

CALTEX AUSTRALIA LIMITED

ACN 004 201 307

2006 PRELIMINARY
FINAL REPORT



CALTEX

CALTEX AUSTRALIA LIMITED
2, MARKET STREET
SYDNEY, NSW, 2000, AUSTRALIA

Results for Announcement to the Market

Key Results (Millions of dollars)		Year ended 31 December	
		2006	2005
Revenues from ordinary activities	17%	18,665	15,895
Profit from ordinary activities after tax/net profit for the period attributable to members:			
Replacement cost basis ¹ (excluding individually material tax item)	4%	430	414
Historical cost basis (excluding individually material tax item)	19%	466	574
Historical cost basis (including individually material tax item)	22%	466	595

Dividend	2006	2005
Dividends declared:		
Interim dividend:		
- Amount per security (fully franked)	32¢	15¢
Final dividend		
- Amount per security (fully franked)	48¢	31¢
Record date for determining entitlement to 2006 final dividend		9 March 2007
Date 2006 final dividend is payable		30 March 2007

Comments

Profit after tax on a replacement cost of sales operating profit (RCOP)¹ basis of \$430 million for the year to 31 December 2006, compared with \$414 (excluding individually material tax item³) million for the full year 2005. RCOP earnings per litre on average for all petroleum products sold was 2.2cpl for the full year 2006 compared with 2.2cpl for the full year 2005.

These earnings results were achieved due to a combination of strong refiner margins and increased marketing sales. Refiner margins were driven by the continued regional growth in demand for transport fuels and tight global supply. Marketing sales of transport fuels⁴ increased to 13.4 billion litres up from 13.2 billion litres in 2005. Sales volumes continued to be underpinned by the Caltex Woolworths venture network.

On an historical cost basis (including inventory gains, but excluding individually material tax item), Caltex recorded an after tax profit of \$466 million for the full year 2006 compared with \$574 million for the full year 2005. This included inventory gains of \$36 million after tax, compared with inventory gains of \$160 million after tax in the full year 2005.

Net debt at 31 December 2006 was \$539 million, up from \$429 million at 31 December 2005. Debt at 31 December 2005 was temporarily low due to lower crude inventories during the Clean Fuels construction period.

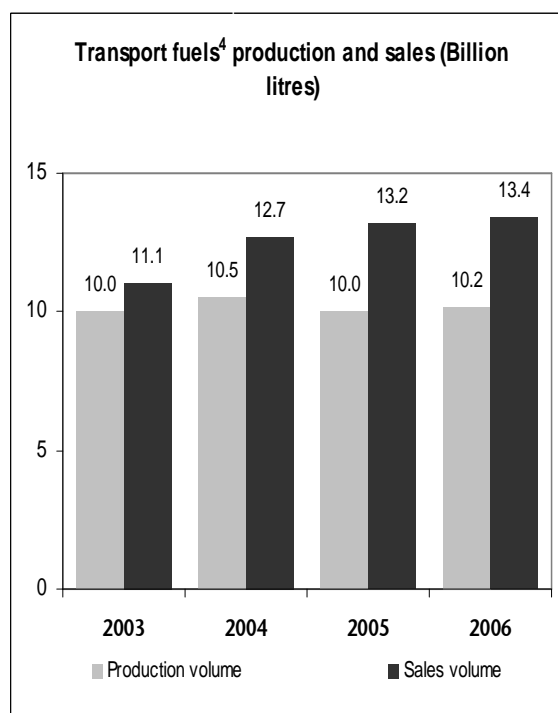
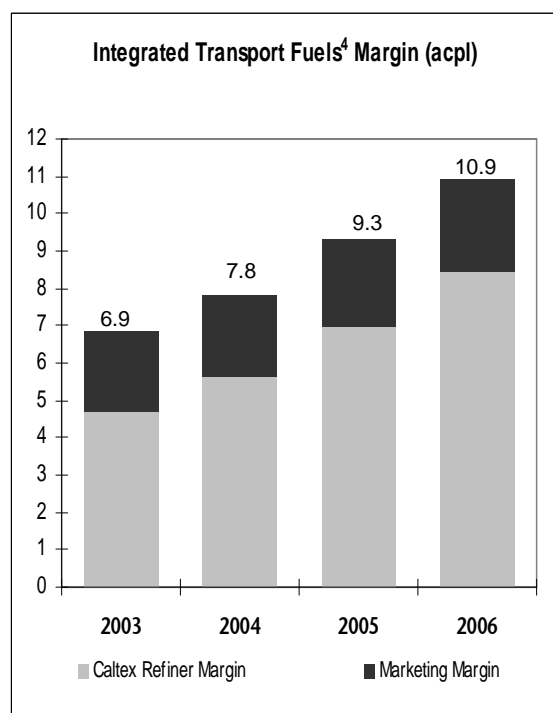
The Board declared a final fully franked dividend of \$129.6 million, or 48 cents a share compared with 31 cents per share declared for the final 2005 dividend.

During 2006, the new facilities to produce cleaner fuels at both refineries were commissioned safely, smoothly and are operating well.

¹ The replacement cost of sales operating profit (RCOP) excludes the impact of the rise or fall 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 contract-based revenue lags.

Key Performance Indicators

	Year ended 31 December				
	2006	2005	2004	2003 ²	2002 ²
Profit before interest and tax (\$m)					
- Replacement cost basis (excluding individually material tax item)	655	583	536	340	215
- Historical cost basis (including individually material tax item)	706	811	687	340	376
Profit after interest and tax (\$m)					
- Replacement cost basis (excluding individually material tax item)	430	414	350	200	106
- Historical cost basis (including individually material tax item)	466	595	570	197	215
Inventory gains/(losses) before tax (\$m)	52	228	152	13	173
Basic earnings per share (cents)					
- Replacement cost basis (excluding individually material tax item)	159	153	130	74	39
- Historical cost basis (including individually material tax item)	173	220	211	73	80
Return on equity attributable to members of the parent entity after tax, (%)					
- Replacement cost basis (excluding individually material tax item)	18	19	21	16	10
- Historical cost basis (including individually material tax item)	19	28	35	16	21
Net tangible asset backing per share (\$)	8.80	7.73	5.98	4.46	3.76
Net debt (\$m)	539	429	447	624	954
Gearing (net debt to net debt plus equity) (%)	18	17	21	34	48



² 2003 and 2002 comparative numbers have not been adjusted for the transition to A-IFRS.

