



**CALTEX**

Caltex Australia



**YEARS**

OF REFINING FUEL FOR AUSTRALIA



# Now

2005 ANNUAL REPORT

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**FRONT COVER:**

50 years on and now the same tank, same stairs that appear in the 1956 Kurnell refinery photograph (below) take refinery technicians Luke Pesa (left) and Steve Seaton to the top to inspect it in early 2006.



*Then...*

Caltex celebrating **50 years** of refining  
fuel for Australia **1956 – 2006**



#### ADVICE TO SHAREHOLDERS

The *2005 Annual Report* provides an overview of Caltex Australia's main operating activities for the year ended 31 December 2005.

The *2005 Financial Report*, which is contained within the *2005 Annual Report*, provides detailed financial information for the Caltex Australia Group for the year ended 31 December 2005.

Please note that *2005 Annual Report* can be found at our web site, [www.caltex.com.au](http://www.caltex.com.au)

#### THE CALTEX AUSTRALIA GROUP

The Caltex Australia Group consists of:

- Caltex Australia Limited (ACN 004 201 307), which is the parent company of the Caltex Australia Group
- our major operating companies including Caltex Australia Petroleum Pty Ltd, Caltex Refineries (NSW) Pty Ltd, Caltex Refineries (Qld) Pty Ltd, Caltex Petroleum Distributors Pty Ltd and Caltex Lubricating Oil Refinery Pty Ltd, and
- a number of wholly owned entities and other companies that are controlled by the group.

Please note that terms such as Caltex and Caltex Australia have the same meaning in the *2005 Annual Report* as the Caltex Australia Group unless the context requires otherwise.

#### FINANCIAL CALENDAR FOR CALTEX AUSTRALIA LIMITED

##### YEAR ENDED 31 DECEMBER 2005

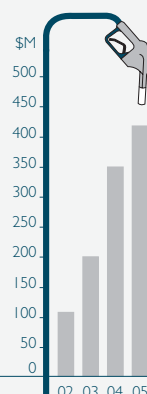
Annual general meeting	27 April 2006
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##### YEAR ENDING 31 DECEMBER 2006\*

Half year results & interim dividend announcement	25 August 2006
Record date for interim dividend entitlement	8 September 2006
Interim dividend payable	29 September 2006
Full year results and final dividend announcement	23 February 2007
Record date for final dividend entitlement	9 March 2007
Final dividend payable	30 March 2007

\*These dates may be subject to change.

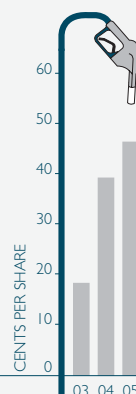
REPLACEMENT COST OF SALES  
OPERATING PROFIT



18%  
increase

The profit after tax (excluding significant items) on a replacement cost of sales operating basis was \$414 million (2004: \$350 million)

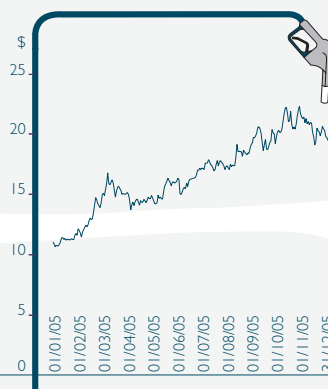
DIVIDENDS



18%  
increase

The total dividend was 46 cents per share fully franked (31 cents per share final dividend and 15 cents per share interim dividend) up from 39 cents per share total dividend in 2004

SHARE PRICE



78%  
increase

The Caltex share price opened the year at \$10.86 and closed at \$19.38.

# Highlights

2005 was a year of  
records for Caltex

## — Higher earnings

The record earnings were the result of a strong operating performance by the company's refining and marketing businesses combined with global market factors

## — Higher shareholder return

There was a 78% increase in the Caltex share price and an 18% increase in dividends in 2005 compared with 2004 – a result that provided a total shareholder return of 82%

## — Higher throughput at refineries

Improved throughput rates and near record production at the refineries enabled Caltex to capture the benefit of higher refiner margins

## — Record transport fuels sales volumes

Caltex strengthened its market leadership in transport fuels sales with growth in petrol, diesel and jet fuel volumes

## Caltex was in the top tier of performers in the Australian share market for the third year in a row

**We are pleased** that the confidence of Caltex shareholders has been rewarded by another year of record earnings.

In 2005, we had an 18% increase in profit, higher dividends for shareholders and a 78% increase in the share price, which opened the year at \$10.86 and ended at \$19.38, resulting in a total shareholder return of 82%. Caltex was in the top tier of performers in the Australian share market for the third year in a row. It was also a year where Caltex's role in the Australian economy was highlighted as the largest refiner and marketer of petrol, diesel and jet fuel and the country's leading convenience store retailer.

Our higher earnings were the result of global market factors combined with a strong operating performance by Caltex's refining and marketing businesses. Our performance continues to be strengthened as we focus on the fundamentals, including lifting our safety performance, which was our best on record.

Margins for refiners were higher in 2005 because of continued strong demand for fuels in the Asia Pacific region. Improved throughput rates at both Caltex refineries enabled the company to capture the benefits of the higher margins.

The marketing business made a strong contribution to earnings with another successful year of record transport fuel sales, higher margins and gains in consumer preference for the Caltex brand.

The company recorded a full year profit after tax of \$414 million on a replacement cost of sales operating profit (RCOP) basis (excluding significant items) for the year ended 31 December 2005 (2004: \$350 million).

The RCOP result provides a clear picture of the company's underlying business performance as it excludes the impact of international oil price movements. When oil-price driven inventory gains are included, profit after tax for the year ended 31 December 2005 on an historical cost basis (excluding significant items) was \$574 million \* (2004: \$457 million).

### Dividend

The Board declared a final dividend for 2005 of \$84 million or 31 cents per share making a total year dividend of 46 cents per share fully franked including the interim dividend of 15 cents per share paid in September 2005 (2004 total dividends: 39 cents per share).

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

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

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

### Higher earnings enable investment in the business

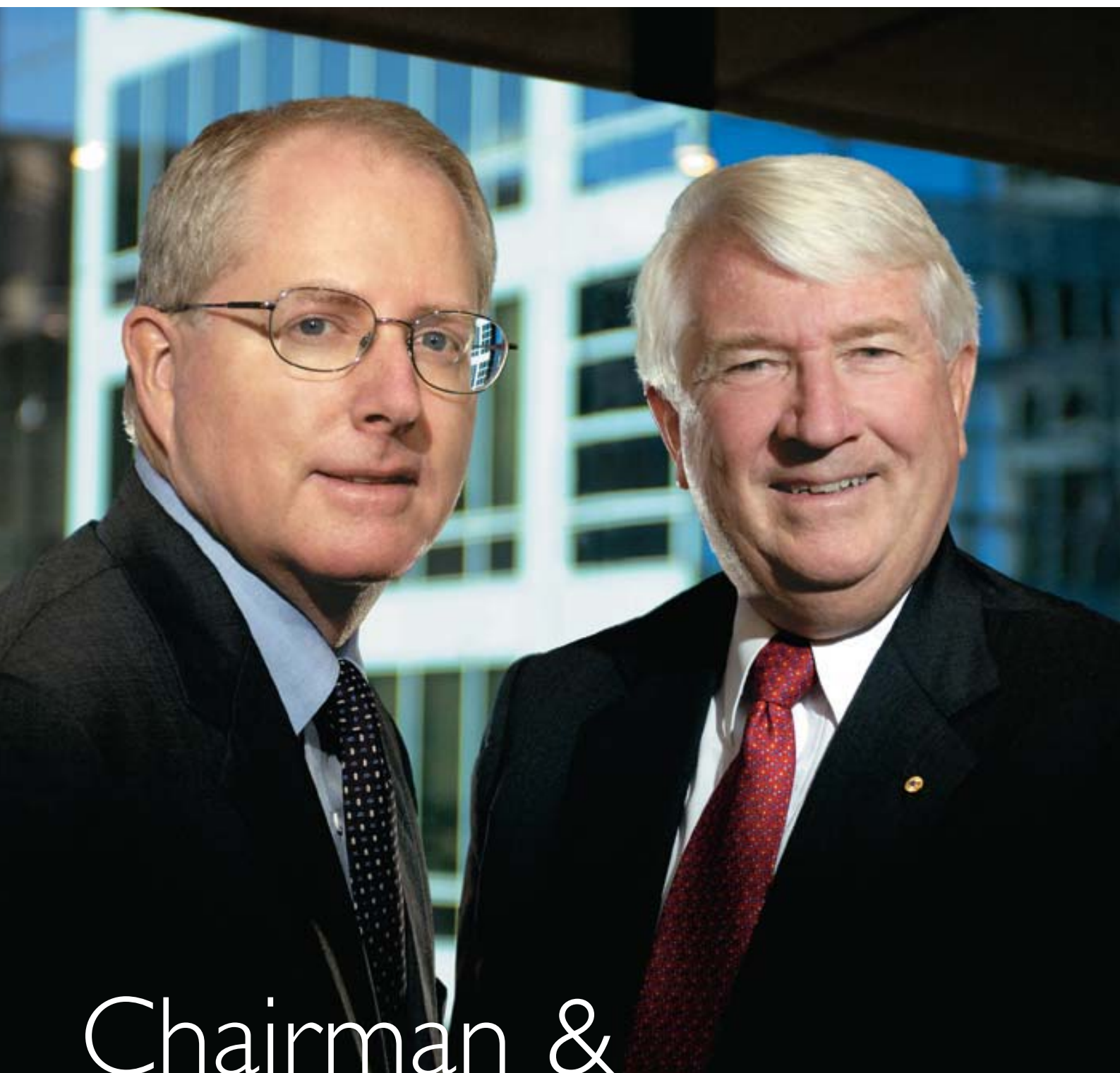
The international fuels market is changing as the gap widens between the expanding demand for transport fuels and global refining capacity. Two years ago, imports

**RIGHT** Managing Director and Chief Executive Officer Dave Reeves and Chairman Dick Warburton.

\*This includes inventory gains of \$160 million (after tax) compared with inventory gains of \$106 million (after tax) in 2004.

Both the RCOP and historical cost profit exclude a one-off after tax gain of \$21 million as a result of tax consolidation legislation passed in 2005. The initial legislation passed in 2004 resulted in a one-off after tax gain of \$114 million in 2004.

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



# Chairman & Managing Director's report



**ABOVE** Caltex is Australia's leading convenience store retailer with around 30% of national market share. Customer Service Attendant Jonathan Quantick maintains the display at flagship store Caltex Woolworths Neutral Bay in Sydney.

of fuel to Australia began to increase as a result of continued expansion of the economy and the closure of a competitor's refinery.

It is important that Caltex evolves and keeps pace with market changes to enable it to continue to be a reliable, cost-effective supplier meeting the needs of its customers. This is why Caltex is focusing on increasing production of diesel and high octane petrol, strengthening its supply chain and focusing on operational excellence throughout the business.

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

The most significant investment in 2005 was in the Clean Fuels Project to meet the new fuel quality standards to improve emissions from vehicles. We have built facilities at our refineries in New South Wales and Queensland that will enable them to reduce benzene in petrol and sulfur in diesel in 2006 to standards required by the Australian Government. The refineries are also equipped to produce fuels to the tougher standards

regulated for 2008 and 2009, and will be producing premium petrol in 2006 to the 2008 sulfur standards.

There has been a start-up delay and significant overrun of our original planned investment in the Clean Fuels Project, primarily due to late delivery of materials and equipment and a shortage of skilled labour.

This is disappointing, but the company has a highly competent and dedicated workforce which has worked to overcome these obstacles. The lessons we learned from the review of this project are being applied in our future capital development activities.

### Improvement projects paying off

Major improvement initiatives in our refining, supply and marketing operations began to produce significant benefits in 2005. These projects have strong momentum and will continue to contribute to Caltex's growth and profitability in the coming years.

In the refining business, a wide-ranging refining performance improvement program lifted productivity and improved yields at both refineries during the year. This enabled near-record production of 11.6 billion litres to be achieved despite a schedule of significant planned shutdowns for routine maintenance and preparation for clean fuels production.

In our marketing business, we strengthened our leadership in transport fuels sales, with a further 4% increase in sales volumes in a market that grew around 1% nationally.

The marketing business increased growth in sales and margins across all channels, with new strategies producing impressive growth in key markets for lubricants, premium fuels and StarCash. Non-fuel income increased by 11% and a further growth in store sales consolidated Caltex's position as Australia's leading convenience store retailer with around 30% of national market share.

Our venture with Woolworths has supported our growth in transport fuels sales with the jointly branded network of over 470 sites now accounting for almost 50% of our petrol sales volume. The venture is also providing benefits from improved buying arrangements for goods sold in our convenience store network.

### Outlook

Refining capacity additions across the Asia Pacific region are expected to lag behind demand growth for transportation fuels. Caltex's investment in cleaner fuels production and refinery upgrades is expected to be supported by a continued tight supply/demand balance helping sustain refiner margins.

## Acknowledgments

The Board acknowledges the contribution of Mitch Rubenstein who stepped down from the Board in August after taking up a new position with Chevron Corporation in Houston, USA. We welcome Peter Wissel from Chevron who joined the Board on 23 August 2005.

The Board expresses its sincere appreciation to employees, franchisees, resellers, contractors and suppliers for their contribution to Caltex's achievements in 2005.



RFE (Dick) Warburton AO  
CHAIRMAN



Dave Reeves  
MANAGING DIRECTOR AND CEO

Lower refinery production and increased imports of 2006-standard products and exports of non-2006-standard products due to the Clean Fuels Project delay will negatively affect earnings in the first half of 2006. This will have a one-off impact on profit.

Caltex's focus on its people, assets, systems and customers is building the long term strength of the company. We are seeing good results from our strategies to increase the productivity of the refineries, lift efficiencies of our supply chain and achieve sustainable growth in expanding markets. Most importantly, the company is also improving safety performance, engaging our workforce, partnering with stakeholders and meeting the needs of customers.

## Fuelling Australians' way of life

Caltex is proud to be part of a great industry that is vital to the standard of living of every Australian. Our products keep industry, commerce and motorists on the move and make possible the lifestyle Australians enjoy.

In 2006, we are celebrating our 50th anniversary of refining fuel for Australia and our contribution over the decades to one of the most successful postwar economies in the world. We hope you enjoy sharing the journey with us in this annual report.

Our anniversary celebrations have three themes for Caltex people: honouring the past, celebrating the present and welcoming the future. Caltex employees, franchisees and resellers are stewards of the present and future. The company relies on the talents and effort of everyone in the Caltex family to make us the Australian oil company most admired for its people, partnership and performance.

**RIGHT** Caltex more than doubled its capital expenditure on core assets in 2005. Refining performance improvement program major projects leader Gary Edgar inspects construction of a new bitumen storage tank at the Kurnell refinery which will increase bitumen storage capacity by 50%.



Caltex is proud to be part of a great industry  
that is vital to the standard of living of every Australian



# Refining & supply



**ABOVE** The diesel hydrotreater (foreground) and benzene saturation unit at the Kurnell refinery in New South Wales were under construction in 2005 as part of Caltex's \$500 million Clean Fuels Project, one of the largest investments in the history of the company. During the year facilities were constructed at both refineries to enable them to reduce the level of benzene in petrol and sulfur in diesel to meet new Australian fuel quality standards.

Now ...

*& then*

**BELOW** In the beginning: Kurnell refinery's construction statistics are staggering even by today's standards. Some 30,000 tonnes of steel went into the work along with 33,600 cubic metres of concrete, 200 kilometres of pipes of all sizes, 877 concrete piles for the jetty and 56 crude oil, product and water tanks.



## Both refineries during the year achieved throughput records in a number of areas



**ABOVE LEFT** Mark Hodgson (foreground) and Darryl Power in the control room at the Lytton refinery in Queensland.



**RIGHT** Operators in the Kurnell refinery control room in the 1950s monitored production without the help of today's high tech computerised equipment.

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 and refine the crude into petrol, diesel, jet and specialty products such as LPG and bitumen. The Supply department distributes products to a network of terminals around Australia and buys and sells products and schedules product movements to meet marketing sales.

### Key points for 2005

- 30% reduction in treated injury frequency rate for employees and long-term contractors
- Improvement programs enable near-record production at a time of significant planned shutdowns
- Higher utilisation and throughput
- Supply chain improvement program launched
- Construction of clean fuels facilities

2005 was a significant year for the company's refining operations which recorded strong throughput rates and utilisation at a time of strong refiner margins. This was achieved despite a high level of planned shutdown activity at both refineries for routine maintenance and preparation for clean fuels production.



**ABOVE LEFT** There are more than 100 petroleum product and crude oil tanks at the Kurnell refinery which hold an inventory of up to 600 million litres. Today the refinery processes around 26 million litres of crude each day, a dramatic increase on the 4 million litres a day throughput in 1956.  
**RIGHT** One of the original plants that went online 50 years ago was the no. 1 fluid catalytic cracking unit at Kurnell. It continues to produce petrol today.

Higher refiner margins were due to continued strong demand for fuels in the Asia Pacific region with the Caltex refiner margin in 2005 averaging US\$8.40 a barrel (2004: US\$6.60).

It was a year of exceptionally high project and construction activity across both Caltex refineries, with employees demonstrating a strong commitment to operational excellence and the success of the business.

### Production and utilisation

Production by Refining of all products in 2005 was 11.6 billion litres, the second highest on record after 2004 (11.8 billion litres), and the average utilisation for the refineries overall in 2005 was 74.5% (2004: 74.4%).

Steady refining throughput and utilisation rates enabled production to be maintained in a year of extended planned shutdowns, including a shutdown of one of the Kurnell refinery's crude units for 26 days in February and a 50-day full refinery shutdown at Lytton refinery in May/June.

Both refineries during the year achieved throughput records in a number of areas, setting a new total monthly production record of 1.1 billion litres in October.

These production achievements are evidence of the culture of continuous improvement, coordination across the supply chain and zeal for excellence demonstrated by employees.

### Building supply chain capability

The Supply department has significantly increased the volume of imports of petroleum products to meet marketing demands. Caltex imported 1.2 billion litres of transport fuels in 2005 which has steadily increased from 220 million litres in 2003. This volume is expected to further expand in 2006 primarily as a result of late completion of refinery facilities that allow the manufacture of 2006 compliant fuels. Our marketing business will continue to expand to meet customer demands and as a result, imports of finished products will continue to play a vital role in our overall supply chain.

Terminal infrastructure in North Queensland, Northern Territory and Victorian port locations is being improved to more efficiently receive imports.

In 2005, implementation began of a major supply chain improvement program to improve the flexibility and reliability of the supply chain. Designed to also support the planned expansion of our business, the program involves technology, process and organisational changes.

One of the initial projects completed in 2005 was a blending optimisation system to improve the utilisation of petrol blend stocks which will help the refineries meet the new clean fuels specifications. Other projects currently under way are related to significant improvements in information integration, refinery scheduling, demand planning and supply planning.

Our marketing business will continue to expand to meet customer demands and as a result, imports of finished products will continue to play a vital role in our overall supply chain.

**BELOW** These three 9.8 metre diameter spheres are designed to hold up to 453,000 litres of butane each. Butane is used as a component of petrol and autogas, and as an industrial fuel.



## Refining & supply

**BELOW** Lytton refinery operators Rick Scott (left) and Dave Manning used a special model of the inner sections of the catalytic cracker to help plan major maintenance work in 2005.

**RIGHT** Twenty years ago, Rod Richardson was inspecting the results of a hydrostatic test on a heat exchanger at Kurnell refinery.



### Improvements deliver sound results and platforms for growth

Further work with the Loss Prevention System, contributed to a 30% reduction in treated injuries for employees and long-term contractors in 2005.

During the year, there was strong progress made on an improvement program launched in late 2004 to lift the productivity of refining operations. The program ranges from small low cost projects to major projects involving significant capital investment and environmental and statutory approvals.

The focus is on increasing production of diesel and high octane petrol, removing refinery production constraints and reducing unit costs.

By the end of 2005, the program produced significant cost and efficiency gains which are reflected in the increased profits.

One example of a low cost, high return project executed at the Kurnell refinery is a \$2.5 million crude blending project. The installation of additional pump and piping infrastructure increased flexibility to process different crude types combinations. This will improve plant efficiency and increase throughput, adding approximately \$3 million a year to earnings before interest and tax.

Caltex refineries enjoy a long history of  
close partnerships with their local communities

There has been a significant increase in the number of capital projects at the refineries, with around 300 small to medium projects in progress across both refineries in 2005. To accommodate this increased activity, alliances were formed with two external partners. The new arrangement provides the refineries with design engineering, construction and project management resources as needed.

## Clean Fuels Project

During the year, major resources were committed to the Clean Fuels Project which will cut air pollution by reducing benzene in petrol and sulfur in diesel to standards required by the Australian Government.

The \$500 million project involves four major processing units being significantly modified or newly constructed. These are diesel hydrotreaters at both refineries to enable Caltex to produce diesel to the new standards of 50 parts per million (ppm) of sulfur in 2006 and 10 ppm in 2009, and benzene hydrogenation units to produce petrol with a maximum of 1% benzene in 2006.

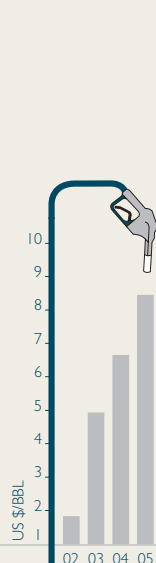
Completion of construction on the processing plants was delayed due to a shortage of skilled workers and late delivery of materials and equipment. The Australian Government granted Caltex a short-term variation to the 1 January 2006 deadline for producing fuels to the new standard.

The variation has allowed the company to ensure certainty of supply to its customers while plant construction and commissioning is completed.

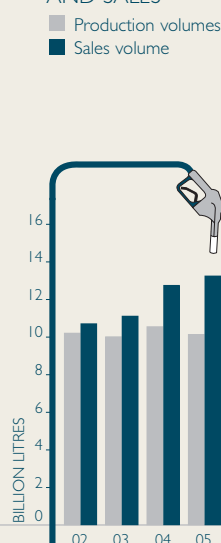
## Working with our communities

The Caltex refineries enjoy a long history of close partnerships with their local communities, including councils, community groups, sporting groups and schools. Both the Lytton and Kurnell refineries support local surf and lifesaving clubs, sports teams and welfare groups and a range of other local activities and events that are special to these communities. For example, Kurnell sponsors an annual operatic performance on the beach event at nearby Cronulla, and Lytton refinery every year awards 14 local primary school children a Special Service to the School Award.

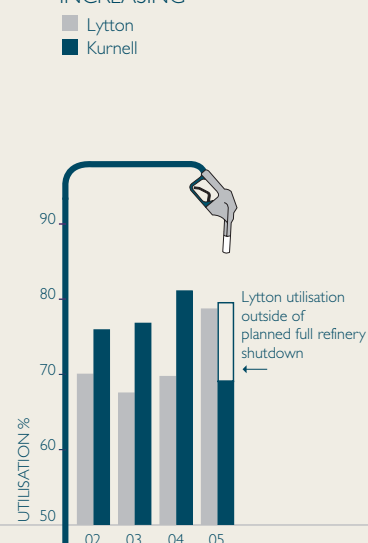
2005 CALTEX REFINER MARGIN



TRANSPORT FUELS PRODUCTION AND SALES



REFINERY UTILISATION IS INCREASING



Lytton refinery in July 2005 celebrated its 40th anniversary with a community open day attended by 3,000 people which included an official opening by the State Minister for Transport and Main Roads and Member for Lytton Paul Lucas MP, refinery bus tours and demonstrations of refining operations. Students from seven local schools provided entertainment with music, singing and dancing.

A colourful open day celebration was held for Kurnell refinery employees and their families in November to commemorate 50 years since oil processing was first tested at the refinery, ahead of a program in 2006 to mark the 50th anniversary since Caltex pumped its first refined fuel to market. Kurnell refinery employees, former long-serving employees and local residents formed a committee to organise the refinery's 50th anniversary celebrations at the Kurnell refinery in February 2006.

Both refineries are committed to communicating and consulting with neighbouring communities through programs of community meetings and participation in local associations.



# Marketing



Now ...

*& then*

**BELOW** This was the look of Caltex service stations in the 1950s when the car started to become a powerful force in shaping the Australian economy and lifestyle.

**ABOVE** A service station for the 21st century, Caltex Neutral Bay opened for business in March 2005 as a jointly branded Caltex Woolworths site after a \$2.7 million redevelopment. On a main artery near the Sydney Harbour bridge, it is one of Caltex's busiest sites.



## In 2005 Caltex continued to deliver fuel sales growth and further increases in non fuel income



**ABOVE LEFT** Teamwork and attention to detail make Caltex franchisees Di and Mark Patterson consistent top performers in Caltex's All Stars performance management program. Pictured at their site in Wamberal on the NSW Central Coast they have four sites and their four children have joined them in the business.

**RIGHT** "I insist that the place be kept clean. I also insist on first-class service to my customers, most of whom I know personally," said service station owner Ron Gates, seen here in 1966 polishing the pumps in his driveway. Ron ran the Gordonvale station on the Bruce Highway 15 miles south of Cairns, Queensland, with the help of his mother and sister Irene.

The Marketing department promotes and sells Caltex fuels, lubricants, specialities, convenience store goods and a branded StarCard through a national network of over 1,800 Caltex branded service stations and over 60 branded resellers. Marketing also sells directly to a large number of commercial customers. All these customers are supported by Marketing's extensive network of terminals and depots across the country.

### Key points for 2005

- Over 30% reduction in treated injury frequency rate
- Record transport fuel sales and Marketing earnings
- Consolidated position as number one convenience retailer
- New brand directions and momentum
- Infrastructure – enhancing capabilities
- StarCash growth
- Biofuels commitment

Caltex's marketing business has continued to improve performance with further growth in key segments as the company consolidates its position as the largest marketer of petroleum products in Australia and the leading convenience store retailer.

Strategies introduced in 2004 to improve performance across the marketing business and strengthen customer focus are now adding value, with employees delivering excellent results and demonstrating our brand tagline of *We put more in.*

### Fuel sales

In 2005, Caltex continued to deliver record fuel sales with growth of 4.2% in transport fuels sales volumes in a market that grew



**ABOVE** Premium fuels are now the fastest-growing fuels sector: Caltex's premium unleaded petrol Vortex 98 was launched in 2004.  
**RIGHT** In South Australian this truck toured the Adelaide metropolitan area in 1960 to advertise Caltex Butane Boosted petrol.

around 1% nationally. The 3% increase in petrol sales was supported by the Caltex Woolworths venture with shopper docket redemption purchases by Woolworths' customers accounting for a growing percentage of Caltex petrol sales. Diesel volumes were up by 5.3% and jet fuel rose by 6%.

Caltex is continuing the rollout of premium, high octane fuels, under the Vortex and Vortex 98 brands. Sales of premium unleaded fuels increased by 19.8% during 2005 with the visibility of Vortex in TV and print advertising helping delivering the Vortex message – *Bring out the best in your car*, to a growing Caltex customer base.

Business-to-business e-commerce solutions for Caltex's commercial and industrial customers were increasingly used in 2005, with online system improvements delivering better customer service and operating efficiencies for Caltex business partners. Approximately 50% of all orders for fuels and lubricants were managed electronically, providing savings to the company in the cost of processing orders and delivering efficiencies to our customers.

### Direct sales channels

Finished lubricants growth of 3.1% was supported by increased sales to the automotive, industrial, mining and transport sectors together with the rollout of Caltex lubricants into Woolworths and BIG W outlets nationally.

Increases in marine, bitumen and petrochemicals sales volumes resulted in a 12.5% growth in specialty product sales volumes.

### Convenience store network

Caltex continued to strengthen its position as Australia's leading convenience store retailer with a market share of around 30% and a network of nearly 500 Star convenience stores. Total average shop sales in 2005 were 4.6% higher than in 2004.

Caltex's retail success is driven by working with key business partners such as franchisees, company-operated store managers and suppliers to lift benchmarks under the All Stars performance management program. The focus on feedback and improvement continued to drive retail performance from good towards great with performance scores across the network in 2005 the highest to date.

The strong retail performance is also due to consistency and excellence in business performance driven by the All Stars quality retail program, support from suppliers in retail promotions and improvements in the overall convenience offer that ensures customers' needs are being met. Work was done in 2005 on future innovations for Caltex convenience stores, with new features to be trialed in 2006.

Caltex's venture with Woolworths is now in its second year with a network of over 470 jointly branded sites, 125 of them contributed by Caltex. The relationship is delivering synergies in a number of areas. This includes the establishment of an arrangement in 2005 which will enable the Caltex retail sites to benefit from Woolworths' buying expertise for convenience store goods purchases such as confectionery and drinks.

**BELOW** Photographed in 1958, these 44-gallon drums containing Caltex RPM Delo were destined for the lubrication of diesel-electric locomotives throughout Australia.



**BELOW LEFT** Fred Freeman, General Manager of Caltex-owned reseller Access Energy at the Newcastle, NSW terminal. Fred manages a company that distributes fuel and lubricants throughout the northern part of the State.

**RIGHT** With military precision, drivers and their tanker trucks line up for this photograph at Caltex's Banksmeadow terminal in southern Sydney in the 1950s.



### New directions for the brand

Caltex's brand strength continued to grow in 2005 with increased consumer preference scores in surveys.

Vortex premium fuel advertising and StarCash promotions led the way in State of Origin television broadcasts, Perisher Blue Ski Resort outdoor advertising, Harvey Norman promotional catalogues and Qantas in-flight programming.

A program of consistent branding of the service station network continued with the progressive removal of the Ampol brand and old Caltex signage. The number of sites with the new Caltex Delta brand increased from 914 in 2004 to 1,135 in 2005 with 80% of sites in major markets completed.

Motor racing performance has also enhanced Caltex brand awareness with a clean sweep of the podium in the 2005 V8 Supercar Championship with the Caltex-sponsored Stone Brothers Racing and Team Betta Electrical/Triple Eight Race Engineering, and retention of the number one position in the Globalstar Australian Rally Championship with Subaru Rally Team Australia.

Caltex is committed to increased use of  
ethanol and biodiesel blends

## StarCash grows in popularity

The increased use of Caltex branded cards delivers benefits not only in sales, but also in enhanced Caltex brand awareness.

During 2005, Caltex StarCash delivered outstanding results with a significant growth in sales as a result of its wider availability throughout the Caltex service station network and its use in promotions by many high visibility customers. StarCash featured in highly advertised promotional campaigns for customers that included Harvey Norman, Nissan and *The Daily Telegraph* newspaper, and was used in a large number of credit card rewards programs.

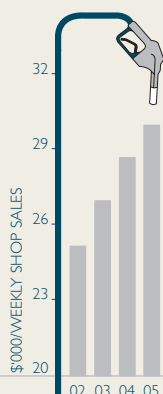
The StarCard fleet business has also been an outstanding performer in 2005 with sales growth of around 17% and expectations of increasing growth.

## Building for the future

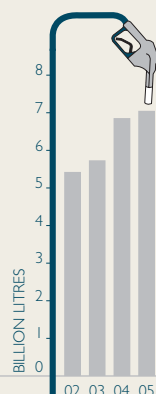
Building up our supply chain capability is a key priority for supporting future market growth, and a number of infrastructure projects were launched in 2005. This included an expansion and restructuring of the east coast operations of ALMC (Australasian Lubricants Manufacturing Company Pty Ltd), the 50:50 lubricants manufacturing joint venture between Caltex and BP. Work commenced on fuels terminal upgrade projects in Far North Queensland and Newport, Victoria and Caltex significantly expanded its terminal capacity in Darwin in the Northern Territory.

Caltex's 100% owned reseller business was expanded in 2005 with the purchase of three reseller businesses: Dunning Petroleum, the largest private reseller in Victoria has become part of the Caltex-owned Victorian reseller Access Fuel & Lubricants; Auer Petroleum in Bundaberg, central Queensland; and, Petro Fuel and Lubricants which operates in the Longreach to Goondiwindi area of South East Queensland.

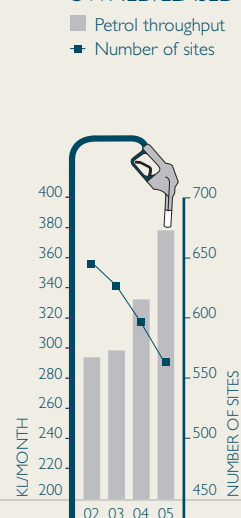
SHOP SALES



PETROL SALES



AVERAGE PETROL THROUGHPUT AT CALTEX BRANDED OWNED/LEASED SITES



## Biofuels

Caltex is committed to the increased use of ethanol and biodiesel blends. The company is gearing up to meet its commitments under the Australian Government's Industry Action Plan for biofuels which will require Caltex to produce and sell around one billion litres a year of biofuel blends by 2010.

The company is presently selling E10 Unleaded, its 10% blend of ethanol in petrol at selected sites and expanding the biodiesel offer to customers in parts of our network. We are also selling B5 (a 5% blend of biodiesel in diesel fuel) and B20 (a 20% blend) to a number of transport fleets.

Like all Caltex products, E10 Unleaded, B5 and B20 diesels carry the Caltex quality guarantee. Car manufacturers indicate that E10 Unleaded is suitable for the overwhelming majority of vehicles and it has been endorsed by all local automobile manufacturers. Caltex has a list of vehicles for which E10 is suitable available at [www.caltex.com.au](http://www.caltex.com.au).



