



CALTEX

CALTEX AUSTRALIA LIMITED
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29 June 2004

Company Announcements Office
Australian Stock Exchange Limited

CALTEX AUSTRALIA LIMITED
CALTEX PRESENTATION – 29 JUNE 2004

Presentation slides (titled *The Renaissance of Refining*) for a speech to be made by Simon Hepworth (Chief Financial Officer) to the 2nd UBS Annual Resources Conference on Tuesday, 29 June 2004 are attached for release to the market.

Helen Conway
Company Secretary

Attach.



Caltex Australia Limited

The Renaissance Of Refining

Simon Hepworth, Chief Financial Officer

29 June, 2004

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Caltex background

- Caltex is the largest and only publicly listed downstream oil company in Australia
- Merger of Caltex Australia and Ampol assets in 1995 created an entity with a market share in transport fuels of approx 29%
- Caltex operates through two divisions:
 - **Refining and Supply:** sources and processes crude
 - approx 28% refining market share (including Port Stanvac production)
 - owns 2 refineries, strategically located in the growth states of New South Wales and Queensland
 - **Marketing:** responsible for retail network, distribution & branding
 - leading retail network
 - > 1,625 branded sites with high proportion of entrepreneurial ownership
 - > 400 C-stores
 - an alliance with Australia's premier retailer, Woolworths



Where has the industry come from?

- Both Asian region and Australia saw supply exceed demand, mainly as a result of the Asian financial crisis. This resulted in :
 - historically low refiner margins, (averaging US \$2.40/bbl 1998-2002)
 - under utilisation of refineries
 - growth of independent unbranded retailers, which dampened marketing margins

- Over the past 24 months industry dynamics have become more favourable:
 - refiner margins in Asia have started to recover as Asian demand for petroleum products catches up with supply
 - one Australian refinery, Port Stanvac, operated by Mobil, was closed in 2003, moving the Australian market into a short gasoline and diesel position



Strong improvement in financial position since the Asian crisis

- 1H04 forecast replacement cost net profit range of \$160-180 million (1H03 \$86.1 Million)
- 1H04 net debt forecast at around \$500 Million, Gearing +/- 30 %

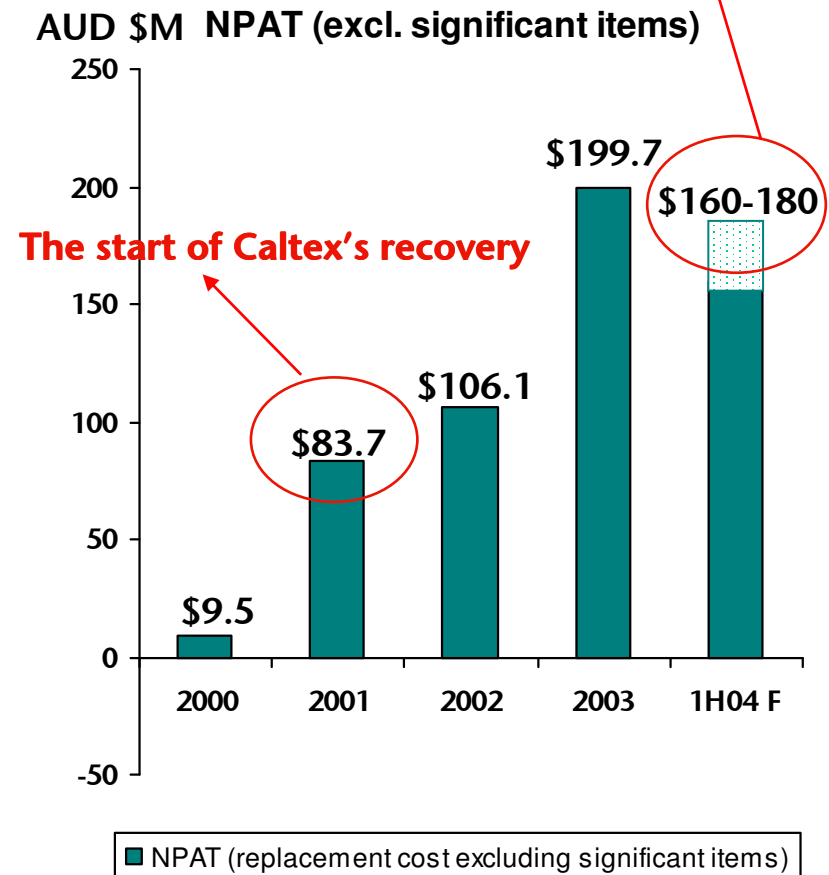
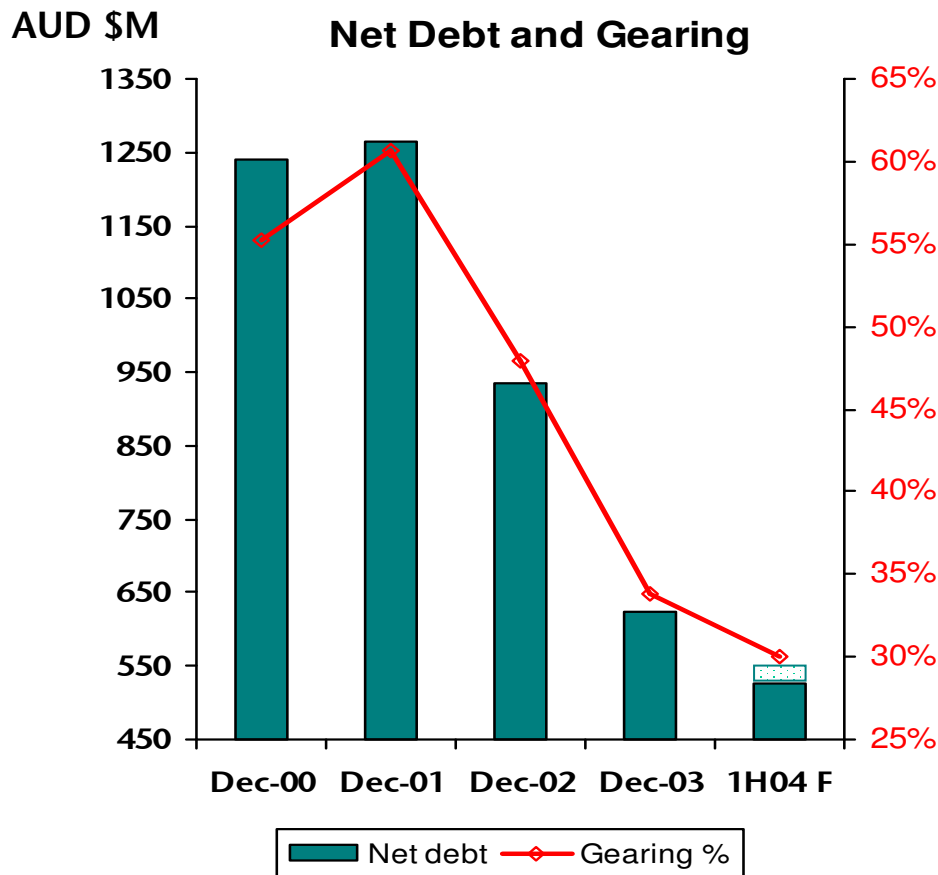




