BY ELECTRONIC LODGEMENT **ASX ANNOUNCEMENT**

CALTEX

CALTEX AUSTRALIA LIMITED
ACN 004 201 307

LEVEL 12, MLC CENTRE, 19 MARTIN PLACE
SYDNEY NSW 2000 AUSTRALIA

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24 February 2006

Company Announcements Office
Australian Stock Exchange Limited

CALTEX AUSTRALIA LIMITED

2005 Preliminary Final Report

Caltex Australia Limited's preliminary final report for the year ended 31 December 2005 is attached for release to the market. The announcement comprises:

- the *ASX / Media Release;*
- the *2005 Preliminary Final Report*, which includes the information required by Listing Rule 4.3A (Appendix 4E); and
- the slides for the Managing Director's results presentation, which is due to start at 10.00 am today.

Over the remainder of February 2006 and the course of March 2006, Caltex will make a number of presentations to investors and analysts, which will be based on the material provided in the *2005 Preliminary Final Report* and the Managing Director's results presentation slides.

The *2005 Annual Report* (which includes the *2005 Financial Report*) will be sent to shareholders and lodged with ASX in late March 2006. The reports will also be made available from our website (*www.caltex.com.au*).

2006 Annual General Meeting

The 2006 Annual General Meeting for Caltex Australia Limited will be held at 10.00 am on Thursday, 27 April 2006 at the Wesley Conference Centre, 220 Pitt Street, Sydney, New South Wales, Australia.

The *Notice of Annual General Meeting* and proxy form will be sent to shareholders at the same time as the *2005 Annual Report.*

Helen Conway
Company Secretary

Attach.

CALTEX

Caltex Australia

ASX/Media Release

For immediate release
Friday, 24 February 2006

Increased 2005 Caltex profit tempered by 1H2006 impact of refinery project delay

Key points

- **Strong operating performance and global market drivers lead to higher profit**
  - **2005 dividends increased to 46 cents per share; 82% total shareholder return**
  - **2005 RCOP profit 2.2 cents per litre v 2.0 cents per litre in 2004**
- **Profits fund investment in clean fuels, refinery efficiency projects, fuel storage terminals and retailing**
  - **2005 capital expenditure $530 million v $414 million RCOP profit after tax**
- **Business climate outlook for oil industry remains strong and will support Caltex strategies despite negative 1H2006 impact of Clean Fuels Project delay**

Results summary	Full year ended 31 December 2005	2004*
Replacement cost of sales operating profit (RCOP)[1] result (excluding significant items):	**$M**	$M
- after tax	**414**	350
- before interest and tax	**583**	536
Historical cost result (net profit after tax, including inventory gains and excluding significant items)	**574**	457

* 2004 comparatives have been adjusted for the transition to Australian equivalents of International Financial Reporting Standards (A-IFRS).

Strong operating performance and global market drivers lead to higher profit

Caltex Australia announced today a higher profit after tax (excluding significant items) on a replacement cost of sales operating profit (RCOP) basis of $414 million for the year to 31 December 2005, compared with $350 million for the full year 2004. This equated to 2.2 cents of profit per litre of petroleum products sold.

[1] The replacement cost of sales operating profit (RCOP) excludes the impact of the fall or rise in oil prices (a key external factor) and presents a clearer picture of the company's underlying business performance. It is calculated by restating the cost of sales using the replacement cost of goods sold rather than the historical cost, including the effect of revenue lags.

Caltex Managing Director Dave Reeves said the higher profit in 2005 was the result of a strong operating performance by the company's refining and marketing business combined with global market drivers.

"The continued strong demand for fuels in the Asia Pacific region resulted in higher refiner margins with the Caltex Refiner Margin[2] averaging US$8.40 a barrel in 2005 compared with US$6.60 a barrel in 2004," Mr Reeves said.

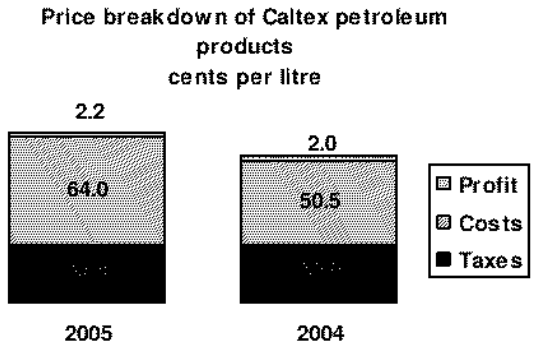
"We were able to capture the benefit of these refiner margins because of improved throughput rates and near-record production at Caltex refineries. Despite the tight regional supply environment and record imports we maintained a secure and reliable supply of fuels to our customers.

"Caltex's marketing business made a strong contribution to earnings with new records in transport fuels sales, higher margins and volumes across all marketing channels and increased shop sales in our convenience store network.

"Petrol prices rose during the year mainly as a result of a large increase in crude oil prices. Part of the increase was due to higher margins earned by Caltex refineries which reflected tighter global supply and demand for petroleum products.

"The average price of all petroleum products sold by Caltex (including GST) increased 14.6 cents per litre. Of this increase, 13.5 cents per litre was crude oil prices and other costs, 0.9 cents per litre was higher tax (including GST) and 0.2 cents per litre was increased Caltex profit (2005: 2.2 cpl, 2004: 2.0 cpl, RCOP basis).

"Caltex has no crude oil or gas exploration or production interests."



Average price of all Caltex petroleum products, financial data is RCOP basis

Dividend

Caltex Chairman Dick Warburton said the Board had declared a final dividend of $84 million or 31 cents per share fully franked, adding to the interim dividend of 15 cents per share to give a total dividend of 46 cents per share fully franked (2004 total dividends: 39 cents).

"This is in line with the company's stated dividend policy of declaring ordinary dividends of 20% to 30% of the RCOP result (after tax excluding significant items) in 2005 while the company met the high capital commitments of the Clean Fuels Project," Mr Warburton said.

"From 2006, the company intends to increase the dividend pay-out ratio to a range of 40% to 60% of the RCOP result after tax excluding significant items.

"However, the declaration and the amount of any dividends are at the sole discretion of the Board and are dependent on the company's earnings, cash flow requirements, financial conditions at that time and available franking credits.

"We are pleased that the confidence of Caltex shareholders has been rewarded by higher dividends and a 78% increase in share price during 2005, opening at $10.86 and closing at

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[2] 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.

$19.38. This put Caltex in the top tier of performers in the Australian share market for the third year in a row. The result provided a total shareholder return of 82%.

"There is great momentum in the business and we feel very confident that in the years ahead our strategies will achieve a further competitive edge in an external environment that, while always volatile, appears favourable."

Strong performance from refining and marketing

Mr Reeves said that the performance improvement projects at the company's refineries at Kurnell in Sydney and Lytton in Brisbane produced significant benefits in 2005 primarily by lifting utilisation and improving yields.

"Total production of 11.6 billion litres of petroleum products was the second highest on record (2004: 11.8 billion litres) with various new throughput records achieved at both refineries," he said. "Production of high value transport fuel products (petrol, diesel and jet fuel) was 10.1 billion litres (2004: 10.5 billion litres). This production was achieved despite an extensive program of planned shutdowns for routine maintenance and preparation for clean fuels production.

"In marketing, Caltex strengthened its leadership in transport fuels sales, increasing sales volume by a further 4% to 13.2 billion litres in a market that grew just over 1%. Petrol sales volumes were 3% higher supported by the venture with Woolworths. There are now over 470 jointly branded Caltex Woolworths service stations across Australia. They account for around 50% of our petrol sales.

"Diesel sales volumes were 5% higher and jet fuel volumes increased by 6%. New marketing strategies also produced growth in key markets for lubricants, premium fuels and StarCash cards. The company also made gains in consumer preference for the Caltex brand during 2005.

"Non-fuel income rose 11%, with a 5% growth in store sales consolidating Caltex's position as Australia's leading convenience store retailer with almost 30% of market share.

Profits enable capital investment in clean fuels, refinery efficiency projects, storage terminals and retailing

"In 2005, Caltex more than doubled its capital expenditure to $530 million investing in projects at the refineries and in other areas including terminal loading, storage facilities and retailing to meet customer and community expectations. This exceeded 2005 RCOP profit after tax and represents 86% of our operating cash flow.

"The fuels market is changing as increasing global demand outstrips growth in refining capacity. Australia is now importing more than 20% of its transport fuels to supply domestic demand. As Australia's largest refiner and marketer of transport fuels, Caltex is focused on increasing production of diesel and high octane petrol and strengthening its supply chain to meet the changing needs of its customers.

"By the end of 2005, a refining performance improvement program launched in 2004 had delivered significant benefits which are reflected in the increased profit. The program involves wide ranging improvement projects across both refineries that are expected to substantially add to annual profit and lift fuels production. Included in the program are ten major projects for which funding decisions will be made in 2006 and 2007.

"The most significant current project, the approximately $500 million Clean Fuels Project, is reducing air pollution from vehicle emissions through cleaner petrol and diesel. Expenditure on the project in 2005 was $302 million, including substantial additional costs to expedite the project when delays became apparent.

Business climate outlook for oil industry remains strong and will support Caltex strategies despite 1H2006 impact of Clean Fuels Project delay

"Caltex remains confident the increased quantity and quality of production from the Clean Fuels Project and refinery improvement projects will create substantial benefits in the tight supply/demand market environment for petroleum products we expect over the next few years. We do not expect growth in demand will be offset by new refining capacity additions in the region in the near to medium term.

"There has been a disappointing start-up delay and significant overrun of our original planned investment in the Clean Fuels Project primarily due to late delivery of materials and equipment and a shortage of skilled labour. The lessons we learned from the review of this project are being applied in our future capital development activities.

"Lower refinery production and increased imports of 2006-standard products and exports of non-2006-standard products due to the Clean Fuels Project delay will negatively affect the 1H2006 earnings.

"The Australian Government granted Caltex a short-term variation of the fuel standards that have applied since 1 January 2006 to allow the company to ensure certainty of supply to its customers while the plant construction and commissioning is completed. The company has committed every possible effort to minimising the delays. The benzene reduction plant at the Lytton refinery has been making 2006-standard product since the end of January. The Kurnell benzene plant is expected to be on stream in early March as is the Lytton diesel sulfur reduction plant. The Kurnell diesel plant is expected to be on stream in April. As a result of delays beyond those recognised in the original variation application, Caltex has applied to the Government for an extension of the current variation to ensure reliability of supply to customers.

"The company's performance is benefiting from our focus on the fundamentals, including our safety performance, which in 2005 was the best on record, and improving the capabilities of employees through training programs. In 2006, there will be ongoing benefits from strategies to increase the productivity of the refineries, reinforce the reliability of our supply chain and achieve sustainable growth in expanding markets."

Historical cost profit

On an historical cost profit basis (including inventory gains and excluding significant items), Caltex recorded an after tax profit of $574 million for the full year 2005 compared to $457 million for the full year 2004. This was 3.1 cents per litre of petroleum products sold (2004: 2.6 cpl). The profit includes crude oil and petroleum product inventory gains of $160 million (after tax) compared to inventory gains of $106 million (after tax) in the full year 2004.

The historical cost and RCOP results exclude a significant after tax one-off gain of approximately $21 million as a consequence of tax consolidation legislation passed in 2005. The initial legislation passed in 2004 resulted in an after tax one-off gain of $114 million in 2004.

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CALTEX AUSTRALIA LIMITED

ACN 004 201 307

2005 PRELIMINARY FINAL REPORT

CALTEX

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Results for Announcement to the Market (in accordance with A-IFRS)

Key Results (Millions of dollars)			Year ended 31 December	
			2005	2004[1]
Revenues from ordinary activities	↑	23%	16,820	13,625
Profit from ordinary activities after tax/net profit for the period attributable to members:				
Replacement cost basis[2] (excluding significant items)	↑	18%	414	350
Historical cost basis (excluding significant items)	↑	26%	574	457
Historical cost basis (including significant items)	↑	4%	595	570

Dividend	2005	2004
Dividends declared:		
Interim dividend:		
- Amount per security (fully franked)	15¢	14¢
Final dividend		
- Amount per security (fully franked)	31¢	25¢
Record date for determining entitlement to 2005 final dividend		10 March 2006
Date 2005 final dividend is payable		31 March 2006

Highlights

- Caltex Australia continued to achieve record earnings in 2005, with profit after tax (excluding significant items) on a replacement cost of sales operating profit (RCOP) basis up 18% on 2004. This result reflected a strong operating performance by the company's refining and marketing business combined with global market drivers.

- Net profit after tax on a RCOP basis was $414 million for the year ended 31 December 2005, compared with $350 million for 2004. The RCOP basis excludes the impact of international oil price movements and therefore provides a clearer picture of the company's underlying business performance.

- The continued strong demand for fuels in the Asia Pacific region resulted in higher refiner margins. The company was able to capture the benefit of these refiner margins because of improved throughput rates and near-record production at Caltex refineries. Despite the tight regional supply environment and record imports, Caltex maintained a secure and reliable supply of fuels to customers.

- Caltex's marketing business made a strong contribution to earnings with new records in transport fuels sales, higher margins and volumes across all marketing channels and increased shop sales in its convenience store network.

- Final dividend declared of $84 million or 31 cents per share, adding to the interim dividend of 15 cents per share to give a total dividend of 46 cents per share fully franked (2004 total dividends: 39 cents per share).

- On an historical cost profit basis (including inventory gains and excluding significant items), Caltex recorded an after tax profit of $574 million for the year ended 31 December 2005, compared with $457 million for 2004. This historical cost profit includes oil price driven inventory gains of $160 million (after tax) compared with $106 million for 2004. The historical cost and RCOP results exclude a significant after tax one-off gain of $21 million which arose as a consequence of tax consolidation legislation passed in 2005. The initial legislation passed in 2004 resulted in an after tax one-off gain of $114 million in 2004.

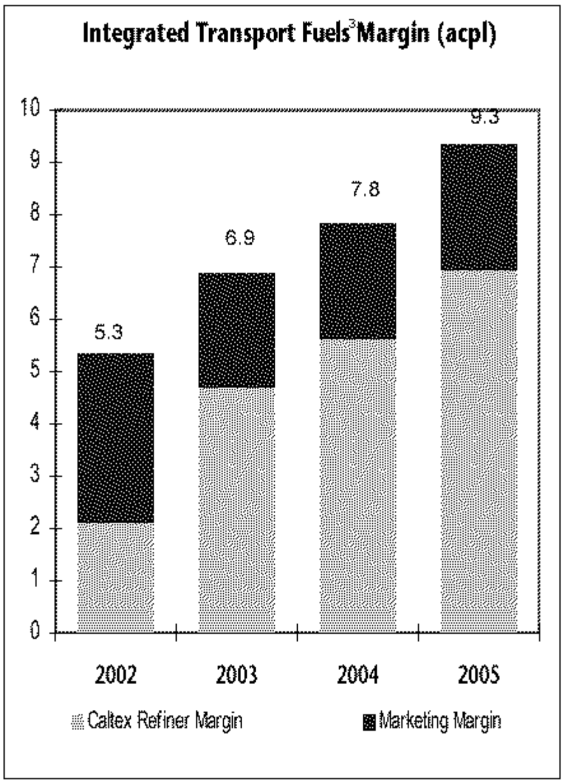
[1] 2004 comparative numbers have been adjusted for the transition to A-IFRS (Australian equivalents to International Financial Reporting Standards).

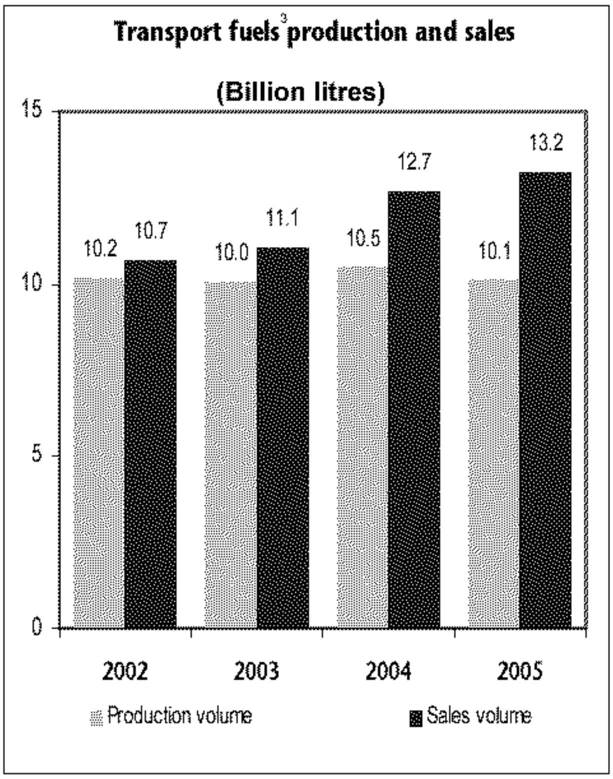
[2] The replacement cost of sales operating profit excludes the impact of international oil price movements and therefore provides a clearer picture of the company's underlying business performance. It is calculated by restating the cost of sales using the replacement cost of goods sold rather than the historical cost, including the effect of revenue lags.

Key Performance Indicators

	Year ended 31 December				
	2005	2004[1]	2003	2002	2001
Profit/(loss) before interest and tax ($m)					
- Replacement cost basis (excluding significant items)	583	536	340	215	201
- Historical cost basis (including significant items)	811	687	340	376	(129)
Profit/(loss) after interest and tax ($m)					
- Replacement cost basis (excluding significant items)	414	350	200	106	84
- Historical cost basis (including significant items)[2]	595	570	197	215	(186)
Inventory (losses)/gains before tax ($m)	228	152	13	173	(186)
Basic earnings per share (cents)					
- Replacement cost basis (excluding significant items)	153	130	74	39	31
- Historical cost basis (including significant items)	220	211	73	80	(69)
Return on equity attributable to members of the parent entity after tax (%)					
- Replacement cost basis (excluding significant items)	19	21	16	10	10
- Historical cost basis (including significant items)	28	35	16	21	(23)
Net tangible asset backing per share ($)	7.73	5.98	4.46	3.76	3.01
Net debt ($m)	429	447	624	954	1,265
Gearing (net debt to net debt plus equity) (%)	17	21	34	48	61

The reduction in RCOP and historic cost return on equity is driven by an increase in total equity at the end of the year. This reflects re-investment of cash flows in 2005 in long-term projects (eg Clean Fuels Project and RPIP). In addition to these impacts, the historical return on equity also reflects the significant decrease in gains from the tax consolidation regime (significant item) in 2005 compared to 2004.





[1] Only 2004 comparative numbers have been adjusted for the transition to A-IFRS.
[2] Includes a significant item of $21 million in 2005 ($114 million in 2004) relating to an income tax benefit upon entry into the new tax consolidation regime.
[3] Transport fuels comprise petrol, diesel and jet.

Profit and Loss

for the year ended 31 December 2005

	Millions of dollars	**2005**	**2004**
1	Total revenue [1]	16,816	13,625
2	Total expenses – replacement cost basis [2]	(16,233)	(13,089)
3	**Replacement cost EBIT**	**583**	**536**
4	Net borrowing costs	(23)	(41)
	Income tax expense	(146)	(145)
	Replacement cost net profit	**414**	**350**
5	Inventory gain – after tax	160	106
6	Significant items	21	114
	Historical cost net profit	**595**	**570**
7	Interim dividend per share	15c	14c
7	Final dividend per share	31c	25c
	Basic earnings per share		
	- Replacement cost – excluding significant items	153c	130c
	- Historical cost – including significant items	220c	211c

Discussion and Analysis

1 Total revenue

↑ 23%

Total revenue increased due to:

- Higher product prices, driven by rising crude prices and, to a lesser extent, by stronger refiner margins on transport fuels; and
- Growth in marketing sales volumes of transport fuels and specialty products.

2 Total expenses – replacement cost basis

↑ 24%

Total expenses increased due to a higher cost of sales, which reflected higher sales volumes and higher crude prices.

Operating expenses were also higher, in absolute terms, due to:

- A change in strategy to perform more maintenance while units are operating (costs expensed) rather than while they are shut down (costs capitalised) – the benefit is reduced unit shut down time; and
- Increased property insurance costs reflecting the impact of industry insurance losses from US hurricanes in 2005.

However, on a per litre sold basis, operating expenses decreased by 2% compared with 2004, reflecting a 6% increase in total sales volume.

[1] Excludes interest revenue and significant items (if applicable).
[2] Excludes interest expense, inventory gains/(losses) and significant items (if applicable).

