

CALTEX AUSTRALIA LIMITED

ACN 004 201 307

2007 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		
		2007	2006
Revenues from ordinary activities	↑ 4%	19,342	18,665
Profit from ordinary activities after tax/net profit for the period attributable to members:			
Replacement cost basis ¹	↑ 3%	444	430
Historical cost basis	↑ 39%	646	466

Dividend	2007	2006
Dividends declared:		
Interim dividend:		
- Amount per security (fully franked)	47¢	32¢
Final dividend:		
- Amount per security (fully franked)	33¢	48¢
Record date for determining entitlement to 2007 final dividend	7 March 2008	
Date 2007 final dividend is payable	28 March 2008	

Comments

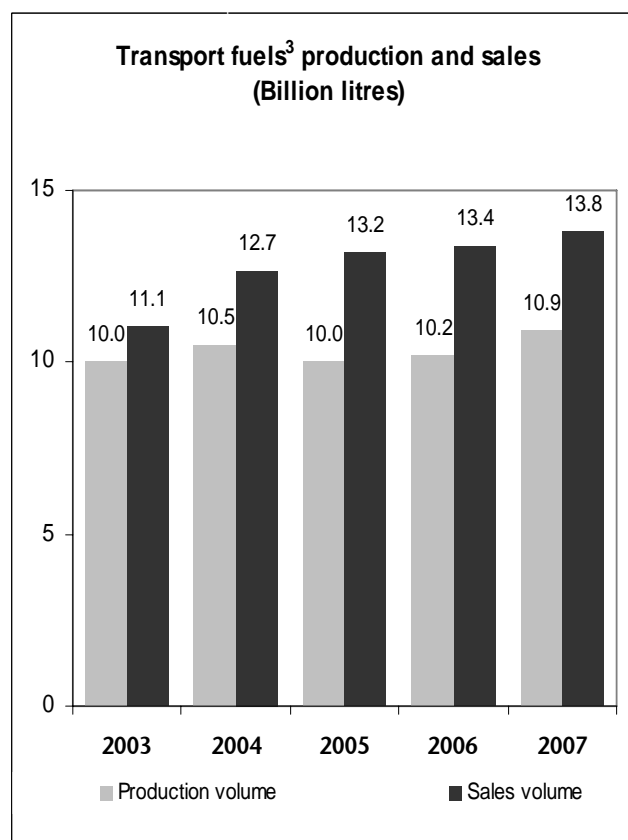
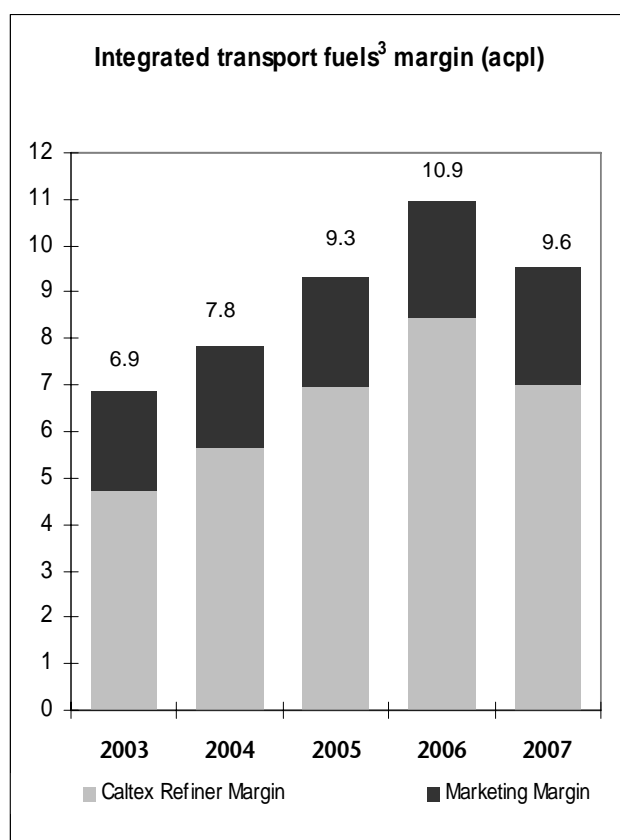
- Profit after tax on a replacement cost of sales operating profit (RCOP)¹ basis was \$444 million for the year to 31 December 2007, compared with \$430 million for the full year 2006. Caltex operates in a highly competitive market and the \$444 million 2007 RCOP profit equates to an average of 2.2 cents per litre for all petroleum products sold² (full year 2006: 2.2 cents per litre).
- This solid financial performance was achieved despite a worsening external environment. Record refinery production helped offset declining refiner margins and there was a stronger contribution from the marketing business with higher transport fuel sales, particularly diesel, along with increased non-fuel income. Marketing contributed approximately half of Caltex's earnings in 2007.
- Caltex recorded a profit after tax on a historical cost basis of \$646 million for the full year 2007, compared with \$466 million for the full year 2006. This included inventory gains of \$202 million after tax, compared with \$36 million after tax in the full year 2006.
- Debt at 31 December 2007 was \$582 million (31 December 2006: \$539 million). Debt increased towards the end of the year as the company built inventory in preparation for major refinery maintenance in the first quarter of 2008.
- Caltex declared a final dividend of \$89.1 million or 33 cents per share fully franked. This makes the total dividend declared for 2007 80 cents per share fully franked after 47 cents per share paid on 28 September 2007 (2006 total dividends: 80 cents per share).

