

**CALTEX AUSTRALIA LIMITED**

**ACN 004 201 307**

**2004 HALF YEAR 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)	half year ended 30 June		
		2004	2003
Revenues from ordinary activities	↑ 19.7%	6,191,695	5,171,289
Profit from ordinary activities after tax/net profit for the period attributable to members:			
Replacement cost basis <sup>1</sup> (excluding significant items)	↑ 109.4%	180,319	86,144
Historical cost basis (including significant items)	↑ 346.8%	340,608	76,239

Dividend	2004	2003
<b>Dividends declared:</b>		
Interim dividend:		
- Amount per security (fully franked)	14¢	4¢
Final dividend:		
- Amount per security (fully franked)		8¢
Special final dividend:		
- Amount per security (fully franked)		6¢
<b>Record date for determining entitlement to 2004 interim dividend</b>	10 September 2004	
<b>Date 2004 interim dividend is payable</b>	1 October 2004	

## Highlights

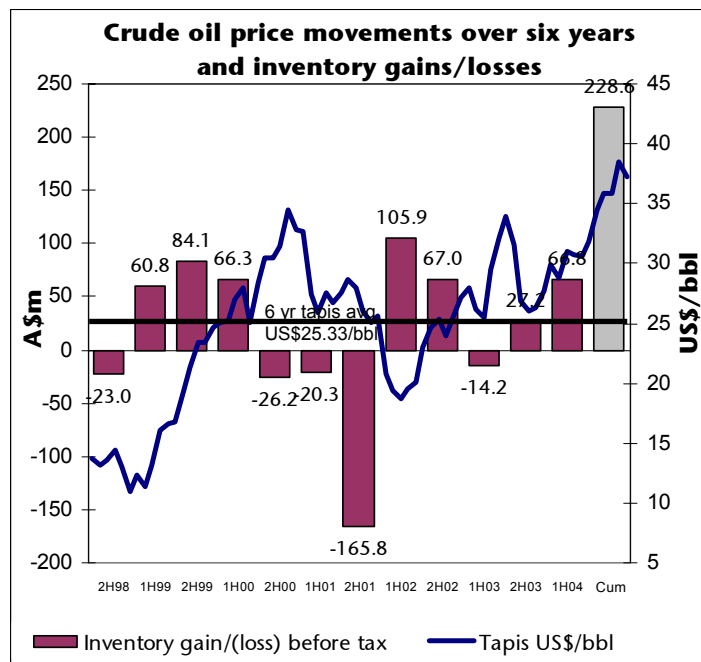
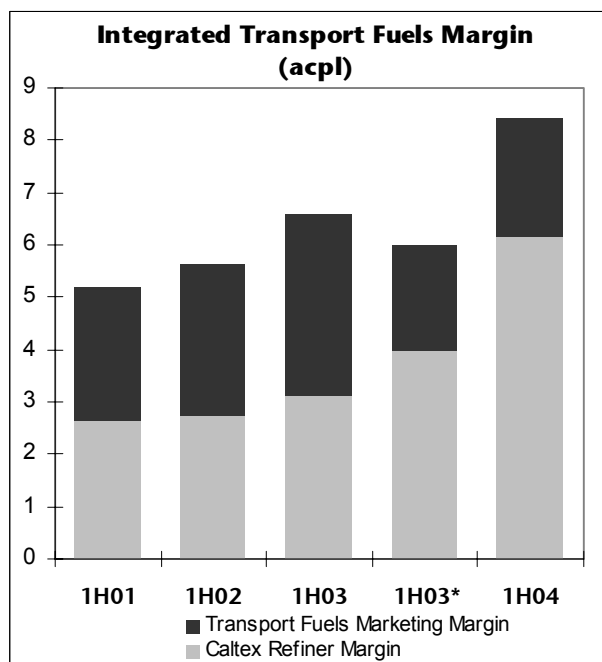
- Replacement cost of sales operating profit after tax of \$180.3 million, up 109.4%, primarily due to stronger refiner margins, stable average marketing margins and significant growth in sales volumes of transport fuels and lubricants.
- Singapore refiner margins strengthened in the first half of 2004 against a backdrop of strong domestic, regional and North American economic growth. This was reflected in a higher Caltex Refiner Margin (CRM) averaging US\$7.07/bbl in the first half 2004 (first half 2003: US\$3.90/bbl)<sup>2</sup>.
- On an historical cost basis, Caltex made an after tax profit of \$340.6 million for the first half 2004, compared to \$76.2 million in the first half 2003. This included a significant item of \$113.5 million relating to an income tax benefit upon entry into the new tax consolidation regime and inventory gains of \$46.8 million (after tax). This compared to inventory losses of \$9.9 million (after tax) in the first half 2003.
- Interim dividend declared of 14 cents per share, up from 4 cents per share in the first half of 2003.
- Debt down to \$535.7 million, gearing 26.0% (December 2003: \$624.4m, gearing 33.8%).

<sup>1</sup> The replacement cost of sales operating profit excludes the impact of the fall or rise in oil prices (a key external factor) and presents 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.

<sup>2</sup> 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.

## Key Performance Indicators

	half year ended 30 June				
	2004	2003	2002	2001	2000
<b>Profit before interest and tax (\$m)</b>					
- Replacement cost basis (excluding significant items)	278.8	153.5	129.3	36.2	45.1
- Historical cost basis (including significant items)	345.6	139.4	227.7	31.4	111.4
<b>Profit/(Loss) after interest and tax (\$m)</b>					
- Replacement cost basis (excluding significant items)	180.3	86.1	63.7	(0.5)	(5.3)
- Historical cost basis (including significant items) <sup>1</sup>	340.6	76.2	130.4	1.2	41.1
<b>Inventory gains/(losses) before tax (\$m)</b>	66.8	(14.2)	105.9	(20.3)	66.3
<b>Basic earnings per share (cents)</b>					
- Replacement cost basis (excluding significant items)	66.8	31.9	23.6	(0.2)	(2.0)
- Historical cost basis (including significant items)	126.2	28.2	48.3	0.5	15.2
<b>Return on equity attributable to members of the parent entity after tax, annualised (%)</b>					
- Replacement cost basis (excluding significant items)	23.8	15.6	13.5	(0.1)	(1.0)
- Historical cost basis (including significant items)	44.9	13.8	27.6	0.2	8.1
<b>Net tangible asset backing per share (\$)</b>	5.58	4.04	3.49	3.14	3.18
<b>Net debt (\$m)</b>	535.7	854.6	1,035.7	1,284.4	1,279.8
<b>Gearing (net debt to net debt plus equity) (%)</b>	26.0	43.4	52.1	56.0	55.4



\* 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.

