement in replacement cost profit.



## 1st Half profit trends

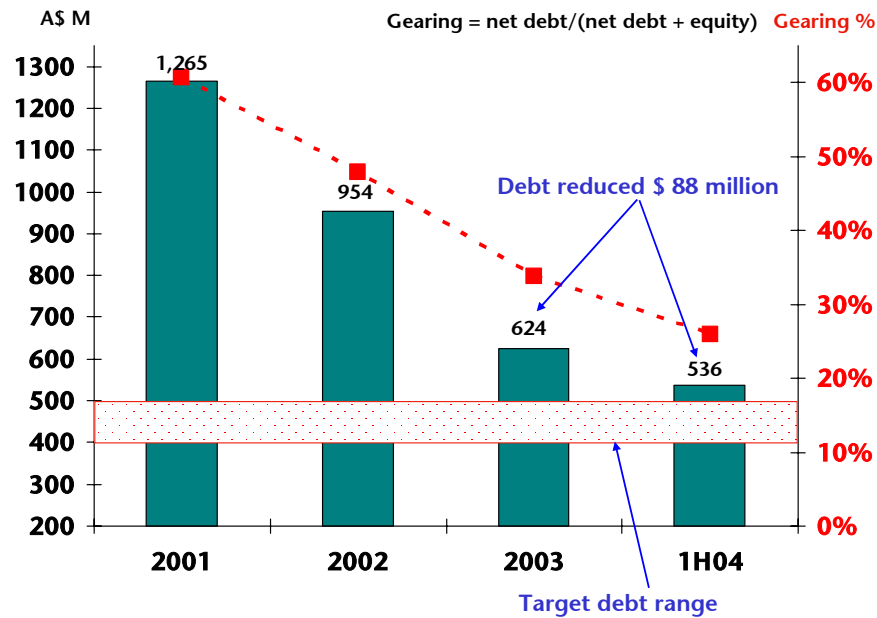


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- As you can see, the Replacement Cost Net Profit after tax represented here by the green bars shows that the underlying performance of the business has improved quite substantially over several years.
- The changes in crude prices between periods, result in the volatile historic cost net profit after tax shown here by the red line.
- This volatility is why Replacement Cost Operating Profit is a more appropriate measure in understanding the company's underlying performance.
- To reiterate, the most important point for investors to understand is that cash flow is similar under both accounting conventions .
- We will discuss later the fundamental drivers behind this performance.



## Debt approaching target range



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- Net debt for the period ended at \$536 million and gearing was reduced from 34% at the end of 2003 to 26% at the end of June 2004.
- In the last 18 months Caltex has reduced its net debt by \$418 million. From its peak in 2001 at \$1.3 billion, net debt has been reduced by \$729 million or nearly 60%.
- In line with our new dividend policy Caltex is targeting debt in the \$400-\$500 million range as shown above.
- It is expected that free cash flow during 2004 and 2005 will be largely applied to clean fuel investment, upgrading of the retail network and the payment of dividends



## Caltex dividend policy

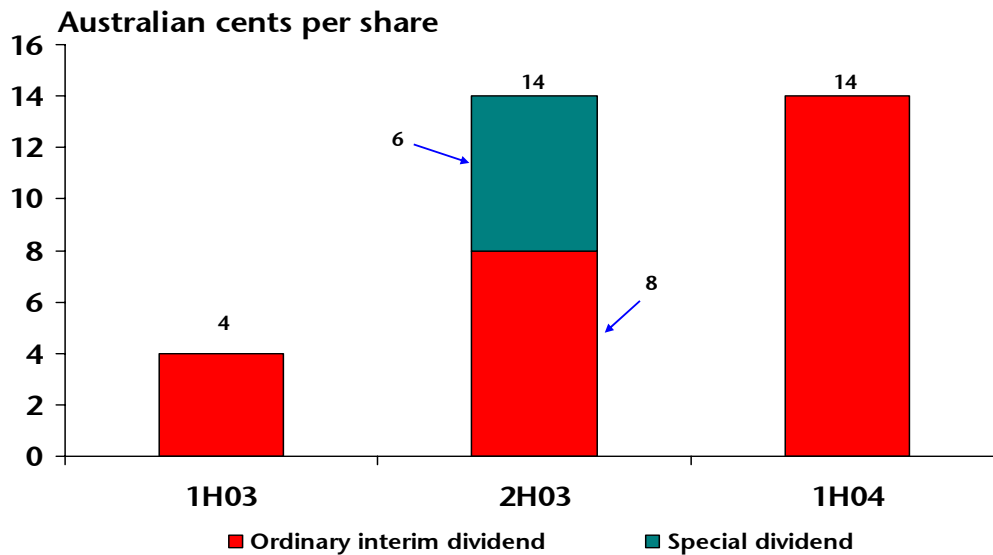
- The company intends to pay ordinary dividends of 20% to 30% of the Replacement Cost Profit After Tax (excluding significant items) in 2004 and 2005
- Post 2005, Caltex intends to increase the pay-out ratio to a range of 40% to 60% of Replacement Cost Profit After Tax, also excluding any significant items
- Surplus cashflow above the target pay-out ratio of 40% to 60% will be distributed via a special dividend and/or other capital management initiatives
- The company is targeting a capital structure with gearing (Debt/Debt plus Equity) between 20-25% and core debt (excluding lease liabilities) in the range of \$400 million to \$500 million
- All foreseeable future dividends will be fully franked (franking account at 30 June 2004 is \$186 million)
- The declaration and amount of dividends are at the sole discretion of the Board and are dependent on Caltex's earnings and cashflow requirements and financial conditions at that time

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- The company intends to pay ordinary dividends of 20% to 30% of the Replacement Cost Profit After Tax (excluding significant items) in 2004 and 2005.
- Post 2005, Caltex intends to increase the pay-out ratio to a range of 40% to 60% of Replacement Cost Profit After Tax, also excluding any significant items
- Surplus cashflow above the target pay-out ratio of 40% to 60% will be distributed via a special dividend and/or other capital management initiatives.
- The company is targeting a capital structure with gearing (Debt/Debt plus Equity) between 20-25% and core debt (excluding lease liabilities) in the range of \$400 million to \$500 million.
- All foreseeable future dividends will be fully franked (franking account at 30 June 2004 is \$186 million).
- The declaration and amount of dividends are at the sole discretion of the Board and are dependent on Caltex's earnings and cashflow requirements and financial conditions at that time.