Discussion and Analysis (continued)

3 Replacement cost EBIT ↑ 9%	The improvement in Caltex's underlying performance reflected: • Higher refiner margins on transport fuels; and • Higher marketing sales volumes and margins on transport fuels. This improvement was partially offset by: • Higher operating costs; and • Losses on exports and imports. Breakdown of replacement cost EBIT is detailed below:

RCOP EBIT breakdown

Caltex refiner margin (CRM) **$708m**	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. CRM was higher in 2005 at US$8.40/bbl, compared with US$6.60/bbl in 2004. However, the increase in CRM was dampened by a stronger Australian Dollar compared with 2004. Additionally, higher planned refinery shutdown activity resulted in production volume of transport fuels falling from 10.5 billion litres in 2004 to 10.1 billion litres in 2005.
Transport fuels marketing margin **$315m**	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. The average transport fuels marketing margin was 9% higher than in 2004. Additionally, transport fuels sales volumes increased overall by 4% across all products.
Lubricants and specialties margin **$108m**	Lubricants and specialties products include finished lubricants, base oils, gases, petrochemicals, bitumen, waxes and marine fuels. Specialties volumes grew overall by 20% mainly due to stronger demand for refinery grade propylene and marine fuels.
Non-fuel income **$127m**	Non-fuel income includes convenience store income, franchise income, royalties, rentals of property, plant and equipment, Starcard income and the share of profits from non-controlled equity resellers. Non-fuel income increased by 11% compared with 2004.
Operating expenses **($646m)**	Operating expenses in this caption include refining and supply, marketing, corporate and other operating expenditure. Operating expenses increased in absolute terms, but on a per litre sold basis, decreased by 2% compared with 2004.
Other **($29m)**	Other includes exchange impacts and pipeline and charter income. Other also includes losses on exports and imports, the majority of which were related to the period of Clean Fuels construction.
Total RCOP EBIT **$583m**	

Discussion and Analysis (continued)

4 Net borrowing costs ↓ **44%**	The reduction in net borrowing costs reflects a higher proportion of borrowing costs, attributable to the Clean Fuels Project, capitalised to the balance sheet. Net debt was $429 million at 31 December 2005 compared with $447 million at 31 December 2004.
5 Inventory gain - after tax ↑ **51%**	Regional crude oil prices rose significantly in 2005, (averaging US$57.24/bbl in December 2005 compared with US$39.03/bbl in December 2004). This increase resulted in net after-tax inventory gains of $160 million compared with $106 million in 2004.
6 Significant items **$21m gain**	As a result of tax consolidation legislation passed in 2005, Caltex recognised a significant one-off tax credit of $21 million with a corresponding reduction in deferred tax liabilities. The initial legislation, passed in 2004, resulted in a one-off tax credit of $114 million in the first half of 2004.
7 Final dividend **31cps**	The Board declared a final fully franked dividend of $83.7 million or 31 cents per share. This brings the total dividends for 2005 to 46 cents per share. The dividends have a franking credit of 100%. The record date is 10 March 2006, with the dividend payable on 31 March 2006.

Balance Sheet
as at 31 December 2005

	Millions of dollars	2005	2004
1	Working capital	487	451
2	Property, plant and equipment (PP&E)	2,076	1,698
3	Net debt	(429)	(447)
	Other non-current assets/(liabilities)	4	(57)
	Total equity	**2,138**	**1,645**

Discussion and Analysis

1 Working capital

↑ $36m

Working capital increased due to:

- Higher crude and product prices, which were particularly reflected in higher net inventory and receivables balances; and
- Higher income tax instalment payments relative to income tax provided (hence reducing current tax liabilities).

2 PP&E

↑ $378m

PP&E increased due to:

- Capital expenditure and major cyclical maintenance of $530 million, including $302 million relating to the Clean Fuels Project;

Partly offset by:

- Depreciation and amortisation of $124 million;
- Net disposals of $23 million; and
- Asset impairment write-downs of $5 million.

3 Net debt

↓ $18m

Net debt decreased to $429 million at 31 December 2005 compared with $447m at 31 December 2004. Caltex's gearing (net debt to net debt plus equity) reduced to 17% from 21% at 31 December 2004.

The decrease in net debt reflects strong historical cost earnings, partially offset by higher capital expenditure. Lower crude oil purchases prior to year end due to Clean Fuels constraints resulted in net debt being temporarily low at 31 December 2005.

Cash Flows

for the year ended 31 December 2005

	Millions of dollars	2005	2004
	Receipts from customers	18,467	14,847
	Payments to suppliers and employees	(13,189)	(9,944)
	Payments for excise and GST	(4,372)	(4,242)
1	Borrowing costs paid	(43)	(49)
2	Other net operating activities	(245)	(155)
	Net operating cash inflows	**618**	**457**
3	Purchases of property, plant and equipment (PP&E) and major cyclical maintenance	(499)	(216)
	Other investing cash flows	10	13
	Net investing cash outflows	**(489)**	**(203)**
4	**Net financing cash outflows**	**(115)**	**(276)**
	Net increase/(decrease) in cash held	**14**	**(22)**

Discussion and Analysis

1 Borrowing costs ↓ **$6m**	The reduction in borrowing costs reflects a $54 million reduction in average daily borrowings compared with 2004. Borrowing costs paid includes capitalised borrowing costs relating to the Clean Fuels Project of $17 million (2004: $4 million).
2 Other net operating activities ↑ **$90m**	Cash outflows from other net operating activities increased due to higher income tax payments. Income tax payments were higher because current year income tax instalments are based on a percentage of current year gross revenues, which were higher than in 2004 (driven by higher product prices).
3 Purchases of PP&E and major cyclical maintenance ↑ **$283m**	Purchases of PP&E and major cyclical maintenance increased due to increased investment in the Clean Fuels Project and also due to higher levels of major cyclical maintenance than in 2004.
4 Net financing cash outflows ↓ **$161m**	Net financing cash outflows decreased due to lower loan repayments ($4 million) compared with 2004 ($197 million). This was partly offset by higher dividend payments ($108 million), comprising a 2005 interim dividend ($40.5 million) and 2004 final dividend ($67.5 million). Total dividend payments in 2004 amounted to $75.6 million.

2005
PRELIMINARY FINANCIAL REPORT

FOR

CALTEX AUSTRALIA LIMITED
ACN 004 201 307

The 2005 Preliminary Financial Report for Caltex Australia Limited includes the:

- Directors' Review
- Directors' Statement
- Extracts of the 2005 Year Financial Statements and accompanying notes

for the year ended 31 December 2005.

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

Caltex Australia Group

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

- Caltex Australia Limited, which is the parent company of the Caltex Australia Group;
- our major operating companies, including Caltex Australia Petroleum Pty Ltd, Caltex Refineries (NSW) Pty Ltd, Caltex Refineries (Qld) Pty Ltd, Caltex Petroleum Distributors 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 2005 Preliminary Financial Report for the Caltex Australia Group for the year ended 31 December 2005 to shareholders.

Board of Directors

The Board of Caltex Australia Limited comprises Richard (Dick) Warburton (Chairman), Dave Reeves (Managing Director and Chief Executive Officer), Elizabeth Bryan, William (Bill) Hauschildt, John Thorn, Ken Watson and Peter Wissel.

General Overview

Caltex Australia continued to achieve record earnings in 2005, with profit after tax (excluding significant items) on a replacement cost of sales operating profit (RCOP) basis up 18% on 2004. This result reflected a strong operating performance by the company's refining and marketing business combined with global market drivers.

Net profit after tax on a RCOP basis was $414 million for the year ended 31 December 2005, compared with $350 million for 2004. The RCOP basis excludes the impact of international oil price movements and therefore provides a clearer picture of the company's underlying business performance.

The continued strong demand for fuels in the Asia Pacific region resulted in higher refiner margins with the Caltex Refiner Margin[1] averaging US$8.40 a barrel in 2005 compared with US$6.60 a barrel in 2004. The company was able to capture the benefit of these refiner margins because of improved throughput rates and near-record production at Caltex refineries. Despite the tight regional supply environment and record imports, Caltex maintained a secure and reliable supply of fuels to customers.

Caltex's marketing business made a strong contribution to earnings with new records in transport fuels sales, higher margins and volumes across all marketing channels and increased shop sales in its convenience store network.

On an historical cost profit basis (including inventory gains and excluding significant items), Caltex recorded an after tax profit of $574 million for the year ended 31 December 2005, compared with $457 million for 2004. This historical cost profit includes crude oil and petroleum product inventory gains of $160 million (after tax) compared with inventory gains of $106 million (after tax) for 2004.

The historical cost and RCOP results exclude a significant after tax one-off gain of $21 million which arose as a consequence of tax consolidation legislation passed in 2005. The initial legislation passed in 2004 resulted in an after tax one-off gain of $114 million in 2004.

Strong performance from refining and marketing

Performance improvement projects at the company's refineries at Kurnell in Sydney and Lytton in Brisbane produced significant benefits in 2005 primarily by lifting utilisation and improving yields. Total production of 11.6 billion litres of petroleum products was the second highest on record (2004: 11.8 billion litres). Production of high value transport fuel products (petrol, diesel and jet fuel) was 10.1 billion litres (2004: 10.5 billion litres). This production was achieved despite an extensive program of planned shutdowns for routine maintenance and preparation for clean fuels production.

In marketing, Caltex strengthened its leadership in transport fuels sales, increasing sales volume by a further 4% to 13.2 billion litres in a market that grew just over 1%. Petrol sales volumes were 3% higher supported by the venture with Woolworths. There are now over 470 jointly branded Caltex Woolworths service stations across Australia. They account for around 50% of our petrol sales.

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[1] The Caltex Refiner Margin (CRM) represents the difference between the cost of importing a standard Caltex basket of products to eastern Australia and the cost of importing the crude oil required to make that product basket. The CRM calculation represents: average Singapore refiner margin + product quality premium + crude discount/(premium) + product freight - crude freight - yield loss.

Diesel sales volumes were 5% higher and jet fuel volumes increased by 6%. New marketing strategies also produced growth in key markets for lubricants, premium fuels and StarCash cards. The company also made gains in consumer preference for the Caltex brand during 2005.

Non-fuel income rose 11%, with a 5% growth in store sales consolidating Caltex's position as Australia's leading convenience store retailer with almost 30% of market share.

Profits enable capital investment in clean fuels, refinery efficiency projects, storage terminals and retailing

In 2005, Caltex more than doubled its capital expenditure to $530 million investing in projects at the refineries and in other areas including terminal loading, storage facilities and retailing to meet customer and community expectations. This exceeded 2005 RCOP profit and represents 86% of operating cash flow.

The fuels market is changing as increasing global demand outstrips growth in refining capacity. Australia is now importing more than 20% of its transport fuels to supply domestic demand. As Australia's largest refiner and marketer of transport fuels, Caltex is focused on increasing production of diesel and high octane petrol and strengthening its supply chain to meet the changing needs of its customers.

By the end of 2005, a refining performance improvement program launched in 2004 had delivered significant benefits which are reflected in the increased profit. The program involves wide ranging improvement projects across both refineries that are expected to substantially add to annual profit and lift fuels production.

The most significant current project, the approximately $500 million Clean Fuels Project, is reducing air pollution from vehicle emissions through cleaner petrol and diesel. Expenditure on the project in 2005 was $302 million, including substantial additional costs to expedite the project when delays became apparent.

Business climate outlook for oil industry remains strong and will support Caltex strategies despite 1H2006 impact of Clean Fuels Project delay

Caltex remains confident the increased quantity and quality of production from the Clean Fuels Project and refinery improvement projects will create substantial benefits in the tight supply/demand market environment for petroleum products expected over the next few years. Growth in demand is not expected to be offset by new refining capacity additions in the region in the near to medium term.

There has been a disappointing start-up delay and significant overrun of our original planned investment in the Clean Fuels Project primarily due to late delivery of materials and equipment and a shortage of skilled labour. The lessons learned from the review of this project will be applied in our future capital development activities.

Lower refinery production and increased imports of 2006-standard products and exports of non-2006-standard products due to the Clean Fuels Project delay will negatively affect 1H2006 earnings.

The Australian Government granted Caltex a short-term variation of the fuel standards that have applied since 1 January 2006 to allow the company to ensure certainty of supply to its customers while the plant construction and commissioning is completed. The company has committed every possible effort to minimising the delays. The benzene reduction plant at the Lytton refinery has been making 2006-standard product since the end of January. The Kurnell benzene plant is expected to be on stream in early March as is the Lytton diesel sulfur reduction plant. The Kurnell diesel plant is expected to be on stream around mid April. As a result of delays beyond those recognised in the original variation application, Caltex has applied to the Government for an extension of the current variation to ensure reliability of supply to customers.

The company's performance is benefiting from our focus on the fundamentals, including its safety performance, which in 2005 was the best on record, and improving the capabilities of employees through training programs. In 2006, there will be ongoing benefits from strategies to increase the productivity of the refineries, reinforce the reliability of our supply chain and achieve sustainable growth in expanding markets.

Dividends declared and paid

The Board declared a final dividend of $84 million or 31 cents per share, adding to the interim dividend of 15 cents per share to give a total dividend of 46 cents per share fully franked (2004 total dividends: 39 cents per share).

This is in line with the company's stated dividend policy of declaring ordinary dividends of 20% to 30% of the RCOP result (after tax excluding significant items) in 2005 while the company met the high capital commitments of the Clean Fuels Project.

From 2006, the company intends to increase the dividend pay-out ratio to a range of 40% to 60% of the RCOP result after tax excluding significant items.

However, the declaration and the amount of any dividends are at the sole discretion of the Board and are dependent on the company's earnings, cash flow requirements, financial conditions at that time and available franking credits.

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 2005 to the date of this report.

Likely Developments

Business Operations
Caltex will continue to purchase, refine, distribute and market petroleum products and operate convenience stores throughout Australia. Caltex's investment in clean fuels at Kurnell and Lytton will further enable it to successfully compete in the marketplace.

Rounding of Amounts

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

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

RFE (Dick) Warburton AO Chairman	DC (Dave) Reeves Managing Director and Chief Executive Officer

Sydney, 24 February 2006

Directors' Statement

The Board of Caltex Australia Limited states that, in the opinion of the directors, the 2005 Preliminary Final Report:

- complies with Caltex Australia Limited's disclosure obligations for the year ended 31 December 2005 under ASX Listing Rule 4.3A; and
- has been derived from disclosures to be made in the 2005 Financial Report for the Caltex Australia Group for the year ended 31 December 2005.

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

RFE (Dick) Warburton AO Chairman	DC (Dave) Reeves Managing Director and Chief Executive Officer

Sydney, 24 February 2006

The accompanying financial statements and notes to the financial statements are derived from the 2005 Financial Report. The 2005 Financial Report was audited by an independent auditor, KPMG, who have issued an unqualified independent audit report.

Consolidated Income Statement

for the year ended 31 December 2005

Thousands of dollars	Note	Consolidated 2005	2004
Gross sales revenue from sale of goods		**16,621,451**	13,447,872
Replacement cost of goods sold (excluding product duties and taxes and inventory gains)		**(11,266,594)**	(8,318,484)
Product duties and taxes		**(4,371,659)**	(4,242,080)
Inventory gains		**228,068**	151,758
Cost of goods sold - historical cost		**(15,410,185)**	(12,408,806)
Gross profit		**1,211,266**	1,039,066
Other revenue	3	**198,411**	177,222
Refining and supply expenses		**(26,084)**	(25,675)
Marketing expenses		**(484,046)**	(451,219)
Borrowing costs	4	**(27,307)**	(41,995)
Other expenses		**(88,807)**	(53,268)
Share of net profit of entities accounted for using the equity method		**4,601**	3,302
Profit before income tax expense		**788,034**	647,433
Income tax expense		**(193,081)**	(76,336)
Net profit		**594,953**	571,097
Net profit attributable to minority interest		**(381)**	(1,061)
Net profit attributable to members of the parent entity		**594,572**	570,036
Basic and diluted earnings per share:			
Historical cost including significant items - cents per share (i)	6	**220.2**	211.1

(i) Replacement cost excluding significant items earnings per share is disclosed in note 6.

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

Consolidated Balance Sheet
as at 31 December 2005

		Consolidated	
Thousands of dollars	**Note**	**2005**	**2004**
Current assets			
Cash and cash equivalents		**28,484**	14,196
Receivables		**826,075**	635,282
Inventories		**1,044,805**	822,083
Other		**25,451**	17,765
Total current assets		**1,924,815**	1,489,326
Non-current assets			
Receivables		**5,134**	5,894
Investments accounted for using the equity method		**26,016**	24,346
Other financial assets		**21**	16
Intangibles		**41,656**	21,664
Property, plant and equipment		**2,076,279**	1,697,507
Other		**4,627**	6,015
Total non-current assets		**2,153,733**	1,755,442
Total assets		**4,078,548**	3,244,768
Current liabilities			
Payables		**1,230,895**	856,932
Interest bearing liabilities	7	**68,829**	27,761
Current tax liabilities		**97,888**	116,635
Provisions		**80,427**	50,735
Total current liabilities		**1,478,039**	1,052,063
Non-current liabilities			
Payables		**5,509**	3,493
Interest bearing liabilities	7	**389,130**	433,681
Deferred tax liabilities		**10,042**	47,613
Provisions		**57,373**	62,599
Total non-current liabilities		**462,054**	547,386
Total liabilities		**1,940,093**	1,599,449
Net assets		**2,138,455**	1,645,319
Equity			
Issued capital	8	**543,415**	543,415
Treasury stock		**(2,664)**	(2,219)
Reserves		**4,205**	3,595
Retained earnings		**1,583,835**	1,090,245
Total parent entity interest		**2,128,791**	1,635,036
Minority interest		**9,664**	10,283
Total equity		**2,138,455**	1,645,319

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

Consolidated Statement of Recognised Income and Expense

for the year ended 31 December 2005

	Consolidated	
Thousands of dollars	**2005**	**2004**
Net profit	**594,953**	571,097
Actuarial gains on defined benefit plans	**6,452**	11,704
Adjustment on change of accounting policy	**566**	-
Cash flow hedge fair value gains	**16**	-
Total recognised income for the year	**601,987**	582,801
Attributable to:		
Equity holders of the parent entity	**601,606**	581,740
Minority interest	**381**	1,061
Total recognised income for the year	**601,987**	582,801
Total equity at the beginning of the year	**1,645,319**	1,140,255
Total recognised income for the year	**601,987**	582,801
Adjustment on change of accounting policy	**(100)**	-
Own shares acquired	**(2,716)**	(2,562)
Expense on equity settled transactions	**2,965**	2,543
Dividends to minority interest	**(1,000)**	(2,118)
Dividends to shareholders	**(108,000)**	(75,600)
Total equity at the end of the year	**2,138,455**	1,645,319

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

Consolidated Cash Flow Statement

for the year ended 31 December 2005

Thousands of dollars	Consolidated 2005	2004
Cash flows from operating activities		
Receipts from customers	**18,467,315**	14,846,848
Payments to suppliers, employees and governments	**(17,561,038)**	(14,186,011)
Dividends and disbursements received	**2,931**	3,533
Interest received	**3,887**	2,135
Interest and other borrowing costs paid	**(42,862)**	(49,144)
Income taxes paid	**(252,484)**	(160,851)
Net operating cash inflows	**617,749**	456,510
Cash flows from investing activities		
Purchases of controlled entities, net of cash acquired	**115**	(2,225)
Deferred payment for purchase of controlled entities	**(333)**	(3,879)
Payment for investment	**-**	(5,607)
Purchases of property, plant and equipment	**(457,362)**	(190,996)
Major cyclical maintenance	**(41,917)**	(24,841)
Purchase of intangibles	**(7,088)**	(6,554)
Proceeds from sale of property, plant and equipment	**15,441**	28,297
Loans repaid from associated entities	**2,250**	2,500
Net investing cash outflows	**(488,894)**	(203,305)
Cash flows from financing activities		
Proceeds from borrowings	**5,954,386**	5,650,879
Repayments of borrowings	**(5,958,385)**	(5,847,879)
Repayment of finance lease principal	**(1,368)**	(807)
Dividends paid to minority interest	**(1,200)**	(1,920)
Dividends paid	**(108,000)**	(75,600)
Net financing cash outflows	**(114,567)**	(275,327)
Net increase/(decrease) in cash held	**14,288**	(22,122)
Cash at the beginning of the year	**14,196**	36,318
Cash at the end of the year	**28,484**	14,196

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 2005

1. Significant accounting policies

Caltex Australia Limited (Company) is a company domiciled in Australia. The financial statements for the year ended 31 December 2005 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 24 February 2006.