³ In 2005, there was an individually material tax item of \$20.9 million (\$114 million in 2004) relating to an income tax benefit upon entry into the new tax consolidation regime.

⁴ Transport fuels comprise petrol, diesel and jet.

Profit and Loss

for the year ended 31 December 2006

Millions of dollars	2006	2005
1 Total revenue ¹	18,665	15,895
2 Total expenses ²	(18,010)	(15,312)
3 Replacement cost EBIT	655	583
4 Net finance costs	(46)	(23)
Income tax expense	(179)	(146)
Replacement cost profit (RCOP)	430	414
5 Inventory gain – after tax	36	160
Significant items	-	21
Historical cost net profit	466	595
Interim dividend per share	32c	15c
7 Final dividend per share	48c	31c
Basic earnings per share		
- Replacement cost	159c	153c
- Historical cost	173c	220c

Discussion and Analysis

<p>1 Total revenue</p> <p style="font-size: 24pt; font-weight: bold; text-align: center;">17%</p>	<p>Total revenue increased primarily due to:</p> <p>Higher product prices driven by higher crude prices and higher refiner margins on transport fuels; and</p> <p>Marketing sales volumes and margins are higher than 2005 on transport fuels.</p>
<p>2 Total expenses – replacement cost basis</p> <p style="font-size: 24pt; font-weight: bold; text-align: center;">18%</p>	<p>Total expenses increased primarily due to higher cost of sales, which reflected higher crude prices:</p> <p>Higher operating expenses due to :</p> <ul style="list-style-type: none"> - increased depreciation due to completion of the Clean Fuels Project; - increased infrastructure maintenance-related costs; and - higher environmental remediation expenses.

¹ Excludes interest revenue and individually material tax item (if applicable).

² Excludes interest expense, inventory gains/(losses) and individually material tax item (if applicable).

Discussion and Analysis cont'd

4 Net finance costs 96%	The increase in net finance costs reflects a higher average net debt for 2006 which was 42% higher than for 2005 due to higher crude oil prices during the year. The net debt at 31 December 2006 was \$539 million compared with \$429 million at 31 December 2005.
5 Inventory gain after tax 77%	Regional crude oil (Tapis) prices rose significantly in 1H06 (US\$70.86/bbl June 2006) however averaged US\$59.54/bbl in December 2006 compared with US\$57.24/bbl in December 2005. This increase resulted in net inventory gains of \$52 million (\$36 million after tax) compared with net inventory gains of \$228 million (\$160 million after tax) in 2005.
6 Final dividend	The Board declared a final fully franked dividend of \$129.6 million, or 48 cents per share compared with 31 cents per share declared for the final 2005 dividend. The record date is 9 March 2007, with the dividend payable on 30 March 2007.

Balance Sheet

as at 31 December 2006

Millions of dollars	Dec 2006	Dec 2005	change
1 Working capital	699	487	212
2 Property, plant and equipment (PP&E)	2,288	2,076	212
3 Net debt	(539)	(429)	(110)
Other non-current assets and liabilities	(5)	4	(9)
Total equity	2,443	2,138	305

Discussion and Analysis

<p>1 Working capital</p> <p>\$212m</p>	<p>The increase in working capital is primarily due to:</p> <ul style="list-style-type: none"> Higher income tax instalment payments relative to income tax provided (hence reducing current tax liabilities); Higher crude and product prices (Tapis average Dec 06 US\$59.54/bbl vs. Dec 05 US\$57.24/bbl); Higher inventory volumes due to inventory build up for planned turnaround and inspection occurring in February 2007; Lower payables driven by the completion of the Clean Fuels project. <p>Partly offset by:</p> <ul style="list-style-type: none"> Lower receivables due to decrease in export cargoes compared with December 05.
<p>2 PP&E</p> <p>\$212m</p>	<p>The increase in property, plant and equipment is due to:</p> <ul style="list-style-type: none"> Capital expenditure and major cyclical maintenance of \$382 million, including \$85 million relating to the Clean Fuels Project for Caltex's two refineries. <p>Partly offset by:</p> <ul style="list-style-type: none"> Depreciation of \$147 million; and Net disposals of \$22 million.
<p>3 Net debt</p> <p>\$110m</p>	<p>Net debt has increased to \$539 million at 31 December 2006, an increase of \$110 million from 31 December 2005. As a result, Caltex's gearing (net debt to net debt plus equity) was 18.1%, increased from 16.7% at 31 December 2005.</p> <p>Debt at 31 December 2005 was temporarily low due to lower crude inventories during the Clean Fuels construction period.</p>

Cash Flows

for the year ended 31 December 2006

Millions of dollars	2006	2005	change
Receipts from customers	21,290	17,546	3,744
Payments to suppliers and employees	(16,046)	(12,268)	(3,778)
Payments for excise	(4,412)	(4,372)	(40)
1 Finance costs paid	(57)	(43)	(14)
2 Other net operating activities	(309)	(245)	(64)
Net operating cash flows	466	618	(152)
3 Purchases of property, plant and equipment (PP&E) and major cyclical maintenance	(387)	(499)	112
Other investing cash flows	(18)	10	(28)
Net investing cash outflows	(405)	(489)	84
4 Net financing cash inflows/(outflows)	(34)	(115)	81
Net increase in cash held	27	14	13

Discussion and Analysis

<p>1 Finance costs</p> <p>\$14m</p>	<p>Net debt increased to \$539 million at 31 December 2006 (compared with \$429 million at 31 December 2005). Average net debt for 2006 was 42% higher than for 2005. The higher average net debt level resulted in increased borrowing costs (\$14 million).</p>
<p>2 Other operating activities</p> <p>\$64m</p>	<p>Cash outflows from other net operating activities increased due to higher income tax instalments which are increasing in line with higher profitability.</p>
<p>3 Purchases of PP&E and major cyclical maintenance</p> <p>\$112m</p>	<p>Purchases of PP&E and major cyclical maintenance decreased due to completion of the Clean Fuels Project.</p>
<p>4 Net financing cash outflows</p> <p>\$81m</p>	<p>Net financing cash outflows decreased due to higher net loan borrowings of \$136 million compared with \$4 million (repayments) in 2005. This was partly offset by higher 2006 dividend payment of \$170 million, comprising a 2006 interim dividend (\$86 million) and 2005 final dividend (\$84 million). Total dividend payments in 2005 amounted to \$108 million.</p>

2006
PRELIMINARY FINANCIAL REPORT
FOR
CALTEX AUSTRALIA LIMITED
ACN 004 201 307

The 2006 Preliminary Financial Report for Caltex Australia Limited includes the:

Directors' Review

Directors' Statement

Extracts of the 2006 Year Financial Statements and accompanying notes

for the year ended 31 December 2006.