# Corporate



Now

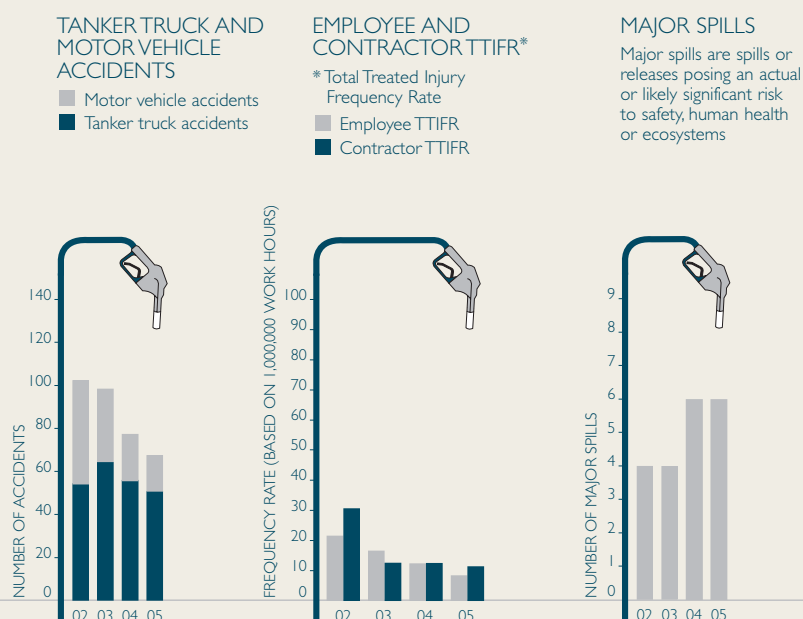
... & then

**ABOVE** Minimising our impact on the environment is a cornerstone of Caltex's operations. These wetlands have remained intact on the Kurnell refinery site in southern Sydney.



**BELOW** After having been a major importer of petroleum products to Australia, Caltex saw the opportunity in the early 1950s to build a refinery near Sydney which had a rapidly expanding market for fuels. A 160-hectare site was chosen in 1951 on the Kurnell Peninsula just south of Sydney for what was to be the then largest industrial project in New South Wales.

## Caltex continued to progress towards its goal of zero incidents with another best safety year on record in 2005



### Environment, health, safety & risk management

The total treated injury frequency rate (TTIFR) per million hours of work for Caltex employees, and for Caltex contractors was at a record low in 2005 with a rate of 8.2 for employees (2004: 11.8) and 11.2 for contractors (2004: 12.5).

The Drive to Survive driving safety and training program for employees initiated in 2004 continued to show results in 2005, with a 10% reduction in passenger motor vehicle accidents and 20% reduction in tanker truck accidents. There was also a marked decline in the severity of accidents that did occur.

Since 2003, when Caltex commenced implementation of the Loss Prevention System (LPS), the stewardship of the system – the management of LPS tools and evaluation of results – has improved significantly. The LPS focus on proactive reporting and analysis of near-losses has resulted in a decrease in the number of actual losses. Use of the system has helped identify behavioural root causes of incidents, enabling easier and more cost effective solutions than before. Caltex has fully integrated LPS into all aspects of its business.

In 2005, a new Protective Security Management System was launched across the company. Security assessments were completed on all major infrastructure assets as well as retail sites, and an incident review system was developed to further mitigate security risks. The Caltex Maritime Security Plan was approved by the federal Department of Transport and Regional Services and put into action in 2005.



**ABOVE LEFT** Refining Accounts Payable team Kerry Moffitt, Elaine Yayalo and Heidi Mackay at the Kurnell refinery were commended in 2005 for the way they handled an expanded workload linked to the high number of projects at the refineries.

**RIGHT** Caltex House "hello" girls of 1965 Milly Lundy, Hazel Sutter and Bettee Cottee were experts in "speaking with a smile". The company magazine reported that they demonstrated the five basic points of a good telephone personality: alertness, pleasantness, naturalness, enunciation and expression.

Groundwork for improved environmental performance was laid in 2005 with a review of the environmental management systems in the marketing business unit and at the refineries. In 2005, new production facilities were constructed at the refineries to enable manufacture of fuels meeting new standards for petrol/diesel.

(See Caltex Environment, Health, Safety and Community Report 2004 on [www.caltex.com.au/community\\_env\\_ehs.asp](http://www.caltex.com.au/community_env_ehs.asp))

## Employees

Including our subsidiaries, Caltex has a diverse workforce of over 3,000 people across Australia. Employees are engaged in a wide variety of operating, support and service activities which contribute to the success of our business.

The full engagement of all employees is necessary for Caltex to achieve its company-wide goals: a commitment to zero incidents, being first in the hearts and minds of customers, 85% utilisation in our refineries and 100% engagement in the business by all employees by 2007, captured in the formula:

$$\frac{0 : 1 : 85 : 100}{\text{by 2007}}$$

Safety, customer service and efficient production can only be achieved through the endeavours of a capable, motivated workforce. The company is working towards the goal of 100% engagement of all employees through building leadership skills at all levels of the organisation, providing people with meaningful and motivating work, and ensuring that accountabilities for each individual are clearly defined and understood.

The performance management process aligns the company's business plan with departmental, team and individual performance outcomes, and integrates a personalised development planning process to provide employees with the opportunity to grow and develop their capabilities. Reward systems are designed to recognise the behaviours that support the Caltex Vision, Values and Strategic Intent (see back cover) and the performance outcomes that drive business results. The results of internal surveys show that the company is making progress towards the objective of 100% engagement by employees, and the business performance demonstrates that employees are very committed to Caltex's success.

The major operating departments are focused on building employee engagement. The Marketing department is working on culture change and encouraging behaviours that will help achieve its business goals. The emphasis is on transforming leadership capability and becoming more customer focused, embodying the brand positioning *Great performance from people you like*. The program during the year included cultural engagement workshops for all employees and the launch of a leadership development program for over 100 managers and supervisors.

In the Refining department, the implementation of the *One Refining* organisational structure, creating a single management team supporting both the Kurnell and Lytton refineries, was completed. The level of engagement and commitment demonstrated by employees and contractors in 2005 was outstanding, reflecting the focus on improving relationships at all levels, the development of leadership capabilities and the introduction of a common leadership framework and set of tools. Further enhancements to this work are being deployed to ensure we build on this.

**BELOW** Caltex has had a long history of involvement in education. In 1960 Caltex donated material to the Artarmon Public School's handicraft class for an exhibition to mark the school's jubilee celebrations.



**BELOW LEFT** Queensland-based Caltex retail business manager Shannon Heinke is one of almost 300 employees who can now quickly log onto the Caltex network when she is working at home thanks to a new broadband network which was established in 2005.

**RIGHT** In the late 1960s Carole Dewar operated a reader-printer unit for Caltex's microfilm section which was used as a storage and reference system for sales documents. Documents were photographed with special rotary cameras onto 16 mm film which was then stored in special cabinets after being indexed.



All permanent employees are offered the opportunity to participate in share ownership through an employee share plan, and currently over 65% of employees hold shares in Caltex. Enhancements to the share plan to take effect in 2006 will provide eligible employees with additional opportunities for share ownership, enabling them to have a further tangible stake in the success of their company and mutually reinforcing the goal of 100% engagement.

### Business system software project

SAP is Caltex's core computer business system software that facilitates business processes as diverse as sales distribution, refinery plant maintenance and employee records. The system underwent a major upgrade in 2005 with a budget of over \$9.5 million. The project was delivered on time and under budget and has delivered all the projected business benefits.

Following the upgrade, additional benefits of \$1.5 million per annum have been achieved through improved system utilisation.

The upgrade engaged a core team of 45 full-time employees with more than 150 additional in-house employees working across five locations on parts of the project. The work undertaken has increased Caltex's capacity to add new business software modules and some of these will come online in early 2006.

The level of engagement and commitment demonstrated by employees and contractors in 2005 was outstanding

## Corporate affairs

Corporate Affairs activities include government affairs, corporate communications and media relations, and corporate contributions and sponsorship. The department's role includes both advancing shareholders' interests within the existing government fiscal and regulatory settings for the business and seeking to improve those settings. At the same time, Caltex seeks positive outcomes for all stakeholders as a result of its activities and to strengthen its reputation.

During 2005, activities with government focused on long-running policy themes: reform of regulation that discriminates against our marketing operations; advancing clean fuels through fuel quality regulation and fiscal incentives; and achieving sound regulatory and policy settings for the development of ethanol and biodiesel blends. The department also assisted with obtaining short-term variations of petrol and diesel standards to cope with delays in the Clean Fuels Project.

These activities were successful, with market reform advancing to the stage of draft legislation, continued strong government support for clean fuels including implementation of the grant for early production of low sulfur premium petrol, and finalisation of government biofuels policy following a detailed review by the Biofuels Task Force and agreement with oil companies on individual action plans for biofuels.

Media attention during the year focused strongly on changes in petrol prices, with considerable effort to explain how these are driven by factors external to Caltex.

## Community support

Caltex's major company contributions and sponsorship activities are with welfare, education and arts organisations. Community programs are supported by key company facilities such as those mentioned in the Refining & Supply section and service stations in local areas.

Caltex's largest sponsorship is the Starlight Children's Foundation, which the company has supported since 2000. Starlight is dedicated to brightening the lives of seriously ill and hospitalised children and their families throughout Australia. In a strong partnership with Starlight, Caltex employees, franchisees and resellers around Australia are involved during the year in

**BELOW LEFT** Caltex ran a year-long Litres for Life project to help victims of the December 2004 Asian tsunami disaster. During 2005, the company provided one million litres of fuel for UN aircraft ferrying people, food, medicine and other supplies to devastated areas in the Indonesian province of Aceh. Donations by Caltex franchisees and resellers also provided fuel for helicopters flying aid to a remote community while employees' contributions assisted a range of charities responding to the disaster.

**RIGHT** Caltex has always been active in local communities near its refineries. Here the Caltex Kurnell refinery team sets out on of the seventh annual Sutherland to Surf footrace in 1978 which was linked to the world famous City to Surf race.



fundraising activities, in addition to a corporate donation. Activities include special fundraising dinners, local gala days, donations linked to site safety performance and product promotions in the convenience store network. Caltex is the main sponsor of the annual Star Day appeal and Caltex employee volunteers sell Starlight merchandise.

Two programs supporting education again ran in 2005. Now in its 20th year, the Caltex Best All Rounder Award attracts participation from around 97% of secondary schools. Each school presents an award to a Year 12 student who has demonstrated excellence in the classroom, on the sports field and in the community. Each winning student is also invited to enter a national writing competition. Entrants in 2005 had to write a persuasive piece on why Caltex should donate \$1,000 to a charity or community organisation the student is involved in or supports. Each winner also received \$500 for themselves and another \$500 for their school.

The second education program is the Caltex and Rotary Club of Sydney Award for Innovation in the Vocation of Teaching. In November 2005, three New South Wales teachers were honoured with awards for developing school programs that set up a driver education and car maintenance course for pupils, dramatically changed the way children learn in a rural town, and introduced marine studies into the curriculum. The winners each receive a prize valued at \$6,000 to be used on a return overseas airfare to visit an agreed school or institution with the aim of learning more about their area of interest in teaching.

Caltex continues to support the arts and for the ninth year sponsored the Australian Chamber Orchestra. The 2005 national program included a tour featuring virtuoso soloist Kolja Blacher performing Schoenberg's *Transfigured Night*.

Corporate contributions and sponsorship in 2005 also included one million litres of jet fuel donated to the Asian tsunami victims and a smaller donation to victims of Hurricane Katrina.

corporate

# Corporate governance report

The Board of Caltex Australia Limited is committed to best practice in corporate governance where these practices are appropriate and add value to Caltex. This report outlines Caltex's corporate governance practices against the recommendations contained in the Australian Stock Exchange (ASX) Corporate Governance Council's Principles of Good Corporate Governance.

## Principle 1: Lay solid foundations for management and oversight

The Board has adopted 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 Charter is reviewed annually and was last reviewed in October 2005. It is available from our web site ([www.caltex.com.au](http://www.caltex.com.au)).

The key responsibilities of the Board include:

- setting the overall direction, financial objectives and operational goals for Caltex;
- reviewing and approving the Caltex budget and business plan on an annual basis;
- reviewing and approving Caltex'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 Caltex 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 Caltex;
- 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 Caltex;
- overseeing the delegations of authority for management in relation to the day-to-day operations of Caltex;
- 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, liquidity risk management, foreign exchange risk management, treasury controls 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 & Chief Executive Officer;
- approving the terms of cessation of employment of the Managing Director & Chief Executive Officer;
- ensuring that recruitment, retention, termination, remuneration, performance assessment and succession policies and processes are in place for staff;
- ensuring that appointment, induction and continuing education, remuneration, performance assessment and succession policies and processes are in place for directors of Caltex Australia Limited; and
- reviewing the terms of proposed transactions with Chevron.

The Board Charter also outlines the responsibilities of the Board Chair.

Management of Caltex's day-to-day operations is undertaken by the Managing Director & Chief Executive Officer; subject to specified delegations of authority approved by the Board.

The Board also adopts the practice of formal letters of appointment for all new directors. The letter covers a wide range of matters relating to a director's appointment, including the director's duties to Caltex, the statutory contract between the director and company, and the Board's expectations of the time commitment of the

director. The letter advises that the Board expects non-executive directors to devote the necessary time and attention to assist the Board in carrying out its responsibilities. The letter is accompanied by an information pack on Caltex.

## Principle 2: Structure the board to add value

The Board of Caltex Australia Limited comprises seven\* directors with a variety of industry and professional backgrounds. As a team, the directors bring independent judgment and scrutiny of Caltex's business and management performance and knowledge of the petroleum business.

A majority of the Board are independent directors. The matters and thresholds considered by the Board in assessing the independence of directors are set out in the Board's Charter of Director Independence. The Charter of Director Independence is reviewed annually and was last reviewed in October 2005. It is available from our web site ([www.caltex.com.au](http://www.caltex.com.au)).

The definition of independent director adopted by the Board does not depart materially from that recommended by the ASX Corporate Governance Council. Materiality thresholds have been determined by the Board which are reasonable and consider the materiality to both the service provider or supplier/customer (5% of revenues or supplies) and to Caltex (20% of expenses or purchases).

The Board will make an assessment of the independence of each director upon appointment and in February of each year in accordance with the Board's 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.

\* Following completion of this report, an eighth director, Trevor Bourne, was appointed effective 2 March 2006.

The Board comprises:

**RICHARD (DICK) WARBURTON AO**  
CHAIRMAN

**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 Tandou Limited, and as a director of Nufarm Limited and Tabcorp Holdings Limited. He was previously the Chairman of David Jones Limited and AurionGold Limited and previously served as a member of the Reserve Bank of Australia 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:

In assessing Dick's status as an independent director, the Board has noted that Citibank Pty Ltd (of which Dick is a director) is a member of the Citibank Group. Companies in the Citibank Group operate the Caltex Group account for receiving and remitting US dollars and have been parties to a bare boat charter with the Caltex Group. The relationship with the Citibank Group has been in place for many years and transactions are on normal commercial terms. The level of transactions with the Citibank Group is within the thresholds as set out in the Charter of Director Independence.

**DAVE REEVES**

MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

**Date of appointment**

11 August 2003

**Skills, experience and expertise**

Before joining Caltex, Dave was the President of North America Products at Chevron Corporation (Chevron) with responsibility for refining and product marketing activities, pipeline transportation operations and energy management solutions within North America, and Chevron's global aviation fuels marketing. He has previously held a number

of senior marketing and retail roles with companies in the Chevron Group. Dave is Chair of the Australian Institute of Petroleum Limited and a director of the American Chamber of Commerce in Australia.

Dave has a degree in civil engineering from the University of Washington (USA).

**Assessment of independence**

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

**ELIZABETH BRYAN**  
DIRECTOR

**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). She is currently a director of Ridley Corporation Limited, UniSuper Limited and Australasian Medical Insurance Limited. She is also the President of the NSW Council of the Australian Institute of Company Directors and on the National Board of the Institute of Company Directors.

Elizabeth holds a Bachelor of Arts 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.

**WILLIAM (BILL) HAUSCHILDT**  
DIRECTOR

**Date of appointment**

21 September 2004

**Skills, experience and expertise**

Bill has recently been appointed to a special assignment until June 2006 consulting on technology selection for major capital projects within Chevron. Bill was previously the Vice President – Refining Operations (Global Refining) with Chevron. In this role, Bill was responsible for the overall financial and operating performance of Chevron's refineries in Salt Lake City (Utah, USA), Honolulu (Hawaii, USA), Burnaby (British Columbia, Canada) and Cape Town (South Africa). He is based in San Ramon, California (USA).

Bill holds a Bachelor of Science (Chemical Engineering) from Ohio State University (USA) and a Master of Science (Chemical Engineering) from Illinois Institute of Technology.

#### **Assessment of independence**

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

#### **JOHN THORN** DIRECTOR

##### **Date of appointment**

2 June 2004

##### **Skills, experience and expertise**

John is a professional director and brings expertise to the Board in the areas of audit and accounting practice and standards, business advisory services and risk management. He is currently a director of Salmat Limited, National Australia Bank Limited and Amcor Limited.

Before embarking on a career as a company director, John was a partner of the accounting firm PricewaterhouseCoopers from 1982 to 2003, where he undertook work for major international and local companies. John served as the Managing Partner of the Assurance and Business Advisory Service practice from 1998 to 2001 and as the National Managing Partner from 2001 to 2003.

John is a Fellow of The Institute of Chartered Accountants in Australia.

##### **Assessment of independence**

The Board has determined that John is an independent director.

In assessing John's status as an independent director, the Board has noted that National Australia Bank Limited (of which John is a director) is one of a number of banks to Caltex. The banking relationship with National Australia Bank Limited has been in place for many years and facilities are on normal commercial terms. The level of transactions with National Australia Bank Limited is within the thresholds as set out in the Charter of Director Independence.

#### **KEN WATSON** DIRECTOR

##### **Date of appointment**

9 February 1996

##### **Skills, experience and expertise**

Ken was appointed a consultant to the law firm Minter Ellison with effect from 1 January 2006. Prior to his appointment as a consultant, Ken had been a partner of Minter Ellison. Ken has over 30 years of commercial law knowledge and experience and advises large and medium size corporates in commercial law matters.

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

Ken holds a Bachelor of Laws 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.

In assessing Ken's status as an independent director, the Board has noted that Minter Ellison (of which Ken was a partner until 31 December 2005) provided legal advice and services to Caltex during 2005. The level of transactions with Minter Ellison is within the thresholds as set out in the Charter of Director Independence.

#### **PETER WISSEL** DIRECTOR

##### **Date of appointment**

23 August 2005

##### **Skills, experience and expertise**

Peter is the Regional Finance Officer, Asia Pacific and Africa Pakistan for Chevron's downstream business. In this role, he is responsible for financial and management reporting, credit approval, local cash management, local tax matters and risk management in the 33 countries of Asia, Africa and the Middle East where Chevron conducts refining and marketing operations.

Peter holds a Bachelor of Arts (Economics) from Denison University (USA) and a Master of Business Administration in Finance from New York University Graduate School of Business Administration (USA).

#### **Assessment of independence**

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

Brant Fish serves as an alternate director for Bill Hauschildt and Peter Wissel. Brant is the General Manager of Supply and Optimization, Asia Pacific for Chevron, based in Singapore. In this role, he has accountability for overall earnings and optimization across the Asia Pacific downstream supply chain – from refinery crude supply to marketing sales. Brant holds a Bachelor of Science (Mechanical Engineering) from the University of Florida (USA).

In 2005, Leo Lonergan and Mitch Rubinstein also served as directors. Leo resigned as a director on 23 February 2005, and Mitch served as a director from 24 February 2005 to 23 August 2005.

#### **BENEFITS TO CALTEX FROM APPOINTMENT OF CHEVRON EXECUTIVES**

Petroleum refining and marketing is a mature global business requiring specialist technical knowledge. The appointment of Chevron executives as non-executive directors allows Caltex to access industry experience that these directors have gained through involvement in the day-to-day operations of one of the world's leading global energy companies.

Bill Hauschildt and Peter Wissel are senior executives of Chevron and bring a great depth of experience and knowledge of the oil and gas industry to Caltex. Bill's expertise in refinery operations, and Peter's background in finance and risk management, bring important knowledge and experience to bear on the Board's consideration of operational and business matters that would not be available from directors without industry involvement and which is not generally available in Australia.

Given the presence of Chevron executives on the Board, the Board has approved a protocol to govern all transactions with Chevron. Caltex also organises an education session, conducted by external legal counsel, for Chevron executives appointed as directors of Caltex Australia Limited. This session outlines their duties as directors under Australian law, including the management of any conflicts that may arise from their being executives of Chevron. Further information on the relationship between Caltex and Chevron is available on our web site ([www.caltex.com.au](http://www.caltex.com.au)).

#### **MEETINGS OF DIRECTORS IN THE ABSENCE OF MANAGEMENT**

Non-executive directors meet quarterly in the absence of management. These meetings are usually held at the commencement of a Board meeting.

In addition, at each Board meeting all directors (including the Managing Director and Chief Executive Officer) meet before other members of management join the meeting.

#### **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. Each year, a related party questionnaire is also 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 (other than the Managing Director) who is appointed to the Board as a casual vacancy or as an addition to the Board 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 & 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 identification, development and maintenance of the required and desirable skills, expertise, experience and competencies of directors and the Board;
- succession planning for the Board and Board Committees; and
- the policy for the appointment of non-executive directors.

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

- induction processes for directors; and
- the identification of candidates for appointment as non-executive directors;

The Human Resources and Nomination Committee is comprised of Elizabeth Bryan (Chair), Dick Warburton and Bill Hauschildt. Senior management (including the Managing Director and Chief Executive Officer, Company Secretary and Group Manager – Human Resources) are also in attendance at Committee meetings.

The Human Resources and Nomination Committee met on seven occasions in 2005 and, with the exception of Dick Warburton who was absent for one meeting, all of the members of the Committee attended each of the meetings in 2005.

Minutes of meetings of the Human Resources and Nomination Committee are provided to all Board members and at the next Board meeting the Chair of the Human Resources and Nomination Committee gives a report to the Board.

The Board has adopted a Charter for the Human Resources and Nomination Committee which reflects the matters set out in the commentary and guidance to the ASX Corporate Governance Council's Recommendation 2.4. The Charter is reviewed annually and was last reviewed in August 2005. The Human Resources and Nomination Committee Charter is available from our web site ([www.caltex.com.au](http://www.caltex.com.au)).

The Committee's responsibilities in relation to remuneration matters are detailed under PRINCIPLE 9: REMUNERATE FAIRLY AND RESPONSIBLY.

#### **SELECTION POLICY AND PROCESS FOR THE APPOINTMENT OF DIRECTORS**

The Human Resources and Nomination Committee may, in performing its advisory role, identify the need to appoint an additional non-executive director to complement the skills of the existing directors or for succession planning purposes. Alternatively, there may, from time to time, be a need to fill a casual vacancy on the Board.

To assist in this function, in 2005 the Board adopted director selection criteria and a process for filling vacancies on the Board. The criteria and process are summarised in the Director Appointment Policy and Process available on our web site ([www.caltex.com.au](http://www.caltex.com.au)).

#### **Principle 3: Promote ethical and responsible decision making**

##### **CODE OF CONDUCT FOR DIRECTORS AND SENIOR EXECUTIVES**

In December 2005, the Board adopted a Code of Conduct to provide guidance to all Caltex directors and employees as to the standards of ethical behaviour expected in performance of their work for Caltex.

The Code has as its framework the following set of values endorsed by the Board in July 2002:

- 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 Code of Conduct and Caltex's Vision, Values and Strategic Intent are available from our web site ([www.caltex.com.au](http://www.caltex.com.au)).

#### SHARE TRADING GUIDELINES

The Board has adopted a policy in relation to dealings in Caltex shares by directors, senior executives and employees. This policy is reviewed by the Board each year and was substantially revised in December 2005.

The revised Caltex Share Trading Policy is designed to:

- set out clear rules 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, directors and identified senior executives cannot trade in Caltex shares in the following closed periods before Caltex has released its financial results for the half year and full year:

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

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 and subsequent details to the Chairman of the Audit Committee. Directors must also give details of transactions in Caltex shares to the Company Secretary within three business days and the Company Secretary must advise the ASX within five business days of the transaction.

Senior executives are required to give prior notification to the Managing Director & 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.

The policy also provides that directors and employees of Caltex must not trade at any time if they are in possession of information that would be likely to have a material effect on the price or value of Caltex shares if it was generally available.

The Caltex Share Trading Policy is available from our web site ([www.caltex.com.au](http://www.caltex.com.au)).

#### Principle 4: Safeguard integrity in financial reporting

##### SIGN-OFF BY CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

In August 2005 (for the statutory half year report) and in February 2006 (for the statutory full year report), the Managing Director & Chief Executive Officer and the Chief Financial Officer provided the Board with statements about Caltex's financial reports and compliance with the Corporations Act 2001 (Cth) and accounting standards. The statements reflected the declarations required to be made by directors for the half year and full year and in particular advised the Board that:

- the financial statements give a true and fair view of the financial position of Caltex; and
- the financial statements comply with the accounting standards.

##### AUDIT COMMITTEE

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

- Caltex's draft external financial reports, including the statutory half year and full year financial reports, and ASX half year and full year reports;
- assurance activities at Caltex Australia;
- external audit activities, the terms of engagement (including fees) for the external audit, the independence of Caltex's external auditor; and the appointment and removal of the external auditor; and
- the role of the Internal Audit function at Caltex 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 Caltex; and
- the annual internal audit plan.

The Audit Committee currently comprises Ken Watson (Chairman), John Thorn and Peter Wissel. During 2005, Leo Lonergan and Mitch Rubinstein also served as members of the Audit Committee. The composition of the Committee is currently in accordance with the ASX Corporate Governance Council's Recommendation 4.3, but for some periods during 2005 the Committee only consisted of two members due to the resignation of directors. The Committee consisted of three members at the time when the full year and half year financial reports were being considered.

The Audit Committee met on four occasions in 2005. All meetings were attended by all persons who were members of the Audit Committee at the time of the meeting. The Audit Committee also held two meetings of a sub-committee, both of which were attended by the members appointed to the sub-committee, Ken Watson and John Thorn.

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.

Minutes of meetings of the Audit Committee are provided to all Board members and at the next Board meeting following an Audit Committee meeting the Chairman of the Audit Committee gives a report to the Board.

The Board has adopted a Charter for the Audit Committee to reflect the matters set out in the commentary and guidance to the ASX Corporate Governance Council's Recommendation 4.4. The Audit Committee reviews its Charter annually and it was last reviewed in August 2005. The Audit Committee Charter is available from our web site ([www.caltex.com.au](http://www.caltex.com.au)).

#### EXTERNAL AUDITOR

The Board has approved a policy for the provision of non-audit services by the external auditor. The external auditor is only permitted to provide other (non-audit) services that are not, and are not perceived to be, in conflict with the role of the external auditor. The engagement of the external auditor for non-audit services requires the prior approval of the Chief Executive Officer or the Chief Financial Officer or the Chairman of the Audit Committee (subject to the authority delegated to those persons) or the Audit Committee.

Details of the amounts paid or payable to the external auditor each year in relation to the provision of non-audit services to Caltex are disclosed in the Annual Report. The Audit Committee regularly reviews the non-audit services provided by, and fees paid to, the external auditor; and annually provides a written advice to the Board of Caltex Australia Limited stating that it is satisfied the provision of the non-audit services has not compromised the auditor independence requirements in the Corporations Act 2001 (Cth).

Further information on the process for the appointment and monitoring of the external auditor; the rotation of external audit partners and the independence of the external auditor is set out in the External Auditor Policy available on our web site ([www.caltex.com.au](http://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 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 2001 (Cth). The policy is reviewed annually and was last reviewed in October 2005.

The Caltex Continuous Disclosure Policy recognises that the continuous disclosure regime involves a high degree of judgment 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 principles-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.

Under the policy, Caltex Disclosure Officers have been appointed to also develop and maintain internal guidelines to ensure compliance by Caltex employees with the Continuous Disclosure Policy. The internal guidelines contain procedures for ensuring Caltex's continuous disclosure obligations are satisfied, such procedures being reviewed annually by the Caltex Disclosure Officers.

The Caltex Continuous Disclosure Policy is available from our web site ([www.caltex.com.au](http://www.caltex.com.au)).

#### **CALTEX FINANCIAL MARKET DISCLOSURE POLICY**

The Board has adopted 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 is reviewed annually by the Board and was last reviewed in October 2005.

The Caltex Financial Market Disclosure Policy is available from our web site ([www.caltex.com.au](http://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 in accordance with the Caltex Continuous Disclosure Policy.

### **Principle 6: Respect the rights of shareholders**

#### **COMMUNICATIONS STRATEGY**

The Board has adopted the Caltex Shareholder Communications Strategy for communications with shareholders and potential investors and to encourage effective participation at shareholder meetings.

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](http://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 (as lodged with the ASX);
- 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; and
- 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.

The Caltex Shareholder Communications Strategy is available from our web site ([www.caltex.com.au](http://www.caltex.com.au)).

#### **PRIOR SUBMISSION OF QUESTIONS FOR THE 2006 ANNUAL GENERAL MEETING**

Prior to each Annual General Meeting (AGM) of Caltex Australia Limited since 2004, shareholders have been invited to submit questions about, or make comments on, Caltex's performance and management.

Caltex prepares a list of the questions submitted (and responses to these questions), which is available to shareholders attending the AGM and on our web site ([www.caltex.com.au](http://www.caltex.com.au)).

#### ATTENDANCE BY EXTERNAL AUDITOR AT THE AGM

Representatives of KPMG, Caltex's external auditor, attend the AGM and are available to answer questions from shareholders about the conduct of KPMG's external audit of Caltex's financial statements for the relevant year and the preparation and content of its audit report. In 2005, shareholders were also invited to submit questions to Caltex's external auditor prior to the meeting.

#### Principle 7: Recognise and manage risk RISK MANAGEMENT

Caltex has implemented policies in relation to environmental compliance, occupational health and safety, interest rate risk 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 are minimised.

During 2005, the Board reviewed its policies in relation to liquidity risk management, oil hedging, interest rate risk management, counterparty risk management, foreign exchange risk management, and treasury controls and procedures. In addition, a report on management of key risks was provided to the Board for the half year and full year. The Board has requested that a risk topic be presented to the Board at each meeting, and in 2005 papers relating to risk were presented at eight meetings.

During 2005, work continued on a project to review risk across Caltex. This project will deliver an enterprise-wide risk management process which will be progressively implemented from the start of the business planning cycle in 2006. The project deliverables include:

- an overall framework document incorporating the Caltex Risk Management Policy, roles and responsibilities and which takes into account the ASX Corporate Governance Council's Recommendation 7.1;
- detailed guidance documents which outline expectations around risk management; and
- risk reporting templates for management and the Board.

#### INTERNAL CONTROLS

The Caltex Internal Audit function operates under a Charter approved by the Audit Committee that sets out the purpose, authority and responsibility of the function. The objective of the Caltex Internal Audit function is to

provide independent and objective assurance to the Board and management regarding the effectiveness of Caltex's risk management and internal compliance and control systems.

In response to evolving corporate governance and assurance needs, Caltex Internal Audit is currently undertaking a strategic transformation to better align the direction and purpose, capabilities and equipment and tools of the function with the needs of the Board and management. This strategic transformation is currently in the implementation phase and will be completed by 30 June 2006. Resource increases have also been approved as part of the strategic transformation.

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 2005 (for the statutory half year report) and in February 2006 (for the statutory full year report), the Managing Director & Chief Executive Officer and the Chief Financial Officer advised the Board that:

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

## Principle 8: Encourage enhanced performance

### PERFORMANCE EVALUATION

#### Board

Directors and key executives participate in a review of Board performance every two to three years which is facilitated by an external consultant. As part of the process, one-on-one structured interviews are conducted by the external consultant with each director covering a broad range of areas of Board effectiveness and focus. This discussion includes a consideration of the effectiveness and structure of Board Committees. Interviews are also held with those senior executives who interact most frequently with the Board.

The external consultant prepares a report that is discussed by the Board. The actions agreed by the Board in response to the recommendations made in the consultant's report are documented and the completion of these items is monitored by the Board.

A review was last completed in March 2005, with the Board's response to recommendations made in the consultant's report adopted over the course of 2005.

The Caltex Performance Evaluation Process is available from our web site ([www.caltex.com.au](http://www.caltex.com.au)).

#### Key executives

The Board is committed to effective performance management of key Caltex executives and staff. By setting clear goals, defining accountabilities and authorities, and providing objective feedback, all members of the organisation are able to focus on achieving personal, team and organisational objectives that underpin business performance. Caltex's Performance Management Process (PMP) is applied consistently across the organisation and creates tight links between performance management, business planning, personal development and reward.

As the initial step in the PMP, the key executives agree quantifiable objectives with the Managing Director & Chief Executive Officer at the beginning of each year. The objectives of the key executives are based on Caltex's annual business plan and Caltex's Vision, Values and Strategic Intent. These objectives are documented in the key executive's performance agreement. Where applicable, a balanced scorecard that shows the performance targets, success measures and weightings for each individual, is also agreed. The performance agreement, balanced scorecard

and senior leadership behavioural expectations all form part of the executive's performance objectives for the year.

As the sponsors of the PMP, the key executives are then accountable for ensuring performance agreements throughout Caltex are consistent with Caltex's annual business plan and organisational values. This is achieved by cascading the objectives of the key executives through to the performance agreements of their staff.

All staff, including key executives, receive regular feedback on progress against these targets and the key executives must have formal documented mid year performance reviews with the Managing Director & Chief Executive Officer. At the end of each year, performance is assessed against the agreed objectives and scorecard targets. The performance outcomes and the behaviours demonstrated in achieving those outcomes are used to determine an annual performance rating, which in turn is an input into determining performance incentive payments.

### FACILITATION OF BOARD AND COMMITTEE PERFORMANCE

Caltex management provides detailed papers for each Board and Committee meeting and attends 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. The Board also visits at least two Caltex facilities during the year. In 2005 the Board visited the Kurnell Refinery, the Lytton Refinery, the Newport Terminal and the South-East Queensland Retail network.

### 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, Board approved policies and charters, 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. In addition, training on directors' duties is offered to new directors as part of their induction process.

The Human Resources & Nomination Committee reviews the induction process on a regular basis to ensure that appropriate induction is provided for new directors.

## DIRECTOR EDUCATION

Directors are encouraged to attend director training and professional development courses, as required, at Caltex's expense. The Board may from time to time hold educational seminars conducted by internal or external presenters.

## Principle 9: Remunerate fairly and responsibly

### REMUNERATION

The directors' report in the 2005 Annual Report contains a remuneration report providing details of Caltex's remuneration policy for its directors and executives, and the remuneration paid to directors and executives in 2005. A summary of the information contained in the remuneration report is provided below.