## Caltex declares interim dividend of 14 cps for 1H04



- I am very happy to inform investors that a 14 cent per share dividend will be paid in respect of 1H04. This will be fully franked.
- Shareholders have again enjoyed substantial growth in Total Shareholder Returns, given both the share price performance and dividends

Since 1 January 2003, TSR = 337 %

In the last 12 months to 30 June 2004 = 222 %

And for 6 months ended 30 June 2004 = 101 %



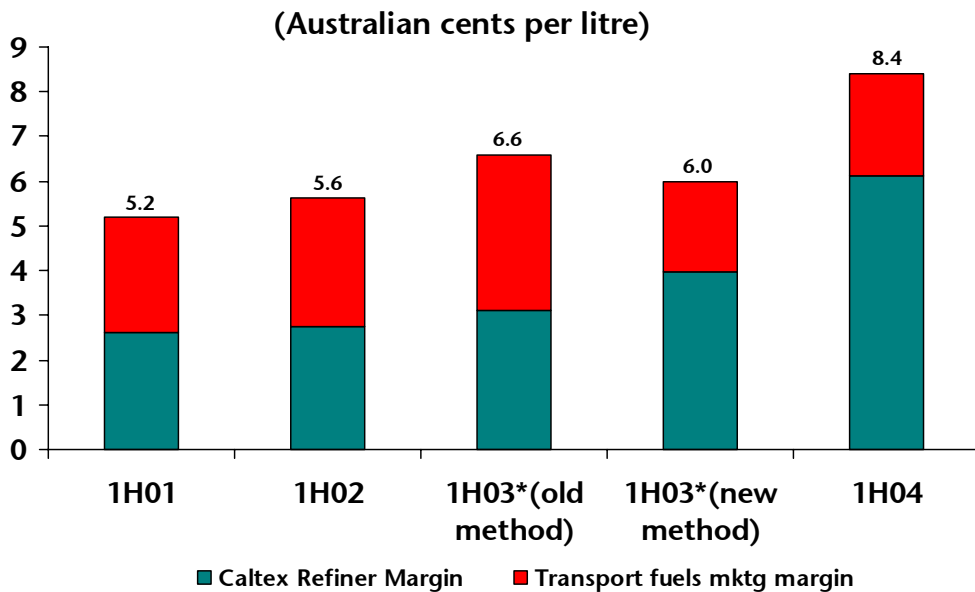
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•In slides 11-14 I will outline the key external profit drivers of the company.



## Integrated transport fuel margins increased



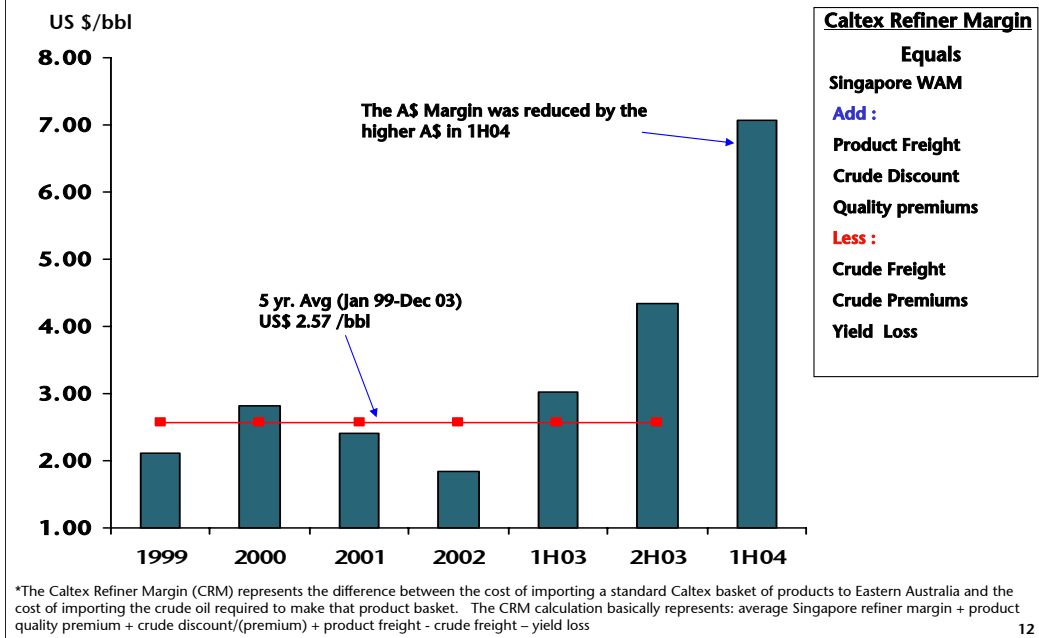
\*The basis of CRM changed in 2004 to more accurately reflect the quality of petrol used in Australia. The 2003 comparative has been restated to reflect this change.