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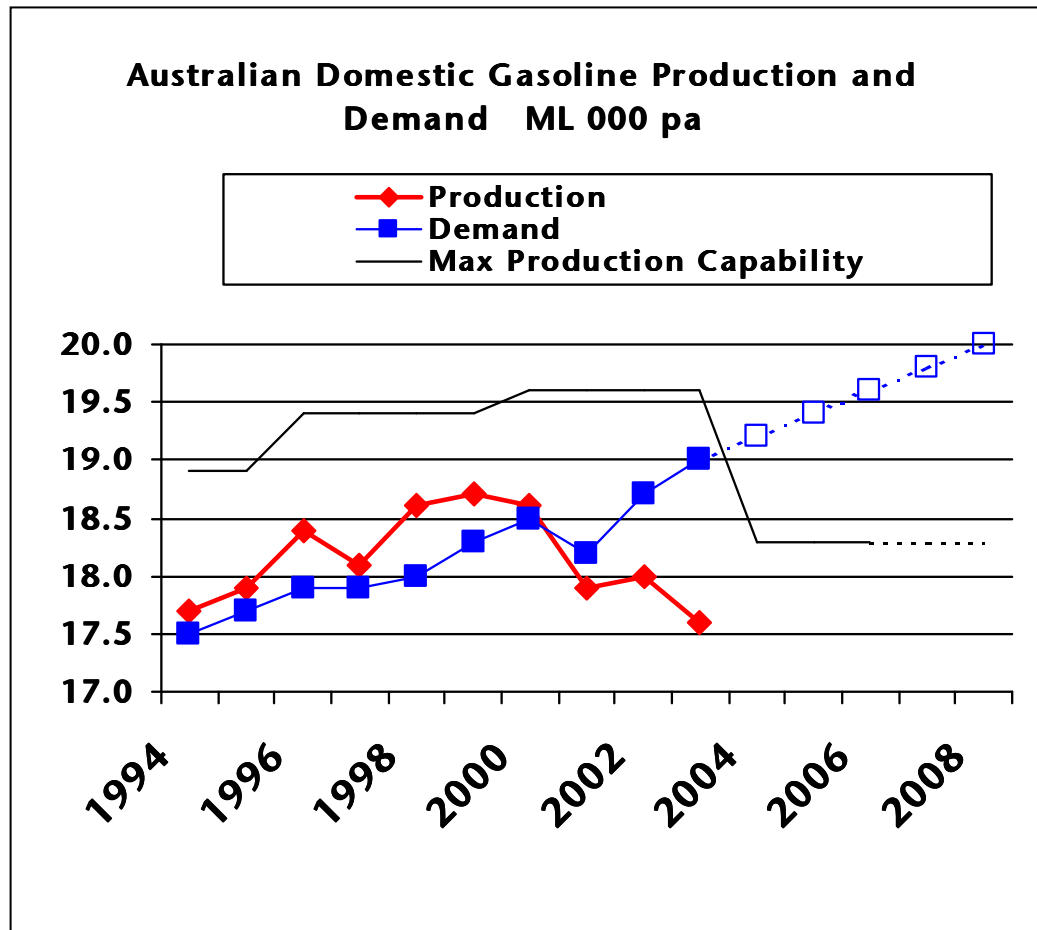


So what has changed ?

- **There are three main reasons why our outlook has turned more positive:**
 - **Australia has moved from an over-supply position for refined products to being a net importer of gasoline, diesel and jet;**
 - **regional supply and demand is now better balanced. However, regional demand growth in the medium term is expected to out-pace supply, especially as China continues to grow;**
 - **environmental standard changes in Australia are resulting in “clean fuel” specifications which will create differential pricing for Australian-grade products**



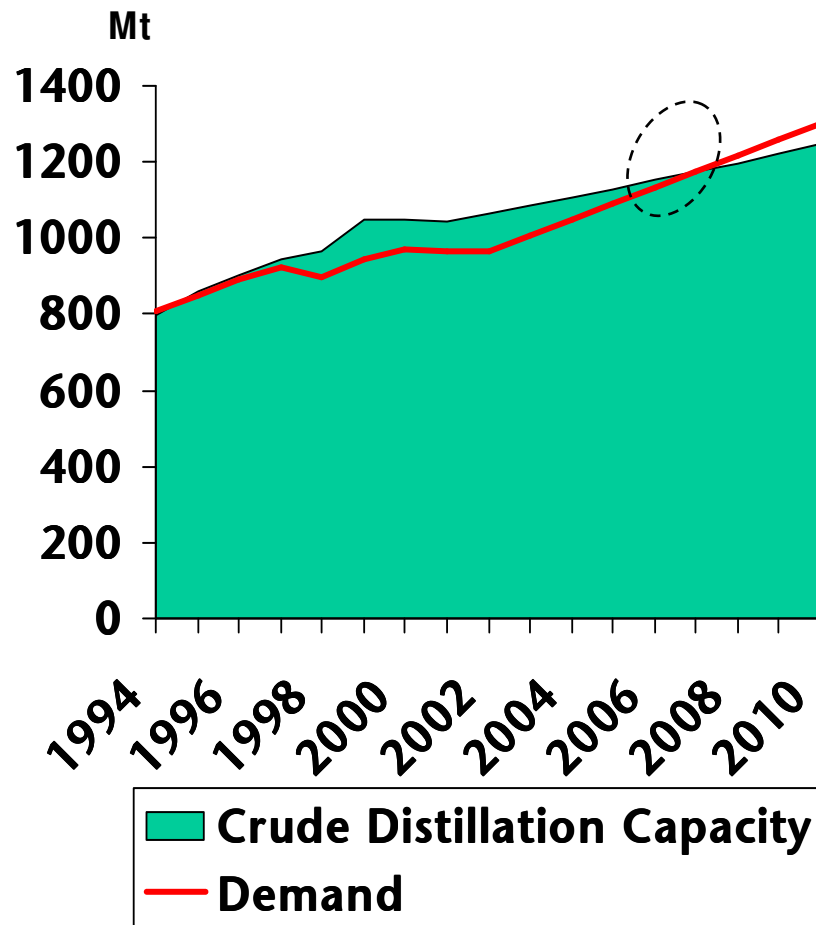
Australian gasoline has finally shifted from surplus to deficit