### BOARD REMUNERATION

Remuneration of directors in 2005

DIRECTOR	BASE EMOLUMENT (\$)	SUPER CONTRIBUTIONS (\$)	2005 TOTAL (\$)	2004 TOTAL (\$)
<b>Current directors:</b>				
Dick Warburton	275,000	24,750	299,750	252,880
Dave Reeves	1,200,000		1,200,000	1,200,000
Elizabeth Bryan	133,284		133,284	90,337
Bill Hauschildt	110,000		110,000	22,636
John Thorn	110,000	9,900	119,900	54,443
Ken Watson	120,000	10,800	130,800	101,370
Peter Wissel	39,086		39,086	—
<b>Former directors:</b>				
Leo Lonergan	16,274		16,274	93,000
Mitch Rubinstein	52,497		52,497	—

#### Notes:

- Dick Warburton served as the Chairman for the whole of 2005. He was the Chair of the Human Resources & Nomination Committee until 30 April 2005, after which time he was a member of the Human Resources & Nomination Committee.
- Elizabeth Bryan served as a director throughout 2005. She was a member of the Human Resources & Nomination Committee until 30 April 2005, after which time she was the Chair of that Committee. Elizabeth is also paid an additional 9% in director fees, following her election not to receive superannuation guarantee contributions. The payment of these additional fees was backdated to the date that Caltex ceased making superannuation guarantee contributions to her.
- Peter Wissel was appointed as a director on 23 August 2005 and as a member of the Audit Committee on 1 September 2005. His director's fee in 2005 is a pro-rata amount.
- Leo Lonergan resigned as a director on 23 February 2005. His director's fee in 2005 is a pro-rata amount.
- Mitch Rubinstein served as a director between 24 February 2005 and 23 August 2005, and as a member of the Audit Committee from 1 May 2005 to 23 August 2005. His director's fee in 2005 is a pro-rata amount.
- Directors are eligible to receive a discount on private fuel purchases in line with that available to eligible Caltex employees.
- Mitch Rubinstein and Brant Fish, who served as alternate directors during 2005, did not receive any remuneration from Caltex in 2005 in that capacity.

#### Directors' fees

Non-executive directors' fees are determined annually by the Board, based on a recommendation from the Human Resources & Nomination Committee. The fees are set within the aggregate remuneration pool approved by shareholders.

In 2005, fees paid to non-executive directors were subject to a maximum Board remuneration pool of \$900,000 per annum, exclusive of statutory entitlements. The remuneration pool for non-executive directors applicable to 2005 was approved by shareholders of Caltex Australia Limited at the Annual General Meeting held in April 2004. This amount was increased to \$1,150,000 per annum, inclusive of statutory entitlements, at the 2005 Annual General Meeting with effect from 1 January 2006. This increase was sought to allow fee increases in line with the market and to accommodate director succession plans.

The level of non-executive directors' fees is based on the scope of director responsibility and the size and complexity of Caltex. In making recommendations to the Board, the Human Resources & Nomination Committee takes into account survey data on the level of directors' fees being paid to directors of companies of comparative size and complexity.

In 2005, the Chairman received a base fee of \$275,000 per annum, inclusive of all Committee fees. Other non-executive directors received a base fee of \$100,000 per annum and a fee for their committee duties. Members of the Human Resources & Nomination Committee and the Audit Committee received an annual fee of \$10,000, increasing to \$15,000 for the Chair of the Human Resources & Nomination Committee and to \$20,000 for the Chair of the Audit Committee. Statutory superannuation is paid in addition to any fees.

From 2005, non-executive directors could elect to forgo part of their fees, with the amount foregone to be contributed to fund the acquisition, on market, of Caltex Australia Limited shares via a non-executive directors' share acquisition plan. Participation in the share acquisition plan is not open to directors who are employed in the Chevron Corporation Group.

Fees were reviewed again in December 2005. As part of its review, the Committee engaged an independent external consultant to benchmark the remuneration practice for non-executive directors at Caltex Australia Limited against market practice.

With effect from 1 January 2006, the Chairman is to receive a base fee of \$310,000 per annum, inclusive of all committee fees, and other non-executive directors a base fee of \$115,000 per annum. Members of the Human Resources & Nomination Committee are to receive an annual fee of \$10,000, increasing to \$20,000 for the Chair of the Human Resources & Nomination Committee. Members of the Audit Committee are to receive an annual fee of \$15,000, increasing to \$30,000 for the Chair of the Audit Committee.

As Elizabeth Bryan has elected not to receive any superannuation guarantee contributions, the fees which are paid to her are increased by 9 percent, being the current rate of the superannuation guarantee contribution.

#### Retirement payments to directors

Following the decision to discontinue the Caltex retirement scheme for non-executive directors with effect from 1 January 2004, non-executive directors resident in Australia are entitled only to statutory superannuation. Directors not resident in Australia are not entitled to any superannuation.

#### REMUNERATION OF THE MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Managing Director & Chief Executive Officer Dave Reeves is on secondment from Chevron to Caltex.

Under the terms of the secondment arrangements, Caltex pays service fees to Chevron and Caltex has no obligation to pay any amount to Dave. Chevron considers Caltex's performance when determining payments to be made to Dave under his remuneration arrangements with Chevron. The secondment is for a period of three years ending on 28 July 2006 and Caltex and Chevron may agree to vary the contract term by early termination or extension. The secondment agreement may also be terminated by Caltex if Dave:

- commits a wilful breach or wilfully neglects to perform or observe any of his statutory or contractual duties;
- fails to perform or observe any of his statutory or contractual duties and does not correct or rectify the failure within seven days of being requested to do so; or
- ceases to hold the office of a director of Caltex Australia Limited.

On termination, Dave has no rights against Caltex for payment of any amounts or claims.

The terms of these arrangements are considered by Caltex to be no less favourable than arm's length terms.

## EXECUTIVE REMUNERATION

Remuneration of Senior Executives in 2005

EXECUTIVE	SALARY & FEES (\$)	BONUS (\$)	NON MONETARY BENEFITS (\$)	SUPER- ANNUATION (\$)	SHARE BENEFITS	2005 TOTAL (\$)	2004 TOTAL (\$)
<b>Richard Beattie</b> (Group Manager – Corporate Affairs)	252,383	47,707	9,258	28,362	156,042	493,752	509,410
<b>Mark Burrowes</b> (General Manager –Marketing)	460,623	125,580	14,944	52,163	340,108	993,418	890,369
<b>Helen Conway</b> (Company Secretary & General Counsel)	322,917	88,754	28,979	36,208	262,246	739,104	714,179
<b>Simon Hepworth</b> (Chief Financial Officer)	445,234	111,386	14,944	45,814	321,111	938,489	880,449
<b>Lisbeth Long</b> (Group Manager – Human Resources)	225,556	59,044	–	24,218	154,683	463,501	437,544
<b>Mike McMenamin</b> (Group Manager – Strategy & Planning)	240,034	24,221	–	22,735	72,929	359,919	201,265
<b>Alex Strang</b> (General Manager –Supply & Corporate Services)	402,807	105,796	47,707	39,000	305,085	900,395	824,240
<b>Eion Turnbull</b> (General Manager – Refining)	359,945	83,283	54,056	37,757	267,771	802,812	734,333
<b>Peter Wilkinson</b> (Group Manager – Operational Excellence & Risk)	118,901	21,156	5,130	10,286	32,994	188,467	–

Notes:

- Lisbeth Long was on unpaid maternity leave from 26 July 2005 to 11 October 2005.
- Mike McMenamin commenced on 3 May 2004 and was appointed to his current position on 1 December 2004.
- Peter Wilkinson was appointed on 11 July 2005.
- Senior executives are eligible to receive a discount on private fuel purchases in line with that available to eligible Caltex employees.

### Remuneration policy

Caltex's remuneration policy – its Reward Policy – is structured to appropriately reward performance from motivated, highly skilled and results-orientated people. The key principles of the Reward Policy are:

- financial and non-financial performance criteria are applied to deliver long-term creation of value to shareholders, consistent with Caltex's strategic objectives and values;
- company, department and individual performance determines reward outcomes;
- market competitive rewards are delivered commensurate with employee duties, responsibilities, accountabilities, competencies and behaviours; and
- to attract, motivate and retain highly skilled people who are aligned with Caltex's vision and values.

### Remuneration components

Senior executive remuneration consists of fixed remuneration and variable remuneration.

Fixed remuneration is targeted at 80% to 120% of the median remuneration for a person with the executive's role and responsibilities from a subset of companies in the S&P / ASX 200 index (excluding the Financials Sector). Regard is also had to the scale of business.

Variable remuneration consists of a performance incentive scheme and a long-term share incentive scheme.

### Performance incentive scheme

The performance incentive scheme is a short-term cash scheme comprising:

- a department performance incentive, based on achievement of the department scorecard, company scorecard and a minimum level of earnings; and
- an individual performance incentive, based on performance ratings determined as part of the Performance Management Process discussed under PRINCIPLE 8: ENCOURAGE ENHANCED PERFORMANCE.

If company performance, as measured by the Caltex Balanced Scorecard, is below plan and is also below the earnings minimum, no department performance incentive is paid. The Caltex Balanced Scorecard comprises a combination of financial, operational and non-financial measures consistent with Caltex's Vision, Value and Strategic Intent and the Caltex business plan.

### 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 performance targets. The terms and conditions of the scheme were approved by shareholders at the AGM held in April 1999.

Performance targets are set each year in relation to the return on capital employed and Caltex's total shareholder return relative to a peer group of companies. Based on the performance against these targets 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. Further details of the long-term incentive scheme are available in the remuneration report, including details of the revised plan to take effect from 1 January 2006.

### Termination payments

Senior executives are appointed as permanent Caltex employees. The employment contracts stipulate a range of notice periods from one to three months. Upon resignation, any entitlement to unvested shares awarded through the long-term incentive scheme is forfeited. No termination benefit has been agreed with executives but payment of a benefit may be made if required in accordance with legislative requirements at the time of termination.

### Secondments from Chevron

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

### HUMAN RESOURCES & NOMINATION COMMITTEE – REMUNERATION RESPONSIBILITIES

The Board's Human Resources & 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 & Chief Executive Officer; and
- remuneration generally, including superannuation.

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

- the annual Caltex employee salary program;
- remuneration of the members of the Caltex Leadership Team;
- the short-term and long-term incentive schemes; and
- the Caltex Australia employee tax exempt and tax deferred share plans.

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

In December 2005, the Board adopted a Code of Conduct to provide guidance to all Caltex directors and employees as to the standards of ethical behaviour expected in performance of their work for Caltex. A copy of the Code of Conduct is published on our web site ([www.caltex.com.au](http://www.caltex.com.au)).

## Events subsequent to the signing of the 2005 financial report

The 2005 Financial Report was signed on 24 February 2006. Subsequent to that date, Trevor Bourne was appointed to the Board of Caltex Australia Limited. Information on Trevor is provided below.

### TREVOR BOURNE DIRECTOR

#### Date of appointment

2 March 2006

#### Skills, experience and expertise

Trevor brings to the Board broad management experience acquired in industrial and capital intensive industries and engineering and supply chain skills and experience. From 1999 to 2003, Trevor served as CEO of Tenix Industries. Prior to Tenix Industries, he spent 15 years at Brambles Industries Limited, six as Managing Director of Brambles Australasia. Before that he worked for Incitec Ltd and BHP Limited.

Trevor serves as Chairman of Hastie Group Limited and as a director of Origin Energy Limited, Coates Hire Limited and Lighting Corporation Limited.

Trevor holds a Bachelor of Mechanical Engineering from the University of New South Wales (Australia) and a Master of Business Administration from the University of Newcastle (Australia).

#### Assessment of independence

The Board has determined that Trevor is an independent director.

In assessing Trevor's status as an independent director, the Board has noted that Origin Energy Limited and Coates Hire Limited provide services and equipment to Caltex. The levels of transactions with Origin Energy Limited and Coates Hire Limited are within the thresholds as set out in the Charter of Director Independence.

# Simplified financial report

## Profit and loss

For the year ended 31 December 2005

MILLIONS OF DOLLARS	2005	2004
1 Total revenue <sup>1</sup>	16,816	13,624
2 Total expenses – replacement cost basis <sup>2</sup>	(16,233)	(13,088)
<b>3 Replacement cost EBIT</b>	<b>583</b>	<b>536</b>
4 Net borrowing costs	(23)	(41)
Income tax expense	(146)	(145)
<b>Replacement cost net profit</b>	<b>414</b>	<b>350</b>
5 Inventory gain – after tax	160	106
6 Significant items	21	114
<b>Historical cost net profit</b>	<b>595</b>	<b>570</b>
Interim dividend per share	15c	14c
7 Final dividend per share	31c	25c
<b>Basic earnings per share</b>		
– Replacement cost – excluding significant items	153c	130c
– Historical cost – including significant items	220c	211c

<sup>1</sup> Excludes interest revenue and significant items (if applicable)

<sup>2</sup> Excludes interest expense, inventory gains/(losses) and significant items (if applicable)

## Discussion and analysis

### 1 Total revenue

**23%**

Total revenue increased due to:

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

### 2 Total expenses – replacement cost basis

**24%**

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

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

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

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

### 3 Replacement cost EBIT

**9%**

The improvement in Caltex's underlying performance reflected:

- higher refiner margins on transport fuels; and
- higher marketing sales volumes and margins on transport fuels.

This improvement was partially offset by:

- higher operating expenses; and
- losses on exports and imports.

Breakdown of replacement cost EBIT is detailed as follows:

## RCOP EBIT breakdown

Caltex refiner margin  
(CRM)

**\$708m**

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

CRM was higher in 2005 at US\$8.40/bbl, compared with US\$6.60/bbl in 2004. However, the increase in CRM was dampened by a stronger Australian dollar compared with 2004. Additionally, higher planned refinery shutdown activity resulted in production volume of transport fuels falling from 10.5 billion litres in 2004 to 10.1 billion litres in 2005.

Transport fuels  
marketing margin

**\$315m**

Transport fuels comprise petrol, diesel and jet. The transport fuels marketing margin is based on the average net margin over Import Parity Price in Australia. The average transport fuels marketing margin was 9% higher than in 2004. Additionally, transport fuels sales volumes increased overall by 4% across all products.

Lubricants and  
specialties margin

**\$108m**

Lubricants and specialties products include finished lubricants, base oils, gases, petrochemicals, bitumen, waxes and marine fuels. Specialties volumes grew overall by 20% mainly due to stronger demand for refinery grade propylene and marine fuels.

Non-fuel income

**\$127m**

Non-fuel income includes convenience store income, franchise income, royalties, rentals of property, plant and equipment, StarCard income and the share of profits from non-controlled equity resellers. Non-fuel income increased by 11% compared with 2004.

Operating expenses

**(\$646m)**

Operating expenses in this caption include refining and supply, marketing, corporate and other operating expenditure. Operating expenses increased in absolute terms, but on a per litre sold basis, decreased by 2% compared with 2004.

Other

**(\$29m)**

Other includes exchange impacts and pipeline and charter income. Other also includes losses on exports and imports, the majority of which were related to the period of Clean Fuels construction.

Total RCOP EBIT

**\$583m**

## Discussion and analysis continued

### 4 Net borrowing costs

**44%**

The reduction in net borrowing costs reflects a higher proportion of borrowing costs, attributable to the Clean Fuels Project, capitalised to the balance sheet. Net debt was \$429 million at 31 December 2005, compared with \$447 million at 31 December 2004.

### 5 Inventory gain after tax

**51%**

Regional crude oil prices rose significantly in 2005, (averaging US\$57.24/bbl in December 2005 compared with US\$39.03/bbl in December 2004). This increase resulted in net after-tax inventory gain of \$160 million compared with \$106 million in 2004.

### 6 Significant items

**\$21m gain**

As a result of tax consolidation legislation passed in 2005, Caltex recognised a significant one-off tax credit of \$21 million, with a corresponding reduction in deferred tax liabilities. The initial legislation, passed in 2004, resulted in a one-off tax credit of \$114 million in the first half of 2004.

### 7 Final dividend

**31 cps**

The Board declared a final fully franked dividend of \$83.7 million or 31 cents per share. This brings the total dividends for 2005 to 46 cents per share. The dividends have a franking credit of 100%. The record date is 10 March 2006, with the dividend payable on 31 March 2006.

## Balance sheet

As at 31 December 2005

MILLIONS OF DOLLARS	2005	2004
1 Working capital	487	451
2 Property, plant and equipment (PP&E)	2,076	1,698
3 Net debt	(429)	(447)
Other non-current assets/(liabilities)	4	(57)
<b>Total equity</b>	<b>2,138</b>	<b>1,645</b>

## Discussion and analysis

### 1 Working capital

**\$36m**

Working capital increased due to:

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

### 2 PP&E

**\$378m**

PP&E increased due to:

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

Partly offset by:

- depreciation and amortisation of \$124 million;
- net disposals of \$23 million; and
- asset impairment write-downs of \$5 million.

### 3 Net debt

**\$18m**

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

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

## Cash flows

For the year ended 31 December 2005

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

## Discussion and analysis

### 1 Borrowing costs

**\$6m**

The reduction in borrowing costs reflects a \$54 million reduction in average daily borrowings compared with 2004. Borrowing costs paid includes capitalised borrowing costs relating to the Clean Fuels Project of \$17 million (2004: \$4 million).

### 2 Other net operating activities

**\$90m**

Cash outflows from other net operating activities increased due to higher income tax payments. Income tax payments were higher because current year income tax instalments are based on a percentage of current year gross revenues, which were higher than in 2004 (driven by higher product prices).

### 3 Purchases of PP&E and major cyclical maintenance

**\$283m**

Purchases of PP&E and major cyclical maintenance increased due to increased investment in the Clean Fuels Project and also due to higher levels of major cyclical maintenance than in 2004.

### 4 Net financing cash outflows

**\$161m**

Net financing cash outflows decreased due to lower net loan repayments (\$4 million) compared with 2004 (\$197 million). This was partly offset by higher dividend payments (\$108 million), comprising a 2005 interim dividend (\$40.5 million) and 2004 final dividend (\$67.5 million). Total dividend payments in 2004 amounted to \$75.6 million.

**THE 2005 FINANCIAL REPORT FOR CALTEX AUSTRALIA LIMITED INCLUDES:**

DIRECTORS' REPORT 48  
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INDEPENDENT AUDIT REPORT 81  
INCOME STATEMENTS 82  
BALANCE SHEETS 83  
STATEMENTS OF RECOGNISED INCOME  
AND EXPENSE 84  
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FOR THE YEAR ENDED 31 DECEMBER 2005

**CALTEX AUSTRALIA GROUP**

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

- Caltex Australia Limited, which is the parent company of the Caltex Australia Group;
- our major operating companies, including Caltex Australia Petroleum Pty Ltd, Caltex Refineries (NSW) Pty Ltd, Caltex Refineries (Qld) Pty Ltd, Caltex Petroleum Distributors Pty Ltd and Caltex Lubricating Oil Refinery Pty Ltd; and
- a number of wholly owned entities and other companies that are controlled by the Group.

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

**CALTEX AUSTRALIA LIMITED**

ACN 004 201 307



# Financial report

# Directors'

## report



**DICK WARBURTON AO**  
CHAIRMAN  
(NON-EXECUTIVE/  
INDEPENDENT)

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 a member of the Human Resources and Nomination Committee, having been Chairman of the Human Resources and Nomination Committee to 30 April 2005. He 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, where he was responsible for DuPont's petro-chemical business operations in Australia and New Zealand.

Dick is a Fellow (and a former National President) of the Australian Institute of Company Directors.

Current directorships of listed companies

- Tandou Limited (Chairman) (appointed 6 April 2004)
- Nufarm Limited (appointed 22 October 1993)
- Tabcorp Holdings Limited (appointed 28 June 2000)

Previous directorships of listed companies in last three years

- David Jones Limited (former Chairman) (6 October 1995 – 17 July 2003)
- Southcorp Limited (11 June 1993 – 14 October 2003)



**DAVE REEVES**  
MANAGING DIRECTOR AND  
CHIEF EXECUTIVE OFFICER

Bachelor of Civil Engineering  
(University of Washington, USA)

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 Chevron Corporation (Chevron) with responsibility for refining and product marketing activities, pipeline transportation operations and energy management solutions within North America, and Chevron's global aviation fuels marketing.

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



**ELIZABETH BRYAN**  
DIRECTOR  
(NON-EXECUTIVE/  
INDEPENDENT)

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

Elizabeth was appointed as a director of Caltex Australia Limited on 18 July 2002. She was appointed a member of the Human Resources and Nomination Committee on 28 August 2003 and as the Chair of the Human Resources and Nomination Committee on 1 May 2005. Elizabeth also served on the Audit Committee from 18 July 2002 to 22 July 2004.

Elizabeth has over 30 years experience in the financial services industry, government policy and administration, and on the boards of companies and statutory organisations. Prior to becoming a professional director she served for six years as Managing Director of Deutsche Asset Management and its predecessor organisation, NSW State Superannuation Investment and Management Corporation.

Current directorships of listed companies

- Ridley Corporation Limited (appointed 7 September 2001)

The Board of Caltex Australia Limited presents this Directors' Report and the 2005 Financial Report for the Caltex Australia Group for the year ended 31 December 2005 to shareholders. An Independent Audit Report from KPMG, Caltex's external auditor, is also provided.

### Board of directors

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



**BILL HAUSCHILDT**  
DIRECTOR  
(NON-EXECUTIVE)

Bachelor of Science (Chemical Engineering) (Ohio State University, USA) and Master of Science (Chemical Engineering) (Illinois Institute of Technology, USA)

Bill has been a director of Caltex Australia Limited since 21 September 2004 and has served as a member of the Human Resources and Nomination Committee since 1 January 2005.

Bill has recently been appointed to a special assignment until June 2006 consulting on technology selection for major capital projects within Chevron. Bill previously served as Vice President – Refining Operations (Global Refining) with Chevron. In this role, Bill was responsible for the overall financial and operating performance of Chevron's refineries in Salt Lake City (Utah, USA), Honolulu (Hawaii, USA), Burnaby (British Columbia, Canada) and Cape Town (South Africa). He is based in San Ramon, California (USA).

Bill has served in senior management roles with Amoco and BP in research and development, refining, health, safety, security and environment, and upstream. He has previously served as the General Manager and Chief Executive Officer of the Singapore Refining Company (at the time a joint venture between Chevron, BP and the Singapore Petroleum Company).



**JOHN THORN**  
DIRECTOR  
(NON-EXECUTIVE/  
INDEPENDENT)

Fellow of The Institute of Chartered Accountants in Australia

John was appointed as a director of Caltex Australia Limited with effect from 2 June 2004 and has been a member of the Audit Committee since 22 July 2004.

John had over 37 years professional experience with PricewaterhouseCoopers, where he was a partner from 1982 to 2003 undertaking work for major international and local companies. During this period, he served as Managing Partner of PricewaterhouseCooper's Assurance and Business Advisory Service practice (from 1998 to 2001) and as the National Managing Partner (from 2001 to 2003). After leaving professional practice, John has embarked on a career as a company director.

Current directorships of listed companies

- Salmat Limited (appointed 1 September 2003)
- National Australia Bank Limited (appointed 16 October 2003)
- Amcor Limited (appointed 8 December 2004)



**KEN WATSON**  
DIRECTOR  
(NON-EXECUTIVE/  
INDEPENDENT)

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

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

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



**PETER WISSEL**  
DIRECTOR  
(NON-EXECUTIVE)

Bachelor of Arts in Economics (Denison University, USA), and Master of Business Administration – Finance (New York University Graduate School of Business Administration, USA)

Peter was appointed a director of Caltex Australia Limited with effect from 23 August 2005 and as a member of the Audit Committee on 1 September 2005.

Peter is the Regional Finance Officer, Asia Pacific and Africa Pakistan for Chevron's downstream business. In this role, he is responsible for financial and management reporting, credit approval, local cash management, local tax matters and risk management in the 33 countries of Asia, Africa and the Middle East where Chevron conducts refining and marketing operations. Peter is based in Singapore.

**ALTERNATE DIRECTOR  
BRANT FISH**

**ALTERNATE DIRECTOR**

Bachelor of Science  
(Mechanical Engineering)  
(University of Florida, USA)

Brant was appointed an alternate director for Bill Hauschildt on 26 May 2005 and as an alternate director for Peter Wissel on 21 September 2005. Brant previously served as an alternate director for Mitch Rubinstein from 27 April 2005 to 23 August 2005.

Brant serves as General Manager of Supply and Optimization, Asia Pacific for Chevron, based in Singapore. In this role, he has accountability for overall earnings and optimisation across the Asia Pacific downstream supply chain – from refinery crude supply to marketing sales.

**PREVIOUS DIRECTORS**

**LEO LONERGAN**

**DIRECTOR  
(NON-EXECUTIVE)**

Bachelor of Science (Victoria  
University, New Zealand)

Leo was appointed a director on 1 July 2001, having 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). While a director, Leo also served as a member of the Audit Committee and the Human Resources and Nomination Committee.

Leo resigned as a director with effect from 23 February 2005.

**MITCH RUBINSTEIN**

**DIRECTOR  
(NON-EXECUTIVE)**

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

Mitch was appointed as a director on 24 February 2005, having previously served as an alternate director from 25 February 2004 to 23 February 2005 for Leo Lonergan, from 25 February 2004 to 1 July 2004 for Martin Southern and from 21 September 2004 to 23 February 2005 for Bill Hauschildt. While a director, Mitch also served as a member of the Audit Committee.

Mitch resigned as a director with effect from 23 August 2005.

## Review of operations

### GENERAL OVERVIEW

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

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

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

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

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

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

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

### **STRONG PERFORMANCE FROM REFINING AND MARKETING**

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

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

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

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

### **PROFITS ENABLE CAPITAL INVESTMENT IN CLEAN FUELS, REFINERY EFFICIENCY PROJECTS, STORAGE TERMINALS AND RETAILING**

In 2005, Caltex more than doubled its capital expenditure to \$529 million investing in projects at the refineries and in other areas including terminal loading, storage facilities and retailing to meet customer and community expectations. This exceeded 2005 RCOP profit and represents 86% of operating cash flow.

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

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

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

### **BUSINESS CLIMATE OUTLOOK FOR OIL INDUSTRY REMAINS STRONG AND WILL SUPPORT CALTEX STRATEGIES DESPITE 1H2006 IMPACT OF CLEAN FUELS PROJECT DELAY**

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

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

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

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

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

#### **DIVIDENDS DECLARED AND PAID**

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

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

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

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

#### **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**

No items, transactions or events of a material or unusual nature that, in the opinion of the Board, are likely to significantly affect the operations of Caltex, the results of those operations or the state of affairs of the Group in subsequent financial years, have arisen in the period from 31 December 2005 to the date of this report.

#### **LIKELY DEVELOPMENTS**

##### **Business operations**

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

#### **ENVIRONMENTAL REGULATIONS**

##### **EHS and risk management**

The Caltex Australia Group has business focused environment, health, safety (EHS), security 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 2005, EHS audits and post-audit reviews were carried out to ensure compliance with relevant legislation and the standards imposed by the Caltex Australia Group. As would be expected of a rigorous audit process, the audits were successful in identifying areas for continued improvement in the Group's environmental control processes. Results of all EHS management system audits along with resultant action items are reported to the Board.

Caltex supports a refining industry policy based on cleaner fuels for reduced air pollution and greenhouse gas emissions. Caltex continued work towards clean fuels manufacturing capability to meet mandatory standards for reduction of benzene in petrol and sulfur in diesel that came into effect on 1 January 2006.

Caltex continues to be a participant in the Greenhouse Challenge Program and also discloses data on its air emissions through the National Pollutant Inventory (NPI). This data is available at the NPI web site at [www.npi.gov.au](http://www.npi.gov.au).

In 2005, Caltex participated in the Corporate Responsibility Index survey for the first time (reporting on the 2004 calendar year). The results of the independently audited survey are published in Fairfax newspapers.

##### **Compliance with environmental obligations**

A total of 13 pollution control licences were held by companies in the Caltex Australia Group in 2005 for two refineries and 11 terminals.

Licence conditions were exceeded on 13 occasions in 2005, which required notification and reporting to government environmental authorities.

Two penalty infringement notices for breaches of significant environmental regulation totalling \$3,000 were received by Caltex in 2005. Caltex was prosecuted in the NSW Land and Environment Court in relation to another breach of significant environmental regulation and fined \$45,000. Caltex also paid the NSW Environment Protection Authority costs of \$36,400.

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

#### LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 79 and forms part of the directors' report for the financial year 2005.

## Remuneration report

### INTRODUCTION

To realise its vision to be the Australian oil refining and marketing company most admired for its people, partnership and performance, Caltex needs to attract, motivate and retain the right people for our business. Our people make the real difference – they create the company's future as well as their own. Caltex rewards its people through transparent performance management and reward systems which closely link employee rewards to company performance and the interests of shareholders.

Our performance-based reward system focuses on company, department and individual elements, with individual performance having a significant impact on employee remuneration. For all employees, including senior executives, individual performance is measured and assessed regularly with assessment outcomes driving reward levels.

### CALTEX'S REWARD POLICY

High performance at individual and team levels is required to deliver the Total Shareholder Return (TSR) expectations established by the Caltex Business Plan and as translated into individual performance agreements. The Reward Policy at Caltex is structured to appropriately reward performance from motivated, highly skilled and results-orientated people.

The key principles of the Reward Policy of Caltex (which includes senior executives) are:

- financial and non-financial performance criteria are applied to deliver long-term creation of value to shareholders, consistent with Caltex's strategic objectives and values;

- company, department and individual performance determines reward outcomes;
- market competitive rewards are delivered commensurate with employee duties, responsibilities, accountabilities, competencies and behaviours; and
- attract, motivate and retain highly skilled people who are aligned to Caltex's vision and values.

The application of these principles results in a clear link being demonstrated between employee reward and performance that delivers Total Shareholder Return.

### GOVERNANCE OF THE CALTEX REWARD POLICY AND SYSTEM

Governance of the Caltex Reward Policy and System is undertaken by the Human Resources and Nomination Committee. It reviews our systems and approves outcomes, ensuring the Reward Policy achieves its stated objectives of contributing to Total Shareholder Return. It has this role because it is independent of management and it can use independent external advisors as necessary.

The Committee has delegated authority from the Board to act on its behalf and approve:

- the annual Caltex employee reward program;
- remuneration of the members of the Caltex Leadership Team;
- the annual Performance Incentive Plan and the long-term incentive plan; and
- the Caltex Australia Limited employee tax exempt and tax deferred share plans.

The Committee also advises the Board on:

- the remuneration of non-executive directors, including remuneration for Board Committee memberships;
- the remuneration of the Managing Director and Chief Executive Officer; and
- general remuneration matters including superannuation.

The Committee is comprised of two independent directors, Elizabeth Bryan (Chair) and Dick Warburton, and one non-executive director, Bill Hauschildt. Mr Hauschildt is not considered an independent director because he is a senior executive of Chevron, a 50% shareholder in Caltex Australia Limited. The Committee meets a minimum of four times each year to undertake its governance functions and member attendance at Committee meetings is set out at page 75.

## DELIVERING TOTAL SHAREHOLDER RETURN THROUGH PERFORMANCE AND REWARD

The Caltex Reward System applies to all employees including senior executives but excludes employees covered by enterprise bargaining agreements and Australian Workplace Agreements.

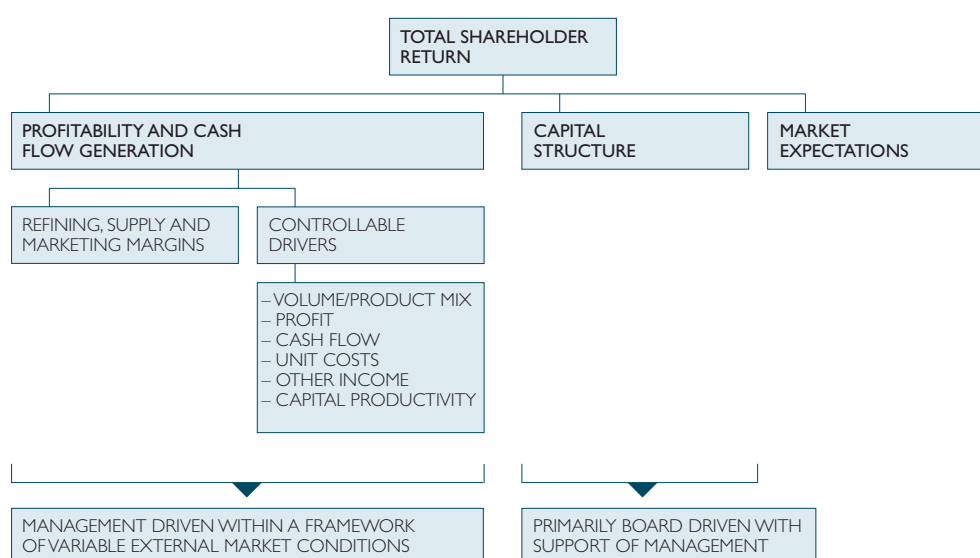
The key drivers of Total Shareholder Return for Caltex are identified as profitability, capital structure and market expectations. The major drivers that are within senior executive control and provide the inputs for managing and rewarding performance are:

- volume/product mix;
- profit;
- cash flow;
- unit costs;
- other income; and
- capital productivity.

In addition, there are a range of variable external market conditions that vary with global market dynamics including margins in refining and marketing. As demonstrated in Figure 1 below, senior executives must deliver profitability and generate cash flow in the context of these conditions.

The Reward System recognises performance that delivers against the profitability expectations of Total Shareholder Return in our volatile, cyclical industry.

FIGURE 1: KEY DRIVERS OF TOTAL SHAREHOLDER RETURN

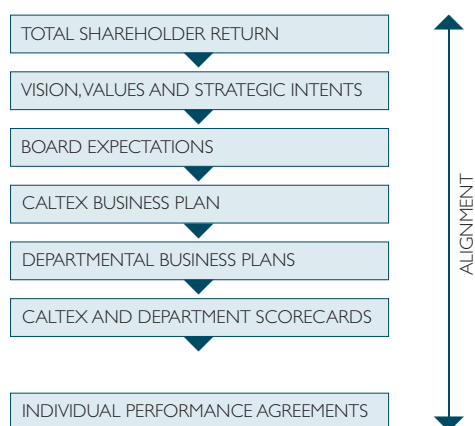


To ensure focus on Total Shareholder Return, each year the Board establishes a clear framework and approves the Caltex Business Plan. Progress against this plan is regularly reviewed and monitored by the Board.

