



A SOLID FOUNDATION



CALTEX

Caltex Australia Limited ACN 004 201 307

2003 ANNUAL REPORT

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FRONT COVER AND OPPOSITE

Successful franchised service stations are core Caltex retail operations. Customer Service Attendant Solange Olivera (cover) serves a customer (opposite) at Caltex Lane Cove in suburban Sydney.

ADVICE TO SHAREHOLDERS

The 2003 Annual Report provides an overview of Caltex Australia's main operating activities for the year ended 31 December 2003.

The 2003 Financial Report, which is contained within the 2003 Annual Report, provides detailed financial information for the Caltex Australia Group for the year ended 31 December 2003.

Please note that the 2003 Annual Report can be found at our web site (www.caltex.com.au).

THE CALTEX AUSTRALIA GROUP

The Caltex Australia Group consists of:

- Caltex Australia Limited, which is the parent company of the Caltex Australia Group
- our major operating companies, including Caltex Australia Petroleum Pty Ltd, Caltex Refineries (NSW) Pty Ltd, Caltex Refineries (Qld) Limited, Calstores Pty Ltd, Caltex Petroleum Distributors Pty Ltd 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 the 2003 Annual Report as the Caltex Australia Group, unless the context requires otherwise.

Financial calendar for Caltex Australia Limited

Year ended 31 December 2003

Annual General meeting	29 April 2004
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Year ending 31 December 2004*

Half year results and interim dividend announcement	26 August 2004
Record date for interim dividend entitlement	10 September 2004
Interim dividend payable	1 October 2004
Full year results and final dividend announcement	24 February 2005
Record date for final dividend entitlement	11 March 2005
Final dividend payable	1 April 2005

* These dates may be subject to change.



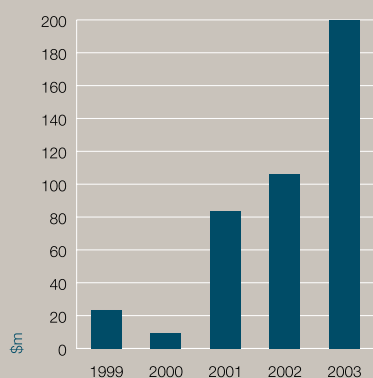
FOR FUTURE **GROWTH**



HIGHLIGHTS

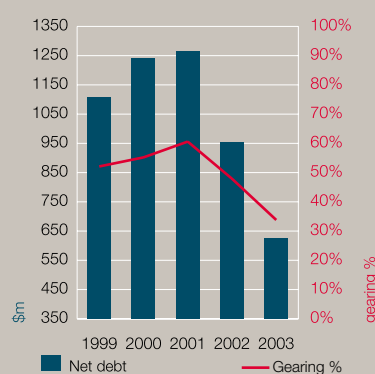
- Profit on a replacement cost basis of \$199.7 million after tax (excluding significant items) up 88% on previous year
- Net debt reduced by \$329.8 million at 31 December 2003 – more than halved since the end of 2001
- Dividend payments resumed with total payments of 18 cents a share for 2003 (comprising interim 4 cents per share, final 8 cents per share and special 6 cents per share)
- Earnings lifted by stronger refiner margins and robust marketing margins
- Record transport fuel sales achieved in a particularly challenging market
- Proposed Caltex Woolworths retail venture initiated
- Go-ahead announced for investment in cleaner fuels production

Five year replacement cost of sales operating profit



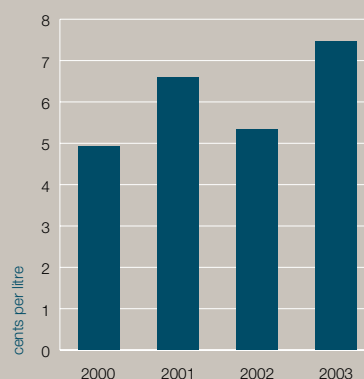
The replacement cost of sales excludes the impact of the fall or rise in oil prices (a key external factor) and presents a clear picture of the company's underlying business performance. It is calculated by restating the cost of sales using the replacement cost of goods sold rather than the historical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

Net debt and gearing



Gearing = net debt/(net debt + equity)

Integrated total transport fuel* margin



* Transport fuel comprises petrol, diesel and jet. The transport integrated margin is the average gross margin achieved over the cost of crude inputs and other direct production costs.

Regional and domestic market dynamics are driving higher refiner margins as Caltex increases fuel sales volumes

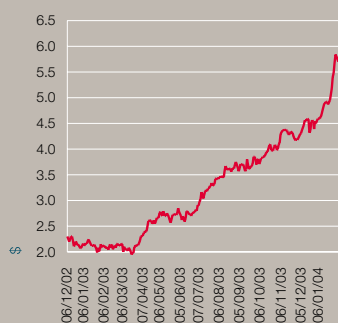
REPORT BY CHAIRMAN AND MANAGING DIRECTOR

Caltex Australia achieved higher profits on a replacement cost basis in 2003 than the previous year, mainly due to stronger refiner margins and continued robust marketing margins.

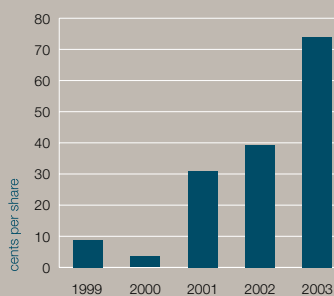
The company in 2003 recorded a full year profit after tax of \$199.7 million on a replacement cost of sales operating profit (RCOP) basis (and excluding significant items), up 88% from \$106.1 million for 2002. This result excludes the impact of international oil price movements and provides a picture of how well the company is performing in areas of its operations not affected by this external factor.

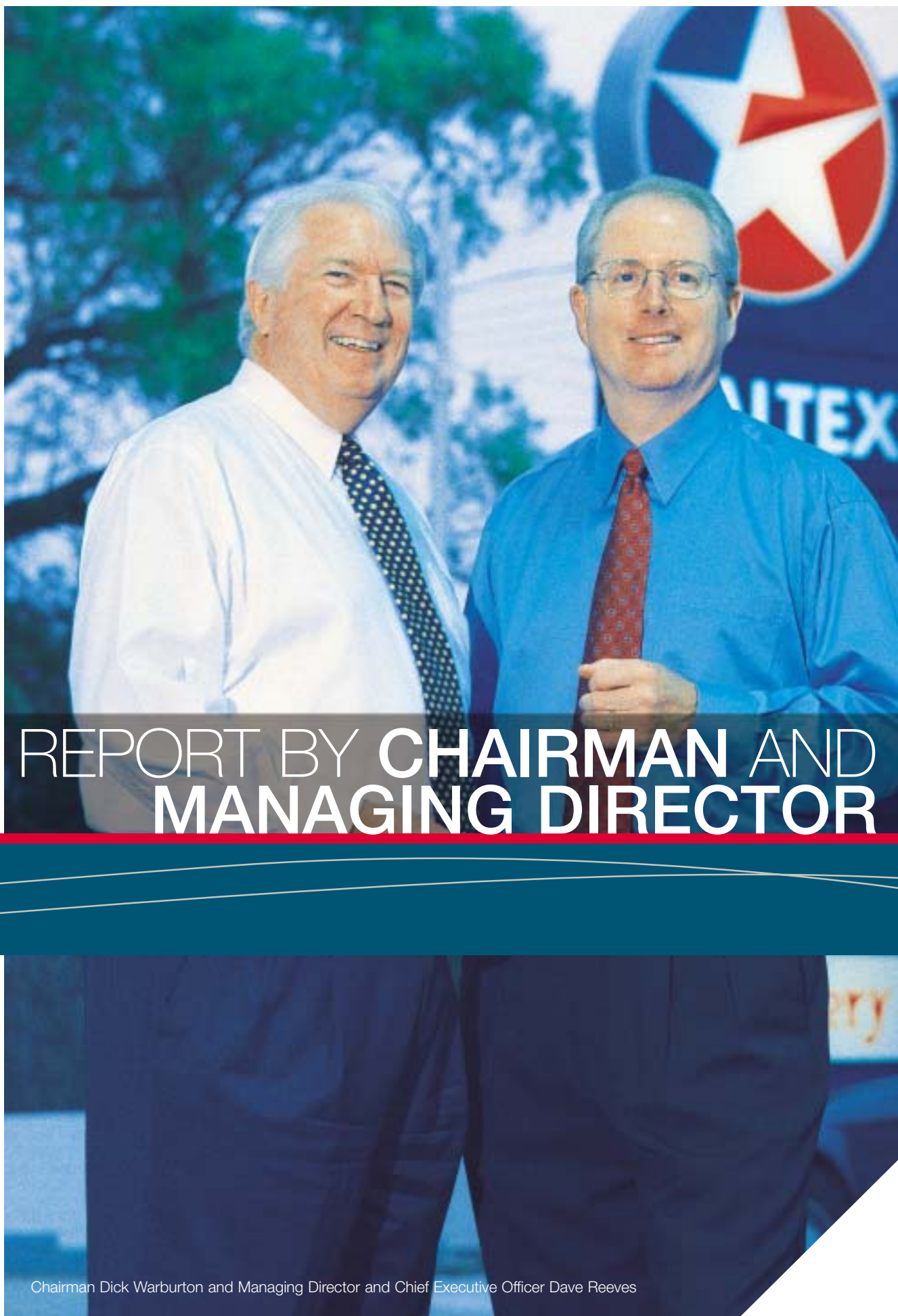
When oil-price driven inventory gains are included, profit after tax for the year ended 31 December 2003 on an historical cost basis (and excluding significant items) was \$197.5 million (2002: \$215.2 million). This included inventory gains of \$13.0 million (before tax) compared to inventory gains of \$172.9 million (before tax) in 2002.

Share price



Earnings per share





REPORT BY CHAIRMAN AND MANAGING DIRECTOR

Chairman Dick Warburton and Managing Director and Chief Executive Officer Dave Reeves

REPORT BY CHAIRMAN AND MANAGING DIRECTOR

A directors' valuation at 30 June 2003, which is primarily based on an independent valuation done every three years, determined Caltex's land and buildings value was \$411 million above its net book value. However, certain land, buildings and related plant and equipment had recoverable amounts less than their net book value, and in accordance with accounting standards a writedown of \$12.5 million before tax (\$11.3 million after tax) was made. (2002 significant item: \$12 million before and after tax payment to Hanson Australia.)

DIVIDEND AND DEBT

The Board recognises the RCOP figure as a primary measure in establishing the level of dividend.

The excellent result for the year led the Board to resume dividend payments and declare a final dividend of \$21.6 million or 8 cents a share, adding to the interim dividend of 4 cents per share paid in October 2003. In addition, in recognition of the debt reduction and significant improvement in the financial strength of the company, the Board declared a special dividend of \$16.2 million or 6 cents per share, bringing the total dividends for 2003 to 18 cents a share. The dividends have an

attached franking credit of 100%. The Board reiterated its objective to pay dividends commensurate with Caltex's need to fund new investment. This will be done at the same time as achieving a long-term capital structure that will allow the company to withstand the volatility of oil prices and margins that characterise the industry.

The improved results enabled the company to achieve further significant debt reduction with net debt down to \$624.4 million at 31 December 2003 – more than halving Caltex's debt since December 2001.

The Board's priorities are to stabilise debt at current levels in the medium term while financing from operating cash flows new plant for cleaner fuels production and other refining investments along with ongoing capital improvements to the marketing retail network and distribution infrastructure.

LEADING INDUSTRY PLAYER, BUILDING FOR THE FUTURE

As Australia's leading oil refiner and marketer, Caltex plays a key role in fuelling Australia's economic growth and will continue to enhance its performance and contribution.

Regional and domestic market dynamics have been changing in favour of Caltex and other major Australian refiners and marketers. In both Asia and Australia, rising demand is catching up with excess refining capacity. New Australian fuel quality specifications will require fuel imports to meet these specifications and compete on a level playing field with products from local refiners.

2003 was a year in which we focused on Caltex's future with significant developments in both refining and marketing.

An important cornerstone of Caltex's future was laid with the approval by the Board on 25 February 2004 of a \$250 million investment over the next two years in facilities to produce cleaner petrol and diesel from its Sydney and Brisbane refineries to meet new national fuel standards that apply from January 2006. The estimated total project cost (2002 to 2005) will be \$295 million, $\pm 10\%$ which includes \$43 million expenditure to date on the review of alternatives, engineering designs and project planning.

In addition, the scope of the project has been expanded to meet future standards that are expected to take

CALTEX HAS THE LARGEST FRANCHISED NETWORK OF SERVICE STATIONS IN AUSTRALIA AND THE COMMITMENT, PROFESSIONALISM AND ENTREPRENEURIAL SKILLS OF OUR 330 FRANCHISEE PARTNERS WHO OPERATE OVER 500 SITES ARE FUNDAMENTAL TO THE COMPANY'S SUCCESS.

effect late this decade. Caltex will produce petrol and diesel in advance of these standards from 2006 and 2007 respectively, provided the Government's cleaner fuels incentives make this economic.

In August 2003, Caltex announced it was entering into a proposed venture with major retailer Woolworths to create a network of co-branded sites. When fully rolled out there will be up to 450 Caltex Woolworths co-branded service stations in addition to the network of Caltex and Ampol branded sites.

FRANCHISEES ARE IMPORTANT TO OUR BUSINESS

Caltex has the largest franchised network of service stations in Australia and the commitment, professionalism and entrepreneurial skills of our 330 franchisee partners who operate over 500 sites are fundamental to the company's success.

Caltex and its franchisees have a strong joint commitment to maintain high standards of products and service that enable the company to compete and strengthen its market leadership. The arrangements under the proposed Caltex Woolworths venture will not alter this relationship.

OUTLOOK

While the 2003 result was pleasing, this was the first time in a number of years that Caltex produced returns above the company's cost of capital. The Board and management recognise that Caltex is still at the beginning of the journey to equip the company to withstand the inherent volatility of the industry and secure the financial platform that will deliver future shareholder value.

The company is intrinsically strong but during the next two to three years success in achieving our aims for operational excellence will see reduced unit operating expenses, improved supply reliability and new marketing strategies in response to opportunities to add more value for shareholders from our existing businesses.

Changes to supply and demand in Asia in 2004 and beyond are likely to have positive effects on refiner margins but may result in continuing high crude premiums and freight costs in the region.

ACKNOWLEDGEMENTS

The Board acknowledges the substantial contribution of Jeet Bindra who served as Managing Director and CEO of Caltex for 15 months before leaving in August 2003 to take up a senior global position with ChevronTexaco.

The Board also expresses its appreciation for his contribution to Michael Wirth as a member since July 2001. He resigned in December 2003 following his appointment to a senior global role with ChevronTexaco.

Above all, the Board would like to express its thanks to employees, contractors, franchisees and distributors for their hard work and commitment during 2003.



RFE (Dick) Warburton
Chairman



DC (Dave) Reeves
Managing Director and CEO

REVIEW OF OPERATIONS

KEY POINTS FOR 2003

- Stronger refiner margins
- Record transport fuel sales
- Strong growth of non fuel income
- Proposed retail venture with Woolworths initiated
- Loss Prevention System training and rollout starts
- Preparation for cleaner fuels production

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LEADERSHIP TEAM

1. **Dave Reeves** Managing Director and Chief Executive Officer
2. **Lisbeth Long** Group Manager Human Resources
3. **Eion Turnbull** General Manager Refining
4. **Helen Conway** Company Secretary and General Counsel
5. **Alex Strang** General Manager Planning, Supply and Corporate Services
6. **Mark Burrowes** General Manager Marketing
7. **Richard Beattie** Manager Corporate Affairs
8. **Chris Hogarth** Manager Corporate Risk, EH&S
9. **Simon Hepworth** Chief Financial Officer

REFINING AND SUPPLY REVIEW

KEY POINTS FOR 2003

- Stronger refiner margins
- Improved safety performance
- Preparation for cleaner fuels production

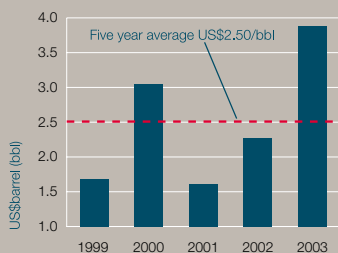
Caltex's Refining and Supply departments purchase crude oil, arrange its transportation to the company's refineries at Lytton in Queensland and Kurnell in New South Wales, refine the crude into petrol, diesel, jet and speciality products such as LPG and bitumen, and distribute the products to a network of terminals around Australia.

OPERATIONAL EXCELLENCE

Safe and reliable operations are Refining's top priority. There were strong improvements in safety performance at the refineries with both achieving record low injury rates in 2003. The Lytton refinery team set new site benchmarks including operating for 180 days without a treatable injury.

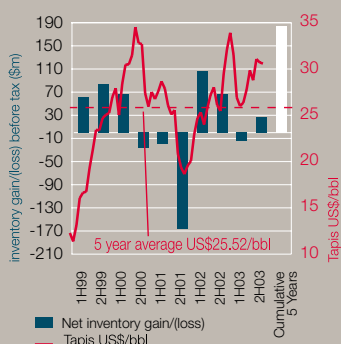
Operational reliability was below that of 2002 with the refineries operating at 94.4% of availability (2002: 95.6%), mainly due to one planned and one unplanned outage of a major unit at Kurnell. Lytton performed well and operational availability was up.

Refiners' margin

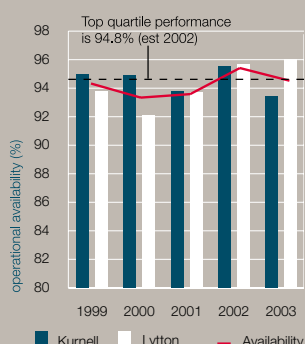


The regional refiner margin is the difference between the price of the Tapis crude oil feedstock and the quoted Singapore ex-refinery price of petroleum products. In 2003 margins averaged US\$3.88 per barrel compared to US\$2.27 in 2002.

Crude oil price movements and inventory gains/losses



Operational availability





REFINING AND SUPPLY **REVIEW**



Kurnell refinery's new cleaner burning furnace

REFINING AND SUPPLY REVIEW



Achieving stepwise improvement in operational excellence is a critical priority for the refineries and 2003 saw progress in two areas – the establishment of clearer accountabilities for performance, and the introduction of improvement programs that aim to prevent incidents. A major activity was the implementation of the Loss Prevention System which saw more than 880 refinery employees and 535 contractors trained by employee volunteer instructors.

Significant work was done in integrating Process Safety Management into refinery systems to improve management of risk. Rollout continued of the Tenets of Operational Excellence, a commonsense code for incident free operations based on key principles: do it safely or not at all; there is always time to do it right; and when in doubt, find out.

The importance of these programs was reinforced by the outcome of recommendations from a major independent review of operating and management practices by an international Operations and Management Review Team (OMRT) at both refineries in 2001. By the end of 2003, the refineries had put into effect most of the 148

recommended technical actions, process enhancements and improvements to management systems. The concluding OMRT report found a reduced risk of unplanned shutdowns and good sustainable processes in place.

In Supply, a traffic lights system (green/yellow/red/black) was introduced to enhance communication on availability of fuel supply in relation to demand in order to minimise the possibility of stock shortages.

The regional crude oil and freight markets in 2003 were the tightest in several years, but Caltex purchasing strategies enabled the company to obtain sufficient supplies while containing freight and crude premium costs.

HIGHLIGHTS

Reliability of the Lytton refinery's power supply was boosted by both external and internal initiatives. Electricity suppliers commissioned new underground power lines and upgraded a local high voltage distribution system. The refinery has also successfully minimised the impact of power dips following the installation of automatic motor control restarts to 300 items of critical equipment that feed the

site's process units. The refinery refurbished two large boilers that provide steam. Measures to improve energy efficiency have achieved energy savings valued at around \$1 million a year.

Improved planning and processes resulted in highly successful major maintenance shutdowns for one of the crude units at Lytton and the lubricating oil refinery at Kurnell. Both projects were incident free with the turnaround at Lytton much shorter and smoother than industry benchmarks. The safety performance at Kurnell lubricants refinery turnaround was the best in its history. The refineries aim to build on this foundation to drive to benchmark performance in this critical activity.

Operational excellence was exemplified at Kurnell refinery by a new furnace built in 2003 for one of the refinery's two crude units. The 67 metre high cylindrical furnace is safer to operate, produces lower emissions and has better fuel efficiency than its predecessor.



COST MANAGEMENT AND SUSTAINED PROFITABILITY

Costs rose again in 2003 due to investments in reliability improvement programs and unplanned outages, particularly at Kurnell. With a solid platform for reliable operations now established, reducing costs to a long-term sustainable level is a priority for 2004 and beyond.

Both refineries made further progress in ongoing programs to increase revenue. At the Kurnell fuels refinery, profits were enhanced by several low cost projects involving improved processes or increased yield. Benefits of up to \$4 million a year were obtained from a fuel analysis project that improved the accuracy of laboratory measurements of the level of octane in petrol.

At the Kurnell lubricants refinery, a yield improvement project involved recovering additional high value material by upgrading by-products normally used as feedstock for other refinery processes to produce a high value finished lubricant base oil contributing around \$1 million a year in revenue.

These and other 2003 projects when fully implemented have the potential to add a total of \$7 million a year to Kurnell's bottom line.

Dredging and upgrading at the Lytton refinery crude wharf in the Brisbane River will allow larger crude oil ships to berth there and achieve savings of about \$4 million a year – the equivalent of the freight costs of two cargoes a year.

CAPITAL STEWARDSHIP

Using a project management system developed by ChevronTexaco, Refining in 2003 adopted more rigorous processes for ensuring that capital projects are selected and executed effectively.

Substantial progress on design and planning was made during the year on the Clean Fuels Project to equip Caltex's Kurnell and Lytton refineries to meet national clean fuels standards requiring a reduction of sulfur in diesel to less than 50 parts per million and 1% benzene in petrol from January 2006. The upgraded refineries will have the capability to produce 10 ppm sulfur diesel and 50 ppm sulfur premium unleaded petrol.

At both refineries the existing diesel hydrotreating facilities to remove

Opposite Project engineer Napoleon Obiri-Asare inspects Kurnell refinery's largest crude storage tank.

Above left Caltex Clean Fuels Project team members Wayne Birchall and Ross Langshaw with plans for the proposed revamp of the Kurnell diesel hydrotreater

Above Maintenance technician Mick Davis conducts a Loss Prevention Observation on colleague Des Considine as he inspects pipelines at Lytton refinery

Left Dredging in the Brisbane River allows larger ships to discharge at Lytton refinery's crude wharf.

sulfur will be revamped and new plants to lower benzene in petrol constructed.

Kurnell's diesel hydrotreater will have its capacity increased from 16,000 barrels per day to 30,000 barrels per day and the unit at Lytton increased from 11,000 to 22,000 barrels a day. These changes will improve product quality but not increase the refineries' overall output of petroleum products.

PARTNERING WITH EMPLOYEES AND STAKEHOLDERS

The significant effort directed at establishing partnerships with employees and key alliances was illustrated by the six enterprise agreements negotiated during 2003. These were conducted in a spirit of mutual respect and willingness to listen to others' points of view and were achieved with virtually no disruption.

For staff, an improved performance management process was deployed to ensure clear goals and targets that are linked to the company's overall objectives. The use of scorecards in this process provides a framework for setting realistic goals and clearly identifying priorities.

MARKETING REVIEW

KEY POINTS FOR 2003

- Record transport fuel sales in a particularly challenging market
- Strong growth of non fuel income
- Continued growth in lubricants and specialties
- Proposed retail venture with Woolworths initiated

The Marketing department promotes and sells Caltex fuels, lubricants, specialties and convenience store goods through a national network of 1,625 Caltex and Ampol branded service stations and 67 distributors. Marketing also sells directly to a large number of commercial customers.

FUEL SALES

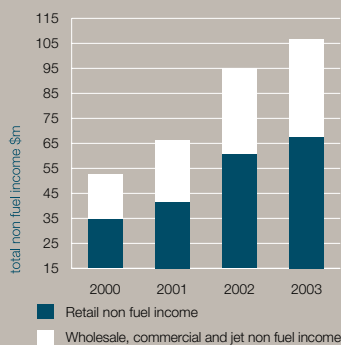
In 2003, Caltex had record total transport fuel sales – up 3.3% on the previous year. This was achieved in a highly competitive and fast changing market environment.

Caltex petrol sales rose by 5%, with the strongest growth in sales in the distributor channel while diesel volumes were up by 2.7% with growth in both the distributor and retail channels.

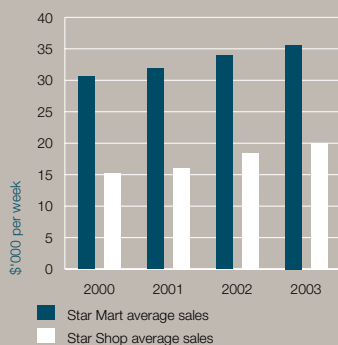
Fuel sales volumes to independent resellers in 2003 grew 25.1% compared with the previous year.

Vigorous growth continued in sales of Caltex premium unleaded fuel (primarily Vortex and Ampol Gold), which were well above market growth with an increase of 48% in 2003 helped by expanded distribution in the national network. This represented 13.4% of total retail petrol sales (2002: 10.2%).

Non fuel income



Average sales per outlet



Average site* petrol throughput



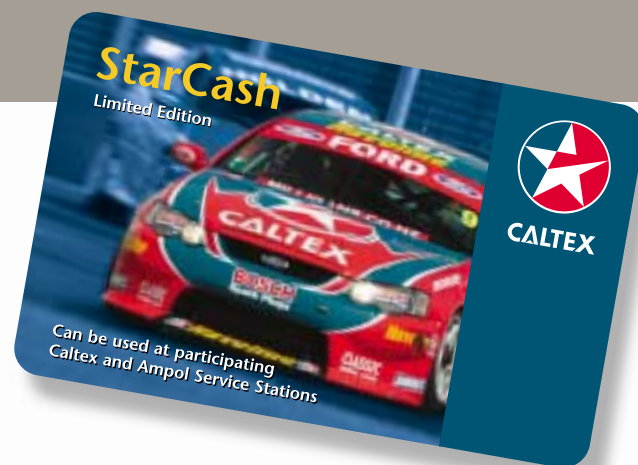
* Company-operated, commission agent and franchised sites



MARKETING REVIEW

Applying the finishing touches to the re-branded Caltex Maddington in Western Australia

MARKETING REVIEW



Jet fuel sales volumes in 2003 were down only 1% on 2002 despite the fact that during the first half of the year the airline travel industry was hit by fears of severe acute respiratory syndrome (SARS), and during the second half local supply issues affected Caltex's sales and deliveries to customers.