<sup>1</sup> 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.

## Profit and Loss for the half year ended 30 June 2004

Millions of dollars	2004	2003	% change
1 Total revenue <sup>1</sup>	4,131.2	3,399.1	21.5
2 Total expenses <sup>2</sup>	(3,852.4)	(3,245.6)	18.7
<b>3 Replacement cost EBIT</b>	<b>278.8</b>	<b>153.5</b>	<b>81.6</b>
4 Net borrowing costs	(21.8)	(32.2)	(32.3)
Income tax expense	(76.7)	(35.2)	117.9
<b>Replacement cost profit</b>	<b>180.3</b>	<b>86.1</b>	<b>109.4</b>
5 Inventory gain/(loss) – after tax	46.8	(9.9)	N/A
6 Significant income tax item	113.5	-	-
<b>Historical cost net profit</b>	<b>340.6</b>	<b>76.2</b>	<b>346.8</b>
7 Interim dividend per share	14c	4c	
Final and special dividend per share	-	14c	
Basic earnings per share			
- Replacement cost – excluding significant items	66.8c	31.9c	
- Historical cost	126.2c	28.2c	

## Discussion and Analysis

<p><b>1 Total revenue</b></p> <p><b>↑ 21.5%</b></p>	<p>Total revenue increased primarily due to:</p> <ul style="list-style-type: none"> <li>• Higher crude prices;</li> <li>• Strong refiner margins; and</li> <li>• Significant growth in marketing sales volumes of transport fuels and lubricants.</li> </ul>
<p><b>2 Total expenses – replacement cost basis</b></p> <p><b>↑ 18.7%</b></p>	<p>The increase in total expenses is primarily caused by:</p> <ul style="list-style-type: none"> <li>• Higher cost of sales due to higher sales volumes and higher crude prices; and</li> <li>• Operating expenses increased in absolute terms but on a per litre sold basis operating expenses decreased 2% compared to the first half of 2003.</li> </ul>

<sup>1</sup> Excludes interest revenue, product duties and taxes and significant items (if applicable)

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

## Discussion and Analysis cont'd

<p><b>3 Replacement cost EBIT</b></p> <p><b>↑ 81.6%</b></p>	<p>Improvement in Caltex's underlying performance was driven primarily by strong refiner margins, stable average 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><b>Caltex Refiner Margin (CRM)</b></p> <p style="text-align: right;"><b>\$301.3m</b></p>	<p>CRM represents the difference between the cost of importing a standard Caltex basket of products to eastern Australia and the cost of importing the crude oil required to make that product basket. The CRM calculation basically represents:</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\$3.90/bbl in 1H03 to US\$7.07/bbl in 1H04 as Singapore refiner margins increased from an average of US\$3.83/bbl in 1H03 to an average of US\$7.08/bbl in 1H04. However, the increase in refiner margins was somewhat dampened by a higher AUD against the USD compared with 1H03.</p>
<p><b>Transport Fuels Marketing Margin</b></p> <p style="text-align: right;"><b>\$139.9m</b></p>	<p>Transport fuels comprise petrol, diesel and jet. The transport fuels marketing margin is based on the average net margin over Import Parity Price in Australia.</p> <ul style="list-style-type: none"> <li>The average transport fuels marketing margin remained stable compared with the first half of 2003. At the same time, transport fuel sales volumes increased overall by 14% across all products.</li> </ul>
<p><b>Lubricants and Specialties Margin</b></p> <p style="text-align: right;"><b>\$51.3m</b></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"> <li>Lubricants volumes grew overall by nearly 50% mainly due to additional base oil volume, following the closure of the Mobil Port Stanvac refinery.</li> </ul>
<p><b>Non Fuel Income</b></p> <p style="text-align: right;"><b>\$56.5m</b></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"> <li>Same store average Star Mart sales increased by 6.9% and same store average Star Shop sales by 7.2% compared with the first half 2003.</li> </ul>
<p><b>Operating Expenses</b></p> <p style="text-align: right;"><b>(\$281.0m)</b></p>	<p>Operating expenses include those costs not related to the cost of production such as finance and administration, marketing and other operating expenditure.</p> <ul style="list-style-type: none"> <li>Operating expenses increased in absolute terms but on a per litre sold basis operating expenses decreased 2% compared to the first half of 2003.</li> </ul>
<p><b>Other</b></p> <p style="text-align: right;"><b>\$10.8m</b></p>	<p>Other comprises a number of components including miscellaneous income and net exchange impacts.</p>
<p><b>Total Replacement Cost EBIT</b></p> <p style="text-align: right;"><b>\$278.8m</b></p>	<p>Replacement cost of sales operating profit before interest, tax and significant items.</p>