- Production exceeded demand throughout the 1990's;
- 2000-2002 saw poor gasoline margins which slowed production;
- Consistent demand growth has worked to reduce the surplus;
- Closure of Stanvac reduced gasoline production capability by approximately 9%.



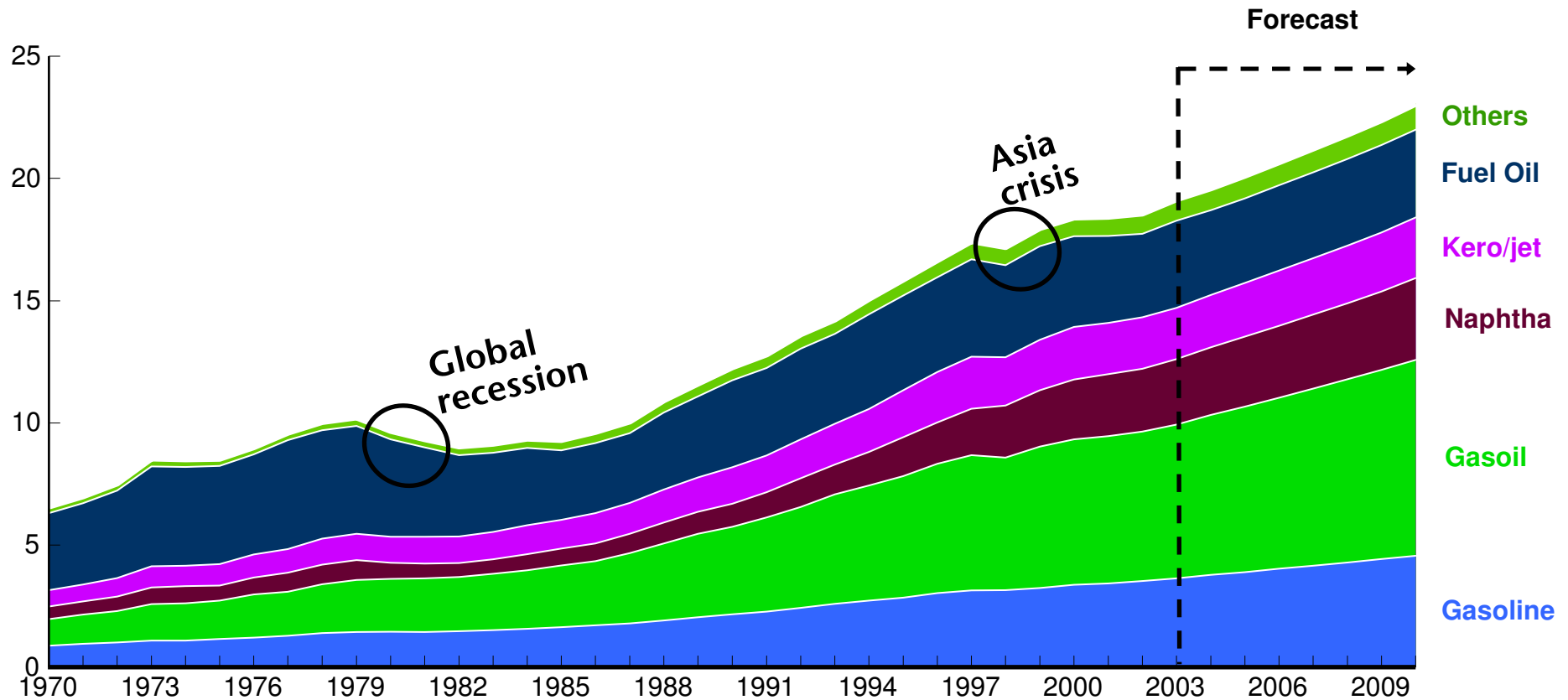
Asia Pacific demand catching up with refining capacity



- Asia Pacific demand had been rising rapidly through the 1990's until the Asian crisis of 1997
- High demand growth in China is boosting regional demand, especially for petrol
- Refinery utilisation rates will increase, but major new capacity (creep, expansion or grassroots) is unlikely to come on stream until post 2006