CALTEX WOOLWORTHS VENTURE

In a significant move to increase retail fuel sales and strengthen Caltex's presence in a tough and constantly changing market, Caltex and major retailer Woolworths announced in August 2003 a proposed retail venture with Woolworths to create a national network of co-branded sites offering quality discount fuel. It was launched under interim arrangements with the opening of the first co-branded sites in late November. Thirty co-branded sites had been rolled out by the end of the year.

The network will include up to 450 Caltex and Woolworths co-branded service stations offering discounts to Woolworths/Safeway and BIG W customers. A long-term arrangement is subject to regulatory review and execution of transaction documentation.

CONVENIENCE STORE NETWORK

There was strong growth in non fuel income, particularly from royalties for Caltex's convenience store network. Store sales continue to rise with same store average Star Mart sales up by 5.4% on the previous year and sales at the network of smaller Star Shop stores up by 6.4%.

Standards of excellence in the Caltex retail network continue to be boosted by the national All Stars performance management program. In 2003, participating sites scored a record average of 97.5% compliance with required standards. In 2004, there will be greater focus on areas that increase sales, such as customer service, merchandising, brand and site presentation, while maintaining business fundamentals of security, health, safety, and protection of the environment.

A further 90 sites around Australia were upgraded to the Caltex Delta brand in 2003, funded in part from the proceeds of the divestment of sites that were not achieving economic returns.

The rebranding has had a positive impact on fuel and shop sales.

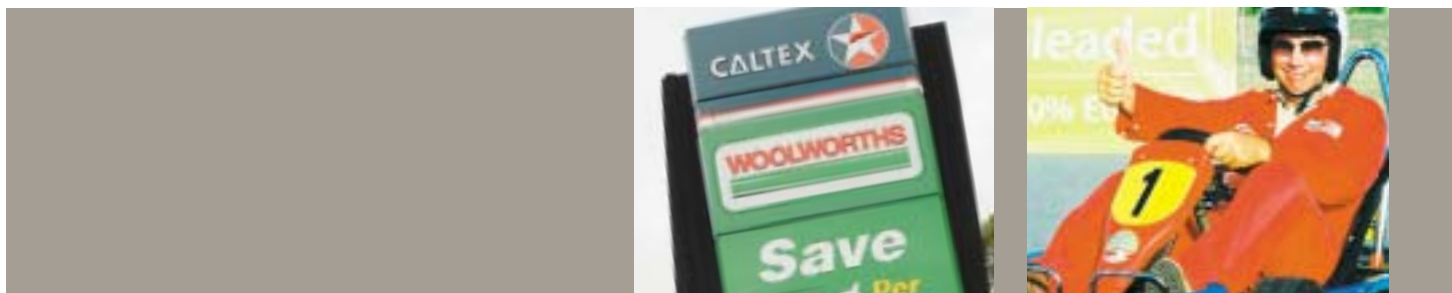
Caltex now has around 70% of its retail sites in urban areas Delta branded, with a further significant program planned for 2004.

LUBRICANTS AND SPECIALTIES

Lubricants and base oils continued to expand sales and improve margins and customer relationships in 2003. Sales volumes of base oils increased by 40% and Caltex expanded its industrial customer base and renewed key mining and manufacturing accounts.

Caltex's largest selling lubricant Delo 400 heavy duty diesel engine oil enjoyed strong margins and sales with volumes up 43% driven by marketing strategies, promotions and positioning.

The Caltex Delo and Havoline engine oils were relaunched during the year with revised product ranges and award-winning packaging designs. Havoline marketing also moved beyond the traditional service station network with a successful trial launch into the expanding auto accessory retail sector. This had strong promotional support from the Caltex-sponsored winning V8 Supercars that use the same Havoline oil sold to motorists.



Opposite Limited edition StarCash cards featuring the Caltex Havoline V8 Supercar were best sellers.

Above left The first co-branded Caltex Woolworths outlet is unveiled at Beacon Hill, Sydney.

Above Canegrower George Adil takes a Caltex E10 Unleaded powered kart for a spin at the MakoTrac in Mareeba, Queensland.

Left Paul Anderson at Longueville Star Shop in Sydney performs an oil check as part of a Havoline engine oil promotion.

Specialties products including LPG, bitumen, fuel oil and waxes performed well during the year as the market for the products tightened due to closure of a competitor refinery.

STARCARD AND STARCASH

Caltex StarCard showed steady growth with new fleet customers signed up and key corporate accounts retained. There was a particularly good customer response in 2003 to StarFleet, which covers fuel and maintenance as well as providing fleet management support.

Revenue from pre-paid StarCash cards was boosted by marketing strategies to raise awareness of the product and the targeting of new customer segments. Special StarCash cards launched in 2003 included a motorsport series for collectors and co-branded cards for business partners to use in sales promotions.

CALTEX BRAND BUILDING

In 2003, Caltex undertook an extensive review on how to most effectively position our brands in the highly competitive and dynamic

Australian marketplace. The focus was on identifying high value consumer groups, communications and image building activities, network branding and campaign concepts.

Actions from the review will be put into place in 2004 and will build on the successful Nice'nEasy campaign launched in early 2000. The emphasis will be on raising awareness of the company's commitment to operational excellence in meeting the needs of customers and other stakeholders.

Caltex motorsport sponsorship enjoyed its most successful year since commencing the relationship with Stone Brothers Racing in 2000. The Caltex Havoline V8 Supercar, driven by Russell Ingall, won at the Australian Grand Prix and two other rounds of the V8 Supercar championship. The only driver to win more races was Stone Brothers Racing teammate Marcos Ambrose – also with Caltex sponsorship – who won the championship. Caltex doubled its sponsorship media exposure compared with the previous year.

FUEL QUALITY

Caltex's commitment to fuel quality and integrity is supported at the pump by its fuel testing vans which conduct random testing at Caltex and Ampol sites to verify quality at the pump and compliance with new fuel standards. The program will be expanded in 2004 with the addition of diesel testing equipment.

CORPORATE REVIEW

KEY POINTS FOR 2003

- Loss Prevention System training and rollout starts
- Revised Performance Management Process implemented
- Caltex Best All Rounder awards in over 96% of Australian secondary schools

ENVIRONMENT, HEALTH, SAFETY AND RISK MANAGEMENT

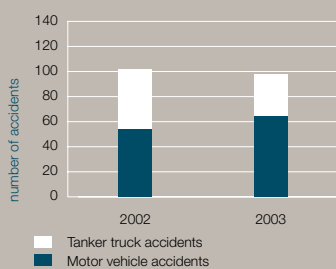
Achieving world class performance in operational excellence is critical to Caltex's business success. The company has embarked on its plan to achieve significant improvements in the outcomes of all aspects of its day to day activities.

2003 saw significant progress in establishing programs, systems and tools across the business to help

achieve these operational excellence aspirations. There was also a sharpened focus on setting targets, measurement and reporting of performance.

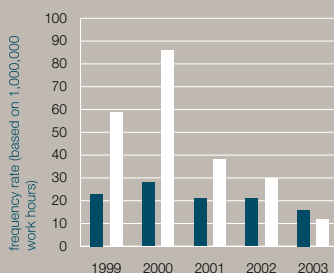
The company is taking a proactive approach with the aim of preventing incidents before they happen. A key tool for this, the internationally proven Loss Prevention System (LPS), was launched in Caltex in 2003.

Tanker truck and motor vehicle accidents



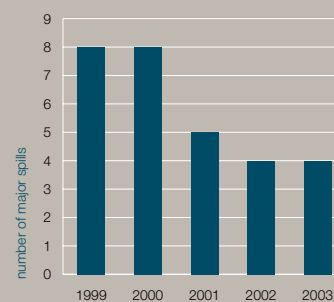
In 2003 reporting was broadened to include data from Caltex owned distributors, Caltex owned and operated Calstores retail network and refinery contractors (2002 figure is estimated).

Employee and contractor injuries TTIFR*



* Total Treatment Injury Frequency Rate

Major spills



Major spills are spills or releases posing an actual or likely significant risk to safety, human health or ecosystems.



CORPORATE REVIEW



Tracy Harvey packs Caltex show bags for a \$20,000 Starlight Children's Foundation fundraiser in Cairns, Queensland

CORPORATE REVIEW

The system uses behaviour based tools and management techniques to prevent or reduce any unplanned event that has a negative impact on people or the business. Every Caltex employee is required to undertake LPS training and integrate system activities into their work each day. More than 2,000 employees and contractors were trained during the year.

A project to help achieve incident free driving across Caltex was launched in 2003. Called Drive to Survive, it is identifying issues affecting tanker truck and motor vehicle accidents and developing initiatives to help improve drivers' performance. A team from across the company reviewed findings of a study into factors affecting Caltex employees' driving performance, benchmarked Caltex's performance and reviewed other organisations' approach to this issue. The study has identified opportunities for improvement, including clearer communication of organisational expectations, increased focus on pre-trip planning and better alignment between on site and off site driving performance.

EMPLOYEES

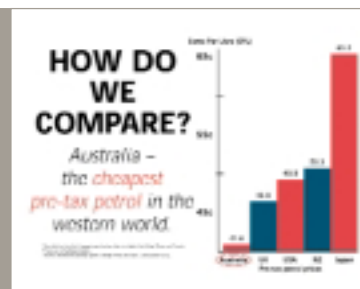
To support improved performance of employees not covered by industrial awards a revised Performance Management Process (PMP) was implemented during 2003. The PMP focuses on the development of individual performance targets closely aligned to the strategic business priorities and measurement of performance against those targets. PMP performance outcomes are closely linked to remuneration outcomes. The process also identifies areas requiring skill development to enable employees to perform their current job more effectively and prepare for future jobs in Caltex.

Regular employee surveys are conducted on a range of topics. During 2003, survey results recorded marked improvement in the key areas of valuing people and morale, initiative and involvement, cross functional cooperation, and careers and recognition. The results indicate positive performance and progression towards the achievement of Caltex's Vision, Values and Strategic Intent.

In recognition of meeting the 2002 corporate debt reduction target of \$1,050 million, the Board awarded each employee 200 Caltex shares during 2003. More than 63% of core Caltex employees are participants in the Caltex Australia Limited Employee Share Plan.

CORPORATE AFFAIRS

Numerous submissions by Caltex were made to government and meetings held advocating company positions on a wide range of public policy reform issues throughout 2003. Important and positive industry policy decisions were made by the Commonwealth Government including the introduction of an excise incentive for early production of ultra low sulfur diesel on 1 July 2003; a program for reform of fuel taxation through 2012, including production subsidies for the early production of 50 parts per million (ppm) sulfur premium unleaded petrol and 10 ppm sulfur diesel from 2006 and 2007 announced in the May Budget; ethanol limited to a maximum 10% in petrol from July 2003; and regulation for mandatory labelling of ethanol blend fuels.



Above Price information at the pump.

Left Feedback from tanker drivers like Newcastle terminal based Barrie Potter has been used to create the Drive to Survive program.

A draft industry marketing code of conduct, Oilcode, was prepared but put on hold by the Government following lack of stakeholder agreement on some issues.

In April, Caltex welcomed the recommendations of the Dawson review committee on the competition provisions of the Trade Practices Act. In March, Caltex was vindicated when the Australian Competition and Consumer Commission dropped its well-publicised price collusion investigation of the company. While the investigation was unfortunate, Caltex has continued to concentrate on building a positive working relationship with all regulators, including the ACCC.

COMMUNITY SUPPORT

In addition to support to communities located near key company facilities and service stations, Caltex supports education, welfare and arts programs.

In 2003, there was a new group of Caltex Best All Rounder award winners in over 96% of Australian secondary schools. The award is presented annually to final year students who are recognised as good all rounders in academic, sporting, community service and leadership areas. The winners had the opportunity to enter an essay competition with a winning entry published in *The Australian* and prize money going to winners and to their schools.

Three outstanding NSW teachers were recognised in October 2003 for their groundbreaking work in space study, horse husbandry and work with disadvantaged students as winners of the Caltex Australia and Rotary Club of Sydney Award for Innovation in the Vocation of Teaching. The award is designed to encourage innovation in primary and secondary school teaching. Each teacher receives an overseas travel grant of \$5,000 to develop their specialised interest.

Caltex's major welfare support sponsorship is with the Starlight Children's Foundation. Caltex employees, franchisees and distributors in 2003 again raised substantial funds to help grant wishes to seriously ill children and for other programs run by Starlight. The number of employees volunteering their time for Starlight fundraising activities increased significantly on the previous year, particularly for the annual Star Day fundraising campaign.

In 2003, Caltex sponsored the Australian Chamber Orchestra's tour with American soprano Dawn Upshaw. Caltex has supported the orchestra for seven years.

CORPORATE GOVERNANCE REPORT

Corporate governance is the system by which companies are directed and managed. It influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimised... What constitutes good corporate governance will evolve with the changing circumstances of a company and must be tailored to meet those circumstances (ASX Corporate Governance Council, Principles of Good Corporate Governance and Best Practice Recommendations, March 2003).

In March 2003 the ASX Corporate Governance Council issued 10 Principles of Good Corporate Governance and Best Practice Recommendations. Under the ASX Listing Rules, a company is required to disclose the extent to which it has followed the Best Practice Recommendations during the reporting period for years commencing on or after 1 January 2004.

The Board is committed to best practice in corporate governance where these practices are appropriate and add value to Caltex Australia. While Caltex is not required to report on the extent to which our corporate governance practices followed the Best Practice Recommendations in 2003, the Board has provided this report to outline Caltex's current corporate governance practices and the steps being taken at Caltex to implement the Best Practice Recommendations.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The business of the Caltex Australia Group is managed under the direction of the Board, with management of Caltex's day to day operations formally delegated to the Managing Director and Chief Executive Officer and the senior management team.

The key responsibilities of the Board include:

- setting the overall direction, financial objectives and operational goals for the Caltex Australia Group;
- reviewing and approving the Caltex budget and business plan on an annual basis;
- reviewing and approving Caltex Australia's strategies, as formulated by Caltex management with guidance from the Board, to implement the objectives and goals set by the Board;
- monitoring the performance of the Caltex Australia Group against the financial objectives and operational goals set by the Board and reviewing the implementation of Board approved strategies;
- ensuring that appropriate standards of corporate governance and ethics are in place across the Caltex Australia Group;
- approving Caltex's half year and full year reports to shareholders and the ASX;
- determining the amount, nature and timing of, and franking credits attaching to, half year and full year dividends;

- approving the capital structure and significant finance facility requirements for the Caltex Australia Group;
- overseeing the delegations of authority for management in relation to the day to day operations of the Caltex Australia Group;
- ensuring that risk management systems, internal controls, reporting systems and compliance processes are in place and operating efficiently and effectively;
- approving risk management policies in relation to oil hedging, interest rate management, foreign exchange risk management and credit risk management;
- ensuring adequate and suitably independent external audit arrangements are in place;
- approving the terms of employment (including remuneration) of the Managing Director and Chief Executive Officer;
- approving the terms of cessation of employment of the Managing Director and Chief Executive Officer;
- ensuring that recruitment, retention, termination, remuneration and succession policies and processes are in place; and
- reviewing the terms of proposed transactions with ChevronTexaco.

The Board has adopted (from 1 April 2004) a Charter setting out the functions and responsibilities of the Board in order to facilitate Board and management accountability for Caltex's performance and strategic direction. The Board Charter will be made available from our web site (www.caltex.com.au).

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

The Board of Caltex Australia Limited comprises a team of directors with different backgrounds, skills and experience who bring independent judgement and scrutiny of Caltex's business and management performance and knowledge of the petroleum business.

Director independence

The Board has adopted (from 25 February 2004) a Charter of Director Independence, which sets out the matters and thresholds to be considered by the Board in assessing the independence of directors. The Charter of Director Independence will be made available from our web site (www.caltex.com.au).

The Board will make an assessment of the independence of each director in

February of each year in accordance with the Charter of Director Independence. The Board will also review its assessment of independence when a disclosure of a new interest or conflict has been made.

Assessment of independence

The skills, experience and expertise of each director, and the Board's assessment of director independence at the end of February 2004, are set out in the following table:

DICK WARBURTON

CHAIRMAN (Non executive/Independent)

Date of appointment: 29 July 1999, Chairman from 26 April 2001

Skills, experience and expertise:

Dick brings considerable board and corporate governance experience to Caltex and the role of Chairman. Dick serves as Chairman of The Board of Taxation and as a director of Note Printing Australia Limited, Nufarm Limited and Tabcorp Holdings Limited. He was previously the Chairman of David Jones Limited and AurionGold Limited and recently served as a member of the Reserve Bank Board and as a director of Southcorp Limited.

Prior to becoming a professional director, Dick was the Chairman and Chief Executive Officer of DuPont Australia and New Zealand, where he was responsible for DuPont's petrochemical business operations in Australia and New Zealand.

Assessment of independence:

The Board has determined that Dick is an independent director as he does not have a material relationship with Caltex that could interfere with the exercise of an unfettered and independent judgement.

DAVE REEVES

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Date of appointment: 11 August 2003

Skills, experience and expertise:

Before joining Caltex Australia, Dave was the President of North America Products at ChevronTexaco with responsibility for refining and product marketing activities, pipeline transportation operations and energy management solutions within North America, and ChevronTexaco's global aviation fuels marketing. He has previously held a number of senior marketing and retail roles with companies in the ChevronTexaco Group.

Dave has a degree in civil engineering from the University of Washington (USA) and joined Chevron in 1978 as an associate engineer in the marketing department in San Francisco.

Assessment of independence:

As the Managing Director and Chief Executive Officer, Dave is an executive director of the Board and is not an independent director.

CORPORATE GOVERNANCE REPORT

ELIZABETH BRYAN

DIRECTOR (Non executive/Independent)

Date of appointment: 18 July 2002

Skills, experience and expertise:

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

Elizabeth holds a Bachelor of Arts degree from The Australian National University and a Master of Economics from the University of Hawaii (USA).

Assessment of independence:

The Board has determined that Elizabeth is an independent director as she does not have a material relationship with Caltex that could interfere with the exercise of an unfettered and independent judgement.

LEO LONERGAN

DIRECTOR (Non executive)

Date of appointment: 1 July 2001

Skills, experience and expertise:

Leo is Vice President – Joint Ventures and New Business Development for ChevronTexaco. He is currently based in Singapore and has responsibility for ChevronTexaco's downstream joint ventures and downstream business development activities.

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

Leo holds a Bachelor of Science degree from Victoria University (New Zealand).

Assessment of Independence:

Leo is a senior executive of ChevronTexaco and, as ChevronTexaco holds a 50% interest in Caltex Australia, the Board has determined that Leo is not an independent director.

The Board recognises that Leo brings considerable knowledge of the oil and gas business to Caltex and, with this background, is able to make an important contribution to the Board's review of strategic and operational matters. The experience that Leo brings to the Board as a non executive director is not otherwise available to the Board, except for executive appointments. While Leo is an executive of ChevronTexaco, in his role as a director he acts in the best interests of Caltex Australia.

MARTIN B SOUTHERN
DIRECTOR (Non executive)

Date of appointment: 25 February 2004

Skills, experience and expertise:

Martin is Vice President – Asia Pacific Region for ChevronTexaco Global Lubricants, which is a business unit in the ChevronTexaco Group. In this role, Martin is responsible for lubricant sales, marketing, manufacturing and distribution in the Asia Pacific region.

Martin has held a number of senior management positions with companies in the ChevronTexaco Group since starting as a marine engineer cadet in 1976 and he has worked in Singapore, the United States and the United Kingdom.

Martin is qualified as an Incorporated Engineer.

Assessment of Independence:

Martin is a senior executive of ChevronTexaco and, as ChevronTexaco holds a 50% interest in Caltex Australia, the Board has determined that Martin is not an independent director.

The Board has appointed Martin as a director to bring additional industry knowledge to Caltex, particularly in lubricant sales, marketing, manufacturing and distribution, and believes that Martin will make an important contribution to the Board.

KEN WATSON
DIRECTOR (Non executive/Independent)

Date of appointment: 9 February 1996

Skills, experience and expertise:

Ken is a partner of the law firm Minter Ellison and works in the firm's Sydney office. Ken has over 30 years of commercial law knowledge and experience and advises large and medium size corporates in commercial law matters.

Ken has a long association with Caltex Australia and was a legal adviser to Caltex during the merger with Ampol in 1995.

Ken holds a Bachelor of Laws degree from The University of Sydney (Australia) and a Master of Laws from the University of Virginia (USA).

Assessment of independence

The Board has determined that Ken is an independent director as he does not have a material relationship with Caltex that could interfere with the exercise of an unfettered and independent judgement.

In assessing Ken's status as an independent director, the Board has noted that Minter Ellison (of which Ken is a partner) provides legal advice and services to Caltex. For the year ended 31 December 2003, Minter Ellison received, or was due to receive, fees of \$710,000 (in total fees), which represented 12.5% of Caltex's total legal expenditure for the year. Ken is not usually involved in providing legal advice to Caltex on a day to day basis but was engaged to advise Caltex on various legal aspects of the venture arrangements with Woolworths.

CORPORATE GOVERNANCE REPORT

Meetings of directors in the absence of management

The Board has scheduled regular informal discussions for non executive directors in the absence of management for the first Board meeting of each quarter in 2004. The first informal discussion was held at the Board's meeting in February 2004.

Disclosure of interests and conflicts

At each Board meeting directors are required to disclose details of any interests or conflicts that have arisen since the previous Board meeting. Also, in January of each year, a related party questionnaire is sent to directors and to former directors who have left office during the previous year. Directors and former directors are asked to provide details of any related party transactions with Caltex during the year.

Period of office

A non executive director is elected for a period of up to three years or until the third Annual General Meeting after the director's election (whichever is longer). As the ASX Listing Rules require Caltex to hold an election of directors each year, directors may be subject to re-election before the expiration of this term.

Any director who is appointed to the Board as a casual vacancy during a year holds office until the end of the next Annual General Meeting, but is eligible for election by shareholders at that meeting.

Independent professional advice

Directors may obtain independent professional legal advice at Caltex's expense, subject to making a request to, and obtaining the prior authorisation of, the Chairman. Where the Chairman wishes to obtain independent professional advice, the Chairman is required to make a request to, and obtain the prior authorisation of, the Chairman of the Audit Committee.

Human Resources and Nomination Committee – nomination responsibilities

The Board's Human Resources and Nomination Committee is an advisory body to the Board in relation to:

- the composition of the Board and number of directors;
- the required and desirable skills, expertise, experience and competencies of directors and the Board on an ongoing basis;
- succession planning for the Board and Board committees; and
- the appointment of directors.

The Human Resources and Nomination Committee comprises Dick Warburton (Chairman), Elizabeth Bryan (from 28 August 2003) and Leo Lonergan (from 28 August 2003). Michael Wirth served on the Committee until 28 August 2003. The Committee met on four occasions during 2003 (in February, May, August and December) and all Committee members were present at these meetings.

The Board has adopted (from 1 April 2004) a new Charter for the Human Resources and Nomination Committee to reflect the matters set out in the commentary and guidance to Best Practice Recommendation 2.4. The Human Resources and Nomination Committee Charter will be made available from our web site (www.caltex.com.au).

The Committee's responsibilities in relation to remuneration matters are detailed under Principle 9: Remunerate Fairly and Responsibly.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Code of conduct for directors and senior executives

In July 2002, the Board endorsed the following set of Values for Caltex:

- We treat all people with fairness, respect and dignity.
- We meet the highest ethical standards and operate in a socially responsible manner.
- We respect and comply with the law.
- We conduct our business in a manner that respects the environment and benefits the communities where we work.
- We are committed to incident free operations and are passionate about achieving results that exceed expectations.
- We are focused on providing products and services that meet or exceed the needs of our customers.

The Board is committed to living these Values and, as an example of this commitment, all Board and Committee meetings commence with an incident free operations topic.

Caltex's Vision, Values and Strategic Intents are available from our web site (www.caltex.com.au).

Share trading guidelines

The Board has adopted (from 1 April 2004) the Caltex Share Trading Policy in relation to dealings in Caltex shares by directors, senior executives and employees. The new policy replaces the previous guidelines endorsed by the Board in relation to dealings in shares by Caltex employees.

The Caltex Share Trading Policy is a recommended code of practice that is designed to:

- set out clear guidelines for directors, senior executives and other designated officers as to the expectations that Caltex has in relation to dealings in Caltex shares; and
- minimise the potential for insider trading under the law by directors, senior executives and other designated officers.

Under the policy, a director intending to trade in Caltex shares is required to give prior notice to the Chairman and confirm details of the purchase or sale with the Chairman, with the Chairman to give prior notice to the Chairman of the Audit Committee. Directors have also agreed to give details of transactions in Caltex shares to the Company Secretary within three business days. Details of

changes in a director's interests are advised to the ASX by the Company Secretary within five business days of the transaction.

Senior executives are required to give prior notification to the Managing Director and Chief Executive Officer. For each share trade the senior executive must subsequently advise the Company Secretary of the number of shares bought or sold and the date of the trade.

To minimise the potential for insider trading, the policy suggests that directors, senior executives and other designated officers should only trade in Caltex shares in the following trading windows after Caltex has released its financial results for the half year and full year:

- 30 days after the announcement of Caltex's half year results (which is made in late August); and
- 30 days after the announcement of Caltex's full year results (which is made in late February).

The Caltex Share Trading Policy will be made available from our web site (www.caltex.com.au).