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- This slide shows the integrated transport fuel margin realised by Caltex in Australian cents per litre.
- In 1H03, we introduced the investment community to the Caltex Refiner Margin. I intend to cover the Caltex Refiner Margin and its components in the next few slides rather than go into detail here.
- The higher Australian dollar during 1H04 compared to 1H03 has compressed the US dollar denominated refiner margin. Compared with the average 1H03 exchange rate, this compression reduced EBIT by approximately \$63 million.
- 1H04 saw a major improvement in the integrated margin to 8.4 CPL from 6.0 CPL in 1H03. I will discuss why later on.
- You will note that the basis for calculation of both Caltex Refiner Margin and Marketing Margins has changed for two reasons :
  1. The basis of Caltex Refiner Margin changed in 2004 to more accurately reflect the quality of petrol used in Australia. The 2003 comparative has been restated to reflect this change.
  2. Marketing margins are now adjusted to include the effects of inland distribution costs, which are recovered in our pricing.
- Rather than go into some quite technical details here on these two changes, can I ask you to contact our Manager Investor Relations, Harvey Ward, who will assist you with any questions you may have.
- The last point I want to make on this slide is the major improvement in integrated margins we have enjoyed since the beginning of this decade.



## 1H04 Caltex Refiner Margin was US \$7.07

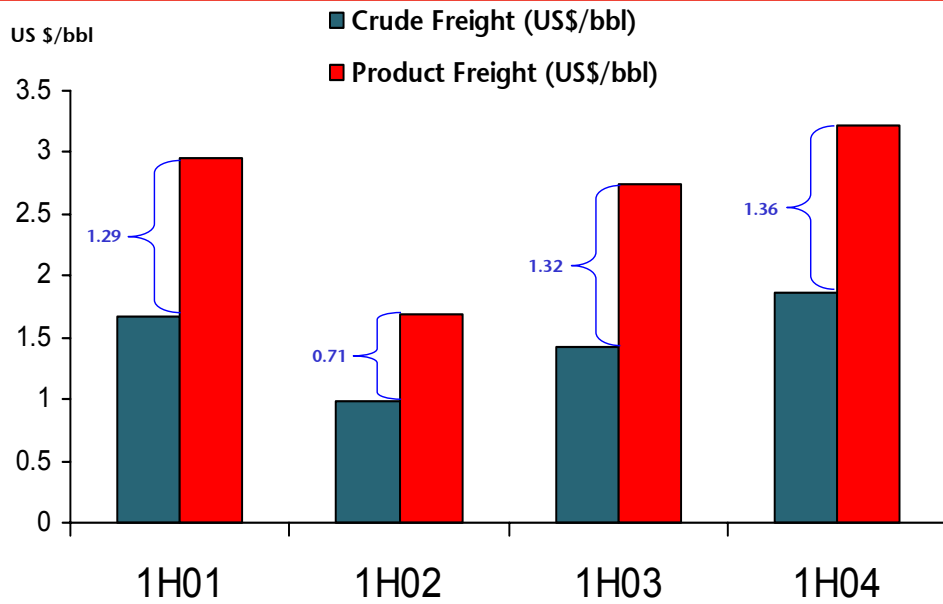


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- The Caltex Refiner Margin is a proxy for the margin realised by Caltex's refineries. The margin is based on the Singapore weighted average refiner margin, adjusted for product freight, crude freight, crude premiums or discount, product quality premiums and the average product yield at our refineries.
- The average Caltex refiner margin for 1H04 was US\$ 7.07 which when compared to the 5 year average to December 2003 of US\$ 2.57, shows the significant improvement in Asian refiner margins.
- The main driver behind the much higher Caltex Refiner Margin for 1H04 was a very tight supply/demand balance across the globe. I will talk more about these dynamics later in the presentation.
- One component of Caltex Refiner Margin is the premium or discount we pay on our crude slate relative to Tapis, which is the Asian region's benchmark light low sulfur crude. For clarity, let me emphasise "premium" means we paid more for our crude oil.
- In the past we have given details of this premium. However, this information is commercially sensitive and we have decided not to disclose the exact value going forward.
- What I can say is that the premium we paid relative to Tapis in 1H04 was less than the 49 US cents we declared for the same period in 2003.
- Premiums remain strong at the beginning of 2H04 and are being supported by high demand for light sweet crudes, especially from China. These premiums will partially offset the strong integrated margins we have been enjoying.



## Caltex Refiner Margin: crude freight costs increased, but were offset by growth in product freight

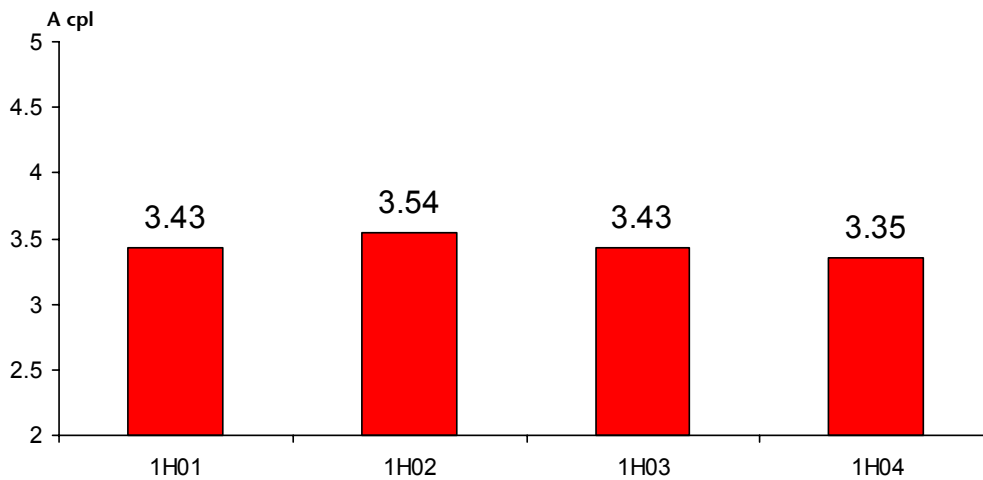


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- We expect both crude freight and product freight markets to remain tight in 2H04.



## Unit operating costs are declining



**Operating expenses** (cents per litre)

Excluding inland distribution costs recovered in pricing

Based on total volumes, including buy/sell (previously excluded buy/sell)

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- As discussed previously in the long term unit costs must decline for the Australian industry to remain competitive. We have been making progress in 2004. While we are not yet finished with planning for 2005, the impact of costs to implement the Clean Fuels Project along with production impacts from construction are likely to keep unit costs roughly even with 2004, before resuming their downward trend.