## Discussion and Analysis cont'd

<p><b>4 Net borrowing costs</b></p> <p><b>↓ 32.3%</b></p>	<p>Net debt reduced to \$535.7 million at 30 June 2004. This compares with \$854.6 million at 30 June 2003. The lower net debt level resulted in decreased borrowing costs.</p>
<p><b>5 Inventory gain/ (loss) - after tax</b></p> <p><b>1H04</b> <b>\$46.8m gain</b></p> <p><b>1H03</b> <b>\$9.9m loss</b></p>	<p>Regional crude oil prices rose in the first half 2004, (averaging US\$37.26/bbl in June 2004 and US\$30.59/bbl in December 2003). This increase resulted in inventory gains of \$46.8 million (after tax) compared with inventory losses of \$9.9 million (after tax) in the first half 2003.</p>
<p><b>6 Significant income tax item</b></p> <p><b>↑ \$113.5m</b></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 \$113.5 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 achieved over some 20-25 years, which is the effective life of revalued assets.</p>
<p><b>7 Interim Dividend</b></p> <p><b>14 cps</b></p>	<p>The Board declared an interim dividend (fully franked) of \$37.8 million or 14 cents per share. The record date is 10 September 2004, with the dividend payable on 1 October 2004.</p>

## Balance Sheet

as at 30 June 2004

Millions of dollars	June 2004	December 2003	change \$m
1 Working capital	449.3	343.1	106.2
2 Property, plant and equipment (PP&E)	1,603.4	1,615.3	(11.9)
3 Net debt	(535.7)	(624.4)	88.7
4 Other non current assets and liabilities	9.3	(110.3)	119.6
Total equity	1,526.3	1,223.7	302.6

## Discussion and Analysis

### 1 Working capital

**↑ \$106.2m**

The increase in working capital is primarily due to:

- Higher crude prices; and
- Weakening of the AUD during the first half of 2004.

Offset to some extent by:

- Higher income tax liability due to higher profits in the first half 2004.

### 2 PP&E

**↓ \$11.9m**

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

- Depreciation of \$59.6 million; and
- Net disposals of \$10.2 million; partially offset by
- Capital expenditure and major cyclical maintenance of \$57.9 million, including \$26.3 million relating to the Clean Fuels Project for Caltex's two refineries.

### 3 Net debt

**↓ \$88.7m**

Net debt has reduced to \$535.7 million at 30 June 2004, a decrease of \$88.7 million from 31 December 2003. As a result, Caltex's gearing (net debt to net debt plus equity) was 26.0%, down from 33.8% at 31 December 2003.

### 4 Other Non Current Assets and Liabilities

**↓ \$119.6m**





Other Non Current Assets and Liabilities have decreased as a consequence of entry into the new tax consolidation regime which resulted in a \$113.5 million decrease in deferred tax liabilities. For more information refer to the Profit and Loss, Discussion and Analysis, Note 6: "Significant income tax items".

## Cash Flows

for the half year ended 30 June 2004

Millions of dollars		2004	2003	change
	Receipts from customers	6,594.0	5,765.5	828.5
	Payments to suppliers and employees	(4,235.1)	(3,362.2)	(872.9)
	Payments for excise and GST	(2,059.8)	(2,155.6)	95.8
1	Borrowing costs paid	(26.7)	(31.1)	4.4
2	Other net operating activities	(90.4)	(62.9)	(27.5)
	<b>Net operating cash inflows</b>	<b>182.0</b>	<b>153.7</b>	<b>28.3</b>
3	Purchases of property, plant and equipment (PP&E) and major cyclical maintenance	(56.4)	(47.9)	(8.5)
	Other investing cash flows	1.7	(6.1)	7.8
	<b>Net investing cash outflows</b>	<b>(54.7)</b>	<b>(54.0)</b>	<b>(0.7)</b>
4	<b>Net financing cash outflows</b>	<b>(152.9)</b>	<b>(105.1)</b>	<b>(47.8)</b>
	<b>Net decrease in cash held</b>	<b>(25.6)</b>	<b>(5.4)</b>	<b>(20.2)</b>

## Discussion and Analysis

<p><b>1 Borrowing costs</b></p> <p> <b>\$4.4m</b></p>	<p>Net debt reduced to \$535.7 million at 30 June 2004. This compares with \$854.6 million at 30 June 2003. The lower net debt level combined with the timing of coupon payments resulted in an overall borrowing cost saving of \$4.4 million.</p>
<p><b>2 Other operating activities</b></p> <p> <b>\$27.5m</b></p>	<p>Income tax payments increased in the first half 2004. This increase is due to current year tax instalments being based on prior year historical cost profit and the final prior year tax payment falling due in the first half 2004.</p>
<p><b>3 Purchases of PP&amp;E and major cyclical maintenance</b></p> <p> <b>\$8.5m</b></p>	<p>The increase in capital expenditure in the first half 2004 related primarily to the Clean Fuels Project.</p>
<p><b>4 Net financing cash outflows</b></p> <p> <b>\$47.8m</b></p>	<p>This increase in net financing cash outflows is primarily due to payment of the 2003 final dividend of \$37.8 million in the first half 2004 (no final dividend was paid in the first half 2003).</p>

# 2004 HALF YEAR FINANCIAL REPORT

FOR

## CALTEX AUSTRALIA LIMITED

ACN 004 201 307

The 2004 Half Year Financial Report for Caltex Australia Limited includes the:

- Directors' Report
- Directors' Declaration
- Review Report (KPMG)
- Half Year Financial Statements

for the half year ended 30 June 2004

### *Caltex Australia Group*

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

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

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

**THE 2004 HALF YEAR FINANCIAL REPORT SHOULD BE READ IN  
CONJUNCTION WITH THE 2003 FINANCIAL REPORT**

# Directors' Report

## Introduction

The Board of Caltex Australia Limited presents this Directors' Report and the 2004 Half Year Financial Report for the Caltex Australia Group for the half year ended 30 June 2004 to shareholders. A Review Report from KPMG, Caltex's external auditor, is also provided.

## Board of Directors

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

## Directors' Profiles

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

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

Dick has served as a director of Caltex Australia Limited since 29 July 1999 and as Chairman of the Board from 26 April 2001. Dick is the Chairman of the Human Resources and 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 DuPont's petro-chemical business operations in Australia and New Zealand.