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Sign-off by Chief Executive Officer and Chief Financial Officer

In August 2003 (for the statutory half year report) and in February 2004 (for the statutory full year report), the Managing Director and Chief Executive Officer and the Chief Financial Officer provided the Board

with statements about Caltex's financial reports and compliance with the Corporations Act and accounting standards. The statements reflected the declarations required to be made by directors for the half year and full year.

Audit Committee

The Board's Audit Committee is an advisory body to the Board in relation to:

- Caltex Australia's draft external financial reports, including the statutory half year and full year financial reports, and ASX half year and full year reports;
- in so far as they affect Caltex Australia's financial reporting, risk management and internal control structures, and compliance with laws and regulations;
- external audit activities, the terms of engagement (including fees) for the external audit, the independence of Caltex Australia's external auditor, and the appointment and removal of the external auditor; and
- the role of the internal audit function at Caltex Australia and the appointment of the Internal Audit Manager.

The Audit Committee also has delegated authority from the Board in relation to:

- the scope of work for the external audit;
- the provision of non-audit services by the external auditor to the Caltex Australia Group; and

CORPORATE GOVERNANCE REPORT

- the annual internal audit plan.

The Audit Committee comprises Ken Watson (Chairman), Elizabeth Bryan and Leo Lonergan. Representatives of KPMG (Caltex's external auditor), Dick Warburton (in an ex-officio capacity) and senior management (including the Managing Director and Chief Executive Officer, Chief Financial Officer, Company Secretary, Financial Controller and Internal Audit Manager) are also in attendance at Committee meetings. The Committee met on four occasions during 2003 (in February, May, August and December) and all Committee members were present at these meetings.

The Board has adopted (from 1 April 2004) a new Charter for the Audit Committee to reflect the matters set out in the commentary and guidance to Best Practice Recommendation 4.2. The Audit Committee Charter will be made available from our web site (www.caltex.com.au).

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Caltex Continuous Disclosure Policy

The Board is committed to ensuring that information that is expected to have a material effect on the price or value of Caltex shares is immediately notified to the ASX for dissemination to the market in accordance with the ASX Listing Rules.

The Board has adopted (from 1 April 2004) the Caltex Continuous Disclosure Policy, which sets out the key obligations of the Board and senior management to ensure that Caltex complies with its disclosure obligations under the ASX Listing Rules and the Corporations Act.

The Caltex Continuous Disclosure Policy recognises that the continuous disclosure regime involves a high degree of judgement to determine when a disclosure is required and the information that must be disclosed. As a general rule, and in accordance with the ASX Listing Rules, Caltex will take a principle based approach to disclosure to meet the letter and spirit of the continuous disclosure regime in a manner that is consistent with Caltex's Vision, Values and Strategic Intent.

The Caltex Continuous Disclosure Policy will be made available from our web site (www.caltex.com.au).

Caltex Financial Market Disclosure Policy

The Board has adopted (from 1 April 2004) the Caltex Financial Market Disclosure Policy, which sets out a code of practice for Caltex in relation to dealings with the financial market and other external stakeholders. Caltex seeks to ensure that:

- all investors have equal and timely access to material information;
- announcements are expressed in a clear and objective manner to allow investors to assess the impact of the information when making investment decisions; and

- commentary on the financial results includes information that is needed by an investor to make an informed assessment of Caltex's activities and performance.

The Caltex Financial Market Disclosure Policy will be made available from our web site (www.caltex.com.au).

Results announcements

Caltex follows a calendar of regular disclosures to the market:

- in late February, Caltex issues its full year results announcement to the market;
- in late March, Caltex sends its annual report to shareholders;
- in late August, Caltex issues its half year results announcement to the market;
- in late September, Caltex sends its half year report to shareholders; and
- if required under the ASX Listing Rules, Caltex issues profit guidance for the half year and full year in accordance with the Caltex Continuous Disclosure Policy.

The Managing Director and Chief Executive Officer makes results presentations in relation to Caltex's financial performance after the announcement of the full year results (in late February) and the half year results (in late August) to the ASX. Details for these presentations are published on our web site (www.caltex.com.au).

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Communications strategy

The Board has adopted (from 1 April 2004) the Caltex Shareholder Communications Strategy for communications with shareholders and potential investors and to encourage effective participation at shareholder meetings. The Caltex Shareholder Communications Strategy will be made available from our web site (www.caltex.com.au).

Caltex recognises that the Internet is an important communication tool for the dissemination of market information, with the following information made available from our web site (www.caltex.com.au) for access by all interested stakeholders:

- Caltex's annual reports and half year reports;
- full year and half year results announcements;
- ASX releases (including announcements on profit guidance);
- presentation material provided to investors and/or stockbroking analysts at briefings and sessions;
- notices of meeting and explanatory material for shareholder meetings;
- corporate information about Caltex (including profiles of all directors).

Shareholders may also request annual and half year reports, a copy of Caltex Australia Limited's Constitution, minutes of

shareholders' meetings and other corporate information by writing to the Company Secretary.

Prior submission of questions for the 2004 Annual General Meeting

The Annual General Meeting is a forum for shareholders to ask questions about, or make comments on, Caltex's performance and management.

Shareholders may submit issues or questions to Caltex prior to the 2004 Annual General Meeting (to be held on 29 April 2004).

Caltex will prepare a list of issues and questions submitted and this list will be made available to shareholders attending the Annual General Meeting.

Attendance by external auditor at the 2004 Annual General Meeting

The Board has requested that representatives of KPMG, Caltex's external auditor, attend the 2004 Annual General Meeting and be available to answer any questions that shareholders may have about the conduct of KPMG's external audit (of Caltex's financial statements for the year ended 31 December 2003) and the preparation and content of its audit report.

Representatives of KPMG have attended Annual General Meetings in previous years to answer shareholder questions.

Shareholders may submit questions to KPMG prior to the 2004 Annual General Meeting by sending questions to Caltex.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Risk management

Caltex has policies relating to interest rate management, foreign exchange risk management, credit risk management and oil hedging to minimise the risks that arise through its activities. Also, the Board has approved practices that are designed to ensure that:

- capital expenditure and revenue commitments above approved levels are brought to the Board for decision; and
- financial exposures, including the use of derivatives, are minimised.

Internal controls

Caltex has established controls at the Board, executive and business unit levels that are designed to safeguard Caltex's interests and ensure the integrity of reporting (including accounting, financial reporting, environment, health and safety, and other internal control policies and procedures). These controls are designed to ensure that Caltex complies with regulatory requirements and community standards.

An internal audit function operates under documented standards and procedures for auditing that set out the purpose, authority and responsibility of the internal audit function. The internal audit function's mission is to provide an independent assessment of risk and compliance with internal controls.

CORPORATE GOVERNANCE REPORT

An internal audit plan, which is approved by the Audit Committee, is prepared each year to outline a program of internal audits to be conducted for the year. The results of internal audits are reported to senior management and to the Audit Committee on a regular basis. In addition, processes have been put in place to ensure that appropriate follow-up actions are taken in relation to significant audit findings and identified areas of risk.

Sign-off by Chief Executive Officer and Chief Financial Officer

In August 2003 (for the statutory half year report) and in February 2004 (for the statutory full year report), the Managing Director and Chief Executive Officer and the Chief Financial Officer advised the Board that:

- Caltex Australia's financial reporting was founded on a sound system of risk management and internal compliance and control that implemented the policies adopted by the Board; and
- Caltex Australia's risk management and internal compliance and control system were operating efficiently and effectively in all material respects.

PRINCIPLE 8: ENCOURAGE ENHANCED PERFORMANCE

Performance evaluation

Board

In February 2003, directors and key senior executives participated in a Board self evaluation facilitated by an external consultant. As part of the self evaluation process, one-on-one interviews were held with directors and senior management. The Board discussed the findings and recommendations of the review over the course of 2003 and adopted the key recommendations made in the consultant's report.

Caltex Leadership Team

Senior executives of the Caltex Leadership Team participate each year in Caltex's performance management process. Key individual performance targets linked to Caltex's business plan, and personal learning and development requirements, are agreed with the Managing Director and Chief Executive Officer. The senior executives receive regular feedback on progress against these targets.

In 2003, the senior executives participated in a 360 degree review to receive feedback from the Managing Director and Chief Executive Officer, peers and direct reports, against the skills and behaviours required at the senior leadership level.

In February 2004, senior executives in the Caltex Leadership Team participated in a workshop to review and agree team processes to enhance performance.

Facilitation of Board and Committee performance

Caltex management provides detailed papers for each Board and Committee meeting and attend meetings to answer any questions that directors may have. Directors are free to liaise with management to obtain any further information they may require.

An off site strategy session over two days is also held during each year for the Board and management to review Caltex's financial, strategic and operational goals and to discuss key business developments.

New directors

New directors receive an information pack including Caltex's most recent annual and half year reports, the current year business plan, the Constitution and background reading on directors' duties, rights and responsibilities. New directors also meet with key senior executives to gain further background on Caltex's business operations and group structure.

Director education

Directors are encouraged to attend director training and professional development courses, as required, at Caltex's expense.

PRINCIPLE 9: REMUNERATE FAIRLY AND RESPONSIBLY

Board remuneration

Emoluments of directors in 2003

Details of the classification and amount of each element of the emoluments of the directors of Caltex Australia Limited for 2003 are set out below (on the basis of the cost to the Caltex Australia Group):

Director	Base emolument \$	Super contributions \$	2003 total \$	2002 total \$	Retirement plan benefits ⁽ⁱⁱⁱ⁾ \$
Current directors					
Dick Warburton	175,000	15,750	190,750	162,750	264,530
Dave Reeves ⁽ⁱ⁾	516,164		516,164		
Elizabeth Bryan ⁽ⁱⁱ⁾	66,214	4,338	70,552	27,151	
Leo Lonergan	66,443		66,443	57,500	
Ken Watson	70,000	6,300	76,300	62,414	172,943
Former directors					
Jeet Bindra ⁽ⁱ⁾	608,219		608,219	723,288	
Michael Wirth	58,134		58,134	52,500	

Notes: Steve de Bruyn, who served as an alternate director, did not receive any remuneration. Directors are eligible to receive a discount on private fuel purchases in line with that available to Caltex employees.

(i) The remuneration paid or payable in relation to Dave Reeves and Jeet Bindra has been calculated on a pro rata basis based on the length of service for the year. Under the terms of the secondment agreement between Caltex and ChevronTexaco, Caltex agreed to pay a maximum of \$1.2 million per annum for Dave Reeves, and \$1.0 million per annum for Jeet Bindra.

(ii) Elizabeth Bryan was appointed as a director on 18 July 2002 and her director's fee in 2002 is a pro rata amount.

(iii) The retirement plan benefits represent amounts accrued as at 31 December 2003.

Directors' fees

Fees paid to non executive directors are currently subject to a maximum pool of \$650,000 per annum. The Board's remuneration pool was approved by shareholders of Caltex Australia Limited at the Annual General Meeting held in March 1998 and has not been increased since that time.

The allocation of fees to non executive directors out of the total Board remuneration pool is a matter for the Board. The Board reviews fees on an annual basis and, as part of the review process, considers external data, the time commitment of directors, the size and scale of

Caltex's operations, market capitalisation and other factors.

Fees for non executive directors are not linked to the financial performance of the Caltex Australia Group in any way as the Board believes this may, or may be seen to, compromise director independence.

Retirement payments to directors

Under the terms of Caltex's retirement scheme for non executive directors, directors resident in Australia were entitled to a retirement payment equal to:

- one year's total emoluments, after three years of service; and

- three years' total emoluments, after nine years of service.

The retirement benefit accrued on a pro rata basis between years three and nine.

In December 2003, the Board resolved to discontinue the directors' retirement scheme from 1 January 2004.

Accrued directors' retirement benefits have been frozen at 31 December 2003 and paid into a separate interest bearing account for each entitled director pending that director's retirement. As at 31 December 2003, Dick Warburton had accrued a retirement benefit of \$264,530 and Ken Watson had accrued a retirement benefit of \$172,943.

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New rates for 2004

As a result of the termination of the directors' retirement scheme, fees for non executive directors have been increased from 1 January 2004 with:

- the Chairman's annual fee set at \$232,000 (an increase of \$52,000) and
- the annual director's fee set at \$81,000 (an increase of \$21,000).

Non executive directors (other than the Chairman of the Board) who serve on the Audit Committee or

the Human Resources and Nomination Committee receive a Committee fee of \$6,000 for each committee membership, which increases to \$12,000 for the Chairman of the Committee.

There have been no changes to the annual fee rates for Committee memberships or Committee Chairman for 2004.

Remuneration of the Managing Director and Chief Executive Officer

Dave Reeves (Managing Director and Chief Executive Officer) and

Jeet Bindra (former Managing Director and Chief Executive Officer) were seconded from ChevronTexaco to Caltex Australia during 2003.

Under the terms of the secondment arrangements, Caltex Australia paid service fees to ChevronTexaco representing a partial reimbursement of the salaries and other benefits incurred by ChevronTexaco. The terms of these arrangements are considered by Caltex Australia to be no less favourable than arm's length terms.

Executive remuneration

Emoluments of senior executives in 2003

Details of the classification and amount of each element of the emoluments of the six senior executives of Caltex who received the highest total emoluments for 2003 are set out below (on the basis of the cost to Caltex):

Executive officer	Salary paid	Bonus	Super contributions	Non cash/ other benefits	2003 total	2002 total
	\$	\$	\$	\$	\$	\$
Current executives						
Richard Beattie (Manager Corporate Affairs)	240,479	163,434	17,755		421,668	342,953
Mark Burrowes ¹ (General Manager Marketing)	261,333	120,040	19,242		400,615	–
Helen Conway (Company Secretary and General Counsel)	292,500	249,772	22,204	8,275	572,751	414,090
Simon Hepworth (Chief Financial Officer)	346,494	275,168	25,256	13,382	660,300	567,026
Alex Strang (General Manager Planning, Supply and Corporate Services)	351,396	291,044	26,136	12,122	680,698	567,488
Eion Turnbull (General Manager Refining)	280,000	224,453	20,677	46,132	571,262	379,910

Note: Senior executives are eligible to receive a discount on private fuel purchases in line with that available to Caltex employees.

¹ Mark Burrowes joined Caltex on 1 May 2003.

Remuneration policy

The remuneration policy for senior executives of Caltex is designed to ensure that remuneration is:

- commensurate with an executive's duties, responsibilities and accountabilities; and
- market competitive so that Caltex is able to attract, motivate and retain exceptional performers.

Remuneration, particularly incentive based remuneration, closely reflects Caltex's financial and operational performance and aligns senior executive performance with increasing shareholder value. Senior executives are eligible to receive a short-term incentive bonus (subject to Caltex's performance) and a personal performance bonus (based on individual performance). Senior executives may also become eligible to participate in the long-term incentive scheme.

Long-term incentive scheme

Senior executives may receive shares under Caltex's long-term incentive scheme. The Human Resources and Nomination Committee approves the participants in the scheme and the target return on capital employed. The terms and conditions of the scheme were approved by shareholders at the Annual General Meeting held in April 1999.

Performance targets

The return on capital employed target is assigned at the beginning of each year. Based on the performance against this target and Caltex's total shareholder return relative to the ASX All Industrials Accumulation Index (excluding banks) over the year, shares are allocated to senior executives, based on a combination of base salary earned, bonuses received and level of responsibility.

Shares earned by executives are bought on market and vest over a three year period, although dividend and voting entitlements vest immediately. Upon vesting, shares are included as a part of bonuses in the calculation of remuneration based on the original cost to Caltex.

Secondments from ChevronTexaco

Senior executives may, from time to time, be seconded to Caltex Australia from ChevronTexaco. The terms of secondment arrangements for senior executives are subject to Board approval and are considered by Caltex Australia to be no less favourable than arm's length terms.

Human Resources and Nomination Committee – remuneration responsibilities

The Board's Human Resources and Nomination Committee is an advisory body to the Board in relation to:

- the remuneration of non executive directors, including remuneration for Board committee memberships;

- the remuneration of the Managing Director and Chief Executive Officer;
- the annual Caltex employee salary program; and
- remuneration generally, including superannuation.

The Human Resources and Nomination Committee also has delegated authority from the Board in relation to:

- remuneration of the Caltex Leadership Team;
- Caltex's short-term incentive scheme, senior short-term incentive scheme and the long-term incentive scheme; and
- the Caltex Australia employee share plan.

Details of the Committee's membership, the number of meetings held during the year and the Committee's Charter have been discussed under Principle 2: Structure the Board to Add Value.

PRINCIPLE 10: RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS

The Board is aware of the interests of all stakeholders and seeks to balance these interests with a view to achieving long term value for Caltex shareholders in a socially responsible manner.

Caltex's Values, as endorsed by the Board in July 2002, are set out under Principle 3: Promote Ethical and Responsible Decision Making.

Caltex's Vision, Values and Strategic Intents are available from our web site (www.caltex.com.au).

SIMPLIFIED FINANCIAL REPORT

PROFIT AND LOSS

for the year ended 31 December 2003

Millions of dollars	2003	2002	% Change
1 Total revenue ¹	7,014.2	5,900.7	18.8
2 Total expenses ²	(6,674.4)	(5,685.5)	17.4
3 Replacement cost EBIT	339.8	215.2	57.9
4 Net borrowing costs	(61.4)	(75.6)	(18.8)
Income tax expense	(78.7)	(33.5)	134.9
Replacement cost profit	199.7	106.1	88.2
5 Inventory gains – after tax	9.1	121.1	(92.5)
6 Significant items – after tax	(11.3)	(12.0)	(5.8)
Historical cost net profit	197.5	215.2	(8.2)
7 Interim dividend per share	4¢	–	
7 Final and special dividend per share	14¢	–	
Basic earnings per share			
– Replacement cost – excluding significant items	74.0¢	39.3¢	
– Historical cost	73.1¢	79.7¢	

¹ Excludes interest revenue and significant items (if applicable).

² Excludes interest expense, significant items (if applicable) and inventory gains.

DISCUSSION AND ANALYSIS

1 Total revenue

↑ **18.8%**

Total revenue increased primarily due to:

- Strong refiner margins together with robust marketing margins;
- Increased petrol and diesel volumes including sales to competitors;
- Higher crude prices; partially offset by
- Strengthening of the AUD against the USD.

2 Total expenses – replacement cost basis

↑ **17.4%**

The increase in total expenses is primarily caused by:

- Higher cost of goods sold, consistent with the increase in sales volumes, purchases from competitors and higher crude prices;
- Refining and supply expenses not directly attributable to products have increased – mainly due to higher maintenance and employee costs and provision for the superannuation fund vested benefits deficiency; and
- Higher marketing expenses due to an increase in employee, freight and remediation expenses.

3 Replacement cost EBIT (RCOP)

↑ **57.9%**

Improvement in Caltex's underlying performance was primarily driven by strong refiner margins and continued robust marketing margins.

Breakdown of replacement cost EBIT is detailed below:

RCOP EBIT breakdown

Caltex Refiner Margin (CRM)

CRM is the difference between the cost of importing a standard basket of products to eastern Australia and the cost of importing the crude required to make that product basket. It is a proxy for the gross margin available to refineries in eastern Australia before processing costs. Because it is based on a standard basket of products, it does not include any premiums that may be paid for product that complies with specific state or national quality regulations. It is calculated as follows:

Singapore Refiner Margins + Crude Discount/(Premium) + Product Freight – Crude Freight – Yield Loss

\$370.6m

- CRM strengthened significantly from an average of US\$1.82/bbl in 2002 to US\$3.68/bbl in 2003 as the Singapore refiner margin increased from US\$2.27/bbl in 2002 to US\$3.88/bbl in 2003. This was partially offset by the strengthening Australian dollar.

Transport Fuels Marketing Margin

Transport fuels comprises petrol, diesel and jet. The transport fuels marketing margin is the average net margin over Import Parity Price in Australia.

\$432.0m

- Marketing margins remained strong at the same time as Caltex had record transport fuel sales, up 3.3% on the previous year, primarily driven by petrol sales up 5.4%.

Lubricants and Specialties Margin

Lubricants and specialties products include finished lubricants, base oils, low pressure gas, petrochemicals, bitumen, wax and marine fuels.

\$90.9m

- Lubricants and base oils sales and margins grew, with base oils volume increasing 40% and for Caltex's largest selling lubricant, Delo 400, volume was up 43%.

Non Fuel Income

Non fuel income includes convenience store income, non controlled equities, franchise income, royalties, property, plant and equipment rentals and starcard income.

\$106.5m

- Average Star Mart convenience store sales increased by 5.4% and Star Shop sales by 6.4% on a like for like basis compared with the previous year.

Operating Expenses

Operating expenses include those costs not related to the cost of production such as finance and administration, marketing and other operating expenditure.

(\$629.9m)

- Operating expenses increased in 2003 from 2002 primarily due to higher volumes, higher planned maintenance costs and one-off items primarily consisting of provisions for the superannuation fund vested benefits deficiency and remediation costs.

Other Expenses

Other is made up of a number of components, the main factor being:

(\$30.3m)

- Exchange impact was higher in 2003 due to significant movement in the exchange rate over 2003 compared to 2002.

Total EBIT

\$339.8m

Replacement cost profit before interest, tax and significant items

SIMPLIFIED FINANCIAL REPORT

4 Net borrowing costs

↓ **18.8%**

Net debt has reduced to \$624.4 million at 31 December 2003, compared to \$954.2 million at 31 December 2002. This has contributed to a decrease in borrowing costs.

5 Inventory gains

↓ **92.5%**

Though regional crude oil prices fell in the first half, they rose during the second half (averaging US\$29.47 a barrel in December 2002 and US\$30.56 a barrel in December 2003). This pattern resulted in a net inventory gain of \$13.0 million before tax (\$9.1 million after tax) compared with an inventory gain of \$172.9 million before tax (\$121.1 million after tax) in 2002.

6 Significant items

↓ **5.8%**

The directors' valuation at 30 June 2003 determined Caltex's land and buildings value was \$411 million above its net book value. However, certain land, buildings and related plant and equipment had recoverable amounts less than their net book value, and in accordance with accounting standards, a writedown of \$12.5 million before tax (\$11.3 million after tax) was incurred. This has been included in the 2003 full year profit as a significant item. In 2002, Caltex recognised as a significant item, a payment of \$12.0 million (before and after tax), to be made to Hanson Australia relating to the purchase of its 50% interest in Caltex Australia Petroleum Pty Ltd in 1997.

7 Dividends

↑ **Final dividend
8 cps, and
special dividend
of 6 cps**

The Board declared a final dividend of \$21.6 million or 8 cents per share. In addition, the progress made in improving the financial strength of the company together with the strong replacement cost result for 2003 led the Board to declare a special dividend of \$16.2 million or 6 cents per share, bringing the total dividends for 2003 to 18 cents per share. The dividends have a franking credit of 100%. The record date is 12 March 2004, with the dividend payable on 2 April 2004.

BALANCE SHEET
as at 31 December 2003

Millions of dollars	2003	2002	change
1 Working capital	343.1	488.5	(145.4)
2 Property, plant and equipment	1,615.3	1,625.3	(10.0)
3 Net debt	(624.4)	(954.2)	329.8
Other non current assets and liabilities	(110.3)	(123.3)	13.0
Total equity	1,223.7	1,036.3	187.4

DISCUSSION AND ANALYSIS

1 Working capital

↓ **\$145.4m**

The reduction in working capital is due to:

- Reduction in receivables consistent with the impact of the strengthening AUD against the USD, partially offset by an increase in crude prices;
- Lower inventories again reflecting strengthening of the AUD, partially offset by higher inventory holdings compared to December 2002 and the rise in crude prices in inventories; and
- Increase in payables reflecting the increase in crude purchases together with an additional day accrual for excise taxes. These increases were partially offset by the strengthening of the AUD against the USD.

2 Property, plant and equipment

↓ **\$10.0m**

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

- Depreciation of \$128.3 million;
- Net disposals of \$16.8 million;
- Writedown to recoverable amount of \$12.5 million (see significant item note 4); partially offset by
- Capital expenditure and major cyclical maintenance of \$147.6 million, including \$30.3 million for clean fuels.

3 Net debt

↓ **\$329.8m**

Net debt has reduced to \$624.4 million at 31 December 2003, a decrease of \$329.8 million from 31 December 2002. As a result, Caltex's gearing (net debt to net debt plus equity) was 33.8%, down from 47.9% at the end of the prior year.

SIMPLIFIED FINANCIAL REPORT

CASH FLOWS

for the year ended 31 December 2003

Millions of dollars	2003	2002	change
Receipts from customers	11,500.7	10,043.5	1,457.2
Payments to suppliers and employees	(6,831.2)	(5,744.2)	(1,087.0)
Payments for excise and GST	(4,046.0)	(3,829.6)	(216.4)
1 Borrowing costs paid	(61.5)	(64.5)	3.0
2 Other net operating activities	(75.3)	(10.4)	(64.9)
Net operating cash inflows	486.7	394.8	91.9
Purchases of property, plant and equipment and major cyclical maintenance	(147.6)	(99.9)	(47.7)
Other investing cash flows	1.7	18.2	(16.5)
Net investing cash outflows	(145.9)	(81.7)	(64.2)
3 Net financing cash outflows	(322.5)	(286.9)	(35.6)
Net increase in cash held	18.3	26.2	(7.9)

DISCUSSION AND ANALYSIS

1 Borrowing costs paid

↓ **\$3.0m**

Net debt fell \$329.8 million during 2003, compared to a fall of \$310.5 million for 2002. This reduction in net debt combined with the timing of coupon payments resulted in an overall borrowing cost saving of \$3.0 million.

2 Other operating activities

↑ **\$64.9m**

Income tax payments increased substantially in 2003. This increase is due to current year tax instalments being based on prior year historical cost profit and the final prior year tax payment falling due in the current year.

3 Net financing cash outflows

**Repaid
\$322.5m**

This repayment is consistent with the reduction in debt from net debt of \$954.2 million at 31 December 2002 to \$624.4 million at 31 December 2003.