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.

² This calculation is based on 2007 RCOP NPAT (\$444 million), which includes non-fuel income, divided by the total Caltex sales of petrol, diesel and jet fuel including sales to domestic refiners, lubricants and specialty products (19.9 billion litres).

Key performance indicators

	Year ended 31 December				
	2007	2006	2005	2004	2003 ¹
Profit before interest and tax (\$m)					
- Replacement cost basis (excluding individually material tax item) ²	675	655	583	536	340
- Historical cost basis (including individually material tax item) ²	965	706	811	687	340
Profit after interest and tax (\$m)					
- Replacement cost basis (excluding individually material tax item) ²	444	430	414	350	200
- Historical cost basis (including individually material tax item) ²	646	466	595	570	197
Inventory gains/(losses) before tax (\$m)	290	52	228	152	13
Basic earnings per share (cents)					
- Replacement cost basis (excluding individually material tax item) ²	164	159	153	130	74
- Historical cost basis (including individually material tax item) ²	239	173	220	211	73
Return on equity attributable to members of the parent entity after tax (%)					
- Replacement cost basis (excluding individually material tax item) ²	16	18	19	21	16
- Historical cost basis (including individually material tax item) ²	23	19	28	35	16
Net tangible asset backing per share (\$)	10.14	8.80	7.73	5.98	4.46
Net debt (\$m)	582	539	429	447	624
Gearing (net debt to net debt plus equity) (%)	17	18	17	21	34



¹ 2003 comparative numbers have not been adjusted for the transition to A-IFRS.

² In 2005, there was an individually material tax item of \$21 million (\$114 million in 2004) relating to an income tax benefit upon entry into the new tax consolidation regime.


³ Transport fuels comprise unleaded petrol, diesel and jet.


Profit and loss

for the year ended 31 December 2007

Millions of dollars	2007	2006
1 Total revenue ¹	19,342	18,665
2 Total expenses ²	(18,667)	(18,010)
3 Replacement cost earnings before interest and tax	675	655
4 Net finance costs	(39)	(46)
Income tax expense	(192)	(179)
Replacement cost profit (RCOP)	444	430
5 Inventory gain after tax	202	36
Historical cost net profit after tax	646	466
Interim dividend per share	47c	32c
6 Final dividend per share	33c	48c
Basic earnings per share		
- Replacement cost	164c	159c
- Historical cost	239c	173c

Discussion and analysis

<p>1 Total revenue</p> <p> 4%</p>	<p>Total revenue increased primarily due to:</p> <ul style="list-style-type: none"> • higher marketing transport fuels sales volumes; and • higher product prices driven by crude oil prices.
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<p>2 Total expenses – replacement cost basis</p> <p> 4%</p>	<p>Total expenses increased primarily due to higher cost of sales, which reflected:</p> <ul style="list-style-type: none"> • higher crude prices; • higher refinery production and sales volumes; and • inflationary impact on operating costs.
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¹ Excludes interest revenue.

² Excludes interest expense and inventory gains/(losses).