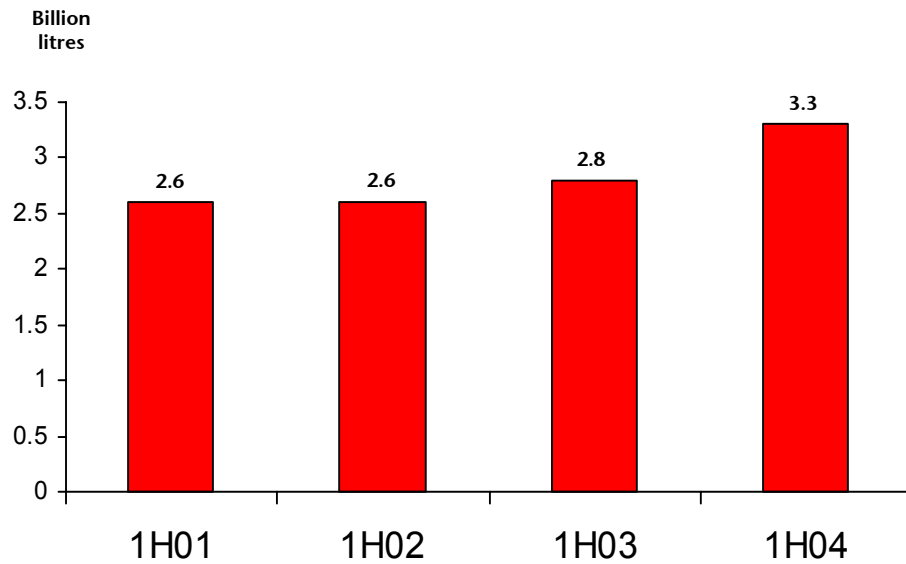
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- On slides 16-23 I will outline the key Marketing profit drivers of the company.



## 1H04: petrol sales up 17.5% over 1H03



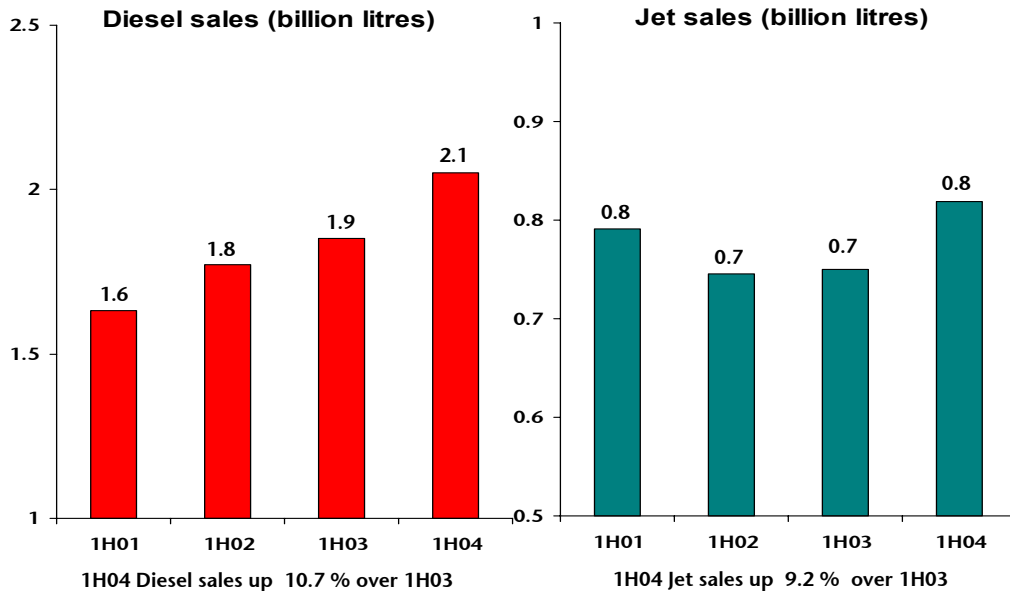
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- This graph sets out our petrol sales in 1H04, mainly in our Retail and Reseller/Distributor business units. Overall, petrol sales were up 17.5% over same period last year. The majority of this growth was in our Retail channel which now includes sales by sites included in the Woolworths venture.

- I will give you more detail on that venture in a moment.



## Diesel and jet sales



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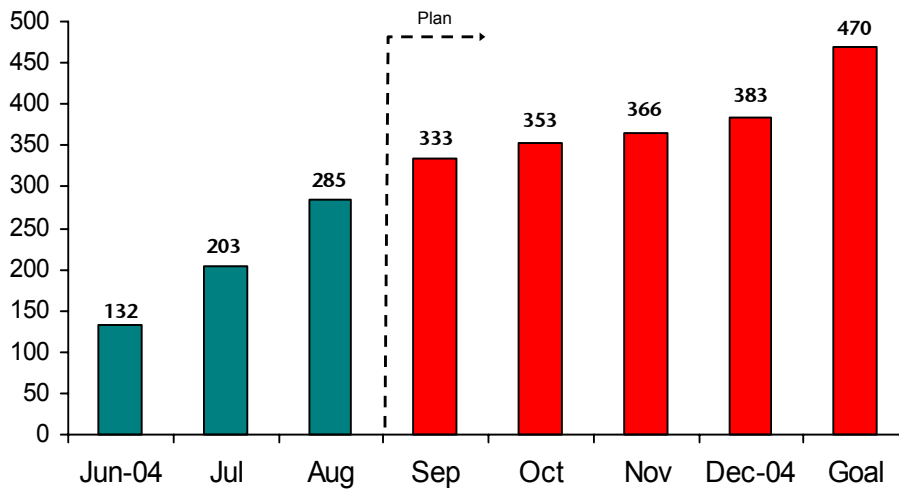
- The graph on the left sets out the performance of our diesel sales which posted growth of 10.7% over the same period last year.
- The main reasons for this growth was strong demand from both the transport sector and the mining sector which continues to benefit from a buoyant Australian economy. Rural demand for diesel has also rebounded as certain areas of Australia begin to recover from drought conditions.
- The chart on the right sets out our Jet sales performance which posted growth of 9.2% over the same period last year.