CALTEX AUSTRALIA LIMITED

ACN 004 201 307

2003 FINANCIAL REPORT

The 2003 Financial Report for Caltex Australia Limited includes:

- Directors' Report
- Directors' Declaration
- Audit Report
- Statements of Financial Performance
- Statements of Financial Position
- Statements of Cash Flows
- Notes to the Financial Statements

for the year ended 31 December 2003.

DIRECTORS' REPORT

INTRODUCTION

The Board of Caltex Australia Limited presents this Directors' Report and the 2003 Financial Report for the Caltex Australia Group for the year ended 31 December 2003 to shareholders. An Audit Report from KPMG, Caltex's external auditor, is also provided.



DICK WarBURTON CHAIRMAN (NON EXECUTIVE / INDEPENDENT)

DATE OF BIRTH: 14 December 1940 (Age: 63 years)

Dick has served as a director of Caltex Australia Limited since 29 July 1999 and as Chairman of the Board from 26 April 2001. Dick is the Chairman of the Human Resources and Nomination Committee and attends meetings of the Audit Committee in an ex-officio capacity.

Dick is one of Australia's most prominent company directors. Prior to becoming a professional director, Dick was the Chairman and Chief Executive Officer of DuPont Australia and New Zealand.

External directorships

- The Board of Taxation (Chairman)
- Note Printing Australia Limited
- Nufarm Limited
- Tabcorp Holdings Limited

Previous directorships

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

DAVE REEVES MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Bachelor of Civil Engineering (University of Washington, USA)

DATE OF BIRTH: 26 May 1955 (Age: 48 years)

Dave was appointed as Managing Director and Chief Executive Officer with effect from 11 August 2003.

Before joining Caltex Australia, Dave was the President of North America Products at ChevronTexaco with responsibility for refining and product marketing activities, pipeline transportation operations and energy management solutions within North America, and ChevronTexaco's global aviation fuels marketing. He has

previously held a number of senior marketing and retail roles with companies in the ChevronTexaco Group.

Dave has a degree in civil engineering from the University of Washington and joined Chevron in 1978 as an associate engineer in the marketing department in San Francisco.

External directorship

- Australian Institute of Petroleum Limited



KEN WATSON DIRECTOR (NON EXECUTIVE / INDEPENDENT)

Bachelor of Laws (The University of Sydney, Australia) and Master of Laws (University of Virginia, USA)

DATE OF BIRTH: 6 July 1943 (Age: 60 years)

Ken has been a director of Caltex Australia Limited since 9 February 1996 and is currently the longest serving member of the Board. Ken is the Chairman of the Audit Committee.

Ken is a partner of the law firm Minter Ellison and works in the firm's Sydney

office. He is admitted to practise as a solicitor in New South Wales, Victoria and Queensland.

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

BOARD OF DIRECTORS

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



ELIZABETH BRYAN DIRECTOR (NON EXECUTIVE / INDEPENDENT)

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

DATE OF BIRTH: 19 October 1946 (Age: 57 years)

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

In her most recent corporate role before joining the Board, Elizabeth served as the Chief Executive Officer of Deutsche Asset Management (Australia).

External directorships

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

Previous directorship

- Western Metals Limited (2000 – 2002)

LEO LONERGAN DIRECTOR (NON EXECUTIVE)

Bachelor of Science (Victoria University, New Zealand)

DATE OF BIRTH: 18 July 1953 (Age: 50 years)

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

Leo is Vice President – Joint Ventures and New Business Development for

ChevronTexaco. He is currently based in Singapore and has responsibility for the Corporation's downstream joint ventures and their business development activities.

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



MARTIN B. SOUTHERN DIRECTOR (NON EXECUTIVE)

Incorporated Engineer

DATE OF BIRTH: 23 June 1959 (Age: 44 years)

Martin was appointed as a director on 25 February 2004 to fill a casual vacancy on the Board.

Martin is Vice President – Asia Pacific Region for ChevronTexaco Global Lubricants, which is a business unit in the ChevronTexaco Group. In this role, Martin is responsible for lubricant sales, marketing, manufacturing and distribution in the Asia Pacific Region.

Martin has held a number of senior management positions with companies in the ChevronTexaco Group since starting as a marine engineer cadet in 1976 and he has worked in Singapore, the United States and the United Kingdom.

External directorship

- Caltex Lubricants Lanka Ltd (Chairman)



DIRECTORS' REPORT

MITCHELL RUBINSTEIN **ALTERNATE DIRECTOR**

Bachelor of Arts in Political Science/Asian Studies (University of Michigan, USA), Master of Arts in International Relations (Columbia University, USA) and MBA of Business Administration – Finance (New York University, USA)

Date of birth: 21 April 1960 (Age: 43 years)

Mitch was appointed as an alternative director for Leo Lonergan and Martin B Southern on 25 February 2004. Mitch is the General Manager – Crude Supply and Trading, Asia Pacific with ChevronTexaco Global Trading, a division of Chevron U.S.A. Inc (a company in the ChevronTexaco Group).

PREVIOUS Directors

JEET BINDRA **MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**

Bachelor of Chemical Engineering (Indian Institute of Technology, Kanpur, India), Master of Chemical Engineering (University of Washington, USA) and Master of Business Administration (St Mary's College, California, USA)

Jeet resigned as a director of Caltex Australia Limited, and as Managing Director and Chief Executive Officer, with effect from 10 August 2003 after his appointment as President, Global Refining at ChevronTexaco in San Ramon.

Jeet had served as a director, and as Managing Director and Chief Executive Officer, of Caltex Australia from 2 May 2002. Prior to joining Caltex, Jeet was President of ChevronTexaco's pipeline company in Houston.

MICHAEL WIRTH **DIRECTOR (NON EXECUTIVE)**

Bachelor of Science (Chemical Engineering) (University of Colorado, USA)

Michael Wirth resigned as a director of Caltex Australia Limited on 5 December 2003 after his appointment as President, Global Supply and Trading at ChevronTexaco in San Ramon.

Michael had served as a director from 1 July 2001 and was a member of the Human Resources and Nomination Committee until 28 August 2003.

JOHANNES (STEVE) DE BRUYN **ALTERNATE DIRECTOR**

Steve was appointed as an alternate director for Leo Lonergan and Michael Wirth from 21 February 2002.

Steve's appointment as an alternate director for Michael Wirth automatically ceased on 5 December 2003 as a result of Michael Wirth's resignation as a director.

Steve resigned as an alternate director for Leo Lonergan with effect from 25 February 2004.

REVIEW OF RESULTS AND OPERATIONS

General overview

Caltex Australia continued to increase its profits on a replacement cost basis (RCOP) in 2003, due to stronger refiner margins from improving regional and domestic market dynamics, and continued robust marketing margins.

Replacement cost of sales profit (RCOP) after tax and excluding significant items was \$199.7 million, an 88% increase compared to last year's profit of \$106.1 million.

The consolidated historical cost net profit after tax was \$197.5 million (2002: net profit after tax \$215.2 million). This included \$13.0 million (before tax) of inventory gains, compared to \$172.9 million (before tax) of inventory gains during 2002. Though regional crude oil prices fell in the first half of the year, they increased in the second half to end at a similar level as at the beginning of the year (averaging US\$30.59 a barrel in December 2003 to US\$29.47 a barrel in December 2002). This pattern led to a minor inventory gain in 2003.

A directors' valuation at 30 June 2003, which is primarily based on an independent valuation done every three years, determined Caltex's land and buildings value was \$411 million above its net book value (note 12). However, certain land, buildings and related plant and equipment had recoverable amounts less than their net book value, and in accordance with accounting standards, a writedown of \$12.5 million before tax (\$11.3 million after tax) was incurred. This

has been included in the 2003 full year profit as a significant item. In 2002, Caltex recognised as a significant item, a payment of \$12.0 million (before and after tax) to be made to Hanson Australia relating to the purchase of its 50% interest in Caltex Australia Petroleum Pty Ltd in 1997.

Rising demand in Asia and Australia, as well as reduced Chinese exports have led to higher Singapore refiner margins¹ averaging US\$3.88 a barrel in 2003 (2002: US\$2.27 a barrel). An internal measure, the Caltex Refiner Margin (CRM), is a more accurate measure of the refining margins achieved by the company and includes premiums paid on crude oil, crude freight, product yields achieved by the Caltex refineries and product freight. Caltex's CRM strengthened from an average US\$1.82 a barrel in 2002 to average US\$3.68 a barrel in 2003, offset by the appreciating Australian dollar.

Strong results helped Caltex successfully reduce its net debt to \$624 million, 33.8% gearing (net debt to net debt plus equity) at 31 December 2003, from \$954 million, 47.9% gearing at December 2002. Caltex spent \$116.7 million on capital expenditure during 2003, compared with \$78.0 million during 2002. This includes \$30.3 million of capital expenditure relating to the Clean Fuels Project.

The Board declared a final dividend of \$21.6 million or 8 cents per share. In addition, in recognition of the debt reduction and significant improvement in the financial strength of the company, the Board has declared a special dividend of \$16.2

million or 6 cents per share, bringing the total dividends for 2003 to 18 cents per share. The dividends have an attached franking credit of 100%.

Refining and Supply

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

Caltex has made significant progress on its Clean Fuels Project to meet new national clean fuels standards requiring a reduction of sulfur in diesel to less than 50 parts per million and 1% benzene in petrol from January 2006. Existing hydrotreating facilities at both refineries will be revamped to reduce diesel sulfur content.

Safe and reliable operations are Refining's key priorities. There were strong improvements in safety performance at both refineries. However, overall operational reliability was less than last year, with an operating availability of 94.4% compared to 95.6% in 2002, primarily due to one planned and one unplanned outage at a major unit at Kurnell. Lytton's operational availability was better than last year's. Costs increased due to reliability improvement programs and unplanned outages, particularly at Kurnell.

Caltex continued to work towards its goal of incident free operations with the rollout of the Loss Prevention System.

¹ The Singapore refiner margin is the difference between the price of the regional benchmark Tapis crude oil feedstock and the quoted Singapore ex-refinery price of petroleum products.

DIRECTORS' REPORT

Marketing

The Marketing department promotes and sells Caltex fuels, lubricants, specialty and convenience store products through a national network of 1,625 Caltex and Ampol branded service stations and 67 distributors, combined with a significant level of direct sales to commercial end users.

Transport fuel sales rose to record levels in 2003, up 3.3% on the previous year and market leadership was successfully retained and improved despite operating in a highly competitive and shifting market environment. Vigorous growth continued in the sale of Caltex premium unleaded fuel, up by 48% on 2002. Lubricants, base oils and other specialties continued on the path of strong growth with sales volumes of base oils increasing by 40% and Delo 400 heavy duty diesel engine oil by 43%.

Non fuel income also experienced strong growth, due mainly to strong performance in Caltex's convenience store network. Store sales continued to improve with average Star Mart sales increasing by 5.4% on the previous year and smaller Star Shop store sales increasing by 6.4%.

The Caltex brand profited from an extensive positioning review, combined with exceptional success in Motorsport sponsorship. Caltex made a significant move to increase retail fuel sales and its presence in a tough and evolving market with a proposed retail venture with Woolworths. There were 30 co-branded sites in operation by the end of 2003.

Outlook

Domestic and regional market dynamics have been changing in favour of Caltex and other Australian refiners and marketers. Rising demand is catching up with refining capacity and is having a positive effect on refiner margins.

The outlook for crude oil prices remains high relative to the average for the past five years of US\$25.52 a barrel. Refiner margins since the latter part of 2003 and the start of 2004 have been strong. The average year-to-date Singapore refiner margin is around US \$7.50 a barrel. This higher margin is expected to ease. However, it is expected the average margin will continue to be higher than it has been over the past five years. Caltex anticipates there is likely to be a higher level of volatility in Singapore refiner margins in 2004 than in recent years because of the tightening of petroleum product supply and demand conditions in Asia.

To ensure Caltex captures value from the changing marketplace, there will be a focused drive across the company to achieve operational excellence in safety, environment, efficiency and reliability.

The focus will remain on cash flow and achieving a strong long-term capital structure. The priorities will be to continue to reduce unit operating expenses, improve supply reliability, implement new marketing strategies and complete the Clean Fuels Project on time and on budget.

DIVIDENDS DECLARED AND PAID

A final dividend of 8 cents per share, and a special dividend of 6 cents per share was declared on 27 February 2004 and will be paid on 2 April 2004. The final and special dividend were declared as fully franked.

An interim dividend of 4 cents per share was declared on 29 August 2003 and paid on 3 October 2003. The interim dividend was fully franked.

PRINCIPAL ACTIVITIES

The principal activities of Caltex during the year were the purchase, refining, distribution and marketing of petroleum products and the operation of convenience stores throughout Australia. There were no significant changes in the nature of Caltex's activities or in the state of affairs during the financial year.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 25 February 2004, the Board approved the commitment of capital funding for Caltex to invest in its Kurnell and Lytton refineries to meet new clean fuel standards that will take effect from 1 January 2006. Caltex will invest about \$250 million over the next two years. The estimated total project cost (2002–2005) is \$295 million +/- 10%, which includes \$43 million expenditure incurred to date.

No other 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 2003 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.

Venture with Woolworths

On 21 August 2003, Caltex announced that it proposed to enter into a venture with Woolworths to operate up to 450 co-branded Caltex and Woolworths sites around Australia. On 21 November 2003, Caltex and Woolworths commenced rolling out an interim retail venture for a limited number of sites in a simpler arrangement than that announced in August 2003. Negotiations of the terms of the proposed final arrangements between Caltex and Woolworths are continuing and any final arrangements are subject to regulatory review, third party consents and execution of transaction documentation.

ENVIRONMENTAL REGULATIONS

EHS and risk management

The Caltex Australia Group has business focused environment, health, safety (EHS) and risk management systems in place that allow compliance with Australian laws, regulations and standards.

EHS targets are set and regular reports are prepared that allow the directors of Caltex Australia Limited to gauge the group's performance against these targets. In addition to the directors' review, the Managing Director and Chief Executive Officer, General Managers and Business Unit Managers meet regularly to critically review EHS and risk performance and ensure that issues are adequately addressed.

During 2003, EHS audits, and post audit reviews, were carried out to ensure compliance with relevant legislation and the standards imposed by the Caltex Australia Group. These audits found no major non compliance issues but did identify areas where opportunity for improvement existed. Results of all EHS management system audits along with resultant action items are reported to the Audit Committee.

Compliance with environmental obligations

A total of 14 pollution control licences were held by companies in the Caltex Australia Group in 2003 for two refineries and 12 terminals.

Licence conditions were exceeded on 18 occasions in 2003, which required notification and reporting to government environmental authorities.

Two infringement notices for breaches of significant environmental regulation were received by Caltex in 2003:

- Caltex Refineries (NSW) Pty Ltd received a penalty infringement notice for \$1,500 from the Environment Protection Authority (NSW) for the release of an offensive odour from the Kurnell refinery; and
- Caltex Refineries (NSW) Pty Ltd received a penalty notice for \$1,500 from the Sydney Ports Corporation following the release of less than 10 litres of hydrocarbon into Botany Bay, Sydney.

Caltex is committed to achieving 100% compliance and all breaches of environmental regulations have been thoroughly investigated by management.

Caltex has an aggressive program to achieve Incident Free Operations across the organisation. A key component of this program is the implementation of the Loss Prevention System which is a system to prevent or reduce incidents using behaviour based tools and proven management techniques.

DIRECTORS' REPORT

REMUNERATION REPORT

Emoluments of directors in 2003

Details of the classification and amount of each element of the emoluments of the directors of Caltex Australia Limited for 2003 are set out below (on the basis of the cost to the Caltex Australia Group):

Director	Base emolument \$	Super contributions \$	2003 total \$	2002 total \$	Retirement plan benefits ⁽ⁱⁱⁱ⁾ \$
Current directors					
Dick Warburton	175,000	15,750	190,750	162,750	264,530
Dave Reeves ⁽ⁱ⁾	516,164	–	516,164	–	–
Elizabeth Bryan ⁽ⁱⁱ⁾	66,214	4,338	70,552	27,151	–
Leo Lonergan	66,443	–	66,443	57,500	–
Ken Watson	70,000	6,300	76,300	62,414	172,943
Former directors					
Jeet Bindra ⁽ⁱ⁾	608,219	–	608,219	723,288	–
Michael Wirth	58,134	–	58,134	52,500	–

Notes: Steve de Bruyn, who served as an alternate director, did not receive any remuneration. Directors are eligible to receive a discount on private fuel purchases in line with that available to Caltex employees.

- (i) The directors' remuneration paid or payable in relation to Dave Reeves and Jeet Bindra has been calculated on a pro rata basis based on the length of service for the year. Under the terms of the secondment agreement between Caltex and ChevronTexaco, Caltex agreed to pay a maximum of \$1.2 million per annum for Dave Reeves, and \$1.0 million per annum for Jeet Bindra.
- (ii) Elizabeth Bryan was appointed as a director on 18 July 2002 and her director's fee in 2002 is a pro rata amount.
- (iii) The retirement plan benefits represent amounts accrued as at 31 December 2003.

DIRECTORS' REMUNERATION

Directors' fees

Fees paid to non executive directors are subject to a maximum Board remuneration pool of \$650,000 per annum. The Board's remuneration pool was approved by shareholders of Caltex Australia Limited at the Annual General Meeting held in March 1998 and has not been increased since that time.

In August 2000, the Board approved the following fee rates within this aggregate amount (with effect from 1 September 2000):

- the Chairman's fee was set at \$150,000 per annum (inclusive of committee fees); and
- the fee for non executive directors was set at \$50,000 per annum.

Since April 1998, committee fees for non executive directors (other than the Chairman) serving on the Audit Committee and the Human Resources and Nomination Committee have been paid at the annual rate of \$5,000 for each committee membership, with the committee chair paid at the annual rate of \$10,000.

The Board reviewed the levels of Board and committee fees in February 2003 and approved fee increases of 20% from 1 March 2003. The annual fee* rates during 2003 are set out in the following table:

	1 January to 28 February 2003	1 March to 31 December 2003
Chairman's fee (inclusive of all Committee fees)	\$150,000	\$180,000
Non executive directors' fees	\$50,000	\$60,000
Committee fees (Audit Committee/Human Resources and Nomination Committee)	\$5,000 for each Committee member (other than the Chair) \$10,000 for the Committee Chair	\$6,000 for each Committee member (other than the Chair) \$12,000 for the Committee Chair

* The statutory superannuation guarantee charge (where applicable) is paid as an additional amount.

Fees for non executive directors' reflect the time commitment of directors, the size and scale of the Caltex Australia Group's operations (including annual turnover) and market capitalisation. The Board reviews directors' fees and committee fees on an annual basis.

Fees for non executive directors are not linked to the financial performance of the Caltex Australia Group in any way as the Board believes this may, or may be seen to, compromise director independence.

Retirement payments to directors

Under the terms of the retirement scheme for non executive directors, directors resident in Australia were entitled to a retirement payment equal to:

- one year's total emoluments, after three years of service; and
- three years' total emoluments, after nine years of service.

The retirement benefit accrued on a pro rata basis between years three and nine.

In December 2003, the Board resolved to discontinue the directors' retirement scheme from 1 January 2004. Accrued directors' retirement benefits at 31 December 2003 have been frozen and paid into a separate interest bearing account for each entitled director pending that director's retirement. As at 31 December 2003, Dick Warburton had accrued a total retirement benefit of \$264,530 and Ken Watson had accrued a retirement benefit of \$172,943. As a result of the discontinuance of the directors' retirement plan, directors' fees have increased from 1 January 2004 as follows:

	1 January 2004 onwards
Chairman's fee	\$232,000
Non executive directors' fees	\$81,000

Managing Director and Chief Executive Officer

Dave Reeves (Managing Director and Chief Executive Officer) and Jeet Bindra (former Managing Director and Chief Executive Officer) were seconded from ChevronTexaco to Caltex Australia during 2003 (ChevronTexaco Global Energy Inc holds 50% of the shares of Caltex Australia Limited).

Under the terms of the secondment arrangements, Caltex Australia paid service fees to ChevronTexaco representing a partial reimbursement of the salaries and other benefits paid or payable by ChevronTexaco. The terms of these arrangements are considered by Caltex Australia to be no less favourable to Caltex Australia than arm's length terms.

DIRECTORS' REPORT

EMOLUMENTS OF SENIOR EXECUTIVES IN 2003

Details of the classification and amount of each element of the emoluments of the six senior executives of Caltex who received the highest total emoluments for 2003 are set out below (on the basis of the cost to Caltex):

Executive officer	Salary paid	Bonus	Super contributions	Non cash/ other benefits	2003 total	2002 total
	\$	\$	\$	\$	\$	\$
Current executives:						
Richard Beattie (Manager Corporate Affairs)	240,479	163,434	17,755	–	421,668	342,953
Mark Burrowes ¹ (General Manager Marketing)	261,333	120,040	19,242	–	400,615	–
Helen Conway (Company Secretary and General Counsel)	292,500	249,772	22,204	8,275	572,751	414,090
Simon Hepworth (Chief Financial Officer)	346,494	275,168	25,256	13,382	660,300	567,026
Alex Strang (General Manager – Planning, Supply and Corporate Services)	351,396	291,044	26,136	12,122	680,698	567,488
Eion Turnbull (General Manager – Refining)	280,000	224,453	20,677	46,132	571,262	379,910

Note: Senior executives are eligible to receive a discount on private fuel purchases in line with that available to Caltex employees.

¹ Mark Burrowes joined Caltex on 1 May 2003.

EXECUTIVE REMUNERATION

Remuneration policy

The remuneration policy for senior executives of Caltex is designed to ensure that remuneration is:

- commensurate with an executive's duties, responsibilities and accountabilities; and
- market competitive so that Caltex is able to attract, motivate and retain exceptional performers.

Remuneration, particularly incentive based remuneration, closely reflects Caltex's financial and operational performance and aligns senior executive performance with increasing shareholder value. Senior executives are eligible for the following bonuses:

- a short-term incentive program based on corporate performance;
- an incentive program based on personal performance; and
- participate in the long-term incentive scheme.

Long-term share based incentive scheme

Senior executives may receive shares under Caltex Australia Limited's long-term incentive scheme. The Human Resources and Nomination Committee approves the participants in the scheme and the target return on capital employed. The terms and conditions of this plan were approved by shareholders at the Annual General Meeting held in April 1999.

Performance targets

The return on capital employed target is assigned at the beginning of each year. Based on the performance against this target and Caltex's total shareholder return relative to the All Industrial Accumulation Index (excluding banks) over the whole year, shares are allocated to senior executives, based on a combination of their base salary earned, bonuses received and level of responsibility.

Shares earned by executives are bought on market and vest over a three year period, although dividend and voting entitlements vest immediately. Upon vesting, shares are included as a part of bonuses in the calculation of remuneration based on the original cost to the company.

Executive benefits

In relation to the 2003 financial year, 13 senior executives became eligible to receive \$2.3 million of Caltex shares, based on the attainment of certain return on capital employed and total shareholder return targets. These will vest over a period of three years starting 2003. At the date of this report, the six eligible senior executives of Caltex could receive the following amounts as shares:

Executive share benefits for 2003

Executive	Vested and included in bonus (\$)	Unvested (\$)	Total (\$)
Richard Beattie	54,060	108,120	162,180
Mark Burrowes	60,978	121,955	182,933
Helen Conway	90,349	180,698	271,047
Simon Hepworth	101,303	202,607	303,910
Alex Strang	105,253	210,506	315,759
Eion Turnbull	84,175	168,350	252,525

As at 31 December 2003, in relation to financial years prior to 2003, under the executive share plan 237,637 shares vested to 10 senior executives, and this was included in their bonus. Five of the senior executive officers of Caltex listed above are among those eligible to participate in the plan, and 152,218 Caltex shares vested to them at 31 December 2003.

Secondments from ChevronTexaco

Senior executives may, from time to time, be seconded to Caltex Australia from ChevronTexaco. The terms of secondment arrangements for senior executives are subject to Board approval and are considered to be no less favourable to Caltex Australia than arm's length terms.

DIRECTORS' REPORT

Additional remuneration disclosures

Note 25 of the 2003 Financial Report discloses remuneration paid or payable, or otherwise made available, to directors and executives by the Caltex Australia Group or any related party, which includes the amounts paid or payable by the ChevronTexaco Group.

DIRECTORS' INTERESTS

The directors of Caltex Australia Limited held the following relevant interests in the company's shares at 31 December 2003:

Director	Number of shares	Nature of interest
Dick Warburton	10,000	Indirect (beneficial interest through Teampass Pty Ltd)
Dave Reeves	5,000	Direct (held jointly with Becky Reeves)
Elizabeth Bryan	5,000	Direct
Leo Lonergan	2,000	Direct (held jointly with Robyn Lonergan)
Ken Watson	7,500	Direct
Total	29,500	

Notes:

- (a) The directors have not acquired or disposed of any shares since 31 December 2003.
 - (b) Martin B Southern was appointed as a director on 25 February 2004. Martin did not hold any shares at the date of his appointment.
 - (c) Jeet Bindra, former Managing Director and Chief Executive Officer, held 5,000 shares (jointly with Jan Bindra) at the time of his resignation (10 August 2003).
 - (d) Michael Wirth, former director, held an indirect beneficial interest in 2,000 shares (through the Wirth 2000 Revocable Trust) at the time of his resignation (5 December 2003).
 - (e) Mitch Rubinstein was appointed as an alternate director for Leo Lonergan and Martin B Southern on 25 February 2004. Mitch did not hold any shares at the date of his appointment.
- Steve de Bruyn resigned as an alternate director for Leo Lonergan with effect from 25 February 2004. Steve did not hold any shares at the date of resignation.

MEETINGS OF DIRECTORS

The Board of Caltex Australia Limited formally met on 17 occasions during the year ended 31 December 2003. Board papers were circulated to the directors on two additional occasions and a separate strategy session was held over two days during the year (which was attended by all of the directors).

The Audit Committee (then the Audit and Risk Committee) and the Human Resources and Nomination Committee each met on four occasions during 2003. Special purpose committees were convened on six occasions during the year.