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

(a) Statement of compliance

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

This is the Group's first consolidated financial report prepared in accordance with A-IFRS. The rules for first time adoption of A-IFRS are set out in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. In general, a company is required to determine its A-IFRS accounting policies and apply these retrospectively to determine its opening balance sheet under A-IFRS. The standard allows a number of exceptions to this general principle to assist companies as they transition to reporting under A-IFRS.

Comparatives for the year ended 31 December 2004 have been restated accordingly. Reconciliations of A-IFRS equity and profit for the years ended 31 December 2004 to the balances reported in the 31 December 2004 financial reports are detailed in note 2.

(b) 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, and Australian Accounting Standards adopted by the AASB.

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

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

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

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

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

This financial report has been prepared on the basis of A-IFRS on issue that are effective or available for early adoption at the Group's first A-IFRS annual reporting date, being 31 December 2005.

The entity has elected to early adopt the following revised accounting standards:

- AASB 119 *Employee Benefits* (Dec 2004);
- AASB 2004-3 *Amendments to Australian Accounting Standards* amending AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (Jul 2004), AASB 101 *Presentation of Financial Statements* and AASB 124 *Related Party Disclosures*;
- AASB 2005-1 *Amendments to Australian Accounting Standard* amending AASB 139 *Financial Instruments: Recognition and Measurement*;
- AASB 2005-3 *Amendments to Australian Accounting Standards* amending AASB 119

Employee Benefits (Dec 2004);

- AASB 2005-4 *Amendments to Australian Accounting Standards* amending AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*;
- AASB 2005-5 *Amendments to Australian Accounting Standards* amending AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* and AASB 139 *Financial Instruments: Recognition and Measurement*;
- AASB 2005-6 *Amendments to Australian Accounting Standards* amending AASB 3 *Business Combinations;*
- AASB 2005-8 *Amendments to Australian Accounting Standards* amending AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*;
- AASB 2005-9 *Amendments to Australian Accounting Standards* amending AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts*, AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement; and*
- AASB 2005-11 *Amendments to Australian Accounting Standards* amending AASB 101 *Presentation of Financial Statements*, AASB 112 *Income Taxes*, AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 141 *Agriculture*.

The AASB has released the following:

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

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

The accounting policies set out below have been applied consistently to all periods presented in the financial report and in preparing an opening A-IFRS balance sheet at 1 January 2004 for the purposes of the transition to A-IFRS. However, AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* have been applied from 1 January 2005, as the entity has elected not to restate comparative information for these standards, as is permitted by AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (see note 2(iv)).

Where relevant, the accounting policies applied to the period have been disclosed if they differ from the current period policy. The accounting policies have been applied consistently throughout the Group for the purpose of this report.

(c) Basis of consolidation

Subsidiaries

Subsidiaries are those entities controlled by the Company. Control exists when the company 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 of the Company are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

Associates

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

Joint ventures

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

Jointly controlled entities

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

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

Jointly controlled operations and assets

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

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses arising from transactions with associates are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

Key sources of estimation uncertainty

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

In note 1(l), explanation is given of the foreign exchange exposure of the Group and risks in relation to foreign exchange movements.

Note 1(v) contains information about the principal actuarial assumptions used in determining pension obligations for the Group's defined benefit plan.

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

(e) 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 revenue

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

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

Profit/loss on disposal of property assets

The revenue and profit on disposal of property assets is brought to account at the date a contract of sale is settled, as:

- 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.

Losses on disposal of property assets are recognised immediately upon exchange of contracts.

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

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

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

(g) 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.

(h) 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.

(i) Borrowing costs

Borrowing costs include interest payable on borrowings calculated using the effective interest rate method, finance charges in respect of finance leases, 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.

Borrowing 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, borrowing 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 borrowing costs capitalised are those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

(j) Functional currency and currency of presentation

For all entities in the Group the functional currency and presentation currency is Australian dollars as this is the principal currency in which the Caltex Australia Group operates.

(k) Foreign currencies

Foreign currency transactions are recorded, on initial recognition, in Australian dollars by applying the exchange rate at the date of the transaction. Amounts receivable and payable in foreign currencies at reporting date are translated to Australian dollars at the rates of exchange ruling on that date.

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.

(l) Derivative financial instruments

Current period policy

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

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

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

Interest rate instruments

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

Foreign exchange contracts

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

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

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

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

Hedging
Cash flow hedges
Interest rate instruments, forward exchange contracts and crude and refiner margin swap contracts are cash flow hedges.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the anticipated transaction results in the recognition of a non-financial asset or non-financial liability, the cumulative gain or loss is removed from equity and included in the initial measurement of the non-financial asset or non-financial liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (ie 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 consequential adjustment 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.

Comparative period policy
Derivative financial instruments designated as hedges are accounted for on the same basis as the underlying exposure.

Interest rate instruments
Interest payments and receipts under interest rate instrument contracts are recognised on an accrual basis as an adjustment to borrowing expenses during the period.

Hedging
Where hedge transactions are designed to hedge the purchase or sale of goods or services, exchange differences arising up to the date of purchase or sale, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the purchase or sale. Except as outlined above, any exchange differences on the hedge transaction after that date are included in the income statement.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur, the deferred gains and losses that arose on the foreign currency hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale value when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur, deferred gains and losses that arose on the foreign currency hedge prior to its termination are included in the income statement for the period.

Non-specific hedge transactions are initially recorded at the spot rate at the date of the transaction. Hedges outstanding at balance date are translated at the rates of exchange ruling on that date and any exchange differences are brought to account in the income statement. Costs or gains at the time of entering into the hedge are deferred and amortised over the life of the hedge.

(m) Income tax
Income tax on the profit or loss for the year 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 provided 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 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) is 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.

(n) Receivables

Receivables are measured at amortised cost less impairment losses.

Impairment testing is performed at reporting date. A provision for doubtful debts 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.

(o) Inventories

Inventories are carried 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.

(p) 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 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.

(q) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

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

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(y).

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 lease payments

Assets of the Caltex Australia 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 lease payments
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 major inspection and overhaul expenditure, 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%	or the lease period
Plant and equipment	3 - 20 %	
Leased plant and equipment	3 - 20 %	or the lease period.

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.

(r) Intangible assets

Goodwill

Business combinations prior to 1 January 2004
Goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous AGAAP. The classification and accounting treatment of business combinations that occurred prior to 1 January 2004 has not been reconsidered in preparing the Group's opening A-IFRS balance sheet at 1 January 2004.

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 no longer amortised but is tested annually for impairment (see note 1(p)). In respect of associates, 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 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(p)).

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(p)).

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%.

(s) 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.

(t) Payables

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

Payables are measured at amortised cost.

Payables related to statutory obligations are measured at cost.

(u) Interest bearing liabilities

<u>Current period policy</u>
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 intial recognition, these US notes are accounted for using fair value hedge accounting to the extent that an effective hedge exists (see note 1(l)).

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.

<u>Comparative period policy</u>
Interest bearing bank loans
Bank loans are carried on the balance sheet at their principal amount. Interest expense is accrued at the contracted rate and included in other creditors and accrued expenses. Prepaid interest is included in prepaid and deferred expenditure.

Short-term notes
Short-term notes are recognised when issued at face value, with the discount on issuance amortised over the period to maturity.

US notes
US notes are recognised when issued at principal value. Interest expense is accrued at the contracted rate and included in other creditors and accrued expenses.

(v) Employee benefits

Wages and salaries
The provision for employee benefits to wages and salaries represents the amount which the Caltex Australia 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 Caltex Australia 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 as at 1 January 2004, the date of transition to A-IFRS, were recognised. All actuarial gains and losses that arise subsequent to 1 January 2004 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.

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

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

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the specified service period and ending on the date on which the relevant employees become fully entitled to the award (vesting date).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired. No expense is recognised for awards that do not ultimately vest.

Shares in the Company held by the executive share plan are classified and disclosed as treasury stock and deducted from equity.

The Group has applied the requirements of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* in respect of equity-settled transactions and has applied AASB 2 *Share Based Payments* only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2004.

(x) 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 provisons accounting policy.

Costs incurred to prevent future contamination or costs that are otherwise of a capital nature are capitalised to the extent there is a future economic benefit. All other costs, including 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.

(y) Provisions
A provision is recognised when there is a present legal or constructive obligation as a result of a past event 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 borrowing 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 result in a charge or credit to the income statement, in the period in which the change occurs, with the exception of decommissioning and certain restoration costs that relate to the initial construction of an asset.

Site restoration
In accordance with legal requirements, a provision for restoration in respect of contaminated land incurred through the use of the land is recognised when the land is contaminated.

The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Site restoration costs are reviewed annually and any changes are reflected in the restoration provision at the end of the reporting period through the income statement.

Asset retirement obligations
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 borrowing 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.

For further details on areas of uncertainty and assumptions used, see note 23.

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 2005 cont'd

2. Explanation of transition to A-IFRS

As stated in note 1, these are the Group's first full year financial statements prepared in accordance with A-IFRS.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2005. The comparative information presented in the financial statements has been restated as follows:
- income statement comparatives are restated for the year ended 31 December 2004; and
- balance sheet comparatives are restated as at 31 December 2004 and in the preparation of an opening A-IFRS balance sheet at 1 January 2004 (the Group's date of transition).

In preparing its opening A-IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from the previous GAAP to A-IFRS has affected the Group's income statement and balance sheet is set out in the following tables and the notes that accompany the tables.

(i) Reconciliation of equity (consolidated)

		1 January 2004				31 December 2004		
Thousands of dollars	**Note**	**Previous GAAP**	**Effect of transition to A-IFRS**	**A-IFRS**	**Note**	**Previous GAAP**	**Effect of transition to A-IFRS**	**A-IFRS**
Assets								
Cash and cash equivalents		36,318		36,318		14,196		14,196
Receivables	a	540,990	(2,418)	538,572	a	636,372	(1,090)	635,282
Inventories		502,732		502,732		822,083		822,083
Other		20,761		20,761	b	19,398	(1,633)	17,765
Total current assets		**1,100,801**	**(2,418)**	**1,098,383**		**1,492,049**	**(2,723)**	**1,489,326**
Receivables	c	25,638	(18,877)	6,761	c	24,367	(18,473)	5,894
Investments accounted for using the equity method	d	9,829	16,763	26,592	d	7,583	16,763	24,346
Other investments	e	2,340	(2,325)	15	e	6,783	(6,767)	16
Property, plant and equipment	f	1,615,321	(10,670)	1,604,651	f	1,709,728	(12,221)	1,697,507
Intangibles	g	12,592	5,805	18,397	g	14,004	7,660	21,664
Deferred tax assets		-		-	h	17,196	(17,196)	-
Other		7,125		7,125		6,015		6,015
Total non-current assets		**1,672,845**	**(9,304)**	**1,663,541**		**1,785,676**	**(30,234)**	**1,755,442**
Total assets		**2,773,646**	**(11,722)**	**2,761,924**		**3,277,725**	**(32,957)**	**3,244,768**
Liabilities								
Payables	i	602,684	(12,267)	590,417	i	868,218	(11,286)	856,932
Interest bearing liabilities		96,652		96,652		27,761		27,761
Current tax liabilities		72,865		72,865	j	140,774	(24,139)	116,635
Provisions	k	45,791	718	46,509	k	46,127	4,608	50,735
Total current liabilities		**817,992**	**(11,549)**	**806,443**		**1,082,880**	**(30,817)**	**1,052,063**
Payables	l	1,300	3,655	4,955	l	-	3,493	3,493
Interest bearing liabilities		564,094		564,094		433,681		433,681
Deferred tax liabilities	m	128,623	41,853	170,476	m	-	47,613	47,613
Provisions	n	37,978	37,723	75,701	n	41,945	20,654	62,599
Total non-current liabilities		**731,995**	**83,231**	**815,226**		**475,626**	**71,760**	**547,386**
Total liabilities		**1,549,987**	**71,682**	**1,621,669**		**1,558,506**	**40,943**	**1,599,449**
Net assets		**1,223,659**	**(83,404)**	**1,140,255**		**1,719,219**	**(73,900)**	**1,645,319**
Equity								
Issued capital		543,415		543,415		543,415		543,415
Treasury stock	o	-	(1,073)	(1,073)	o	-	(2,219)	(2,219)
Reserves	p	-	2,468	2,468	p	-	3,595	3,595
Retained earnings	q	671,884	(87,779)	584,105	q	1,168,558	(78,313)	1,090,245
Parent entity interest		1,215,299	(86,384)	1,128,915		1,711,973	(76,937)	1,635,036
Minority interest	r	8,360	2,980	11,340	r	7,246	3,037	10,283
Total equity		**1,223,659**	**(83,404)**	**1,140,255**		**1,719,219**	**(73,900)**	**1,645,319**

Notes to the Financial Statements

for the year ended 31 December 2005 cont'd

2. Explanation of transition to A-IFRS (continued)

(ii) Reconciliation of net profit attributable to members of the parent entity for 2004 (consolidated)

Thousands of dollars	Note	Previous GAAP	Effect of transition to A-IFRS	A-IFRS
Gross sales revenue		**13,447,872**		**13,447,872**
Cost of goods sold excluding product duties and taxes and inventory gains		(8,318,484)		(8,318,484)
Inventory gains		151,758		151,758
Product duties and taxes		(4,242,080)		(4,242,080)
Cost of goods sold - historical cost		**(12,408,806)**		**(12,408,806)**
Gross profit		**1,039,066**		**1,039,066**
Other revenue	s	221,791	(44,569)	177,222
Refining and supply expenses		(25,675)		(25,675)
Marketing expenses	t	(492,055)	40,836	(451,219)
Other expenses	u	(48,292)	(4,976)	(53,268)
Borrowing costs	v	(42,185)	190	(41,995)
Share of net profit of entities accounted for using the equity method		3,302		3,302
Profit before income tax expense		**655,952**	**(8,519)**	**647,433**
Income tax expense	w	(82,674)	6,338	(76,336)
Net profit		**573,278**	**(2,181)**	**571,097**
Net profit attributable to minority interest	x	(1,004)	(57)	(1,061)
Net profit attributable to members of the parent entity		**572,274**	**(2,238)**	**570,036**
Basic and diluted earnings per share				
Historical cost including significant items - cents per share		212.0		211.1

(iii) Notes to adjustments (consolidated)

a) Current receivables

Current receivables such as trade receivables, receivables from associates and related entities are present valued, with the exception of trade receivables less than six months due as the effect of discounting is immaterial. The net effect is to reduce the balance of current receivables.

b) Other current assets

Under A-IFRS, shares held on behalf of employees that have not been vested at balance date are classified as treasury stock and offset against equity. Under previous AGAAP, unvested shares were recognised as a prepayment.

c) Non-current receivables

On transition to A-IFRS, there is a decrease to non-current receivables representing a loan to a joint venture, Australasian Lubricants Manufacturing Company Pty Ltd (ALMC). This non-current receivable is deemed to be an extension of Caltex's investment in ALMC and thus has been reclassified to investments accounted for using the equity method:

Impact on non-current receivables as at 1 January 2004	(16,763,000)
Impact on non-current receivables as at 31 December 2004	(16,763,000)

Additionally, non-current receivables such as loans to dealers and formula grants, are measured at present value.

d) Investments accounted for using the equity method

On transition to A-IFRS, there is a decrease to non-current receivables representing a loan to a joint venture, Australasian Lubricants Manufacturing Company Pty Ltd (ALMC). This non-current receivable is deemed to be an extension of Caltex's investment in ALMC and thus has been reclassified to investments accounted for using the equity method:

Impact on investments accounted for using the equity method as at 1 January 2004	16,763,000
Impact on investments accounted for using the equity method as at 31 December 2004	16,763,000

e) Other investments

Under A-IFRS, start-up costs are expensed when incurred. Accordingly, start-up costs arising from the Caltex Woolworths joint venture are expensed under A-IFRS. These amounts were capitalised under previous AGAAP. The effect on transition to A-IFRS is to reduce other investments and retained earnings.

Notes to the Financial Statements
for the year ended 31 December 2005 cont'd

2. Explanation of transition to A-IFRS (continued)
(iii) Notes to adjustments (continued)

f) Property, plant and equipment
Assets such as software developed for internal use, software acquired that is not integral to hardware, and licences and patents for processes used in the Clean Fuels Project are reclassified as intangibles under A-IFRS from property, plant and equipment under previous AGAAP:

Impact on property, plant and equipment as at 1 January 2004	(10,670,000)
Impact on property, plant and equipment as at 31 December 2004	(12,221,000)

g) Intangibles
Assets such as software developed for internal use, software acquired that is not integral to hardware, and licences and patents for processes used in the Clean Fuels Project are reclassified as intangibles under A-IFRS from property, plant and equipment under previous AGAAP:

Impact on intangibles as at 1 January 2004	10,670,000
Impact on intangibles as at 31 December 2004	12,221,000

Additionally, the carrying value of goodwill related to cash-generating units is tested for impairment using discounted cash flow analysis. The effect of this is to reduce retained earnings and reduce intangible assets. Refer to note 13 for further details:

Impact on intangibles as at 1 January 2004	(4,865,000)
Impact on intangibles as at 31 December 2004	(6,116,000)

Additionally, on adoption of A-IFRS, book value of goodwill is frozen at the opening balance on 1 January 2004. Therefore, goodwill amortisation expense incurred during 2004 under AGAAP has been reversed.

h) Deferred tax assets
On adoption of A-IFRS, the balance sheet approach is used to calculate deferred tax assets or deferred tax liabilities. Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their book carrying amounts. This note should be read in conjunction with note 2(iii)(m) to determine the total impact on deferred tax accounts due to the adoption of A-IFRS.

i) Current payables
A remediation provision has been reclassified from current payables to non-current provisions, as this classification more accurately reflects the nature of the amount:

Impact on current payables as at 1 January 2004	(9,500,000)
Impact on current payables as at 31 December 2004	(9,600,000)

Additionally, current payables such as trade creditors, payables and accrued expenses are measured at present value with the exception of payables relating to tax and excise, and creditors due in less than six months as this is not material.

j) Current tax liabilities
On adoption of A-IFRS, the balance sheet approach is used to calculate current tax liabilities, and deferred tax assets or deferred tax liabilities. This has resulted in a transfer from current tax liabilities to deferred tax liabilities:

Impact on current tax liabilities as at 31 December 2004	(24,139,000)

k) Current provisions
Under A-IFRS, equity based compensation in the form of shares is recognised as an expense over the periods when the service is received from the employees. Under previous AGAAP, equity based compensation was expensed on a straight-line basis over three years. Shares held on behalf of employees that have not been vested at balance date are classified as treasury stock and offset against equity. A current provision for equity based compensation has been reclassified to reserves.

Additionally, under A-IFRS, a current provision for an avoided premium surcharge is recognised in relation to an insurance policy held with OIL Insurance. OIL Insurance is a company that was formed to insure for catastrophic risk such as oil and gas fires and pollution control. The avoided premium surcharge will be payable if Caltex decides to exit the insurance policy:

Impact on current provisions as at 1 January 2004	6,133,000
Impact on current provisions as at 31 December 2004	8,383,000

Additionally, the current provision for the net deficit on a vested basis in the defined benefit plan has been transferred to retained earnings in line with the new treatment under A-IFRS:

Impact on current provisions as at 1 January 2004	(4,600,000)
Impact on current provisions as at 31 December 2004	(2,080,000)

l) Non-current payables
Payables such as payables to related entities, associates and suppliers are measured at present value.