The approved Caltex Business Plan is then translated into Department and Business Unit Plans and scorecards that incorporate the Total Shareholder Return drivers.

Within departments, specific performance agreements are developed for individual employees, thus completing the link between themselves and delivery of Total Shareholder Return as shown in Figure 2.

FIGURE 2: ALIGNING INDIVIDUAL PERFORMANCE AGREEMENTS TO TOTAL SHAREHOLDER RETURN

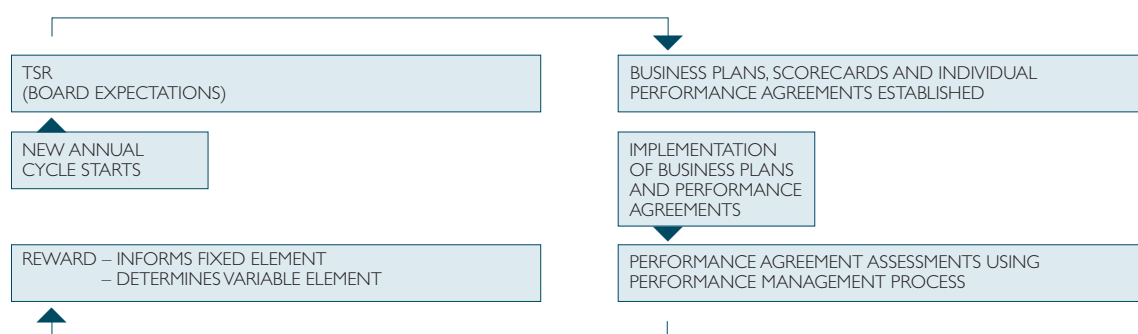


### PERFORMANCE MANAGEMENT

The integrity of the Reward System is contingent on the integrity of the performance management process.

The Caltex performance management process ensures employees know what is expected of them, how they are performing and how that will impact on their reward outcomes. As shown in Figure 3, this also provides employees with an understanding of how they are personally contributing to the delivery of Total Shareholder Return because their performance expectations are aligned to the delivery of the Caltex Business Plan.

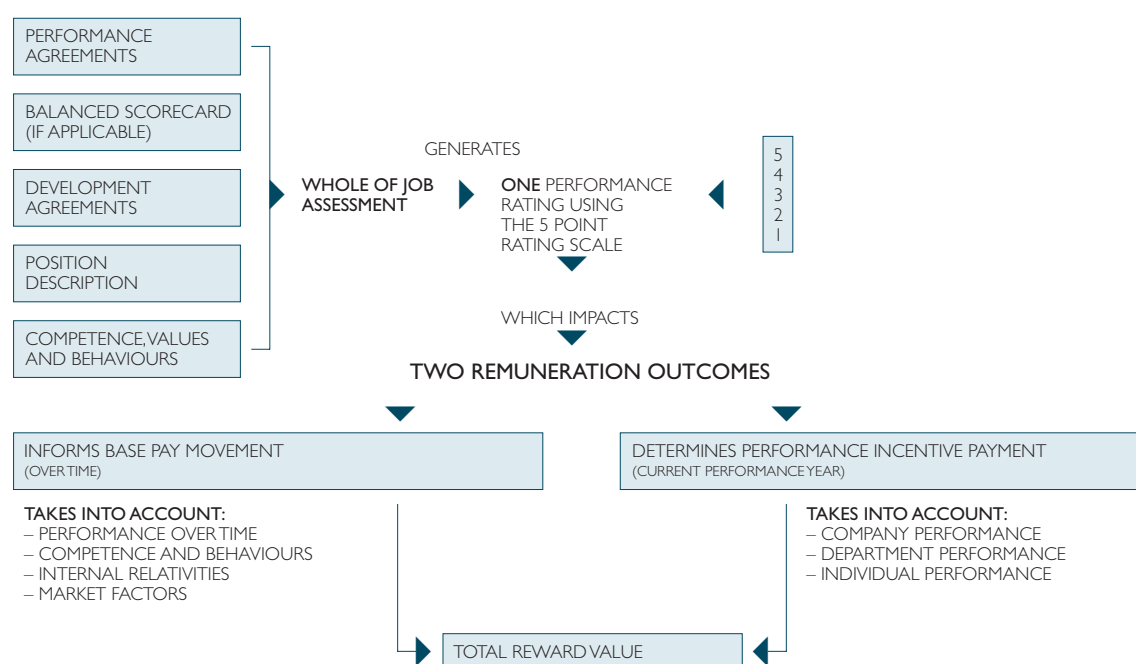
FIGURE 3: RELATIONSHIP BETWEEN TOTAL SHAREHOLDER RETURN, PERFORMANCE AND REWARD



The assessment of individual performance covers specific performance agreements, relevant department and individual scorecards, development agreements and demonstration of Caltex values and appropriate behaviours, as well as overall performance against the individual job descriptions – that is, assessment is against the whole of job expectations. Regular whole of job assessment occurs during the course of the year resulting in a ranking at year end.

Figure 4 demonstrates how an employee's whole of job performance assessment ultimately informs their base pay (fixed remuneration) movement over time and determines their variable remuneration through the Performance Incentive Plan for the current performance year.

FIGURE 4: WHOLE OF JOB ASSESSMENT AND OUTCOMES



## DETERMINING REWARD

### Total Reward Value

Caltex uses a Total Reward Value approach for award free employees. The core elements of the Total Reward Value are fixed remuneration including any allowances individuals are eligible to receive (base pay), variable remuneration and superannuation contributions. Variable remuneration comprises the cash based Performance Incentive Plan (short-term incentive plan) and the long-term incentive plan (LTI) (for eligible senior executives). The Total Reward Value is designed to ensure an appropriate mix of fixed and variable remuneration. The relative weighting of fixed and variable components for target performance varies with role level and complexity.

The Total Reward Value approach enables comparison and accurate monitoring of the market competitiveness of each employee's Total Reward Value package. Market comparisons of Total Reward Value are undertaken regularly to ensure that Caltex is in line with market median when rewarding its people.

While annual reviews are conducted, there are no guaranteed increases in either fixed or variable remuneration and any increases are determined by individual performance, company performance, economic indicators, and market data and the company's ability to pay.

Employees have some flexibility in packaging the delivery of their fixed and variable remuneration in accordance with Australian Taxation Office guidelines.

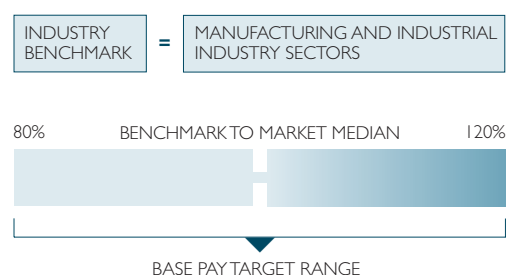
### Fixed remuneration

The fixed remuneration is the component of Total Reward Value received for applying skills and competencies and demonstrating the appropriate behaviours to meet performance objectives as outlined in position descriptions.

Caltex aims to reward competitively with roles being benchmarked to the market median (refer to Figure 5).

An individual's fixed remuneration is targeted at 80 – 120% of the market median with their position in this range determined by assessment of sustained performance over time and internal relativities.

FIGURE 5: BENCHMARKING AND FIXED REMUNERATION

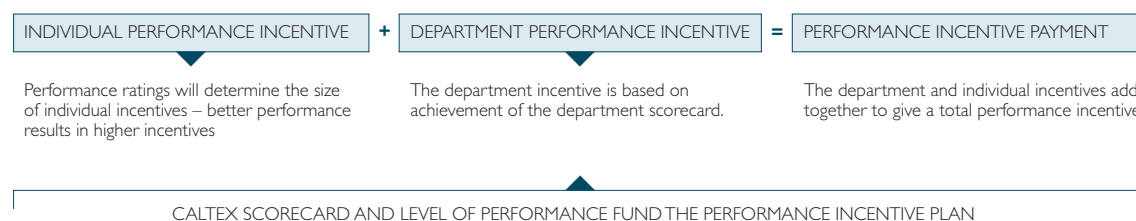


### Variable remuneration – annual Performance Incentive Plan

Remuneration that is variable and directly dependent upon performance is delivered through the Performance Incentive Plan and the long-term incentive plan.

The annual Performance Incentive Plan is structured so that incentive payments reward employees based on individual, department and company performance (refer to Figure 6). Incentive opportunities increase as performance targets are exceeded at each level across the company. The greatest emphasis and weight are on individual performance, so that individuals have more control over their incentive outcome, with high performance resulting in higher incentives. The whole of job performance assessment includes consideration of behaviours that reinforce the values of Caltex and the importance of teamwork.

FIGURE 6: PERFORMANCE INCENTIVE PLAN AND TOTAL PERFORMANCE INCENTIVE



The incentive potential within the Performance Incentive Plan ranges from 0% of base salary when performance expectations are not met, to a maximum of 40% of base salary for exceptional performance. The maximum is determined by the employee's level in the company, with senior executives qualifying for a maximum of 40% subject to achieving excellence against individual and department performance targets.

Overall performance against the total Caltex scorecard determines the size of the funding pool for the Performance Incentive Plan. If the Caltex scorecard does not meet the threshold, then there is no funding to support the department performance incentive component of the Performance Incentive Plan. The threshold for payment under the Performance Incentive Plan is the simultaneous achievement of 80% of the RCOP NPAT target and a Company scorecard result of greater than or equal to 50 points. Should the threshold not be met, a maximum budget of 6.08% is available to fund individual performance outcomes as determined by annual performance review ratings.

Performance against the department scorecards will determine the level of funding available for the department performance incentive component of the Performance Incentive Plan.

The total incentive opportunity increases or decreases relative to company and department scorecard results and individual performance outcomes.

The key Caltex scorecard measures for 2005 included:

**Sustained and strong profitability (60% weighting)**

- Replacement Cost Net Profit After Tax (RCOP NPAT) – annual performance against forecast (80% threshold to be achieved)
- free cash flow (after Clean Fuels investment)

**Operational excellence (30% weighting)**

- Total Treated Injury Frequency rate (per million work hours) score based on annual rate
- refinery utilisation (based on actual performance against forecast)

**Cost management (10% weighting)**

- unit operating expenditure cost per litre (total operating expenditure divided by total sales volume)

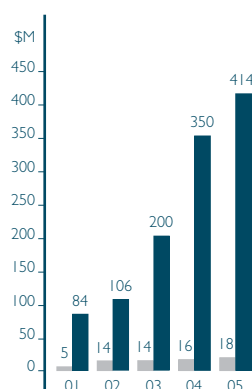
Actual scorecard performance is measured against the targets set and any payouts available under the Performance Incentive Plan are determined by the Human Resources & Nomination Committee. Each year the Human Resources & Nomination Committee reviews the ongoing appropriateness of the Performance Incentive Plan including the scorecards and their measures and weightings, and performance assessment and reward outcomes. Caltex's financial results are confirmed by the Board Audit Committee and approved by the Board at the end of the assessment period before incentive payments are awarded.

The Human Resources & Nomination Committee has the overriding discretion to review and adjust the Performance Incentive Plan outcomes where there are unforeseen impacts on the scorecard elements. This discretion can be exercised through review of the scorecards and the adjustment of the scorecards as appropriate from time to time.

Graph 1 below shows the relationship between RCOP NPAT for the last five years to the total variable remuneration pool for all Caltex employees. While RCOP NPAT has grown in excess of 390% over the period, the total variable remuneration pool has remained at less than 15% of RCOP NPAT over the same period.

GRAPH 1: TOTAL VARIABLE REMUNERATION POOL AND RCOP NPAT

■ RCOP NPAT  
■ Variable remuneration



#### Variable remuneration – long-term incentive plan for 2005

(refer to page 61 for revisions effective for the 2006 performance year)

The long-term incentive plan was approved by shareholders in 1999 and is only available to nominated senior executives as determined by the Human Resources and Nomination Committee. The long-term incentive plan delivers incentives via a restricted share plan, where any bonus received is paid to a trustee to purchase Caltex Australia Limited shares on market. The objectives of the plan are to:

- reward senior executives for the performance of the company arising from them delivering against objectives designed to enhance delivery of Total Shareholder Return;
- align senior executives reward with longer term shareholder gain through the vesting period of shares awarded; and
- facilitate retention of senior executive talent.

Participation is at two tiers:

- Tier 1 – includes senior executive direct reports to the Managing Director and Chief Executive Officer; and
- Tier 2 – includes direct reports to the Managing Director and Chief Executive Officer not qualifying for Tier 1 participation, and key managerial roles with a significant strategic impact.

Tier 2 participants qualify for an allocation of shares equivalent to 75% of the scale that applies to Tier 1 participants. The award quantum is calculated as a percentage of total pay, being base pay plus cash incentive.

Fourteen Caltex senior executives participated in the plan in 2005 – five in Tier 1 and nine in Tier 2.

The award is determined on Caltex's performance versus two measures, namely:

- Return on Capital Employed (ROCE) – a target approved by the Board for the relevant financial year equating to the ratio of total earnings before interest and tax to the total of borrowings and shareholders' equity of Caltex.

ROCE is an appropriate metric for the long-term incentive plan of Caltex. The refining and marketing industry is a volatile and cyclical industry whose margins are largely set by global and regional supply balances. It is a capital intensive industry whose asset base is constantly in a state of renewal and reinvestment. By rewarding senior executives for achieving ROCE targets, the long-term incentive plan reinforces sound capital investment strategies, conservation of working capital and excellence in operational execution to maximise earnings. The financial results are confirmed by the Board at the end of the assessment period, assuring independence from management in measuring results; and

– a one year Total Shareholder Return measure calculated as at 31 December of each year relative to the Total Shareholder Return of the members of a peer group of companies for the same period. Total Shareholder Return measures movements in a company's share price and dividend payments over the relevant period. The peer group of companies used in calculating shareholder return is based on the S&P/ASX 200 Accumulation Index <sup>(1)</sup>, excluding bancassurance and the telecommunication indices. The monitoring of the performance of Total Shareholder Return is undertaken by remuneration consultants retained by Caltex who ensure independence from management in measurement of the target.

The two measures above were chosen as they are key drivers of shareholder value and they closely reflect Caltex's financial and operational performance.

The interaction between these two measures and the award to executives is summarised in Table 1 below:

TABLE 1: STRUCTURE OF EXECUTIVE LONG-TERM INCENTIVE PROGRAM (2005) FOR TIER 1 PARTICIPANTS <sup>(a)</sup>

ROCE	SHAREHOLDER RETURN	BOTTOM QUINTILE	SECOND QUINTILE	MEDIAN QUINTILE	FOURTH QUINTILE	TOP QUINTILE
	0.80 – 0.89T	Nil	0 – 9	10 – 19	20 – 29	30 – 39
	0.90 – 0.99T	0 – 9	10 – 19	20 – 29	30 – 39	40 – 49
	T <sup>(b)</sup>	10	20	30	40	50
	1.01 – 1.10T	11 – 20	21 – 30	31 – 40	41 – 50	51 – 60
	1.11 – 1.20T	21 – 30	31 – 40	41 – 50	51 – 60	61 – 70

(a) The matrix above details the LTI grants for Tier 1 participants as a percentage of total cash for varying levels of ROCE and TSR performance. For example, if the Target ROCE was achieved and Shareholder Return was at the 50th percentile, a Tier 1 participant would receive an LTI payout equal to 30% of their total cash. A Tier 2 participant receives 75% of the payout to a Tier 1 participant.

(b) T is the target ROCE. The target is set annually by the Board, which reserves the right to adjust the target where justified.

(1) The list below contains the peer group of companies from the S&P/ASX 200 used in calculating shareholder return.

ABC Learning, Adel, Brighton, Adsteam Marine, Alesco, Alinta, Alumina, Amcor, Ansell, APN News & Media, Aquarius Platinum, ARC Energy, Austero Group, Australand Property Group, Australia Worldwide Exp, Australian Infrastructure Fund, Australian Pipeline Trust, Australian Stock Exchange, AWB, Baycorp Advantage, BHP Billiton, Billabong International, BlueScope Steel, Boral, Brambles Industries, Bunnings Warehouse, Burns Philp & Company, Capral Aluminium, Centennial Coal, Centro Props Group, CFS Gandel Retail, Challenger Financial Services Group, Chemeq, Coates Hire, Coca-Cola Amatil, Cochlear, Colarado Group, Coles Myer, Commonwealth PR OFFE FD, Computershare, Consolidated Minerals, Corporate Express Australia, Crane Group, Croesus Mining, CSL, CSR, David Jones, DB RREEF Trust, DCA Group, Fleetwood, Foodland Associated, Futuris, GasNet Australia Group, General Property Trust, GRD, Great Southern Plantations, GUD Holdings, Gunns, GWA International, Hardman Resources, Healthscope, HHG CDI, Hills Industries, Hills Motorway Group, Housewares International, Iluka Resources, ING Industrial Fund, ING Office Fund, Insurance Australia Group, Investor Property Group, Invocare, IOOF Holdings, Iress Market Tech, James Hardie Industries CDI, JB Hi-Fi, John Fairfax, Jubilee Mines, Kimberley Diamond, Kingsgate Consolidated, Leighton Holdings, Lend Lease, Lihir Gold, Lion Nathan, Lion Selection Group, Macquarie Airports, Macquarie Communications Infrastructure Group, Macquarie DDR Trust, Macquarie Goodman Group, Macquarie Infrastructure Group, Macquarie Office Trust, Macquarie ProLogis Trust, Mayne Group, McGuigan Simeon Wines, Metcash Trading, Miller's Retail, Minara Resources, News Corp CDI 'A', News Corp CDI 'B', Novogen, Nufarm, Oil Search, OneSteel, Orica, Origin Energy (Ex Boral), Oxiana, Pacific Hydro, Pacifica Group, PaperlinX, Patrick, Peptech, Perpetual Trustees Australia, PMP, Portman, Prime Infrastructure, Promina Group, Publishing & Broadcasting, Qantas Airways, Ramsay Health Care, Record Investments, Repco, Resmed CMI, Ridley, Rinker Group, Rio Tinto, ROC Oil Company, Santos, Seven Network, Sigma Company, Sims Group, Smorgon Steel Group, Sonic Healthcare, SPC Ardmona, Spotless Group, Stockland, STW Comms, Sydney Futures Exchange, Tabcorp Holdings, Tap Oil, Ten Network, Thakral Holdings Group, Timbercorp, Toll Holdings, Tower, Transfield Services, Ventracor, Village Roadshow 'A' Pref, Vision Systems, Wattyl, Wesfarmers, Western Australian Newspaper Holdings, Westfield Group, WMC Resources, Woodside Petroleum, Woolworths, Worley Parsons

At the end of the financial year, actual performance is measured against the preliminary targets set at the beginning of the year. Payouts, if any, are determined by the Human Resources & Nomination Committee.

The shares awarded vest to participants in three equal tranches:

- one third soon after the financial year for which the shares were acquired by the Trustee;
- one third on 1 January in the year following the date the Trustee acquires the shares; and
- one third on 1 January in the second year following the date the Trustee acquires the shares.

The growth in value of each grant over the three year vesting period is an important factor aligning shareholder and executive gain as senior executives have an incentive to maintain a high share price over time.

Where a participant ceases employment prior to the vesting of their shares, shares are not available to the participant unless cessation of employment is due to retirement or death.

Senior executives participating in the program are entitled to receive any declared dividend payments and capital returns that are made available to any Caltex shareholder on unvested shares.

#### **Variable remuneration – long-term incentive plan improvements for 2006**

In late 2005, Caltex completed an extensive review of its long-term incentive plan as it was determined that the existing plan while appropriate at its inception would not continue to meet changing market practice. As a result of the review, the Board has approved the following improved features of the long-term incentive plan which were implemented effective 1 January 2006:

- amend the performance condition to determine 50% of the award on Total Shareholder Return performance and 50% on ROCE performance (as opposed to the current matrix approach);
- amend the Total Shareholder Return component of the plan hurdle to ensure that no award is granted for less than median Total Shareholder Return performance. There will still be an award for the ROCE component of the plan if performance warrants and the ROCE hurdle has been met as per the proposed schedule (refer to Table 2 and Graph 2);
- amend the vesting period to release one third after one year; one third after two years and one third after three years. This is a move towards the three year vesting period reflecting current market practice;
- add a voluntary restriction on sale (post-vesting) to allow executives to defer tax. This is intended to encourage executives to retain the shares;
- determine the grant quantum based on base salary (fixed remuneration) as opposed to total pay (base pay plus bonus) reflecting current market practice; and
- amend the eligibility criteria to increase the rigour and transparency over which individuals are invited to participate.

The above changes do not affect the grants that were earned by participants in 2005 and paid in 2006.

TABLE 2: LONG-TERM INCENTIVE PLAN SCHEDULES

### TSR

The TSR schedule reflects market practice where no award is made for below 51st percentile and the full award can be earned for ranking at the 75th percentile or above. Maximum TSR represents 50% of total reward available.

TSR RANKING	GRANT AS % OF BASE PAY	
	TIER 1	TIER 2
Below 51st percentile	0%	0%
At 51st percentile	18%	14%
Between 51st percentile and 75th percentile	18 – 45%	14 – 34%
Above 75th percentile	45%	34%

### ROCE

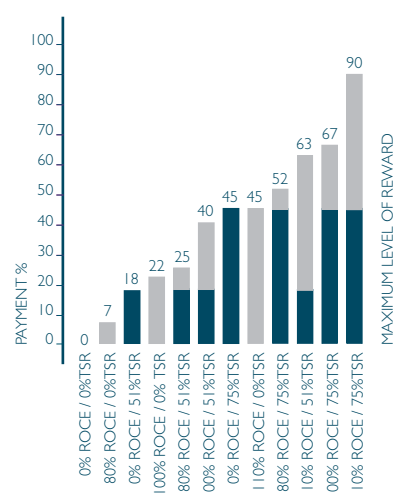
Grant percentages are expressed as a percentage of base salary. Maximum ROCE represents 50% of total reward available.

ROCE v TARGET	GRANT AS % OF BASE PAY	
	TIER 1	TIER 2
80% and below	0%	0%
80 – 90%	7 – 14%	5.25 – 10.5%
90 – 100%	14 – 22%	10.5 – 16.5%
100%	22%	16.5%
100 – 110%	22 – 45%	16.5 – 34%
> 110%	45%	34%

The quantum of grants that are able to be earned by senior executives under the amended 2006 long term incentive plan are approximately the same as previously.

GRAPH 2: INTERRELATIONSHIP OF TSR/ROCE OUTCOMES GIVEN THE 2006 LONG-TERM INCENTIVE PLAN IMPROVEMENTS

■ RCOP NPAT  
■ TSR



### Employees covered by enterprise bargaining agreements and Australian Workplace Agreements

Employees covered by enterprise bargaining agreements and Australian Workplace Agreements do have some different arrangements across Caltex. However, most of our agreements have mechanisms in place which link team performance to reward outcomes in the form of incentives in addition to base remuneration.

### Beyond total remuneration value

As highlighted earlier, remuneration is important, but there are other elements of employment which also play a key role in attracting, motivating and retaining the best people.

Caltex offers extensive professional development opportunities to its employees in order that they can succeed in their current roles and reach their full potential.

Caltex also offers employees the opportunity to participate even more fully in the company's business success through the Caltex Employee Share Plan (CALESP). CALESP provides eligible employees with a simple and tax-effective means of sharing in the future of Caltex Australia. Under this share plan, employees sacrifice part of their salary to purchase Caltex Australia Limited shares on market. To date, more than 65% of our employees are shareholders in the company through CALESP.

No senior executive participated in CALESP in the 2005 financial year. If shares are acquired by senior executives under CALESP they are not subject to performance conditions as the shares are acquired on a salary sacrifice basis.

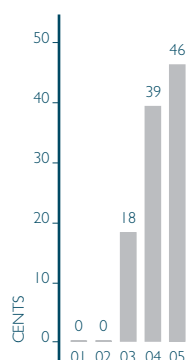
### CALTEX PERFORMANCE

During the last five years, Caltex's share price has risen significantly reflecting improved performance and outlook. The Board has adopted a dividend policy in 2004, declaring ordinary dividends of 20% to 30% of the RCOP after tax excluding significant items in 2004 and 2005, and with the intention after 2005 to increase the payout ratio to a range of 40% to 60% of the RCOP after tax excluding significant items. If there is surplus cash flow above the target payout ratio, the Board will consider a further distribution in the form of a fully franked special dividend and/or other capital management initiatives.

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

Further information on the dividends declared or paid, and the share price, for the last five years are highlighted in Graphs 3 and 4 below.

GRAPH 3: DIVIDENDS PER SHARE



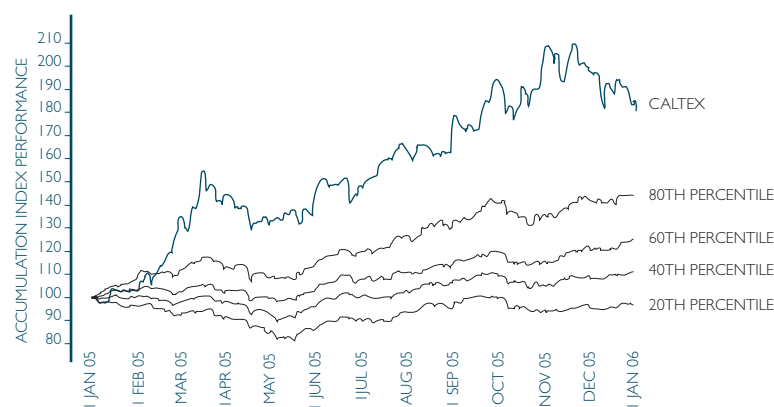
GRAPH 4: CALTEX AUSTRALIA LIMITED AND THE CONSTITUENTS OF THE S&P/ASX 200 INDEX <sup>(1)</sup>  
(LESS CONSTITUENTS OF THE BANCASSURANCE AND TELECOMMUNICATIONS INDICES <sup>(2)</sup>)

ACCUMULATION INDEX PERFORMANCE 1 JANUARY 2005 – 1 JANUARY 2006

\*Indices based on a value of 100 at 01/01/2005

(1) Constituents based on the S&P/ASX 200 Index (Less the Constituents of the Bancassurance and Telecommunications Indices) as of 20 February 2006. There are 176 companies included.

(2) The Bancassurance and Telecommunications Indices are delisted and there have been no new additions since the introduction of GICS.  
Source: Thomson Financial Datastream



The steady increase in the Caltex share price in recent years has provided employees with an excellent opportunity to enhance their Total Reward Value beyond remuneration itself.

The relationship between the Reward Policy and the company's performance is also shown in Graphs 1 and 5.

## CONCLUSION

The Caltex Reward Policy and System are designed to deliver the maximum return to shareholders while appropriately recognising the importance of the contributions of our people to the company's success.

Our Reward Policy and System are supported by a rigorous, transparent performance management process and are key elements in an integrated people management approach to delivering a high performance, motivated and engaged workforce.

## REMUNERATION DETAILS FOR SENIOR EXECUTIVES AND DIRECTORS

The following sections of the remuneration report provide detailed information on the remuneration paid to and how that remuneration was calculated for senior executives and directors at Caltex.

### SENIOR EXECUTIVE REMUNERATION STRUCTURE

The Caltex Reward Policy and System apply to senior executives as they do for all other award free employees, with the addition of one component – the long-term incentive plan for incumbents of eligible senior executive positions. Therefore, senior executives receive both fixed and variable components (Performance Incentive Plan and long-term incentive plan) expressed as Total Reward Value. As with all other award free employees, market comparisons of Total Reward Value are regularly undertaken to ensure Caltex is in line with the market median for target performance. Table 3 summarises the core senior executive reward components.

TABLE 3: THE SENIOR EXECUTIVE REWARD COMPONENTS AND RELATIONSHIP TO TOTAL SHAREHOLDER RETURN

COMPONENTS	INPUTS	APPROVALS
<b>Fixed remuneration (base pay)</b>	<ul style="list-style-type: none"> <li>– Performance against performance agreement which includes: <ul style="list-style-type: none"> <li>– performance targets</li> <li>– where applicable, individual scorecard (including the performance targets, success measures and weightings)</li> <li>– relevant department scorecard</li> <li>– leadership behaviours</li> <li>– relativity of performance against other Caltex senior executives</li> </ul> </li> <li>– Assessment of sustained performance over time</li> <li>– Position against market median (range of 80 – 120%) established for position and in accordance with Caltex guidelines</li> <li>– Performance Agreements are agreed with the Managing Director and CEO prior to the commencement of each year with results measured and tracked regularly by the Managing Director and CEO and approved by the Human Resources and Nomination Committee</li> </ul>	<ul style="list-style-type: none"> <li>– Movements for senior executives recommended by Managing Director and CEO and approved by the Human Resources and Nominations Committee</li> <li>– Adjusted annually within Board approved limits</li> </ul>
<b>Variable remuneration (Performance Incentive Plan)</b> – all award free employees eligible to participate	<ul style="list-style-type: none"> <li>– Caltex scorecard performance versus goal (this determines funding for the plan)</li> <li>– Department scorecard performance versus goal</li> <li>– Individual performance against Performance Agreement (refer above)</li> <li>– Individual's role within the company (determines range of earning potential)</li> </ul>	<ul style="list-style-type: none"> <li>– Incentives for senior executives recommended by Managing Director and CEO and approved by the Human Resources and Nominations Committee</li> <li>– Calculated and paid annually within Board approved limits</li> </ul>
<b>Variable remuneration (2005 long-term incentive plan)</b> – key senior management roles identified for participation – note the improvements to the long-term incentive plan for 2006 at page 61	<ul style="list-style-type: none"> <li>– Total Shareholder Return performance versus ASX 200 peer group subset (as assessed by independent remuneration consultants to ensure impartiality and objectivity)</li> <li>– Return on Capital Employed (ROCE) versus Plan</li> </ul>	<ul style="list-style-type: none"> <li>– TSR and ROCE targets approved by the Human Resources and Nominations Committee at commencement of performance year</li> <li>– Awarded annually based on achievement of TSR and ROCE targets</li> <li>– Key senior management roles recommended for participation by Managing Director and CEO and approved by the Human Resources and Nominations Committee annually</li> <li>– Awards to incumbents of key senior management roles by invitation of the Human Resources and Nominations Committee annually</li> </ul>

Senior executive reward is aligned to the achievement of strategic objectives, the creation of shareholder value and delivery of the Vision, Values and Strategic Intent.

#### Fixed remuneration

For senior executives fixed remuneration is calculated on the cost to Caltex of base salary, superannuation contributions, fringe benefits tax and gross-up in relation to costs that do not qualify as company income tax deductions.

Fixed remuneration for executives is compared with the median of a subset of companies from the S&P/ASX 200 index. The subset excludes the financials sector from the index. The comparators are selected annually based on the scale of business and the executive's role and accountabilities.

#### Variable remuneration – Performance Incentive Plan

In relation to the Performance Incentive Plan, 100% of the bonus vested at the end of 2005, and will be paid in 2006.

#### Variable remuneration – long-term incentive plan

Table 4 details the unvested senior executive share benefits for 2005. One third of the long-term incentive was paid to the above executives in 2006. No amount was forfeited.

TABLE 4: UNVESTED SHAREHOLDINGS OF SENIOR EXECUTIVES FOR YEAR ENDED 31 DECEMBER 2005

SENIOR EXECUTIVES	POSITION	SHARES UNVESTED AT 1 JAN 2005 FOR 2002 AND 2003 PERFORMANCE YEARS AND CALESP	SHARES GRANTED AS REMUNERATION IN 2005 FOR THE 2004 PERFORMANCE YEAR <sup>(i)</sup>	SHARES VESTED FROM THE 2002, 2003 AND 2004 PERFORMANCE YEARS AND CALESP	OTHER CHANGES (CALESP)	UNVESTED SHARES AT 31 DEC 2005 FROM THE 2003 AND 2004 PERFORMANCE YEARS <sup>(ii)</sup>
<b>Richard Beattie</b>	Group Manager – Corporate Affairs	33,570	11,913	(29,378)	–	16,105
<b>Mark Burrowes</b>	General Manager – Marketing	17,007	24,402	(16,563)	–	24,846
<b>Helen Conway</b>	Company Secretary and General Counsel	53,252	19,653	(46,805)	–	26,100
<b>Simon Hepworth</b>	Chief Financial Officer	63,815	23,070	(57,302)	–	29,583
<b>Lisbeth Long</b>	Group Manager – Human Resources	8,339	10,407	(7,564)	–	11,182
<b>Mike McMenamin</b>	Group Manager – Strategy and Planning	24	–	–	50	74
<b>Alex Strang</b>	General Manager – Supply and Corporate Services	65,798	23,166	(58,272)	–	30,692
<b>Eion Turnbull</b>	General Manager – Refining	49,370	19,941	(43,953)	–	25,358
<b>Peter Wilkinson</b>	Group Manager – Operational Excellence and Risk	–	–	–	–	–

Notes:

(i) Grant date was 4 March 2005.

(ii) If the executive meets the service conditions, amounts will vest in 2006 and 2007 in accordance with the vesting conditions of the long-term incentive plan.

In relation to the long-term incentive plan for each senior executive, Table 5 below shows the percentage paid and forfeited in relation to each grant, the years in which the grant is still to vest and the total value of the grant for each financial year after 2005. It shows the future cost to Caltex that will be incurred as a result of the shares awarded in 2003, 2004 and 2005. The cost to Caltex of the shares is recorded as at 31 December of each year; however the shares vest in the senior executive in January of the following year.