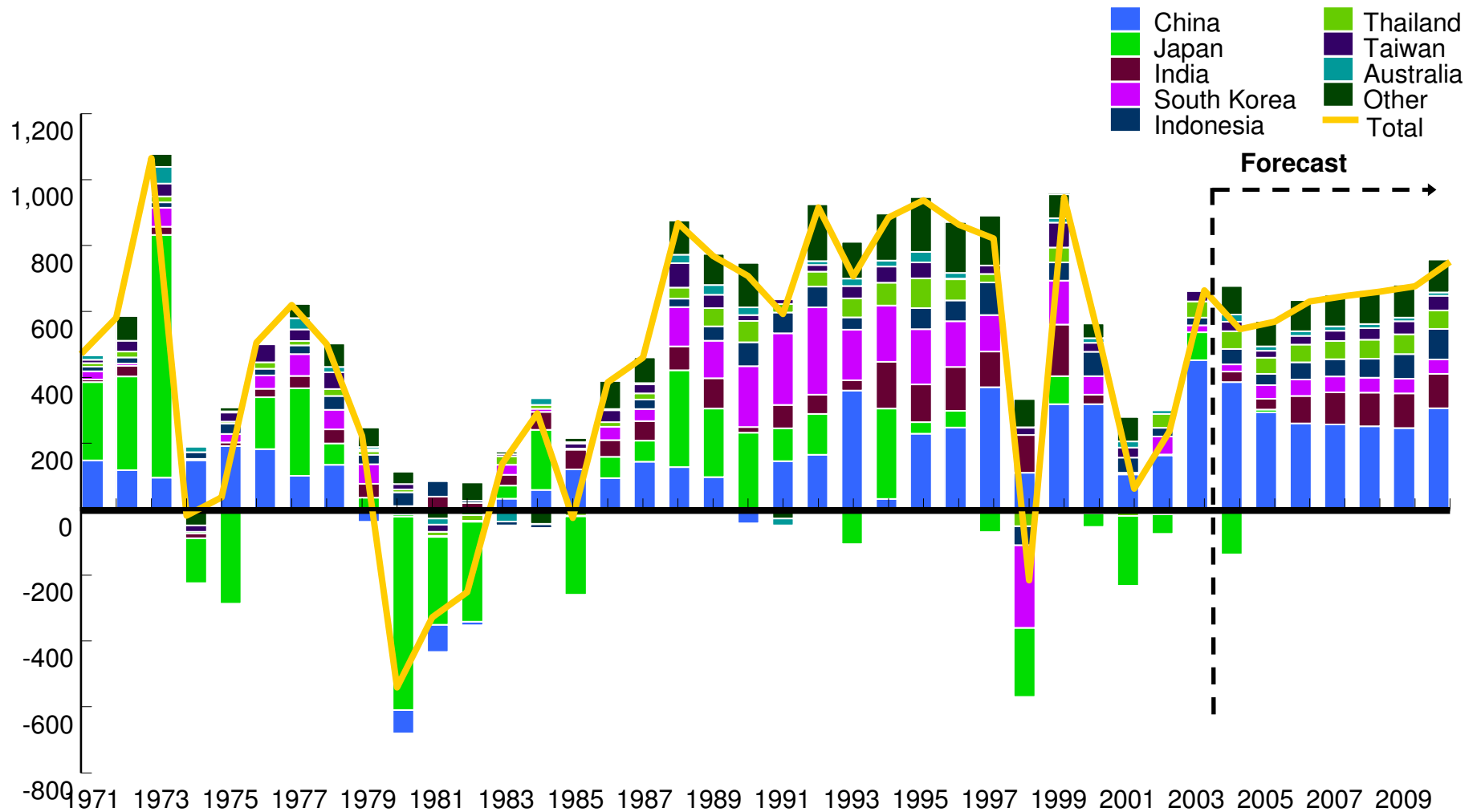


Asian Demand - By product, excluding LPG and direct use crude





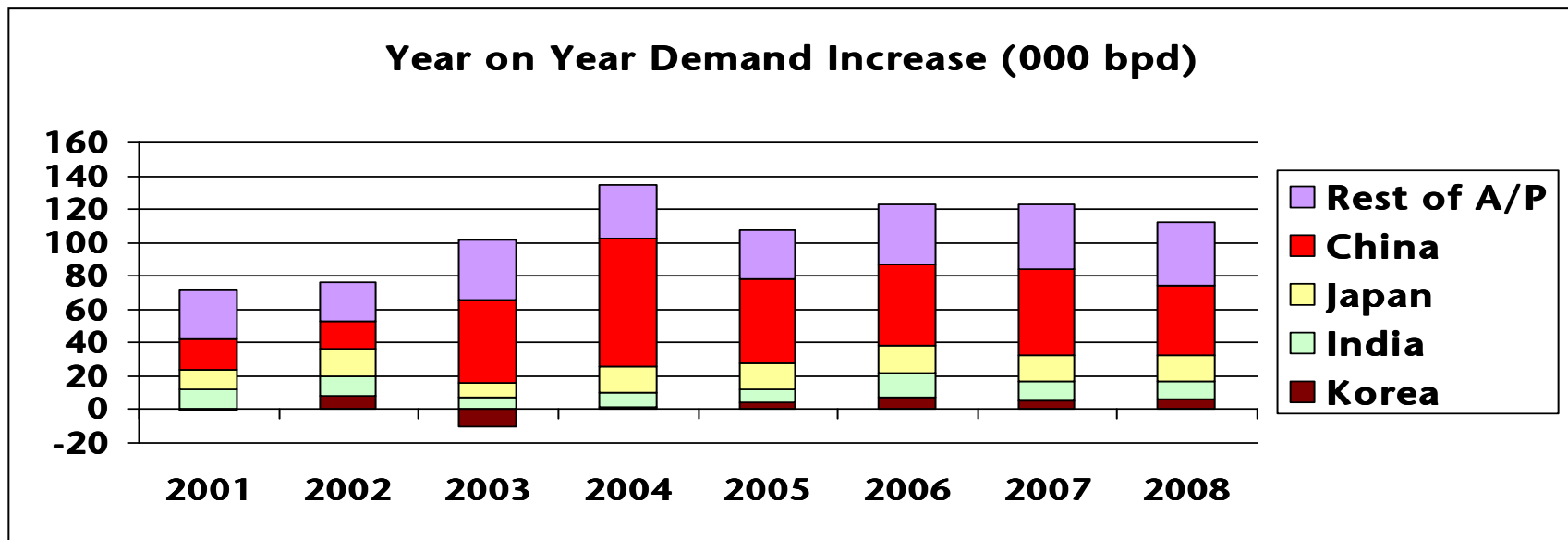
Annual change in country demand for products





Asia Pacific gasoline outlook

- Asian gasoline balance is moving from surplus towards balance
- Asian gasoline demand is continuing to grow even though regional economies have been weak. Cumulative increase forecast to be over 700,000 bpd from 2003 to 2008
- Increases in Chinese gasoline production capacity are being absorbed by deficits in Japan and Indonesia and significant demand increases within China itself