The number of Board and Committee meetings attended by each director during the year are set out in the following table:

Director	Board of Directors		Audit Committee		Human Resources Committee		Special Purpose Committees		Total	
Current directors										
Dick Warburton	16	(17)			4	(4)	5	(6)	25	(27)
Dave Reeves	11	(11)					1	(1)	12	(12)
Elizabeth Bryan	16	(17)	4	(4)	2	(2)	2	(2)	24	(25)
Leo Lonergan	16	(17)	4	(4)	2	(2)	1	(1)	23	(24)
Ken Watson	17	(17)	4	(4)					21	(21)
Former directors										
Jeet Bindra	6	(6)					5	(5)	11	(11)
Michael Wirth	9	(16)			2	(2)			11	(18)

Notes:

- The table shows the number of Board and Committee meetings attended by each director during the year ended 31 December 2003 as a Board or Committee member, with the number of meetings held during the time in office as a Board or Committee member shown in brackets.
- In 2003, the Audit Committee was known as the Audit and Risk Committee.
- Dick Warburton was not a member of the Audit Committee in 2003 but attended three Committee meetings during the year in an ex-officio capacity.
- Dave Reeves and Jeet Bindra were not members of the Audit Committee or the Human Resources and Nomination Committee in 2003, but attended Committee meetings during the year as representatives of management.
- Steve de Bruyn, who served as an alternate director in 2003, did not attend any Board or Committee meetings.

INDEMNITY INSURANCE

Deeds of indemnity and insurance

During the year ended 31 December 2003, Caltex Australia Limited entered into a deed of indemnity and insurance with Dave Reeves.

Under the deed, Caltex Australia Limited has agreed to indemnify Dave Reeves (to the extent permitted by law) against:

- liabilities incurred as a director of Caltex Australia Limited or a company in the Caltex Australia Group, except for those incurred in relation to the matters set out in section 199A(2) of the Corporations Act 2001 (Cth); and

- reasonable legal costs incurred in defending an action for a liability or alleged liability as a director of Caltex Australia Limited or a company in the Caltex Australia Group, except for costs incurred in relation to the matters set out in section 199A(3) of the Corporations Act.

The total liability of Caltex Australia Limited for any single claim is limited to the company's total net assets, as disclosed in the company's most recently audited accounts prior to the claim.

Caltex Australia Limited has also agreed to effect and maintain and pay the premium on an insurance policy covering Dave Reeves on terms that are no less favourable than:

- the policy of the directors of Caltex Australia Limited and other companies in the Caltex Australia Group; and
- if there is no policy for the directors of Caltex Australia Limited and other companies in the Caltex Australia Group, policies typically maintained by other groups of companies that are similar to Caltex Australia Limited and the Caltex Australia Group.

DIRECTORS' REPORT

This policy must not seek to insure against liabilities (other than for legal costs) arising out of:

- conduct involving a wilful breach of duty in relation to Caltex Australia Limited or a company in the Caltex Australia Group; or
- a contravention of sections 182 or 183 of the Corporations Act.

The obligation to effect and maintain and pay the premium on a policy continues for a period of seven years after leaving office.

Deeds of indemnity and insurance have previously been entered into by Caltex Australia Limited with other current directors and officers, and with former directors and officers, under which similar indemnity provisions and insurance obligations apply.

CONTRACT OF INSURANCE

Caltex Australia Limited has paid a premium in respect of a contract insuring the directors and officers of Caltex Australia Limited against a liability.

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability, as such disclosure is prohibited under the terms of the contract.

ROUNDING OF AMOUNTS

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

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



RFE (Dick) Warburton
Chairman



DC (Dave) Reeves
Managing Director and
Chief Executive Officer

Sydney, 27 February 2004

DIRECTORS' DECLARATION

The Board of Caltex Australia Limited has declared that:

- the financial statements for the year ended 31 December 2003 and the notes required by the Accounting Standards in Australia comply with the Accounting Standards;
- the financial statements for the year ended 31 December 2003 and notes give a true and fair view of the financial position of the Caltex Australia Group at 31 December 2003 and its performance for the year;

- in the directors' opinion, there are reasonable grounds to believe that Caltex Australia Limited will be able to pay its debts as and when they become due and payable;
- in the directors' opinion, the financial statements for the year ended 31 December 2003 and notes are in accordance with the Corporations Act 2001 (Cth); and
- as at the date of this declaration, there are reasonable grounds to believe that all companies in the Caltex Australia Group that are parties to the Deed of Cross Guarantee with Caltex Australia Limited will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee.

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



RFE (Dick) Warburton
Chairman



DC (Dave) Reeves
Managing Director and
Chief Executive Officer

Sydney, 27 February 2004

AUDIT REPORT

Independent audit report to the members of Caltex Australia Limited

Scope

We have audited the financial report of Caltex Australia Limited ("the company") for the financial year ended 31 December 2003, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes 1 to 31, and the directors' declaration set out in the 2003 Financial Report. The financial report includes the consolidated financial statements of the consolidated entity, comprising the company and the entities it controlled at the end of the year or from time to time during the financial year. The company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion, the financial report of Caltex Australia Limited is in accordance with:

- a) the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the company's and the consolidated entity's financial position as at 31 December 2003 and of their performance for the financial year ended on that date; and
 - ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.



KPMG



S A Gatt
Partner

Sydney, 27 February 2004

STATEMENTS OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2003

Thousands of dollars	Note	Consolidated		Parent entity	
		2003	2002	2003	2002
Gross sales revenue		10,385,878	9,133,366	–	–
Product duties and taxes		(3,617,743)	(3,447,378)	–	–
Net sales revenue		6,768,135	5,685,988	–	–
Cost of goods sold – replacement cost		(6,169,278)	(5,216,668)	–	–
Inventory gains		13,048	172,948	–	–
Cost of goods sold – historical cost		(6,156,230)	(5,043,720)	–	–
Gross profit		611,905	642,268	–	–
Other revenue from ordinary activities	2	247,381	215,260	71,222	84,577
Refining and supply expenses		(23,326)	(14,356)	–	–
Marketing expenses		(453,539)	(415,176)	–	–
Borrowing costs	3	(62,804)	(76,067)	(56,664)	(66,190)
Other expenses	3	(43,800)	(52,965)	(1,316)	(13,034)
Share of net profit of associated entities accounted for using the equity method	27	3,986	2,181	–	–
Profit from ordinary activities before income tax expense		279,803	301,145	13,242	5,353
Income tax expense relating to ordinary activities	5	(81,464)	(85,429)	142	819
Net profit		198,339	215,716	13,384	6,172
Net profit attributable to outside equity interests	18	(842)	(546)	–	–
Net profit attributable to members of the parent entity		197,497	215,170	13,384	6,172

Basic and diluted earnings per share

Historical cost including significant items – cents per share

	7	73.1	79.7
Replacement cost excluding significant items – cents per share	7	74.0	39.3

The statements of financial performance are to be read in conjunction with the discussion and analysis on the following page and the notes to the financial statements.

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2003

- The 2003 result was primarily driven by strong refiner margins, robust marketing margins, higher sales, and a concentrated effort across the business to reduce debt and enhance profits.
- Caltex's replacement cost net profit (RCOP), excluding significant items, for the year was \$199.7 million, up \$93.6 million from the \$106.1 million replacement cost net profit for 2002.
- Caltex's historical cost net profit, including significant items, attributable to members of Caltex Australia Limited for the year was \$197.5 million, down \$17.7 million from the \$215.2 million recorded in 2002.
- The directors' valuation at 30 June 2003 determined Caltex's land and buildings value was \$411 million above its net book value. However, certain land, buildings and related plant and equipment had recoverable amounts less than their net book value, and in accordance with accounting standards, a writedown of \$12.5 million before tax (\$11.3 million after tax) was incurred. This has been included in the 2003 full year profit as a significant item. In 2002, Caltex recognised as a significant item, a payment of \$12.0 million (before and after tax) to be made to Hanson Australia relating to the purchase of its 50% interest in Caltex Australia Petroleum Pty Ltd in 1997.
- Gross sales revenue increased due to stronger refiner margins and continued robust marketing margins together with increased volumes. These factors led to an increase in the cost of goods sold together with higher volumes and the cost of imports and crude prices.
- In 2003, there was an inventory gain of \$13.0 million before tax (\$9.1 million after tax) compared to \$172.9 million before tax (\$121.1 million after tax) in 2002. Though regional crude oil prices fell in the first half of the year, they increased in the second half to end at about the same level as at the beginning of the year (averaging US\$30.59 a barrel in December 2003 to US\$29.47 a barrel in December 2002).
- Borrowing costs have fallen mainly due to net debt being reduced to \$624.4 million at 31 December 2003 compared with \$954.2 million at 31 December 2002.
- Earnings per share on a historical cost basis including significant items decreased to 73.1 cents per share in 2003 from 79.7 cents per share in 2002. Earnings per share on a RCOP basis excluding significant items increased significantly to 74.0 cents per share in 2003 from 39.3 cents per share in 2002.
- The return on equity on a historical cost basis (historical cost net profit or loss attributable to members of the parent entity, after tax including significant items, on parent entity interest in equity) fell to 16.3% in 2003 from 20.9% at December 2002.
- The return on equity on a RCOP basis, excluding significant items, increased to 16.4% from 10.3% in 2002.

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2003

Thousands of dollars	Note	Consolidated		Parent entity	
		2003	2002	2003	2002
Current assets					
Cash at bank and on hand		36,318	17,969	–	–
Receivables	8	540,990	585,462	103,657	258,307
Inventories	9	502,732	525,546	–	–
Other	10	20,761	28,816	1,931	3,696
Total current assets		1,100,801	1,157,793	105,588	262,003
Non current assets					
Receivables	8	25,638	31,875	554,422	704,422
Investments accounted for using the equity method	27	9,829	8,093	–	–
Property, plant and equipment	12	1,615,321	1,625,327	–	–
Intangibles	11	12,592	14,049	–	–
Deferred tax assets		–	–	131	97
Other	10	9,465	15	928,734	928,734
Total non current assets		1,672,845	1,679,359	1,483,287	1,633,253
Total assets		2,773,646	2,837,152	1,588,875	1,895,256
Current liabilities					
Payables	13	602,684	546,233	13,324	25,439
Interest bearing liabilities	14	96,652	257,553	108,153	255,460
Tax liabilities		72,865	59,292	1,274	854
Provisions	15	45,791	45,849	–	–
Total current liabilities		817,992	908,927	122,751	281,753
Non current liabilities					
Payables	13	1,300	3,463	–	–
Interest bearing liabilities	14	564,094	714,649	554,422	704,422
Deferred tax liabilities		128,623	139,354	–	–
Provisions	15	37,978	34,433	437	400
Total non current liabilities		731,995	891,899	554,859	704,822
Total liabilities		1,549,987	1,800,826	677,610	986,575
Net assets		1,223,659	1,036,326	911,265	908,681
Equity					
Contributed equity	16	543,415	543,415	543,415	543,415
Retained profits	17	671,884	485,187	367,850	365,266
Parent entity interest		1,215,299	1,028,602	911,265	908,681
Outside equity interests	18	8,360	7,724	–	–
Total equity	19	1,223,659	1,036,326	911,265	908,681

The statements of financial position are to be read in conjunction with the discussion and analysis on the following page and the notes to the financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2003

- Caltex's net assets increased by \$187.3 million during the year to \$1,223.7 million.
 - Caltex's total assets decreased by \$63.5 million, during the year to \$2,773.6 million primarily due to movements in the following specific asset groups:
 - a decrease in receivables consistent with the favourable movement in the exchange rate partially offset by an increase in the average Tapis price;
 - a decrease in inventories due to the favourable moment in the exchange rate partially offset by higher inventory holdings; and the decrease in receivables and inventories was partially offset by:
 - an increase in cash at bank and on hand of \$18.3 million
- The decrease in property, plant and equipment is due to an increase in capital and major cyclical expenditure of \$147.6 million offset by depreciation of \$128.3 million, net disposals of \$16.8 million and a writedown to recoverable amount of \$12.5 million.
- The increase in payables of \$54.3 million reflects the increase in crude purchases together with an additional day accrual for excise. These increases were partially offset by the strengthening of the Australian dollar against the US dollar.
 - Caltex had a current tax liability of \$72.9 million at 31 December 2003 consistent with the timing of instalments. This liability will be paid during 2004 subject to lodgement of the Group's tax return for 2003.
 - Net debt has been reduced to \$624.4 million at 31 December 2003, a decrease of \$329.8 million from 31 December 2002. As a result, Caltex's gearing (net debt to net debt plus equity) was 33.8%, down from 47.9% at the end of the prior year.
 - Net tangible asset backing per share (net assets attributable to members of the company less intangible assets, on number of shares on issue) increased from \$3.76 to \$4.46.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2003

Thousands of dollars	Note	Consolidated		Parent entity	
		2003	2002	2003	2002
Cash flows from operating activities					
Receipts from customers		11,500,656	10,043,485	–	–
Payments to suppliers, employees and governments		(10,877,185)	(9,573,773)	–	(7,598)
Dividends received		2,250	1,541	–	–
Interest received		1,996	506	67,176	83,977
Interest and other borrowing costs paid		(61,490)	(64,494)	(55,648)	(55,930)
Income taxes paid		(79,553)	(12,434)	(2,421)	(3,492)
Net operating cash inflows	28(b)	486,674	394,831	9,107	16,957
Cash flows from investing activities					
Purchases of controlled entities, net of cash acquired		–	2,027	–	–
Deferred payment for purchase of controlled entities	28(c)	(3,833)	–	–	–
Payment for investment		(2,325)	–	–	–
Hanson Australia consideration		(12,000)	–	(12,000)	–
Purchases of businesses	28(d)	–	(10,338)	–	–
Purchases of property, plant and equipment		(117,966)	(78,919)	–	–
Major cyclical maintenance		(29,675)	(20,992)	–	–
Proceeds from sale of property, plant and equipment		17,108	26,477	–	–
Loans repaid from controlled entities		–	–	311,000	413,681
Loans repaid from associated entities		2,750	–	–	–
Net investing cash inflows/(outflows)		(145,941)	(81,745)	299,000	413,681
Cash flows from financing activities					
Proceeds from borrowings		5,626,916	5,377,352	5,626,000	5,371,422
Repayments of borrowings		(5,937,690)	(5,661,423)	(5,937,000)	(5,656,000)
Repayment of finance lease principal		(810)	(2,822)	–	(54)
Dividends paid		(10,800)	–	(10,800)	–
Net financing cash outflows		(322,384)	(286,893)	(321,800)	(284,632)
Net increase/(decrease) in cash held		18,349	26,193	(13,693)	146,006
Cash/(overdraft) at the beginning of the year		17,969	(8,224)	(460)	(146,466)
Cash/(overdraft) at the end of the year	28(a)	36,318	17,969	(14,153)	(460)

The statements of cash flows are to be read in conjunction with the discussion and analysis on the following page and the notes to the financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2003

- Net operating cash flows increased \$91.8 million to \$486.7 million for the year ended 31 December 2003, largely due to lower working capital levels. Interest and other borrowing costs paid decreased due to a decrease in debt. Income taxes paid increased with the final 2002 instalment paid in 2003.
- Capital expenditure increased \$39.0 million to \$118.0 million for the year ended 31 December 2003, mainly due to clean fuels expenditure of \$30.3 million. In addition, divestment proceeds from the sale of property, plant and equipment were marginally lower than 2002.
- Major cyclical maintenance increased \$8.7 million due to investment in reliability improvement programs and unplanned outages. With a solid platform for reliable operations now established, reducing costs to a long-term sustainable level is a priority for 2004 and beyond.
- Investing cash flows during 2003 also included a \$12.0 million payment to Hanson Australia (formerly Pioneer International) relating to the purchase of its 50% interest in Caltex Australia Petroleum Pty Ltd in 1997 which had been accrued in 2002.
- Net debt fell during 2003 as strong operating cash flows were channelled towards the repayment of debt.
- The interim fully franked dividend of \$10.8 million, or 4.0 cents per share was paid on 3 October 2003.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted in the preparation of this financial report are:

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001 (Cth).

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or current valuations of non current assets.

These accounting policies have been consistently applied by each entity in the Caltex Australia Group and, except where there is a change in accounting policy, are consistent with those of the previous year.

(b) Changes in accounting policy

Provisions, contingent liabilities and contingent assets

Caltex has applied AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" (issued in October 2001) for the first time from 1 January 2003.

Dividends are now recognised at the time they are declared, determined or publicly recommended. Previously, final dividends were recognised in the financial year to which they related, even though the dividends were announced after the end of the financial period.

There has been no adjustment to Caltex's financial report as at 1 January 2003. However, there was an impact on the financial report for the year ended 31 December 2003, as the dividend declared after reporting date was not provided for in the period to which it related.

Contingent assets are now to be disclosed when the probability of receipt is not remote. Contingent assets have been disclosed, with comparative figures, in the 2003 Financial Report (note 23(a)).

Employee benefits

Caltex has applied the revised AASB 1028 "Employee Benefits" (issued in June 2001) for the first time from 1 January 2003.

The liability for wages and salaries, annual leave and sick leave is now calculated using the remuneration rates Caltex expects to pay as at each reporting date, not wage and salary rates current at reporting date.

There has been no adjustment to Caltex's financial report as at 1 January 2003 or in the year ended 31 December 2003.

(c) Principles of consolidation

The consolidated financial report of the Caltex Australia Group includes the financial report of Caltex Australia Limited and its controlled entities.

Where an entity began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased. The balances and effects of transactions between controlled entities included in the consolidated financial report have been eliminated. Outside interests in the equity and results of the entities that are controlled by the Caltex Australia Group are shown as a separate item in the consolidated financial statements.

(d) Revenue recognition

Sales revenue

Net sales revenue comprises revenue earned (net of rebates, discounts and allowances) from the provision of products and ancillary services to entities outside the Caltex Australia Group. Gross sales revenue includes excise and taxes collected on behalf of state and federal governments, other than goods and services tax. Sales revenue is recognised when the goods are provided, or when the fee in respect of ancillary services provided is receivable. Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

Other revenue

Dividend revenue is recognised at the date the dividend is declared. Rental, interest, royalties and franchise revenues are recognised as they accrue. The revenue and profit on disposal of assets is brought to account at the date a contract of sale is settled.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

(f) 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 statement of financial position. Cash flows are included in the statement of cash flows 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.

(g) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, and amortisation on ancillary costs incurred in connection with arrangement of borrowing, including lease finance charges.

Ancillary costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings.

Borrowing costs are expensed 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 amount of borrowing costs capitalised is that 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.

(h) Foreign currency translations

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the date of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Except as outlined in note 1(s) below, exchange gains and losses are brought to account in the statement of financial performance.

Hedges

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 under note 1(s) below, any exchange differences on the hedge transaction after that date are included in the statement of financial performance.

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 statement of financial performance 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 statement of financial performance. Costs or gains at the time of entering into the hedge are deferred and amortised over the life of the hedge.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 CONTINUED

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(i) Income tax

The Caltex Australia Group adopts the income statement liability method of tax effect accounting.

The income tax expense is calculated on net profit or loss adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arises from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred tax liability.

Future income tax benefits relating to timing differences are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to entities with tax losses are only brought to account when their realisation is virtually certain. The tax effect of capital losses is not recorded unless realisation is virtually certain.

(j) Receivables

Trade receivables are carried at amounts due. The collectability of debts is assessed at balance date and provision is made for doubtful accounts.

(k) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is based on the weighted average costing principle and includes direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure.

(l) Investments

Controlled entities

Investments in controlled entities are carried in Caltex Australia Limited's financial statements at the lower of cost or recoverable amount. Dividends are brought to account in the statement of financial performance when they are declared by the controlled entities.

Associated entities

An associated entity is one in which the Caltex Australia Group exercises significant influence but not control and the investment in that associated entity has not been acquired with a view to disposal in the near future.

In the consolidated financial statements, investments in associated entities are accounted for using equity accounting principles and are carried at the lower of the equity accounted amount and the recoverable amount. The Caltex Australia Group's equity accounted share of the associated entities' net profit or loss after tax is recognised in the consolidated statement of financial performance from the date significant influence ceases. The net profit and loss after tax recognised is adjusted for revisions in depreciation of depreciable assets and amortisation of goodwill arising from adjustments made as at the date of acquisition, dissimilar accounting policies and the elimination of unrealised profits and losses on transactions between the associated entity in the Caltex Australia Group or other associated entity of the consolidated entity.

Other entities

Investments in other entities are carried in Caltex Australia Limited's financial statements at the lower of cost or recoverable amount. Dividends are brought to account in statements of financial performance when they are declared by the other entities.

(m) Property, plant and equipment

Items of property, plant and equipment are initially recorded at their cost of acquisition plus incidentals directly attributable to the acquisition.

The costs of assets constructed by the Group, other than goodwill, include the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset. Borrowing costs are capitalised to qualifying assets as set out in note 1(g).

Property, plant and equipment are depreciated as outlined overleaf.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(m) Property, plant and equipment continued

Depreciation and amortisation

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.

Leased assets

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

Assets of the Caltex Australia Group acquired under finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Contingent rentals are written off as an expense of the period in which they are incurred. Capitalised lease assets are amortised on a straight line basis over the term of the relevant lease, or where it is likely the group will obtain ownership of the asset, over the life of the asset. Lease liabilities are reduced by repayments of principal. The interest components of lease payments are charged against net profit or loss.

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.

(n) Recoverable amount of non current assets valued on cost basis

The carrying amounts of all non current assets valued on a cost basis are reviewed at least annually to determine whether they are in excess of their recoverable amount. If the carrying amount of a non current asset exceeds the recoverable amount, the asset is written down to the lower value. In assessing recoverable amounts, the relevant cash flows have been discounted to their present value.

(o) Goodwill

Goodwill, being the excess of the purchase consideration plus incidental costs over the fair value of identifiable net assets acquired on the acquisition of controlled entities and businesses, is amortised on a straight line basis over the period during which benefits are expected to arise, but not exceeding 20 years.

The unamortised balance of goodwill is reviewed annually and where the balance exceeds the value of expected future benefits, the difference is charged to the statement of financial performance.

(p) Deferred expenditure

Material items of expenditure, excluding maintenance (refer note 1(u)), are deferred to the extent that it is probable that future economic benefits embodied in the expenditure will eventuate and can be reliably measured. Deferred expenditure is amortised over the period in which the related benefits are expected to be realised.

(q) Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the company or the Caltex Australia Group. Trade accounts payable are normally settled within 60 days.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 CONTINUED

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(r) Borrowings

Bank loans

Bank loans are carried on the statement of financial position at their principal amount. Interest expense is accrued at the contracted rate and included in other creditors and accrued expenses. Pre-paid interest is included in pre-paid and deferred expenditure.

Short-term notes

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

Medium-term notes

Medium-term notes are recognised when issued at par value. Interest expense is accrued at the contracted rate and included in other creditors and accrued expenses.

US notes

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

(s) Derivatives

The Caltex Australia Group is exposed to changes in interest rates, foreign exchange rates and commodity prices from its activities. The group uses interest rate instruments, forward foreign exchange contracts, crude swap contracts and refiner margin swap contracts to hedge these risks. Derivative financial instruments are not held for speculative purposes. 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 accruals basis as adjustment to interest expense during the period.

Forward foreign exchange contracts

The accounting for forward foreign exchange contracts is set out in note 1(h).

Refiner margin swap contracts

Tapis crude and product swap contracts are used to reduce exposure to falls in refiner margins. There is no exchange of principal amounts involved in these contracts. These contracts are accounted for as specific hedges, consistent with note 1(h).

(t) Employee entitlements

Wages and salaries

The provision for employee entitlements 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 entitlements to annual leave, long service leave and retirement benefits represent the present value 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 entitlements 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. Contributions are charged against net profit or loss as they are made. In addition, Caltex provides for any deficiency of vested benefits compared to plan assets. No provision is made for any deficiency in excess of the vested benefits deficiency on the basis that no legal or constructive obligation exists. Refer note 21(c) for further information.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(u) Major cyclical maintenance

Major cyclical maintenance expenditure is capitalised 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 additional useful life.

(v) Environmental costs

Environmental costs related to known environmental obligations under existing law are accrued when they can be reasonably estimated. Accruals are based on best available information and are adjusted as further information develops or circumstances change. Costs of future expenditures are not discounted to their present value.

Costs incurred to prevent future contamination or costs that are otherwise of a capital nature are capitalised. Costs to prepare a property for resale are capitalised where they can be recovered from expected sales proceeds. 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 probable.

(w) Provisions

A provision is recognised when there is a legal, equitable 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, being risk free rates on government bonds most closely matching the expected future payments. The unwinding of the discount is treated as part of the expense related to the particular provision.

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

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 has either commenced or been publicly announced, or 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 entitlements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 CONTINUED

Thousands of dollars	Consolidated		Parent entity	
	2003	2002	2003	2002
2. OTHER REVENUE				
From operating activities				
Dividends received or due and receivable from controlled entities	–	–	–	–
Interest received or due and receivable from:				
Controlled entities	–	–	70,564	83,944
Other corporations	1,361	506	58	33
Rental income	34,871	35,777	–	–
Royalties and franchise income	81,012	73,609	–	–
Net foreign exchange gains	67,419	19,579	–	–
Other income	38,034	52,453	600	600
From outside operating activities				
Gross proceeds from the disposal of property, plant and equipment	24,684	33,336	–	–
	247,381	215,260	71,222	84,577
3. COSTS AND EXPENSES				
Borrowing costs:				
Interest paid or due and payable to other corporations	61,647	74,108	56,545	66,136
Finance charges on capitalised leases	1,962	1,959	119	54
Less:				
Capitalised borrowing costs (i)	(805)	–	–	–
	62,804	76,067	56,664	66,190
Depreciation of:				
Freehold buildings	9,071	8,444	–	–
Plant and equipment	113,701	114,023	–	–
	122,772	122,467	–	–
Amortisation of:				
Leasehold property	4,837	4,964	–	–
Leased plant and equipment	713	786	–	–
Intangibles	1,459	829	–	–
	7,009	6,579	–	–
Total depreciation and amortisation	129,781	129,046	–	–

Thousands of dollars	Note	Consolidated		Parent entity	
		2003	2002	2003	2002
3. COSTS AND EXPENSES CONTINUED					
Writedown in value of land and buildings and related plant and equipment to recoverable amount	4	12,482	–	–	–
Operating leases rental expense		78,012	76,794	–	–
Finance lease contingent rentals		128	229	–	–
Net expense from movement in allowances for:					
Bad and doubtful debts		(1,460)	(727)	–	–
Employee benefits		20,545	18,877	–	183
Gain on disposal of non current assets		(220)	(7,561)	–	–
Reconciliation of other expenses in the statements of financial performance:					
Hanson Australia consideration	4	–	12,000	–	12,000
Other		43,800	40,965	1,316	1,034
		43,800	52,965	1,316	13,034

- (i) Borrowing costs were capitalised to capital projects in progress (note 12) at a weighted average rate of 7.35% p.a. (2002: no amounts were capitalised).