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

#### **External directorships**

- The Board of Taxation (Chairman)
- Tandou Limited (Chairman)
- Nufarm Limited
- Tabcorp Holdings Limited

#### **Previous directorships**

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

### **Dave Reeves** **Managing Director 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.

Dave has previously held a number of senior marketing and retail roles with companies in the ChevronTexaco Group after joining Chevron in 1978 as an associate engineer in the marketing department in San Francisco.

#### **External directorship**

- Australian Institute of Petroleum Limited (Chairman)

## Directors' Report cont'd

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

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

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

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

Elizabeth is a professional director and brings management, strategic and financial expertise to Caltex. In her most recent corporate role before joining the Board, Elizabeth served as the Chief Executive Officer of Deutsche Asset Management (Australia).

#### **External directorships**

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

#### **Previous directorships**

- Western Metals Limited (2000 – 2002)

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

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

John was appointed as a director with effect from 2 June 2004 as an addition to the Board. John is a member of the Audit Committee.

John has had over 37 years professional experience with PricewaterhouseCoopers, where he was a partner from 1982 to 2003 and responsible for major international and local companies. John served as the Managing Partner of the Assurance and Business Advisory Service practice from 1998 to 2001 and as the National Managing Partner from 2001 to 2003. He has international and Australian management experience having served on global and local management boards. After leaving professional practice, John has embarked on a career as a company director.

John brings expertise to the Board in the areas of audit and accounting practice and standards, business advisory services and risk management. John is a fellow of the Institute of Chartered Accountants and a member of the Australian Institute of Company Directors.

#### **External directorships**

- National Australia Bank Limited
- Salmat Limited

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

*Bachelor of Science (Victoria University, New Zealand)*

*Date of birth: 18 July 1953 (Age: 51 years)*

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

Leo is Vice President – Joint Ventures and New Business Development for ChevronTexaco and brings considerable knowledge of the oil and gas business to Caltex. He is currently based in Singapore and has responsibility for ChevronTexaco's downstream joint ventures and business development activities.

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

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

*Bachelor of Laws (The University of Sydney, Australia) and 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. Ken has over 30 years of commercial law knowledge and experience and advises large and medium size corporates in commercial law matters. Ken has a long association with Caltex Australia and was a legal adviser to Caltex during the merger with Ampol in 1995.

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

## Directors' Report cont'd

<p><b>Mitchell Rubinstein</b> <b>Alternate Director</b></p> <p><i>Bachelor of Arts in Political Science/Asian Studies (University of Michigan, USA), Master of Arts in International Relations (Columbia University, USA) and Masters of Business Administration – Finance (New York University, USA)</i></p> <p><i>Date of birth: 21 April 1960 (Age: 44 years)</i></p> <p>Mitch has served as an alternate director for Leo Lonergan (from 25 February 2004) and Martin Southern (from 25 February 2004 to 1 July 2004).</p> <p>Mitch is the General Manager – Crude Supply and Trading, Asia Pacific with ChevronTexaco Global Trading, a division of Chevron U.S.A. Inc. (a company in the ChevronTexaco Group).</p>	<p><b>Martin Southern</b> <b>Previous Director (Non-executive)</b></p> <p><i>Incorporated Engineer</i></p> <p><i>Date of birth: 23 June 1959 (Age: 45 years)</i></p> <p>Martin served as a director from 25 February 2004 to 1 July 2004. Martin resigned for health reasons and has relocated from Singapore to the United Kingdom, where he has taken up a new position with ChevronTexaco.</p> <hr/> <p><b>Johannes (Steve) de Bruyn</b> <b>Previous Alternate Director</b></p> <p>Steve served as an alternate director for Leo Lonergan from 1 January 2004 to 25 February 2004.</p>
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## Review of Results and Operations

### General Overview

Replacement cost of sales operating profit (RCOP) after tax (excluding significant items) was \$180.3 million, a 109.4% increase on the \$86.1 million result in the first half of 2003. The improved result was primarily due to stronger refiner margins achieved against a backdrop of strong domestic, regional and North American economic growth. Caltex's marketing business benefited from its improved domestic positioning which saw significant growth in sales volumes of transport fuels and lubricants with a stable average marketing margin on higher volumes.

Strong regional demand, combined with below-average product inventories, led to a higher Singapore weighted average refiner margin<sup>1</sup> of US\$7.08/bbl in the first half of 2004 compared with US\$3.83/bbl<sup>2</sup> in the first half of 2003. An internal measure, the Caltex Refiner Margin (CRM), is a more accurate measure of the refining margins achieved by the company and considers premiums paid on crude oil, crude and product freight costs, product yields achieved by the Caltex refineries and product quality premiums. Caltex's CRM increased significantly from an average of US\$3.90/bbl<sup>2</sup> in the first half of 2003 to US\$7.07/bbl in the first half of 2004.

Strong results helped Caltex reduce its net debt to \$535.7 million at 30 June 2004 from \$624.4 million at 31 December 2003. As a result, Caltex's gearing (net debt to net debt plus equity) at 30 June 2004 was 26.0%, down from 33.8% at 31 December 2003. Caltex spent \$57.9 million on capital expenditure and major cyclical maintenance during the first half of 2004, including \$26.3 million for the Clean Fuels Project. This compares to \$47.9 million in the first half of 2003, including \$6.3 million for the Clean Fuels Project.

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 \$113.5 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.

Including the significant item of \$113.5 million, the consolidated historical cost net profit after tax was \$340.6 million, a 346.8% increase on the \$76.2 million result in the first half of 2003. Also included in the historical cost net profit after tax were oil price driven inventory gains of \$46.8 million (after tax).

<sup>1</sup> The Singapore refiner margin for a particular product is the difference between the published Singapore ex-refinery price of that petroleum product and the price of Tapis crude oil feedstock and does not include any premiums for Australian fuel quality.