TABLE 5: LONG-TERM INCENTIVE GRANTS TO SENIOR EXECUTIVES

SENIOR EXECUTIVES	LTI YEAR	VESTED (% OF AWARD PAID)	FORFEITED	FUTURE YEARS WHEN SHARES WILL VEST	FUTURE COST TO CALTEX OF UNVESTED SHARES* (\$)
Richard Beattie	2003	100%	—	—	—
	2004	66%	—	2006	18,849
	2005	33%	—	2006, 2007	57,923
	<b>Total</b>				<b>76,772</b>
Mark Burrowes	2003	100%	—	—	—
	2004	66%	—	2006	38,611
	2005	33%	—	2006, 2007	142,039
	<b>Total</b>				<b>180,650</b>
Helen Conway	2003	100%	—	—	—
	2004	66%	—	2006	31,096
	2005	33%	—	2006, 2007	98,594
	<b>Total</b>				<b>129,690</b>
Simon Hepworth	2003	100%	—	—	—
	2004	66%	—	2006	36,506
	2005	33%	—	2006, 2007	124,750
	<b>Total</b>				<b>161,256</b>
Lisbeth Long	2003	100%	—	—	—
	2004	66%	—	2006	16,466
	2005	33%	—	2006, 2007	65,944
	<b>Total</b>				<b>82,410</b>
Mike McMenamin	2003	N/A	—	—	—
	2004	N/A	—	—	—
	2005	33%	—	2006, 2007	46,431
	<b>Total</b>				<b>46,431</b>
Alex Strang	2003	100%	—	—	—
	2004	66%	—	2006	36,657
	2005	33%	—	2006, 2007	113,547
	<b>Total</b>				<b>150,204</b>
Eion Turnbull	2003	100%	—	—	—
	2004	66%	—	2006	31,555
	2005	33%	—	2006, 2007	102,812
	<b>Total</b>				<b>134,367</b>
Peter Wilkinson	2003	N/A	—	—	—
	2004	N/A	—	—	—
	2005	33%	—	2006, 2007	21,006
	<b>Total</b>				<b>21,006</b>

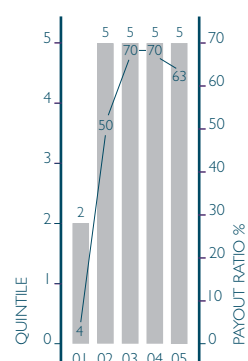
\* The maximum and minimum total value of the grants is the same for the financial years after 2005 because such amounts are subject only to service conditions.

Note: Mike McMenamin and Peter Wilkinson were not eligible to participate in 2003 and 2004 grant periods.

Graph 5 below shows the relationship between the long-term incentive (LTI) payout ratio paid to senior executives during the year, compared to the Total Shareholder Return performance quintile achieved over the past five years. It clearly demonstrates that the long-term incentive plan awards have been strongly correlated with shareholder value creation.

GRAPH 5: SHAREHOLDER VALUE CREATION AND LTI PLAN OUTCOMES

— LTI Payout ratio  
■ Quintile



#### SUMMARY OF TOTAL REMUNERATION VALUE OF SENIOR EXECUTIVES IN 2005

The proportion of each senior executive's remuneration for 2005 that was fixed, and the proportion that was subject to a performance condition, is shown in Table 6 below.

TABLE 6: DISTRIBUTION OF FIXED AND VARIABLE ELEMENTS OF SENIOR EXECUTIVE REMUNERATION FOR 2005

SENIOR EXECUTIVES	POSITION	FIXED	VARIABLE (INCLUDING SHORT AND LONG-TERM INCENTIVE PAYMENTS, CALCULATED AS COST TO CALTEX)
Richard Beattie	Group Manager – Corporate Affairs	59%	41%
Mark Burrowes	General Manager – Marketing	53%	47%
Helen Conway	Company Secretary and General Counsel	53%	47%
Simon Hepworth	Chief Financial Officer	54%	46%
Lisbeth Long	Group Manager – Human Resources	54%	46%
Mike McMenamin	Group Manager – Strategy and Planning	73%	27%
Alex Strang	General Manager – Supply and Corporate Services	54%	46%
Eion Turnbull	General Manager – Refining	56%	44%
Peter Wilkinson	Group Manager – Operational Excellence and Risk	71%	29%

Details of the classification and amount of each element of the remuneration of senior executives (excluding the Managing Director and Chief Executive Officer) who received the highest total remuneration for 2005 are set out below (on the basis of the cost to Caltex) in Table 7. The nine senior executives below, all of whom are members of the Caltex Leadership Team, along with the directors of Caltex Australia Limited are considered the key senior executives for whom details of their remuneration must be disclosed in accordance with accounting standards.

TABLE 7: TOTAL REMUNERATION FOR SENIOR EXECUTIVES FOR 2005

DOLLARS		PRIMARY			POST EMPLOYMENT	EQUITY	TOTAL
		SALARY AND FEES <sup>(i)</sup>	BONUS (SHORT-TERM INCENTIVE)	NON- MONETARY BENEFITS	SUPER- ANNUATION	SHARE BENEFITS (LONG-TERM INCENTIVE)	
SENIOR EXECUTIVES <sup>(i)</sup>							
<b>Richard Beattie</b>							
Group Manager –	2005	252,383	47,707	9,258	28,362	156,042	493,752
Corporate Affairs	2004	272,449	57,885	–	18,671	160,405	509,410
<b>Mark Burrowes</b>							
General Manager –	2005	460,623	125,580	14,944	52,163	340,108	993,418
Marketing	2004	454,964	127,372	14,811	29,830	263,392	890,369
<b>Helen Conway</b>							
Company Secretary	2005	322,917	88,754	28,979	36,208	262,246	739,104
and General Counsel	2004	332,165	80,184	14,811	23,222	263,797	714,179
<b>Simon Hepworth</b>							
Chief Financial Officer	2005	445,234	111,386	14,944	45,814	321,111	938,489
	2004	418,962	110,039	14,811	27,001	309,636	880,449
<b>Lisbeth Long</b>							
Group Manager –	2005	225,556	59,044	–	24,218	154,683	463,501
Human Resources <sup>(iii)</sup>	2004	245,484	59,250	–	17,464	115,346	437,544
<b>Mike McMenamin</b>							
Group Manager –	2005	240,034	24,221	–	22,735	72,929	359,919
Strategy and Planning <sup>(iv)</sup>	2004	124,790	24,615	42,998	8,862	–	201,265
<b>Alex Strang</b>							
General Manager –							
Supply and	2005	402,807	105,796	47,707	39,000	305,085	900,395
Corporate Services	2004	400,367	79,076	13,340	18,000	313,457	824,240
<b>Eion Turnbull</b>							
General Manager –	2005	359,945	83,283	54,056	37,757	267,771	802,812
Refining	2004	341,018	71,020	39,288	23,687	259,320	734,333
<b>Peter Wilkinson</b>							
Group Manager –							
Operational Excellence	2005	118,901	21,156	5,130	10,286	32,994	188,467
and Risk <sup>(v)</sup>	2004	–	–	–	–	–	–
<b>Total remuneration:</b>	2005	2,828,400	666,927	175,018	296,543	1,912,969	5,879,857
<b>senior executives</b>	2004	2,590,199	609,441	140,059	166,737	1,685,353	5,191,789

Notes:

(i) All of the senior executives have been in the position stated above for the whole year, with the exception of those noted.

(ii) Salary and fees includes base pay, annual leave, and long service leave.

(iii) Lisbeth Long was on unpaid maternity leave from 26 July 2005 to 11 October 2005.

(iv) Mike McMenamin commenced on 3 May 2004 and was appointed to a senior executive position on 1 December 2004.

(v) Peter Wilkinson was appointed on 11 July 2005.

## OTHER INFORMATION REQUIRED BY THE CORPORATIONS ACT 2001 (CTH)

### Options

Options do not form a part of the remuneration package of directors or senior executives and as a result, no options were granted to or exercised by directors or senior executives during the 2005 financial year and no options lapsed during the 2005 financial year.

### Contracts of employment

The senior executives of Caltex (other than Dave Reeves, the Managing Director and Chief Executive Officer) are appointed as permanent Caltex employees. Their employment contracts require both the company and the senior executive to give a notice period within a range of one to three months as stipulated by their individual contracts should they resign or have their service terminated by Caltex. The terms and conditions of the executives reflect market conditions at the time of their contract negotiation and appointment.

If a senior executive were to resign, entitlement to unvested shares payable through the long-term incentive plan would be forfeited and if resignation was on or before 31 December of the year, payment from the Performance Incentive Plan would also be forfeited.

The details of the contracts of the senior executives of Caltex (other than Dave Reeves, which are provided later in this report) are set out below:

TABLE 8: SUMMARY OF CONTRACTS OF EMPLOYMENT FOR SENIOR EXECUTIVES

SENIOR EXECUTIVES	POSITION	APPOINTED TO CURRENT ROLE	CONTRACT	TERMINATION NOTICE
<b>Richard Beattie</b>	Group Manager – Corporate Affairs	8 August 1995	Open ended	One month
<b>Mark Burrowes</b>	General Manager – Marketing	1 May 2003	Open ended	One month
<b>Helen Conway</b>	Company Secretary and General Counsel	13 September 1999	Open ended	Three months
<b>Simon Hepworth</b>	Chief Financial Officer	1 January 2001	Open ended	Three months
<b>Lisbeth Long</b>	Group Manager – Human Resources	18 March 2003	Open ended	One month
<b>Mike McMenamin</b>	Group Manager – Strategy and Planning	1 December 2004	Open ended	One month
<b>Alex Strang</b>	General Manager – Supply and Corporate Services	1 August 2002	Open ended	One month
<b>Eion Turnbull</b>	General Manager – Refining	19 December 2003	Open ended	Three months
<b>Peter Wilkinson</b>	Group Manager – Operational Excellence and Risk	11 July 2005	Open ended	One month

No termination benefits are payable under the contracts of employment however; a benefit may be required to be paid in accordance with the legislative requirements at the time of the senior executive's termination.

## DIRECTORS' REMUNERATION STRUCTURE

### Determination of non-executive directors' fees

Non-executive directors' fees are determined annually by the Board, based on a recommendation from the Human Resources and Nomination Committee. The fees are set within the aggregate remuneration pool approved by shareholders. No directors' fees are paid to executive directors.

The level of non-executive directors' fees is based on the scope of director responsibility and the size and complexity of Caltex. In making recommendations to the Board, the Human Resources and Nomination Committee takes into account survey data on the level of directors' fees being paid to directors of companies of comparative size and complexity. The Human Resources & Nomination Committee also obtains external professional advice as necessary.

Non-executive directors do not receive any bonus payment or participate in any incentive plan. Accordingly, 100% of the remuneration of non-executive directors is fixed.

The Board does not operate a directors' retirement scheme but non-executive directors resident in Australia are entitled to statutory superannuation. Prior to 1 January 2004, Dick Warburton and Ken Watson did participate in a directors' retirement scheme and amounts that had accrued under the scheme for them have been frozen and paid into a separate interest bearing account pending their retirement.

### Non-executive directors' fees

In 2005, fees paid to non-executive directors were subject to a maximum Board remuneration pool of \$900,000 per annum, exclusive of statutory entitlements. The remuneration pool for non-executive directors applicable to 2005 was approved by shareholders of Caltex Australia Limited at the Annual General Meeting held in April 2004. This amount was increased to \$1,150,000 per annum, inclusive of statutory entitlements, at the 2005 Annual General Meeting with effect from 1 January 2006. This increase was sought to allow fee increases in line with the market and to accommodate director succession plans.

Table 9 outlines the fees payable to the directors effective 1 January 2005 and 1 January 2006.

TABLE 9: FEES PAYABLE TO DIRECTORS

	EFFECTIVE 1 JANUARY 2005	EFFECTIVE 1 JANUARY 2006
<b>Chairman's fees</b> (Inclusive of all Committee fees)	\$275,000	\$310,000
Non-executive directors' fees	\$100,000	\$115,000
<b>Audit Committee fees</b>		
– Chairman	\$20,000	\$30,000
– Member	\$10,000	\$15,000
<b>Human Resources &amp; Nomination Committee Fees</b>		
– Chairman	\$15,000	\$20,000
– Member	\$10,000	\$10,000

As Elizabeth Bryan has elected not to receive any superannuation guarantee contributions, the fees which are paid to her are increased by 9%, being the current rate of the superannuation guarantee contribution.

From 2005, non-executive directors could elect to forgo part of their fees, with the amount foregone to be contributed to fund the acquisition, on market, of Caltex Australia Limited shares via a non-executive directors share acquisition plan. Participation in the share acquisition plan is not open to directors who are employed in the Chevron Corporation Group. The acquisition of shares under this plan is not subject to any performance conditions as they are acquired on a fee sacrifice basis.

**Remuneration for Managing Director & Chief Executive Officer**

Dave Reeves, the Managing Director & Chief Executive Officer, is seconded from Chevron to Caltex. Chevron Global Energy Inc. holds 50% of the shares in Caltex Australia Limited.

Under the terms of the secondment arrangements, Caltex pays a maximum of \$1,200,000 per annum to Chevron. Caltex has no obligation to pay any additional amounts to Chevron beyond \$1,200,000 per annum or to pay any amount to Dave. The terms of these arrangements are considered to be no less favourable to Caltex than arm's length terms.

Chevron incurred additional costs being \$1,238,806 (2004: \$1,530,166), in relation to Dave. These costs may include performance-based short-term and long-term incentives, housing allowances, and other non-monetary items. In determining the additional amounts paid to Dave, Chevron considers Caltex's performance and Dave's contribution to that performance as assessed by Caltex's Chairman.

**Contract of employment for Managing Director and Chief Executive Officer**

The secondment is for a period of three years ending on 28 July 2006 and Caltex and Chevron may agree to vary the contract term by early termination or extension. The secondment arrangement may also be terminated by Caltex if Dave:

- commits a wilful breach or wilfully neglects to perform or observe any of his statutory or contractual duties;
- fails to perform or observe any of his statutory or contractual duties and does not correct or rectify the failure within seven days of being requested to do so; or
- ceases to hold the office of director of Caltex Australia Limited.

On termination Dave has no rights against Caltex for payment of any amounts or claims.

The terms of these arrangements are considered by Caltex to be no less favourable to Caltex than arm's length terms.

**Summary of remuneration for directors in 2005**

Details of the remuneration of directors of Caltex Australia Limited for 2005 are set out below at Table 10 (on the basis of total cost to the Caltex Australia Group):

TABLE 10: TOTAL REMUNERATION FOR DIRECTORS FOR 2005

DOLLARS		PRIMARY			POST EMPLOYMENT	EQUITY	TOTAL
		SALARY AND FEES	BONUS	NON- MONETARY BENEFITS	SUPER- ANNUATION	SHARE BENEFITS	
<b>DIRECTORS</b>							
<b>Executive</b>							
Dave Reeves							
Managing Director and	2005	1,200,000	—	—	—	—	1,200,000
Chief Executive Officer	2004	1,200,000	—	—	—	—	1,200,000
<b>Non-executive</b>							
Dick Warburton	2005	275,000	—	—	24,750	—	299,750
Chairman	2004	232,000	—	—	20,880	—	252,880
Elizabeth Bryan	2005	133,284	—	—	—	—	133,284
	2004	90,337	—	—	—	—	90,337
Bill Hauschildt	2005	110,000	—	—	—	—	110,000
	2004	22,636	—	—	—	—	22,636
John Thorn	2005	110,000	—	—	9,900	—	119,900
	2004	49,948	—	—	4,495	—	54,443
Ken Watson	2005	120,000	—	—	10,800	—	130,800
	2004	93,000	—	—	8,370	—	101,370
Peter Wissel	2005	39,086	—	—	—	—	39,086
	2004	—	—	—	—	—	—
<b>Former non-executive</b>							
Leo Lonergan	2005	16,274	—	—	—	—	16,274
	2004	93,000	—	—	—	—	93,000
Mitch Rubinstein	2005	52,497	—	—	—	—	52,497
	2004	—	—	—	—	—	—
<b>Total remuneration:</b>	2005	2,056,141	—	—	45,450	—	2,101,591
<b>directors</b>	2004	1,780,921	—	—	33,745	—	1,814,666

## Notes:

- Dave Reeves served as the Managing Director and Chief Executive Officer for the whole of 2005.
- Dick Warburton served as the Chairman for the whole of 2005. He was the Chair of the Human Resources and Nomination Committee until 30 April 2005, after which time he was a member of the Human Resources and Nomination Committee. He attends Audit Committee meetings in an ex-officio capacity.
- Elizabeth Bryan served as a director throughout 2005 and was appointed as Chair of the Human Resources and Nomination Committee from 1 May 2005. Accordingly, Elizabeth received Committee fees at the rate applying to the Chair of that Committee from that date. Prior to 1 May 2005, Elizabeth served as a member of the Human Resources and Nomination Committee. Elizabeth is also paid an additional 9% in director fees, following her election not to receive superannuation guarantee contributions. The payment of these additional fees was backdated to the date that Caltex ceased making superannuation guarantee contributions to her.
- Bill Hauschildt served as a director and a member of the Human Resources and Nomination Committee throughout 2005.
- John Thorn served as a director and a member of the Audit Committee throughout 2005.
- Ken Watson served as a director and Chair of the Audit Committee throughout 2005.
- Peter Wissel was appointed as a director on 23 August 2005 and as a member of the Audit Committee on 1 September 2005. His director's fee in 2005 is a pro-rata amount.
- Leo Lonergan resigned as a director on 23 February 2005. Until that date, he also served as a member of the Audit Committee.
- Mitch Rubinstein served a director between 24 February 2005 and 23 August 2005 and as a member of the Audit Committee from 1 May 2005 to 23 August 2005. His director's fee in 2005 is a pro rata amount. Mitch Rubinstein also served as an alternate director in 2005 until 23 February 2005, but did not receive any remuneration for acting as an alternate director.
- Brant Fish, who served as an alternate director in 2005, did not receive any remuneration from Caltex in 2005.

## DIRECTORS' INTERESTS

The directors of Caltex Australia Limited held the following relevant interests in the company's shares at 31 December 2005:

DIRECTORS	NUMBER OF SHARES	NATURE OF INTEREST
<b>Current directors</b>		
Dick Warburton	10,633	10,000 shares held indirectly (beneficial interest through Teampass Pty Ltd) and 633 shares held directly (acquired via the Non-Executive Directors' Share Acquisition Plan)
Dave Reeves	5,000	Direct (held jointly with Becky Reeves)
Elizabeth Bryan	5,000	Direct
Bill Hauschildt	—	
John Thorn	211	Direct (acquired via the Non-Executive Directors' Share Acquisition Plan)
Ken Watson	7,500	Direct
Peter Wissel	1,000	Direct (held jointly with Susan Philbrick)
<b>Former directors</b>		
Leo Lonergan	—	
Mitch Rubinstein	—	
<b>Total</b>	<b>29,344</b>	

### Notes:

- Since 31 December 2005 Dick Warburton has acquired 266 shares via the Non-Executive Directors' Share Acquisition Plan, and John Thorn has acquired 88 shares via the Non-Executive Directors' Share Acquisition Plan. The directors have not disposed of any shares since 31 December 2005.
- Leo Lonergan was a director until 23 February 2005. He held 2,000 shares (jointly with Robyn Lonergan) at the time of his resignation but has since disposed of those shares.
- Mitch Rubinstein was an alternate director for Leo Lonergan and Bill Hauschildt until 23 February 2005. He then served as a director from 24 February 2005 to 23 August 2005. He did not hold any shares during the term of his appointments.
- Brant Fish serves as an alternate director for Bill Hauschildt and Peter Wissel. He previously served as an alternate director for Mitch Rubinstein. He does not hold any shares in Caltex Australia Limited.

## MEETINGS OF DIRECTORS

The Board of Caltex Australia Limited formally met on 11 occasions during the year ended 31 December 2005. Board papers were circulated to the directors on one other occasion and a separate strategy session was held over two days during the year. The strategy session was attended by the directors appointed at that time, and by Brant Fish.

The Audit Committee met on four occasions and the Human Resources and Nomination Committee met on seven occasions during 2005. Special purpose committees were convened on three occasions during the year:

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

DIRECTORS	BOARD OF DIRECTORS	AUDIT COMMITTEE	HUMAN RESOURCES & NOMINATION COMMITTEE	SPECIAL PURPOSE	TOTAL
<b>Current directors</b>					
Dick Warburton	11 (11)	4	6 (7)	2 (2)	23 (20)
Dave Reeves	11 (11)	4	7	3 (3)	25 (14)
Elizabeth Bryan	11 (11)	1	7 (7)		19 (18)
Bill Hauschildt	11 (11)	1	7 (7)		19 (18)
John Thorn	11 (11)	4 (4)			15 (15)
Ken Watson	11 (11)	4 (4)	1	3 (3)	19 (18)
Peter Wissel	4 (4)	1 (1)			5 (5)
<b>Former directors</b>					
Leo Lonergan	2 (2)	1 (1)	1		4 (3)
Mitch Rubinstein	7 (7)	2 (2)			9 (9)

### Notes:

- (i) The table shows the number of Board and Committee meetings attended by each director during the year ended 31 December 2005, with the number of meetings held during the time in office as a Board or Committee member shown in brackets.
- (ii) Dick Warburton was not a member of the Audit Committee in 2005 but attended four Committee meetings during the year in an ex-officio capacity.
- (iii) Dave Reeves was not a member of the Audit Committee or the Human Resources and Nomination Committee in 2005, but attended four meetings of the Audit Committee and seven meetings of the Human Resources and Nomination Committee.
- (iv) Elizabeth Bryan and Bill Hauschildt each attended one Audit Committee meeting in 2005 in an ex-officio capacity.
- (v) Ken Watson attended one Human Resources and Nomination Committee in 2005 in an ex-officio capacity.
- (vi) Two meetings of a sub-committee of the Audit Committee were also held in 2005, each attended by Ken Watson and John Thorn.
- (vii) Brant Fish, an alternate director, attended one meeting in 2005 as an observer and attended the two day strategy session.

## NON-AUDIT SERVICES

Details of the amount paid or payable to the auditor of Caltex Australia Limited, KPMG, in relation to the provision of non-audit services in 2005 to Caltex Australia Group are set out below.

KPMG NON-AUDIT FEES	\$'000
<b>Other assurance services</b>	
– Audit of conversion to IFRS	191
– Transaction services – due diligence on business acquisitions	60
– Caltex Australia Superannuation Plan	17
– Share registry review	6
– AGM assistance	5
– Reporting on US private placement covenants	4
– Franchisees Act reporting	4
– Reporting on bank covenants	3
– Statement of gross assets	1
<b>Taxation services</b>	
– Research and Development	73
– International executive services	38
<b>Total</b>	<b>402</b>

The provision of these services was consistent with Caltex Australia's Board approved policy on the provision of non-audit services by the external auditor; and the nature of non-audit services and the amount of fees are reviewed on a regular basis by the Audit Committee.

The directors are satisfied that the provision of non-audit services during the year ended 31 December 2005 by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 (Cth).

The directors are also satisfied that the provision of those non-audit services during the year ended 31 December 2005 by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001 (Cth), for the following reasons:

- services provided during the year are not considered to be materially in conflict with the role of the auditor;
- the ratio of audit fees to non-audit service fees is 1.6:1; and
- after enquiring, the directors are unaware of any matter relating to the provision of non-audit services which would impair the impartial and objective judgement of the external auditor.

The directors' statements in relation to the independence of the auditor are made in accordance with written advice provided by the Audit Committee and signed by the Chairman of the Audit Committee pursuant to a resolution of that Committee.

## COMPANY SECRETARIES

Helen Conway is Company Secretary and General Counsel of Caltex and was appointed a company secretary of Caltex Australia Limited on 13 September 1999. Prior to joining Caltex, Helen was the General Counsel for Airservices Australia and, prior to that, Group Secretary and General Counsel and General Manager, Corporate Advisory Division at NRMA. Before joining corporate life, Helen worked as a lawyer in private practice.

Helen is a director of the Caltex Australia Superannuation Plan and Catholic Health Care Services Limited.

Helen has a Bachelor of Arts and a Bachelor of Laws from The University of Sydney (Australia). She is a Fellow of Chartered Secretaries Australia.

Diane Brown is Assistant Company Secretary of Caltex and was appointed a company secretary of Caltex Australia Limited on 2 December 2004. Prior to joining Caltex, Diane was an Associate Director in the Company Secretarial Division of Macquarie Bank Limited. Before joining the company secretarial profession, Diane worked in politics, as a lawyer in private practice and as a senior analyst at the Reserve Bank of Australia.

Diane has a Bachelor of Economics (Honours) and a Bachelor of Laws (Honours) from The University of Sydney (Australia) and a Master of Commerce (Honours in Economics) from The University of New South Wales (Australia). Diane also has a Graduate Diploma in Company Secretarial Practices from Chartered Secretaries Australia.

## DIRECTORS' AND OFFICERS' INDEMNIFICATION AND INSURANCE

The constitution of Caltex Australia Limited provides that, to the extent permitted by law and subject to the restrictions in section 199A and 199B of the Corporations Act 2001 (Cth), Caltex Australia Limited indemnifies every person who is or has been an officer of Caltex Australia Limited or a subsidiary against:

- any liability (other than a liability for legal costs) incurred by that person as such an officer of Caltex Australia Limited or a subsidiary; and
- reasonable legal costs incurred in defending an action for a liability or alleged liability incurred by that person as such an officer of Caltex Australia Limited or a subsidiary.

During the year ended 31 December 2005, Caltex Australia Limited entered into a deed of indemnity and insurance with Bill Hauschildt, Mitch Rubinstein and Brant Fish, with effect from the date of their appointment as a director or an alternate director.

Similar 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 the deeds, Caltex Australia Limited has agreed to indemnify the officers (to the extent permitted by law) against:

- liabilities incurred as an officer 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 an officer 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 2001 (Cth).

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 also effects, maintains and pays the premium on an insurance policy covering directors and officers of Caltex Australia Limited and other companies in the Caltex Australia Group. 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 2001 (Cth).

Under the terms of the deed of indemnity and insurance, Caltex Australia has an obligation to effect and maintain and pay the premium on a policy for a period of seven years after the officer leaves office.

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 insurance, as such disclosure is prohibited under the terms of the contract.

#### ROUNDING OF AMOUNTS

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

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



**RFE (Dick) Warburton AO**  
CHAIRMAN



**Dave Reeves**  
MANAGING DIRECTOR AND CEO

Sydney, 24 February 2006

## Directors report disclosure

#### EVENTS SUBSEQUENT TO THE SIGNING OF THE 2005 ANNUAL REPORT

The 2005 Financial Report was signed on 24 February 2006. Subsequent to that date, Trevor Bourne was appointed to the Board of Caltex Australia Limited. Information on Trevor is provided below.

#### **TREVOR BOURNE** DIRECTOR (NON-EXECUTIVE/INDEPENDENT)

Bachelor of Mechanical Engineering (University of New South Wales, Australia) and Master of Business Administration (University of Newcastle, Australia)

Trevor was appointed as a director with effect from 2 March 2006.

Trevor brings to the Board broad management experience acquired in industrial and capital intensive industries and engineering and supply chain skills and experience. From 1999 to 2003, Trevor served as CEO of Tenix Industries. Prior to Tenix Industries, he spent 15 years at Brambles Industries Limited, six as Managing Director of Brambles Australasia. Before that he worked for Incitec Ltd and BHP Limited.

Current directorships of listed companies

- Hastie Group Limited (Chairman)
- Origin Energy Limited
- Coates Hire Limited
- Lighting Corporation Limited

## Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 (Cth) to the directors of Caltex Australia Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 31 December 2005 there have been:

- i. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 (Cth) in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

The KPMG logo, featuring the letters 'KPMG' in a stylized, handwritten font.

KPMG

A handwritten signature in black ink, appearing to read 'Trent van Veen'.

**Trent van Veen**  
PARTNER

Sydney, 24 February 2006

## Directors' Declaration

The Board of Caltex Australia Limited has declared that:

- all of the directors have received from Dave Reeves, Managing Director and Chief Executive Officer; and Simon Hepworth, Chief Financial Officer; a declaration dated 22 February 2006 stating that in their opinion:
  - the financial records for the year ended 31 December 2005 for Caltex Australia Limited have been properly maintained in accordance with the Corporations Act 2001 (Cth);
  - the financial statements for the year ended 31 December 2005 and the notes required by the Accounting Standards in Australia comply with the Accounting Standards; and
  - the financial statements for the year ended 31 December 2005 and notes give a true and fair view of the financial position of the Caltex Australia Group at 31 December 2005 and its performance for the year;
- the financial statements for the year ended 31 December 2005 and the notes required by the Accounting Standards in Australia comply with the Accounting Standards;
- the financial statements for the year ended 31 December 2005 and notes give a true and fair view of the financial position of the Caltex Australia Group at 31 December 2005 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 2005 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 AO**  
CHAIRMAN



**DC (Dave) Reeves**  
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Sydney, 24 February 2006

## Independent 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 2005, consisting of the income statements, statements of recognised income and expense, balance sheets, cash flow statements, accompanying notes 1 to 33, and the directors' declaration. The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at year end or from time to time during the financial year. The Company's directors are responsible for the financial report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under Australian Accounting Standard AASB 1 First-time Adoption of Australian equivalents to International Financial Reporting Standards. We have conducted an independent audit of the 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 Australian 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 financial position, and performance as represented by the results of its operations and its 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 (Cth), including:
  - i. giving a true and fair view of the company's and the consolidated entity's financial position as at 31 December 2005 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



**Trent van Veen**  
PARTNER

Sydney, 24 February 2006

# Income statements

FOR THE YEAR ENDED 31 DECEMBER 2005

THOUSANDS OF DOLLARS	NOTE	CONSOLIDATED		PARENT ENTITY	
		2005	2004	2005	2004
Gross sales revenue from sale of goods		16,621,451	13,447,872	—	—
Replacement cost of goods sold (excluding product duties and taxes and inventory gains)		(11,266,594)	(8,318,484)	—	—
Product duties and taxes		(4,371,659)	(4,242,080)	—	—
Inventory gains		228,068	151,758	—	—
Cost of goods sold – historical cost		(15,410,185)	(12,408,806)	—	—
Gross profit		1,211,266	1,039,066	—	—
Other revenue	3	198,411	177,222	92,917	97,359
Refining and supply expenses		(26,084)	(25,675)	—	—
Marketing expenses		(484,046)	(451,219)	—	—
Borrowing costs	4	(27,307)	(41,995)	(41,419)	(44,235)
Other expenses		(88,807)	(53,268)	(5,531)	(1,809)
Share of net profit of entities accounted for using the equity method		4,601	3,302	—	—
<b>Profit before income tax expense</b>		<b>788,034</b>	<b>647,433</b>	<b>45,967</b>	<b>51,315</b>
Income tax expense	6	(193,081)	(76,336)	(1,940)	(3,275)
<b>Net profit</b>		<b>594,953</b>	<b>571,097</b>	<b>44,027</b>	<b>48,040</b>
Net profit attributable to minority interest		(381)	(1,061)	—	—
<b>Net profit attributable to members of the parent entity</b>		<b>594,572</b>	<b>570,036</b>	<b>44,027</b>	<b>48,040</b>
Basic and diluted earnings per share:					
<b>Historical cost including significant items – cents per share <sup>(i)</sup></b>	8	<b>220.2</b>	<b>211.1</b>		

(i) Replacement cost excluding significant items earnings per share is disclosed in note 8.