Additionally, operating lease rental expenses are amortised on a straight-line basis including the effect of known fixed rate increases over the life of the lease. Previously, operating lease rentals were expensed as incurred with fixed rate increases in rent recognised as an expense in the year the increase occurred. The effect of this is to recognise an accrual for future known increases of rent accumulated on a straight-line basis to date:

Impact on non-current payables as at 1 January 2004	3,897,000
Impact on non-current payables as at 31 December 2004	3,493,000

Notes to the Financial Statements
for the year ended 31 December 2005 cont'd

2. Explanation of transition to A-IFRS (continued)
(iii) Notes to adjustments (continued)

m) Deferred tax liabilities
On adoption of A-IFRS, the balance sheet approach is used to calculate deferred tax assets or deferred tax liabilities. Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts:

Impact on deferred tax liabilities as at 1 January 2004	41,853,000
Impact on deferred tax liabilities as at 31 December 2004	47,613,000

n) Non-current provisions
On adoption of A-IFRS, recognition of the net surplus or deficit on an actuarial basis in the defined benefit plan is required with a corresponding entry to retained earnings. The transitional adjustment is based on actuarial valuation of the defined benefit plan:

Impact on non-current provisions as at 1 January 2004	30,661,000
Impact on non-current provisions as at 31 December 2004	11,194,000

Additionally, a remediation provision has been reclassified from current payables to non-current provisions, as this classification more accurately reflects the nature of the amount:

Impact on non-current provisions as at 1 January 2004	9,500,000
Impact on non-current provisions as at 31 December 2004	9,600,000

Additionally, on transition to A-IFRS, the non-current provision for remediation of tanks has been discounted to present value.

o) Treasury stock
Under A-IFRS, shares held on behalf of employees that have not been vested at balance date are classified as treasury stock and offset against equity:

Impact on treasury stock as at 1 January 2004	(1,073,000)
Impact on treasury stock as at 31 December 2004	(2,219,000)

p) Reserves
Under A-IFRS, equity based compensation in the form of shares is recognised as an expense over the periods when the service is received from the employees. Under previous AGAAP, equity based compensation was expensed on a straight-line basis over three years:

Impact on reserves as at 1 January 2004	2,468,000
Impact on reserves as at 31 December 2004	3,595,000

q) Retained earnings
The effect of the adjustments on retained earnings is as follows:

Thousands of dollars	**1 January 2004** Retained profits Increase / (decrease)	**31 December 2004** Retained profits Increase / (decrease)
Current receivables	(2,418)	(1,090)
Other current assets	-	(1,633)
Non-current receivables	(2,114)	(1,710)
Other investments	(2,325)	(6,767)
Intangibles	(4,865)	(4,561)
Current payables	2,767	1,686
Current provisions	(718)	(4,608)
Non-current payables	(3,655)	(3,493)
Deferred tax asset	-	(17,196)
Deferred tax liabilities	(41,853)	(23,474)
Non-current provisions	(28,223)	(11,054)
Treasury stock	1,073	2,219
Reserves	(2,468)	(3,595)
Minority interest	(2,980)	(3,037)
Total adjustments	**(87,779)**	**(78,313)**

r) Minority interest
Minority interest is increased, representing recognition of additional interest in companies upon consolidation.

s) Other revenue
Under A-IFRS, net profit or loss on sale of fixed assets is disclosed in one section of the income statement. Under previous AGAAP, proceeds from sale of fixed assets were disclosed in other revenue, and written down value and selling costs disclosed in other operating expenses.

Impact on other revenue as at 31 December 2004	(44,569,000)

Notes to the Financial Statements
for the year ended 31 December 2005 cont'd

2. Explanation of transition to A-IFRS (continued)
(iii) Notes to adjustments (continued)

t) Marketing expenses
Under A-IFRS, net profit or loss on sale of fixed assets is disclosed in one section of the income statement. Under previous AGAAP, proceeds from sale of fixed assets was disclosed in other revenue, and written down value and selling costs disclosed in marketing expenses.

Impact on other expenses as at 31 December 2004	44,569,000

Additionally, marketing expenses are impacted by adjustments 2(iii)(e,g,l,n).

u) Other expenses
Other expenses are impacted by adjustments 2(iii)(k,n,p).

v) Borrowing costs
Borrowing costs are impacted by adjustments 2(iii)(a,c,i,l,n).

w) Income tax expense
Income tax expense is impacted by the above adjustments to the income statement.

x) Minority interest
Minority interest is increased representing recognition of additional interest in companies upon consolidation under A-IFRS.

(iv) Changes in accounting policy

In the current financial year, the Group adopted AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement. This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

The adoption of AASB 139 has resulted in the Group recognising all derivative financial instruments as assets or liabilities at fair value. This change has been accounted for by adjusting the opening balance of retained earnings, reserves, current payables, and non-current interest bearing liabilities as at 1 January 2005.

The impact of this change to accounting policy is not material. The transitional provisions will not have an effect in future reporting periods.

Notes to the Financial Statements

for the year ended 31 December 2005 cont'd

Thousands of dollars	Consolidated 2005	Consolidated 2004
3. Other revenue		
Rental income	**32,172**	33,864
Royalties and franchise income	**92,262**	85,995
Net foreign exchange gains	**-**	15,356
Other income	**70,007**	40,880
	194,441	176,095
Borrowing income		
Other corporations	**2,382**	556
Unwinding of discount on receivables	**1,588**	571
	3,970	1,127
	198,411	177,222
4. Costs and expenses		
Borrowing costs:		
Interest paid or due and payable to other corporations	**40,041**	43,889
Finance charges on capitalised leases	**1,942**	1,995
Loss on fair value derivative	**1,460**	-
Discounting on provisions and other liabilities	**1,117**	382
Less:		
Capitalised borrowing costs	**(17,253)**	(4,271)
Borrowing costs	**27,307**	41,995
Amortisation of intangibles	**3,099**	4,767
Depreciation and amortisation (excluding intangibles)	**123,700**	117,422
Total amortisation and depreciation expense	**126,799**	122,189
Operating leases rental expense	**79,485**	78,135
Net loss/ (gain) on disposal of non current assets	**10,271**	(12,284)

5. Dividends paid

Dividends declared or paid

Dividends provided for or paid by Caltex are:

	Date of payment	Franked/ unfranked	Cents per share	**Total amount $'000**
2005				
Interim 2005	30 September 2005	franked	15	**40,500**
Final 2004	1 April 2005	franked	25	**67,500**
Total amount				**108,000**
2004				
Interim 2004	1 October 2004	franked	14	**37,800**
Final 2003	1 April 2004	franked	14	**37,800**
Total amount				**75,600**

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

Subsequent events

Since 31 December 2005, the directors declared the following final dividend.
The final dividend has not been provided for and there are no income tax consequences.

Final 2005	31 March 2006	franked	31	**83,700**

Notes to the Financial Statements

for the year ended 31 December 2005 cont'd

	Consolidated 2005	2004
6. Basic and diluted earnings per share		
Historical cost including significant items - cents per share	**220.2**	211.1
Replacement cost excluding significant items - cents per share	**153.4**	129.7

The calculation of historical cost basic earnings per share for the year ended 31 December 2005 was based on the net profit attributable to ordinary shareholders of the parent entity of $594,572,000 (2004: $570,036,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2005 of 270 million shares (2004: 270 million shares).

The calculation of replacement cost basic earnings per share for the year ended 31 December 2005 was based on the net replacement cost profit attributable to ordinary shareholders of the parent entity of $414,071,000 (2004: $350,282,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2005 of 270 million shares (2004: 270 million shares).

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

Thousands of dollars	2005	2004
7. Interest bearing liabilities		
Current - unsecured		
Bank loans (i)	**68,000**	27,000
Lease liabilities (iv)	**829**	761
	68,829	27,761
Non-current - unsecured		
US notes (i)	**296,360**	288,132
Bank loans (i), (ii)	**25,000**	70,000
Hedge payable (iii)	**59,522**	66,289
Lease liabilities (iv)	**8,248**	9,260
	389,130	433,681

(i) Interest on bank overdrafts is charged at prevailing market rates. The weighted average interest rate for all overdrafts as at 31 December 2005 was 8.75% p.a. (2004: 8.5% p.a.).

(ii) The bank loans and the US notes are provided by a number of banks and the capital markets. The majority of interest rates on these loans and notes are on a floating rate basis. Maturity dates of the loans and notes vary from July 2007 to July 2012. Under the loan and note agreements, the 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.

(iii) 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 2005 (USD exchange rate 0.7325), on the amount hedged (USD136 million).

(iv) The implicit rate of interest on finance leases is 14.0% p.a. (2004: 14.0% p.a.).

	2005	2004
8. Issued capital		
Ordinary shares		
270 million (2004: 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.

9. Contingent assets and liabilities

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

	2005	2004
(a) Contingent assets - legal and other claims	**-**	-

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

	2005	2004
(b) Contingent liabilities - legal and other claims	**1,000**	5,360

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.

(c) All other contingent liabilities are consistent with the 2005 financial report.

Notes to the Financial Statements

for the year ended 31 December 2005 cont'd

10. Investments accounted for using the equity method

	% interest	
	2005	**2004**
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
JVC1 Pty Ltd (i)	**-**	50
JVC2 Pty Ltd (i)	**-**	50
Link Energy Pty Ltd	**50**	50
Jenessa Holdings Pty Ltd	**50**	50
Northern Marketing Management Pty Ltd	**37.5**	37.5
Northern Marketing Partnership	**37.5**	37.5
R&JK Petroleum Pty Ltd	**50**	50
South Coast Fuels Pty Ltd	**50**	50
South East Queensland Fuels Pty Ltd	**50**	50
South East Queensland Fuels Unit Trust Pty Ltd	**50**	50
Vitalgas Pty Ltd	**50**	50

(i) JVC1 Pty Ltd and JVC2 Pty Ltd were deregistered on 31 July 2004.

11. Net tangible assets per share

Net tangible assets per share (dollars)	**7.73**	5.98

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 (2004: 270 million).

12. Acquisitions

2005

(a) Auer Petroleum

On 1 July 2005, the Group acquired the business of Auer Petroleum for $2,285,000, satisfied by reducing Auer Petroleum's accounts payable to Caltex on 1 July 2005. The business of Auer Petroleum is to distribute petroleum. In the six months to 31 December 2005, the business contributed net profit of $13,000 to the consolidated net profit for the year. If the acquisition had occurred on 1 January 2005, the Group's gross sales revenue would have been $16,650,013,000 and net profit would have been $594,661,000.

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2005 cont'd

12. Acquisitions (continued)

(b) Dunning Petroleum

On 30 September 2005, the Group acquired the business of Dunning Petroleum for $6,493,000, satisfied by reducing Dunning Petroleum's accounts payable to Caltex by $4,493,000 on 30 September 2005. The deferral of $2,000,000 is payable by cash on 31 January 2006. The business of Dunning Petroleum is to distribute petroleum. In the three months to 31 December 2005, the business contributed net profit of $238,000 to the consolidated net profit for the year. If the acquisition had occurred on 1 January 2005, the Group's gross sales revenue would have been $16,699,777,000 and net profit would have been $595,744,000.

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

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

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

(c) Petro Fuels and Lubricants

On 1 December 2005, the Group acquired the business of Petro Fuel & Lubricants for $16,408,000, satisfied by reducing Petro Fuel & Lubricants' accounts payable to Caltex by $13,108,000 on 1 December 2005. The deferral of $3,300,000 is payable by cash on 31 January 2006. The business of Petro Fuel & Lubricants is to distribute petroleum. In the one month to 31 December 2005, the business contributed net loss of $8,000 to the consolidated net profit for the year. If the acquisition had occurred on 1 January 2005, the Group's gross sales revenue would have been $16,821,139,000 and net profit would have been $597,163,000.

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2005 cont'd

12. Acquisitions (continued)

2004

(d) Cooper & Dysart Pty Ltd

On 12 August 2004, the Group acquired the remaining 50% of Cooper & Dysart Pty Ltd for $2,842,000, satisfied in cash. The company distributes petroleum. In the five months to 31 December 2004, the subsidiary contributed net profit of $24,000 to the consolidated net profit for the year. If the acquisition had occurred on 1 January 2004, the Group's gross sales revenue would have been $13,502,003,000 and net profit would have been $570,601,000.

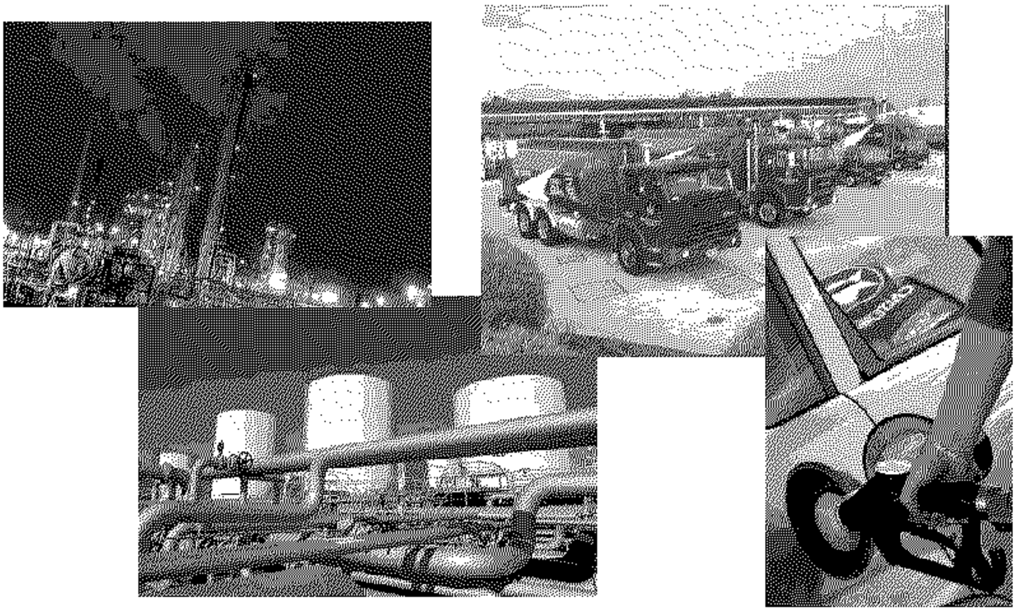
The acquisition had the following effect on the Group's assets and liabilities:

Thousands of dollars	Recognised values
Cash and cash equivalents	617
Receivables	8,068
Inventories	1,939
Other current assets	242
Property, plant and equipment	2,668
Intangibles	2,190
Payables	(10,557)
Interest bearing liabilities	(631)
Current tax liabilities	(107)
Deferred tax liabilities	(6)
Provisions	(293)
Net identifiable assets and liabilities	4,130
Net assets acquired - 50%	2,065
Goodwill on acquisition	777
Consideration paid, satisfied in cash	2,842
Cash acquired	(617)
Net cash outflow	2,225

Goodwill has arisen on acquisition of the business of Cooper and Dysart because of future business synergies and customer relationships that did not meet the criteria for recognition as a seperately identifiable intangible asset at the date of acquisition.

13. 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.



2005 Full Year Results – Another Strong Performance

Good morning, welcome everybody and thank you for attending today. I would also like to welcome those who are taking a feed via webcast. Please note that an archive copy of the webcast should be available on caltex.com.au by close of business today or Monday at the latest.

For those of you here in Sydney, you will have received a package this morning containing our full year results, media release and Australian Stock Exchange announcement, together with the slides I will talk through this morning. For those taking the feed via webcast the same material is available now from both our website, caltex.com.au, or the ASX website.

I am joined in the auditorium by the Caltex management team and would like to thank the Caltex staff members who assisted with the logistics this morning.

Contents

1

CALTEX

I plan to run through the major highlights of 2005, and in the "Outlook" section, I will discuss our focus for 2006 and the following years. This will take about 30 minutes, then I will open up the floor for your questions. Those taking part via webcast, you can submit questions either during the webcast or during the Q&A session.

Incident Free Operations Topic

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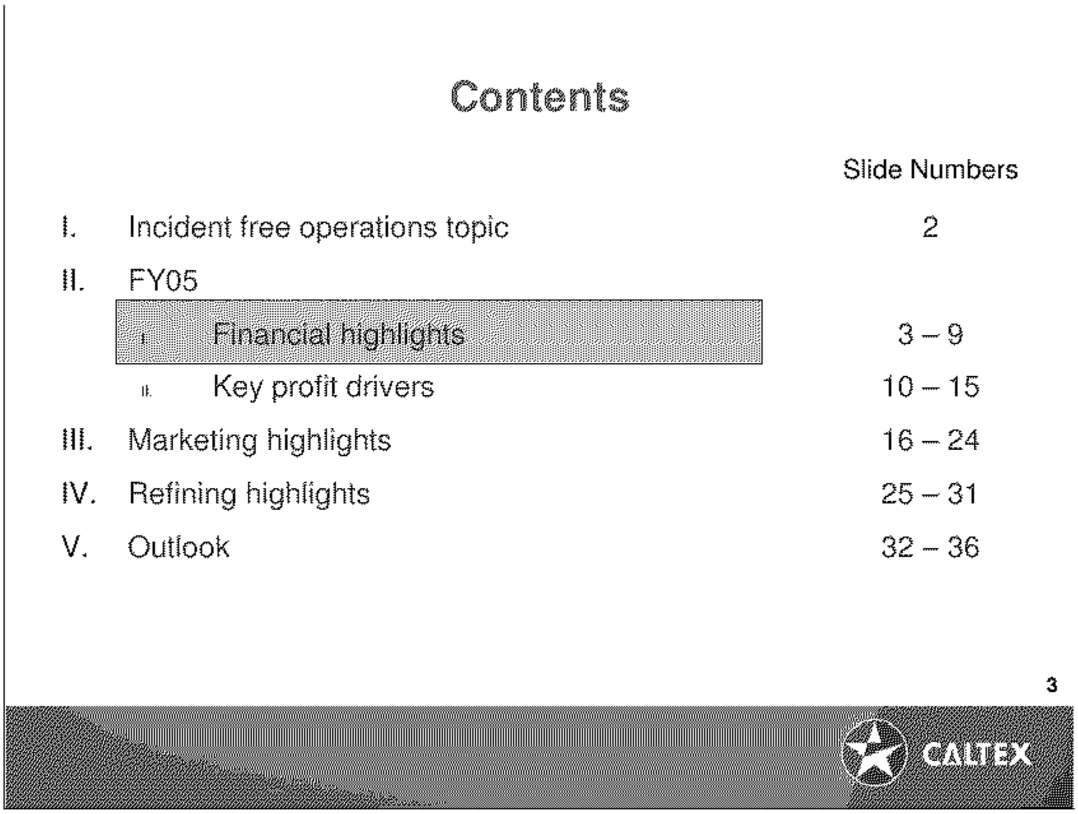
CALTEX

It is the custom at Caltex to commence every meeting involving 5 or more people with an Incident Free Operations Topic. Statistics show that a company with a strong safety record is also highly likely to have reliable and efficient operations.

The photo shows the scale of the work being undertaken in the Clean Fuels Project. One of the key risk management issues we needed to address in this project was the maintenance of a secure and reliable supply chain to our customers. A great deal of work has been done to ensure this occurs:

- Although we would have preferred not to have applied for a variation to the Fuel Standard, we commenced negotiations with the Federal Government in August last year to ensure supply reliability.
- On top of that, the people throughout our Supply group have worked extremely hard to maximise our refinery production rates within the variation conditions, while simultaneously managing a significant increase in import and export volumes.

The outcome of this has been continuous supply of fuel to our customers, with a great deal of this work being completely invisible to the public.



Slides 3 – 9 summarise the 2005 highlights.

2005 – Key Points

- Strong operating performance captured the benefits of strong global petroleum markets
- Refinery production in line with last year, despite extensive planned shutdown periods and extended construction on clean fuels
- Marketing continued to perform in all areas
- Total Shareholder Returns of 82%

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Here are the key points for 2005:

- Our focus on execution and reliability is working, and it allowed us to convert a strong global market into earnings for our shareholders and for reinvestment
- Our refineries are improving utilisation through focus on fundamentals and capital investment
- We are the largest marketer of petroleum products in Australia and the nation's largest convenience retailer. Progress continued in all our key marketing segments
- Execution and strong external markets combined to produce the highest level of earnings in the history of Caltex. Investor confidence in our performance resulted in a total return of 82%, which makes it 3 successive years where we have significantly outperformed the ASX.

Summary financial results

Replacement Cost	2005	2004
EBIT ($M)	583	536
NPAT ($M)	414*	350*
EPS (cps)	153*	130*

	31 Dec 2005	31 Dec 2004
Debt ($M)	429	447
Gearing (%)	17	21
Gearing (Lease Adjusted %)	26	32

Historic Cost	2005	2004
EBIT ($M)	811	687
NPAT ($M)	574*	457*
EPS (cps)	213*	169*

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* Both the replacement cost and historic cost results exclude a significant credit to earnings of $113.5 million for 2004 and $20.9 million to 2005 which occurred on entry into the new tax consolidation regime.