## Woolworths: volume and rollout

- Fuel volume at converted Caltex venture sites has seen an average increase of 80% over the same period last year

No Site Rollout

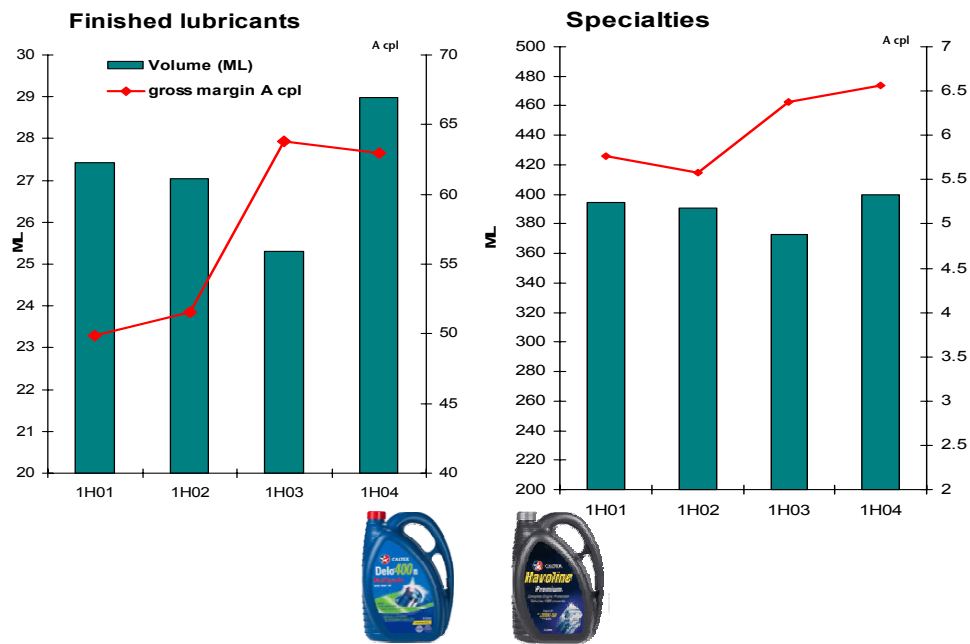


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- Woolworths and Caltex finalised arrangements back in April of this year for the national expansion of the Woolworths fuel discount redemption offer to around 470 sites.
- We are very pleased with the progress of the rollout of venture sites as shown in the graph.
- We are also very pleased by initial fuel volume performance at converted Caltex venture sites, which have seen an average increase of 80%.



## Lubricants & Specialties

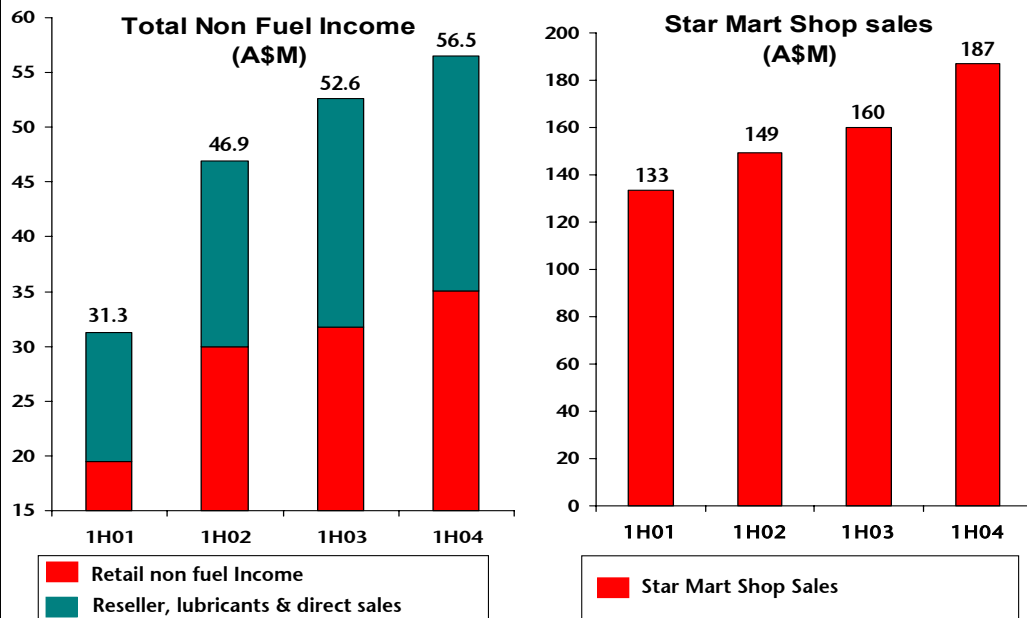


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- The chart on the left sets out the performance of finished lubricants sales and margins. Gross margin grew 13.2% over the same period last year as we continue to focus on more profitable business.
- The total gross margin before operating expense allocation was \$44.5 million for both finished lubricants and specialties in 1H04 which was over 11% up on the same period last year.
- Overall sales of higher margin products such as Delo 400, our premium lubricant for diesel engines, have contributed to higher margins.
- Specialty products including bitumen, LPG and wax have maintained healthy margins, while volumes tend to vary with refinery fuels production & crude throughput.
- While not on this chart, base oil sales have increased by 76% over the 1H03, with the closure of competitor facilities at Port Stanvac. Shell has also announced plans to close its Geelong base oil plant in September 2004.
- Upon closure of Geelong, Caltex will be the only manufacturer of base oils and waxes in Australia.