Discussion and analysis continued



<p>3 Replacement cost EBIT</p> <p>↑ 3%</p>	<p>Caltex's underlying performance continued to improve, driven by higher sales volumes and higher production offset by lower refiner margins, the impact of the stronger A\$ on refiner margins and higher operating costs.</p>
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RCOP EBIT breakdown¹

<p>Caltex Refiner Margin (CRM)</p> <p style="text-align: right;">\$786m</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: average Singapore refiner margin + product quality premium + crude discount / (premium) + product freight – crude freight – yield loss.</p> <p>Despite higher production volumes (2007: 10.9 billion litres of petrol, diesel and jet; 2006: 10.2 billion litres), total CRM was A\$142 million lower in 2007 than in 2006. The US dollar CRM was 9% lower in 2007 than in 2006 at US\$9.26/bbl, compared with US\$10.13/bbl in 2006. In addition, the stronger Australian dollar resulted in the Australian dollar CRM being 17% lower at A\$11.12/bbl in 2007, compared with A\$13.42/bbl in 2006, and escalating product prices resulted in a higher pricing lag. Higher production volumes were not able to offset the effect of the US\$/bbl CRM decline and the stronger Australian dollar.</p>
<p>Transport fuels marketing margin</p> <p style="text-align: right;">\$354m</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> <p>The average transport fuels marketing margin was 6% higher than in 2006, driven by higher transport fuel sales of 13.8 billion litres in 2007, compared with 13.4 billion litres in the same period in 2006. The strongest growth was in diesel sales with Caltex volumes up by 11.5% from the prior year.</p>
<p>Lubricants and specialties margin</p> <p style="text-align: right;">\$115m</p>	<p>Lubricants and specialties products include finished lubricants, base oils, liquified petroleum gas, petrochemicals, bitumen, wax and marine fuels.</p> <p>Lubes and specialty margins increased 7%, compared with 2006, as unprofitable business was rationalised.</p>
<p>Non-fuel income</p> <p style="text-align: right;">\$152m</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> <p>Non-fuel income was higher in 2007 with a 7.2% growth in weekly same shop sales and a strong contribution from the card business through StarCard and StarCash.</p>
<p>Operating expenses</p> <p style="text-align: right;">(\$750m)</p>	<p>Operating expenses represent refining and supply, marketing and corporate operating expenditure.</p> <p>Higher refinery operating costs and increased service station remediation provisions contributed to the higher costs. On a cent per litre basis, operating costs rose 3.96%, in line with inflation.</p>
<p>Other</p> <p style="text-align: right;">\$18m</p>	<p>Other margin includes:</p> <ul style="list-style-type: none"> • refining margin other than CRM (export sales, clean fuels grant and favourable imports and local purchases); and • exchange gain on payables.
<p>Total RCOP EBIT</p> <p style="text-align: right;">\$675m</p>	

¹ The breakdown of RCOP shown here represents management reporting view of the breakdown and as such individual components may not reconcile to statutory accounts.

Discussion and analysis continued

4 Net finance costs  15%	The decrease in net finance costs reflects a lower average net debt for 2007 (23% below 2006). The net debt at 31 December 2007 was \$582 million compared with \$539 million at 31 December 2006. Debt increased towards the end of the year as the company built inventory in preparation for major refinery maintenance in the first quarter of 2008.
5 Inventory gain after tax  461%	Regional crude oil (Tapis) prices rose significantly throughout 2007 (US\$100.85/bbl December 2007, compared with US\$59.54/bbl in December 2006). This increase resulted in net inventory gains of \$290 million (\$202 million after tax), compared with net inventory gains of \$52 million (\$36 million after tax) in 2006.
6 Final dividend	The Board declared a final dividend of \$89.1 million or 33 cents per share fully franked. This makes the total dividend declared for 2007 80 cents per share fully franked after 47 cents per share paid on 28 September 2007 (2006 total dividends: 80 cents per share). The record date is 7 March 2008, with the dividend payable on 28 March 2008.

Balance sheet

as at 31 December 2007

Millions of dollars	Dec 2007	Dec 2006	Change
1 Working capital	937	699	238
2 Property, plant and equipment (PP&E)	2,477	2,288	189
3 Net debt	(582)	(539)	(43)
Other non-current assets and liabilities	(3)	(5)	2
Total equity	2,829	2,443	386

Discussion and analysis

1 Working capital

 **\$238m**

The increase in working capital is primarily due to:

- higher value of crude and finished product inventory due to the higher Tapis price (US\$100.85/bbl in December 2007, compared with US\$59.54/bbl in December 2006);
- higher crude inventory volumes due to unplanned refinery shutdowns in December 2007; and
- higher receivables due to increase in commercial sales (volume and prices).

Partly offset by:

- higher crude payables due to increased Tapis price, and increased finished product purchases at the end of the year, driven by unplanned shutdowns.

2 PP&E

 **\$189m**

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

- capital expenditure and major cyclical maintenance of \$363 million.

Partly offset by:

- depreciation of \$160 million; and
- net disposals of \$14 million.