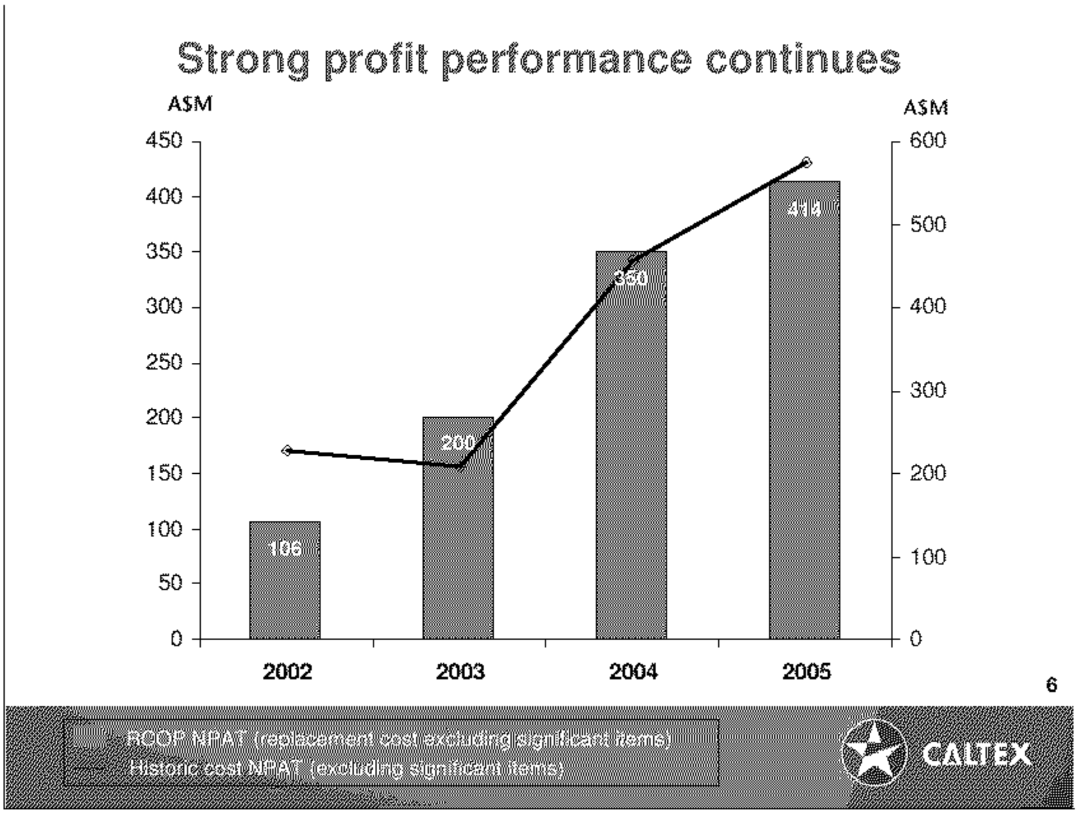
CALTEX

For the period ended 31 December 2005, Replacement Cost EBIT, excluding significant items, was $583 million.

Replacement Cost Net Profit After Tax, excluding significant items, was $414 million.

Historic Cost Net Profit After Tax, excluding the significant tax item, was $574 million, reflecting an inventory gain of $160 million, after tax.

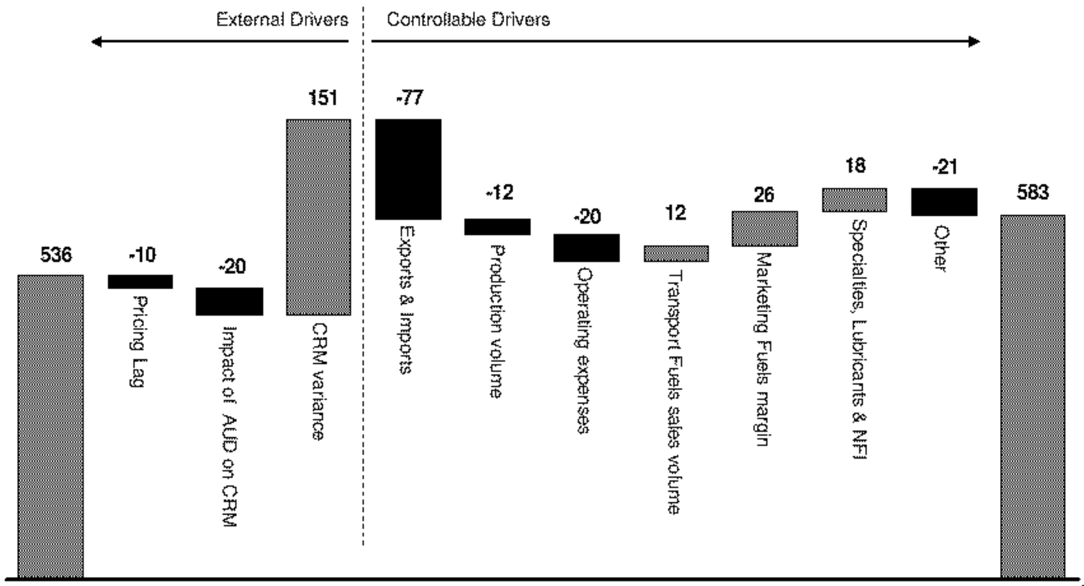
Both the Replacement Cost and Historic Cost results exclude a significant credit of $20.9 million relating to our entry into tax consolidation following the passing of new legislation in 2005.



The Replacement Cost Net Profit After Tax represented here by the green bars shows the underlying performance of the business by removing the effects of crude oil price fluctuations, which is an external factor over which we have no control.

Historic cost profit including those price effects reflected an increase in the price of Tapis crude oil over the year of $US18/bbl from December 2004. Crude moved from a price of $US39/bbl in December 2004 to close 2005 at around $US57/bbl, with the average for the year of $57/bbl.

EBIT 2004 to 2005



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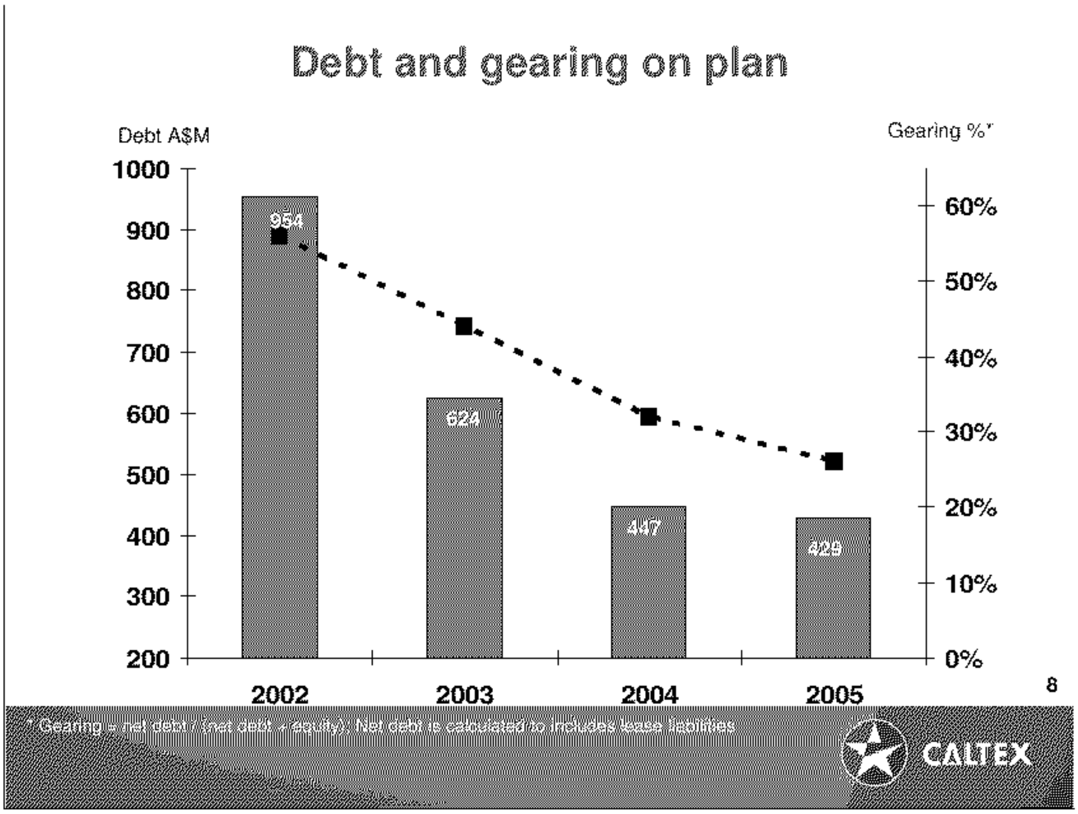
Our EBIT in 2005 was up by $47m over 2004. As mentioned, the tight global market for refined products resulted in an increased refiner margin, especially in the third quarter in response to the impact of the US hurricanes. This is the single largest contributor to our increased earnings. We cannot control external drivers such as these in any period.

In the areas we do control, we were able to capture about $56m in Marketing EBIT benefit.

However, other impacts, primarily refinery construction and planned turnarounds, compared to normal operations meant we missed an additional earnings opportunity of approximately $89M – this is shown here as the "Exports & Imports" and "Production Volume" bars.

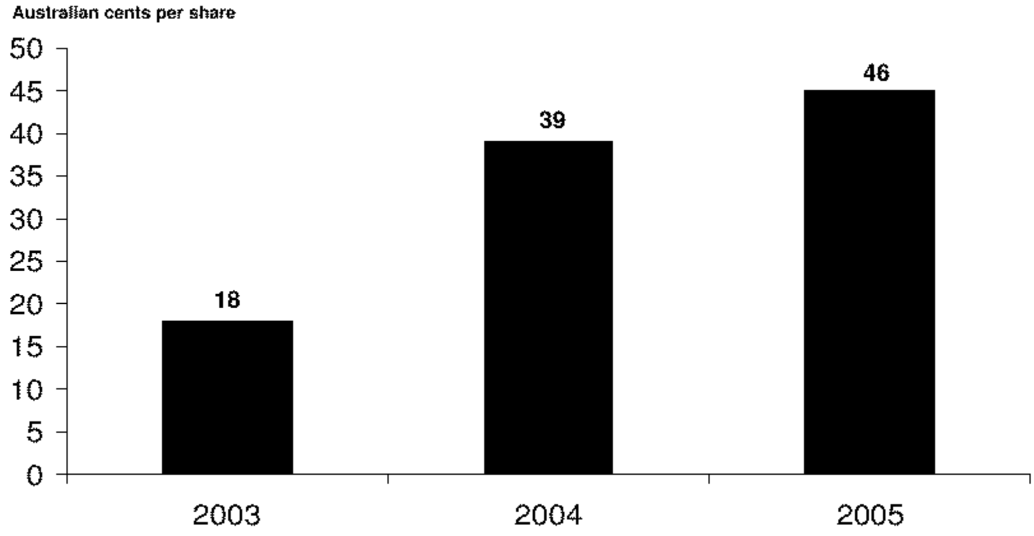
We have routine maintenance and turnaround activity every year. However, 2005 was unique in that it reflected very high levels of planned turnarounds, combined with the construction impacts of our Clean Fuels project. This caused us to import higher levels of transportation fuels and export more low value products like fuel oil and cycle oil. As a result, we were not able to capture all available margin.

This underscores the benefits of increased utilisation, especially once our Clean Fuels construction is complete. More on that later.



Net debt ended the period at $429 million, with a gearing level of around 25% on a lease adjusted basis. It should be noted that lower crude purchases prior to year end due to Clean Fuels constraints resulted in net debt being artificially low at 31 December, 2005. Increased product imports in the first quarter of 2006, together with higher Clean Fuels construction costs, will result in net debt rising to over $600 M in the short term, with lease adjusted gearing remaining in the 25% to 35% Range.

Dividends per policy



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In light of our performance, and consistent with our dividend policy, the Board has approved a fully franked 31 cents per share dividend to be paid as the final dividend for 2005.

This represents a full year dividend of 46 cps, fully franked, which is 30% of our RCOP NPAT for 2005 and at the high end of the policy range.

Contents

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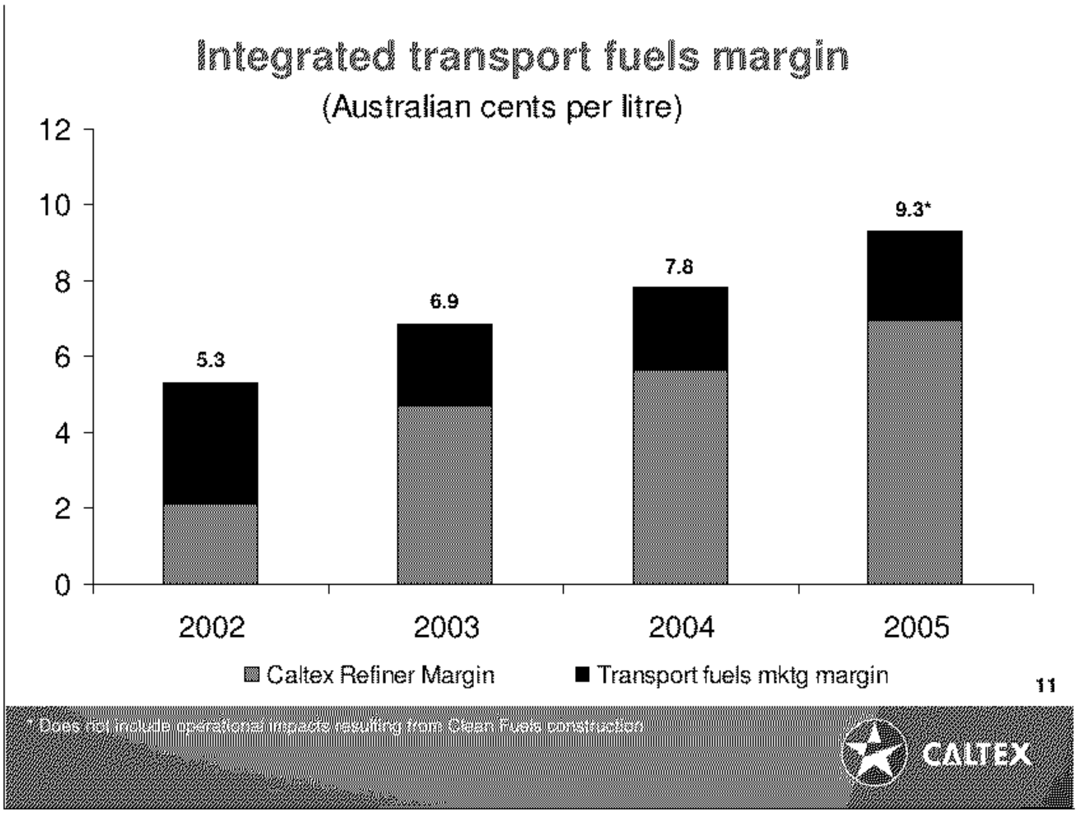
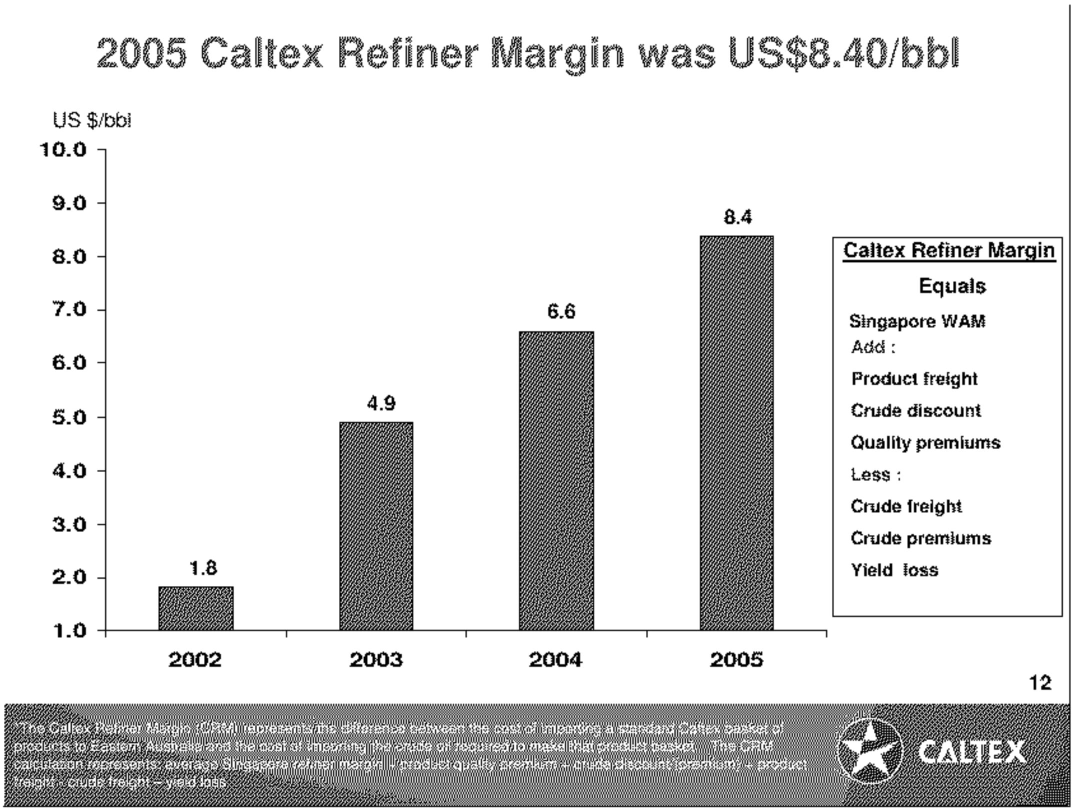
Slides 10-15 give more detail on the performance of the key profit drivers.



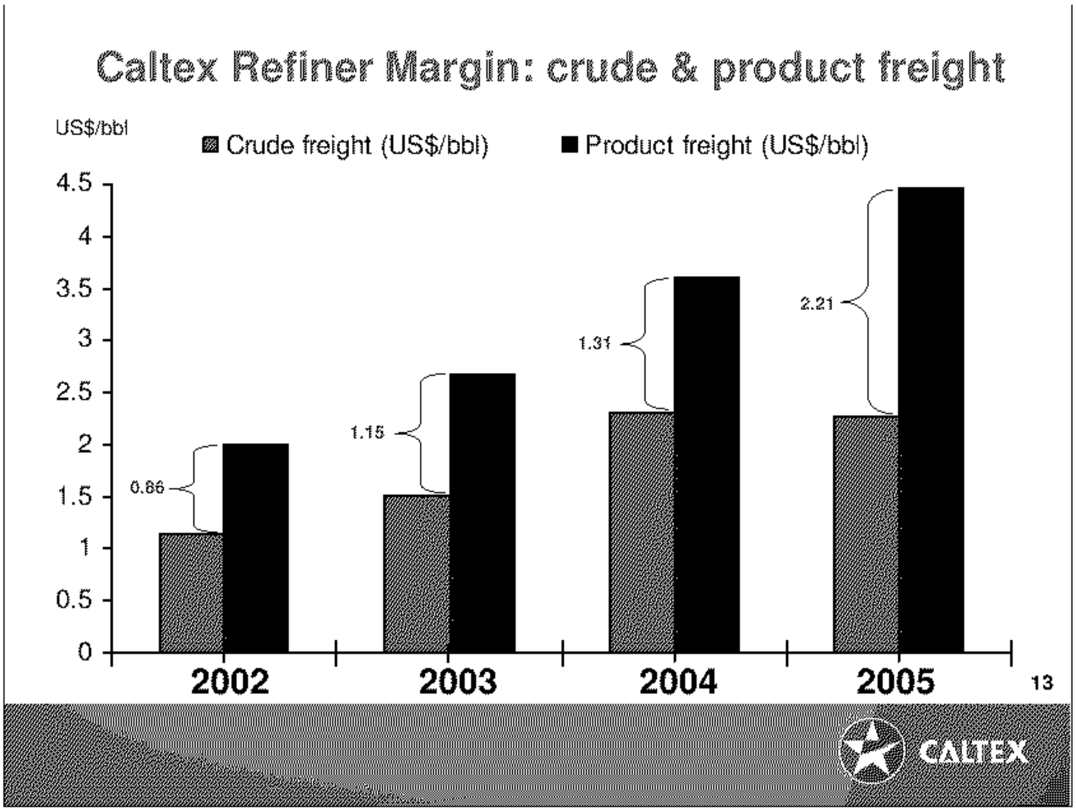
This slide shows the Caltex integrated transport fuels margin in Australian cents per litre. The 2005 integrated margin was 9.3 cpl, up from 7.8 cpl in 2004, largely driven by increases in the Caltex Refiner Margin.

The integrated margin is calculated on a typical yield profile from our refineries, plus the margin Marketing realises across all transport fuel sales. As I pointed out on Slide 7, the Clean Fuels construction caused us to alter our operating plans. This resulted in imports of petroleum products that would other wise have been manufactured at the Caltex refineries, and product exports that were unable to be processed to meet the regulated standards. The integrated margin of 9.3 cpl, therefore, was only fully realised on those products manufactured by Caltex which met the required specifications.