4. INDIVIDUALLY SIGNIFICANT ITEMS

The directors' valuation at 30 June 2003 determined Caltex's land and buildings value was \$411 million above its net book value. However, certain land, buildings and related plant and equipment had recoverable amounts less than their net book value, and in accordance with accounting standards, a writedown of \$12.5 million before tax (\$11.3 million after tax) was incurred. This has been included in the 2003 full year profit as a significant item.

In 2002, an expense of \$12.0 million was incurred relating to Hanson Australia's (formerly Pioneer International) purchase of its 50% interest in Caltex Australia Petroleum Pty Ltd in 1997. This payment was subject to performance targets for the full year and became payable due to the profit result. 2002 was the final year that such a payment could be payable.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 CONTINUED

Thousands of dollars	Consolidated		Parent entity	
	2003	2002	2003	2002
5. INCOME TAX				
(a) Income tax expense				
The income tax expense provided in the financial statements and the prima facie income tax expense are reconciled as follows:				
Profit from ordinary activities before income tax expense	279,803	301,145	13,242	5,353
Prima facie tax thereon at 30%	83,941	90,344	3,973	1,606
Tax effect of permanent and other differences:				
– Imputation gross up on dividends received	212	–	–	–
– Franking credits on dividends received	(707)	(530)	–	–
– Non allowable depreciation and leasehold amortisation	536	884	–	–
– Amortisation of goodwill	233	151	–	–
– Writedown of land and buildings	1,848	–	–	–
– Share of net profit of associated entities	(1,196)	(654)	–	–
– Research and development allowances	(38)	(38)	–	–
– Non assessable profit on disposal of property, plant and equipment	(935)	(2,761)	–	–
– Tax losses transferred for no consideration from controlled entities	–	–	(1,146)	–
– Non deductible contingent consideration	–	3,600	–	3,600
– Other non allowable items	3,025	2,672	–	258
	86,919	93,668	2,827	5,464
Income tax overprovided in prior years	(5,455)	(8,239)	(2,969)	(6,283)
Income tax expense attributable to net profit	81,464	85,429	(142)	(819)

(b) Deferred tax assets

(i) Future income tax benefit

The future income tax benefit in the controlled entities, arising from tax losses that have been recognised as an asset:

–	–	–	–
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(ii) Future income tax benefit not taken to account

The potential future income tax benefit in the controlled entities, arising from tax losses that have not been recognised as an asset because recovery is not virtually certain:

1,421	1,421	–	–
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The potential future income tax benefit will only be obtained if:

- the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another company in the Caltex Australia Group in accordance with Division 170 of the Income Tax Assessment Act 1997 (Cth);
- the relevant company and/or the Caltex Australia Group continues to comply with the conditions for deductibility imposed by the law; and
- no changes in tax legislation adversely affect the relevant company and/or the Caltex Australia Group in realising the benefit.

Thousands of dollars	Consolidated		Parent entity	
	2003	2002	2003	2002

5. INCOME TAX CONTINUED

(c) Tax consolidation

As a result of the substantive enactment of the tax consolidation legislation and since the consolidated tax group within the Caltex Australia Group had not notified the Australian Taxation Office at the date of signing this report of the implementation date, if any, for tax consolidation, the Caltex Australia Group has applied UIG 39 "Effect of proposed tax consolidation on deferred tax balances". Year end tax balances have not yet been adjusted for the possible effects, if any, of implementing tax consolidation.

6. DIVIDENDS

(a) Dividends declared or paid

Dividends provided for or paid by Caltex are:

Interim dividend declared

4 cents per share fully franked at 30% (2002: no interim dividend declared)

10,800	–	10,800	–
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Subsequent events – final dividend

Since the end of the financial year, the directors declared a final dividend of 8 cents per share and an additional 6 cents per share as a special dividend. Both dividends were fully franked at 30% (2002: no final dividend declared)

37,800	–	37,800	–
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The financial effect of this final dividend has not been brought to account in the financial statements for the year ended 31 December 2003 and will be recognised in subsequent financial reports (refer note 1(b) "Changes in accounting policy").

(b) Dividend franking account

Balance of franking account at year end adjusted for franking credits arising from payment of income tax and payment of the above declared dividends

–	–	2,614	1,881
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- (i) The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.
- (ii) Entries in the franking account are recorded on a tax paid basis rather than on a grossed up basis.

7. BASIC AND DILUTED EARNINGS PER SHARE

Historical cost including significant items – cents per share	73.1	79.7	–	–
Replacement cost excluding significant items – cents per share	74.0	39.3	–	–

Weighted average number of ordinary shares used in the calculation of earnings per share was 270 million shares (2002: 270 million shares). There are no dilutive potential ordinary shares, and therefore diluted earnings per share equals basic earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 CONTINUED

Thousands of dollars	Consolidated		Parent entity	
	2003	2002	2003	2002
8. RECEIVABLES				
Current				
Trade debtors	428,285	491,242	–	–
Allowance for doubtful debts	(3,225)	(1,945)	–	–
	425,060	489,297	–	–
Associated entities	39,180	39,733	–	–
Controlled entities	–	–	103,657	258,307
Other related entities	15,282	9,585	–	–
Other debtors	61,468	46,847	–	–
	540,990	585,462	103,657	258,307
Non current				
Loans to associated entities	22,469	25,219	–	–
Allowance for non recovery	(5,706)	(8,456)	–	–
	16,763	16,763	–	–
Loans to controlled entities	–	–	554,422	704,422
Other loans	8,875	15,112	–	–
	25,638	31,875	554,422	704,422
9. INVENTORIES				
Crude oil and raw materials, at cost	216,003	203,332	–	–
Inventory in process, at cost	57,395	58,946	–	–
Finished goods, at cost	200,771	232,619	–	–
Materials and supplies, at cost	28,563	30,649	–	–
	502,732	525,546	–	–
10. OTHER ASSETS				
Current				
Prepayments	20,761	28,816	1,931	3,696
Non current				
Investment in other entities	2,340	15	–	–
Investment in controlled entities	–	–	928,734	928,734
Other	7,125	–	–	–
	9,465	15	928,734	928,734

Thousands of dollars	Consolidated		Parent entity	
	2003	2002	2003	2002
11. INTANGIBLES				
Goodwill, at cost	16,289	17,783	-	-
Accumulated amortisation	(3,697)	(3,734)	-	-
	12,592	14,049	-	-
12. PROPERTY, PLANT AND EQUIPMENT				
Freehold land				
At cost	407,494	408,128	-	-
Recoverable amount writedown	(6,142)	-	-	-
	401,352	408,128	-	-
Buildings				
At cost	278,568	288,241	-	-
Accumulated depreciation	(93,267)	(88,006)	-	-
Recoverable amount writedown	(1,706)	-	-	-
	183,595	200,235	-	-
Leasehold property				
At cost	82,513	80,126	-	-
Accumulated amortisation	(50,720)	(48,178)	-	-
	31,793	31,948	-	-
Plant and equipment				
At cost	2,084,096	2,023,938	-	-
Accumulated depreciation	(1,182,556)	(1,108,744)	-	-
Recoverable amount writedown	(4,634)	-	-	-
	896,906	915,194	-	-
Leased plant and equipment				
At capitalised cost	14,201	14,531	-	-
Accumulated amortisation	(7,814)	(7,353)	-	-
	6,387	7,178	-	-
Capital projects in progress				
At cost	95,288	62,644	-	-
	1,615,321	1,625,327	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 CONTINUED

12. PROPERTY, PLANT AND EQUIPMENT CONTINUED

Valuations of land and buildings

A directors' valuation at 30 June 2003 determined that the value of Caltex Australia's land and buildings was \$1,015 million, \$411 million above their net book value of \$604 million.

The directors' valuation was based largely on an independent valuation of Caltex Australia's land and buildings portfolio completed by Preston, Rowe Paterson NSW Pty Ltd. The independent valuation was based upon market value for existing or alternate use, whichever was the more appropriate.

In determining the valuation of land and buildings, the directors have not taken into account the potential impact of capital gains tax.

Recoverable amount of non current assets

After considering the above directors' valuation, the recoverable amount of specific non current assets has been determined and has resulted in a writedown of \$12.5 million before tax (\$11.3 million after tax), being recognised in the statement of financial performance in the year ended 31 December 2003.

Thousands of dollars	Consolidated		Parent entity	
	2003	2002	2003	2002
Reconciliations				
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:				
Freehold land				
Carrying amount at the beginning of the year	408,128	416,917	-	-
Additions	88	302	-	-
Acquisition through business acquired	-	360	-	-
Writeoffs	(6,142)	-	-	-
Disposals	(722)	(11,472)	-	-
Transfers from capital projects in progress	-	2,021	-	-
Carrying amount at the end of the year	401,352	408,128	-	-
Buildings				
Carrying amount at the beginning of the year	200,235	205,932	-	-
Additions	409	1,029	-	-
Acquisition through business acquired	-	723	-	-
Writeoffs	(1,706)	-	-	-
Disposals	(10,606)	(5,618)	-	-
Transfers from capital projects in progress	4,334	6,613	-	-
Depreciation	(9,071)	(8,444)	-	-
Carrying amount at the end of the year	183,595	200,235	-	-
Leasehold property				
Carrying amount at the beginning of the year	31,948	33,967	-	-
Additions	1	23	-	-
Acquisition through business acquired	-	1,424	-	-
Disposals	(839)	(1,700)	-	-
Transfers from capital projects in progress	5,520	3,198	-	-
Amortisation	(4,837)	(4,964)	-	-
Carrying amount at the end of the year	31,793	31,948	-	-

Thousands of dollars	Consolidated		Parent entity	
	2003	2002	2003	2002
12. PROPERTY, PLANT AND EQUIPMENT CONTINUED				
Plant and equipment				
Carrying amount at the beginning of the year	915,194	929,893	–	–
Additions	35,630	25,385	–	–
Acquisition through business acquired	–	5,596	–	–
Disposal through business sold	(194)	–	–	–
Writeoffs	(4,634)	–	–	–
Disposals	(8,709)	(213)	–	–
Transfers from capital projects in progress	73,320	68,556	–	–
Depreciation	(113,701)	(114,023)	–	–
Carrying amount at the end of the year	896,906	915,194	–	–
Leased plant and equipment				
Carrying amount at the beginning of the year	7,178	7,912	–	–
Additions	–	52	–	–
Disposals	(78)	–	–	–
Amortisation	(713)	(786)	–	–
Carrying amount at the end of the year	6,387	7,178	–	–
Capital projects in progress				
Carrying amount at the beginning of the year	62,644	69,913	–	–
Additions	115,013	73,119	–	–
Borrowing costs capitalised	805	–	–	–
Transfers to property, plant and equipment	(83,174)	(80,388)	–	–
Carrying amount at the end of the year	95,288	62,644	–	–
13. PAYABLES				
Current				
Trade creditors – unsecured				
Related entities	126,313	37,556	–	–
Other corporations and persons	190,988	280,110	–	–
Other creditors and accrued expenses	285,383	228,567	13,324	25,439
	602,684	546,233	13,324	25,439
Non current				
Other creditors and accrued expenses	1,300	3,463	–	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 CONTINUED

Thousands of dollars	Consolidated		Parent entity	
	2003	2002	2003	2002
14. INTEREST BEARING LIABILITIES				
Current – unsecured				
Bank overdrafts (i)	–	–	14,153	460
Medium-term notes (ii)	–	200,000	–	200,000
Bank loans (ii) and (iii)	94,000	55,000	94,000	55,000
Other loans	2,264	2,038	–	–
Lease liabilities (v)	388	515	–	–
	96,652	257,553	108,153	255,460
Non current – unsecured				
US notes	295,039	354,422	295,039	354,422
Bank loans (ii) and (iii)	200,000	350,000	200,000	350,000
Hedge payable (iv)	59,383	–	59,383	–
Lease liabilities (v)	9,672	10,227	–	–
	564,094	714,649	554,422	704,422

- (i) Interest on bank overdrafts is charged at prevailing market rates. The weighted average interest rate for all overdrafts as at 31 December 2003 was 8.5% p.a. (2002: 7.5% 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 December 2004 to July 2012. Under the loan and note agreements, the Caltex Australia Group is required to comply with certain financial covenants.
- (iii) In the financial year, \$200 million of bank loans were classified as non current as they were supported by undrawn long-term committed facilities.
- (iv) The hedge payable, with no interest bearing component, is disclosed within interest bearing liabilities as the hedge was entered into solely as a result of the US dollar borrowings and is inextricably linked to the debt. The amount represents the impact of the movement in the exchange rate from the date of inception (30 July 2002, USD exchange rate 0.5643) to 31 December 2003 (USD exchange rate 0.7488), on the amount hedged (AUD241 million, USD136 million).
- (v) The implicit rate of interest on finance leases is 14.0% p.a. (2002: 14.0% p.a.). Refer to note 22 for details on the timing and amount of future lease payments.

15. PROVISIONS

Current				
Employee and director benefits	36,908	40,286	–	–
Other	8,883	5,563	–	–
	45,791	45,849	–	–
Non current				
Employee and director benefits	36,841	34,433	437	400
Other	1,137	–	–	–
	37,978	34,433	437	400

Thousands of dollars	Note	Consolidated		Parent entity	
		2003	2002	2003	2002
16. CONTRIBUTED EQUITY					
Issued capital 270 million (2002: 270 million) ordinary shares, fully paid		543,415	543,415	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.					
17. RETAINED PROFITS					
Retained profits at the beginning of the year		485,187	270,017	365,266	359,094
Net profit attributable to members of Caltex Australia Limited		197,497	215,170	13,384	6,172
Dividends recognised during the year	6	(10,800)	–	(10,800)	–
Retained profits at the end of the year		671,884	485,187	367,850	365,266
18. OUTSIDE EQUITY INTERESTS					
Outside equity interests in controlled entities comprises:					
Interest in retained profits at the beginning of the year		2,491	2,545	–	–
Interest in net profit		842	546	–	–
Interest in dividends provided for or paid		–	(600)	–	–
Interest in retained profits at the end of the year		3,333	2,491	–	–
Interest in issued capital		1,864	1,864	–	–
Interest in reserves		3,369	3,369	–	–
Purchase of outside equity interests in Brisbane Airport Fuel Services Pty Ltd		(206)	–	–	–
Outside equity interests at the end of the year		8,360	7,724	–	–
19. TOTAL EQUITY RECONCILIATION					
Total equity at the beginning of the year		1,036,326	821,210	908,681	902,509
Total changes in Caltex Australia Limited's interest recognised in the statements of financial performance		197,497	215,170	13,384	6,172
Dividends recognised during the year	6	(10,800)	–	(10,800)	–
Total changes in outside equity interests		636	(54)	–	–
Total equity at the end of the year		1,223,659	1,036,326	911,265	908,681

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 CONTINUED

20. FINANCIAL INSTRUMENTS

(a) Interest rate risk

Interest rate instruments

The Caltex Australia Group enters into fixed interest rate instruments to manage cash flow risks associated with the interest rates on borrowings that are floating. Interest rate instruments allow Caltex to swap floating rate borrowings into fixed rates. Maturities of swap contracts are principally between two and three years.

Each contract involves half yearly payment or receipt of the net amount of interest. At 31 December 2003, the fixed rates varied from 4.5% p.a. to 6.0% p.a. (2002: 4.7% p.a. to 6.6% p.a.), a weighted average rate of 5.3% p.a. (2002: 5.8% p.a.). The floating rates were at bank bill rates.

The Caltex Australia Group has entered into cross currency swap contracts with maturities of four and six years to manage interest rate and currency risks on the US dollar denominated borrowings.

Interest rate risk exposure

The Caltex Australia Group's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities are set out as follows:

Thousands of dollars

31 December 2003	Note	Floating	Fixed interest maturing in:			Non	Total	Weighted
		interest	One year	Over one	More than	interest		average
		rate	or less	to 5 years	5 years	bearing		interest
								rate p.a.
Financial assets								
Cash at bank and on hand		10,420	–	–	–	25,898	36,318	5.0%
Receivables	8	–	–	–	–	566,628	566,628	–
Investment in other entities	10	–	–	–	–	2,340	2,340	–
		10,420	–	–	–	594,866	605,286	
Financial liabilities								
Payables	13	–	–	–	–	603,984	603,984	–
Bank and other loans	14	296,264	–	–	–	–	296,264	5.7%
US notes	14	–	–	74,786	220,253	–	295,039	7.1%
Hedge payable	14	–	–	24,452	34,931	–	59,383	7.1%
Lease liabilities	14	–	388	4,747	4,925	–	10,060	14.0%
Employee and director benefits	15	–	36,908	8,842	27,999	–	73,749	5.7%(i)
		296,264	37,296	112,827	288,108	603,984	1,338,479	
Interest rate swaps notional amount		(350,000)	225,000	125,000	–	–	–	5.3%
Cross currency swaps		241,007	–	(99,238)	(141,769)	–	–	6.7%

(i) This represents the discount rate.

20. FINANCIAL INSTRUMENTS CONTINUED

(a) Interest rate risk continued

Thousands of dollars

31 December 2002	Note	Floating interest rate	Fixed interest maturing in:			Non interest bearing	Total	Weighted average interest rate p.a.
			One year or less	Over one to 5 years	More than 5 years			
Financial assets								
Cash at bank and on hand		17,969	–	–	–	–	17,969	–
Receivables	8	–	–	–	–	617,337	617,337	–
Investment in other entities	10	–	–	–	–	15	15	–
		17,969	–	–	–	617,352	635,321	
Financial liabilities								
Payables	13	–	–	–	–	549,696	549,696	–
Bank and other loans	14	407,038	–	–	–	–	407,038	5.1%
Medium-term notes	14	200,000	–	–	–	–	200,000	5.8%
US notes	14	–	–	99,238	255,184	–	354,422	7.1%
Lease liabilities	14	–	515	3,323	6,904	–	10,742	14.0%
Employee and director benefits	15	–	40,286	18,700	15,733	–	74,719	5.4%(i)
		607,038	40,801	121,261	277,821	549,696	1,596,617	
Interest rate swaps notional amount		(450,000)	175,000	275,000	–	–	–	5.8%
Cross currency swaps		241,007	–	(99,238)	(141,769)	–	–	7.0%

(i) This represents the discount rate.

(b) Foreign exchange risk

The Caltex Australia Group is exposed to the effect of changes in exchange rates on the margin derived by the group. In particular, at least in the short-term, the refiner margin is determined principally with reference to the US dollar Singapore spot product price. The Caltex Australia Group does not currently use financial instruments to hedge the foreign exchange exposure, other than as discussed in note 20(c) and forward foreign exchange contracts to cover major capital expenditure. All trade transactions which require the sale or purchase of US dollars are covered on a spot basis. As at 31 December 2003, the total of all outstanding spot contracts amounted to \$44.1 million (2002: \$2.7 million).

US dollar denominated borrowings are swapped into Australian dollar exposure; as a result, there were no net foreign currency gains or losses arising from translation of these borrowings.

In addition, the Caltex Australia Group, in the normal course of business, enters into transactions denominated in other currencies. To manage its foreign currency exchange exposure, the group may enter into forward foreign exchange contracts to purchase or sell foreign currency at an exchange rate specified at the contract date, with delivery and settlement in the future.

(c) Commodity price risk

The Caltex Australia Group uses refiner margin hedges from time to time as a hedge against movements in refiner margins, and specific cargo hedges to eliminate the risk of adverse price movements. Both hedges are in strict compliance with the Board approved Caltex Hedging Policy and the terms of these hedges are never more than 12 months. During 2003, the group hedged approximately 4.2% (2002: 1.7%) of its finished product using refiner margin hedges; several cargo hedges amounted to an additional 1.1% of refinery throughput (2002: nil). The total of outstanding refiner margin hedges at 31 December 2003 is nil (2002: three million barrels), because Caltex has not seen value in the refiner margins on offer in the marketplace for 2004.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 CONTINUED

20. FINANCIAL INSTRUMENTS CONTINUED

(d) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

Recognised financial instruments

The credit risk on financial assets of the Caltex Australia Group which have been recognised on the statements of financial position, is the carrying amount of trade debtors, net of allowances for doubtful debts.

The Caltex Australia Group minimises concentrations of credit risk by undertaking transactions with a large number of customers.

Unrecognised financial instruments

Credit risk on unrecognised derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Swap and foreign exchange contracts are subject to credit risk in relation to the relevant counterparties, which are principally large banks. Credit risk on refiner margin hedges is minimised as counterparties are principally the ChevronTexaco Group or large banks.

The maximum credit risk exposure on foreign currency contracts is the full amount of the foreign currency the Caltex Australia Group pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the group. The full amount of the exposure is disclosed at note 20(b) above.

The credit risk on interest rate swaps is limited to the positive mark to market amount to be received from counterparties over the life of contracts that are favourable to the Caltex Australia Group. As at 31 December 2003, there is no expected credit risk on any unrecognised financial instruments (2002: nil).

(e) Net fair values of financial assets and liabilities

Net fair values of recognised financial assets and liabilities approximate their carrying value.

The valuation of unrecognised financial instruments detailed below reflects the estimated amounts which the Caltex Australia Group would expect to pay or receive to terminate the contracts (net of transaction costs) or replace the contracts at their current market rates as at the reporting date. This is based on independent market quotations and determined using standard valuation techniques.

The net fair value of unrecognised financial instruments held as at the reporting date are:

Thousands of dollars	Consolidated asset/(liability)	
	2003	2002
Cross currency swaps (i)	(57,455)	12,729
Interest rate swaps	2,238	(6,262)
Forward foreign exchange contracts (ii)	(692)	(14)
Refiner margin swaps	-	2,429
	(55,909)	8,882

(i) This includes a hedge payable of \$59,383,000 which is disclosed in note 14 and note 20(a). The variance between the hedge payable and the net fair value relates to the interest rate component of the cross currency swap.

(ii) This amount has been deferred as a hedge of specific commitment and forms part of other creditors and accrued expenses in note 13.

Thousands of dollars	Note	Consolidated		Parent entity	
		2003	2002	2003	2002
21. EMPLOYEE AND DIRECTOR BENEFITS					
(a) Liability for employee and director benefits					
Current					
Employee and director benefits	15	36,908	40,286	–	–
Non current					
Employee and director benefits	15	36,841	34,433	437	400
		73,749	74,719	437	400

(b) Number of employees					
Number of employees at year end		2,986	2,638		

(c) Superannuation commitments

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

Caltex Australia Superannuation Plan – CSP Division

The Caltex Australia Superannuation Plan – CSP Division is predominantly a defined benefits plan but it also includes the retirement account which is a defined contribution payable by the Caltex Australia Group.

The last actuarial review of the defined benefit plan was made as at 1 January 2003 by Peter R Hughes FIA, FIAA, Actuary, Mercer Human Resources Consulting Pty Ltd (Mercer). The review concluded that the assets of the plan were insufficient to meet all benefits payable in the event of termination of the plan or the voluntary or compulsory termination of employment of each employee in the plan.

Information from the most recent actuarial review for the defined benefits superannuation plan at 1 January 2003 follows:

	Net market value of plan assets	Accrued benefits	Vested benefits	Shortfall of plan assets over accrued benefits	Shortfall of plan assets over vested benefits
		(i)			
Caltex Superannuation Plan – CSP Division	141,150	153,390	146,911	(12,240)	(5,761)

(i) Accrued benefits includes vested and non vested benefits.

The Caltex Australia Group has received advice from Mercer that there is a likely shortfall of planned assets over vested benefits of \$4.6 million in the plan as at 31 December 2003. The Caltex Australia Group has taken up a provision of \$4.6 million to fund this vested benefit shortfall, of which \$2.5 million will be contributed in 2004.

	Consolidated		Parent entity	
	2003	2002	2003	2002
Employer contributions to the plan during the year	10,855	959	–	–
Employer contributions provided at year end	4,600	5,195	–	–

Caltex Australia Superannuation Plan – APF Division

As this is a defined contribution plan, no actuarial review has been performed on this plan. The plan benefits to members are as described in the trust deed. Funds are available to satisfy all vested benefits in the event of termination of the fund or the voluntary or compulsory termination of employment of each employee of the participating employers.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 CONTINUED

Thousands of dollars	Consolidated		Parent entity	
	2003	2002	2003	2002
21. EMPLOYEE AND DIRECTOR BENEFITS CONTINUED				
(c) Superannuation commitments continued				
Employer contributions to the plan during the year	6,494	5,622	–	–
Employer contributions provided at year end	–	–	–	–
(d) Other benefits				
<p>The Caltex Australia Limited Employee Share Plan is open to all full and permanent part time employees of the Caltex Australia Group. The plan takes advantage of the concessions available under the tax provisions and uses a salary sacrifice arrangement to acquire the shares on behalf of the employees. The administration and incidental costs of the purchases met by Caltex Australia during the year were \$4,000 (2002: \$11,000).</p> <p>All employees of the Caltex Australia Group are entitled to receive a discount on private fuel purchases.</p>				
22. COMMITMENTS				
Capital expenditure				
Capital expenditure contracted but not provided for in the financial report and payable:				
Within one year	10,864	5,556	–	–
Leases				
Finance leases				
Finance lease rentals payable:				
Within one year	2,001	2,049	–	–
Between one to five years	7,837	8,122	–	–
After five years	7,893	9,904	–	–
	17,731	20,075	–	–
Future finance charges	(7,671)	(9,333)	–	–
	10,060	10,742	–	–
Classified as:				
Current (note 14)	388	515	–	–
Non current (note 14)	9,672	10,227	–	–
	10,060	10,742	–	–

The Caltex Australia Group leases production plant under finance leases expiring from four to 10 years. At the end of the lease term, the group has the option to purchase the equipment at a price deemed to be a bargain purchase option. Some leases involve lease payments comprising a base amount plus an incremental rental. Contingent rentals are based on operating performance criteria. The amount of contingent rentals paid during the year is disclosed in note 3.