3 Net debt

 **\$43m**




Net debt was \$582 million at 31 December 2007, an increase of \$43 million from 31 December 2006. Debt increased towards the end of the year as the company built inventory in preparation for major refinery maintenance in the first quarter of 2008.

Cash flows

for the year ended 31 December 2007

Millions of dollars		2007	2006	Change
	Receipts from customers	21,469	21,290	179
	Payments to suppliers and employees	(16,041)	(16,046)	5
	Payments for excise	(4,629)	(4,412)	(217)
1	Finance costs paid	(54)	(57)	3
2	Other net operating activities	(149)	(309)	160
	Net operating cash flows	596	466	130
3	Purchases of property, plant and equipment (PP&E) and major cyclical maintenance	(351)	(387)	36
	Other investing cash flows	(17)	(18)	1
	Net investing cash outflows	(368)	(405)	37
4	Net financing cash inflows/(outflows)	(270)	(34)	(236)
	Net (decrease)/increase in cash held	(42)	27	(69)

Discussion and analysis

<p>1 Finance costs</p> <p> \$3m</p>	<p>Net debt increased to \$582 million at 31 December 2007, compared with \$539 million at 31 December 2006. However, average net debt for 2007 was 23% lower than for 2006, resulting in decreased borrowing costs.</p>
<p>2 Other operating activities</p> <p> \$160m</p>	<p>Net cash outflows from other net operating activities were lower than 2006 due to income taxes paid of \$162 million in 2007, compared with \$315 million in 2006. In addition, interest received was \$6 million higher in 2007.</p>
<p>3 Purchases of PP&E and major cyclical maintenance</p> <p> \$36m</p>	<p>Capital expenditure in 2007 was in line with the previous year.</p>

**4 Net financing cash
outflows**

↑ \$236m

Net financing cash outflows increased due to lower net borrowings in 2007 (i.e. higher repayments in 2007 relative to funds drawn down) and an increase in dividends paid. Total dividend payments in 2007 were \$257 million, compared to \$170 million in 2006.

2007
PRELIMINARY FINAL REPORT
FOR
CALTEX AUSTRALIA LIMITED
ACN 004 201 307

The 2007 Preliminary Final Report for Caltex Australia Limited includes the:

- Directors' Review
- Directors' Statement
- Extracts of the 2007 Year Financial Statements and accompanying notes for the year ended 31 December 2007.

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;
- 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 2007 Preliminary Final Report for the Caltex Australia Group for the year ended 31 December 2007 to shareholders.

Board of directors

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

General overview

Caltex Australia Limited recorded an after tax profit of \$444 million on a replacement cost of sales operating profit (RCOP) basis for the year to 31 December 2007. This compares with an RCOP result of \$430 million for the full year 2006.

Caltex operates in a highly competitive market and the \$444 million 2007 RCOP profit equates to an average of 2.2 cents per litre after tax for all petroleum products sold¹. (Full year 2006: 2.2 cents per litre.)

In the case of petrol alone, Caltex's profit after tax was around 1.5 cents a litre (cpl) compared to the Australian Government's tax at the bowser of approximately 50 cents a litre².

Caltex recorded a solid financial performance despite a worsening external environment. Record refinery production helped offset declining refiner margins and there was a stronger contribution from the marketing business with higher transport fuel sales, particularly diesel, along with increased non-fuel income. Marketing contributed approximately half of Caltex's earnings in 2007.

The company had its best safety performance to date in 2007 and also managed to keep its unit operating expenses in line with inflation despite strong cost pressures for materials and skilled labour.

By growing sales volumes, increasing production and good operating cost control the company has been able to offset the negative impact of external factors of currency movements and declining refiner margins.

There was a 17% drop in the Caltex refiner margin (CRM)³ in Australian cents per litre terms compared to 2006. The higher Australian dollar in 2007 had the net effect of lowering after tax profit by approximately \$40 million relative to the previous year.

The CRM averaged 7.0 A cents per litre (US\$9.26 a barrel) in 2007 compared with 8.44 A cents per litre (US\$10.13 a barrel) in 2006. This margin excludes operating costs.

On a historical cost profit basis (including inventory gains), Caltex recorded an after tax profit of \$646 million for 2007 (2006: \$466 million). The profit includes crude oil inventory gains of \$202 million after tax compared with \$36 million inventory gains in 2006.

Debt at 31 December 2007 was \$582 million (31 December 2006: \$539 million). Debt increased towards the end of the year as the company built inventory in preparation for major refinery maintenance in the first quarter of 2008.