<sup>2</sup> The basis of Singapore refiner margins and CRM changed in 2004 to more accurately reflect the quality of petrol used in Australia. The 2003 comparatives have been restated to reflect this change.

# Directors' Report cont'd

## General Overview cont'd

The 2004 first half inventory gains of \$46.8 million (after tax) were driven by rising regional crude oil prices (averaging US\$37.26/bbl in June 2004 compared with US\$30.59/bbl in December 2003). Falling crude prices and their pattern of volatility in the first half of 2003 resulted in inventory losses of \$9.9 million (after tax).

The Board declared an interim fully franked dividend of \$37.8 million or 14 cents per share. The record date is 10 September 2004 with the dividend payable on 1 October 2004.

## Marketing

Caltex markets fuels, lubricants, specialty and convenience store products through a national network of Caltex and Ampol branded service stations, Caltex Woolworths jointly branded service stations and branded resellers (distributors) combined with a significant level of direct sales to commercial end users.

Caltex achieved record transport fuels sales in the first half of 2004 with a 14% growth in volume compared with the first half of 2003, well ahead of overall growth in the Australian market. This was the result of increased diesel sales volumes in the branded reseller (distributor) and direct sales channels and higher sales volumes following the launch of the Caltex Woolworths venture and the on-going rollout of the national network of jointly branded retail sites. The growth in fuels sales combined with margin improvements in direct sales channels to some extent offset the pressure on retail margins which emerged with the development of national supermarket petrol ventures.

In the first half of 2004 there was continued strong growth in lubricants and specialties, which recorded substantial increases in volumes compared with the same period last year. Lubricants volumes grew overall by nearly 50% mainly due to additional base oil volume, following the closure of the Mobil Port Stanvac refinery.

Non fuel income also continued to grow through our convenience store network and card products. Store sales continue to rise, with same store average Star Mart sales up by 6.9% on the previous year's first half and same store sales at the network of smaller Star Shop stores up by 7.2%.

The final arrangements for the Caltex Woolworths venture were concluded on 28 April 2004. The jointly branded Caltex Woolworths network is expected to consist of up to 470 service stations. 193 of the 315 Woolworths Petrol sites have already been converted to the joint branding and 92 Caltex sites have either signed or are operating under joint branding. The Caltex sites include a growing number of sites operated by Caltex franchisees offering fuel for sale under a selling agency arrangement.

Fuel sales volumes at the Caltex sites which have been converted to the jointly branded Caltex Woolworths network have increased by an average of 80%, while nearby Caltex-branded sites have on average maintained year-on-year sales volumes.

## Refining and Supply

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

Following Caltex's decision in February 2004 to proceed with a \$295 million Clean Fuels Project, progress has been made on planning and procurement for the new facilities at both the Lytton and Kurnell refineries.

The refineries are being equipped to produce fuel to meet standards that come into effect in January 2006 for petrol with lower benzene content and diesel with lower sulphur content. They will also be capable of producing premium unleaded petrol and diesel to the tougher 2008/9 standards that were announced in July 2004. Caltex will produce petrol and diesel in 2006 and 2007 respectively to these tougher standards, provided it is economic to do so and taking into account the Australian Government's cleaner fuels incentives.

Caltex refining operations have been gearing up to meet the higher demand from the Caltex Woolworths venture. Refinery reliability will be a key driver of success in meeting supply requirements for the expanding marketing business.

## **Directors' Report cont'd**

### **Refining and Supply cont'd**

Utilisation in the first half of 2004 was similar to the first half of 2003 due to shutdowns in the first quarter of this year. However, utilisation in the second quarter increased consistent with increasing sales volume and focus on refining reliability, and this trend is expected to continue in the long term. During 2005, utilisation will be temporarily affected by construction of the clean fuels facilities.

### **Outlook**

To ensure profitable growth and to create future opportunities, extensive work has been done this half year refocusing Caltex's marketing strategies and repositioning the brand. There will be significant investment in supporting the brand and further strengthening Caltex's market leadership in convenience retailing. Retail petrol sales will continue to increase with the rollout of the Caltex Woolworths network. At the same time there is also a strong focus on volume and margin growth in other marketing channels, premium fuels and lubricants and moves to increase non fuel income.

Refining margins for the second half are unlikely to remain as strong as in the first half but will continue to be supported by the regional demand/supply balance.

The improved performance will assist Caltex in its ability to fund its \$295 million Clean Fuels Project from operating cash flow.

The reduction in debt over the past two years has also made the company significantly less vulnerable to external factors such as oil price rises and currency movements.

Caltex will continue to focus on improving safety, production reliability, operational excellence, cost management, capital efficiency and partnering with its employees and other stakeholders.

Shareholders have again enjoyed substantial capital appreciation with the share price doubling since 31 December 2003. Caltex was the third best performing share in the 2003/04 financial year of the top 200 ASX listed companies. This share price performance enabled Caltex to gain inclusion in Standard & Poor's 100 Index on 26 July 2004.

### **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 30 June 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**

Caltex Australia Limited is an entity to which the Australian Securities and Investments Commission (ASIC) Class Order CO 98/100 applies and, in accordance with the relief afforded by the class order, amounts have been rounded off to the nearest thousand dollars (unless otherwise stated).

The Directors' Report 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, 27 August 2004

## Directors' Declaration

The Board of Caltex Australia Limited has declared that:

- the financial statements of Caltex Australia Limited and the Caltex Australia Group, for the half year ended 30 June 2004 and the accompanying notes comply with Accounting Standards;
- the financial statements for the half year ended 30 June 2004 and notes, give a true and fair view of the financial position of the Caltex Australia Group at 30 June 2004 and of its performance for the half year;
- in the directors' opinion, there are reasonable grounds to believe that Caltex Australia Limited will be able to pay its debts as and when they become due and payable; and
- in the directors' opinion, the financial statements for the half year ended 30 June 2004 and notes are in accordance with the Corporations Act 2001 (Cth).