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

Caltex Australia Group

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

Caltex Australia Limited, which is the parent company of the Caltex Australia Group;

our major operating companies, including Caltex Australia Petroleum Pty Ltd, Caltex Refineries (NSW) Pty Ltd, Caltex Refineries (Qld) Pty Ltd, Caltex Petroleum Services Pty Ltd and Caltex Lubricating Oil Refinery Pty Ltd; and

a number of wholly owned entities and other companies that are controlled by the group.

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

Directors' Review

Introduction

The Board of Caltex Australia Limited presents this Directors' Review and the 2006 Preliminary Financial Report for the Caltex Australia Group for the year ended 31 December 2006 to shareholders.

Board of Directors

The Board of Caltex Australia Limited comprises Richard Warburton (Chairman), Desmond King (Managing Director and Chief Executive Officer), Trevor Bourne, Elizabeth Bryan, Brant Fish, John Thorn, and Peter Wissel.

General Overview

Caltex achieved record earnings in 2006 with profits after tax (excluding individually material tax items) on a replacement cost of sales operating profit (RCOP) basis up 4% on 2005. This result reflected stronger refiner margins, higher refinery utilisation and stable marketing transport fuels margin in a challenging environment.

RCOP after tax (excluding individually material tax items) was \$430 million for the year ended 31 December 2006, up from \$414 million for 2005. This result excludes the impact of international oil price movements and therefore provides a clearer picture of the company's underlying business performance.

Higher refiner margins were driven by the continued strong regional growth in demand for refined products, reduction in Chinese exports and tight global supply. The 2006 Caltex Refiner Margin (CRM)¹ averaged US\$10.13 a barrel compared with US\$8.40 a barrel in 2005.

In Refining, average refinery utilisation increased to 78% compared to 74.5% in 2005. This was largely achieved during the second half of 2006 (85%) when operations returned to normal following the first half of the year which included the completion of the Clean Fuels plant (Lytton completed in March and Kurnell completed in May) and a maintenance shutdown at the Kurnell refinery.

On an historical cost basis (including inventory gains, but excluding individually material tax items), Caltex recorded an after tax profit of \$466 million for the year ended 2006, compared with \$574 million for 2005. This historical cost profit includes crude oil and petroleum product inventory gains of \$36 million after tax, compared with inventory gains of \$160 million after tax in 2005. This decrease in inventory gains reflects crude oil increases during 2006 (averaging US\$59.54 a barrel in December 2006 compared with US\$57.24 a barrel in December 2005, although crude prices rose significantly in first half 2006).

Net debt at 31 December 2006 was \$539 million, up from \$429 million at 31 December 2005. Debt at 31 December 2005 was temporarily low due to lower crude inventories during the Clean Fuels construction period.

Marketing

The Marketing department promotes and sells Caltex fuels, lubricants, specialties and convenience store goods through a national network of approximately 1800 Caltex, Caltex Woolworths and Ampol branded service stations and 61 branded resellers. Marketing also sells directly to a large number of commercial customers.

Caltex maintained its sales and market leadership position despite the petrol market contracting slightly due to higher prices. Total transport fuels sales volume for full year 2006 increased to 13.4 billion litres, up from 13.2 billion litres in 2005.

Caltex met its target commitment for 2006 under the Australian Government's Biofuels Action Plan. By the end of 2006 the company had Australia's largest network of 237 sites selling blended biofuels.

Diesel sales volume grew by 3.6% for full year 2006 compared to 2005.

¹ The Caltex Refiner Margin (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 represents: average Singapore refiner margin + product quality premium + crude discount/(premium) + product freight - crude freight - yield loss.

Directors Review continued

Marketing continued

Premium fuel sales decreased by 5.7% compared with full year 2005, due to higher product prices depressing customer demands. Sales volumes recovered towards the end of the year as pump prices eased and premium petrols differential realigned to market price. Caltex continues to rollout high octane premium unleaded petrol Vortex98 in WA.

There was growth in specialty sales volume, which was 5.1% higher for the full year 2006 compared with 2005, driven by an increase in marine fuel sales volumes during the Clean Fuels construction. The introduction of a government subsidy on LPG car conversions resulted in higher propane and automotive LPG sales. Non-fuel income increased by 16% compared with 2005, driven by increased royalty income from the increase in shop sales, as well as strong results from Company-operated stores. Caltex is now the number one convenience retailer in Australia with a 32% market share and shop sales that were 5.9% higher than 2005.

Refining and Supply

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

The Clean Fuels Project was completed in 2006. This involved the construction or re-building of four major processing units which improve air quality by reducing benzene in petrol and sulphur in diesel to standards required by the Australian Government. The delay in the completion of this project adversely impacted refining utilisation and transport fuel production in the first half 2006. Caltex maintained reliable supply to our customers through this transition period thanks to excellent planning and scheduling functions within Refining and Supply. Record numbers of shipping movements with additional imports and exports were handled without incident. In the second half 2006, the refineries achieved record utilisation levels. Total production for 2006 of 11.9 billion litres of petroleum products was the highest on record (2005: 11.6 billion litres). Production of high value transport fuel products (petrol, diesel and jet fuel) was 10.2 billion litres (2005: 10.0 billion litres).

Caltex's Refining Performance Improvement Program launched in late 2004 to lift the productivity of refining operations has continued. Projects completed in 2006 include an additional bitumen tank at the Kurnell refinery and 29 smaller projects.

One of the two catalytic cracker units at the company's Kurnell refinery was shut down for 53 days from late April to early June for planned maintenance.

In February, a series of events were held at the Kurnell refinery to celebrate 50 years of Caltex refining in Australia.

Dividends declared and paid

The Board declared a final dividend of \$129.6 million or 48 cents per share, adding to the interim dividend of 32 cents per share to give a total dividend of 80 cents per share fully franked (2005 total dividends: 46 cents per share).

This is in line with the company's stated dividend policy of declaring ordinary dividends of 40% to 60% of the RCOP result (after tax excluding individually material tax items).

Significant events after balance date

No items, transactions or events of a material or unusual nature that, in the opinion of the Board, are likely to significantly affect the operations of Caltex, the results of those operations or the state of affairs of the group in subsequent financial years, have arisen in the period from 31 December 2006 to the date of this report.