Dividend

Caltex declared a final dividend of \$89.1 million or 33 cents per share fully franked. This makes the total dividend declared for 2007 80 cents per share fully franked after 47 cents per share paid on 28 September 2007 (2006 total dividends: 80 cents per share).

¹ This calculation is based on 2007 RCOP NPAT (\$444 million), which includes non-fuel income, divided by the total Caltex sales of petrol, diesel and jet fuel including sales to domestic refiners, lubricants and specialty products (19.9 billion litres).

² This calculation is based on a bowser price of around \$1.35 a litre (excise 38.14cpl + GST 12.27cpl).

³ 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

Dividend continued

The company is facing increasing cash demands as a result of rising capital costs and higher working capital requirements due to the significant rise in the cost of crude oil. The level of dividend has been set taking into consideration future cashflow requirements and the need to maintain a prudent debt level in an environment of declining refiner margins.

Record refinery production

There has been a strong operating performance in refining with a record 12.1 billion litres production of all products for the year (2006: 11.9 billion litres), including 10.9 billion litres of high value transport fuels (petrol, diesel and jet fuel), up from 10.2 billion litres in 2006.

New throughput records were set during the year with average utilisation for the fuels refineries increasing to 84% (2006:78%) although production was slightly lower than anticipated due to unscheduled unit shutdowns for essential repair and maintenance work at both the Kurnell (Sydney) and Lytton (Brisbane) refineries in November and December.

Significant progress was made during the year on major capital projects including a second diesel hydrotreater unit (DHTU) at the Lytton refinery and new crude oil and diesel storage tanks at the Kurnell refinery.

The DHTU construction is on track for completion in the first quarter of 2009 with the final construction contracts still to be awarded. Globally, capital costs continue to rise due to the tight availability of skilled labour and materials cost increases. Independent data shows capital costs in the refining industry generally have risen by more than 60% over the last three years. Caltex is experiencing similar cost pressures for the Lytton DHTU with final costs currently anticipated to be around \$320 million. This compares with the initial estimate for the project of approximately \$250 million. When commissioned the unit will increase Caltex's overall capacity to produce extra low sulfur diesel (maximum 10 parts per million sulfur) by 40%.

Growing contribution from Marketing

There was an increased contribution from the marketing business which maintained its market leadership in fuels sales and convenience store retailing. There were higher transport fuel sales of 13.8 billion litres in 2007, compared with 13.4 billion litres in the same period in 2006. The strongest growth was in diesel sales with Caltex volumes up by 11.5% from the prior year compared with market growth of 6.4%. Diesel sales increased across all channels.

Retail petrol sales remained flat in an extremely competitive market with less than 1% growth in sales volume in line with market growth. Premium (higher octane) fuel sales volumes were up 11.5% which was higher than market growth of 9.9% with sales increased following the launch of Vortex 98 petrol in Western Australia.

Earnings from both jet fuel and finished lubricants were higher in 2007 as unprofitable business was rationalised.

Non-fuel income was higher in 2007 with a 7.2% growth in weekly same shop sales and a strong contribution from the card business through StarCard and StarCash.

Petrol prices

Consumers in 2007 benefited from the stronger Australian dollar which resulted in the price of petrol at times being approximately 14 cents per litre lower than if the \$A had remained at 2006 levels.

During the year Caltex made substantial contributions to the Australian Competition and Consumer Commission's 2007 inquiry into unleaded petrol prices in Australia. Caltex welcomed the ACCC report issued in December 2007 which found no reason to regulate petrol pricing and no evidence of price fixing or collusion in the industry.

Biofuels expansion

Caltex more than met its commitment under the Australian Government's Biofuels Action Plan exceeding the 2007 target by 50%.

Directors' Review continued

Biofuels expansion continued

The company trebled the volume of ethanol and biodiesel sold in biofuel blends in 2007. The number of service stations selling Bio E10 Unleaded and/or New Generation Diesel with 2% biodiesel increased from 237 to 306.

Bio E10 Unleaded, which contains 10 percent ethanol blended with regular unleaded petrol is now offered at 207 sites in New South Wales, Queensland and the ACT. The network continues to expand and the proportion of Bio E10 Unleaded in petrol sales at these sites is growing.

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 2007 to the date of this review.