Thousands of dollars	Consolidated		Parent entity	
	2003	2002	2003	2002
22. COMMITMENTS CONTINUED				
Non cancellable operating leases and other financial commitments				
Future gross payments, prior to sub-lease receipts, not provided for in the financial reports and payable:				
Within one year	92,818	95,747	–	–
Between one to five years	304,640	323,080	–	–
After five years	92,470	99,536	–	–
	489,928	518,363	–	–

The Caltex Australia Group leases property under operating leases expiring from one to 44 years. Leases generally provide the group with a right of renewal at which time all terms are renegotiated. Lease payments comprise mainly of a base amount; however, in a few cases, they include a base amount and incremental contingent rental. Contingent rentals are based on operating performance criteria. No contingent rentals were paid during the year (2002: nil).

23. CONTINGENT ASSETS AND LIABILITIES

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

(a) Contingent assets – legal and other claims	–	–	–	–
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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 is likely to have a material effect on its operations or financial position.

(b) Contingent liabilities – legal and other claims	4,500	2,000	–	–
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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) Bank guarantees

Caltex Australia Limited has granted indemnities to banks to cover bank guarantees given on behalf of controlled entities to a maximum exposure of \$4,738,000 (2002: \$5,880,000). At 31 December 2003, the total outstanding was \$2,001,000 (2002: \$2,223,000).

(d) Deed of Cross Guarantee and Class Order relief

Note 26(a) lists the companies in the Caltex Australia Group that are parties to a Deed of Cross Guarantee dated 22 December 1992 with Caltex Australia Limited and each other.

As parties to the Deed of Cross Guarantee, and by virtue of ASIC Class Order CO 98/1418, these companies are relieved from complying with certain requirements of the Corporations Act 2001. Under the Deed of Cross Guarantee, each company agrees to guarantee all of the debts (in full) of all companies that are parties to the deed in accordance with the terms set out in the deed.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 CONTINUED

23. CONTINGENT ASSETS AND LIABILITIES CONTINUED

(e) Environmental matters

In addition to the environmental exposures already provided for in the financial statements in accordance with the Caltex Australia Group's accounting policy, the group may be subject to contingent liabilities as a result of environmental laws that at some time in the future may require the group to take action to correct the environmental effect of past disposal or release of petroleum substances by the group or by others. The amount of future cost is indeterminable due to such factors as the unknown nature of new laws, the magnitude of possible contamination, the unknown timing and extent of corrective factors that may be required, the determination of the group's possible liability in proportion to other possible responsible parties and the extent to which such costs are recoverable from insurers.

The Caltex Australia Group is a member of the Cristal Fund and the International Oil Pollution Compensation Fund and as such may be called upon to meet a share of the cost of future claims made to the two funds. There are no calls outstanding which the group has not provided for and there is no indication of when future claims will occur or the amount of future claims.

(f) Merger warranties

In May 1995, Caltex Australia Limited, Caltex Australia Petroleum Pty Ltd (then known as Ampol Limited) and Hanson Australia Pty Ltd (then known as Pioneer International Limited) entered into a tax indemnity deed as part of the Caltex/Ampol merger. Under the terms of the deed (as extended to 7 May 2005), Caltex Australia Petroleum Pty Ltd is indemnified in relation to certain tax liabilities of the Ampol group of companies (as constituted by Caltex Australia Petroleum Pty Ltd and its then subsidiaries) that were incurred prior to 31 December 1994.

There are no existing claims under the tax indemnity deed and the directors are not aware of any potential claims likely to arise in the future.

In December 1997, Caltex Australia Limited, Hanson Australia Pty Ltd (then known as Pioneer International Limited) and others entered into a shared liability deed as part of Caltex's buy-out of the 50% interest in Ampol held by Pioneer. Under the terms of the deed, Hanson Australia Pty Ltd agreed to meet 50% of bona fide claims over \$2,500,000 (for the amount of the excess) made against the Ampol group of companies (as constituted by Caltex Australia Petroleum Pty Ltd and its then subsidiaries) in relation to certain tax liabilities (until 31 December 2004) and certain environmental liabilities (until 31 December 2005). These liabilities relate only to claims that arise out of the conduct of the Ampol business in the period from 1 January 1995 to 31 December 1997 that have not been paid or adequately recognised in the accounts of Caltex Australia Petroleum Pty Ltd for the year ended 31 December 1997. Hanson Australia Pty Ltd's potential liability for claims made in accordance with the deed is limited to an amount equal to 50% of the net assets of the Ampol group at 31 December 1997.

There are no existing claims under the shared liability deed and Caltex is not aware of any potential claims that are likely to arise in the future.

Dollars	Consolidated		Parent entity	
	2003	2002	2003	2002
24. AUDITORS' REMUNERATION				
Payment for audit services to KPMG	709,920	545,000	31,000	23,800
Payment for other services to KPMG:				
Transaction services	234,350	151,200	—	—
Other assurance services	135,651	30,500	—	—
Taxation services	76,336	66,892	—	—
	446,337	248,592	—	—

		Parent entity	
		2003	2002
		number	number
25. REMUNERATION AND RETIREMENT BENEFITS			
(a) Directors' remuneration			
The number of directors of Caltex Australia Limited whose remuneration from Caltex Australia Limited falls within the following bands is (remuneration from any related party is disclosed in note 25(d)(ii)):			
\$20,000 – \$29,999		–	1
\$50,000 – \$59,999		1	2
\$60,000 – \$69,999		1	1
\$70,000 – \$79,999		2	–
\$160,000 – \$169,999		–	1
\$190,000 – \$199,999		1	–
\$270,000 – \$279,999		–	1
\$370,000 – \$379,999		–	1
\$510,000 – \$519,999		1	–
\$600,000 – \$609,999		1	–
\$720,000 – \$729,999		–	1

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
Total income paid or payable, or otherwise made available, to directors of each entity in the Caltex Australia Group from Caltex Australia Limited (remuneration from any related party is disclosed in note 25(d)(ii)):	1,586,562	1,734,090	1,586,562	1,734,090

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 CONTINUED

25. REMUNERATION AND RETIREMENT BENEFITS CONTINUED

(b) Directors

The Board of Caltex Australia Limited is currently comprised of Dick Warburton (Chairman), Dave Reeves (Managing Director and Chief Executive Officer), Elizabeth Bryan, Leo Lonergan, Martin B Southern and Ken Watson.

The following changes to the Board's membership occurred during the year ended 31 December 2003:

- Dave Reeves was appointed as a director, and as Managing Director and Chief Executive Officer, with effect from 11 August 2003;
- Jeet Bindra resigned as a director of Caltex Australia Limited, and as Managing Director and Chief Executive Officer, with effect from 10 August 2003. (Jeet had served as a director, and as Managing Director and Chief Executive Officer, from 2 May 2002);
- Michael Wirth resigned as a director of Caltex Australia Limited on 5 December 2003 (Michael had served as a director from 1 July 2001); and
- Steve de Bruyn's appointment as an alternate director for Michael Wirth automatically ceased on 5 December 2003 as a result of Michael Wirth's resignation as a director (Steve had served as an alternate director for Michael Wirth from 21 February 2002).

Since 1 January 2004, the following changes to the Board's membership have occurred:

- Martin B Southern was appointed to fill a casual vacancy to the Board on 25 February 2004. Martin did not hold any shares at the date of his appointment;
- Steve de Bruyn resigned as an alternate director for Leo Lonergan with effect from 25 February 2004. Steve did not hold any shares at the date of his resignation; and
- Mitch Rubinstein was appointed as an alternate director for each of Leo Lonergan and Martin B Southern on 25 February 2004. Mitch did not hold any shares at the date of his appointment.

25. REMUNERATION AND RETIREMENT BENEFITS CONTINUED

(c) Executive share plan

Senior executives may receive shares under Caltex Australia Limited's executive share plan, based on the achievement of specific targets related to the performance of the Caltex Australia Group (including return on capital employed and total shareholder returns). The terms and conditions of this plan were approved by shareholders at the Annual General Meeting held in April 1999.

Executives in the executive share plan for 2003 are entitled to receive shares in three equal instalments as their shares vest, although dividend and voting entitlements vest immediately. The first instalment vests at the end of 2003, with the second and third instalments vesting at the end of 2004 and 2005. Shares are included as part of bonuses upon vesting.

The executive share plan purchases the shares on market for the 2003–2005 obligation in 2004, and distributes the portion related to the 2003 obligation in 2004.

Summary of share movements in the plan:

Opening balance		Issued to plan			Distribution during the year			Closing balance	
Grant date	Number of shares	Grant date	Number of shares	Fair value per share (\$)	Distribution date	Number of shares	Fair value per share (\$)	Number of shares	Fair value aggregate (\$)
2003									
25 Feb – 1 Mar 2002	86,913	3 Mar – 13 Mar 2003	750,313	2.04	3 Jan 2003 28 Mar 2003	(49,632) (270,876)	2.16 2.31	516,718	2,387,237
	86,913		750,313			(320,508)		516,718	2,387,237
2002									
26 Feb – 2 Mar 2001	66,749	25 Feb – 1 Mar 2002	92,291	1.63	4 Jan 2002 11 Apr 2002 26 Sep 2002	(33,376) (25,698) (13,053)	1.38 1.72 1.65	86,913	185,994
	66,749		92,291			(72,127)		86,913	185,994
					Consolidated		Parent entity		
					2003	2002	2003	2002	
					\$	\$	\$	\$	
Executive share plan expense					1,255,799	646,996	–	–	

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 CONTINUED

	Consolidated		Parent entity	
	2003	2002	2003	2002
	number	number	number	number
25. REMUNERATION AND RETIREMENT BENEFITS CONTINUED				
(d) Executives' remuneration				
The number of executive officers whose remuneration from the Caltex Australia Group falls within the following bands is (remuneration from any related party is disclosed in note 25(d)(ii)):				
\$140,000 – \$149,999	1	1	–	–
\$150,000 – \$159,999	2	–	–	–
\$160,000 – \$169,999	1	1	–	–
\$170,000 – \$179,999	2	–	–	–
\$180,000 – \$189,999	2	2	–	–
\$190,000 – \$199,999	4	6	–	–
\$200,000 – \$209,999	1	2	–	–
\$210,000 – \$219,999	6	4	–	–
\$220,000 – \$229,999	–	1	–	–
\$230,000 – \$239,999	2	2	–	–
\$240,000 – \$249,999	2	2	–	–
\$250,000 – \$259,999	1	1	–	–
\$260,000 – \$269,999	1	–	–	–
\$270,000 – \$279,999	–	1	–	1
\$300,000 – \$309,999	–	2	–	–
\$310,000 – \$319,999	–	1	–	–
\$320,000 – \$329,999	–	2	–	–
\$330,000 – \$339,999	1	1	–	–
\$340,000 – \$349,999	–	1	–	–
\$350,000 – \$359,999	1	–	–	–
\$360,000 – \$369,999	1	–	–	–
\$370,000 – \$379,999	–	1	–	1
\$380,000 – \$389,999	2	–	–	–
\$400,000 – \$409,999	1	1	1	1
\$410,000 – \$419,999	–	1	–	1
\$420,000 – \$429,999	1	–	1	–
\$510,000 – \$519,999	1	–	1	–
\$540,000 – \$549,999	–	1	–	1
\$560,000 – \$569,999	–	2	–	2
\$570,000 – \$579,999	2	–	2	–
\$600,000 – \$609,999	1	–	1	–
\$660,000 – \$669,999	1	–	1	–
\$680,000 – \$689,999	1	–	1	–
\$720,000 – \$729,999	–	1	–	1
Total	38	37	8	8

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$	\$	\$	\$

25. REMUNERATION AND RETIREMENT BENEFITS CONTINUED

(d) Executives' remuneration continued

Total remuneration received, or due and receivable, from the Caltex Australia Group by executive officers of the group whose income is \$100,000 p.a. or more (remuneration from any related party is disclosed in note 25(d)(ii)):

11,313,908	10,681,068	4,431,676	3,878,526
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- (i) Included within the above salary bands are the value of shares vesting as bonuses to certain senior executives.
- (ii) During the 2003 financial year, Dave Reeves (Managing Director and Chief Executive Officer) and Jeet Bindra (former Managing Director and Chief Executive Officer) were seconded from ChevronTexaco to Caltex Australia (ChevronTexaco Global Energy Inc. holds 50% of the shares of Caltex Australia Limited). Under the terms of the secondment arrangements, Caltex Australia paid service fees to ChevronTexaco representing a partial reimbursement of the salaries and other benefits paid or payable by ChevronTexaco. The terms of these arrangements are considered to be no less favourable to Caltex Australia than arm's length terms.
- The additional costs incurred or to be incurred by the ChevronTexaco Group for each of the executives concerned, which is excluded from the above remuneration bands, are:
- Dave Reeves (Managing Director and Chief Executive Officer) who received \$68,205; and
 - Jeet Bindra (former Managing Director and Chief Executive Officer) who received \$667,445 (2002: \$104,403).
- In addition, these executives may be entitled to receive performance based and equity based remuneration.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 CONTINUED

		% interest	
	Note	2003	2002
26. PARTICULARS IN RELATION TO CONTROLLED ENTITIES			
(a) Name			
Companies			
Caltex Australia Finance Pty Ltd	(iii)	100	100
Caltex Australia Investments Pty Ltd	(iii)	100	100
Caltex Coal Pty Ltd	(iii)	100	100
Caltex Australia Custodians Pty Ltd		100	100
Caltex Australia Petroleum Pty Ltd	(iii), (vii)	100	100
Ampol Lending Pty Ltd	(iii)	100	100
Ampol Metro Fuels Pty Ltd	(iii)	100	100
Ampol Property (Holdings) Limited	(iii)	100	100
Ampol Bendigo Pty Ltd	(iii)	100	100
Ampol Realty Pty Ltd	(iii)	100	100
Ampol Refineries (Matrville) Limited	(iii)	100	100
Ampol Road Pantry Pty Ltd	(iii)	100	100
Ampol Workshops Pty Ltd	(iii)	100	100
B&S Distributors Pty Ltd	(ii)	50	50
Big Country Oils Pty Ltd	(iii)	100	100
Brisbane Airport Fuel Services Pty Ltd	(v)	100	66.7
Calstores Pty Ltd	(iii)	100	100
Caltex Australia Management Pty Ltd		100	100
Caltex Australia Nominees Pty Ltd		100	100
Caltex Lubricating Oil Refinery Pty Ltd	(iii), (vii)	100	100
Caltex Petroleum Pty Ltd	(iii)	100	100
Australian Petroleum Marine Pty Ltd	(iii)	100	100
Sydney Metropolitan Pipeline Pty Ltd	(ii)	60	60
Caltex Petroleum Distributors Pty Ltd	(iii)	100	100
Australian Petroleum Holdings Pty Ltd	(iii)	100	100
Bowen Petroleum Services Pty Ltd		100	100
Caltex Petroleum (Qld) Pty Ltd	(iii)	100	100
Caltex Petroleum (Victoria) Pty Ltd	(iii)	100	100
R&T Lubricants Limited	(iii)	100	100
Caltex Refineries (NSW) Pty Ltd	(iii), (vii)	100	100
Caltex Refineries (Qld) Ltd	(iii), (vii)	100	100
Circle Petroleum (Q'land) Pty Ltd	(iii)	100	100
Hayport Pty Ltd	(iii)	100	100
Hunter Pipe Line Company Pty Ltd	(iii)	100	100
Jayvee Petroleum Pty Ltd		100	100
Jet Fuels Petroleum Distributors Pty Ltd	(iii)	100	100
Northern Marketing Pty Ltd	(iii)	100	100
Hanietee Pty Ltd	(iii)	100	100
Newcastle Pipe Line Company Pty Ltd	(iii)	100	100
Security Computer Services Pty Ltd	(iii)	100	100

	Note	2003	% interest	2002
26. PARTICULARS IN RELATION TO CONTROLLED ENTITIES CONTINUED				
(a) Name continued				
Solo Oil Investments Pty Ltd	(iii)	100		100
Devorant Pty Ltd	(iii)	100		100
Manworth Pty Ltd	(iii)	100		100
Metdale Pty Ltd	(iii)	100		100
Solo Oil Leasing Pty Ltd	(iii)	100		100
Southern Cross Petroleum Pty Ltd	(iii)	100		100
Solo Oil Limited	(iii)	100		100
Brooklyn Bagel (Systems) Pty Ltd	(iii)	100		100
Carmonott Constructions Pty Ltd	(iii)	100		100
Chapmore Pty Ltd	(iii)	100		100
Ditta (Service Station) Pty Ltd	(iii)	100		100
First Bildarama Pty Ltd	(iii)	100		100
Grosvenor Constructions Pty Ltd	(iii)	100		100
Kanegood Pty Ltd	(iii)	100		100
Leberg Holdings Pty Ltd	(iii)	100		100
Liglen Pty Ltd	(iii)	100		100
Matland Holdings Pty Ltd	(iii)	100		100
Pagold Holdings Pty Ltd	(iii)	100		100
Pruland Holdings Pty Ltd	(iii)	100		100
Ruzack Nominees Pty Ltd	(iii)	100		100
Solo Oil Australia Pty Ltd	(iii)	100		100
Solo Oil Corporation Pty Ltd	(iii)	100		100
Solo Petroleum Pty Ltd	(iii)	100		100
Solo Rent A Car Pty Ltd	(iii)	100		100
Sunrise Transport Pty Ltd	(iii)	100		100
Wildbank Pty Ltd	(iii)	100		100
South Coast Oils Pty Ltd	(iii)	100		100
Southern Cross Service Pty Ltd	(iii)	100		100
Teraco Pty Ltd	(ii)	50		50
Travelmate.com.au Pty Ltd	(iii)	100		100
Tulloch Petroleum Services Pty Ltd	(iii)	100		100
Western Fuel Distributors Pty Ltd	(ii)	50		50
Unit trusts				
Petroleum Leasing Unit Trust	(vi)	100		100
Petroleum Property Unit Trust	(vi)	100		100

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 CONTINUED

26. PARTICULARS IN RELATION TO CONTROLLED ENTITIES CONTINUED

(a) Name continued

- (i) All companies were incorporated in Australia. The unit trusts were formed in Australia.
- (ii) These entities have been included as controlled entities in accordance with "AASB 1024 Consolidated Accounts". Control exists because a company within the Caltex Australia Group has the ability to dominate the composition of their boards of directors, or enjoys the majority of the benefits and is exposed to the majority of the risks of these entities.
- (iii) These companies are parties to a Deed of Cross Guarantee dated 22 December 1992 with Caltex Australia Limited and each other. As parties to the Deed of Cross Guarantee, and by virtue of ASIC Class Order CO 98/1418, these companies are relieved from complying with certain requirements of the Corporations Act 2001. Under the Deed of Cross Guarantee, each company agrees to guarantee all of the debts (in full) of all companies that are parties to the deed in accordance with the terms set out in the deed.
- (iv) There are no other parties to the Deed of Cross Guarantee, and no companies have been added or removed during the year ended 31 December 2003 or since 1 January 2004.
- (v) Caltex Australia Petroleum Pty Ltd acquired an additional 33.3% interest in Brisbane Airport Fuel Services Pty Ltd on 31 August 2003, making Brisbane Airport Fuel Services Pty Ltd a wholly owned subsidiary of Caltex Australia Petroleum Pty Ltd from that time.
- (vi) Solo Oil Limited is the sole unitholder of these trusts.
- (vii) Employees of these companies may be eligible to participate in the Caltex Australia Limited employee share plan (refer note 21(d)).

Thousands of dollars	2003	2002
(b) Statements of financial performance for entities covered by the Deed of Cross Guarantee		
Profit from ordinary activities before income tax expense	275,384	299,475
Income tax expense relating to ordinary activities	(80,189)	(84,816)
Net profit	195,195	214,659
Retained profits at the beginning of the year	485,164	269,605
Dividends provided for or paid	(10,800)	–
Dividends received	–	900
Retained profits at the end of the year	669,559	485,164

Thousands of dollars	2003	2002
26. PARTICULARS IN RELATION TO CONTROLLED ENTITIES CONTINUED		
(c) Statements of financial position for entities covered by the Deed of Cross Guarantee		
Current assets		
Cash at bank and on hand	28,080	13,678
Receivables	463,365	569,824
Inventories	499,349	525,545
Other	22,354	23,934
	1,013,148	1,132,981
Non current assets		
Receivables	26,070	31,407
Investments accounted for using the equity method	12,154	8,093
Property, plant and equipment	1,596,356	1,600,683
Intangibles	4,047	5,238
Other	43,971	36,845
	1,682,598	1,682,266
Total assets	2,695,746	2,815,247
Current liabilities		
Payables	536,873	533,266
Interest bearing liabilities	96,652	257,553
Tax liabilities	74,554	59,198
Provisions	45,249	45,268
	753,328	895,285
Non current liabilities		
Payables	1,300	3,463
Interest bearing liabilities	564,094	714,649
Deferred tax liabilities	126,501	139,243
Provisions	37,549	34,028
	729,444	891,383
Total liabilities	1,482,772	1,786,668
Net assets	1,212,974	1,028,579
Equity		
Contributed equity	543,415	543,415
Retained profits	669,559	485,164
Total equity	1,212,974	1,028,579

The movement in entities participating in the class order is shown in note 26(a)(iv).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 CONTINUED

	% interest		Balance	Investment	
			date	carrying amount	
Thousands of dollars	2003	2002		2003	2002
27. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD					
Airport Fuel Services Pty Ltd	40	40	31 December	769	769
Australasian Lubricants Manufacturing Company Pty Ltd	50	50	31 December	(852)	(1,607)
Cairns Airport Refuelling Services Pty Ltd	25	25	31 December	–	–
Cooper & Dysart Pty Ltd	50	50	31 December	2,418	2,106
Geraldton Fuel Company Pty Ltd	50	50	31 December	1,278	1,072
JVC1 Pty Ltd (i)	50	–	30 June	–	–
JVC2 Pty Ltd (ii)	50	–	30 June	–	–
Link Energy Pty Ltd (formerly Mopal Pty Ltd)	50	50	30 June	2,222	1,728
Jenessa Holdings Pty Ltd	50	50	31 December	–	–
Northern Marketing Management Pty Ltd	37.5	37.5	30 June	–	–
Northern Marketing Partnership	37.5	37.5	30 June	2,036	1,822
R&JK Petroleum Pty Ltd	50	50	31 December	847	748
South Coast Fuels Pty Ltd	50	50	31 December	450	450
South East Queensland Fuels Pty Ltd	50	50	31 December	661	1,005
South East Queensland Fuels Unit Trust	50	50	31 December	–	–
Vitalgas Pty Ltd	50	50	31 December	–	–
				9,829	8,093

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

- (i) JVC1 Pty Ltd was registered as a company on 9 October 2003. Caltex Australia Petroleum Pty Ltd holds one \$1 ordinary share in JVC1 Pty Ltd.
- (ii) JVC2 Pty Ltd was registered as a company on 10 October 2003. Caltex Australia Petroleum Pty Ltd holds one \$1 ordinary share in JVC2 Pty Ltd.