Source: ESI



East West refinery capacity addition forecast 2004 - 2010

Number of CDU additions								Thousand Barrels per day								Names Firm and Probable only
'Firm' and 'planned'							Total	'Firm' and 'planned'							Total	
2004	2005	2006	2007	2008-10	'Possible'			2004	2005	2006	2007	2008-10	'Possible'			
India	1	2	3	0	-	4	10	India	60	208	295	-	-	940	1,503	Mumbai(HPCL & BPCL), Visakhapatnam, Vadinar, Panipat II, Digboi, Guwahati, Manali
China	5	6	3	2	4	0	20	China	226	(6)	390	130	560	-	1,300	Jamnagar, Beihai, Qingdao, Qingdao, Tianjin, Shijiazhuang, Fujian, Jinling, Dalian, Wepec Dalian, Tarim, Guangzhou, Taizho etc
Indonesia	1	0	0	0	-	3	4	Indonesia	100	-	-	-	-	400	500	Balongan, Cilacap, Tuban
Pakistan	0	0	0	0	-	3	3	Pakistan	-	-	-	-	-	345	345	
Vietnam	0	0	0	1	-	1	2	Vietnam	-	-	-	121	-	114	235	Dung Quat
Bangladesh	0	0	0	0	-	1	1	Bangladesh	-	-	-	-	-	69	69	
Myanmar	0	0	0	0	-	1	1	Myanmar	-	-	-	-	-	50	50	
PNG	0	0	0	0	-	1	1	PNG	-	-	-	-	-	40	40	
Thailand	0	0	0	0	-	1	1	Thailand	-	-	-	-	-	39	39	
Australia	0	0	1	0	-	0	1	Australia	-	-	(82)	-	-	-	(82)	Geelong
Japan	4	0	0	0	-	0	4	Japan	(181)	-	-	-	-	-	(181)	Sakaide, Yokkaichi, Okinawa, Owase
Total	11	8	7	3	4	15	48	Total	205	202	603	251	560	1,997	3,818	



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Overall margins are lifting, however, the more complex refiners will benefit most

“It is important to have a high cracking-to-refining ratio as it....brings about higher refining margins. Caltex Australia and Zhenhai refining are the top contenders in this field” *Merrill Lynch - Asia Pacific Refining, 7 May 2004*

“Investment analysis regarding distillation capacity is available from a variety of weekly government sources in North America, Europe and Asia, and therefore frequently quoted by Wall Street analysts, but it is less relevant as it relates to profitability in refining, in our opinion. Investment analysis regarding conversion capacity is rarely quoted by Wall Street analysts, but we believe it is the primary driver of profitability in refining” *Morgan Stanley – The Golden Age Of Refining, 6 February 2004*



Simple and complex refineries impact on yield

- **Simple refinery** - crude distillation, hydrotreating of middle distillates, catalytic reforming of naphtha to enhance gasoline yields
- **Complex refinery** - simple refinery plus a catalytic cracker, alkylation plant plus some gas processing

% Yield	Simple	Complex
Gasoline	15%	47%
Jet Fuel	10%	19%
Distillate	25%	17%
Residual/Fuel Oil	45%	20%
Fuel Loss/ (Gain)	5%	-3%
Total	100%	100%

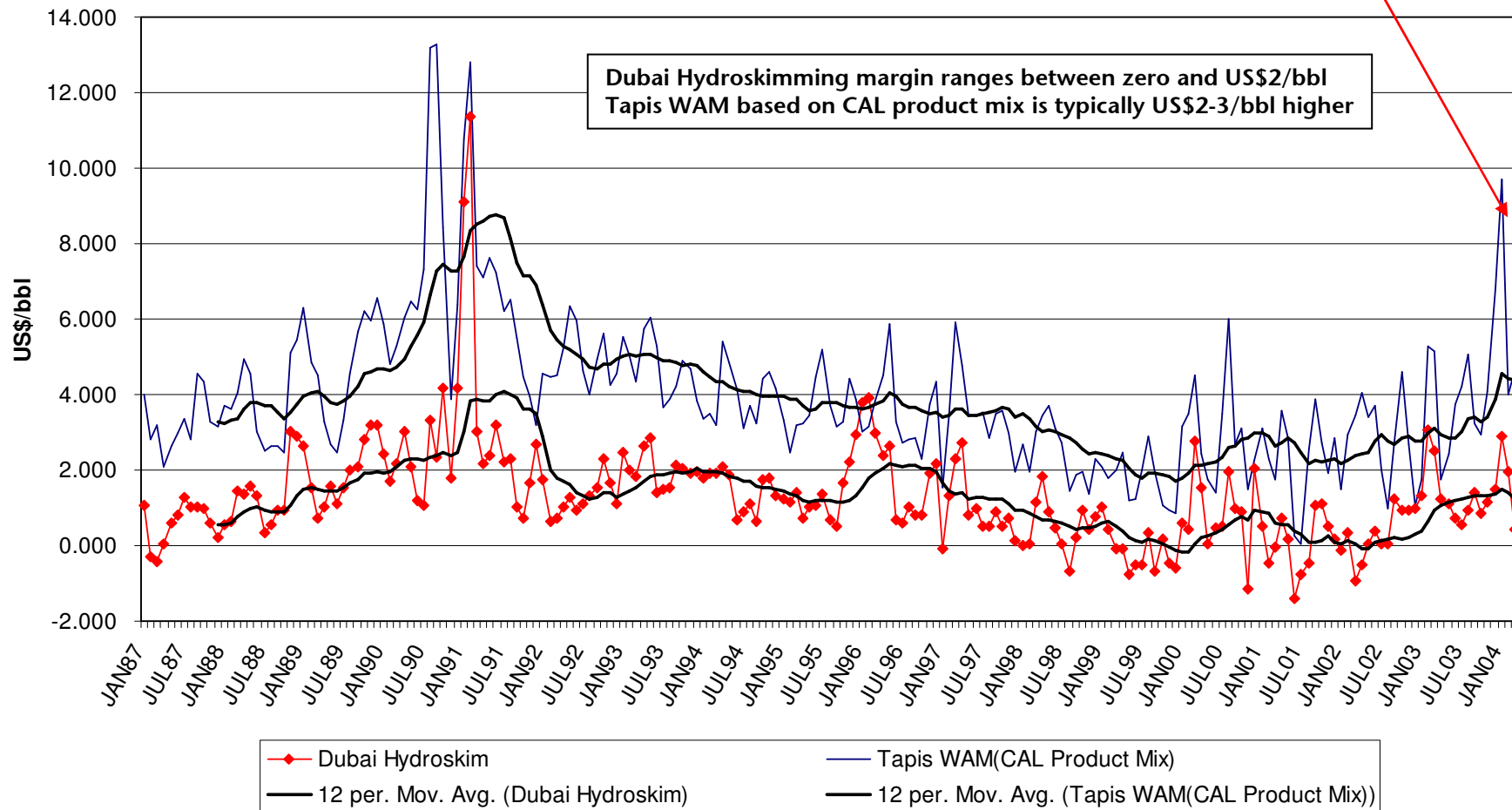
The major driver of Asian refiner economics