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



.....
Elizabeth Bryan
Chairman

Sydney, 22 February 2008



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

Income Statement

for the year ended 31 December 2007

Consolidated

Thousands of dollars	Note	2007	2006
Revenue from sale of goods		19,078,481	18,441,437
Replacement cost of goods sold (excluding product duties and taxes and inventory gains)		(13,344,223)	(12,997,732)
Product duties and taxes		(4,628,750)	(4,411,846)
Inventory gains		289,767	51,683
Cost of goods sold - historical cost		(17,683,206)	(17,357,895)
Gross profit		1,395,275	1,083,542
Other income	2	270,246	226,360
Refining and supply expenses		(20,996)	(18,731)
Marketing expenses		(609,171)	(542,138)
Finance costs	3	(45,956)	(48,513)
Other expenses		(64,256)	(43,773)
Share of net profit of entities accounted for using the equity method		3,313	5,118
Profit before income tax expense		928,455	661,865
Income tax expense		(279,639)	(194,668)
Net profit		648,816	467,197
Net profit attributable to minority interest		2,466	1,221
Net profit attributable to members of the parent entity		646,350	465,976

Basic and diluted earnings per share:

Historical cost - cents per share	5	239.4	172.6
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The consolidated income statement is to be read in conjunction with the notes to the financial statements.

Balance Sheet

as at 31 December 2007

Consolidated

Thousands of dollars	Note	2007	2006
Current assets			
Cash and cash equivalents		14,019	55,599
Receivables		1,146,974	809,449
Inventories		1,551,605	1,100,034
Current tax assets		-	39,742
Other		23,155	24,293
Total current assets		2,735,753	2,029,117
Non-current assets			
Receivables		282	3,916
Investments accounted for using the equity method		25,008	26,718
Other investments		15	15
Intangibles		79,485	54,633
Property, plant and equipment		2,476,963	2,288,442
Other		12,430	14,585
Total non-current assets		2,594,183	2,388,309
Total assets		5,329,936	4,417,426
Current liabilities			
Payables		1,621,499	1,194,221
Interest bearing liabilities	6	31,871	130,833
Current tax liabilities		76,829	-
Provisions		86,487	80,355
Total current liabilities		1,816,686	1,405,409
Non-current liabilities			
Payables		8,478	5,378
Interest bearing liabilities	6	564,158	463,752
Deferred tax liabilities		31,410	30,662
Provisions		80,582	69,715
Total non-current liabilities		684,628	569,507
Total liabilities		2,501,314	1,974,916
Net assets		2,828,622	2,442,510
Equity			
Issued capital	7	543,415	543,415
Treasury stock		(2,919)	(2,092)
Reserves		3,092	3,346
Retained earnings		2,273,880	1,887,156
Total parent entity interest		2,817,468	2,431,825
Minority interest		11,154	10,685
Total equity		2,828,622	2,442,510

The consolidated balance sheet is to be read in conjunction with the notes to the financial statements.

Statement of Recognised Income and Expense

for the year ended 31 December 2007

Consolidated

Thousands of dollars	2007	2006
Net profit	648,816	467,197
Actuarial (loss)/gain on defined benefit plans	(3,126)	7,445
Cash flow hedge fair value gains	311	406
Total recognised income and expense for the year	646,001	475,048
Attributable to:		
Equity holders of the parent entity	643,535	473,827
Minority interest	2,466	1,221
Total recognised income and expense for the year	646,001	475,048
Total equity at the beginning of the year	2,442,510	2,138,455
Total recognised income and expense for the year	646,001	475,048
Own shares acquired	(2,851)	(2,843)
Expense on equity settled transactions	1,459	2,150
Dividends to minority interest	(1,997)	(200)
Dividends to shareholders	(256,500)	(170,100)
Total equity at the end of the year	2,828,622	2,442,510

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

Cash Flow Statement

for the year ended 31 December 2007

Consolidated

Thousands of dollars	Note	2007	2006
Cash flows from operating activities			
Receipts from customers		21,468,811	21,290,363
Payments to suppliers, employees and governments		(20,670,462)	(20,458,455)
Dividends and disbursements received		3,915	3,685
Interest received		8,969	2,555
Interest and other finance costs paid		(54,232)	(57,229)
Income taxes paid		(161,605)	(315,361)
Net operating cash inflows		595,396	465,558
Cash flows from investing activities			
Purchases of businesses, net of cash acquired		-	(14,388)
Purchase of controlled entity, net of cash acquired		(11,747)	(6,952)
Purchases of property, plant and equipment		(293,310)	(357,285)
Major cyclical maintenance		(57,874)	(29,530)
Purchases of intangibles		(22,211)	(2,189)
Net proceeds from sale of property, plant and equipment		17,718	5,176
Loans repaid from associated entities		-	956
Net investing cash (outflows)		(367,424)	(404,212)
Cash flows from financing activities			
Proceeds from borrowings		9,463,518	9,595,161
Repayments of borrowings		(9,472,701)	(9,458,785)
Repayment of finance lease principal		(1,872)	(307)
Dividends paid to minority interest		(1,997)	(200)
Dividends paid	4	(256,500)	(170,100)
Net financing cash (outflows)		(269,552)	(34,231)
Net (decrease)/increase in cash and cash equivalents		(41,580)	27,115
Cash and cash equivalents at the beginning of the year		55,599	28,484
Cash and cash equivalents at the end of the year		14,019	55,599

The consolidated cash flow statement is to be read in conjunction with the notes to the financial statements.