Directors Review continued

Likely developments

Business operations

Caltex will continue to purchase, refine, distribute and market petroleum products and operate convenience stores throughout Australia.

Rounding of amounts

Caltex Australia Limited is an entity to which Australian Securities & 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 Warburton AO
Chairman

Sydney, 23 February 2007



.....
DF King
Managing Director and
Chief Executive Officer

Directors' Statement

The Board of Caltex Australia Limited states that, in the opinion of the directors, the 2006 Preliminary Final Report:

complies with Caltex Australia Limited's disclosure obligations for the year ended 31 December 2006 under ASX Ltd Listing Rule 4.3A; and
has been derived from disclosures to be made in the 2006 Financial Report for the Caltex Australia Group for the year ended 31 December 2006.

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



.....
RFE Warburton AO
Chairman



.....
DF King
Managing Director and
Chief Executive Officer

Sydney, 23 February 2007

The accompanying financial statements and notes to the financial statements are derived from the 2006 Financial Report. The 2006 Financial Report was audited by an independent auditor, KPMG, who have issued an unqualified independent audit report.

Income statement

for the year ended 31 December 2006

Consolidated

Thousands of dollars	Note	2006	2005
Revenue from sale of goods		18,441,437	15,700,797
Replacement cost of goods sold (excluding product duties and taxes and inventory gains)		(12,997,732)	(10,345,940)
Product duties and taxes		(4,411,846)	(4,371,659)
Inventory gains		51,683	228,068
Cost of goods sold - historical cost		(17,357,895)	(14,489,531)
Gross profit		1,083,542	1,211,266
Other income	2	226,360	198,411
Refining and supply expenses		(18,731)	(26,084)
Marketing expenses		(542,138)	(484,046)
Finance costs	3	(48,513)	(27,307)
Other expenses		(43,773)	(88,807)
Share of net profit of entities accounted for using the equity method		5,118	4,601
Profit before income tax expense		661,865	788,034
Income tax expense		(194,668)	(193,081)
Net profit		467,197	594,953
Net profit attributable to minority interest		(1,221)	(381)
Net profit attributable to members of the parent entity		465,976	594,572
Basic and diluted earnings per share:			
Historical cost including significant items - cents per share (i)	5	172.6	220.2

(i) Replacement cost excluding individually material tax items earnings per share is disclosed in note 5.

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

Balance sheet

as at 31 December 2006

Consolidated

Thousands of dollars	Note	2006	2005
Current assets			
Cash and cash equivalents		55,599	28,484
Receivables		809,449	826,075
Inventories		1,100,034	1,044,805
Current tax assets		39,742	-
Other		24,293	25,451
Total current assets		2,029,117	1,924,815
Non-current assets			
Receivables		3,916	5,134
Investments accounted for using the equity method		26,718	26,016
Other investments		15	21
Intangibles		54,633	41,656
Property, plant and equipment		2,288,442	2,076,279
Deferred tax assets		-	-
Other		14,585	4,627
Total non-current assets		2,388,309	2,153,733
Total assets		4,417,426	4,078,548
Current liabilities			
Payables		1,194,221	1,230,895
Interest bearing liabilities	6	130,833	68,829
Current tax liabilities		-	97,888
Provisions		80,355	80,427
Total current liabilities		1,405,409	1,478,039
Non-current liabilities			
Payables		5,378	5,509
Interest bearing liabilities	6	463,752	389,130
Deferred tax liabilities		30,662	10,042
Provisions		69,715	57,373
Total non-current liabilities		569,507	462,054
Total liabilities		1,974,916	1,940,093
Net assets		2,442,510	2,138,455
Equity			
Issued capital	7	543,415	543,415
Treasury stock		(2,092)	(2,664)
Reserves		3,346	4,205
Retained earnings		1,887,156	1,583,835
Total parent entity interest		2,431,825	2,128,791
Minority interest		10,685	9,664
Total equity		2,442,510	2,138,455

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

Statement of recognised income and expenses

for the year ended 31 December 2006

Consolidated

Thousands of dollars	Note	2006	2005
Net profit		467,197	594,953
Actuarial gain on defined benefit plans		7,445	6,452
Adjustment on change of accounting policy		-	566
Cash flow hedge fair value gains		406	16
Total recognised income and expense for the year		475,048	601,987
Attributable to:			
Equity holders of the parent entity		473,827	601,606
Minority interest		1,221	381
Total recognised income and expense for the year		475,048	601,987
Total equity at the beginning of the year		2,138,455	1,645,319
Total recognised income and expense for the year		475,048	601,987
Impact on change of accounting policy		-	(100)
Own shares acquired		(2,843)	(2,716)
Expense on equity settled transactions		2,150	2,965
Dividends to minority interest		(200)	(1,000)
Dividends to shareholders	4	(170,100)	(108,000)
Total equity at the end of the year		2,442,510	2,138,455

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

Cash flow statement

for the year ended 31 December 2006

Thousands of dollars	Note	Consolidated	
		2006	2005
Cash flows from operating activities			
Receipts from customers		21,290,363	17,546,661
Receipts from subsidiaries		-	-
Payments to suppliers, employees and governments		(20,458,455)	(16,640,384)
Dividends and disbursements received		3,685	2,931
Interest received		2,555	3,887
Interest and other finance costs paid		(57,229)	(42,862)
Income taxes paid		(315,361)	(252,484)
Net operating cash inflows		465,558	617,749
Cash flows from investing activities			
Purchases of businesses net of cash acquired		(14,388)	115
Deferred payment for purchase of controlled entities		-	(333)
Payment for purchase of controlled entity, net of cash acquired		(6,952)	-
Purchases of property, plant and equipment		(357,285)	(457,362)
Major cyclical maintenance		(29,530)	(41,917)
Purchases of intangibles		(2,189)	(7,088)
Net proceeds from sale of property, plant and equipment		5,176	15,441
Loans to controlled entities		-	-
Loans repaid from controlled entities		-	-
Loans repaid from associated entities		956	2,250
Net investing cash (outflows)/inflows		(404,212)	(488,894)
Cash flows from financing activities			
Proceeds from borrowings		9,595,161	5,954,386
Repayments of borrowings		(9,458,785)	(5,958,385)
Repayment of finance lease principal		(307)	(1,368)
Dividends paid to minority interest		(200)	(1,200)
Dividends paid	4	(170,100)	(108,000)
Net financing cash outflows		(34,231)	(114,567)
Net increase/(decrease) in cash and cash equivalents		27,115	14,288
Cash at the beginning of the year		28,484	14,196
Cash at the end of the year		55,599	28,484

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

Notes to the financial statements

for the year ended 31 December 2006

1. Significant accounting policies

Caltex Australia Limited (Company) is a company domiciled in Australia. The financial statements for the year ended 31 December 2006 comprise the Company and its controlled entities (together referred to as the Group) and the Group's interest in associates and jointly controlled entities. The financial statements were authorised for issue by the directors on 23 February 2006.