The Directors' Declaration 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, 27 August 2004

## Review Report

### Independent review report to the members of Caltex Australia Limited

#### Scope

We have reviewed the financial report of Caltex Australia Limited ("the Company") for the half-year ended 30 June 2004, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes 1 to 17 and the directors' declaration set out in the 2004 Half Year Financial Report. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the half year or from time to time during the half year. The Company's directors are responsible for the financial report.

We have performed an independent review of the financial report in order to state whether, on the basis of procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows and in order for the Company to lodge the financial report with the Australian Securities and Investment Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. The review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

#### Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of Caltex Australia Limited is not in accordance with:

- a) the Corporations Act 2001, including:
  - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2004 and of its performance for the half year ended on that date; and
  - ii. complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.



KPMG



Trent van Veen  
Partner

Sydney, 27 August 2004

# Statement of Financial Performance

for the half year ended 30 June 2004

Thousands of dollars	Note	Consolidated	
		30 June 2004	30 June 2003
Gross sales revenue		<b>6,100,142</b>	5,045,627
Product duties and taxes		<b>(2,059,848)</b>	(1,771,265)
Net sales revenue		<b>4,040,294</b>	3,274,362
Cost of goods sold - replacement cost		<b>(3,565,433)</b>	(3,025,877)
Inventory gains/(losses)		<b>66,808</b>	(14,150)
Cost of goods sold - historical cost		<b>(3,498,625)</b>	(3,040,027)
Gross profit		<b>541,669</b>	234,335
Other revenue from ordinary activities	2	<b>91,553</b>	125,662
Refining and supply expenses		<b>(11,322)</b>	(12,702)
Marketing expenses		<b>(227,798)</b>	(195,126)
Borrowing costs	3	<b>(22,401)</b>	(33,128)
Other expenses	3	<b>(49,394)</b>	(14,369)
Share of net profit of associated entities accounted for using the equity method		<b>2,052</b>	2,943
<b>Profit from ordinary activities before income tax expense</b>		<b>324,359</b>	107,615
Income tax gain/(expense) relating to ordinary activities	5	<b>16,766</b>	(30,968)
<b>Net profit</b>		<b>341,125</b>	76,647
Net profit attributable to outside equity interests		<b>(517)</b>	(408)
<b>Net profit attributable to members of the parent entity</b>		<b>340,608</b>	76,239
<b>Basic and diluted earnings per share</b>			
<b>Historical cost including significant items - cents per share</b>	6	<b>126.2</b>	<b>28.2</b>
Replacement cost excluding significant items - cents per share	6	66.8	31.9

The statement of financial performance is to be read in conjunction with the 2003 Financial Report and the notes to the financial statements.

# Statement of Financial Position

as at 30 June 2004

Thousands of dollars	Note	Consolidated	
		30 June 2004	31 December 2003
<b>Current assets</b>			
Cash at bank and on hand		10,751	36,318
Receivables		674,599	540,990
Inventories		675,033	502,732
Other		30,417	20,761
<b>Total current assets</b>		<b>1,390,800</b>	1,100,801
<b>Non current assets</b>			
Receivables		24,788	25,638
Investments accounted for using the equity method		10,633	9,829
Property, plant and equipment		1,603,431	1,615,321
Intangibles		11,883	12,592
Other		11,929	9,465
<b>Total non current assets</b>		<b>1,662,664</b>	1,672,845
<b>Total assets</b>		<b>3,053,464</b>	2,773,646
<b>Current liabilities</b>			
Payables		806,520	602,684
Interest bearing liabilities	8	62,906	96,652
Tax liabilities		81,422	72,865
Provisions		42,853	45,791
<b>Total current liabilities</b>		<b>993,701</b>	817,992
<b>Non current liabilities</b>			
Payables		333	1,300
Interest bearing liabilities	8	483,508	564,094
Deferred tax liabilities		9,890	128,623
Provisions		39,767	37,978
<b>Total non current liabilities</b>		<b>533,498</b>	731,995
<b>Total liabilities</b>		<b>1,527,199</b>	1,549,987
<b>Net assets</b>		<b>1,526,265</b>	1,223,659
<b>Equity</b>			
Contributed equity	9	543,415	543,415
Retained profits		974,692	671,884
Parent entity interest		1,518,107	1,215,299
Outside equity interests		8,158	8,360
<b>Total equity</b>	10	<b>1,526,265</b>	1,223,659

The statement of financial position is to be read in conjunction with the 2003 Financial Report and the notes to the financial statements.

# Statement of Cash Flows

## for the half year ended 30 June 2004

Thousands of dollars	Consolidated	
	30 June 2004	30 June 2003
<b>Cash flows from operating activities</b>		
Receipts from customers	6,594,038	5,765,489
Payments to suppliers, employees and governments	(6,294,964)	(5,517,834)
Dividends received	873	550
Interest received	1,542	917
Interest and other borrowing costs paid	(26,704)	(31,059)
Income taxes paid	(92,787)	(64,392)
<b>Net operating cash inflows</b>	<b>181,998</b>	<b>153,671</b>
<b>Cash flows from investing activities</b>		
Deferred payment for purchase of controlled entities	(1,833)	(2,833)
Payment for investment	(4,761)	-
Hanson Australia consideration	-	(12,000)
Purchases of property, plant and equipment	(53,414)	(34,668)
Major cyclical maintenance	(2,972)	(13,202)
Net proceeds from sale of property, plant and equipment	7,085	7,245
Loans repaid from associated entities	1,250	1,500
<b>Net investing cash outflows</b>	<b>(54,645)</b>	<b>(53,958)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	2,825,902	2,747,597
Repayments of borrowings	(2,939,933)	(2,852,517)
Repayment of finance lease principal	(370)	(204)
Dividends paid to outside equity interests	(719)	-
Dividends paid by the parent entity	(37,800)	-
<b>Net financing cash outflows</b>	<b>(152,920)</b>	<b>(105,124)</b>
Net decrease in cash held	(25,567)	(5,411)
Cash at the beginning of the financial year	36,318	17,969
<b>Cash at the of the period</b>	<b>10,751</b>	<b>12,558</b>

The statement of cash flows is to be read in conjunction with the 2003 Financial Report and the notes to the financial statements.