## Non fuel income and store sales

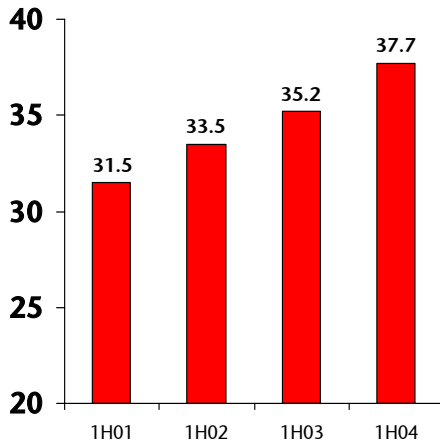


- Total non fuel income represented here by the chart on the left was up 7.4% from same period last year. The main contributor to growth in royalty income was from Retail, which is represented by the red bar in the chart on the left.
- The Green bar on the chart on the left shows non fuel income generated by channels other than Retail. This comprises revenue from our equity distributors, fleet card, pipeline and airport refuelling assets.
- The chart on the right shows total sales of our Star Mart convenience stores at \$187 million and increasing. We are the largest convenience retailer in Australia.




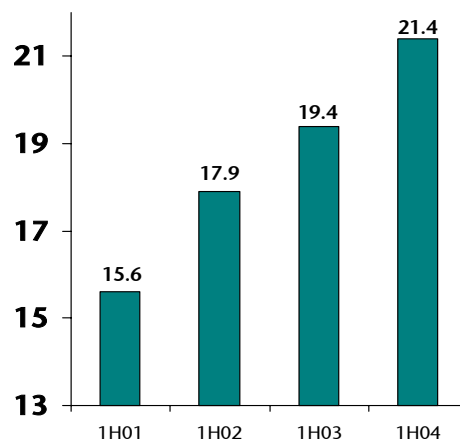
## Average weekly sales for Star Mart and Star Shop

 average sales (\$'000/wk)



Like for like sales were up 6.9%

 average sales (\$'000/wk)



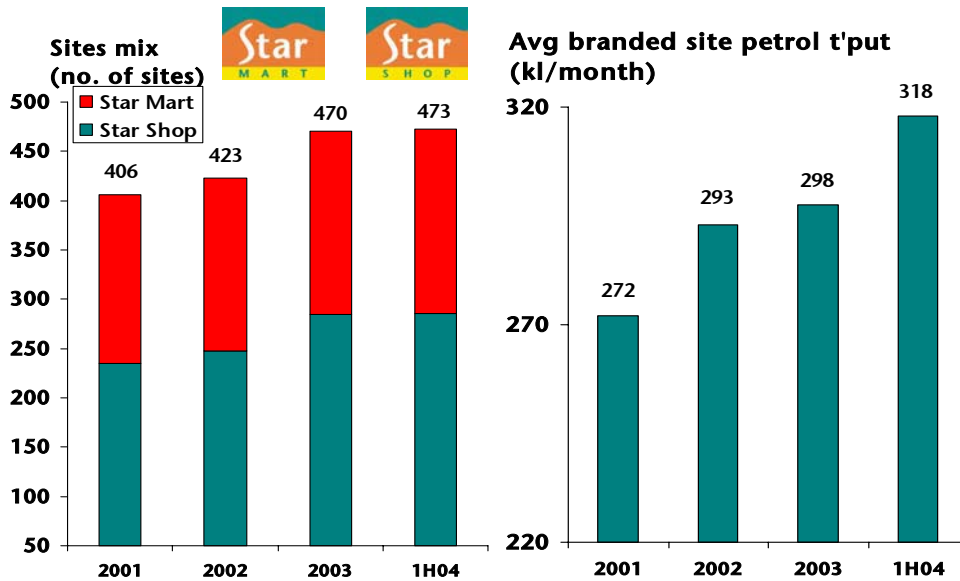
Like for like sales were up 7.2%

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- Average sales through Star Mart stores increased by 7.1% compared to the corresponding period, with average shop sales of \$37.7k per week.
- Sales through our Star Shops, our smaller store format, were up 10.3% compared with the corresponding period, with average shop sales of \$21.4k per week.
- In terms of like for like sales, the average Star Mart grew 6.9% and the smaller Star Shop grew 7.2%.



## Site numbers + average branded petrol volumes



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- Average site petrol volume continues to grow and is now just under 320,000 litres per month. Here our venture with Woolworths is starting to lift average volumes, which lowers our unit costs to operate these facilities.
- As the shopper docket redemption scheme expands in Australia we are focused on extending our venture through sites operated by our franchisees, and continued investments in retail sites. Overall we expect relatively constant to slightly declining number of facilities as uneconomic sites leave the network.



We put more in

**YOU DON'T  
HAVE TO BE AN  
EXPERT TO  
LOOK AFTER  
YOUR CAR.**

**Vortex** Premium petrol formulated to look after your car.

**CALTEX**  
we put more in

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- Some of you may have seen our new commercials highlighting the benefits of our premium petrol brand Vortex.
- The commercials are one outcome of a review and upgrade of our brand positioning, to support moving to our vision, "to be the Australian oil refining and marketing company most admired for its people, partnership and performance".