Caltex Australia Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

(a) Statement of compliance and basis of preparation

International Financial Reporting Standards (IFRS) form the basis of Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB), being Australian Equivalents to IFRS (A-IFRS).

The financial report has been prepared as a general purpose financial report and complies with the requirements of the Corporations Act 2001 (Cth), and Australian Accounting Standards adopted by the AASB.

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments.

The financial report is presented in Australian dollars, which is the Group's functional currency. The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these

estimates. These accounting policies have been consistently applied by each entity in the Group.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 1(c).

The following standards and amendments were made available for early adoption by the AASB but have not been applied by the Group in this financial report:

AASB 101 Presentation of Financial statements (October 2006).

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

Interpretation 8 Scope of AASB 2 Share-based Payments.

Interpretation 9 Reassessment of Embedded Derivatives.

Interpretation 11 AASB 2 Share-based Payment – Group and Treasury Share Transactions.

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

The accounting policies set out below have been applied consistently to all periods presented in the financial report by the Company and the Group.

(b) Basis of consolidation

Subsidiaries

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain

benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

Associates

Associates are those entities over which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of future losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Joint ventures

Joint ventures are those entities or operations over whose activities the Group has joint control, established by contractual agreement.

Jointly controlled entities

In the consolidated financial statements, investments in jointly controlled entities, including partnerships, are accounted for using equity accounting principles. Investments in jointly controlled entities are carried at the lower of the equity accounted amount and recoverable amount.

The Group's share of the jointly controlled entity's net profit or loss is recognised in the consolidated income statement from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly in the consolidated reserves.

Jointly controlled operations and assets

The interest of the Group in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls and the liabilities that it incurs, and the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly

controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses arising from transactions with associates and jointly controlled entities are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Accounting estimates and judgements

Note 1(n) contains information about the assumptions and their risk factors relating to impairment.

In note 1(j), explanation is given of the foreign exchange exposure, interest rate exposure and commodity price exposure of the Group and risks in relation to foreign exchange movements, interest rate movements and commodity price movements.

Note 1 (t) contains information about the principal actuarial assumptions used in determining pension obligations for the Group's defined benefit plan.

Note 1(w) provides key sources of estimation, uncertainty and assumptions used in regard to estimation of provisions.

(d) Revenue

Sales revenue

Sales revenue comprises revenue earned (net of rebates, discounts and allowances) from the provision of products to entities outside the Group. Gross sales revenue excludes amounts collected on behalf of third parties such as goods and services tax. Sales revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, or when the services have been completely provided.

Exchanges of goods or services of the same nature and value are not recognised as revenues regardless of whether the transaction involves cash consideration.

Prior year restatement

During 2005 the Group did not eliminate on consolidation all intercompany sales and cost of sales relating to distributor businesses, resulting in an overstatement of these disclosure line items of \$920,654,000. The comparative period income statement and cashflow statement have been restated to correct this adjustment. There was no net profit impact arising from this restatement.

Other income

Dividend income is recognised at the date the right to receive payment is established. Interest revenue is recognised on a time proportionate basis taking into account the effective yield on the financial asset.

Rental income from leased sites is recognised in the income statement on a straight-line basis over the term of the lease. Franchise fees income is recognised in accordance with the substance of the agreement. Royalties are recognised as they accrue in accordance with the substance of the agreement.

Profit/loss on disposal of property assets

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

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

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

(e) Cost of goods sold measured on a replacement cost basis

Cost of goods sold measured on a replacement cost basis excludes the effect of inventory gains and losses. Inventory gains or losses arise due to movements in the landed price of crude oil, and represent the difference between the actual historic cost of sales and the current replacement value of that inventory.

The net inventory gain or loss is adjusted to reflect the impact of revenue lags.

(f) Product duties and taxes

Product duties and taxes are included in cost of goods sold.

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

(g) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the item of expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet. Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(h) Finance costs

Finance costs include interest payable on borrowings calculated using the effective interest rate method, finance charges in respect of finance leases, net foreign exchange losses, losses on hedging instruments that are recognised in profit or loss, exchange differences arising from foreign currency borrowing to the extent that they are regarded as an adjustment to interest costs, and differences relating to the unwinding of the discount of assets and liabilities measured at amortised cost.

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

(i) Foreign currencies

Foreign currency transactions are recorded, on initial recognition, in Australian dollars by applying the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(j) Derivative financial instruments

The Group is exposed to changes in interest rates, foreign exchange rates and commodity prices from its activities. The Group may use interest rate instruments, forward foreign exchange contracts, cross currency swaps, crude swap contracts and refiner margin swap contracts to hedge these risks.

The Group does not enter into derivative financial instrument transactions for trading purposes. However, financial instruments entered into to hedge an underlying exposure which does not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Interest rate instruments

The fair value of interest rate swap contracts is the estimated amount that the Group would receive or pay to terminate the swap at balance date taking into account current interest rates.

Foreign exchange contracts

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles as at reporting date.

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

Crude and refiner margin swap contracts

Tapis crude and product swap contracts are used to reduce exposure to falls in refiner margins and their fair values are calculated by reference to market prices. There are no exchanges of principal amounts involved in these contracts.

The carrying amount of all derivatives, other than those meeting the normal purchases and sales exception, are measured using market prices. Those derivatives qualifying and designated as hedges are either fair value or cash flow hedges.

Hedging

Cash flow hedges

Interest rate instruments, forward exchange contracts and crude and refiner margin swap contracts are cash flow hedges. Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the anticipated transaction results in the recognition of a non-financial asset or non-financial liability, the cumulative gain or loss is removed from equity and included in the initial measurement of the non-financial asset or non-financial liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i.e. when interest income or expense is recognised). For cash

flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss in the carrying amount of a cash flow hedge is recognised in the income statement immediately.

When a hedging instrument or hedge relationship is terminated, but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Fair value hedges

Cross currency swaps are fair value hedges.

A change in the carrying amount of a fair value hedge is recognised in the income statement, together with the change to the carrying amount of the hedged item.