Notes to the financial statements

for the year ended 31 December 2007

1. Significant accounting policies

Caltex Australia Limited (the “company”) is a company domiciled in Australia. The financial statements for the year ended 31 December 2007 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 22 February 2008.

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

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 (AASBs) including Australian Interpretations adopted by the Australian Accounting Standards Board (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 company 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:

- Revised AASB 101 *Presentation of Financial Statements (September 2007)*.
- AASB 8 *Operating Segments*.
- Revised AASB 123 *Borrowing Costs*.
- AASB 2007-3 *Amendments to Australian Accounting Standards* arising from AASB 8 *Operating Segments*, amending AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, AASB 6 *Exploration for and Evaluation of Mineral Resources*, AASB 102 *Inventories*, AASB 107 *Cash Flow Statements*, AASB 119 *Employee Benefits*, AASB 127 *Consolidated and Separate Financial Statements*, AASB 134 *Interim Financial Reporting*, AASB 136 *Impairment of Assets*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*.
- AASB 2007-6 *Amendments to Australian Accounting Standards* arising from AASB 123 *Borrowing Costs*, amending AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 101 *Presentation of Financial Statements*, AASB 107 *Cash Flow Statements*, AASB 111 *Construction Contracts*, AASB 116 *Property, Plant and Equipment*, AASB 138 *Intangible Assets*, AI 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities and Interpretation*, AI 12 *Service Concession Arrangements*.
- AASB 2007-8 *Amendments to Australian Accounting Standards* arising from AASB 101 *Presentation of Financial Statements*.
- AI 12 *Service Concession Arrangements*.
- AI 13 *Customer Loyalty Programmes*.
- AI 14 IAS 19 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.
- AI 13 *Customer Loyalty Programmes*.
- AI 129 *Service Concession Arrangements: Disclosures*.

- A1 1003 *Australian Petroleum Resource Rent Tax*.

These statements will be effective for the Group as of 1 January 2008. 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 commences until the date joint control ceases. Other movements in reserves are recognised directly in the consolidated reserves.

Jointly controlled operations and assets

The interests 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

Notes 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.

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 fee 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, including the impact of exchange rate movements. 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 finished product swap contracts to hedge these risks.

The Group does not enter into derivative financial instrument transactions for trading or speculative 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 at fair value. The gain or loss on subsequent remeasurement 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 Finished product swap contracts

Tapis crude and product swap contracts may be used to reduce exposure to changes in absolute crude and finished product prices 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 finished product 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 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 2007 (continued)

Thousands of dollars	Consolidated	
	31 December 2007	31 December 2006
2. Other income		
Rental income	32,331	30,084
Royalties and franchise income	106,225	99,227
Net foreign exchange gains	56,162	23,677
Other income	68,668	70,466
	263,386	223,454
Finance income		
Other corporations	6,860	2,906
	270,246	226,360
3. Costs and expenses		
Finance costs:		
Interest expense	48,208	56,356
Finance charges on capitalised leases	1,722	1,892
(Gain)/loss on fair value derivative	(290)	(312)
Less:		
Capitalised finance costs	(3,684)	(9,423)
Finance costs	45,956	48,513
Depreciation and amortisation:		
Amortisation of intangibles	6,568	5,005
Depreciation and amortisation (excluding intangibles)	160,163	147,312
Total amortisation and depreciation expense	166,731	152,317
Selected expenses:		
Operating leases rental expense	85,559	73,340
Net loss on disposal of non-current assets	16,999	8,397

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
2007				
Interim 2007	28 September 2007	Franked	47	126,900
Final 2006	30 March 2007	Franked	48	129,600
Total amount				256,500
2006				
Interim 2006	29 September 2006	Franked	32	86,400
Final 2005	31 March 2006	Franked	31	83,700
Total amount				170,100

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

Subsequent events

Since 31 December 2007, the directors declared the following dividend. The dividend has not been provided for and there are no income tax consequences for the Group.