# Notes to the Financial Statements

## for the half year ended 30 June 2004

### 1. Statement of significant accounting policies

#### (a) Basis of preparation of the half year financial report

The 2004 Half Year Financial Report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 (Cth), Accounting Standard AASB 1029 "Interim Financial Reporting", the recognition and measurement requirements of applicable AASB standards, other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group Consensus Views. This half year financial report is to be read in conjunction with the 2003 Financial Report and any public announcements by Caltex Australia Limited during the half year in accordance with continuous disclosure obligations under the Corporations Act 2001 (Cth) and the Australian Stock Exchange (ASX) listing rules.

It has been prepared on an historical cost basis 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. The half year financial report does not include full note disclosures of the type normally included in an annual financial report.

#### (b) Taxation

##### ***Tax consolidation***

Caltex Australia Limited is the head entity in the tax consolidated group comprising all Australian wholly owned subsidiaries. The implementation date for the tax consolidated group is 1 July 2003. The head entity recognises all of the current and deferred tax assets and liabilities of the tax consolidated group (after elimination of intragroup transactions).

The tax consolidated group has entered into a tax funding agreement that requires wholly owned subsidiaries to make contributions to the head entity for:

- deferred tax balances recognised by the head entity on implementation date, including the impact of any relevant reset tax cost bases; and
- current tax assets and liabilities and deferred tax balances arising from external transactions occurring after the implementation of tax consolidation.

Under the tax funding agreement, the contributions are calculated based on earnings before interest and tax, so that the contributions are equivalent to the wholly owned subsidiaries' contribution to the group's earnings before interest and tax. The contributions are payable as set out in the agreement and reflect the timing of the head entity's obligations to make payments for tax liabilities to the relevant tax authorities. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense/revenue.

# Notes to the Financial Statements

for the half year ended 30 June 2004 cont'd

Thousands of dollars	Consolidated	
	30 June 2004	30 June 2003
<b>2. Other revenue</b>		
<b>From operating activities</b>		
Interest received or due and receivable from other corporations	625	917
Rental income	17,087	17,520
Royalties and franchise income	42,640	38,779
Net foreign exchange gains	-	41,603
Other income	17,100	19,598
<b>From outside operating activities</b>		
Gross proceeds from the sale of property, plant and equipment	14,101	7,245
	<b>91,553</b>	<b>125,662</b>
<b>3. Costs and expenses</b>		
Borrowing costs:		
Interest paid or due and payable to other corporations	23,050	32,181
Finance charges on capitalised leases	995	947
Less:		
Capitalised borrowing costs (i)	(1,644)	-
	<b>22,401</b>	<b>33,128</b>
Amortisation of intangibles	750	748
Depreciation and amortisation (excluding intangibles)	59,572	62,012
Operating leases rental expense	37,820	37,550
Loss on disposal of non current assets	2,361	1,275
Reconciliation of other expenses in the statement of financial performance:		
Net foreign exchange losses	28,807	-
Other	20,587	14,369
	<b>49,394</b>	<b>14,369</b>

(i) Borrowing costs were capitalised to capital projects in progress at a weighted average rate of 7.59%.

## 4. Revision of accounting estimate

### Deferred tax balances

The Caltex Australia Group has chosen to implement tax consolidation from 1 July 2003. Caltex Australia Limited, as the head entity in the tax consolidated group, has applied UIG 52 "Income Tax Accounting under the Tax Consolidation System".

# Notes to the Financial Statements

## for the half year ended 30 June 2004 cont'd

### 4. Revision of accounting estimate cont'd

#### Deferred tax balances cont'd

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

In the Caltex Australia Group, the effect of implementing tax consolidation and of applying UIG 52 at 1 July 2003 was:

- an increase in deferred tax assets of \$113.5 million from resetting the tax cost base of specific items of property, plant and equipment; and
  - a corresponding decrease in income tax expense of \$113.5 million
- the effect represents the amount recorded in the half year ended 30 June 2004.

Thousands of dollars	Consolidated	
	30 June 2004	30 June 2003
<b>5. Income tax gain/(expense) relating to ordinary activities</b>		
Income tax expense attributable to net profit before significant items	(96,757)	(30,968)
Individually significant income tax item:		
Net deferred tax balances recognised by head entity in relation to wholly owned subsidiaries with the tax consolidated group upon implementation of tax consolidation	<b>113,523</b>	-
	<b>16,766</b>	(30,968)
<b>6. Basic and diluted earnings per share</b>		
Historical cost including significant items - cents per share	<b>126.2</b>	28.2
Replacement cost excluding significant items - cents per share	<b>66.8</b>	31.9
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.		
<b>7. Dividends paid</b>		
Dividends paid in the half year by the company are:		
<b>Final dividend</b>		
8 cents per share and an additional 6 cents per share as a special dividend. Both dividends were fully franked at 30% (2003: no final dividend paid)	<b>37,800</b>	-
<b>Subsequent events - interim dividend</b>		
Since 30 June 2004, the directors declared an interim dividend of 14 cents per share. Dividends are fully franked at 30%. (2003: 4 cents per share fully franked at 30%)	<b>37,800</b>	10,800