The Group formally documents all relationships between hedging instruments and hedged items, as well as risk management objectives and strategies for undertaking various hedge transactions. When effectiveness ceases, hedge accounting is discontinued.

(k) Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries, associates and jointly controlled entities to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of

assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

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

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

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

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

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

Nature of tax funding arrangements and tax sharing arrangements

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

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

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

(l) Receivables

Receivables are measured at amortised cost less impairment losses.

Impairment testing is performed at reporting date. A provision for impairment losses is raised if there is a specific indicator that an impairment loss on receivables has been incurred.

An impairment loss is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

(m) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is based on the weighted average cost principle and includes direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure incurred in acquiring the inventories and bringing them into the existing location and condition.

The amount of any write-down or loss of inventory is recognised as an expense in the period it is incurred.

Inventory write-downs may be reversed when net realisable value increases subsequent to initial write-down. The reversal is limited to the original write-down amount.

(n) Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in

which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of the Group's investments in held to maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets).

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a held to maturity security or receivable carried at amortised cost is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(o) Property, plant and equipment

Owned assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of property, plant and equipment at 1 January 2004 is included on the basis of deemed cost. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

The cost of property, plant and equipment includes the cost of decommissioning and restoration costs at the end of their economic lives if a present legal or constructive obligation exists. More details of how this cost is estimated and recognised is contained in note 1(w).

Assessment of impairment is made in accordance with the impairment policy in note 1(n).

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Leased assets

Leases of property, plant and equipment under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases

Assets of the Group acquired under finance leases are capitalised and included in property, plant and equipment at the lesser of fair value or present value of the minimum lease payments. Contingent rentals are written off as an expense of the period in which they are incurred. Capitalised lease assets are depreciated over the shorter of the lease term and its useful life.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The interest components of lease payments are charged to the income statement to reflect a constant rate of interest on the remaining balance of the liability for each accounting period.

Operating leases

Payments made under operating leases are charged against net profit or loss in equal instalments over the accounting period covered by the lease term, except where an alternative basis is more representative of the benefits to be derived from the leased property. Contingent rentals are recognised as an expense in the period in which they are incurred. Lease incentives received are recognised in the income statement as an integral part of the total lease expense on a straight-line basis over the lease term.

Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including cyclical maintenance, is capitalised. Other subsequent expenditure is capitalised only when it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the

item can be reliably measured. All other expenditure is recognised in the income statement as an expense as incurred.

Major cyclical maintenance

Major cyclical maintenance expenditure is separately capitalised as an asset component to the extent that it is probable that future economic benefits, in excess of the originally assessed standard of performance, will eventuate. All other such costs are expensed as incurred. Capitalised cyclical maintenance expenditure is depreciated over the lesser of the additional useful life of the asset or the period until the next major cyclical maintenance is scheduled to occur.

Depreciation

Items of property, plant and equipment, including buildings and leasehold property but excluding freehold land, are depreciated using the straight-line method over their expected useful lives. Leasehold improvements are amortised over the shorter of the lease term or useful life.

The depreciation rates used, in the current and prior year, for each class of asset are as follows:

Freehold buildings	2%
Leasehold property	2 - 10%
Plant and equipment	3 - 20%
Leased plant and equipment	3 - 20%

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

(p) Intangible assets

Goodwill

Business combinations prior to 1 January 2004

As part of the transition to A-IFRS, the Group elected to restate only those business combinations that occurred on or after 1 January 2004. In respect of acquisitions prior to 1 January 2004, goodwill represents the amount recognised under the Group's previous accounting framework.

Business combinations since 1 January 2004

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(n)). In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible, future economic benefits are probable and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see note 1(n)).

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (see note 1(n)).

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it related. All other expenditure is expensed as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives in the current and comparative periods are reflected by the following amortisation percentages:

Software development	5 - 20%
Software not integrated with hardware	5 - 20%
Licences	6 - 10%.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a

component of cash and cash equivalents for the purpose of the cash flow statements.

(r) Payables

Payables are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Group. Trade accounts payable are normally settled within 30 days.

Payables related to statutory obligations are measured at cost with other payables measured at amortised cost.

(s) Interest bearing liabilities

Interest bearing bank loans

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

Short-term notes

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

Medium-term notes

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

US notes

US notes hedged by cross currency swaps are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, these US notes are accounted for using fair value hedge accounting to the extent that an effective hedge exists (see note 1(j)).

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

(t) Employee benefits

Wages and salaries

The provision for employee benefits to wages and salaries represents the amount which the Group has a present obligation to pay resulting from

employees' services provided up to the balance date.

Annual leave, long service leave and retirement benefits

The provisions for employee benefits to annual leave, long service leave and retirement benefits which are expected to be settled within 12 months represent the undiscounted amount of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to the balance date.

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

Superannuation

The Group contributes to several defined benefit and defined contribution superannuation plans.

Defined contribution plans

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at balance date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses that arise in calculating the Group's obligation in respect of the plan are recognised directly in retained earnings. When the calculation results in plan assets exceeding liabilities to the Group, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

(u) Share based payments

The Group provides benefits to senior executives in the form of share based payment transactions, whereby senior executives render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the specified service period and ending on the date on which the relevant employees become fully entitled to the award (vesting date). The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired.

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

(v) Environmental costs

Environmental costs related to known environmental obligations under existing law are accrued when they can be reasonably estimated. Accruals are based on best available information and are adjusted as further information develops or circumstances change. Environmental provisions are accounted for in accordance with the provisions accounting policy.

Costs of compliance with environmental regulations and ongoing maintenance and monitoring, are expensed as incurred. Recoveries from third parties are recorded as assets when their realisation is virtually certain.

(w) Provisions

A provision is recognised when there is a present legal or constructive obligation as a result of a past event that can be measured reliably and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Subsequent accretion to the amount of a provision due to unwinding of the discount is recognised as a finance cost.

Estimate of the amount of an obligation is based on current legal and constructive obligations, technology and price levels. Actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions and can take place many years in the future. The carrying amounts of provisions and

liabilities are regularly reviewed and adjusted to take account of such change.

In general, the further in the future that a cash outflow for a liability is expected to occur, the greater the degree of uncertainty around the amount and timing of that cash outflow. Examples of cash outflows that are expected to occur a number of years in the future and, as a result, about which there is uncertainty of the amounts involved, include asset decommissioning and restoration obligations and employee pension obligations.