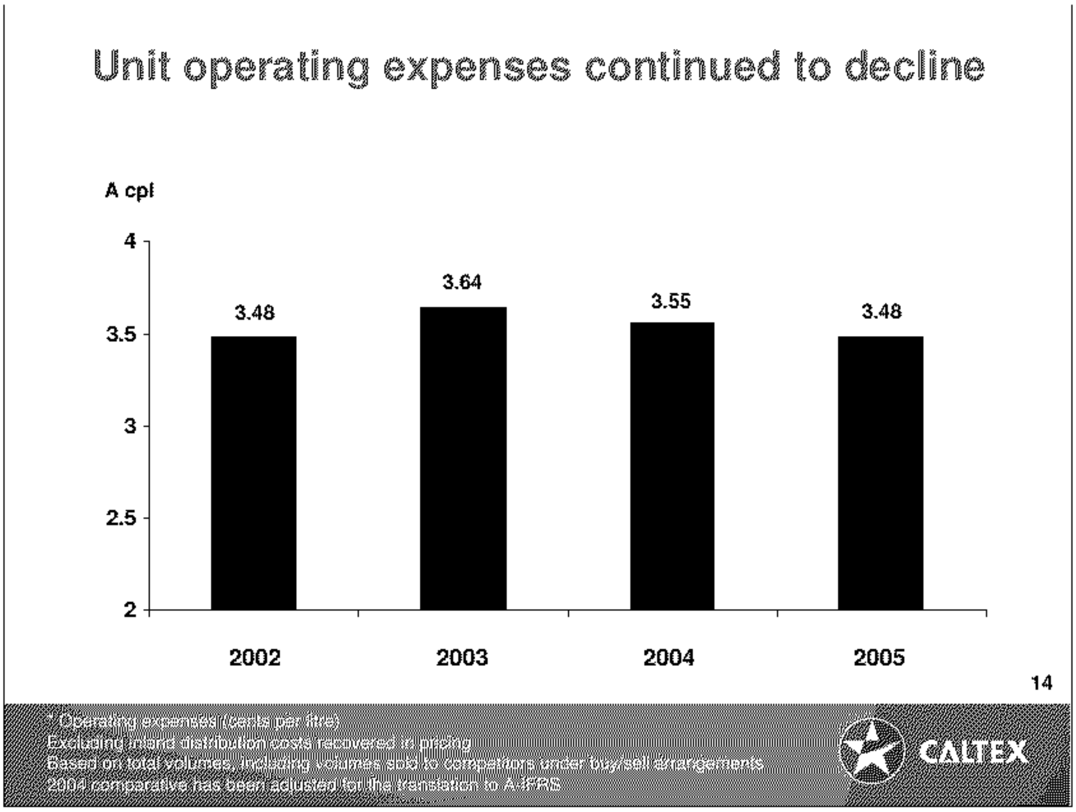


The Caltex Refiner Margin is a proxy for the margin realised by Caltex's refineries under normal operation. The margin is based on the Singapore weighted average refiner margin, adjusted for product freight, crude freight, crude premiums or discount, product quality premiums and the average product yield at our particular refineries.

The average Caltex Refiner Margin for 2005 was US$8.40/bbl, compared to US$6.60/bbl for 2004. Again, this margin was only fully realised on those products manufactured by Caltex and which met the required specifications.



The differential between crude freight and product freight is a component of the Caltex Refiner Margin. This expanded by $US 0.90/bbl in 2005 as clean product freight costs rose in relation to crude freight. Again, this reflects the underlying tightness in shipping markets which were stretched to cope with the refining production shortages in the US. These differentials began to ease in October to more normal levels.

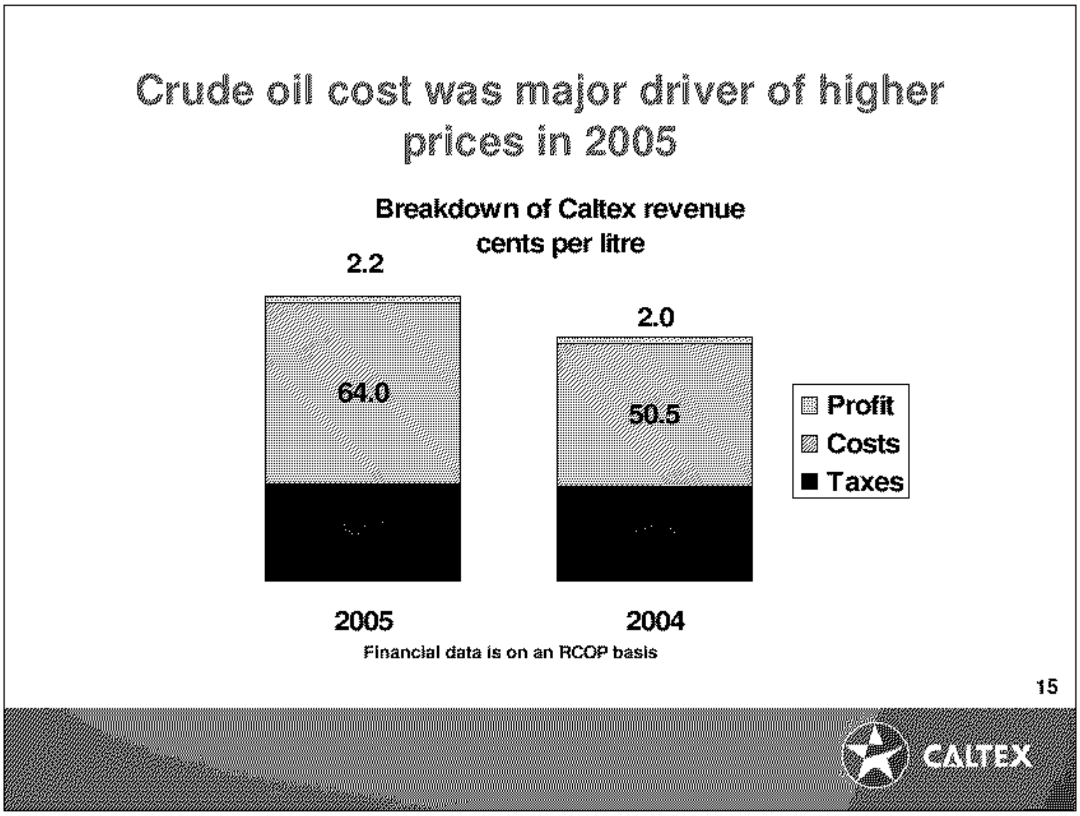


As I have stressed previously, Caltex must continually drive for lower unit costs in order to remain competitive in a regional and global refining market. We continued to reduce unit costs in 2005.

In the Clean Fuels environment this will be more challenging, as depreciation and processing costs at our refineries will be higher. Much of our success in the past few years has been on the basis of increasing sales (with better integrated margins).

We remain confident that the premiums attracted by the new clean fuels will more than offset the higher costs associated with more intense processing in Refining.

I will address our Refining Performance Improvement Program later, but here I would like to point out that part of its benefit will be to allow lower unit production costs as the projects come to completion.



Our customers paid much higher prices for refined products in 2005. The attached chart shows that for an average increase of 14.6 cpl across ALL products, only 0.2 cpl represented incremental profit to Caltex. The primary driver of higher prices for our customers is the higher cost of crude oil, which ultimately is reflected in prices for petrol, diesel and jet.

Caltex, of course, has no investments in exploration or production assets for crude oil and must accept the global market price for the crudes we process as an input cost.

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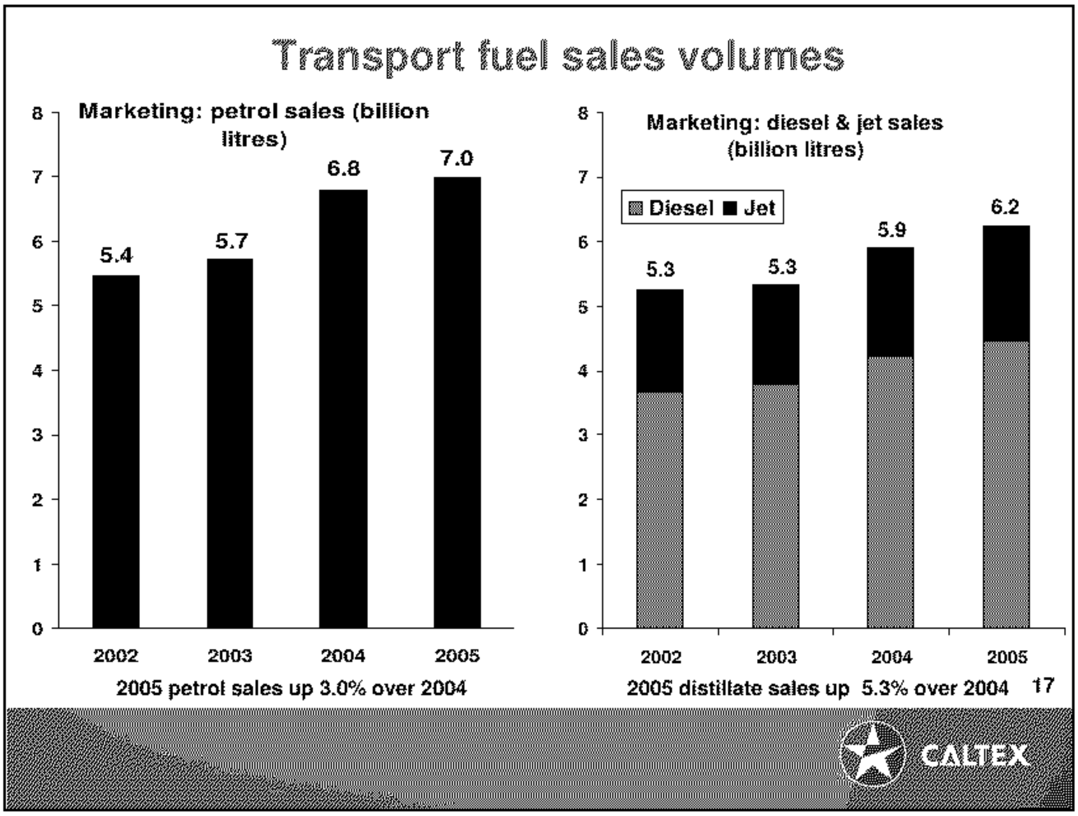
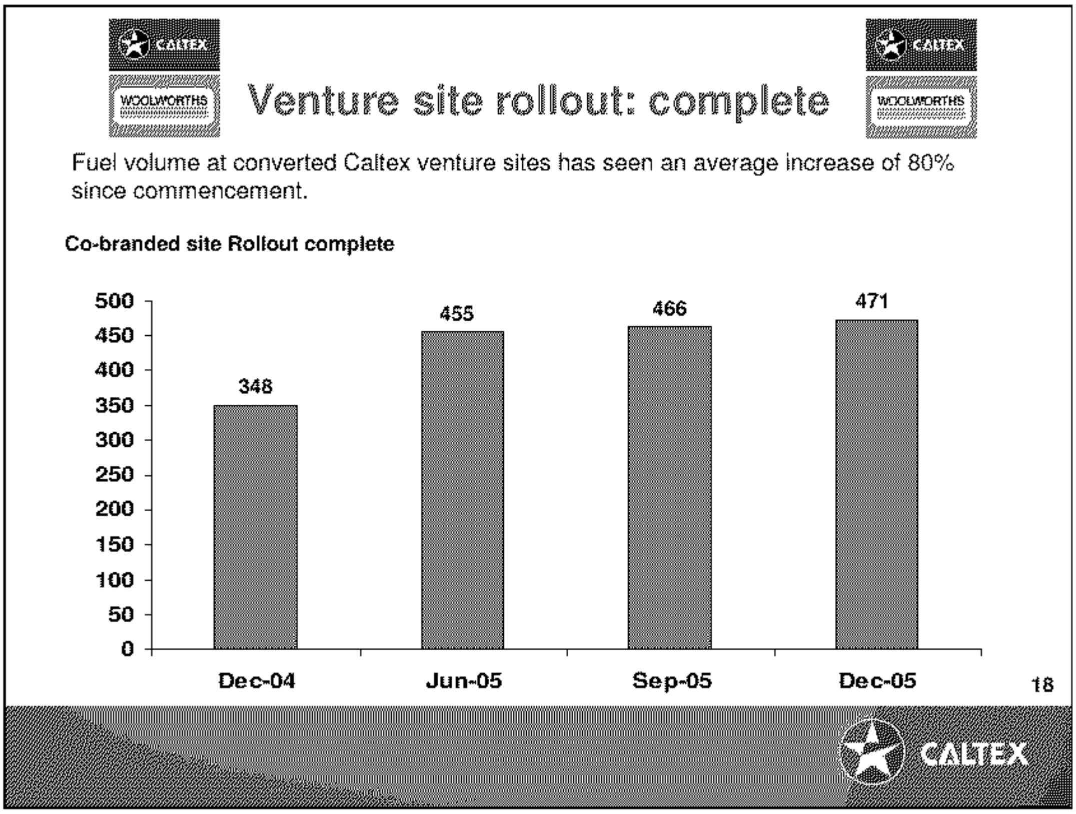
On slides 16-24, I will outline our Marketing performance.



Petrol sales saw an increase of 3.0% vs. 2004, from 6.8 to 7.0 billion litres, partly due to the continuing rollout of our venture with Woolworths.

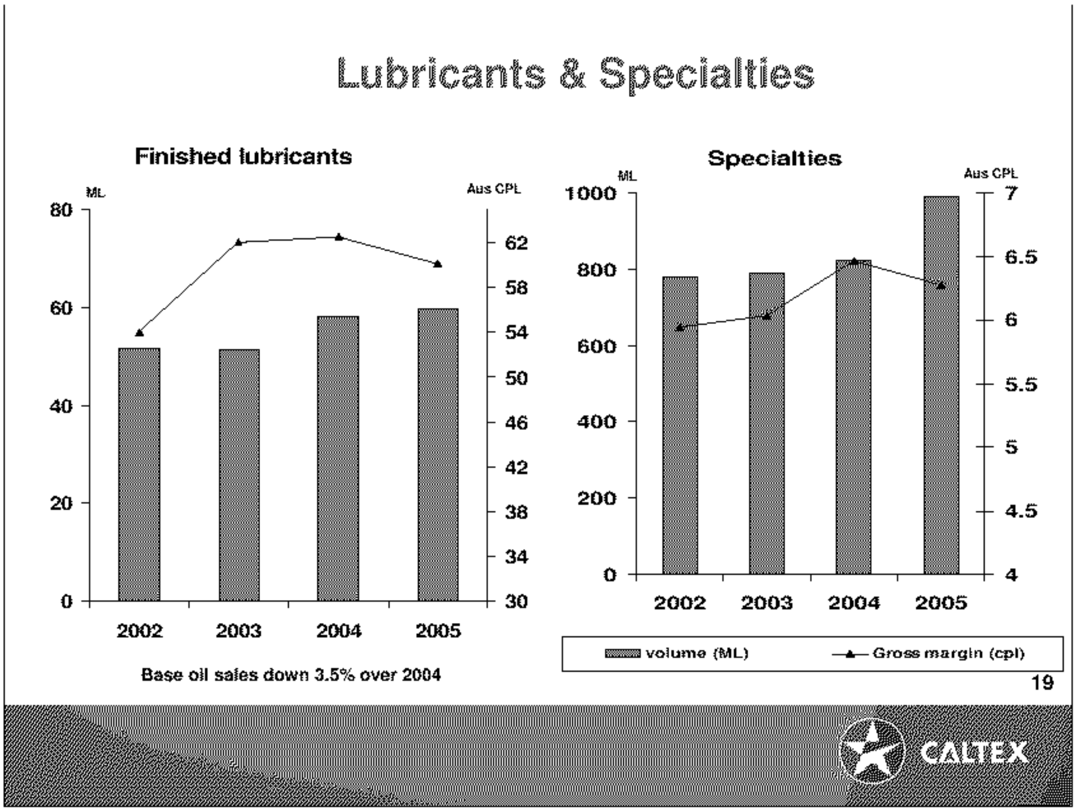
Jet and diesel sales reflect a continued strong economy with volumes up 5.3% over 2004. This increase was driven largely by increased demand from the mining sector.

Caltex's total transport fuels sales for 2005 were at record levels.



The rollout of our Woolworths venture has been largely completed. By the end of 2005, we had reached our target of around 470 sites in the venture, with Caltex contributing 125 sites. We would expect our rate of growth on petrol sales to slow but remain positive, now that we are through the implementation phase of our venture with Woolworths.

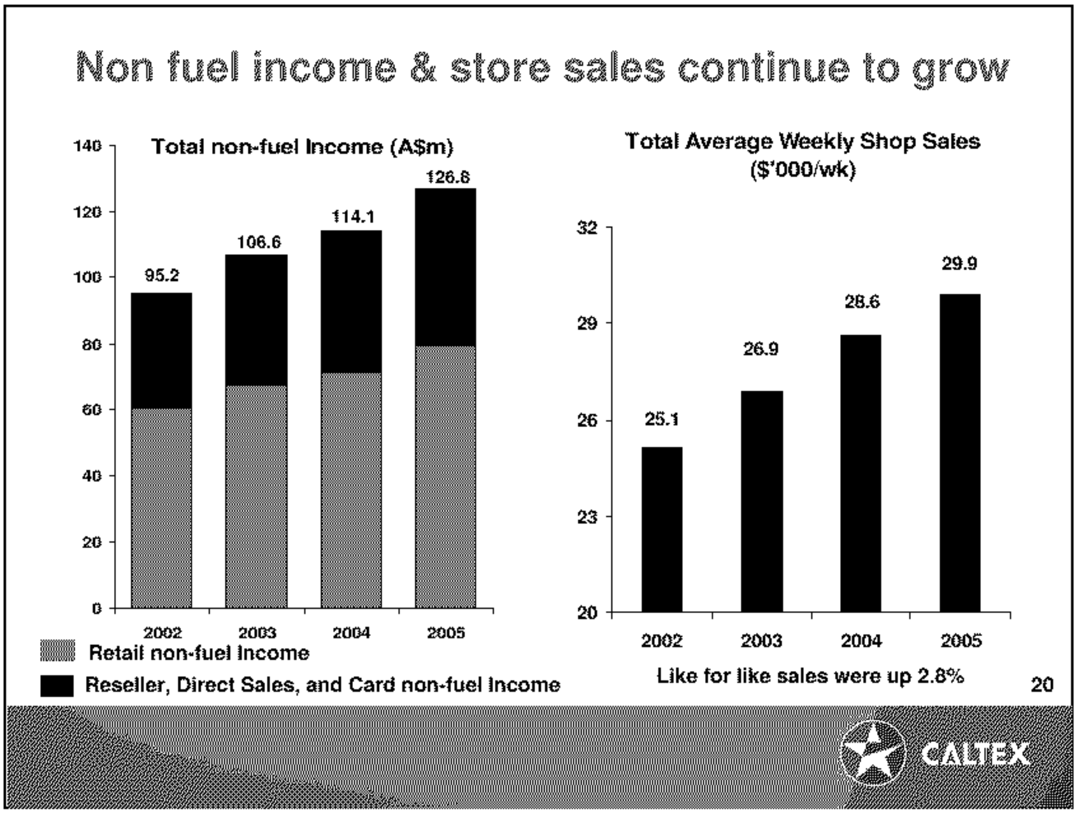
The service station market has largely adjusted to the rapid expansion of shopper docket schemes. The use of docket redemption has continued to increase as customers take advantage of the opportunity to lower their fuel costs, especially at a time of rapid price changes. Of course, Caltex must provide ongoing price support for our franchisees to allow them to compete in this highly competitive segment of the industry.



Finished lubricant volumes were up 3.1% over 2004, due primarily to increases in our diesel engine oils (Delo®). Overall gross profit was flat, with higher volumes off setting margins that were impacted by rising input costs, which could not be immediately passed through to the market.

Base oil sales were down by 3.5%, again due to higher crude costs. In addition, production from our lubricating oil refinery in Sydney was also adversely impacted by the Energy Australia power failure that impacted the entire Kurnell peninsula.