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

# Balance sheets

AS AT 31 DECEMBER 2005

THOUSANDS OF DOLLARS	NOTE	CONSOLIDATED		PARENT ENTITY	
		2005	2004	2005	2004
CURRENT ASSETS					
Cash and cash equivalents		28,484	14,196	437	—
Receivables	9	826,075	635,282	56,286	108,159
Inventories	10	1,044,805	822,083	—	—
Other	11	25,451	17,765	720	1,444
Total current assets		1,924,815	1,489,326	57,443	109,603
NON-CURRENT ASSETS					
Receivables	9	5,134	5,894	380,882	424,422
Investments accounted for using the equity method	26	26,016	24,346	—	—
Other investments	12	21	16	941,375	941,375
Intangibles	13	41,656	21,664	—	—
Property, plant and equipment	14	2,076,279	1,697,507	—	—
Deferred tax assets	6	—	—	131	131
Other	11	4,627	6,015	—	—
Total non-current assets		2,153,733	1,755,442	1,322,388	1,365,928
Total assets		4,078,548	3,244,768	1,379,831	1,475,531
CURRENT LIABILITIES					
Payables	15	1,230,895	856,932	12,514	12,394
Interest bearing liabilities	16	68,829	27,761	68,000	38,612
Current tax liabilities		97,888	116,635	98,036	115,980
Provisions	17	80,427	50,735	—	—
Total current liabilities		1,478,039	1,052,063	178,550	166,986
NON-CURRENT LIABILITIES					
Payables	15	5,509	3,493	—	—
Interest bearing liabilities	16	389,130	433,681	380,882	424,422
Deferred tax liabilities	6	10,042	47,613	—	—
Provisions	17	57,373	62,599	437	437
Total non-current liabilities		462,054	547,386	381,319	424,859
Total liabilities		1,940,093	1,599,449	559,869	591,845
Net assets		2,138,455	1,645,319	819,962	883,686
EQUITY					
Issued capital	18	543,415	543,415	543,415	543,415
Treasury stock	19	(2,664)	(2,219)	(2,664)	(2,219)
Reserves	19	4,205	3,595	4,289	3,595
Retained earnings	19	1,583,835	1,090,245	274,922	338,895
Total parent entity interest		2,128,791	1,635,036	819,962	883,686
Minority interest	19	9,664	10,283	—	—
Total equity		2,138,455	1,645,319	819,962	883,686

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

# Statements of recognised income and expense

FOR THE YEAR ENDED 31 DECEMBER 2005

THOUSANDS OF DOLLARS	NOTE	CONSOLIDATED		PARENT ENTITY	
		2005	2004	2005	2004
Net profit		<b>594,953</b>	571,097	<b>44,027</b>	48,040
Actuarial gains on defined benefit plans	21	<b>6,452</b>	11,704	—	—
Adjustment on change of accounting policy	2	<b>566</b>	—	—	—
Cash flow hedge fair value gains		<b>16</b>	—	—	—
<b>Total recognised income for the year</b>		<b>601,987</b>	582,801	<b>44,027</b>	48,040
<b>Attributable to:</b>					
Equity holders of the parent entity		<b>601,606</b>	581,740	<b>44,027</b>	48,040
Minority interest		<b>381</b>	1,061	—	—
<b>Total recognised income for the year</b>		<b>601,987</b>	582,801	<b>44,027</b>	48,040
Total equity at the beginning of the year		<b>1,645,319</b>	1,140,255	<b>883,686</b>	911,265
Total recognised income for the year		<b>601,987</b>	582,801	<b>44,027</b>	48,040
Adjustment on change of accounting policy	2	<b>(100)</b>	—	—	—
Own shares acquired		<b>(2,716)</b>	(2,562)	<b>(2,716)</b>	(2,562)
Expense on equity-settled transactions		<b>2,965</b>	2,543	<b>2,965</b>	2,543
Dividends to minority interest		<b>(1,000)</b>	(2,118)	—	—
Dividends to shareholders		<b>(108,000)</b>	(75,600)	<b>(108,000)</b>	(75,600)
<b>Total equity at the end of the year</b>		<b>2,138,455</b>	1,645,319	<b>819,962</b>	883,686

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

# Cash flow statements

FOR THE YEAR ENDED 31 DECEMBER 2005

THOUSANDS OF DOLLARS	NOTE	CONSOLIDATED		PARENT ENTITY	
		2005	2004	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers		18,467,315	14,846,848	—	—
Receipts from subsidiaries		—	—	325,417	187,668
Payments to suppliers, employees and governments		(17,561,038)	(14,186,011)	—	—
Dividends and disbursements received		2,931	3,533	39,500	39,626
Interest received		3,887	2,135	53,349	58,715
Interest and other borrowing costs paid		(42,862)	(49,144)	(44,329)	(47,429)
Income taxes paid		(252,484)	(160,851)	(253,888)	(160,439)
<b>Net operating cash inflows</b>	28	<b>617,749</b>	<b>456,510</b>	<b>120,049</b>	<b>78,141</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchases of businesses net of cash acquired		115	(2,225)	—	—
Deferred payment for purchase of controlled entities		(333)	(3,879)	—	—
Payment for investments, net of cash acquired		—	(5,607)	—	—
Purchases of property, plant and equipment		(457,362)	(190,996)	—	—
Major cyclical maintenance		(41,917)	(24,841)	—	—
Purchases of intangibles		(7,088)	(6,554)	—	—
Net proceeds from sale of property, plant and equipment		15,441	28,297	—	—
Loans repaid from controlled entities		—	—	4,000	197,000
Loans repaid from associated entities		2,250	2,500	—	—
<b>Net investing cash (outflows)/inflows</b>		<b>(488,894)</b>	<b>(203,305)</b>	<b>4,000</b>	<b>197,000</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from borrowings		5,954,386	5,650,879	5,952,000	5,650,000
Repayments of borrowings		(5,958,385)	(5,847,879)	(5,956,000)	(5,847,000)
Repayment of finance lease principal		(1,368)	(807)	—	—
Dividends paid to minority interest		(1,200)	(1,920)	—	—
Dividends paid		(108,000)	(75,600)	(108,000)	(75,600)
<b>Net financing cash outflows</b>		<b>(114,567)</b>	<b>(275,327)</b>	<b>(112,000)</b>	<b>(272,600)</b>
Net increase/(decrease) in cash and cash equivalents		14,288	(22,122)	12,049	2,541
Cash at the beginning of the year		14,196	36,318	(11,612)	(14,153)
<b>Cash at the end of the year</b>	28	<b>28,484</b>	<b>14,196</b>	<b>437</b>	<b>(11,612)</b>

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

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005

## 1. SIGNIFICANT ACCOUNTING POLICIES

Caltex Australia Limited (Company) is a company domiciled in Australia. The financial statements for the year ended 31 December 2005 comprise the Company and its controlled entities (together referred to as the Group) and the Group's interest in associates and jointly controlled entities. The financial statements were authorised for issue by the directors on 24 February 2006.

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

### A. STATEMENT OF COMPLIANCE

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

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

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

### B. BASIS OF PREPARATION

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

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

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

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

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

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

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

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

- AASB 119 Employee Benefits (Dec 2004);
- AASB 2004-3 Amendments to Australian Accounting Standards amending AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (Jul 2004), AASB 101 Presentation of Financial Statements and AASB 124 Related Party Disclosures;
- AASB 2005-1 Amendments to Australian Accounting Standard amending AASB 139 Financial Instruments: Recognition and Measurement;
- AASB 2005-3 Amendments to Australian Accounting Standards amending AASB 119 Employee Benefits (Dec 2004);
- AASB 2005-4 Amendments to Australian Accounting Standards amending AASB 139 Financial Instruments: Recognition and Measurement, AASB 132 Financial Instruments: Disclosure and Presentation and AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards;
- AASB 2005-5 Amendments to Australian Accounting Standards amending AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards and AASB 139 Financial Instruments: Recognition and Measurement;
- AASB 2005-6 Amendments to Australian Accounting Standards amending AASB 3 Business Combinations;

## I. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

The AASB has released the following:

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

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

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

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

## C. BASIS OF CONSOLIDATION

### Subsidiaries

Subsidiaries are those entities controlled by the Company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of subsidiaries of the Company are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

### Associates

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

### Joint ventures

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

### Jointly controlled entities

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

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

### Jointly controlled operations and assets

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

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## I. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### Transactions eliminated on consolidation

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

### D. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

### Key sources of estimation uncertainty

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

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

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

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

### E. REVENUE

#### Sales revenue

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

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

### Other revenue

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

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

### Profit/loss on disposal of property assets

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

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

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

### F. COST OF GOODS SOLD MEASURED ON A REPLACEMENT COST BASIS

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

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

### G. PRODUCT DUTIES AND TAXES

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

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

### H. GOODS AND SERVICES TAX

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

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

## I. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### I. BORROWING COSTS

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

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

### J. FUNCTIONAL CURRENCY AND CURRENCY OF PRESENTATION

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

### K. FOREIGN CURRENCIES

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

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

### L. DERIVATIVE FINANCIAL INSTRUMENTS

#### Current period policy

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

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

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

#### Interest rate instruments

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

#### Foreign exchange contracts

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

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

#### Crude and refiner margin swap contracts

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

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

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### Hedging

#### Cash flow hedges

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

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

#### Fair value hedges

Cross currency swaps are fair value hedges.

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

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

#### Comparative period policy

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

#### Interest rate instruments

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

### Hedging

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

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

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

## M. INCOME TAX

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

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

## I. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### Tax consolidation

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

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

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

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

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

### Nature of tax funding arrangements and tax sharing arrangements

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

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

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

### N. RECEIVABLES

Receivables are measured at amortised cost less impairment losses.

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

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

### O. INVENTORIES

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

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

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

### P. IMPAIRMENT

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

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### Calculation of recoverable amount

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

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

### Reversals of impairment

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

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

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

## Q. PROPERTY, PLANT AND EQUIPMENT

### Owned assets

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

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

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

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

### Leased assets

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

### Finance lease payments

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

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

### Operating lease payments

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

### Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be reliably measured. All other expenditure is recognised in the income statement as an expense as incurred.

### Major cyclical maintenance

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

## I. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### Depreciation

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

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

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

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

### R. INTANGIBLES

#### Goodwill

##### *Business combinations prior to 1 January 2004*

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

##### *Business combinations since 1 January 2004*

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

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment (see note I(p)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

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

#### Research and development

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

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources

to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see note I(p)).

#### Other intangibles

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

#### Subsequent expenditure

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

#### Amortisation

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

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

### S. CASH AND CASH EQUIVALENTS

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

### T. PAYABLES

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

Payables are measured at amortised cost.

Payables related to statutory obligations are measured at cost.

### U. INTEREST BEARING LIABILITIES

#### Current period policy

##### *Interest bearing bank loans*

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

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## I. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### **Short-term notes**

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

### **Medium-term notes**

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

### **US notes**

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

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

### **Comparative period policy**

#### **Interest bearing bank loans**

Bank loans are carried on the balance sheet at their principal amount. Interest expense is accrued at the contracted rate and included in other creditors and accrued expenses. Prepaid interest is included in prepaid and deferred expenditure.

### **Short-term notes**

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

### **US notes**

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

## V. EMPLOYEE BENEFITS

### **Wages and salaries**

The provision for employee benefits for wages and salaries represents the amount which the Caltex Australia Group has a present obligation to pay resulting from employees' services provided up to the balance date.

### **Annual leave, long service leave and retirement benefits**

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

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

### **Superannuation**

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

### **Defined contribution plans**

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

### **Defined benefit plans**

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

All actuarial gains and losses as at 1 January 2004, the date of transition to A-IFRS, were recognised. All actuarial gains and losses that arise subsequent to 1 January 2004 in calculating the Group's obligation in respect of the plan are recognised directly in retained earnings.

When the calculation results in plan assets exceeding liabilities to the Group, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

## W. SHARE BASED PAYMENTS

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

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

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

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

## I. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

### X. ENVIRONMENTAL COSTS

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

Costs incurred to prevent future contamination or costs that are otherwise of a capital nature are capitalised to the extent there is a future economic benefit. All other costs, including costs of compliance with environmental regulations and ongoing maintenance and monitoring, are expensed as incurred. Recoveries from third parties are recorded as assets when their realisation is virtually certain.

### Y. PROVISIONS

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

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

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

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

In general, the further in the future that a cash outflow for a liability is expected to occur, the greater the degree of uncertainty around the amount and timing of that cash outflow. Examples of cash outflows that are expected to occur

a number of years in the future and, as a result, about which there is uncertainty of the amounts involved, include asset decommissioning and restoration obligations and employee pension obligations.

A change in the estimate of a recognised provision or liability would result in a charge or credit to the income statement, in the period in which the change occurs, with the exception of decommissioning and certain restoration costs that relate to the initial construction of an asset.

### Site restoration

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

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

### Asset retirement obligations

Costs for the future dismantling and removal of assets, and restoration of the site on which the assets are located, are provided for and capitalised upon initial construction of the asset, where an obligation to incur such costs arises. The present value of the expected future cash flows required to settle these obligations is capitalised and depreciated over the useful life of the asset. Subsequent accretion to the amount of a provision due to unwinding of the discount is recognised as a borrowing cost. A change in estimate of the provision is added to or deducted from the cost of the related asset in the period of the change, to the extent that any amount of deduction does not exceed the carrying amount of the asset. Any deduction in excess of the carrying amount is recognised in the income statement immediately. If an adjustment results in an addition to the cost of the related asset, consideration will be given to whether an indication of impairment exists and the impairment policy will be applied.

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

### Dividends

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

### Restructuring and employee termination benefits

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

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 2. EXPLANATION OF TRANSITION TO A-IFRS

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

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2005. The comparative information presented in the financial statements has been restated as follows:

- income statement comparatives are restated for the year ended 31 December 2004; and
- balance sheet comparatives are restated as at 31 December 2004 and in the preparation of an opening A-IFRS balance sheet at 1 January 2004 (the Group's date of transition).

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

### I. RECONCILIATION OF EQUITY (CONSOLIDATED)

THOUSANDS OF DOLLARS	NOTE	PREVIOUS AGAAP	1 JANUARY 2004 EFFECT OF TRANSITION TO A-IFRS	A-IFRS	NOTE	PREVIOUS AGAAP	31 DECEMBER 2004 EFFECT OF TRANSITION TO A-IFRS	A-IFRS
<b>ASSETS</b>								
Cash and cash equivalents		36,318		36,318		14,196		14,196
Receivables	a	540,990	(2,418)	538,572	a	636,372	(1,090)	635,282
Inventories		502,732		502,732		822,083		822,083
Other		20,761		20,761	b	19,398	(1,633)	17,765
<b>Total current assets</b>		<b>1,100,801</b>	<b>(2,418)</b>	<b>1,098,383</b>		<b>1,492,049</b>	<b>(2,723)</b>	<b>1,489,326</b>
Receivables	c	25,638	(18,877)	6,761	c	24,367	(18,473)	5,894
Investments accounted for using the equity method	d	9,829	16,763	26,592	d	7,583	16,763	24,346
Other investments	e	2,340	(2,325)	15	e	6,783	(6,767)	16
Property, plant and equipment	f	1,615,321	(10,670)	1,604,651	f	1,709,728	(12,221)	1,697,507
Intangibles	g	12,592	5,805	18,397	g	14,004	7,660	21,664
Deferred tax assets		–		–	h	17,196	(17,196)	–
Other		7,125		7,125		6,015		6,015
<b>Total non-current assets</b>		<b>1,672,845</b>	<b>(9,304)</b>	<b>1,663,541</b>		<b>1,785,676</b>	<b>(30,234)</b>	<b>1,755,442</b>
<b>Total assets</b>		<b>2,773,646</b>	<b>(11,722)</b>	<b>2,761,924</b>		<b>3,277,725</b>	<b>(32,957)</b>	<b>3,244,768</b>
<b>LIABILITIES</b>								
Payables	i	602,684	(12,267)	590,417	i	868,218	(11,286)	856,932
Interest bearing liabilities		96,652		96,652		27,761		27,761
Current tax liabilities		72,865		72,865	j	140,774	(24,139)	116,635
Provisions	k	45,791	718	46,509	k	46,127	4,608	50,735
<b>Total current liabilities</b>		<b>817,992</b>	<b>(11,549)</b>	<b>806,443</b>		<b>1,082,880</b>	<b>(30,817)</b>	<b>1,052,063</b>

## 2. EXPLANATION OF TRANSITION TO A-IFRS CONTINUED

THOUSANDS OF DOLLARS	NOTE	PREVIOUS AGAAP	I JANUARY 2004 EFFECT OF TRANSITION TO A-IFRS	A-IFRS	NOTE	PREVIOUS AGAAP	31 DECEMBER 2004 EFFECT OF TRANSITION TO A-IFRS	A-IFRS
Payables	l	1,300	3,655	4,955	l	—	3,493	3,493
Interest bearing liabilities		564,094		564,094		433,681		433,681
Deferred tax liabilities	m	128,623	41,853	170,476	m	—	47,613	47,613
Provisions	n	37,978	37,723	75,701	n	41,945	20,654	62,599
<b>Total non-current liabilities</b>		<b>731,995</b>	<b>83,231</b>	<b>815,226</b>		<b>475,626</b>	<b>71,760</b>	<b>547,386</b>
<b>Total liabilities</b>		<b>1,549,987</b>	<b>71,682</b>	<b>1,621,669</b>		<b>1,558,506</b>	<b>40,943</b>	<b>1,599,449</b>
<b>Net assets</b>		<b>1,223,659</b>	<b>(83,404)</b>	<b>1,140,255</b>		<b>1,719,219</b>	<b>(73,900)</b>	<b>1,645,319</b>

### EQUITY

Issued capital		543,415		543,415		543,415		543,415
Treasury stock	o	—	(1,073)	(1,073)	o	—	(2,219)	(2,219)
Reserves	p	—	2,468	2,468	p	—	3,595	3,595
Retained earnings	q	671,884	(87,779)	584,105	q	1,168,558	(78,313)	1,090,245
Total parent entity interest		1,215,299	(86,384)	1,128,915		1,711,973	(76,937)	1,635,036
Minority interest	r	8,360	2,980	11,340	r	7,246	3,037	10,283
<b>Total equity</b>		<b>1,223,659</b>	<b>(83,404)</b>	<b>1,140,255</b>		<b>1,719,219</b>	<b>(73,900)</b>	<b>1,645,319</b>

## II. RECONCILIATION OF NET PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY FOR 2004 (CONSOLIDATED)

THOUSANDS OF DOLLARS	NOTE	PREVIOUS AGAAP	EFFECT OF TRANSITION TO A-IFRS	A-IFRS
Gross sales revenue		13,447,872		13,447,872
Cost of goods sold (excluding product duties and taxes and inventory gains)		(8,318,484)		(8,318,484)
Inventory gains		151,758		151,758
Product duties and taxes		(4,242,080)		(4,242,080)
<b>Cost of goods sold – historical cost</b>		<b>(12,408,806)</b>		<b>(12,408,806)</b>
<b>Gross profit</b>		<b>1,039,066</b>		<b>1,039,066</b>
Other revenue	s	221,791	(44,569)	177,222
Refining and supply expenses		(25,675)		(25,675)
Marketing expenses	t	(492,055)	40,836	(451,219)
Other expenses	u	(48,292)	(4,976)	(53,268)
Borrowing costs	v	(42,185)	190	(41,995)
Share of net profit of entities accounted for using the equity method		3,302		3,302
<b>Profit before income tax expense</b>		<b>655,952</b>	<b>(8,519)</b>	<b>647,433</b>
Income tax expense	w	(82,674)	6,338	(76,336)
<b>Net profit</b>		<b>573,278</b>	<b>(2,181)</b>	<b>571,097</b>
Net profit attributable to minority interest	x	(1,004)	(57)	(1,061)
<b>Net profit attributable to members of the parent entity</b>		<b>572,274</b>	<b>(2,238)</b>	<b>570,036</b>

Basic and diluted earnings per share

<b>Historical cost including significant items – cents per share</b>	<b>212.0</b>	<b>211.1</b>
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# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 2. EXPLANATION OF TRANSITION TO A-IFRS CONTINUED

### III. NOTES TO ADJUSTMENTS (CONSOLIDATED)

#### a. Current receivables

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

#### b. Other current assets

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

#### c. Non-current receivables

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

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

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

#### d. Investments accounted for using the equity method

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

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

#### e. Other investments

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

#### f. Property, plant and equipment

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

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

#### g. Intangibles

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

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

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

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

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

#### h. Deferred tax assets

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

## 2. EXPLANATION OF TRANSITION TO A-IFRS CONTINUED

### i. Current payables

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

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

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

### j. Current tax liabilities

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

Impact on current tax liabilities as at 31 December 2004	(24,139,000)
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### k. Current provisions

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

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

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

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

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

### l. Non-current payables

Payables such as payables to related entities, associates and suppliers are measured at present value.

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

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

### m. Deferred tax liabilities

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

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

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 2. EXPLANATION OF TRANSITION TO A-IFRS CONTINUED

### n. Non-current provisions

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

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

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

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

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

### o. Treasury stock

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

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

### p. Reserves

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

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

### q. Retained earnings

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

THOUSANDS OF DOLLARS	1 JANUARY 2004 RETAINED EARNINGS INCREASE / (DECREASE)	31 DECEMBER 2004 RETAINED EARNINGS INCREASE / (DECREASE)
Current receivables	(2,418)	(1,090)
Other current assets	—	(1,633)
Non-current receivables	(2,114)	(1,710)
Other investments	(2,325)	(6,767)
Intangibles	(4,865)	(4,561)
Current payables	2,767	1,686
Current provisions	(718)	(4,608)
Non-current payables	(3,655)	(3,493)
Deferred tax assets	—	(17,196)
Deferred tax liabilities	(41,853)	(23,474)
Non-current provisions	(28,223)	(11,054)
Treasury stock	1,073	2,219
Reserves	(2,468)	(3,595)
Minority interest	(2,980)	(3,037)
<b>Total adjustments</b>	<b>(87,779)</b>	<b>(78,313)</b>

## 2. EXPLANATION OF TRANSITION TO A-IFRS CONTINUED

### r. Minority interest

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

### s. Other revenue

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

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

### t. Marketing expenses

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

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

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

### u. Other expenses

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

### v. Borrowing costs

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

### w. Income tax expense

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

### x. Minority interest

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

## IV. CHANGES IN ACCOUNTING POLICY

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

The adoption of AASB 139 has resulted in the Group recognising all derivative financial instruments as assets or liabilities at fair value. This change has been accounted for by adjusting the opening balance of retained earnings, reserves, current payables, and non-current interest bearing liabilities as at 1 January 2005. The impact of this change to accounting policy is not material. The transitional provisions will not have an effect in future reporting periods.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 2. EXPLANATION OF TRANSITION TO A-IFRS CONTINUED

### V. RECONCILIATION OF EQUITY (PARENT ENTITY)

THOUSANDS OF DOLLARS	NOTE	PREVIOUS AGAAP	1 JANUARY 2004 EFFECT OF TRANSITION TO A-IFRS	A-IFRS	NOTE	PREVIOUS AGAAP	31 DECEMBER 2004 EFFECT OF TRANSITION TO A-IFRS	A-IFRS
<b>ASSETS</b>								
Cash and cash equivalents		—	—	—		—	—	—
Receivables		103,657	103,657	103,657	aa	127,189	(19,030)	108,159
Inventories		—	—	—		—	—	—
Other		1,931	1,931	1,931		1,444	—	1,444
<b>Total current assets</b>		<b>105,588</b>	<b>105,588</b>	<b>105,588</b>		<b>128,633</b>	<b>(19,030)</b>	<b>109,603</b>
Receivables		554,422	554,422	554,422		424,422	—	424,422
Investments accounted for using the equity method		—	—	—		—	—	—
Other investments		928,734	928,734	928,734	bb	928,734	12,641	941,375
Property, plant and equipment		—	—	—		—	—	—
Intangibles		—	—	—		—	—	—
Deferred tax assets		131	131	131	cc	17,304	(17,173)	131
Other		—	—	—		—	—	—
<b>Total non-current assets</b>		<b>1,483,287</b>	<b>1,483,287</b>	<b>1,483,287</b>		<b>1,370,460</b>	<b>(4,532)</b>	<b>1,365,928</b>
<b>Total assets</b>		<b>1,588,875</b>	<b>1,588,875</b>	<b>1,588,875</b>		<b>1,499,093</b>	<b>(23,562)</b>	<b>1,475,531</b>
<b>LIABILITIES</b>								
Payables		13,324	13,324	13,324		12,394	—	12,394
Interest bearing liabilities		108,153	108,153	108,153		38,612	—	38,612
Current tax liabilities		1,274	1,274	1,274	dd	140,120	(24,140)	115,980
Provisions		—	—	—		—	—	—
<b>Total current liabilities</b>		<b>122,751</b>	<b>122,751</b>	<b>122,751</b>		<b>191,126</b>	<b>(24,140)</b>	<b>166,986</b>
Payables		—	—	—		—	—	—
Interest bearing liabilities		554,422	554,422	554,422		424,422	—	424,422
Deferred tax liabilities		—	—	—		—	—	—
Provisions		437	437	437		437	—	437
<b>Total non-current liabilities</b>		<b>554,859</b>	<b>554,859</b>	<b>554,859</b>		<b>424,859</b>	<b>—</b>	<b>424,859</b>
<b>Total liabilities</b>		<b>677,610</b>	<b>677,610</b>	<b>677,610</b>		<b>615,985</b>	<b>(24,140)</b>	<b>591,845</b>
<b>Net assets</b>		<b>911,265</b>	<b>911,265</b>	<b>911,265</b>		<b>883,108</b>	<b>578</b>	<b>883,686</b>

## 2. EXPLANATION OF TRANSITION TO A-IFRS CONTINUED

THOUSANDS OF DOLLARS	NOTE	PREVIOUS AGAAP	1 JANUARY 2004 EFFECT OF TRANSITION TO A-IFRS	A-IFRS	NOTE	PREVIOUS AGAAP	31 DECEMBER 2004 EFFECT OF TRANSITION TO A-IFRS	A-IFRS
<b>EQUITY</b>								
Issued capital		543,415		543,415		543,415		543,415
Treasury stock	ee	—	(1,073)	(1,073)	ee	—	(2,219)	(2,219)
Reserves	ff	—	2,468	2,468	ff	—	3,595	3,595
Retained earnings		367,850	(1,395)	366,455		339,693	(798)	338,895
Total parent entity interest		911,265		911,265		883,108	578	883,686
Minority interest		—		—		—		—
<b>Total equity</b>		<b>911,265</b>		<b>911,265</b>		<b>883,108</b>	<b>578</b>	<b>883,686</b>

### VI. RECONCILIATION OF NET PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY FOR 2004 (PARENT ENTITY)

THOUSANDS OF DOLLARS	NOTE	PREVIOUS AGAAP	31 DECEMBER 2004 EFFECT OF TRANSITION TO A-IFRS	A-IFRS
Gross sales revenue		—		—
Cost of goods sold (excluding product duties and taxes and inventory gains)		—		—
Inventory gains		—		—
Product duties and taxes		—		—
<b>Cost of goods sold – historical cost</b>		—		—
<b>Gross profit</b>		—		—
Other revenue		97,359		97,359
Refining and supply expenses		—		—
Marketing expenses		—		—
Other expenses	gg	(1,634)	(175)	(1,809)
Borrowing costs	hh	(44,370)	135	(44,235)
Share of net profit of entities accounted for using the equity method		—		—
<b>Profit before income tax expense</b>		<b>51,355</b>	<b>(40)</b>	<b>51,315</b>
Income tax expense	ii	(3,912)	637	(3,275)
<b>Net profit</b>		<b>47,443</b>	<b>597</b>	<b>48,040</b>
Net profit attributable to minority interest		—		—
<b>Net profit attributable to members of the parent entity</b>		<b>47,443</b>	<b>597</b>	<b>48,040</b>

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 2. EXPLANATION OF TRANSITION TO A-IFRS CONTINUED

### VII. NOTES TO ADJUSTMENTS PARENT ENTITY

#### aa. Current receivables

On adoption of A-IFRS, the balance sheet approach is used to calculate current tax liabilities, and deferred tax assets or deferred tax liabilities. This has resulted in a transfer from current tax liabilities, which are fully recorded in the parent entity, to deferred tax liabilities, which are recorded in various subsidiaries. The transfer was processed through current receivables:

Impact on current receivables as at 31 December 2004	(18,971,000)
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Additionally, current receivables are impacted by other minor adjustments.

#### bb. Other investments

Under A-IFRS, deferred tax balances are allocated via the group allocation method. Under previous AGAAP deferred tax balances were held by the parent entity:

The transitional adjustment which impacts the parent entity's deferred tax assets impacts upon other investments:

Impact on other investments as at 31 December 2004	12,641,000
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#### cc. Deferred tax assets

Under A-IFRS, deferred tax balances are allocated via the group allocation method. Under previous AGAAP deferred tax balances were held by the parent entity.

Impact on deferred tax assets as at 31 December 2004	(12,004,000)
--	--------------

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

Impact on deferred tax assets as at 31 December 2004	(5,169,000)
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#### dd. Current tax liabilities

On adoption of A-IFRS, the balance sheet approach is used to calculate current tax liabilities, and deferred tax assets or deferred tax liabilities. This has resulted in a transfer from current tax liabilities, which are fully recorded in the parent entity, to deferred tax liabilities, which are recorded in various subsidiaries:

Impact on current tax liabilities as at 31 December 2004	(18,971,000)
--	--------------

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

Impact on current tax liabilities as at 31 December 2004	(5,169,000)
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#### ee. Treasury stock

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

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

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

Impact on reserves as at 1 January 2004	2,468,000
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Impact on reserves as at 31 December 2004	3,595,000
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#### gg. Other expenses

Other expenses are impacted by adjustments 2(vii)(ee,ff).

#### hh. Borrowing costs

Borrowings costs is impacted by the above adjustments.

#### ii. Income tax expense

Income tax expense is impacted by adjustments 2(vii)(bb,cc).

### 3. OTHER REVENUE

THOUSANDS OF DOLLARS	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
Dividends received or due and receivable from controlled entities	—	—	39,500	39,626
Rental income	32,172	33,864	—	—
Royalties and franchise income	92,262	85,995	—	—
Net foreign exchange gains	—	15,356	—	—
Other income	70,007	40,880	—	—
	194,441	176,095	39,500	39,626

#### BORROWING INCOME

Controlled entities	—	—	53,352	57,688
Other corporations	2,382	556	65	45
Unwinding of discount on receivables	1,588	571	—	—
	3,970	1,127	53,417	57,733
	198,411	177,222	92,917	97,359

### 4. COSTS AND EXPENSES

#### BORROWING COSTS

Interest paid or due and payable to other corporations	40,041	43,889	39,959	44,235
Finance charges on capitalised leases	1,942	1,995	—	—
Unwinding of discounting on provisions	1,358	219	—	—
Unwinding of discounting on payables	(241)	163	—	—
Loss on fair value derivative	1,460	—	1,460	—
Less:				
Capitalised borrowing costs	(17,253)	(4,271)	—	—
Borrowing costs	27,307	41,995	41,419	44,235

#### DEPRECIATION AND AMORTISATION

Depreciation of:				
Buildings	8,208	7,587	—	—
Plant and equipment	108,971	103,854	—	—
	117,179	111,441	—	—
Amortisation of:				
Leasehold property	5,818	5,274	—	—
Leased plant and equipment	703	707	—	—
Intangibles	3,099	4,767	—	—
	9,620	10,748	—	—
Total depreciation and amortisation	126,799	122,189	—	—

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 4. COSTS AND EXPENSES CONTINUED

THOUSANDS OF DOLLARS	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
<b>SELECTED EXPENSES</b>				
Total personnel expenses	187,356	173,577	—	—
Impairment on goodwill	32	1,178	—	—
Provision for write-down in value of buildings and related plant and equipment to recoverable amount	2,500	7,267	—	—
Impairment in value of buildings and related plant and equipment to recoverable amount	—	4,938	—	—
Operating leases rental expense	79,485	78,135	—	—
Net foreign exchange losses	36,957	—	—	—
Finance lease contingent rentals	424	137	422	135
Bad and doubtful debts	(697)	(685)	—	—
Loss/(gain) on disposal of non-current assets	10,271	(12,284)	—	—

## 5. INDIVIDUALLY SIGNIFICANT ITEMS

### A. INDIVIDUALLY SIGNIFICANT ITEM IN 2005

Caltex elected to enter the tax consolidation regime from 1 July 2003. The financial impact of this was an increase to allowable depreciable deductions of \$378,410,000. This resulted in a reduction of \$113,523,000 in the deferred tax liability and a corresponding reduction in income tax expense in the year ended 31 December 2004.

Following the passing of Tax Law Amendment Bill (2004 Measures No. 6) by the Senate in early 2005, further allowable depreciable deductions of \$69,513,000 are available to Caltex. This resulted in a reduction of \$20,854,000 in the deferred tax liability and income tax expense for the year ended 31 December 2005.

### B. INDIVIDUALLY SIGNIFICANT ITEM IN 2004

Caltex chose to implement tax consolidation effective from 1 July 2003. Caltex Australia Limited, as the head entity in the tax consolidated group, has applied UIG 1052 Tax Consolidation Accounting.

Where assets have had their tax value reset under tax consolidation, the subsidiary related deferred tax balances recognised in the Caltex Australia Group have been determined based on the tax consolidated group carrying amount for the subsidiaries' assets less the reset tax bases. For other assets and liabilities, the subsidiary related deferred tax balances recognised in the Caltex Australia Group have been determined based on the previous timing differences at the level of the tax consolidated group. The Caltex Australia Group has reflected all adjustments in income tax expense as it has elected not to open past acquisition accounting. Future acquisition accounting will take deferred tax balances into account.

In the Caltex Australia Group, the effect of implementing tax consolidation and of applying UIG 1052 at 1 July 2003 was:

- an increase in deferred tax assets of \$113,523,000 from resetting the tax cost base of specific items of property, plant and equipment; and
- a corresponding decrease in income tax expense of \$113,523,000.

The effect represents the amount recorded in the year ended 31 December 2004.

## 6. INCOME TAX EXPENSE

THOUSANDS OF DOLLARS	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
<b>A. RECOGNISED IN THE INCOME STATEMENTS</b>				
<b>Current tax expense</b>				
Current year	246,358	212,212	1,940	3,275
Adjustments for prior years	(12,935)	(7,997)	—	—
	233,423	204,215	1,940	3,275
<b>Deferred tax expense</b>				
Origination and reversal of temporary differences	(40,342)	(127,879)	—	—
<b>Total income tax expense in the income statements</b>	<b>193,081</b>	<b>76,336</b>	<b>1,940</b>	<b>3,275</b>
<b>B. NUMERICAL RECONCILIATION BETWEEN INCOME TAX EXPENSE AND PROFIT BEFORE INCOME TAX EXPENSE</b>				
Profit before income tax expense	788,034	647,433	45,967	51,315
Income tax using the domestic corporate tax rate of 30% (2004: 30%)	236,410	194,230	13,790	15,395
Increase in income tax expense due to:				
Imputation gross-up on dividends received	855	689	—	—
Impairment of goodwill	—	479	—	—
Net capital gains tax	2,171	1,500	—	—
Other non-allowable items	—	4,285	—	—
Decrease in income tax expense due to:				
Share of net profit of associated entities	(1,380)	(991)	—	—
Research and development allowances	(375)	(38)	—	—
Depreciable repairs and maintenance	(2,008)	—	—	—
Origination of temporary differences	(7,680)	—	—	—
Dividends received from subsidiaries	—	—	(11,850)	(11,888)
Other non-allowable items	(1,006)	—	—	(232)
Franking credits on dividends received	(117)	(2,298)	—	—
Income tax expense on the profit before income tax expense before individually significant income tax items	226,870	197,856	1,940	3,275
Individually significant income tax items:				
Net deferred tax balances recognised upon implementation of tax consolidation	(20,854)	(113,523)	—	—
	206,016	84,333	1,940	3,275
Income tax over-provided in prior years	(12,935)	(7,997)	—	—
Income tax expense on profit before income tax expense	193,081	76,336	1,940	3,275
<b>C. DEFERRED TAX RECOGNISED DIRECTLY IN EQUITY</b>				
Related to actuarial gains	(2,765)	(5,016)	—	—
Related to financial instruments	(6)	—	—	—
	(2,771)	(5,016)	—	—

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 6. INCOME TAX EXPENSE CONTINUED

### D. RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable the following:

THOUSANDS OF DOLLARS	ASSETS		LIABILITIES		NET	
CONSOLIDATED	2005	2004	2005	2004	2005	2004
Receivables	1,668	2,388	—	—	1,668	2,388
Inventories	—	—	(914)	(1,442)	(914)	(1,442)
Property, plant and equipment	—	—	(77,390)	(101,095)	(77,390)	(101,095)
Payables	23,313	16,228	—	—	23,313	16,228
Interest bearing liabilities	2,876	2,637	—	—	2,876	2,637
Provisions	41,349	33,850	—	—	41,349	33,850
Other	—	—	(944)	(179)	(944)	(179)
<b>Net tax assets/(liabilities)</b>	<b>69,206</b>	<b>55,103</b>	<b>(79,248)</b>	<b>(102,716)</b>	<b>(10,042)</b>	<b>(47,613)</b>

	ASSETS		LIABILITIES		NET	
PARENT ENTITY	2005	2004	2005	2004	2005	2004
Provisions	131	131	—	—	131	131
<b>Net tax assets</b>	<b>131</b>	<b>131</b>	<b>—</b>	<b>—</b>	<b>131</b>	<b>131</b>

### E. UNRECOGNISED DEFERRED TAX ASSETS

The Group and parent entity do not have any unrecognised deferred tax assets.