Final 2007	28 March 2008	Franked	33	89,100
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Notes to the financial statements for the year ended 31 December 2007 (continued)

	Consolidated	
	31 December 2007	31 December 2006
5. Basic and diluted earnings per share		
Historical cost - cents per share	239.4	172.6
Replacement cost - cents per share	164.3	159.2

The calculation of historical cost basic earnings per share for the period ended 31 December 2007 was based on the net profit attributable to ordinary shareholders of the parent entity of \$646,350,000 (2006: \$465,976,000) and a weighted average number of ordinary shares outstanding during the period ended 31 December 2007 of 270 million shares (2006: 270 million shares).

The calculation of replacement cost basic earnings per share for the year ended 31 December 2007 was based on the net replacement cost profit attributable to ordinary shareholders of the parent entity of \$443,513,000 (2006: \$429,798,000) and a weighted average number of ordinary shares outstanding during the period ended 31 December 2007 of 270 million shares (2006: 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 2007	31 December 2006
6. Interest bearing liabilities		
Current - unsecured		
US notes (i)	-	70,276
Bank loans (i)	30,000	30,000
Hedge payable (ii)	-	29,106
Lease liabilities (iii)	1,871	1,451
	31,871	130,833
Non-current - unsecured		
US notes (i)	205,315	212,731
Bank loans (i)	300,000	200,000
Hedge payable (ii)	50,727	43,457
Lease liabilities (iii)	8,116	7,564
	564,158	463,752

(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. The hedge payable and a portion of the US notes, totalling \$142,627,000, mature in July 2009. The remainder of the US notes mature in July 2012. Under the loan and note agreements, the Caltex Australia 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 2007 (USD exchange rate 0.8764), on the amount hedged (USD80 million).

(iii) The implicit rate of interest on finance leases is 14.0% p.a. (2006: 14.0% p.a.).

Thousands of dollars	Consolidated	
	31 December 2007	31 December 2006
7. Issued capital		
Ordinary shares		
270 million (2006: 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.

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.

Thousands of dollars	Consolidated	
	31 December 2007	31 December 2006
(a) Contingent liabilities - legal and other claims	-	1,000

Notes to the financial statements for the year ended 31 December 2007 (continued)

8. Contingent liabilities (continued)

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

In 2006, the ATO 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 previous 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 2007, as Caltex remains 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 2007 financial report.

	Consolidated	
	31 December 2007	31 December 2006
9. Investments accounted for using the equity method	% interest	
Airport Fuel Services Pty Ltd	40	40
Australasian Lubricants Manufacturing Company Pty Ltd	50	50
Cairns Airport Refuelling Services Pty Ltd	25	25
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
Northern Marketing Partnership	-	37.5
South Coast Fuels Pty Ltd	50	50
Vitalgas Pty Ltd	50	50

All above companies are incorporated in Australia.

10. Acquisitions

2007

(a) Northern Marketing Management Pty Ltd and Northern Marketing Partnership

On 1 July 2007, the Group acquired the remaining 62.5% of Northern Marketing Management Pty Ltd and Northern Marketing Partnership for \$14.7m satisfied in cash. The company distributes petroleum. In the six months to 31 December 2007, the subsidiary contributed net profit of \$1.3m to the consolidated net profit for the year. If the acquisition had occurred on 1 January 2007, the Group estimates that gross sales revenue would have been \$220m greater and net profit would have been \$2.4m greater.

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

Thousands of dollars	Original values	Fair Value adjustments	Recognised values
Cash and cash equivalents	3,026	-	3,026
Receivables	8,842	-	8,842
Inventories	4,389	-	4,389
Other current assets	262	-	262
Property, plant and equipment	8,984	4,968	13,952
Other non-current assets	5,035	-	5,035
Goodwill	8,281	(8,281)	-
Payables	(28,535)	-	(28,535)
Net identifiable assets and liabilities	10,284	(3,313)	6,971
Net assets acquired - remaining interest			5,564
Goodwill on acquisition			9,209
Consideration paid, satisfied in cash			14,773
Cash acquired			3,026
Net cash outflow			(11,747)

Goodwill within Northern Marketing Pty Ltd was unable to be recognised as a separate intangible asset under AASB 137.

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 Northern Marketing Management Pty Ltd 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 2007 (continued)

10. Acquisitions (continued)

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:

Thousands of dollars	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:

Thousands of dollars	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 2007 (continued)

Thousands of dollars	Consolidated	
	31 December 2007	31 December 2006
11. Net tangible assets per share		
Net tangible assets per share (dollars)	10.14	8.80

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 (2006: 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.