A change in the estimate of a recognised provision or liability would impact the income statement, with the exception of decommissioning and certain restoration costs that relate to the initial construction of an asset, which would be accounted for on a prospective basis.

Restoration and remediation

Provisions relating to current and future restoration and remediation activities are recognised as liabilities when a legal or constructive obligation arises.

The provision is the best estimate of the present value of the expenditure to settle the obligation at the reporting date. These costs are reviewed annually and any changes are reflected in the provision at the end of the reporting period through the income statement.

The ultimate cost of restoration and remediation is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal and environmental requirements, the emergence of new techniques or experience at other sites and uncertainty as to the remaining life of existing sites.

Asset retirements

Costs for the future dismantling and removal of assets, and restoration of the site on which the assets are located, are provided for and capitalised upon initial construction of the asset, where an obligation to incur such costs arises. The present value of the expected future cash flows required to settle these obligations is capitalised and depreciated over the useful life of the asset.

Subsequent accretion to the amount of a provision due to unwinding of the discount is recognised as a finance cost. A change in estimate of the provision is added to or deducted from the cost of the related asset in the period of the change, to the extent that any amount of deduction does not exceed the carrying amount of the asset. Any deduction in excess of the carrying amount is recognised in the income statement immediately. If an adjustment results in an addition to the cost of the related asset, consideration will be given to whether an indication of impairment exists and the impairment policy will be applied.

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount.

Restructuring and employee termination benefits

Provisions for restructuring or termination benefits are only recognised when a detailed plan has been approved and the restructuring or termination benefits have either commenced or been publicly announced, or when firm contracts related to the restructuring or termination benefits have been entered into. The liabilities for termination benefits have been included in the provision for employee and director benefits.

Notes to the financial statements

for the year ended 31 December 2006

Thousands of dollars	Consolidated	
	31 December 2006	31 December 2005
2. Other revenue		
Rental income	30,084	32,172
Royalties and franchise income	99,227	92,262
Net foreign exchange gains	23,677	-
Other income	70,466	70,007
	223,454	194,441
Borrowing income		
Other corporations	2,906	3,970
	226,360	198,411
3. Costs and expenses		
Borrowing costs:		
Interest expense	56,356	41,158
Finance charges on capitalised leases	1,892	1,942
(Gain)/loss on fair value derivative	(312)	1,460
Less:		
Capitalised finance costs	(9,423)	(17,253)
Borrowing costs	48,513	27,307
Depreciation and amortisation:		
Amortisation of intangibles	5,005	3,099
Depreciation and amortisation (excluding intangibles)	147,312	123,700
Total amortisation and depreciation expense	152,317	126,799

4. Dividends

Dividends declared or paid

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

	Date of payment	Franked/ unfranked	Cents per share	Total amount \$'000
2006				
Interim 2006	29 September 2006	Franked	32	86,400
Final 2005	31 March 2006	Franked	31	83,700
Total amount				170,100
2005				
Interim 2005	30 September 2005	Franked	15	40,500
Final 2004	1 April 2005	Franked	25	67,500
Total amount				108,000

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

Subsequent events

Since 31 December 2006, the directors declared the following dividend. The dividend has not been provided for and there are no income tax consequences for the Group.

Final 2006	30 March 2007	Franked	48	129,600
------------	---------------	---------	----	----------------

Notes to the financial statements

for the year ended 31 December 2006 (continued)

	Consolidated	
	31 December 2006	31 December 2005
5. Basic and diluted earnings per share		
Historical cost - cents per share	172.6	220.2
Replacement cost excluding individually material tax item - cents per share	159.2	153.4

The calculation of historical cost basic earnings per share for the year ended 31 December 2006 was based on the net profit attributable to ordinary shareholders of the parent entity of \$465,976,000 (2005: \$594,572,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2006 of 270 million shares (2005: 270 million shares).

The calculation of replacement cost basic earnings per share for the year ended 31 December 2006 was based on the net replacement cost profit attributable to ordinary shareholders of the parent entity of \$429,798,000 (2005: \$414,071,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2006 of 270 million shares (2005: 270 million shares).

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

Thousands of dollars	Consolidated	
	31 December 2006	31 December 2005
6. Current - unsecured		
US notes (i)	70,276	-
Bank loans (i)	30,000	68,000
Hedge payable (ii)	29,106	-
Lease liabilities (iii)	1,451	829
	130,833	68,829
Non-current - unsecured		
US notes (i)	212,731	296,360
Bank loans (i)	200,000	25,000
Hedge payable (ii)	43,457	59,522
Lease liabilities (iii)	7,564	8,248
	463,752	389,130

(i) The bank loans and the US notes are provided by a number of banks and the capital markets. The majority of interest rates on these loans and notes are on a floating rate basis. Maturity dates of the loans and notes vary from July 2007 to July 2012. Under the loan and note agreements, the Group is required to comply with certain financial covenants. There is no security or demand placed on the bank loans and US notes. The bank loans are denominated in Australian dollars, and US notes are denominated in Australian and US dollars.

(ii) The hedge payable is disclosed within interest bearing liabilities as the hedge was entered into solely as a result of the US dollar borrowings and is inextricably linked to the debt. The amount mainly represents the impact of the movement in the exchange rate from the date of inception (30 July 2002, USD exchange rate 0.5643) to 31 December 2006 (USD exchange rate 0.7903), on the amount hedged (USD136 million).

(iii) The implicit rate of interest on finance leases is 14.0% p.a. (2005: 14.0% p.a.).

7. Issued capital

Ordinary shares

270 million (2005: 270 million) ordinary shares, fully paid	543,415	543,415
---	---------	---------

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of the winding up of Caltex Australia Limited, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

Notes to the financial statements

for the year ended 31 December 2006 (continued)

8. Contingent liabilities

The details and estimated maximum amounts of contingent 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 liabilities will crystallise and consequently no provisions are included in the financial report in respect of these matters.

a Contingent liabilities - legal and other claims

1,000

1,000

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

A liability has been recognised for any known losses expected to be incurred where such losses are capable of reliable measurement.

Taxation

The Australian Taxation Office has served a statutory demand on Caltex to pay an amount of \$48.7 million in excise duty.