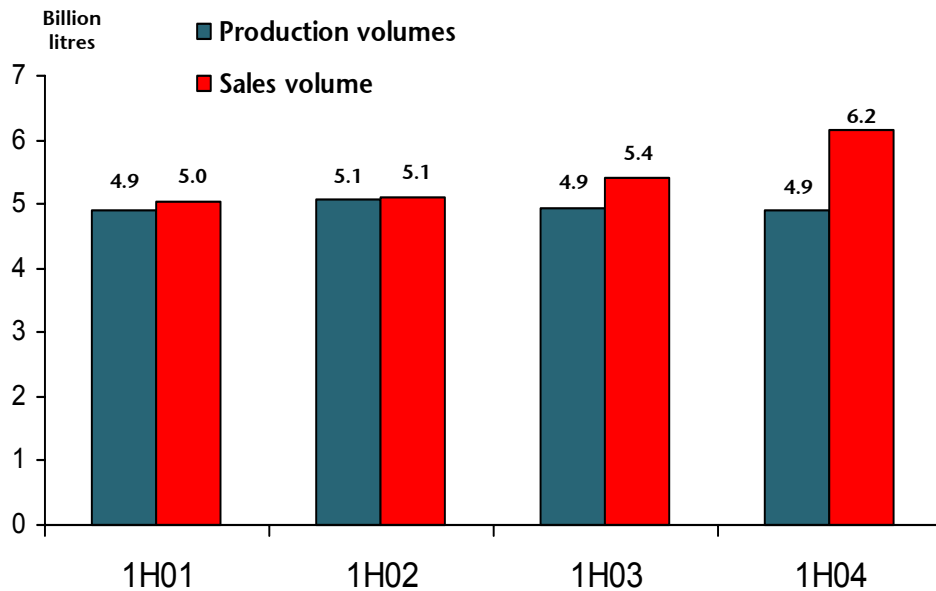
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- In slides 25-27 I will outline the key Refining profit drivers of the company.



## Transport fuels production and sales



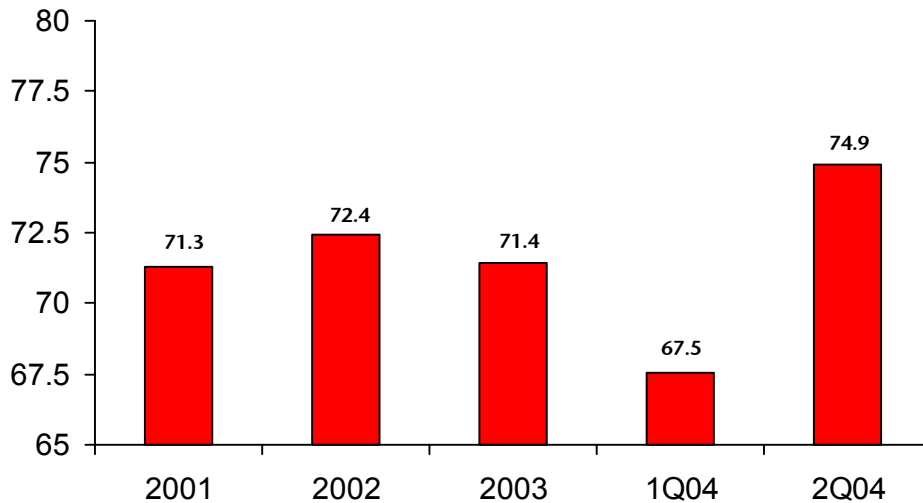
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- This slide was introduced with our full year 2003 results and sets out both the production and sales of transport fuels, comprising petrol, diesel and jet.
- You should note that Caltex enjoys both the Caltex Refiner Margin and the marketing margin on production. However, on the purchases made by Caltex we only achieve a marketing margin.
- As can be seen, we have been a net purchaser of transport fuel. This net purchase is made from domestic refiners under buy/sell arrangements which began in 2002, and also imports of finished product.
- In 1H04, we purchased a net 1.3 billion litres due, mainly to the increase in volumes from our venture with Woolworths and also in part, to lower production in 1Q04 at our Kurnell refinery.
- Our challenge is to economically increase refinery utilisation so that we capture the maximum refiner margin.



## Utilisation remains an opportunity

### Refinery Utilisation (%)



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- As seen in the previous slide, lifting refining utilisation is a big opportunity for the company.
- As you can see the first 3 months of 1H04 saw utilisation fall. Mainly as a result of shutting down the crude distillation unit at Kurnell to enable cleaning of the furnace to improve throughput.
- In 2Q04 we were able to demonstrate progress which saw utilisation increase to an average 74.9% . Our entire team is focused on lifting performance in this area.
- It is important to note that utilisation (and hence production) depends on our units being available to operate. While our performance is beginning to respond, this is a long term focus. Our clean fuels investments will involve significant tie-in activity in 2005 and utilisation is likely to be impacted, but with a rebound in 2006.
- Over the last several months we have begun a review of our refining & supply operations to help us adjust to the new market dynamics. The opportunity lies in our crude to customer planning systems, and in our ability to have our refineries available and configured to meet higher fuel demand. While we are in the early days of the review it is clear there is a significant prize to go after, perhaps in the range of \$100 – 150 million EBIT over the next several years. This is based on a campaign for Caltex to achieve world best practices. While it may not ultimately be economic to go after every opportunity, and the size of the ultimate prize will be impacted by future market conditions and margins, clearly we have ample internal earnings growth capability.



## The Clean Fuels Project



- Clean Fuels Project approved February 2004
- 1H04 saw progress on both planning and procurement
- Site preparation work is expected to begin in September at both refineries.

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- The Board decided to go ahead with the Clean Fuels Project in February 2004.
- 1H04 saw progress on both planning and procurement at both refineries.
- Site preparation work is expected to begin in September at both refineries.
- A total of \$295 million (+/- 10%) will be incurred by the time production begins in 4Q05, the approximate profile of this expenditure is :
  - 2003 expenditure was \$33 million
  - 2004 expenditure will be about \$100 million
  - 2005 expenditure will be about \$162 million.



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- I want to now turn to some of the industry and regional issues that we believe will impact on our future.



## Industry fundamentals are changing

- We believe that in the medium term, regional refining margins will be above the 5 year average of US\$ 2.57 per barrel
- Australia is now short petrol, diesel and jet and must import from a region which is becoming tighter
- Regional planned capacity additions are below projected demand growth
- Capacity expansion will be concentrated mainly in China and India by national oil companies
- Australia has different fuel specifications to most Asian countries. From January 2006, the differences will increase due to Australia's adoption of higher clean fuel specifications

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•We believe that in the medium term, regional refining margins will be above the 5 year average of US \$2.57 per barrel.