A major driver of Australian refiner economics



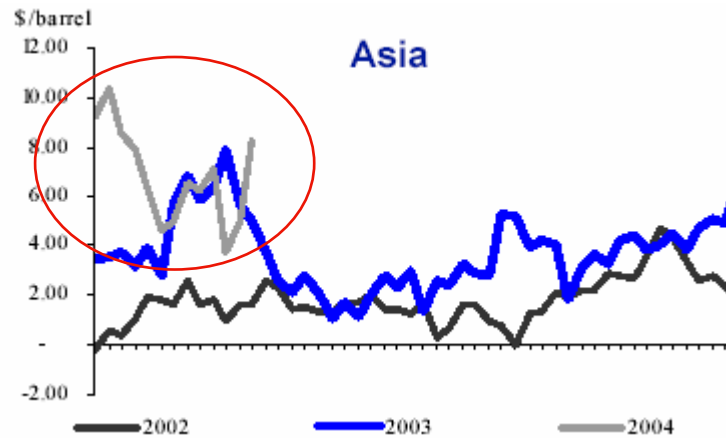
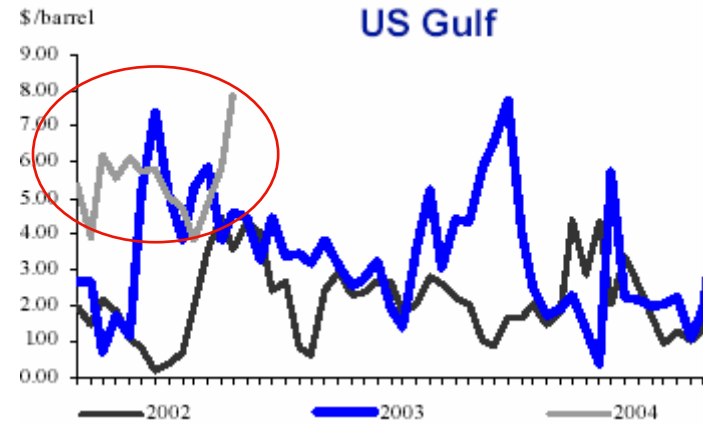
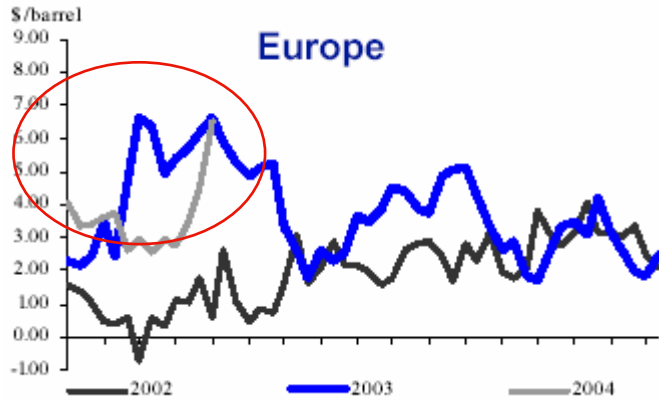
Singapore margins are recovering

The January 2004 spike in light product refiner margins benefited the complex refiners more than simple refiners