	Consolidated	
	2003	2002
Results of associated entities		
Share of associated entities' profit before income tax expense	6,430	3,587
Share of associated entities' income tax expense	(1,513)	(1,234)
Share of associated entities' net profit	4,917	2,353
Amortisation of goodwill	–	(73)
Unrealised profit in inventories	(931)	(99)
Share of associated entities' net profit – equity accounted	3,986	2,181
Share of post-acquisition retained profits attributable to associated entities		
Share of associated entities' retained profits at the beginning of the year	(827)	(1,467)
Share of associated entities' net profit	3,986	2,181
Dividends and disbursements from associated entities	(2,250)	(1,541)
Share of associated entities' retained profits at the end of the year	909	(827)

Thousands of dollars	Consolidated	
	2003	2002

27. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD CONTINUED

Movement in the carrying amount of investments

Investments in associated entities at the beginning of the year	8,093	12,577
Share of associated entities' net profit	3,986	2,181
Dividends and disbursements from associated entities	(2,250)	(1,541)
Investment in Bowen Petroleum Services Pty Ltd transferred to controlled entities	–	(2,871)
Investment in Jayvee Petroleum Pty Ltd transferred to controlled entities	–	(670)
Reclassification of equity investments unrealised profit in inventories	–	(1,583)
Investments in associated entities at the end of the year	9,829	8,093

	Consolidated		Parent entity	
	2003	2002	2003	2002

Commitments

Share of associated entities' capital expenditure contracted but not provided for in the financial report and payable:				
Within one year	209	439	–	–

Share of associated entities' operating lease commitments not provided for in the financial report and payable:				
Within one year	504	521	–	–
Between one to five years	579	985	–	–
After five years	–	74	–	–
	1,083	1,580	–	–

Share of associated entities' finance lease commitments not provided for in the financial report and payable:				
Within one year	717	703	–	–
Between one to five years	1,783	1,339	–	–
After five years	–	–	–	–
	2,500	2,042	–	–
Future finance charges	(295)	(330)	–	–
	2,205	1,712	–	–

Contingent liabilities

Share of associated entities' contingent liabilities:				
Secured overdrafts	476	825	–	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 CONTINUED

Thousands of dollars	Consolidated		Parent entity	
	2003	2002	2003	2002
28. NOTES TO THE STATEMENTS OF CASH FLOWS				
(a) Reconciliation of cash				
For the purposes of the statements of cash flows, cash includes:				
Cash at bank and on hand, net of bank overdrafts offset	36,318	17,969	(14,153)	(460)
(b) Reconciliation of net profit after income tax expense to net operating cash flows				
Net profit after income tax expense	197,497	215,716	13,384	6,172
Add/(less) items classified as investing/financing activities:				
Profit on sale of non current assets and intangibles	(220)	(7,561)	–	–
Finance charges and contingent rentals on capitalised leases	2,090	2,188	–	54
Add/(less) non cash items:				
Depreciation	128,322	125,902	–	–
Amortisation	1,459	1,292	–	–
Writedown in value of land and buildings and related plant and equipment to recoverable amount	12,482	–	–	–
Amounts set aside to allowances	19,085	18,150	–	–
Unrealised exchange gain	(1,872)	(4,551)	–	–
Share of associated entities' net profit net of dividend received	(1,736)	(54)	–	–
(Decrease)/increase in deferred tax liability/asset	(10,731)	(8,793)	(34)	75
Net cash from operating activities before changes in assets and liabilities	346,376	342,289	13,350	6,301
Changes in assets and liabilities net of the effects of the purchase of controlled entities:				
Decrease/(increase) in trade and other debtors	46,748	(64,060)	(6,350)	(3,364)
Decrease/(increase) in inventories	22,814	(25,653)	–	–
Decrease/(increase) in prepayments	930	(3,893)	1,765	(548)
Increase/(decrease) in trade and other creditors	71,831	64,284	(115)	16,267
Increase/(decrease) in income tax payable	13,573	64,643	420	(1,532)
(Decrease)/increase in provisions	(15,598)	17,221	37	(167)
Net operating cash inflows	486,674	394,831	9,107	16,957

Thousands of dollars	Consolidated		Parent entity	
	2003	2002	2003	2002
28. NOTES TO THE STATEMENTS OF CASH FLOWS CONTINUED				
(c) Purchases of controlled entities				
There were no acquisitions of controlled entities in the year ended 31 December 2003.				
In 2002, the Caltex Australia Group's ownership interest in Jayvee Petroleum Pty Ltd and Bowen Petroleum Services Pty Ltd increased from 50% to 100%. The operating results of these entities have been included in the consolidated operating profit from their respective acquisition dates.				
Details of the acquisitions are as follows:				
Consideration paid	-	(9,352)	-	-
Cash balance included in net assets acquired	-	4,045	-	-
Deferred cash settlement	-	7,334	-	-
Inflow of cash	-	2,027	-	-
Fair value of net assets acquired				
Cash at bank and on hand	-	4,045	-	-
Receivables	-	5,638	-	-
Inventories	-	5,575	-	-
Other current assets	-	232	-	-
Property, plant and equipment	-	5,327	-	-
Intangibles	-	1,795	-	-
Deferred tax assets	-	78	-	-
Payables	-	(15,739)	-	-
Interest bearing liabilities	-	(137)	-	-
Tax liabilities	-	(387)	-	-
Provisions	-	(709)	-	-
Other liabilities	-	(294)	-	-
Fair value of net assets acquired	-	5,424	-	-
Net assets acquired – 50%	-	2,712	-	-
Goodwill on acquisition	-	6,640	-	-
Consideration	-	9,352	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 CONTINUED

Thousands of dollars	Consolidated		Parent entity	
	2003	2002	2003	2002

28. NOTES TO THE STATEMENTS OF CASH FLOWS CONTINUED

(d) Purchases of businesses

The Caltex Australia Group acquired no businesses during 2003. In 2002, the group acquired the business operations of three wholesale fuel distributor companies. These business operations were acquired from:

- AR & LA Dibben Pty Ltd – 1 February 2002;
- Tonkin Petroleum Pty Ltd – 1 July 2002; and
- Barry Petroleum Pty Ltd – 1 November 2002.

Details of the business acquisitions are as follows:

Consideration	–	10,338	–	–
Fair value of net assets acquired				
Inventories	–	2,178	–	–
Property, plant and equipment	–	2,776	–	–
Payables	–	(156)	–	–
Fair value of net assets acquired	–	4,798	–	–
Goodwill on acquisition	–	5,540	–	–
Consideration	–	10,338	–	–

29. FINANCING ARRANGEMENTS

The Caltex Australia Group has access to the following lines of credit:

Total facilities available:

Bank overdrafts	30,000	30,000	30,000	30,000
Bank loans and capital markets	1,149,400	1,529,400	1,149,400	1,529,400
	1,179,400	1,559,400	1,179,400	1,559,400

Facilities utilised at balance date:

Bank overdrafts	–	–	14,153	460
Bank loans and capital markets	604,422	904,422	604,422	904,422
	604,422	904,422	618,575	904,882

Facilities not utilised at balance date:

Bank overdrafts	30,000	30,000	15,847	29,540
Bank loans and capital markets	544,978	624,978	544,978	624,978
	574,978	654,978	560,825	654,518

These facilities are unsecured and have an average maturity of 3.5 years (2002: 2.7 years).

30. RELATED PARTY INFORMATION

(a) Directors

The Board of Caltex Australia Limited comprises Dick Warburton (Chairman), Dave Reeves (Managing Director and Chief Executive Officer), Elizabeth Bryan, Leo Lonergan, Martin B Southern and Ken Watson. Mitch Rubinstein serves as an alternate director for Leo Lonergan and Martin B Southern.

Jeet Bindra, Managing Director and Chief Executive Officer until 10 August 2003, and Michael Wirth, a former non executive director until 5 December 2003, served on the Board during 2003. Steve de Bruyn served as an alternate director for Michael Wirth until 5 December 2003.

(b) Directors' holdings of shares

At 31 December 2003, the directors of Caltex Australia Limited had relevant interests in 29,500 (2002: 31,500) shares in Caltex Australia Limited (in total). The directors have not acquired or disposed of any fully paid ordinary shares since 31 December 2003.

Dave Reeves, who was appointed as a director in the year ended 31 December 2003, did not hold any shares in Caltex Australia Limited at his appointment date. Jeet Bindra, who resigned as a director on 10 August 2003, and Michael Wirth, who resigned as a director on 5 December 2003, held 5,000 shares and 2,000 shares respectively, when they resigned. Jeet Bindra acquired, and subsequently disposed of, 5,000 shares during the year.

(c) Other director transactions

No director had entered into a material contract, loan or other transaction with any entity in the Caltex Australia Group during the year ended 31 December 2003.

Minter Ellison, of which Ken Watson is a partner, provides legal advice and services to the Caltex Australia Group. For the year ended 31 December 2003, Minter Ellison received, or was due to receive, fees totalling \$710,000 (12.5% of the total legal expenditure). Minter Ellison received fees of \$384,000 (13.3% of total legal expenditure) in respect of the year ended 31 December 2002.

Malcolm Irving entered into a consultancy service agreement with Caltex Australia Limited after leaving office. For the year ended 31 December 2003, he received service fees of \$16,570 (2002: \$12,498) and a further payment of \$7,500 is due for services provided (2002: \$2,083).

Willis Australia Limited, a company associated with Malcolm Irving, received insurance consulting fees and insurance premiums of \$4,379,000 (2002: \$3,195,000).

During the 2003 financial year, consultancy services fees of \$276,000 (2002: \$250,000) were paid or payable to Blackburne Consulting Pty Ltd, a company related to former director, Ian Blackburne, in accordance with the terms of a consultancy services agreement.

All services have been provided on arm's length terms.

(d) Controlled entities

Details of dividends, interest received or receivable and service fees from controlled entities are set out in note 2.

The amounts receivable and payable to or by Caltex Australia Limited and its controlled entities are included in note 8. Details of controlled entities are set out in note 26.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 CONTINUED

30. RELATED PARTY INFORMATION CONTINUED

(e) Other related entities

ChevronTexaco Global Energy Inc holds a 50% interest in Caltex Australia Limited. Transactions with the ChevronTexaco Group are summarised below.

The Caltex Australia Group paid \$1,132,000 (2002: \$474,000) to the ChevronTexaco Group for technical service fees. The group received \$1,001,000 (2002: \$935,000) for technical service fees from the ChevronTexaco Group. These fees are in the ordinary course of business and on normal commercial terms and conditions.

The Caltex Australia Group paid \$640,000 (2002: \$445,600) to the ChevronTexaco Group, including Traders Insurance Limited for insurance coverage. The group received payment of an insurance claim of \$63,000 (2002: \$34,115,000) from Traders Insurance Limited. Dealings with Traders Insurance Limited are in the ordinary course of business and on normal commercial terms and conditions.

The Caltex Australia Group purchased crude, other refinery feedstocks and petroleum products from the ChevronTexaco Group of \$1,860,095,000 (2002: \$1,789,298,000). The Caltex Australia Group sold crude, other refinery feedstocks and petroleum products to these entities of \$130,600,000 (2002: \$122,155,000). These purchases and sales are in the ordinary course of business and on normal commercial terms and conditions.

The Caltex Australia Group entered into refiner margin hedges with the ChevronTexaco Group during the year. The fair value of open hedges at 31 December 2003 was nil (2002: \$2,429,000). Dealings with the ChevronTexaco Group are in the ordinary course of business and on normal commercial terms and conditions.

Certain payments are made to the ChevronTexaco Group in respect of the secondment of executives. Details of these payments are shown in note 25.

In addition, to the executives disclosed in note 25, the ChevronTexaco Group seconded five executives primarily to provide specialist expertise in refinery reliability, the Loss Prevention System, and management of the Clean Fuels Project. The cost borne by Caltex Australia was \$2,854,674. This cost includes salary, allowances including relocation, and indirect payroll related expenses. In addition to this cost, these executives may be entitled to receive bonuses from the ChevronTexaco Group.

Amounts receivable from and payable to other related entities are set out in notes 8 and 13 respectively.

(f) Associated entities

The Caltex Australia Group sold petroleum products to associated entities totalling \$502,102,000 (2002: \$610,483,000). The Caltex Australia Group purchased petroleum products from associated entities of \$80,359,000 (2002: \$87,820,000). The Caltex Australia Group received income from associated entities for rental income, service fees, site fees, operating leases and licence fees of \$4,771,000 (2002: \$6,170,000). The Caltex Australia Group paid service fee income to associated entities of \$3,956,000 (2002: \$3,134,000).

During the year ended 31 December 2003, the Caltex Australia Group had a provision of \$5,706,000 (2002: \$8,456,000) against trade receivables from Vitalgas Pty Ltd. Transactions with associated entities are in the ordinary course of business and on normal commercial terms and conditions.

Details of associated entities are set out in note 27. Amounts receivable from associated entities are set out in note 8. Dividends and disbursements income from associated entities is shown in note 27.

31. 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.

COMPARATIVE FINANCIAL INFORMATION

Caltex Australia Limited consolidated results	2003	2002	2001	2000	1999
Profit and loss (\$million)					
Historical cost operating profit before significant items, interest and income tax expense	352.8	388.1	14.8	155.8	216.7
Interest income	1.4	0.5	0.8	1.3	1.4
Borrowing costs	(62.8)	(76.1)	(91.1)	(97.7)	(72.8)
Historical cost income tax expense before significant items	(82.7)	(85.4)	29.0	(23.3)	(59.0)(i)
Historical cost operating profit after tax and before significant items	208.8	227.2	(46.4)	36.1	86.3
Significant items (net of tax)	(11.3)	(12.0)	(139.7)	–	16.3(ii)
Historical cost operating profit/(loss) after income tax	197.5	215.2	(186.1)	36.1	102.6
Dividends					
Amount paid and payable (\$/share)	0.18	–	–	0.16	0.22
Times covered (excluding significant items)	4.30	–	–	0.84	1.45
Other data					
Equity attributable to members of the company (\$m)	1,215.3	1,028.6	813.4	999.6	1,006.7
Total equity (\$m)	1,223.7	1,036.3	821.2	1,009.1	1,016.2
Return on equity attributable to members of the parent entity after tax, excluding significant items (%)	17.2	22.1	(5.7)	3.6	8.6
Total assets (\$m)	2,773.6	2,837.2	2,747.1	3,167.4	2,974.1
Net tangible asset backing (\$/share)	4.46	3.76	3.01	3.12	3.10
Debt (\$m)	660.7	972.2	1,264.7	1,282.9	1,118.6
Net debt (\$m)	624.4	954.2	1,264.7	1,241.2	1,106.9
Net debt to net debt plus equity (%)	33.8	47.9	60.6	55.2(ii)	52.1

- (i) The significant item in 1999 includes a \$30.1 million tax benefit due to the change in the corporate tax rate. The significant item excluding this tax change is a \$13.8 million loss (net of tax).
- (ii) Gearing at 31 December 2000 was 59.3% when measured excluding goodwill. Therefore, four-fifths of the year on year movement between 2000 and 2001 arose as a result of the writeoff of the \$147.5 million balance of goodwill in 2001.

REPLACEMENT COST OF SALES BASIS OF ACCOUNTING

- To assist in understanding the group's operating performance, the directors have provided additional disclosure of the group's results for the year on a replacement cost of sales basis (i), which excludes net inventory gains and losses.
- On a replacement cost of sales basis, the group's net profit after income tax for the year was \$199.7 million, compared to a profit of \$106.1 million in 2002.
- 2003 net profit before interest, income tax and significant items on a replacement cost of sales basis was \$339.8 million, an increase of \$124.6 million over 2002.

\$ million	Five years	2003	2002	2001	2000	1999
Historical cost net profit before interest, income tax and significant items	1,128.2	352.8	388.1	14.8	155.8	216.7
(Deduct)/add inventory (gains)/losses (ii)	(184.8)	(13.0)	(172.9)	186.1	(40.1)	(144.9)
Replacement cost net profit before interest, income tax and significant items	943.4	339.8	215.2	200.9	115.7	71.8
Net borrowing costs	(395.2)	(61.4)	(75.6)	(90.3)	(96.5)	(71.4)
Historical cost tax expense	(191.4)	(82.7)	(85.4)	28.9	(23.3)	(28.9)
Add/(deduct) tax effect of inventory (losses)/gains	65.7	3.9	51.9	(55.8)	13.6	52.2
Replacement cost profit after income tax (iii)	422.7	199.7	106.1	83.7	9.5	23.7

- (i) Caltex Australia's results are significantly impacted by external factors such as crude oil price movements that are outside the company's control. With historical cost basis accounting, rising crude prices will generally result in increased profits for Caltex, while falling crude prices will generally result in decreased profits. The replacement cost of sales basis excludes gains or losses from inventories and is calculated by restating cost of sales using the replacement cost of goods sold rather than historical cost.
- (ii) Historical cost results include gross inventory gains or losses from the movement in crude oil prices. In 2003, the historical cost result includes \$13.0 million inventory gain (2002: \$172.9 million inventory gain). Net inventory gain/(loss) is adjusted to reflect impact of revenue lags.
- (iii) Replacement cost profit after income tax is calculated before taking into account any significant items over the five years. The total effect of these significant items in each year was:
- 1999: \$21.6 million loss before tax (\$13.8 million loss after tax)
- 2000: no significant items
- 2001: \$143.4 million loss before tax (\$139.7 million after tax)
- 2002: \$12.0 million loss before and after tax
- 2003: \$12.5 million loss before tax (\$11.3 million loss after tax)

SHAREHOLDER INFORMATION

SHAREHOLDER ENQUIRIES

Shareholders with queries about their shares or dividend payments should contact the company's share registry on telephone 1300 855 080 or facsimile 02 8235 8220, or through its web site (www.computershare.com) using their holder identification number or shareholder reference number to access their shareholder specific information, or write to:

Computershare Investor Services Pty Ltd
GPO Box 7045, Sydney NSW 1115.

All enquiries should include a shareholder reference number which is recorded on the holding statement.

CHANGE OF ADDRESS

Shareholders on the issuer sponsored subregister who have changed their address should notify the company's share registry in writing. CHESS holders should notify their controlling sponsor.

CALTEX AUSTRALIA PUBLICATIONS

The company's Annual Report published in March each year is the main source of information for shareholders. Shareholders who do not wish to receive an Annual Report or Half Yearly Review should notify the company's share registry in writing. Alternatively, shareholders who have previously requested not to receive an Annual Report or Half Yearly Review may now wish to change their election and receive these by notifying the company's share registry.

VOTING RIGHTS

The share capital of Caltex Australia Limited is comprised of 270 million fully paid ordinary shares.

Shareholders in Caltex Australia Limited have a right to attend and vote at all general meetings, in accordance with the company's Constitution, the Corporations Act and the ASX Listing Rules.

At a general meeting, individual shareholders may vote in person or by proxy. A corporate shareholder may vote by proxy or through an individual who has been appointed as the company's body corporate representative. Shareholders with at least two shares may appoint up to two proxies to attend and vote at a general meeting.

If shares are held jointly and two or more of the joint shareholders purport to vote, the vote of the shareholder named first in the register will be counted, to the exclusion of the other joint shareholder or shareholders.

Shareholders who are entitled to vote at the meeting should note that:

- on a poll, each shareholder has one vote for each share they hold; and
- on a show of hands, each shareholder has one vote.

If the shareholder has appointed a proxy, the proxy may vote but, if two proxies are appointed, neither proxy may vote.

For a complete analysis of shareholders' voting rights, it is recommended that shareholders seek independent legal advice.

STOCK EXCHANGE LISTING

The company's shares are listed on the Australian Stock Exchange.

GENERAL ENQUIRIES

Manager Investor Relations: Harvey Ward 02 9250 5166

Company Secretaries: Ms Helen Conway, Mr John Willey.

The address and telephone of the registered office is:

Level 12, MLC Centre, 19–29 Martin Place, Sydney NSW 2000

Telephone 02 9250 5000 Facsimile 02 9250 5742

with the postal address being GPO Box 3916, Sydney NSW 2001

Web site (www.caltex.com.au)

The address at which the register of shares (being the only securities on issue) is kept is:

Computershare Investor Services Pty Limited, Level 3, 60 Carrington Street, Sydney NSW 1115

Telephone 02 8234 5222 Facsimile 02 8235 8220

with the postal address being GPO Box 7045, Sydney NSW 1115

Web site (www.computershare.com)

SHAREHOLDER INFORMATION

GENERAL INFORMATION

The following additional information is furnished as required by Listing Rule 4.10 of the Australian Stock Exchange:

1 As at 30 January 2004:

1.1 Substantial shareholder: ChevronTexaco Global Energy Inc holding 135,000,000 ordinary shares

1.2 There is only one class of equity securities (namely fully paid ordinary shares) and the number of holders is 22,815.

1.3 The shareholding is distributed as follows:

	No of holders	No of shares	%
a)			
1 – 1,000	13,860	7,424,525	2.75
1,001 – 5,000	7,396	18,429,206	6.83
5,001 – 10,000	945	7,379,994	2.73
10,001 – 100,000	561	14,692,637	5.44
100,001 – over	53	222,073,638	82.25
	22,815	270,000,000	100.00

b) There are 228 shareholders holding less than a marketable parcel of shares in the company

1.4 The 20 largest shareholders held 80.28% of the ordinary shares in the company.

1.5 The 20 largest holders of ordinary shares, the number of ordinary shares and the percentage of capital held by each are as follows:

	No of shares	%
1 ChevronTexaco Global Energy Inc	135,000,000	50.00
2 National Nominees Limited	19,886,862	7.37
3 Westpac Custodian Nominees Ltd	17,856,736	6.61
4 JP Morgan Nominees Aust Ltd	15,145,037	5.61
5 RBC Global Services Australia Nominees Pty Limited	10,571,839	3.92
6 ANZ Nominees Limited	3,640,240	1.35
7 NRMA Nominees Pty Limited	3,187,815	1.18
8 Citicorp Nominees Pty Limited	2,659,169	0.98
9 Cogent Nominees Pty Limited	1,881,601	0.70
10 Queensland Investment Corporation	1,058,729	0.39
11 Equity Trustees Limited (SGH PI Smaller Co's Fund)	1,023,633	0.38
12 Permanent Trustee Australia Limited	948,874	0.35
13 Galufo Pty Ltd	750,000	0.28
14 UBS Nominees Pty Ltd (Prime Broking A/C)	726,268	0.27
15 AMP Life Limited	596,240	0.22
16 Mr John William Evans (Evans Family Super Fund A/C)	428,129	0.16
17 Government Superannuation Office	367,419	0.14
18 Niblick Pty Limited	360,000	0.13
19 Citicorp Nominees Pty Limited (CFSIL CFS WS Small Comp A/C)	332,532	0.12
20 Marzon Pty Ltd	330,170	0.12

STATISTICAL INFORMATION

Year ended 31 December	2003	2002	2001	2000
People				
Employees (i)	2,986	2,638	2,934	2,738
Assets				
Fuels refineries	2	2	2	2
Lube oil refinery	1	1	1	1
Road tankers	17	28	27	27
Rail cars (operational)	52	68	68	68
Storage terminals (owned or leased, and operational)	11	11	11	11
Star Mart convenience stores	187	175	171	168
Service stations (owned or leased)	605	643	651	658
Depots	115	124	126	127
Operations				
Nameplate refining capacity (barrels per day):				
Caltex Refineries (NSW) Pty Ltd	124,500	124,500	124,500	124,500
Caltex Refineries (Qld) Limited	105,500	105,500	105,500	105,500
Caltex Lubricating Oil Refinery Pty Ltd	3,750	3,750	3,750	3,750
Fuel production (ML)	11,011	11,045	10,858	10,928
Lubes production (ML)	135	125	169	186
Total sales volumes (ML) (ii)	12,429	12,183	11,669	12,257
Total treated injury frequency rate (iii)	15.2	15.6	18.3	23.3

(i) Includes employees of Calstores Pty Ltd (2003:862) and Caltex 100% owned distributors (2003:509).

(ii) 2003 sales volumes excludes sales made to domestic refiners.

(iii) Includes employees of Calstores Pty Ltd and Caltex 100% owned distributors.

DIRECTORY

CORPORATE OFFICES

Caltex Australia Limited

ACN 004 201 307

Caltex Australia Petroleum Pty Ltd

ACN 000 032 128

Level 12, MLC Centre

19–29 Martin Place

Sydney NSW 2000

Australia

Mail GPO Box 3916

Sydney NSW 2001

Australia

Telephone: 02 9250 5000

Facsimile: 02 9250 5742

Web site: www.caltex.com.au

SHARE REGISTRY

Computershare Investor

Services Pty Ltd

GPO Box 7045

Sydney NSW 2001

Australia

Tollfree: 1300 855 080

(enquiries within Australia)

Telephone: 61 3 9615 5970

(enquiries outside Australia)

Facsimile: 02 8235 8220

Web site:

www.computershare.com

REFINERIES

Caltex Refineries (NSW) Pty Ltd

ACN 000 108 725

Solander Street

Kurnell NSW 2231

Telephone: 02 9668 1111

Facsimile: 02 9668 1188

Community hotline: 02 9668 1244

Caltex Lubricating

Oil Refinery Pty Ltd

ACN 000 352 205

Sir Joseph Banks Drive

Kurnell NSW 2231

Telephone: 02 9668 1111

Facsimile: 02 9668 1188

Caltex Refineries (Qld) Limited

ACN 008 425 581

South Street

Lytton Qld 4178

Telephone: 07 3362 7333

Facsimile: 07 3362 7111

Environmental hotline:

1800 675 487

MARKETING OFFICES

New South Wales

Caltex Banksmeadow Terminal

Penrhyn Road

Banksmeadow NSW 2019

Telephone: 02 9695 3600

Facsimile: 02 9666 5737

Queensland/Northern Territory

Caltex Lytton Terminal

Tanker Street, off Port Drive

Lytton Qld 4178

Telephone: 07 3877 7333

Facsimile: 07 3877 7464

Victoria/South Australia/

Tasmania

Caltex Newport Terminal

Douglas Parade

Newport Vic 3015

Telephone: 03 9287 9555

Facsimile: 03 9287 9572

Western Australia

Caltex Fremantle Terminal

85 Bracks Street

North Fremantle WA 6159

Telephone: 08 9430 2888

Facsimile: 08 9335 3062

Customer Support

Feedback Line (complaints,
compliments and suggestions)

Mon–Fri 8.30 am to 5.00 pm (EST)

1800 240 398

Card Support Centre

Card enquiries 24 hours/seven days

1300 365 096

Lubelink

Mon–Fri 8.00 am to 6.00 pm (EST)

1300 364 169





Our vision is to be the Australian oil refining and marketing company most admired for its people, partnership and performance.

Our values

We treat all people with fairness, respect and dignity.

We meet the highest ethical standards and operate in a socially responsible manner.

We respect and comply with the law.

We conduct our business in a manner that respects the environment and benefits the communities where we work.

We are committed to incident free operations and are passionate about achieving results that exceed expectations.

We are focused on providing products and services that meet or exceed the needs of our customers.

Our strategic intents

- **operational excellence** through safe, secure, reliable, efficient, incident free and environmentally sound operations
- **cost management** by lowering unit-costs through innovation, technology and work-process improvements
- **capital stewardship** by investing in the best project opportunities and executing them better than our strongest competitors
- **strong and sustained profitability** through leadership in brand, supply chain and asset management, in developing new opportunities, and favourably shaping the business environment
- **partnering with employees and other stakeholders** by engaging the hearts and minds of our employees through empowerment, respect and dignity, and by building mutually beneficial relationships.

Our success

We earn “most admired” status when we are:

- the Australian industry leader in incident free operations (safety, security, reliability, efficiency and environmental stewardship)
- maintaining a competitive cost structure
- generating above-industry returns through prudent investments and pace-setter project implementation (safer, faster and at lower cost)
- using our brand, supply chain and assets to achieve industry leading profitability
- preferred as a place to work, the business partner of choice, and valued contributors to the quality of life in the communities where we do business
- highly competitive in shareholder returns.

We will measure our progress toward these goals by use of appropriate metrics.

We will build world-class **organisational capability** combining people, process and culture to achieve and sustain industry leading performance.