•Australia is now short petrol, diesel and jet and must import from a region which is becoming tighter.

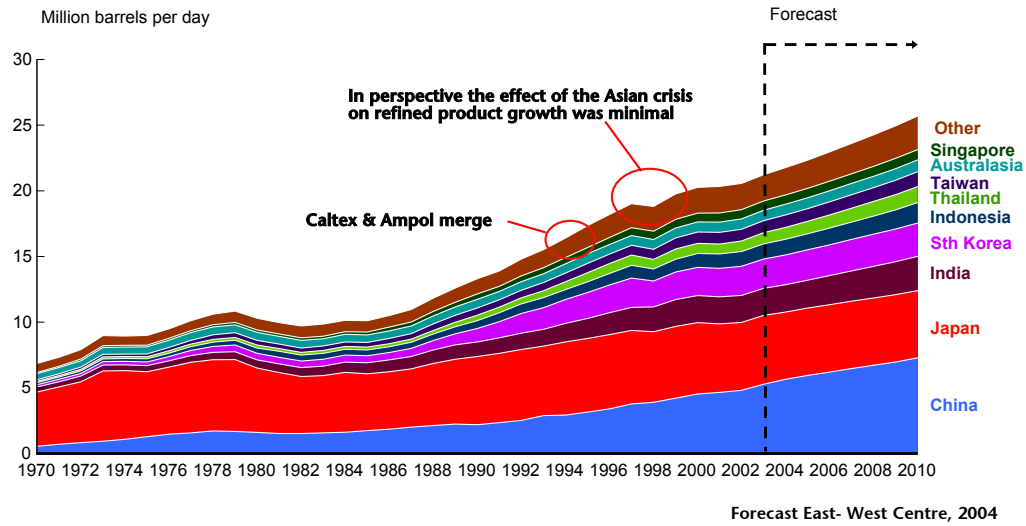
•Regional planned capacity additions are below projected demand growth.

•Capacity expansion will be concentrated mainly in China and India by national oil companies.

•Australia has different fuel specifications to most Asian countries. From January 2006, the differences will increase due to Australia's adoption of higher clean fuel specifications.



## Regional demand growth projections

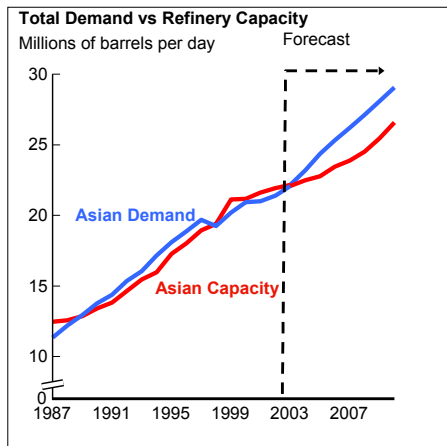


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- This slide puts fuel demand growth in perspective. Since 1970 demand is up around 300%, and continued growth is forecast, primarily in China and India.
- Despite the severe economic slowdown in Asia in the late 1990s, which temporarily created an oversupply situation, the underlying trend is a need for capacity expansion. That is unlikely to come from Australian refineries. The result is that Australia will remain a net importer, providing support for local refiners like Caltex.



## Asian supply growth will come from higher utilisation, capacity creep and eventually new capacity



- Planned capacity additions are below projected demand growth
- Capacity expansion will be concentrated mainly in China and India

\* Forecasts based on 'steady growth' Asian demand scenario (CAGR 4.0% 2004–2010) & 'forecast build' Asian Crude Distillation Capacity scenario (CAGR 2.6% 2004–2010)

Source: Historic : BP Statistical Review (1987–2002); Forecast East- West Centre, Port Jackson Partners 2004

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- So, the key question is how will supply & demand match over the coming years.
- The blue line on this Chart represents actual & forecast demand for fuels in Asia, with the red line being forecast capacity. Given the lead times for investment it is likely that capacity will remain highly utilised. Forecasts beyond 3-5 years become less certain.
- For perspective approximately 33 refineries the size of our Kurnell plant will need to be built in Asia in the next 6 years to meet projected demand increases.



## Caltex- the journey

- Caltex is the market leader in Australia
- Caltex is investing to maintain its leadership, clean fuels investment
- Debt is under control, credit rating lifted to BBB+ stable
- Clear dividend policy is now in place
- Caltex is now part of the Standard & Poor's ASX 100 index
- Venture with Woolworths

### Our focus is :

- On Safety: Incident Free Operations
- Raising refinery utilisation
- Being the best in the markets we choose
- Crude and fuels supply chain
- Lower unit costs
- Returns to our shareholders

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•To put our results in context, we have been putting in place the fundamental steps for a healthy growing company. Here are a few facts :

- Caltex is the market leader in Australia
- Caltex is investing to maintain its leadership. Notably our clean fuels investment and excellent retail system we have built over the last decade
- Debt is under control, credit rating lifted to BBB+ stable
- Clear dividend policy is now in place
- Caltex is now part of the Standard & Poor's ASX 100 index
- Venture with Woolworths is finalised and we are nearing full rollout

### Our focus is :

- Safety: Incident Free Operations
- Raising refinery utilisation
- Being the best in the markets we choose
- Crude and fuels supply chain
- Lower unit costs
- Returns to our shareholders



**We put more in**



- We will now start with some questions from Sydney, before rotating to both Brisbane and Melbourne.

- END. Once again thanks for your interest in Caltex today and we look forward to seeing you all again at the end of February 2005 when we will announce our full year results for 2004.



## Important Notice

This presentation for Caltex Australia Limited is designed to provide:

- an overview of the financial and operational highlights for the Caltex Australia Group for the half year ended 30 June 2004; and
- a high level overview of aspects of the operations of the Caltex Australia Group, including comments about Caltex's expectations of the outlook for the second half of 2004 and future years, as at 27 August 2004.

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