This sum would be tax deductible to Caltex. The ATO has formed the view that the excise duty should be paid in relation to certain liquid fuel by-products used in the refining process and that Caltex should have paid the excise duty on such fuel usage over the past four years. Caltex is of the strong view that the excise duty legislation does not apply to the refineries' own use of such fuels in the refining process and has instituted legal proceedings in the Federal Court against the ATO in this regard. No liability has been recognised as at 31 December 2006, as Caltex is of the view that this legislation is not applicable to this type of fuel usage. Due to a change in the excise legislation any future purported excise duty on this type of fuel usage ceased from 1 July 2006.

b All other contingent liabilities are consistent with the 2006 financial report.

	Consolidated	
	31 December 2006	31 December 2005
9. Investments accounted for using the equity method		% interest
	2006	2005
Airport Fuel Services Pty Ltd	40	40
Australasian Lubricants Manufacturing Company Pty Ltd	50	50
Cairns Airport Refuelling Services Pty Ltd	25	25
Geraldton Fuel Company 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
South Coast Fuels Pty Ltd	50	50
South East Queensland Fuels Pty Ltd	-	50
South East Queensland Fuels Unit Trust Pty Ltd	-	50
Vitalgas Pty Ltd	50	50

With the exception of R&JK Petroleum Pty Ltd, these entities are principally concerned with the sale, marketing and/or distribution of fuel products. The operations of R&JK Petroleum Pty Ltd were sold on 1 April 2004 and the company deregistered on 23 July 2006.

South East Queensland Fuels Pty Ltd and South East Queensland Fuels Unit Trust became fully owned entities on 1 December 2006.

Notes to the financial statements

for the year ended 31 December 2006 (continued)

10. Acquisitions

2006

a. South East Queensland Fuels Pty Ltd

On 1 December 2006, the Group acquired the remaining 50% of South East Queensland Fuels Pty Ltd and South East Queensland Fuels Unit Trust for \$8,008,000, satisfied in cash. The company distributes petroleum. In the month to 31 December 2006, the subsidiary contributed net loss of \$200,000 to the consolidated net profit for the year. If the acquisition had occurred on 1 January 2006, the Group estimates that gross sales revenue would have been \$18,612,778,000 and net profit would have been \$466,022,000.

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

	Recognised values
Cash and cash equivalents	2,111
Receivables	24,901
Inventories	1,386
Other current assets	61
Property, plant and equipment	2,443
Payables	(30,053)
Net identifiable assets and liabilities	849
Net assets acquired - 50%	425
Goodwill on acquisition	7,583
Consideration paid, satisfied in cash	(8,008)
Cash acquired	1,056
Net cash outflow	6,952

The recognised values are based on the pre-acquisition carrying amounts and represent the fair value recorded on acquisition.

Goodwill has arisen on acquisition of the business of South East Queensland Fuels because of future business synergies that did not meet the criteria for recognition as a separately identifiable intangible asset at the date of acquisition.

b. Independent Fuel Supplies

On 1 December 2006, the Group acquired the business of Independent Fuel Supplies for \$14,388,000, satisfied in cash. The business of Independent Fuel Supplies is to distribute petroleum. In the one month to 31 December 2006, the business contributed net profit of \$200,000 to the consolidated net profit for the year. If the acquisition had occurred on 1 January 2006, the Group estimates that gross sales revenue would have been \$18,652,366,000 and net profit would have been \$470,147,000.

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

	Recognised values
Property, plant and equipment	1,847
Inventories	2,779
Net identifiable assets and liabilities	4,626
Goodwill on acquisition	9,762
Consideration paid in cash	(14,388)
Cash acquired	-
Net cash outflow	14,388

The recognised values are based on the pre-acquisition carrying amounts and represent the fair value recorded on acquisition.

Goodwill has arisen on acquisition of the business of Independent Fuel Supplies because of future business synergies that did not meet the criteria for recognition as a separately identifiable intangible asset at the date of acquisition.

Notes to the financial statements

for the year ended 31 December 2006 (continued)

10. Acquisitions (continued)

2005

a. Auer Petroleum

On 1 July 2005, the Group acquired the business of Auer Petroleum for \$2,285,000, satisfied by reducing Auer Petroleum's accounts payable to Caltex on 1 July 2005. The business of Auer Petroleum is to distribute petroleum. In the six months to 31 December 2005, the business contributed net profit of \$13,000 to the consolidated net profit for the year. If the acquisition had occurred on 1 January 2005, the Group's gross sales revenue would have been \$15,729,359,000 and net profit would have been \$594,661,000.

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

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

The recognised values are based on the pre-acquisition carrying amounts and represent the fair value recorded on acquisition.

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

b. Dunning Petroleum

On 30 September 2005, the Group acquired the business of Dunning Petroleum for \$6,493,000, satisfied by reducing Dunning Petroleum's accounts payable to Caltex by \$4,493,000 on 30 September 2005. The deferral of \$2,000,000 is payable by cash on 31 January 2006. The business of Dunning Petroleum is to distribute petroleum. In the three months to 31 December 2005, the business contributed net profit of \$238,000 to the consolidated net profit for the year. If the acquisition had occurred on 1 January 2005, the Group's gross sales revenue would have been \$15,779,123,000 and net profit would have been \$595,744,000.

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

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

The recognised values are based on the pre-acquisition carrying amounts and represent the fair value recorded on acquisition.

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

Notes to the financial statements

for the year ended 31 December 2006 (continued)

10. Acquisitions (continued)

c. Petro Fuels and Lubricants

On 1 December 2005, the Group acquired the business of Petro Fuels and Lubricants for \$16,408,000, satisfied by reducing Petro Fuels and Lubricants' accounts payable to Caltex by \$13,108,000 on 1 December 2005. The deferral of \$3,300,000 is payable by cash on 31 January 2006. The business of Petro Fuels and Lubricants is to distribute petroleum. In the one month to 31 December 2005, the business contributed net loss of \$8,000 to the consolidated net profit for the year. If the acquisition had occurred on 1 January 2005, the Group's gross sales revenue would have been \$15,900,485,000 and net profit would have been \$597,163,000.

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

	Recognised values
Property, plant and equipment	1,073
Inventories	3,330
Cash and cash equivalents	64
Intangibles	1,500
Other current assets	25
Provisions	(311)
Net identifiable assets and liabilities	5,681
Goodwill on acquisition	10,727
Consideration paid, satisfied by reducing accounts payable	(13,108)
Consideration deferred	(3,300)
Cash acquired	64
Net cash inflow	64

The recognised values are based on the pre-acquisition carrying amounts and represent the fair value recorded on acquisition.

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

11. Net tangible assets per share

Net tangible assets per share (dollars)	8.80	7.73
---	------	------

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 (2005: 270 million).

12. 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.