### F. MOVEMENT IN TEMPORARY DIFFERENCES DURING THE YEAR

CONSOLIDATED	BALANCE AT 1 JAN 05	RECOGNISED IN INCOME	RECOGNISED IN EQUITY	BALANCE AT 31 DEC 05
Receivables	2,388	(720)	—	1,668
Inventories	(1,442)	528	—	(914)
Property, plant and equipment	(101,095)	23,705	—	(77,390)
Payables	16,228	7,085	—	23,313
Interest bearing liabilities	2,637	245	(6)	2,876
Provisions	33,850	10,264	(2,765)	41,349
Other	(179)	(765)	—	(944)
	<b>(47,613)</b>	<b>40,342</b>	<b>(2,771)</b>	<b>(10,042)</b>

CONSOLIDATED	BALANCE AT 1 JAN 04	RECOGNISED IN INCOME	RECOGNISED IN EQUITY	BALANCE AT 31 DEC 04
Receivables	4,008	(1,620)	—	2,388
Inventories	(1,262)	(180)	—	(1,442)
Property, plant and equipment	(222,545)	121,450	—	(101,095)
Payables	11,220	5,008	—	16,228
Interest bearing liabilities	2,902	(265)	—	2,637
Provisions	36,663	2,203	(5,016)	33,850
Other	(1,462)	1,283	—	(179)
	<b>(170,476)</b>	<b>127,879</b>	<b>(5,016)</b>	<b>(47,613)</b>

## 7. DIVIDENDS

### A. DIVIDENDS DECLARED OR PAID

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

	DATE OF PAYMENT	FRANKED/ UNFRANKED	CENTS PER SHARE	TOTAL AMOUNT \$'000
<b>2005</b>				
Interim 2005	30 September 2005	Franked	15	40,500
Final 2004	1 April 2005	Franked	25	67,500
Total amount				108,000
<b>2004</b>				
Interim 2004	1 October 2004	Franked	14	37,800
Final 2003	1 April 2004	Franked	14	37,800
Total amount				75,600

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

All dividends have been paid out of previous AGAAP profits.

#### Subsequent events

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

Final 2005	31 March 2006	Franked	31	83,700
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The financial effect of this final dividend has not been reflected in the financial statements for the year ended 31 December 2005 and will be recognised in subsequent financial reports.

	PARENT ENTITY	
THOUSANDS OF DOLLARS	2005	2004

### B. DIVIDEND FRANKING ACCOUNT

30% franking credits available to shareholders of Caltex Australia Limited for subsequent financial years

**441,445**      237,668

- 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.

The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by \$35,871,000 (2004: \$28,929,000).

In accordance with the tax consolidation legislation, the Company as the head entity in the tax consolidated group has also assumed the benefit of \$441,445,000 (2004: \$237,668,000) franking credits.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 8. BASIC AND DILUTED EARNINGS PER SHARE

	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
Historical cost including significant items – cents per share	220.2	211.1	–	–
Replacement cost excluding significant items – cents per share	153.4	129.7	–	–

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

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

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

## 9. RECEIVABLES

THOUSANDS OF DOLLARS

### CURRENT

Trade debtors	697,599	565,816	–	–
Allowance for impairment	(1,994)	(1,955)	–	–
	695,605	563,861	–	–
Associated entities	36,338	33,327	–	–
Controlled entities	–	–	56,286	108,159
Other related entities	47,657	–	–	–
Other debtors	46,475	38,094	–	–
	826,075	635,282	56,286	108,159

### NON-CURRENT

Loans to associated entities	956	3,206	–	–
Allowance for impairment	(956)	(3,206)	–	–
	–	–	–	–
Loans to controlled entities	–	–	380,882	424,422
Other loans	5,134	5,894	–	–
	5,134	5,894	380,882	424,422

## 10. INVENTORIES

Crude oil and raw materials, at cost	425,438	323,847	–	–
Inventory in process, at cost	111,332	100,995	–	–
Finished goods, at cost	477,790	368,302	–	–
Materials and supplies, at cost	30,245	28,939	–	–
	1,044,805	822,083	–	–

## 11. OTHER ASSETS

THOUSANDS OF DOLLARS	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
<b>CURRENT</b>				
Prepayments	25,451	17,765	720	1,444
<b>NON-CURRENT</b>				
Other	4,627	6,015	—	—
	4,627	6,015	—	—

## 12. OTHER INVESTMENTS

Investment in other entities	21	16	—	—
Investment in controlled entities	—	—	941,375	941,375
	21	16	941,375	941,375

## 13. INTANGIBLES

CONSOLIDATED	GOODWILL	RIGHTS	SOFTWARE	TOTAL
<b>COST</b>				
Balance at 1 January 2004	16,362	958	31,187	48,507
Acquisitions through business combinations	4,216	—	—	4,216
Additions	—	367	5,950	6,317
Balance at 31 December 2004	20,578	1,325	37,137	59,040
<b>COST</b>				
Balance at 1 January 2005	20,578	1,325	37,137	59,040
Acquisitions through business combinations	12,552	3,452	—	16,004
Additions	—	1	7,118	7,119
Balance at 31 December 2005	33,130	4,778	44,255	82,163
<b>AMORTISATION AND IMPAIRMENT LOSSES</b>				
Balance at 1 January 2004	(8,636)	—	(21,475)	(30,111)
Amortisation for the year	—	—	(4,767)	(4,767)
Acquisitions through business combinations	(1,320)	—	—	(1,320)
Impairment losses for the year	(1,178)	—	—	(1,178)
Balance at 31 December 2004	(11,134)	—	(26,242)	(37,376)
<b>AMORTISATION AND IMPAIRMENT LOSSES</b>				
Balance at 1 January 2005	(11,134)	—	(26,242)	(37,376)
Amortisation for the year	—	—	(3,099)	(3,099)
Impairment losses for the year	(32)	—	—	(32)
Balance at 31 December 2005	(11,166)	—	(29,341)	(40,507)
<b>CARRYING AMOUNT</b>				
At 1 January 2004	7,726	958	9,712	18,396
At 31 December 2004	9,444	1,325	10,895	21,664
At 1 January 2005	9,444	1,325	10,895	21,664
At 31 December 2005	21,964	4,778	14,914	41,656

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 13. INTANGIBLES CONTINUED

### AMORTISATION AND IMPAIRMENT LOSSES

The amortisation and impairment charge of \$3,131,000 (2004: \$5,945,000) is recognised in refining and supply expenses, marketing expenses, and other expenses on the income statement.

### IMPAIRMENT TESTS FOR CASH-GENERATING UNITS CONTAINING GOODWILL

Goodwill acquired through business combinations has been allocated to the cash-generating units, for impairment testing as follows.

THOUSANDS OF DOLLARS	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
Barry Petroleum	1,660	1,659	—	—
Access Fuels & Lubricants	824	—	—	—
Cooper & Dysart	1,646	1,678	—	—
Auer Petroleum	1,000	—	—	—
Petro Fuels and Lubricants	10,727	—	—	—
Access Energy	1,218	1,218	—	—
Bowen Petroleum	4,889	4,889	—	—
	21,964	9,444	—	—

### BARRY PETROLEUM

The recoverable amount of Barry Petroleum has been determined based on a "value in use" calculation. That calculation uses cash flow projections based on an extrapolation of the year end cash flows over 10 years. The cash flows have been discounted using the pre-tax discount rate of 14.6% p.a. No growth rate has been factored in. Goodwill is not impaired at reporting date. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause Barry Petroleum's carrying amount to exceed its recoverable amount.

### ACCESS FUELS & LUBRICANTS

Access Fuels & Lubricants comprises the business of Dunning Petroleum, a distributor of fuel products. Goodwill was acquired in relation to the Dunning Petroleum business. The recoverable amount has been determined based on a "value in use" calculation. That calculation uses cash flow projections based on an extrapolation of the year end cash flows over 10 years. The cash flows have been discounted using the pre-tax discount rate of 14.6% p.a. No growth rate has been factored in. Goodwill is not impaired at reporting date. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause Dunning Petroleum's carrying amount to exceed its recoverable amount.

Access Fuels & Lubricants also comprises the Tonkin business, which contributes approximately 15% to profit before income tax expense. The recoverable amount has been determined based on a "value in use" calculation. That calculation uses cash flow projections based on an extrapolation of the year end cash flows over 10 years. The cash flows have been discounted using the pre-tax discount rate of 14.6% p.a. No growth rate has been factored in. Goodwill relating to the Tonkin business was impaired at transition to A-IFRS as a result of the rationalisation of the industry due to market factors, such as the supermarket redemption discount. The full amount of goodwill of \$2 million was written off to opening retained earnings as at 1 January 2004.

### COOPER & DYSART

The recoverable amount of Cooper & Dysart has been determined based on a "value in use" calculation. That calculation uses cash flow projections based on an extrapolation of the year end cash flows over 10 years. The cash flows have been discounted using the pre-tax discount rate of 14.6% p.a. No growth rate has been factored in. Goodwill relating to Cooper and Dysart was impaired at transition to A-IFRS as a result of the rationalisation of the industry due to market factors, such as the supermarket redemption discount. As at 31 December 2004, a \$1.2 million impairment loss has been recognised in the income statement.

### AUER PETROLEUM

The recoverable amount of Auer Petroleum has been determined based on a "value in use" calculation. That calculation uses cash flow projections based on an extrapolation of the year end cash flows over 10 years. The cash flows have been discounted using the pre-tax discount rate of 14.6% p.a. No growth rate has been factored in. Goodwill is not impaired at reporting date. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause Auer Petroleum's carrying amount to exceed its recoverable amount.

## 13. INTANGIBLES CONTINUED

### PETRO FUELS AND LUBRICANTS

The recoverable amount of Petro Fuels and Lubricants has been determined based on a "value in use" calculation. That calculation uses cash flow projections based on an extrapolation of the year end cash flows over 10 years. The cash flows have been discounted using the pre-tax discount rate of 14.6% p.a. No growth rate has been factored in. Goodwill is not impaired at reporting date. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause Petro Fuels and Lubricants' carrying amount to exceed its recoverable amount.

### ACCESS ENERGY

The recoverable amount of Access Energy has been determined based on a "value in use" calculation. That calculation uses cash flow projections based on an extrapolation of the year end cash flows over 10 years. The cash flows have been discounted using the pre-tax discount rate of 14.6% p.a. No growth rate has been factored in. Goodwill is not impaired at reporting date. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause Access Energy's carrying amount to exceed its recoverable amount.

### BOWEN PETROLEUM

The recoverable amount of Bowen Petroleum has been determined based on a "value in use" calculation. That calculation uses cash flow projections based on an extrapolation of the year end cash flows over 10 years. The cash flows have been discounted using the pre-tax discount rate of 14.6% p.a. No growth rate has been factored in. Goodwill is not impaired at reporting date. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause Bowen Petroleum's carrying amount to exceed its recoverable amount.

### KEY ASSUMPTIONS USED IN "VALUE IN USE" CALCULATIONS

Key assumption	Basis for determining value in use assigned to key assumption
Gross profit	Earnings before interest, tax, depreciation and amortisation (EBITDA)
Estimated long-term average growth rate	No forecasted growth
Discount period	Represents expected payback period of acquisitions
Discount rate	The risk specific to the asset.

### GOODWILL

#### Business combinations prior to 1 January 2004

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

#### Business combinations since 1 January 2004

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

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised, but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

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

### RIGHTS

Rights include licences capitalised at cost that relate to purchases of engineering process licences for the Clean Fuels Project. These assets were capitalised to capital projects in progress under previous AGAAP. These intangibles have a finite life of between 10 and 15 years. Amortisation of the licences has not started because the Clean Fuels Project is not complete.

Rights also include contracts acquired as part of business combinations, such as trade restrictions and customer supply contracts. These intangible assets have a finite life of between two and seven years.

This asset is tested for impairment annually, and when an indicator of impairment arises.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 13. INTANGIBLES CONTINUED

### SOFTWARE

Software capitalised as an intangible includes internally generated software development and purchased software not integrated with hardware. These intangibles were capitalised at cost to the fixed asset category, plant and equipment, under previous AGAAP. These intangibles have a finite life of between five and 20 years and are amortised on a straight-line basis. The amortisation method is reviewed at each balance sheet date. This asset is tested for impairment when an indicator of impairment arises.

## 14. PROPERTY, PLANT AND EQUIPMENT

THOUSANDS OF DOLLARS	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
<b>FREEHOLD LAND</b>				
At cost	395,997	406,114	—	—
<b>Net carrying amount</b>	<b>395,997</b>	<b>406,114</b>	<b>—</b>	<b>—</b>
<b>BUILDINGS</b>				
At cost	282,085	282,399	—	—
Accumulated depreciation	(116,213)	(114,618)	—	—
<b>Net carrying amount</b>	<b>165,872</b>	<b>167,781</b>	<b>—</b>	<b>—</b>
<b>LEASEHOLD PROPERTY</b>				
At cost	83,177	84,695	—	—
Accumulated amortisation	(52,751)	(52,478)	—	—
<b>Net carrying amount</b>	<b>30,426</b>	<b>32,217</b>	<b>—</b>	<b>—</b>
<b>PLANT AND EQUIPMENT</b>				
At cost	2,139,919	2,098,047	—	—
Accumulated depreciation	(1,262,749)	(1,231,622)	—	—
<b>Net carrying amount</b>	<b>877,170</b>	<b>866,425</b>	<b>—</b>	<b>—</b>
<b>LEASED PLANT AND EQUIPMENT</b>				
At capitalised cost	14,170	14,200	—	—
Accumulated amortisation	(9,200)	(8,522)	—	—
<b>Net carrying amount</b>	<b>4,970</b>	<b>5,678</b>	<b>—</b>	<b>—</b>
<b>CAPITAL PROJECTS IN PROGRESS</b>				
At cost	601,844	219,292	—	—
<b>Total net carrying amount</b>	<b>2,076,279</b>	<b>1,697,507</b>	<b>—</b>	<b>—</b>

### SECURITY

As at 31 December 2005, none of the property, plant and equipment was pledged for security.

## 14. PROPERTY, PLANT AND EQUIPMENT CONTINUED

THOUSANDS OF DOLLARS	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
<b>RECONCILIATIONS</b>				
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:				
<b>FREEHOLD LAND</b>				
Carrying amount at the beginning of the year	406,114	401,352	—	—
Acquisition through entity acquired	—	282	—	—
Disposals	(10,117)	(9,893)	—	—
Transfer from buildings	—	14,373	—	—
Carrying amount at the end of the year	395,997	406,114	—	—
<b>BUILDINGS</b>				
Carrying amount at the beginning of the year	167,781	183,595	—	—
Additions	53	—	—	—
Impairment loss	—	(1,259)	—	—
Disposals	(5,492)	(3,856)	—	—
Transfer to freehold land	—	(14,373)	—	—
Transfers from capital projects in progress	11,738	11,261	—	—
Depreciation	(8,208)	(7,587)	—	—
Carrying amount at the end of the year	165,872	167,781	—	—
<b>LEASEHOLD PROPERTY</b>				
Carrying amount at the beginning of the year	32,217	31,793	—	—
Additions	109	106	—	—
Disposals	(411)	(697)	—	—
Transfers from capital projects in progress	4,329	6,289	—	—
Amortisation	(5,818)	(5,274)	—	—
Carrying amount at the end of the year	30,426	32,217	—	—
<b>PLANT AND EQUIPMENT</b>				
Carrying amount at the beginning of the year	866,425	888,613	—	—
Additions	58,643	30,130	—	—
Acquisition through entity acquired	—	2,668	—	—
Write-offs	(4,327)	(3,607)	—	—
Disposals	(6,583)	(7,247)	—	—
Transfers from capital projects in progress	71,983	59,722	—	—
Depreciation	(108,971)	(103,854)	—	—
Carrying amount at the end of the year	877,170	866,425	—	—

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 14. PROPERTY, PLANT AND EQUIPMENT CONTINUED

THOUSANDS OF DOLLARS	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
<b>LEASED PLANT AND EQUIPMENT</b>				
Carrying amount at the beginning of the year	5,678	6,387	—	—
Disposals	(5)	(2)	—	—
Amortisation	(703)	(707)	—	—
Carrying amount at the end of the year	4,970	5,678	—	—
<b>CAPITAL PROJECTS IN PROGRESS</b>				
Carrying amount at the beginning of the year	219,292	92,911	—	—
Additions	453,349	199,382	—	—
Borrowing costs capitalised	17,253	4,271	—	—
Transfers to property, plant and equipment	(88,050)	(77,272)	—	—
Carrying amount at the end of the year	601,844	219,292	—	—

## 15. PAYABLES

### CURRENT

Trade creditors – unsecured <sup>(a)</sup>				
Related entities	466,862	23,882	—	—
Other corporations and persons	282,145	452,347	—	—
Other creditors and accrued expenses	481,888	380,703	12,514	12,394
	1,230,895	856,932	12,514	12,394

### NON-CURRENT

Other creditors and accrued expenses	5,509	3,493	—	—
--------------------------------------	-------	-------	---	---

(a) Trade creditors are non-interest bearing and are normally settled on 30 day terms.  
Other payables are non-interest bearing and have an average term of three months.

## 16. INTEREST BEARING LIABILITIES

### CURRENT – UNSECURED

Bank overdrafts <sup>(i)</sup>	—	—	—	11,612
Bank loans <sup>(ii)</sup>	68,000	27,000	68,000	27,000
Lease liabilities <sup>(iv)</sup>	829	761	—	—
	68,829	27,761	68,000	38,612

### NON-CURRENT – UNSECURED

US notes <sup>(ii)</sup>	296,360	288,132	296,360	288,133
Bank loans <sup>(ii)</sup>	25,000	70,000	25,000	70,000
Hedge payable <sup>(iii)</sup>	59,522	66,289	59,522	66,289
Lease liabilities <sup>(iv)</sup>	8,248	9,260	—	—
	389,130	433,681	380,882	424,422

This note provides information about the contractual terms of Caltex's interest bearing loans and other liabilities. For more information about Caltex's exposure to interest rate and foreign currency risk, see note 20.

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

## 16. INTEREST BEARING LIABILITIES CONTINUED

- (ii) The bank loans and the US notes are provided by a number of banks and the capital markets. The majority of interest rates on these loans and notes are on a floating rate basis. Maturity dates of the loans and notes vary from July 2007 to July 2012. Under the loan and note agreements, the Caltex Australia Group is required to comply with certain financial covenants. There is no security or demand placed on the bank loans and the US notes. The bank loans are denominated in Australian dollars, and the US notes are denominated in Australian and US dollars.
- (iii) The hedge payable is disclosed within interest bearing liabilities as the hedge was entered into solely as a result of the US dollar borrowings and is inextricably linked to the debt. The amount mainly represents the impact of the movement in the exchange rate from the date of inception (30 July 2002, USD exchange rate 0.5643) to 31 December 2005 (USD exchange rate 0.7325), on the amount hedged (USD 136 million).
- (iv) The implicit rate of interest on finance leases is 14.0% p.a. (2004: 14.0% p.a.). Refer to note 22 for details on the timing and amount of future lease payments.

## 17. PROVISIONS

THOUSANDS OF DOLLARS

CONSOLIDATED	EMPLOYEE AND DIRECTOR BENEFITS	SITE REMEDICATION	OIL INSURANCE	OTHER	TOTAL
Balance at 1 January 2005	87,899	7,380	8,383	9,672	113,334
Provisions made during the year	32,810	22,188	9,760	19,904	84,662
Provisions used during the year	(36,307)	(1,927)	(2,563)	(20,757)	(61,554)
Unwind of discount	—	1,358	—	—	1,358
Balance at 31 December 2005	<b>84,402</b>	<b>28,999</b>	<b>15,580</b>	<b>8,819</b>	<b>137,800</b>
Current	38,910	17,563	15,580	8,374	80,427
Non-current	45,492	11,436	—	445	57,373
	<b>84,402</b>	<b>28,999</b>	<b>15,580</b>	<b>8,819</b>	<b>137,800</b>

PARENT ENTITY	EMPLOYEE AND DIRECTOR BENEFITS	SITE REMEDICATION	OIL INSURANCE	OTHER	TOTAL
Balance at 1 January 2005	437	—	—	—	437
Balance at 31 December 2005	<b>437</b>	—	—	—	<b>437</b>
Non-current	437	—	—	—	437
	<b>437</b>	—	—	—	<b>437</b>

### EMPLOYEE AND DIRECTOR BENEFITS

The current provisions for employee and director benefits, which includes annual leave, long service leave, employee bonus and retirement benefits, represents the present value of the estimated future cash outflows to be made by Caltex Australia resulting from employees' services provided up to the balance date.

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

### SITE REMEDIATION

Provision is made for the remediation of oil refining, distribution and marketing activities. The estimation of the cost of future remediation activities is subject to potentially significant uncertainties. These uncertainties include the legal and regulatory framework, the magnitude of possible contamination, and the timing and extent of remediation activities required.

### OIL INSURANCE

Caltex is a shareholder of OIL Insurance Limited (OIL). OIL is a Bermuda company that was formed to insure catastrophic risk such as oil and gas fires and pollution control. Contributing members of OIL include large companies such as Chevron, Shell, EOM, and BHP. The premium charged utilises loss information from the entire shareholder base as the pricing mechanism to determine a rate per US\$1,000 of insured assets.

If the shareholder was to leave OIL, they would be required to pay for their unpaid portion of their allocated five year incurred loss. This amount is advised annually by OIL.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 17. PROVISIONS CONTINUED

### OTHER

Other includes the legal provision and other provisions.

## 18. ISSUED CAPITAL

THOUSANDS OF DOLLARS	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
<b>ORDINARY SHARES</b>				
Issued capital 270 million (2004: 270 million) ordinary shares, fully paid	<b>543,415</b>	543,415	<b>543,415</b>	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.

Ordinary shares are issued at par value.

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.

## 19. RECONCILIATION OF EQUITY

THOUSANDS OF DOLLARS

CONSOLIDATED	ISSUED CAPITAL	TREASURY STOCK	HEDGING RESERVE	EQUITY COMPENSATION RESERVE	RETAINED EARNINGS	TOTAL	MINORITY INTEREST	TOTAL EQUITY
Balance at 1 January 2004	543,415	(1,073)	—	2,468	584,105	1,128,915	11,340	1,140,255
Total recognised income for the year	—	—	—	—	581,740	581,740	1,061	582,801
Own shares acquired	—	(2,562)	—	—	—	(2,562)	—	(2,562)
Shares vested to employees	—	1,416	—	(1,416)	—	—	—	—
Expense on equity-settled transactions	—	—	—	2,543	—	2,543	—	2,543
Dividends to shareholders	—	—	—	—	(75,600)	(75,600)	(2,118)	(77,718)
Balance at 31 December 2004	543,415	(2,219)	—	3,595	1,090,245	1,635,036	10,283	1,645,319
Balance at 1 January 2005	<b>543,415</b>	<b>(2,219)</b>	—	<b>3,595</b>	<b>1,090,245</b>	<b>1,635,036</b>	<b>10,283</b>	<b>1,645,319</b>
Total recognised income for the year	—	—	16	—	601,590	601,606	381	601,987
Adjustment on change of accounting policy	—	—	(100)	—	—	(100)	—	(100)
Own shares acquired	—	(2,716)	—	—	—	(2,716)	—	(2,716)
Shares vested to employees	—	2,271	—	(2,271)	—	—	—	—
Expense on equity-settled transactions	—	—	—	2,965	—	2,965	—	2,965
Dividends to shareholders	—	—	—	—	(108,000)	(108,000)	(1,000)	(109,000)
Balance at 31 December 2005	<b>543,415</b>	<b>(2,664)</b>	<b>(84)</b>	<b>4,289</b>	<b>1,583,835</b>	<b>2,128,791</b>	<b>9,664</b>	<b>2,138,455</b>

## 19. RECONCILIATION OF EQUITY CONTINUED

THOUSANDS OF DOLLARS

PARENT ENTITY	ISSUED CAPITAL	TREASURY STOCK	HEDGING RESERVE	EQUITY COMPENSATION RESERVE	RETAINED EARNINGS	TOTAL	MINORITY INTEREST	TOTAL EQUITY
Balance at 1 January 2004	543,415	(1,073)	—	2,468	366,455	911,265	—	911,265
Total recognised income for the year	—	—	—	—	48,040	48,040	—	48,040
Own shares acquired	—	(2,562)	—	—	—	(2,562)	—	(2,562)
Shares vested to employees	—	1,416	—	(1,416)	—	—	—	—
Expense on equity- settled transactions	—	—	—	2,543	—	2,543	—	2,543
Dividends to shareholders	—	—	—	—	(75,600)	(75,600)	—	(75,600)
<b>Balance at 31 December 2004</b>	<b>543,415</b>	<b>(2,219)</b>	<b>—</b>	<b>3,595</b>	<b>338,895</b>	<b>883,686</b>	<b>—</b>	<b>883,686</b>
Balance at 1 January 2005	<b>543,415</b>	<b>(2,219)</b>	—	<b>3,595</b>	<b>338,895</b>	<b>883,686</b>	—	<b>883,686</b>
Total recognised income for the year	—	—	—	—	44,027	44,027	—	44,027
Own shares acquired	—	(2,716)	—	—	—	(2,716)	—	(2,716)
Shares vested to employees	—	2,271	—	(2,271)	—	—	—	—
Expense on equity- settled transactions	—	—	—	2,965	—	2,965	—	2,965
Dividends to shareholders	—	—	—	—	(108,000)	(108,000)	—	(108,000)
<b>Balance at 31 December 2005</b>	<b>543,415</b>	<b>(2,664)</b>	<b>—</b>	<b>4,289</b>	<b>274,922</b>	<b>819,962</b>	<b>—</b>	<b>819,962</b>

### RESERVES

#### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

#### Equity compensation reserve

The equity compensation reserve represents the value of shares held by an equity compensation plan that the group is required to include in the consolidated financial statements. Such accounts will reverse when the underlying shares vest in the employee.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 20. FINANCIAL INSTRUMENTS

The Caltex Australia Group's principal financial instruments, other than derivatives, comprise bank loans, US notes, finance leases, cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The Group also enters into derivative transactions, principally interest rate swaps, forward currency contracts, refiner margin swaps and commodity pricing swaps. The purpose is to manage the interest rate, currency risks, refiner margin risks and commodity pricing risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

The Group also monitors the market price risk arising from all financial instruments. The magnitude of this risk that has arisen over the year is discussed below.

The Group's accounting policies in relation to derivatives are set out in note 1.

### 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 one and two years.

Each contract involves periodic payment or receipt of the net amount of interest. At 31 December 2005, the fixed rates varied from 4.5% p.a. to 4.9% p.a. (2004: 4.5% p.a. to 5.9% p.a.), with a weighted average rate of 4.7% p.a. (2004: 5.1% p.a.). The floating rates were at bank bill rates. The Group classifies interest rate swap contracts as cash flow hedges and states them at fair value.

The Caltex Australia Group has entered into cross currency swap contracts maturing in two and four years to manage interest rate and currency risks on the US dollar denominated borrowings.

The net fair value of cross currency swap contracts at 31 December 2005 was \$59,522,000 (2004: \$70,266,000). The Group classifies cross currency swap contracts as fair value hedges.

The net fair value of interest rate swap contracts at 31 December 2005 was \$630,000. The Group classifies qualifying interest rate swap contracts as cash flow hedges.

#### 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:

## 20. FINANCIAL INSTRUMENTS CONTINUED

THOUSANDS OF DOLLARS

31 DECEMBER 2005	NOTE	FLOATING INTEREST RATE	LESS THAN ONE YEAR	FIXED INTEREST MATURING IN: BETWEEN ONE TO FIVE YEARS	GREATER THAN FIVE YEARS	NON- INTEREST BEARING	TOTAL	EFFECTIVE INTEREST RATE PA.
<b>CONSOLIDATED</b>								
<b>Financial assets</b>								
Cash at bank and on hand		—	—	—	—	28,484	28,484	—
Receivables	9	—	—	—	—	831,209	831,209	—
Other investments	12	—	—	—	—	21	21	—
		—	—	—	—	859,714	859,714	
<b>Financial liabilities</b>								
Payables	15	—	—	—	—	1,236,404	1,236,404	—
Bank loans	16	93,000	—	—	—	—	93,000	5.7%
US notes	16	—	—	182,945	113,415	—	296,360	7.1%
Hedge payable	16	—	—	59,522	—	—	59,522	7.1%
Lease liabilities	16	—	829	4,495	3,753	—	9,077	14.0%
Employee and director benefits provisions	21	—	38,910	13,990	31,502	—	84,402	5.2%
		93,000	39,739	260,952	148,670	1,236,404	1,778,765	

THOUSANDS OF DOLLARS

31 DECEMBER 2004	NOTE	FLOATING INTEREST RATE	LESS THAN ONE YEAR	FIXED INTEREST MATURING IN: BETWEEN ONE TO FIVE YEARS	GREATER THAN FIVE YEARS	NON- INTEREST BEARING	TOTAL	EFFECTIVE INTEREST RATE PA.
<b>CONSOLIDATED</b>								
<b>Financial assets</b>								
Cash at bank and on hand		(1,670)	—	—	—	15,866	14,196	8.5%
Receivables	9	—	—	—	—	641,176	641,176	—
Other investments	12	—	—	—	—	16	16	—
		(1,670)	—	—	—	657,058	655,388	
<b>Financial liabilities</b>								
Payables	15	—	—	—	—	860,425	860,425	—
Bank and other loans	16	97,000	—	—	—	—	97,000	5.7%
US notes	16	—	—	174,717	113,415	—	288,132	7.1%
Hedge payable	16	—	—	66,289	—	—	66,289	7.1%
Lease liabilities	16	—	761	4,333	4,927	—	10,021	14.0%
Employee and director benefits provisions	21	—	35,204	13,280	39,415	—	87,899	5.3%
		97,000	35,965	258,619	157,757	860,425	1,409,766	

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 20. FINANCIAL INSTRUMENTS CONTINUED

THOUSANDS OF DOLLARS

31 DECEMBER 2005	NOTE	FLOATING INTEREST RATE	FIXED INTEREST MATURING IN: LESS THAN ONE YEAR	BETWEEN ONE TO FIVE YEARS	GREATER THAN FIVE YEARS	NON- INTEREST BEARING	TOTAL	EFFECTIVE INTEREST RATE PA.
<b>PARENT ENTITY</b>								
<b>Financial assets</b>								
Cash at bank and on hand		—	—	—	—	437	437	—
Receivables	9	—	—	—	—	437,168	437,168	—
Other investments	12	—	—	—	—	941,375	941,375	—
		—	—	—	—	1,378,980	1,378,980	
<b>Financial liabilities</b>								
Payables	15	—	—	—	—	12,514	12,514	—
Bank and other loans	16	93,000	—	—	—	—	93,000	5.7%
US notes	16	—	—	182,945	113,415	—	296,360	7.1%
Hedge payable	16	—	—	59,522	—	—	59,522	7.1%
Employee and director benefits provisions	21	—	—	—	—	437	437	—
		93,000	—	242,467	113,415	12,951	461,833	

THOUSANDS OF DOLLARS

31 DECEMBER 2004	NOTE	FLOATING INTEREST RATE	FIXED INTEREST MATURING IN: LESS THAN ONE YEAR	BETWEEN ONE TO FIVE YEARS	GREATER THAN FIVE YEARS	NON- INTEREST BEARING	TOTAL	EFFECTIVE INTEREST RATE PA.
<b>PARENT ENTITY</b>								
<b>Financial assets</b>								
Cash at bank and on hand		(11,612)	—	—	—	—	(11,612)	8.5%
Receivables	9	—	—	—	—	532,581	532,581	—
Other investments	12	—	—	—	—	941,375	941,375	—
		(11,612)	—	—	—	1,473,956	1,462,344	
<b>Financial liabilities</b>								
Payables	15	—	—	—	—	12,394	12,394	—
Bank and other loans	16	97,000	—	—	—	—	97,000	5.7%
US notes	16	—	—	174,718	113,415	—	288,133	7.1%
Hedge payable	16	—	—	66,289	—	—	66,289	7.1%
Employee and director benefits provisions	21	—	—	—	—	437	437	—
		97,000	—	241,007	113,415	12,831	464,253	

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year.

Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument.

## 20. FINANCIAL INSTRUMENTS CONTINUED

### B. FOREIGN EXCHANGE RISK

The Caltex Australia Group is exposed to the effect of changes in exchange rates on the operations of 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 use financial instruments to hedge the foreign exchange exposure, except for forward foreign exchange contracts to cover major capital expenditure. The hedges mature in one to three months.

All trade transactions which require the sale or purchase of foreign currencies are covered on a spot basis. As at 31 December 2005, the total fair value of all outstanding forward contracts amounted to \$323,000.

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.

### 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 the year, the Group did not hedge any of its finished product using refiner margin hedges (2004: 0.8%). There were no cargo hedges covering the basis risk (2004: 0.6%).

### D. CREDIT RISK

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

The credit risk on financial assets of the Caltex Australia Group which have been recognised on the balance sheet, 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.

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

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 2005, there is no expected credit risk on any financial instruments (2004: Nil).