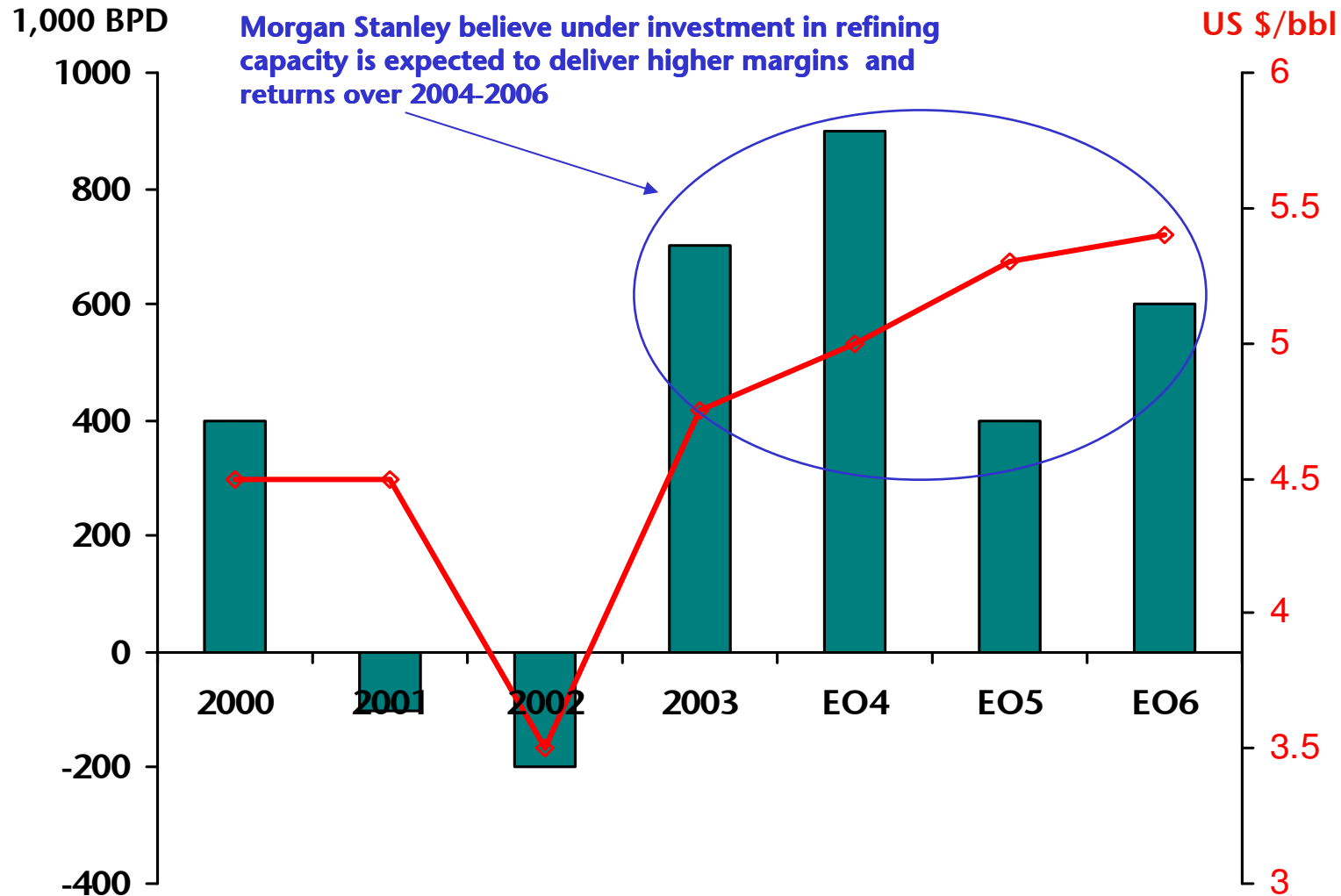
Worldwide refiner margins are lifting



Source: Deutsche Bank, May 2004



Worldwide refiner margins are lifting



■ Incremental demand less incremental supply growth
— Pacific Basin Refiner margins crack spread US \$/bbl



Australian clean fuels regulations presents challenges for Asian refineries

- Australia is moving to more stringent product quality standards in 2006. The main limits for 2006 are :
 - Gasoline-less than 1% benzene and 50 ppm sulfur in premium unleaded;
 - Diesel- less than 50 ppm sulfur
- Australian grade quality gasoline will be available, but less readily from the region
- Olefin specification limits the volume of catalytic cracked naphtha that can be included in the blend
 - Catalytic cracked naphtha is a major component of Chinese gasoline
- Diesel sulfur limit of 50 ppm or lower will not be possible for all refineries in Asia
 - Hydrogen availability and limited desulfurisation capacity are issues



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Caltex Australia has entered a period of opportunity

- We believe that in the medium term, refining margins will be above the long term average
- Australia is now short gasoline, diesel and jet and must now import from a region which is becoming tighter
- Planned capacity additions are below projected demand growth
- Capacity expansion will be concentrated mainly in China and India by national oil companies, rather than the integrated multi-nationals who were “burned” by the Asian crisis, resulting in our view that many companies will not repeat the mistake of over-investment that occurred in the late 1990’s
- Changing environmental standards and different specifications within Asia will fragment commodity markets and result in differential pricing for “clean fuels”
- Major capacity additions have 4 to 5 year lead times, with the majority of planned capacity additions not expected to come on stream until the second half of the decade



Chinese car population growth is dramatic

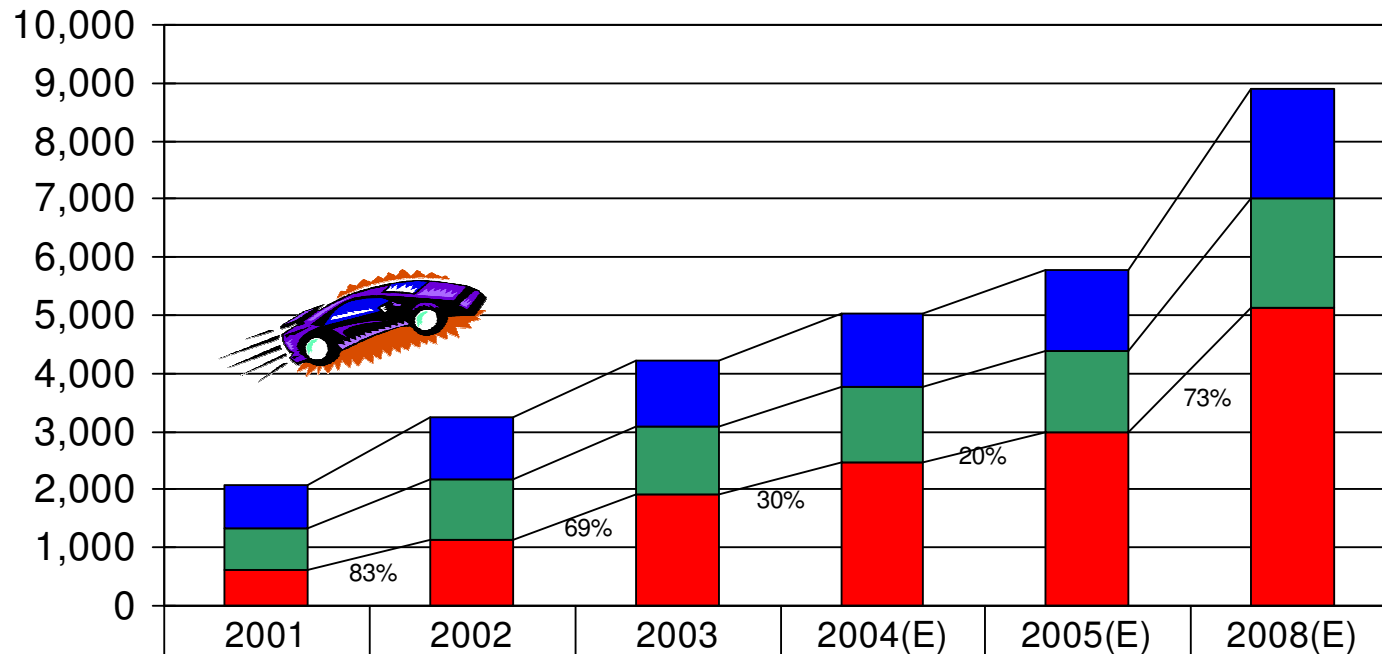
- China saw car sales leap 75 percent in 2003 to a record 1.9 million units
- In 1997 China was ranked 39th in kms of highway...by 2002 it was 2nd
- In 2004 about 0.1% of China's 1.3 billion population will buy a new car
- Chinese exports of gasoline in January 2003 were nearly 250,000 barrels a day...in January 2004 it was only 10,000 barrels a day
- In November 2003 China overtook Japan for the first time in gasoline consumption at 1.1 million barrels a day