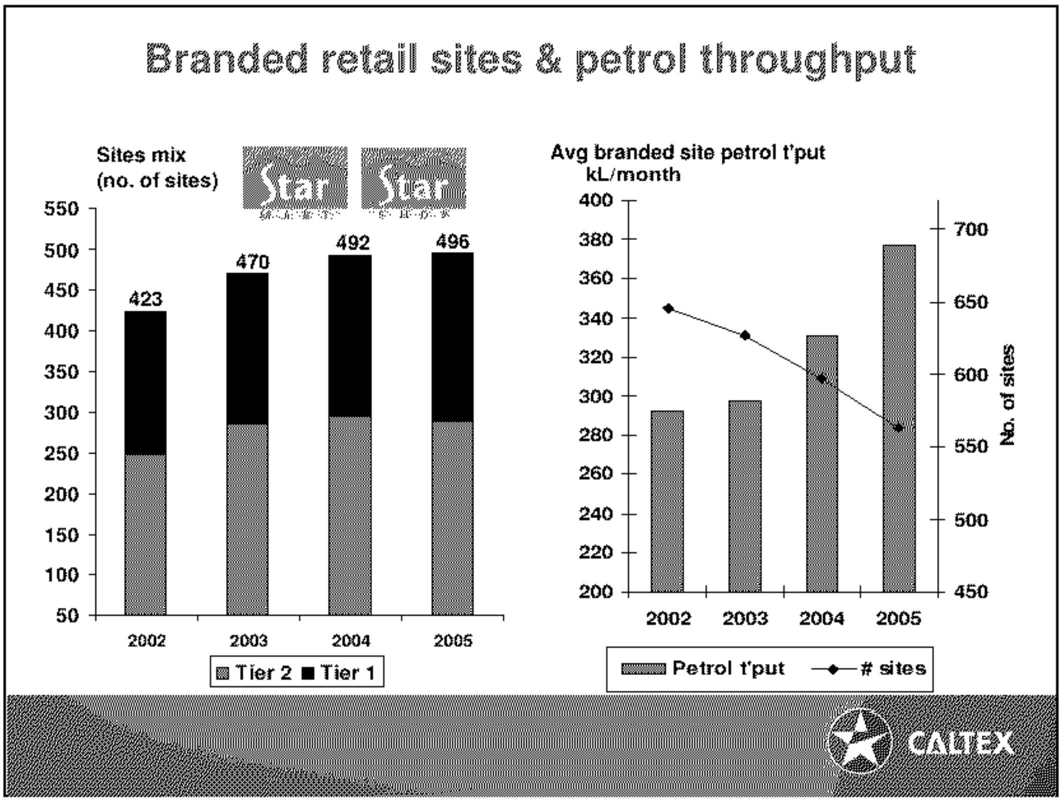
Specialty volumes are up 20% over 2004 across the whole range of marine fuel, bitumen and petrochemical feedstocks. These increases reflect the impact of Clean Fuels construction as operations yielded a higher percentage of these lower value products. Margins declined slightly on a cpl basis due to an increase in low margin fuel oil volumes.



Total non-fuel income represented here by the chart on the left was up by over 10% year-on-year. All of our Marketing channels contributed to this growth. This was a great performance, reflecting our expertise in marketing and merchandising.

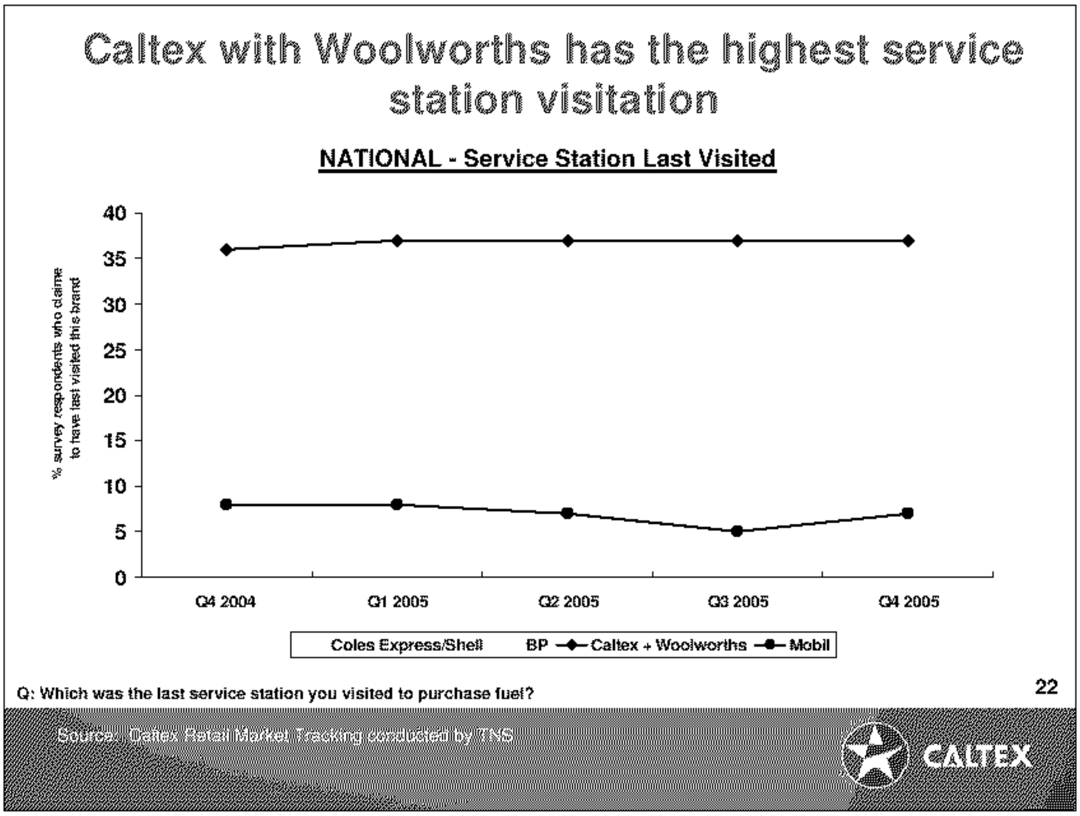
Our weekly shop sales increased by 4.5% on 2005, with like for like sales up by 2.8%.

We are working to integrate our recently completed dry goods arrangements with Woolworths, which we expect to improve both sales and margins as it is progressively rolled out in 2006 and 2007

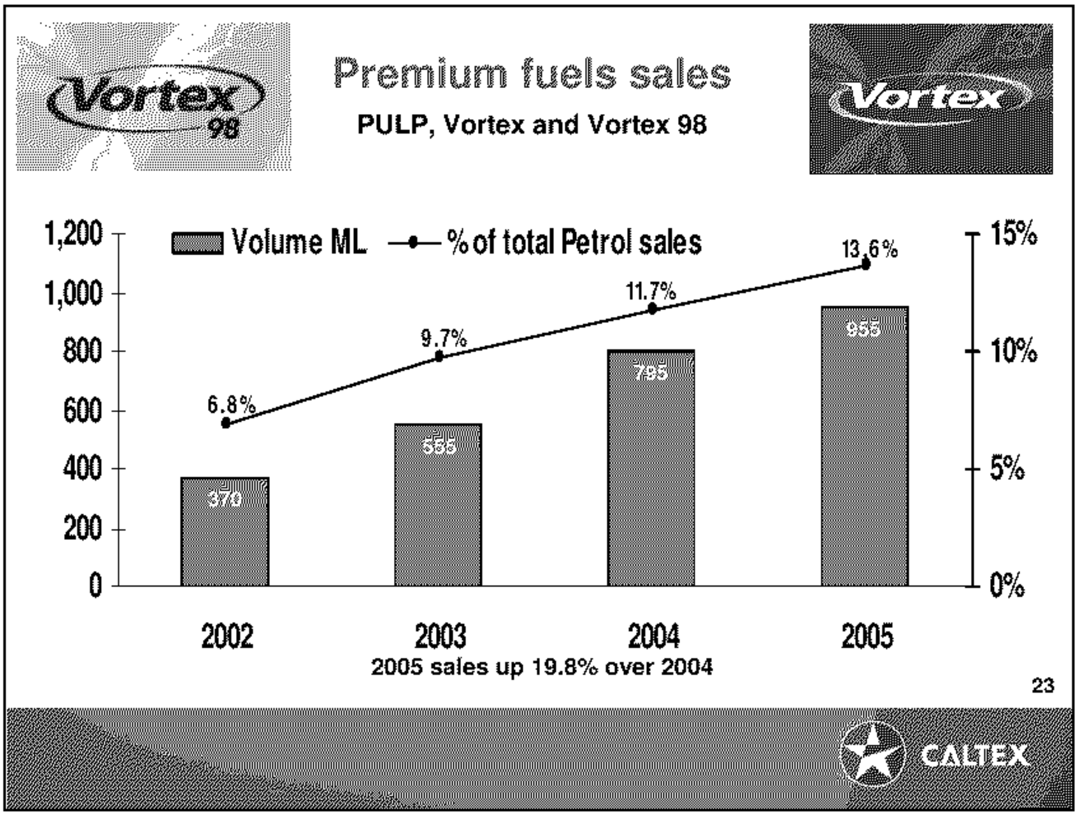


As previously indicated, our store count growth is levelling off, as investment in new sites is offset by store closures. We will focus our efforts on prime retail locations and support our franchisee network through programs and promotions. Continued sales growth for franchisees benefits Caltex through royalty receipts, and we remain committed to this business model.

Our average site petrol throughput has grown to 377 kL/month, driven by the venture sites, targeted capital spend and our continued divestment of tail sites. Since 2002, our average site petrol throughput at branded sites has increased by 105 kL/month, or just under 40% This supports store traffic as well as lowering our unit costs.

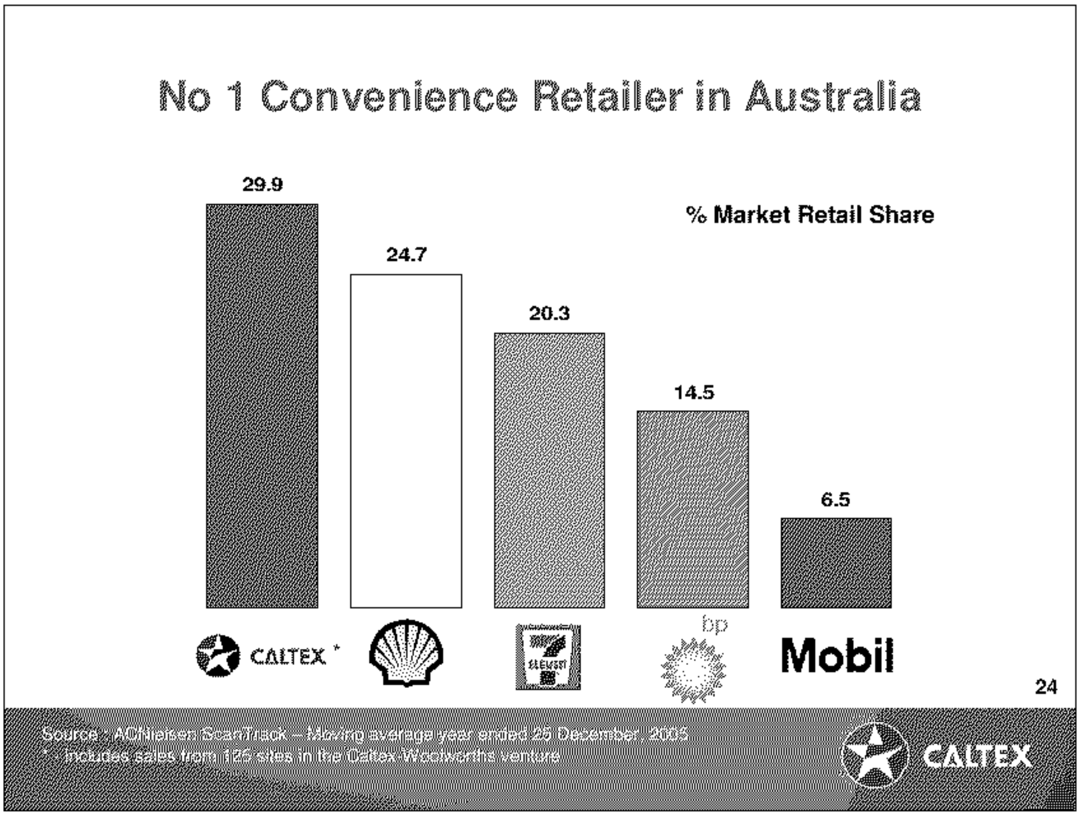


This chart represents market research on where the respondents last purchased their fuel. As you can see, Caltex continues to be the clear market leader, which naturally was one of our strategic goals of the venture with Woolworths – but also reflects the offering of our franchisees and all retailers flying the Caltex logo.



2005 saw our premium fuels sales continue to build on our 2004 performance.

Demand for premium fuels will increase in Australia as the car fleet changes. We remain on track to meet our goal to increase our sales of Vortex and Vortex 98 to 20% of petrol sales by the end of 2007. This increased demand for octane will be supported by several of our refinery investments which I will address in a minute.



This chart is based on data received from AC Neilsen, and as you can see, Caltex has maintained clear leadership in the convenience retail market holding around 30% market share.

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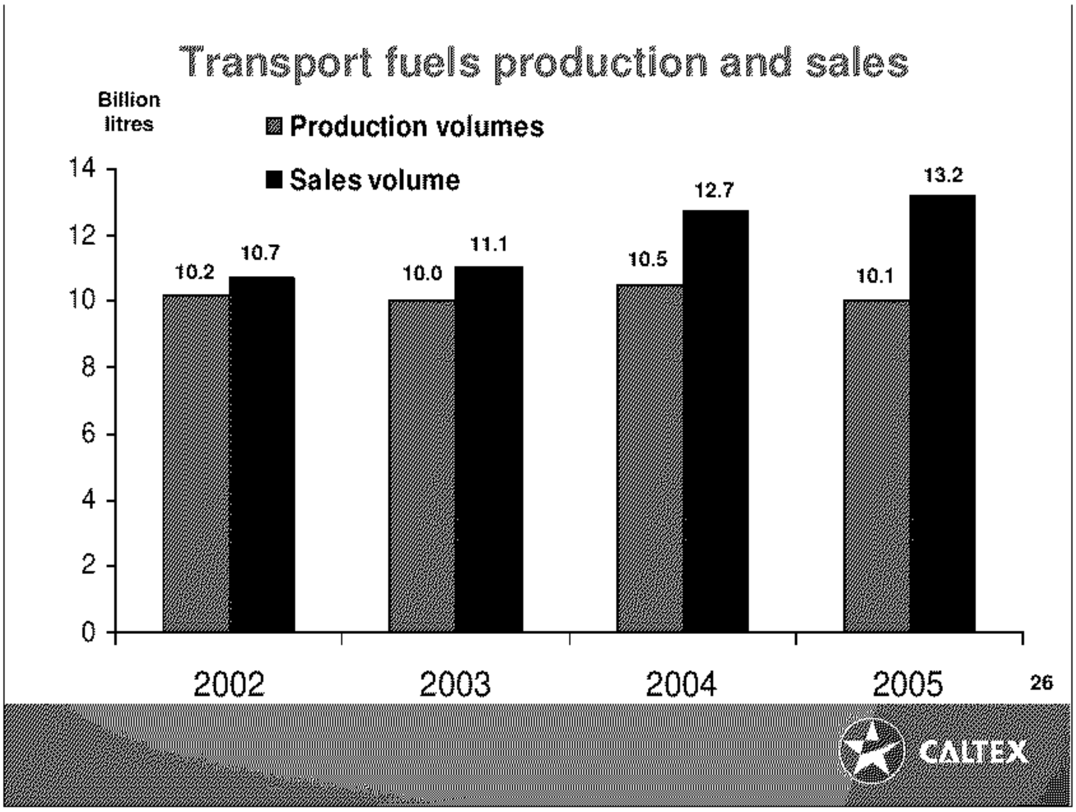
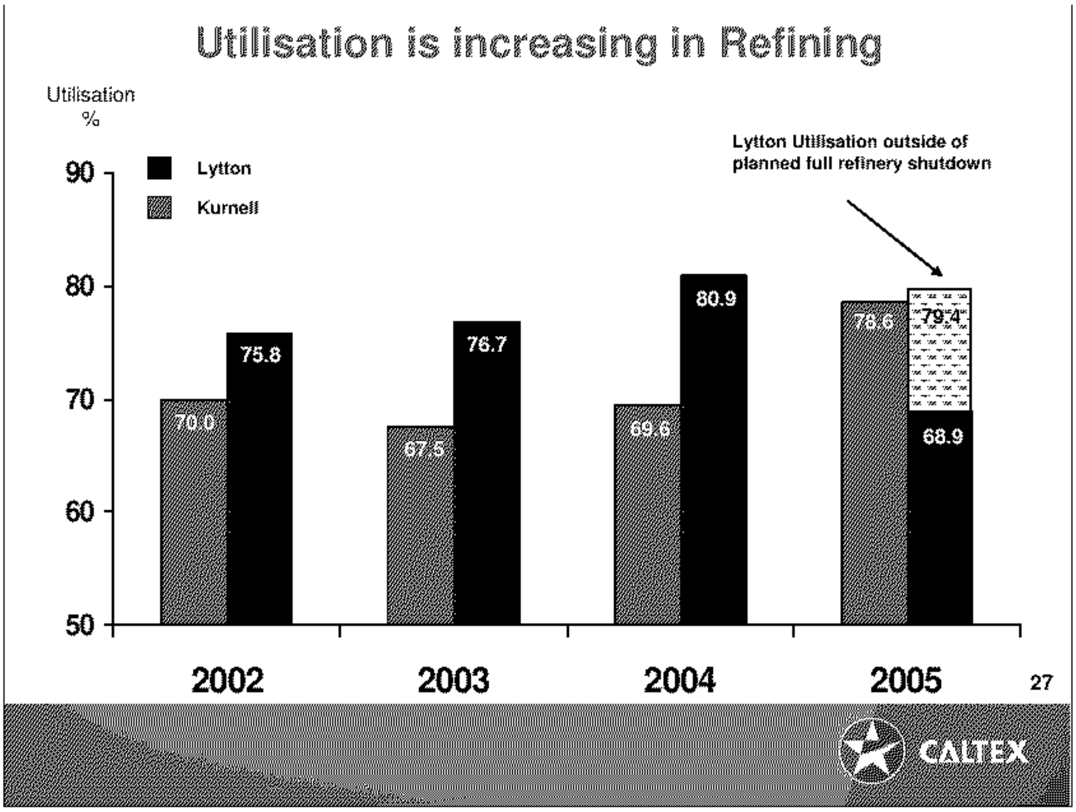
Let me now turn to Refining.



2005 was an extraordinary year in refining. We successfully executed a 7 week full refinery turn around at Lytton between April and June. We were working on our Clean Fuels projects throughout the year and, in August, took our Diesel Hydrotreater at Kurnell offline for construction, which continues today. The Lytton DHTU came off line on November 5, and is now in the commissioning phase with construction complete. On top of that, the Energy Australia transmission tower failure on the Kurnell peninsula caused us to lose roughly 6 days of production in July.

Even with these challenges, our people in Refining were able to produce transportation fuels volumes roughly in line with 2004. This is a remarkable accomplishment, and gives us confidence that we have made a big step forward in capability that will be reflected as we operate post Clean Fuels.

10.1 billion litres is a bit lower than we expected in 2005 primarily due to lower December margins which made incremental crude runs at Lytton uneconomic, even though the units were available.



This slide sets out our achieved utilisation rates at both of our refineries in 2005. There are two main points I want to make:

- Kurnell's performance has improved significantly, and through 2005 the team at Kurnell has really started to challenge the accepted rates of all the major units. We are finding that previously established unit rates are being regularly exceeded and the refinery posted new record daily, weekly and monthly crude unit rates in 2005.
- Lytton's performance was likewise strong outside the planned full refinery 50 day shutdown.

Update on Clean Fuels Project

	Unit	Mechanically Complete	Commissioned
Lytton	Benzene Reduction	✓	✓
	Diesel Hydrotreater	✓	11 March*
Kurnell	Benzene Reduction	✓	6 March*
	Diesel Hydrotreater	13 March*	15 April*

Project Capital to be within $480 – 495M

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* Current forecast dates

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I turn now to the progress on our Clean Fuels Project. Due to the advanced stage of the project, we were in a position to issue an announcement last week, setting out the operational impacts of the Clean Fuels construction.

Three of the four units are now mechanically complete and one, the benzene reduction plant at Lytton, is producing on specification product. The benzene reduction unit at Kurnell is producing lower benzene product as of Tuesday this week, and we expect full commissioning within days. This is well ahead of our planned commissioning duration.

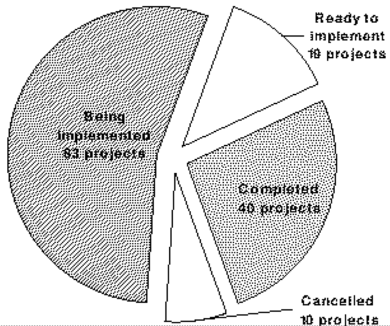
The Lytton diesel hydrotreater should be fully commissioned within the next two weeks or so, with the Kurnell diesel hydrotreater planned to be on stream by the middle of April.