# Notes to the Financial Statements

for the half year ended 30 June 2004 cont'd

Thousands of dollars	Note	Consolidated	
		30 June 2004	31 December 2003
<b>8. Interest bearing liabilities</b>			
Current - unsecured			
Bank loans (i) and (ii)		<b>60,000</b>	94,000
Other loans		<b>2,234</b>	2,264
Lease liabilities (iv)		<b>672</b>	388
		<b>62,906</b>	96,652
Non current - unsecured			
US notes		<b>310,402</b>	295,039
Bank loans (i) and (ii)		<b>120,000</b>	200,000
Hedge payable (iii)		<b>44,019</b>	59,383
Lease liabilities (iv)		<b>9,087</b>	9,672
		<b>483,508</b>	564,094
<p>(i) The bank loans and the US term notes are provided by a number of banks and the capital markets. The majority of interest rates on these loans and notes are on a floating rate basis. Maturity dates of the loans and notes vary from December 2004 to July 2012. Under the loan and note agreements, Caltex is required to comply with certain financial covenants.</p> <p>(ii) In the current period, \$120 million of bank loans maturing in less than twelve months were classified as non current as they were supported by undrawn long term committed facilities.</p> <p>(iii) The hedge payable, with no interest bearing component, is disclosed within interest bearing liabilities as the hedge was entered into solely as a result of the US dollar borrowings and is inextricably linked to the debt. The amount represents the impact of the movement in the exchange rate from the inception (30 July 2002, USD exchange rate 0.5643) to 30 June 2004 (USD exchange rate 0.6904), on the amount hedged (AUD: \$241 million, USD \$136 million).</p> <p>(iv) The implicit rate of interest on finance leases is 14.0% (2003: 14.0%).</p>			
<b>9. Contributed equity</b>			
Issued capital			
270 million (2003: 270 million) ordinary shares, fully paid		<b>543,415</b>	543,415
<b>10. Total equity reconciliation</b>			
Total equity at the beginning of the period		<b>1,223,659</b>	1,036,326
Total changes in Caltex Australia Ltd's interest recognised in the statement of financial performance		<b>340,608</b>	197,497
Dividends recognised during the period	7	<b>(37,800)</b>	(10,800)
Total changes in outside equity interests		<b>(202)</b>	636
Total equity at the end of the period		<b>1,526,265</b>	1,223,659

# Notes to the Financial Statements

## for the half year ended 30 June 2004 cont'd

### 11. Investments accounted for using the equity method

	% interest	
	30 June 2004	31 December 2003
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	50	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

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

### 12. Net tangible assets per share

Net tangible assets per share (dollars)	5.58	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

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

#### (a) 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 half year ended 30 June 2004 cont'd

### 13. Superannuation Commitments cont'd

#### (a) Caltex Superannuation Plan - CSP Division 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 (i)	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

The Caltex Australia Group has received advice from Mercer that there is a likely shortfall in excess of \$2.4 million of plan assets over vested benefits in the plan as at 31 May 2004. The Caltex Australia Group carries a provision of \$3.3 million against this shortfall.

	Consolidated	
	30 June 2004	31 December 2003
Employer contributions provided at end of period	3,340	4,600

#### (b) Caltex Superannuation Plan - APF Division

As this is an accumulation 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.

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

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

### 15. Contingent assets and liabilities

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

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

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

# Notes to the Financial Statements

## for the half year ended 30 June 2004 cont'd

Thousands of dollars	Consolidated	
	30 June 2004	31 December 2003
<b>15. Contingent assets and liabilities cont'd</b>		
<b>(b) Contingent liabilities - legal and other claims</b>	<b>5,700</b>	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 are likely to have a material effect on its operations or financial position.

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

### 16. 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.

### 17. Significant events after balance date

#### International Financial Reporting Standards

For reporting periods on or after 1 January 2005, Caltex will comply with 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). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the Caltex Australia Group's 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 matter in which transactions or events are presented.

The Caltex Australia Group has not yet completed the quantification of the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the Caltex Australia Group's financial reports in the future. The potential impacts on the Caltex Australia Group's financial performance and financial position of the adoption of IFRS, including system updates and other implementation costs which may be incurred, have not been fully quantified as at the transition date of 1 January 2004 due to the short timeframe between finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

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 Caltex Australia Group's implementation project consists of three phases as described on the following page.

# Notes to the Financial Statements

## for the half year ended 30 June 2004 cont'd

### 17. Significant events after balance date cont'd International Financial Reporting Standards cont'd

#### 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 the awareness and assessment phase to be 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;
- 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 completed by 31 December 2004.

#### 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 completed by 31 December 2004.

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

- (i) **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.

The impact of these changes is yet to be quantified.

- (ii) **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 pre-tax accounting result and/or taxable income/(loss).

The impact of these changes is yet to be quantified.

# Notes to the Financial Statements

## for the half year ended 30 June 2004 cont'd

### 17. Significant events after balance date cont'd

#### International Financial Reporting Standards cont'd

- (iii) **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 an asset or liability for the excess or shortfall of the defined benefit plan assets against accrued benefits.

There will be an initial impact on retained earnings and the provision. There may be increased volatility through the Statement of Financial Performance in subsequent periods.

- (iv) **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.

Any initial impact will be recognised in retained earnings. Subsequently, if there is any impairment, it will be recognised immediately in the Statement of Financial Performance.

The impact of this change has yet to be quantified.

- (v) **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.

The impact of this change has yet to be quantified.

- (vi) **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.

The impact of this change, if any, has yet to be quantified.

- (vii) **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.

Any initial impact will be recognised in retained earnings. Subsequently, if there is any impairment, it will be recognised immediately in the Statement of Financial Performance.

The impact of this change has yet to be quantified.

- (viii) **Provision for dismantling costs, remediation and restoration (AASB 137 and AASB 116):** Under IFRS, provision for dismantling costs, remediation and restoration is required to be made when the entity has a probable legal or constructive obligation as a result of a past event, and the costs can be reliably estimated. In certain circumstances such costs can be capitalised and amortised. Caltex currently provide for all known sites where a legal or constructive obligation exists to remediate or restore. These costs are fully expensed.

The impact of this change, if any, has yet to be quantified.

- (ix) **Functional currency (AASB 121):** Caltex will use the Australian dollar as its functional currency.

There will be no impact from this standard.

- (x) Changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.