China automotive sales growth

1,000 Units



	2001	2002	2003	2004(E)	2005(E)	2008(E)
Truck	775	1,077	1,161	1,277	1,405	1,870
Bus, Mini Van	701	1,045	1,170	1,287	1,416	1,884
Passenger Sedan	614	1,126	1,906	2,477	2,972	5,136

** exclude Imports. (~ 3-4%)



Asian clean fuel implementation will be piecemeal

- Investment requirements climb to over \$US32 billion as the region moves to more advanced fuel quality by 2012
- Korea, Japan & Taiwan are likely to lead the drive toward cleaner fuels
- Sulfur reduction will be the primary focus among most APEC member economies through the end of the decade

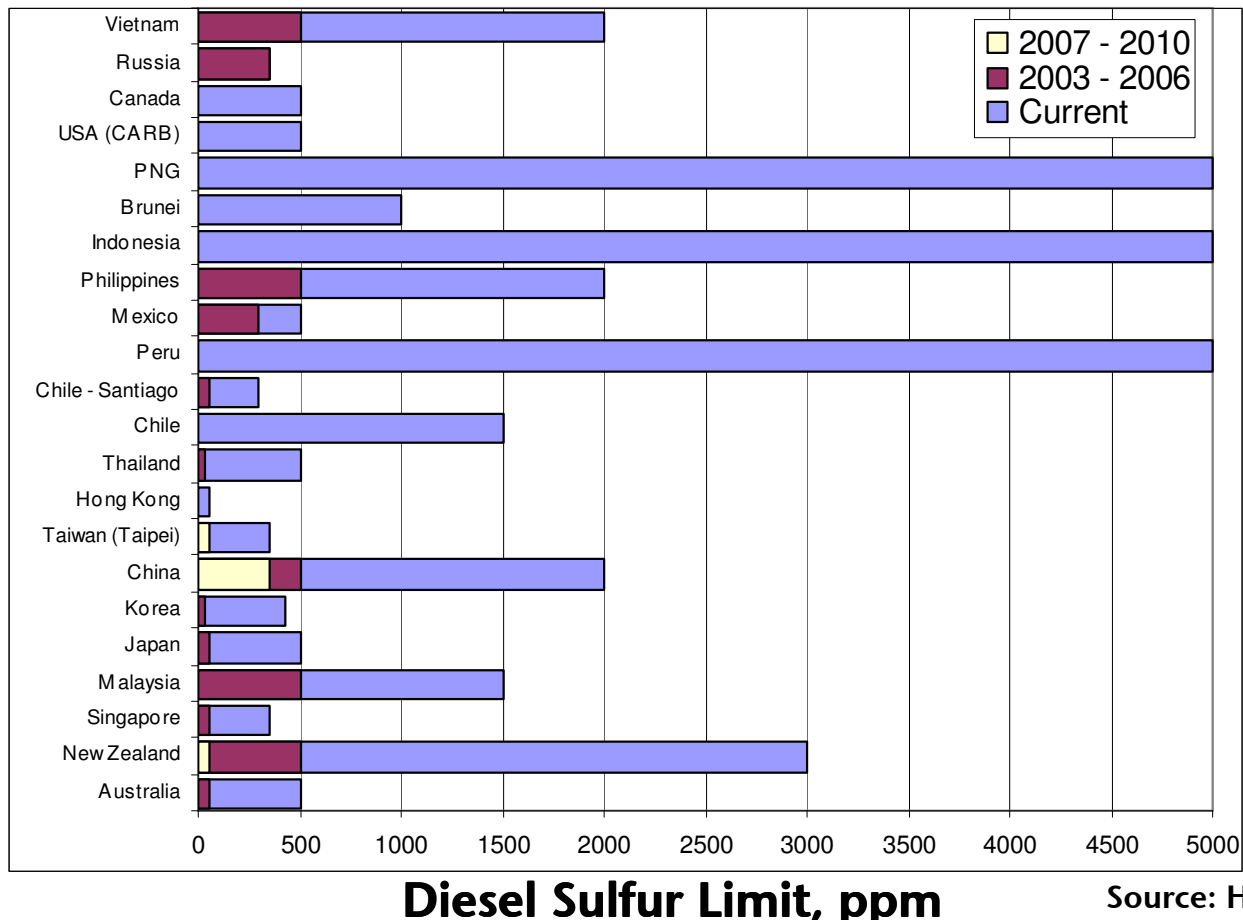




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Great performance great execution

- Caltex is benefiting from improving industry dynamics
 - debt is under control and we are now financially stable
 - clean fuels investments will be met out of operating cash flows
- Regardless of the more positive outlook for external drivers, ultimate long term success will be driven by our focus on:
 - continued improvement in safety;
 - superior refinery operational availability and utilisation;
 - development of profitable Marketing strategies;
 - successful implementation of clean fuels project;
 - reduction in unit operating cost



Caltex- the case for investment

- Caltex is the market leader in a strategic industry
- Caltex is investing to maintain its leadership, Clean Fuels investment
- Industry operating fundamentals are changing :
 - Australia has moved into a structural deficit for transport fuels;
 - Supply and demand in Asia is moving more into balance;
 - Australian fuel specifications likely to provide higher premia
- Breadth of Caltex's Marketing business will enable Caltex to take advantage of improving fundamentals
- Caltex is in a cyclical industry, but "through the cycle" returns have been robust :
 - Since 1990 Caltex TSR has been 40% above the All Ordinaries Accumulation Index
- Capital management post Clean Fuels investment will move beyond debt reduction :
 - healthy franking credit availability and high distributable reserves



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