It is a fact that the delays in Clean Fuels commissioning have had a negative impact on both the 2005 and 2006 results and we are disappointed. I want to point out that even with our difficulties our customers continued with reliable supply in perhaps the most volatile year in decades. We are applying the lessons learned in our future project development. I should also say that everyone at Caltex, including our suppliers, have worked hard to get the best possible outcomes and I appreciate all their efforts.

Refining Performance Improvement Program

- A wide range of minor and major improvement initiatives
  - Minor: Smaller capital and non-capital initiatives, a number of which have been completed in 2005 – total Capex spend in 2005 was $9.6M
  - Key benefits through increased production rates and upgrading to higher value products

Breakdown of Minor RPIP Projects by Numbers



- A number of smaller projects have been implemented
  - Over 25% completed, with another 55% underway
  - 22 new projects identified in 2005
  - Unjustified projects have been cancelled

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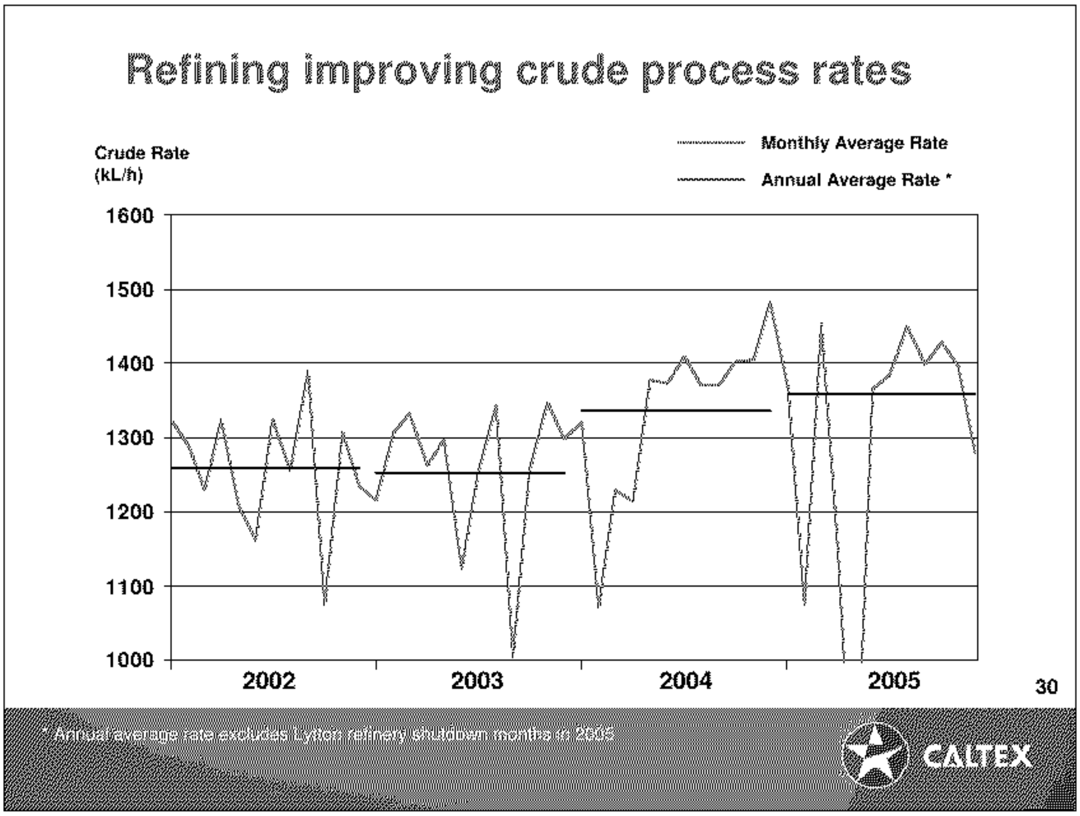
Execution of the Refining Performance Improvement Program (RPIP) commenced in late 2004. It encompasses a range of ideas from smaller capital and non-capital initiatives through to a major capital program.

In 2005, great progress was made on what we call the "Minor" RPIP projects. Over a quarter have been implemented, while another 55% are under development, with a total Capex spend of $9.6M in 2005. A key commitment within RPIP is to continuous improvement – this is exemplified by the investigation of an additional 22 projects in 2005 beyond those identified in the initial program.

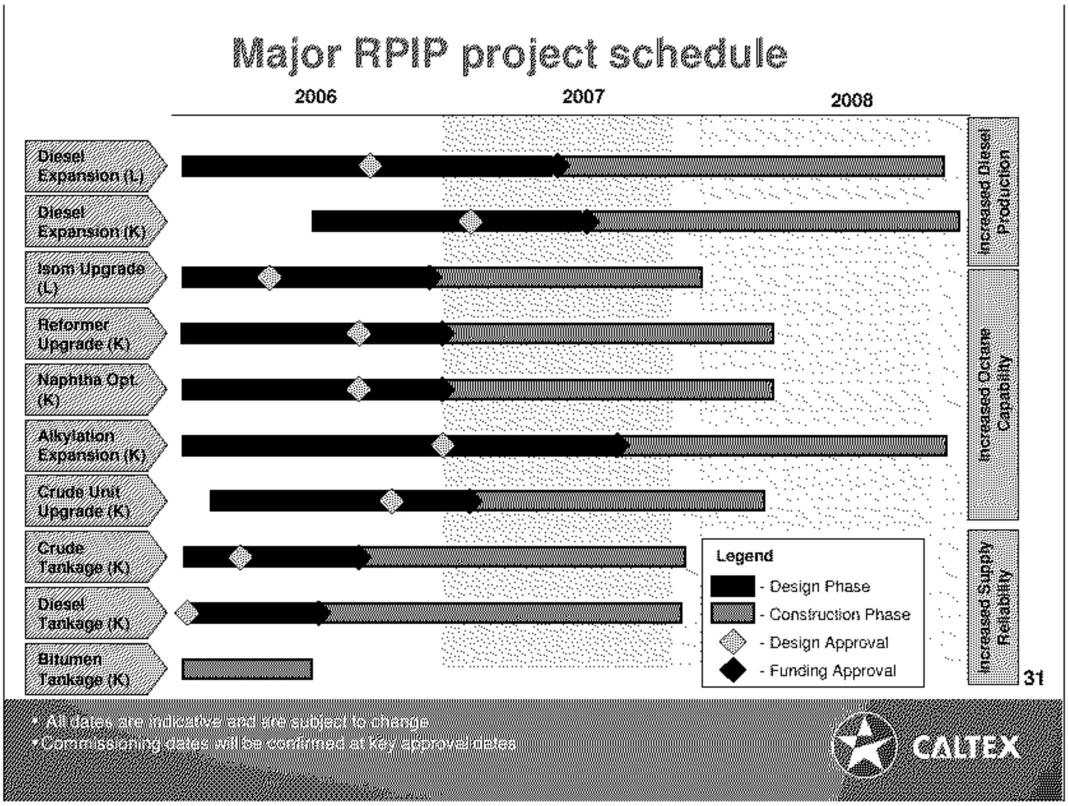
As an example, one of these projects was a review of our catalyst regeneration practices on our Isosiv unit at Kurnell which separates our light naphtha stream into low and high octane components. These changes resulted in an increase in the production of higher octane petrol blendstock, yielding benefits of the order of $2M p.a. This is a great example of low cost, high return opportunities available to us in a short and changing market.



Commitment to continuous improvement has underpinned the improvement in crude rates across our two refineries. Production in 2005 set a record at Kurnell, and the second best total production across all of Refining, despite the planned full plant shutdown at Lytton in 2005.

Additionally, five key process units across our refineries (three of four crude distillation units and two of three reformers) set new production records in 2005.

As we lift our crude throughput, we have the opportunity to improve yields from our conversion and upgrading units, which is where the highest margin improvements occur.



The majority of the benefits from RPIP will be derived from the major project team. This team is executing a suite of 10 projects aimed at increasing diesel production, enhancing our octane capability and improving our supply chain reliability – all of which will increase our refinery production.

This slide shows the current schedule for these projects. The key dates here are the two approval gates – at these points the scope and cost of the projects will firm, and the final commissioning dates will be known with more certainty. Of course, projects may not progress if they don't meet the required returns. We will keep you informed as we progress.

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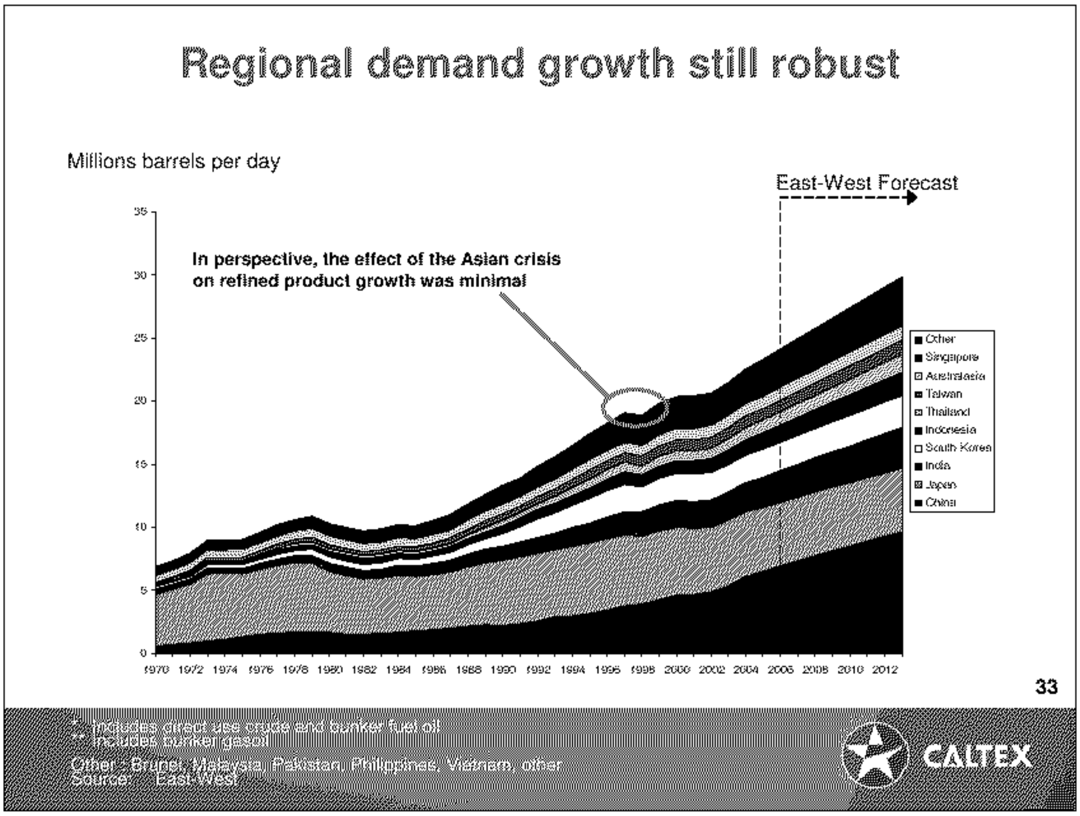
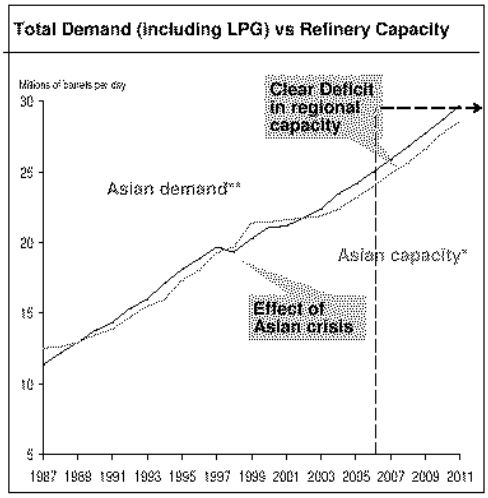
In the past I have highlighted both the regional and Australian industry developments that would impact on our future. While these developments are now better understood by the investment community, I would now like to take the opportunity to share our view of the future.



This slide is an update of the information we presented in 2004. This projection shows a continuation of the growth in demand for petroleum products in the region, driven primarily by China and India. It is this demand growth that ultimately needs to be met by increased refinery production.

Despite the oil shocks of the late 70's and the Asian economic crisis in the mid-1990's, the regional demand for oil has risen relentlessly and somewhat predictably. While shocks to demand can occur, they are relatively short-lived. If anything, demand forecasts are up marginally. Even the impact of $US65 – 70/bbl oil prices and the higher resulting fuel prices have not had a material impact on demand in the region.

Fundamentals support margin strength



- Capacity growth is a key determinant
  - High margins support investment decisions
  - Increasing construction costs and environmental requirements likely to temper capacity growth
- Regional supply deficit to continue in the medium term
  - Demand growth is still expected to outstrip capacity expansion, supporting refiner margins

Source: BP Statistical Review (1970–2004); East-West (2004/5); CAL Analysis

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* Total Asian CDU capacity (BP Statistical Review 1970-2004; East-West, 2005
** Total Asian petroleum product demand (including LPG & direct use crude) (BP Statistical Review 1970-2004, East-West 2005 normalised to 2003 BP baseline)

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With demand predicted to continue to grow, the key determinant of margins is the growth in refinery capacity. There are opposing forces driving decisions on refinery investment:

- The prevailing margin environment does support incremental investment in refinery expansion, although you need to believe they will remain for many years to make large investments in new refinery construction.
- In practice, increased construction costs (as currently experienced by all industries) and the requirement for existing refineries to meet increasingly stringent environmental standards, act as a brake on refinery investment.
- Availability of skilled labour, materials and access to fabrication capacity will delay commissioning dates.

Using what we believe to be a conservative view of refinery additions (i.e. all proposed projects are constructed AND delivered on time), the medium term fundamentals still support refiner margins, especially in Australia where we have a structural deficit of product and higher quality fuel standards.

Recent events, however, serve to reinforce the volatility of these margins – the recent negative gasoline margins when contrasted to the higher margins that followed the US hurricanes underline the tight supply and demand balance in this industry. We remain convinced that there are more likely to be upward spikes than sustained low margin periods until significant new capacity comes on line.

1H06 outlook – fundamentals at work

- Market fundamentals to remain positive
  - Asian and world refining capacity remain tight
  - Margins are expected to remain strong, though volatile
- Petrol margins expected to firm in the short term
  - Regional refinery shutdowns in March-April
  - Heavier than usual US refinery maintenance due to deferred shutdowns from 2005
- Marketing business will provide reliable performance
  - Continue to capture volumes above market growth
- Continue the strong operational performance from 2005
  - Incident free Clean Fuels commissioning
  - Continuous improvement to lift utilisation
  - Execute planned turnarounds with excellence

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In our release to the ASX last week, we explained the impacts of the Clean Fuels construction on the operation of our refineries in the first half of 2006. With this project nearing completion, we remain positive on the fundamental outlook for the remainder of 2006 and beyond.

As I have just described, we expect the supply/demand balance to remain tight in the region, supporting strong, but volatile, refiner margins.

As the northern hemisphere moves out of winter, there is a heavier than normal maintenance load, especially in the US where work was deferred from 2005 due to the impact of the hurricanes. There is also traditionally a cyclical increase in the petrol margins as the northern driving season approaches.

Our Marketing business will continue to provide reliable performance, striving to capture volumes above market growth. In recent years Marketing has been a source of stable and growing earnings, which we expect to continue.

What we do control, and where we have demonstrated improvement, is our underlying refinery reliability and utilisation. Our focus for the remainder of 2006 is incident free commissioning, continuous improvement in production and executing our planned turnarounds with excellence.

Major planned shutdowns in 2006 include the cat cracker at Kurnell, which is scheduled for May. Taking into account the impact of Clean Fuels construction, together with planned shutdown activity, we anticipate full year production of transport fuels to improve on our 2004 performance, with further increases through to 2008/09 as the RPIP projects come on stream.

0 : 1 : 85 : 100

Our focus remains:

0 : Safety and incident free operations

1 : Number 1 in hearts and minds of customers

85 : Utilisation of refineries

100 : Full engagement of all our staff

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Our customers deserve and expect a reliable supply of transportation fuels, and that is our top priority beyond the safety and security of people. While we take the cycles of the market as we find them, we need to concentrate on the fundamentals that are within our control. 2005 was an extraordinary year for Caltex where we have weathered volatility in pricing, high project workload, a power outage plus many internal changes not visible to the public. Our people delivered great results overall, which is, of course, where my confidence in the future comes from.

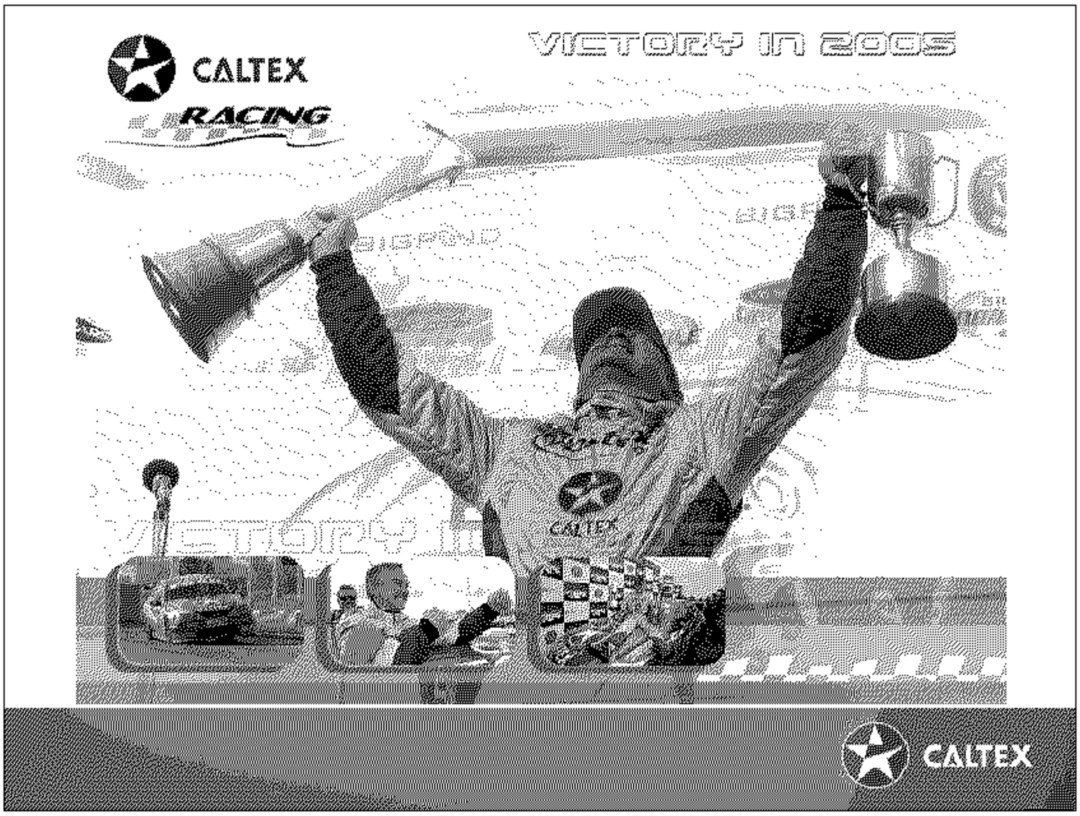
Our focus will remain consistent with the strategy we have described over the past 18 months:

0 : Safety and incident free operations

1 : Number 1 in hearts and minds of customers

85 : Utilisation of refineries

100 : Full engagement of all our staff



We will now start with some questions from Sydney, and then alternate with questions that are coming in by Webcast.

END. Once again thanks for your interest in Caltex today and we look forward to seeing you all again at the end of August 2006 when we will announce our first half results for 2006.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Important Notice

This presentation for Caltex Australia Limited is designed to provide:

- an overview of the financial and operational highlights for the Caltex Australia Group for the 12 month period ended 31 December 2005; and
- a high level overview of aspects of the operations of the Caltex Australia Group, including comments about Caltex's expectations of the outlook for the first half of 2006 and future years, as at 24 February 2006.

References in the presentation to assumptions, estimates and outcomes and forward-looking statements about assumptions, estimates and outcomes, which are based on internal business data and external sources, are uncertain given the nature of the industry, business risks, and other factors. Also, they may be affected by internal and external factors that may have a material effect on future business performance and results. No assurance or guarantee is, or should be taken to be, given in relation to the future business performance or results of the Caltex Australia Group or the likelihood that the assumptions, estimates or outcomes will be achieved.

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