### E. NET FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Net fair values of recognised financial assets and liabilities with their carrying amounts shown in the balance sheet are as follows:

	ASSET/(LIABILITY)		ASSET/(LIABILITY)	
	CARRYING AMOUNT 2005	FAIR VALUE 2005	CARRYING AMOUNT 2004	FAIR VALUE 2004
THOUSANDS OF DOLLARS				
<b>Consolidated</b>				
Receivables	831,209	831,209	641,176	641,176
Cash and cash equivalents	28,484	28,484	14,196	14,196
Other investments	21	21	16	16
Interest bearing liabilities				
Bank loans	(93,000)	(93,000)	(97,000)	(97,000)
US notes	(296,360)	(300,375)	(288,132)	(288,132)
Cross currency swaps	(59,522)	(59,522)	(66,289)	(70,266)
Lease liabilities	(9,077)	(9,920)	(10,021)	(10,021)

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 20. FINANCIAL INSTRUMENTS CONTINUED

THOUSANDS OF DOLLARS	ASSET/(LIABILITY)		ASSET/(LIABILITY)	
	CARRYING AMOUNT 2005	FAIR VALUE 2005	CARRYING AMOUNT 2004	FAIR VALUE 2004
Payables				
Interest rate swaps	630	630	—	—
Forward foreign exchange contracts	(323)	(323)	—	—
Payables	(1,236,711)	(1,236,711)	(860,425)	(860,425)
	(834,649)	(839,507)	(666,479)	(670,456)
Unrecognised loss		(4,858)		(3,977)
<b>Parent entity</b>				
Receivables	437,168	437,168	532,581	532,581
Cash and cash equivalents	437	437	(11,612)	(11,612)
Other investments	941,375	941,375	941,375	941,375
Interest bearing liabilities				
Bank loans	(93,000)	(93,000)	(97,000)	(97,000)
US notes	(296,360)	(300,375)	(288,133)	(288,133)
Cross currency swaps	(59,522)	(59,522)	(66,289)	(66,289)
Payables	(12,514)	(12,514)	(12,394)	(12,394)
	917,584	913,569	998,528	998,528
Unrecognised loss		(4,015)		—

### Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

#### Derivatives

Forward exchange contracts are marked to market using listed market prices.

Interest rate swaps use the discounted cash flow technique.

Estimated future cash flows used in the discounted cash flow technique are based on management's best estimates, and the discount rate is a market related rate for a similar instrument at the balance sheet date.

#### Interest bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

#### Lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at the rate implicit in the lease agreement.

#### Receivables/payables

For receivables/payables with a remaining life of less than six months, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value, if the effect of discounting is material.

#### Interest rates used for determining fair value

Caltex used the government bond rate as of 31 December 2005 plus an adequate constant credit spread to discount financial instruments. The annual interest rates used are as follows:

	2005
Bank loans	8%
Lease liabilities	8%
Receivables	6%
Payables	3 – 6%

## 21. EMPLOYEE AND DIRECTOR BENEFITS

### A. PROVISION FOR EMPLOYEE AND DIRECTOR BENEFITS

THOUSANDS OF DOLLARS	NOTE	CONSOLIDATED		PARENT ENTITY	
		2005	2004	2005	2004
<b>Current</b>					
Liability for annual leave		17,465	15,788	—	—
Liability for long service leave		1,150	1,150	—	—
Bonus accrued		18,755	17,092	—	—
Other		1,540	1,174	—	—
		<b>38,910</b>	<b>35,204</b>	<b>—</b>	<b>—</b>
<b>Non-current</b>					
Liability for long service leave		44,135	41,063	—	—
Liability for deficit in defined benefit plan		920	11,195	—	—
Other		437	437	437	437
		<b>45,492</b>	<b>52,695</b>	<b>437</b>	<b>437</b>
Total provision for employee and director benefits	17	<b>84,402</b>	<b>87,899</b>	<b>437</b>	<b>437</b>

### B. NUMBER OF EMPLOYEES

Number of employees at year end	<b>3,046</b>	2,986
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### C. SUPERANNUATION COMMITMENTS

The Caltex Australia Group contributes to superannuation plans to provide benefits to employees and directors and their dependants 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 benefit 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. 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.

The Group's net obligation in respect of the defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The discount rate is the rate attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities.

When the benefits of the plan are improved, the proportion of the increased benefit relating to past service by employees is recognised directly in retained earnings on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in retained earnings.

Where the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Caltex has used the AASB 1.20A exemption and disclosed amounts under AASB 1.20A(p) for each annual reporting period prospectively from the transition date.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 21. EMPLOYEE AND DIRECTOR BENEFITS CONTINUED

Information from the most recent actuarial valuation for the defined benefit plan at 31 December 2005 follows:

THOUSANDS OF DOLLARS	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
<b>Movements in the net liability for defined benefit obligation recognised in the balance sheet</b>				
Net liability for defined benefit obligation at the beginning of the year	11,195	30,661	—	—
Expense recognised in the income statement	4,133	6,140	—	—
Actuarial gains recognised in retained earnings	(9,217)	(17,326)	—	—
Employer contributions	(5,191)	(8,280)	—	—
Net liability for defined benefit obligation at the end of the year	920	11,195	—	—
<b>Reconciliation of the present value of the defined benefit obligation</b>				
Present value of defined benefit obligation at the beginning of the year	164,734	160,990	—	—
Current service cost	7,499	7,806	—	—
Interest cost	6,862	7,033	—	—
Contributions by plan participants	2,531	—	—	—
Actuarial losses/(gains)	10,537	(11,095)	—	—
Benefits paid	(14,263)	—	—	—
Present value of defined benefit obligation at the end of the year	177,900	164,734	—	—
<b>Reconciliation of the fair value of plan assets</b>				
Fair value of plan assets at the beginning of the year	153,539	130,329	—	—
Expected return on plan assets	10,228	8,699	—	—
Actuarial gains	19,754	6,231	—	—
Employer contributions	5,191	8,280	—	—
Contributions by plan participants	2,531	—	—	—
Benefits paid	(14,263)	—	—	—
Fair value of plan assets at the end of the year	176,980	153,539	—	—
<b>Reconciliation of the net liability recognised in the balance sheet</b>				
Defined benefit obligation	177,900	164,734	—	—
Fair value of plan assets	(176,980)	(153,539)	—	—
Net liability	920	11,195	—	—
<b>Expense recognised in the income statement</b>				
The expense is recognised in refining and supply expenses, marketing expenses, and other expenses in the income statement.				
Current service cost	7,499	7,806	—	—
Interest cost	6,862	7,033	—	—
Expected return on plan assets	(10,228)	(8,699)	—	—
Superannuation expense	4,133	6,140	—	—
<b>Amounts recognised in the statement of recognised income and expense</b>				
Actuarial gains	9,217	17,326	—	—
Cumulative actuarial gains	26,543	17,326	—	—

## 21. EMPLOYEE AND DIRECTOR BENEFITS CONTINUED

	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
<b>Plan assets</b>				
The percentage invested in each asset class at the balance sheet date was:				
Australian equity	35%	32%	—	—
International equity	30%	30%	—	—
Fixed income	24%	25%	—	—
Property	9%	8%	—	—
Cash	2%	5%	—	—

The fair value of plan assets includes no amounts relating to any of the Company's own financial instruments, and any property occupied by, or other assets used by, the Company.

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class. The returns used for each asset class are net of investment tax and investment fees.

THOUSANDS OF DOLLARS

### Actual return on plan assets

Actual return on plan assets	29,982	14,930	—	—
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### Principal actuarial assumptions at the balance sheet date (% p.a.)

Discount rate (active members)	4%	5%	—	—
Discount rate (pensioners)	5%	5%	—	—
Expected rate of return on plan assets (active members)	7%	7%	—	—
Expected rate of return on plan assets (pensioners)	8%	8%	—	—
Expected salary increase rate	4%	4%	—	—
Expected pension increase rate	0%	0%	—	—

THOUSANDS OF DOLLARS

### Historical information

Present value of defined benefit obligation	177,900	164,734	—	—
Fair value of plan assets	176,980	153,539	—	—
Net deficit	920	11,195	—	—
Experience adjustments on plan assets – gain	19,754	6,231	—	—
Experience adjustments on plan liabilities – gain/(loss)	(10,537)	11,095	—	—

Expected employer contributions for the reporting year to 31 December 2006 is \$4,097,000.

### Information from last actuarial review on the plan as at 1 January 2003

The last actuarial review was performed before A-IFRS was adopted.

Accrued benefits	153,390
Net market value of plan assets	141,150
Net deficit	12,240

The contribution recommendation is 10.7% of superable salaries. The Group is currently contributing at these rates. The method used to determine the employer contribution recommendations at the last actuarial review was the projected unit cost method. The method adopted affects the timing of the cost to the Group.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 21. EMPLOYEE AND DIRECTOR BENEFITS CONTINUED

The long-term economic assumptions adopted for the last actuarial review of the plan as at 1 January 2003 were (% p.a.):

Expected rate of return on assets (discount rate)	7%
Expected salary increase rate	4%

THOUSANDS OF DOLLARS	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004

### 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.

Employer contributions to the plan during the year	9,188	7,251	—	—
--	-------	-------	---	---

### D. OTHER BENEFITS

The Caltex Australia Limited employee share plan is open to all full-time 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 incidental costs of the purchases met by Caltex Australia during the year were \$2,000 (2004: \$2,000).

All employees of the Caltex Australia Group are entitled to receive a discount on private fuel purchases.

## 22. COMMITMENTS

### A. CAPITAL EXPENDITURE

Capital expenditure contracted but not provided for in the financial report and payable:

Within one year	46,833	13,113	—	—
	46,833	13,113	—	—

### B. LEASES

#### Finance leases

	31 DECEMBER 2005			31 DECEMBER 2004		
	MINIMUM LEASE PAYMENTS	INTEREST	PRINCIPAL	MINIMUM LEASE PAYMENTS	INTEREST	PRINCIPAL
<b>CONSOLIDATED</b>						
Within one year	1,997	1,168	829	2,052	1,291	761
Between one to five years	7,802	3,307	4,495	8,065	3,732	4,333
After five years	4,309	556	3,753	6,241	1,314	4,927
	14,108	5,031	9,077	16,358	6,337	10,021

The Company has no finance leases.

The Caltex Australia Group leases production plant and equipment under finance leases expiring from one to eight years. At the end of the lease term, the Group has the option of extending the leases for a further five year period. 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 4.

## 22. COMMITMENTS CONTINUED

### Operating leases

THOUSANDS OF DOLLARS	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
<b>Non-cancellable operating leases and other financial commitments</b>				
<b>– Group as lessee</b>				
Future minimum rentals payable:				
Within one year	87,185	95,650	–	–
Between one to five years	282,375	289,049	–	–
After five years	54,787	68,836	–	–
	<b>424,347</b>	<b>453,535</b>	<b>–</b>	<b>–</b>

The Company has no operating leases as lessee.

The Caltex Australia Group leases property under operating leases expiring from one to 45 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 (2004: nil).

There are no restrictions placed upon the Group by entering into these leases. Renewals are at the option of the specific entity that holds the lease.

### Non-cancellable operating leases and other financial commitments

#### – Group as lessor

Future minimum rentals receivable:				
Within one year	17,397	12,338	–	–
Between one to five years	32,725	45,435	–	–
After five years	36,410	48,163	–	–
	<b>86,532</b>	<b>105,936</b>	<b>–</b>	<b>–</b>

The Company has no operating leases as lessor.

The Caltex Australia Group leases property under operating leases expiring from one to 17 years.

Some of the leased properties have been sublet by Caltex. The lease and sublease expire between 2006 to 2022.

During the year ended 31 December 2005, \$79,485,000 was recognised as an expense in the income statement in respect of operating leases (2004: \$78,135,000).

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 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.

	CONSOLIDATED		PARENT	
THOUSANDS OF DOLLARS	2005	2004	2005	2004

### A. CONTINGENT ASSETS – LEGAL AND OTHER CLAIMS

— — — —

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

### B. CONTINGENT LIABILITIES – LEGAL AND OTHER CLAIMS

1,000 5,360 — —

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

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

#### Asset retirement obligations

Costs for the future dismantling and removal of assets and restoration of the site on which the assets are located are provided for and capitalised where an obligation to incur such costs arises. An assessment is made at each balance date of the obligation and its discounted cost as a result of currently existing circumstances.

At balance date, Caltex has a legal obligation related to the dismantling and removal of certain pipelines and the restoration of the wharves at the Kurnell and Lytton refineries, which are located on land leased from government. There is an obligation at the end of these leases to dismantle and remove the pipelines and restore the wharves. The term of the current lease agreements vary from one to 99 years and Caltex has an expectation that existing lease agreements will be renewed indefinitely given the nature of the assets and their integral role in the refinery operations. The cost of this obligation has not been recognised in the financial statements because the settlement date for this obligation cannot be reliably estimated.

The current estimate of the legal obligation at today's costs is in the range of \$5 to \$20 million. Due to changes in technology over time, it is likely that the methods and estimates of costs to discharge the obligations will change.

At each future balance date, an assessment will be made as to the sufficiency of information available to determine the likely settlement date and, therefore a reliable estimate of the cost to discharge the obligations.

### 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 \$4,869,000 (2004: \$4,516,000).

### D. DEED OF CROSS GUARANTEE AND CLASS ORDER RELIEF

Note 25(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 (Cth). 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.

On 9 December 2005, a number of the companies as indicated in Note 25(a), entered into a Deed of Revocation to be released from the Deed of Cross Guarantee. If the conditions are satisfied, these companies will be released from the Deed of Cross Guarantee with effect from 19 June 2006.

## 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 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.

## 24. AUDITORS' REMUNERATION

THOUSANDS OF DOLLARS	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
Payment to KPMG for audit services	640	652	—	31
Payment to KPMG for other services:				
Transaction services	60	20	—	—
Other assurance services	231	207	—	—
Taxation services	111	78	—	—
	402	305	—	—

## 25. PARTICULARS IN RELATION TO CONTROLLED ENTITIES

### A. NAME

		% INTEREST	
	NOTE	2005	2004
<b>Companies</b>			
Caltex Australia Finance Pty Ltd	(iii)	100	100
Caltex Australia Investments Pty Ltd	(iii)	100	100
Caltex Fuel Services Pty Ltd	(iii)	100	100
Caltex Australia Custodians Pty Ltd		100	100
Caltex Australia Petroleum Pty Ltd	(iii), (vi)	100	100
Ampol Lending Pty Ltd	(iii), (iv)	100	100
Ampol Metro Fuels Pty Ltd	(iii), (iv)	100	100
Ampol Property (Holdings) Pty Ltd	(iii)	100	100
Ampol Bendigo Pty Ltd	(iii)	100	100
Ampol Realty Pty Ltd	(iii), (iv)	100	100
Ampol Refineries (Matraville) Pty Ltd	(iii), (iv)	100	100
Ampol Road Pantry Pty Ltd	(iii), (iv)	100	100
Ampol Workshops Pty Ltd	(iii), (iv)	100	100
B&S Distributors Pty Ltd	(ii)	50	50
Big Country Oils Pty Ltd	(iii), (iv)	100	100
Brisbane Airport Fuel Services Pty Ltd		100	100
Calstores Pty Ltd	(iii)	100	100
Caltex Australia Management Pty Ltd		100	100

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 25. PARTICULARS IN RELATION TO CONTROLLED ENTITIES CONTINUED

		% INTEREST	
	NOTE	2005	2004
Companies			
Caltex Australia Nominees Pty Ltd		100	100
Caltex Lubricating Oil Refinery Pty Ltd	(iii), (vi)	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), (iv)	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 Pty Ltd	(iii)	100	100
Caltex Refineries (NSW) Pty Ltd	(iii), (vi)	100	100
Caltex Refineries (Qld) Pty Ltd	(iii), (vi)	100	100
Circle Petroleum (Q'land) Pty Ltd	(iii), (iv)	100	100
Cooper & Dysart Pty Ltd		100	100
Hayport Pty Ltd	(iii), (iv)	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), (iv)	100	100
Solo Oil Investments Pty Ltd	(iii)	100	100
Devorant Pty Ltd	(iii), (iv)	100	100
Manworth Pty Ltd	(iii), (iv)	100	100
Metdale Pty Ltd	(iii), (iv)	100	100
Solo Oil Leasing Pty Ltd	(iii), (iv)	100	100
Southern Cross Petroleum Pty Ltd	(iii), (iv)	100	100
Solo Oil Pty Ltd	(iii)	100	100
Brooklyn Bagel (Systems) Pty Ltd	(iii), (iv)	100	100
Carmonott Constructions Pty Ltd	(iii), (iv)	100	100
Chapmore Pty Ltd	(iii), (iv)	100	100
Ditta (Service Station) Pty Ltd	(iii), (iv)	100	100
First Bildarama Pty Ltd	(iii), (iv)	100	100
Grosvenor Constructions Pty Ltd	(iii), (iv)	100	100
Kanegood Pty Ltd	(iii), (iv)	100	100
Leberg Holdings Pty Ltd	(iii), (iv)	100	100
Liglen Pty Ltd	(iii), (iv)	100	100
Matland Holdings Pty Ltd	(iii), (iv)	100	100
Pagold Holdings Pty Ltd	(iii), (iv)	100	100
Pruland Holdings Pty Ltd	(iii), (iv)	100	100

## 25. PARTICULARS IN RELATION TO CONTROLLED ENTITIES CONTINUED

		% INTEREST	
	NOTE	2005	2004
<b>Companies</b>			
Ruzack Nominees Pty Ltd	(iii), (iv)	100	100
Solo Oil Australia Pty Ltd	(iii), (iv)	100	100
Solo Oil Corporation Pty Ltd	(iii), (iv)	100	100
Solo Petroleum Pty Ltd	(iii), (iv)	100	100
Solo Rent A Car Pty Ltd	(iii), (iv)	100	100
Sunrise Transport Pty Ltd	(iii), (iv)	100	100
Wildbank Pty Ltd	(iii), (iv)	100	100
South Coast Oils Pty Ltd	(iii), (iv)	100	100
Southern Cross Service Pty Ltd	(iii), (iv)	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
<b>Unit trusts</b>			
Petroleum Leasing Unit Trust	(v)	100	100
Petroleum Property Unit Trust	(v)	100	100

(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 127 Consolidated and Separate Financial Statements. 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 (Cth). 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. No companies have been added to the Deed of Cross Guarantee during the year ended 31 December 2005, or since 1 January 2006.

(iv) These companies entered into a Deed of Revocation dated 9 December 2005 to be released from the Deed of Cross Guarantee (if all conditions are satisfied) with effect from 19 June 2006.

(v) Solo Oil Pty Ltd is the sole unitholder of these trusts.

(vi) Employees of these companies may be eligible to participate in the Caltex Australia Limited employee share plan (refer note 21(d)).

### B. INCOME STATEMENT FOR ENTITIES COVERED BY THE DEED OF CROSS GUARANTEE

THOUSANDS OF DOLLARS	2005	2004
Profit before income tax expense	782,936	643,062
Income tax expense	(190,938)	(73,748)
Net profit	591,998	569,314
Retained earnings at the beginning of the year	1,092,715	596,464
Movement in reserves	7,018	—
Dividends provided for or paid	(108,000)	(75,600)
Retained earnings at the end of the year	1,583,731	1,090,178

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 25. PARTICULARS IN RELATION TO CONTROLLED ENTITIES CONTINUED

THOUSANDS OF DOLLARS	2005	2004
<b>C. BALANCE SHEET FOR ENTITIES COVERED BY THE DEED OF CROSS GUARANTEE</b>		
<b>Current assets</b>		
Cash and cash equivalents	25,443	8,813
Receivables	786,763	544,333
Inventories	1,042,690	820,583
Other	25,282	17,418
<b>Total current assets</b>	<b>1,880,178</b>	<b>1,391,147</b>
<b>Non-current assets</b>		
Receivables	5,567	6,327
Investments accounted for using the equity method	26,016	24,346
Other investments	21	–
Property, plant and equipment	2,061,717	1,682,466
Intangibles	32,472	11,442
Deferred tax assets	1,764	107
Other	43,133	44,537
<b>Total non-current assets</b>	<b>2,170,690</b>	<b>1,769,225</b>
<b>Total assets</b>	<b>4,050,868</b>	<b>3,160,372</b>
<b>Current liabilities</b>		
Payables	1,214,601	784,409
Interest bearing liabilities	68,599	29,860
Current tax liabilities	97,340	115,983
Provisions	80,083	49,882
<b>Total current liabilities</b>	<b>1,460,623</b>	<b>980,134</b>
<b>Non-current liabilities</b>		
Payables	5,509	3,493
Interest bearing liabilities	388,998	433,282
Deferred tax liabilities	10,042	46,248
Provisions	57,009	62,246
<b>Total non-current liabilities</b>	<b>461,558</b>	<b>545,269</b>
<b>Total liabilities</b>	<b>1,922,181</b>	<b>1,525,403</b>
<b>Net assets</b>	<b>2,128,687</b>	<b>1,634,969</b>
<b>Equity</b>		
Issued capital	543,415	543,415
Treasury stock	(2,664)	(2,219)
Reserves	4,205	3,595
Retained earnings	1,583,731	1,090,178
<b>Total equity</b>	<b>2,128,687</b>	<b>1,634,969</b>

## 26. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

### A. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

THOUSANDS OF DOLLARS	2005	% INTEREST 2004	BALANCE DATE	2005	INVESTMENT CARRYING AMOUNT 2004
Airport Fuel Services Pty Ltd	40	40	31 December	769	769
Australasian Lubricants Manufacturing Company Pty Ltd	50	50	31 December	16,527	16,606
Cairns Airport Refuelling Services Pty Ltd	25	25	31 December	—	—
Geraldton Fuel Company Pty Ltd	50	50	31 December	1,588	1,458
JVC1 Pty Ltd <sup>(i)</sup>	—	50	30 June	—	—
JVC2 Pty Ltd <sup>(i)</sup>	—	50	30 June	—	—
Link Energy Pty Ltd	50	50	30 June	3,324	2,743
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	2,162	1,867
R&JK Petroleum Pty Ltd	50	50	31 December	—	—
South Coast Fuels Pty Ltd	50	50	31 December	450	450
South East Queensland Fuels Pty Ltd	50	50	31 December	1,196	453
South East Queensland Fuels Unit Trust	50	50	31 December	—	—
Vitalgas Pty Ltd	50	50	31 December	—	—
				26,016	24,346

All above companies are incorporated in Australia.

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

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

### B. INVESTMENTS IN ASSOCIATES

THOUSANDS OF DOLLARS	REVENUE (100%)	NET PROFIT (100%)	SHARE OF ASSOCIATES' NET ASSETS RECOGNISED	TOTAL ASSETS (100%)	TOTAL LIABILITIES (100%)	NET ASSETS AS REPORTED BY ASSOCIATES (100%)	SHARE OF ASSOCIATES' NET ASSETS EQUITY ACCOUNTED
<b>2005</b>							
Cairns Airport Refuelling Services Pty Ltd	—	—	—	—	—	—	—
Geraldton Fuel Company Pty Ltd	60,841	696	348	11,414	8,238	3,176	1,588
Link Energy Pty Ltd	163,296	1,264	632	27,487	20,839	6,648	3,324
Jenessa Holdings Pty Ltd	—	—	—	—	—	—	—
Northern Marketing Management Pty Ltd	149,935	—	—	—	—	—	—
Northern Marketing Partnership	—	2,976	1,116	31,312	25,547	5,765	2,162
R&JK Petroleum Pty Ltd	—	—	—	—	—	—	—
South Coast Fuels Pty Ltd	—	—	—	900	—	900	450
South East Queensland Fuels Pty Ltd	313,940	5,168	2,584	33,388	30,996	2,392	1,196
South East Queensland Fuels Unit Trust	—	—	—	—	—	—	—
	688,012	10,104	4,680	104,501	85,620	18,881	8,720

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 26. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD CONTINUED

THOUSANDS OF DOLLARS	REVENUE (100%)	PROFIT (100%)	SHARE OF ASSOCIATES' NET ASSETS RECOGNISED	TOTAL ASSETS (100%)	TOTAL LIABILITIES (100%)	NET ASSETS AS REPORTED BY ASSOCIATES (100%)	SHARE OF ASSOCIATES' NET ASSETS EQUITY ACCOUNTED
<b>2004</b>							
Cairns Airport Refuelling Services Pty Ltd	—	—	—	—	—	—	—
Geraldton Fuel Company Pty Ltd	56,619	674	337	8,317	5,401	2,916	1,458
Link Energy Pty Ltd	170,569	1,252	626	19,387	13,901	5,486	2,743
Jenessa Holdings Pty Ltd	—	—	—	—	—	—	—
Northern Marketing Management Pty Ltd	—	—	—	—	—	—	—
Northern Marketing Partnership	131,488	2,131	799	28,682	23,703	4,979	1,867
R&JK Petroleum Pty Ltd	—	—	—	—	—	—	—
South Coast Fuels Pty Ltd	—	—	—	900	—	900	450
South East Queensland Fuels Pty Ltd	274,166	1,690	845	26,121	25,215	906	453
South East Queensland Fuels Unit Trust	—	—	—	—	—	—	—
	632,842	5,747	2,607	82,407	68,220	15,187	6,971
				CONSOLIDATED		PARENT	
				2005	2004	2005	2004
<b>Results of associates</b>							
Share of associates' profit before income tax expense				4,425	3,909	—	—
Share of associates' income tax expense				330	(1,220)	—	—
Share of associates' net profit				4,755	2,689	—	—
Unrealised profit in inventories				(75)	(82)	—	—
Share of associates' net profit – equity accounted				4,680	2,607	—	—
<b>Movement in the carrying amount of investments in associated entities</b>							
Investments in associated entities at the beginning of the year				6,971	9,912	—	—
Share of associates' net profit				4,680	2,607	—	—
Dividends and disbursements from associated entities				(2,931)	(3,533)	—	—
Investment in Cooper & Dysart Pty Ltd transferred to controlled entities				—	(2,015)	—	—
Investments in associated entities at the end of the year				8,720	6,971	—	—
<b>Commitments</b>							
Share of associates' capital expenditure contracted but not provided for in the financial report and payable:							
Within one year				330	283	—	—
Share of associates' operating lease commitments not provided for in the financial report and payable:							
Within one year				69	99	—	—
Between one to five years				29	87	—	—
				98	186	—	—

## 26. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD CONTINUED

THOUSANDS OF DOLLARS	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
Share of associates' finance lease commitments not provided for in the financial report and payable:				
Within one year	834	1,256	—	—
Between one to five years	4,876	4,206	—	—
	5,710	5,462	—	—
Future finance charges	(705)	(598)	—	—
	5,005	4,864	—	—

### C. INVESTMENTS IN JOINT VENTURES

THOUSANDS OF DOLLARS	REVENUE (100%)	NET PROFIT/ (LOSS) (100%)	SHARE OF JOINT VENTURES' NET (LOSS) PROFIT RECOGNISED	TOTAL ASSETS (100%)	TOTAL LIABILITIES (100%)	NET ASSETS AS REPORTED BY JOINT VENTURE (100%)	SHARE OF JOINT VENTURES' NET ASSETS EQUITY ACCOUNTED
<b>2005</b>							
Airport Fuel Services Pty Ltd	3,772	—	—	3,319	1,396	1,923	769
Australasian Lubricants Manufacturing Company Pty Ltd	196,393	(158)	(79)	232,630	199,576	33,054	16,527
Vitalgas Pty Ltd	96,616	3,325	—	18,531	19,521	(990)	—
	296,781	3,167	(79)	254,480	220,493	33,987	17,296

#### 2004

Airport Fuel Services Pty Ltd	3,899	—	—	2,930	1,007	1,923	769
Australasian Lubricants Manufacturing Company Pty Ltd	163,167	1,390	695	180,146	146,934	33,212	16,606
JVC1 Pty Ltd	—	—	—	—	—	—	—
JVC2 Pty Ltd	—	—	—	—	—	—	—
Vitalgas Pty Ltd	89,398	3,881	—	26,224	30,725	(4,501)	—
	256,464	5,271	695	209,300	178,666	30,634	17,375

THOUSANDS OF DOLLARS	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004

#### Results of joint ventures

Share of joint ventures' profit before income tax expense	373	893	—	—
Share of joint ventures' income tax expense	(55)	(11)	—	—
Share of joint ventures' net profit	318	882	—	—
Unrealised profit in inventories	(397)	(187)	—	—
Share of joint ventures' net loss – equity accounted	(79)	695	—	—

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 26. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD CONTINUED

THOUSANDS OF DOLLARS	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
<b>Movement in the carrying amount of investment in joint ventures</b>				
Investments in joint ventures at the beginning of the year	17,375	16,680	—	—
Share of joint ventures' net loss	(79)	695	—	—
Investments in joint ventures at the end of the year	17,296	17,375	—	—
<b>Commitments</b>				
Share of joint ventures' capital expenditure contracted but not provided for in the financial report and payable:				
Within one year	4,160	1,800	—	—
Share of joint ventures' operating lease commitments not provided for in the financial report and payable:				
Within one year	629	615	—	—
Between one to five years	1,368	1,329	—	—
	1,997	1,944	—	—

## 27. INTEREST IN JOINT VENTURE OPERATIONS

THOUSANDS OF DOLLARS	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
The Group has joint interests in multiple Joint User Hydrant Installations (JUHLs), which are based at airports across Australia. The principle activity of the JUHLs is refuelling aircrafts at the airports. For the year ended 31 December 2005, the contribution of the JUHLs to the net profit of the Group was Nil (2004: Nil), and of the parent entity was Nil (2004: Nil). Included in the assets and liabilities of the Group are the Group's interests in the assets and liabilities employed in the joint venture operation:				
<b>Non-current assets</b>				
Plant and equipment expenditure	28,026	27,630	—	—
Accumulated amortisation	(18,793)	(17,820)	—	—
<b>Total non-current assets</b>	<b>9,233</b>	<b>9,810</b>	<b>—</b>	<b>—</b>
<b>Total assets</b>	<b>9,233</b>	<b>9,810</b>	<b>—</b>	<b>—</b>

## 28. NOTES TO THE CASH FLOW STATEMENTS

### A. RECONCILIATION OF CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statements, cash and cash equivalents includes:

Cash at bank	28,484	14,196	437	—
Bank overdrafts	—	—	—	(11,612)
<b>Total cash and cash equivalents</b>	<b>28,484</b>	<b>14,196</b>	<b>437</b>	<b>(11,612)</b>

## 28. NOTES TO THE CASH FLOW STATEMENTS CONTINUED

THOUSANDS OF DOLLARS	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
<b>B. RECONCILIATION OF NET PROFIT TO NET OPERATING CASH INFLOWS</b>				
Net profit	594,572	570,036	44,027	48,040
Add/(less) items classified as investing/financing activities:				
(Loss)/profit on sale of non-current assets and intangibles	10,271	(12,284)	—	—
Finance charges on finance leases	2,366	2,132	—	—
Interest paid capitalised	(17,253)	(4,271)	—	—
Loan repaid from associate	(2,250)	(2,500)	—	—
Loss on fair value derivative	1,460	—	1,460	—
Add/(less) non-cash items:				
Depreciation of property, plant and equipment	123,700	117,422	—	—
Amortisation of intangibles	3,099	4,767	—	—
Write-down in value of land and buildings and related plant and equipment to recoverable amount	2,532	13,383	—	—
Share of associates' and joint ventures' net profit	(4,601)	(3,302)	—	—
Net cash from operating activities before changes in assets and liabilities	713,896	685,383	45,487	48,040
Changes in assets and liabilities net of the effects of acquisitions:				
(Increase)/decrease in receivables	(207,822)	(90,379)	91,662	(90,532)
(Increase)/decrease in inventories	(216,707)	(317,412)	—	—
(Increase)/decrease in other current assets	(6,186)	7,848	724	487
Increase/(decrease) in payables	366,236	259,219	120	(1,527)
Increase/(decrease) in current tax liabilities	(18,747)	43,877	(17,944)	138,846
(Decrease)/increase in deferred tax liabilities/assets	(37,571)	(122,857)	—	(17,173)
(Decrease)/increase in provisions	24,650	(9,169)	—	—
<b>Net operating cash inflows</b>	<b>617,749</b>	<b>456,510</b>	<b>120,049</b>	<b>78,141</b>

## 29. ACQUISITIONS

### 2005

#### A. AUER PETROLEUM

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

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 29. ACQUISITIONS CONTINUED

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

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

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

### B. DUNNING PETROLEUM

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

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

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

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

## 29. ACQUISITIONS CONTINUED

### C. PETRO FUELS AND LUBRICANTS

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

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

THOUSANDS OF DOLLARS	RECOGNISED VALUES
Property, plant and equipment	1,073
Inventories	3,330
Cash and cash equivalents	64
Intangibles	1,505
Other current assets	25
Provisions	(311)
Net identifiable assets and liabilities	5,686
Goodwill on acquisition	10,722
Consideration paid, satisfied by reducing accounts payable	13,108
Consideration deferred	3,300
Cash acquired	64
Net cash inflow	64

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

### 2004

#### D. COOPER & DYSART PTY LTD

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

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

THOUSANDS OF DOLLARS	RECOGNISED VALUES
Cash and cash equivalents	617
Receivables	8,068
Inventories	1,939
Other current assets	242
Property, plant and equipment	2,668
Intangibles	2,190
Payables	(10,557)
Interest bearing liabilities	(631)
Current tax liabilities	(107)
Deferred tax liabilities	(6)
Provisions	(293)
Net identifiable assets and liabilities	4,130

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 29. ACQUISITIONS CONTINUED

THOUSANDS OF DOLLARS	RECOGNISED VALUES
Net assets acquired – 50%	2,065
Goodwill on acquisition	777
Consideration paid, satisfied in cash	2,842
Cash acquired	(617)
Net cash outflow	2,225

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

## 30. FINANCING ARRANGEMENTS

THOUSANDS OF DOLLARS	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
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	1,004,400	999,400	1,004,400	999,400
	1,034,400	1,029,400	1,034,400	1,029,400
Facilities utilised at balance date:				
Bank overdrafts	10,928	1,670	—	11,612
Bank loans and capital markets	379,400	424,422	424,422	424,422
	390,328	426,092	424,422	436,034
Facilities not utilised at balance date:				
Bank overdrafts	19,072	28,330	30,000	18,388
Bank loans and capital markets	625,000	574,978	579,978	574,978
	644,072	603,308	609,978	593,366

These facilities are unsecured and have an average maturity of 3.3 years (2004: 2.8 years).

## 31. 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, Bill Hauschildt, John Thorn, Ken Watson and Peter Wissel.

Leo Lonergan served on the Board until his resignation on 23 February 2005. Mitch Rubinstein served as a director from 24 February 2005 to 23 August 2005. He also served as an alternate director to Leo Lonergan and Bill Hauschildt in 2005, until 23 February 2005.

Brant Fish served as an alternate director from 27 April 2005 to 23 August 2005 for Mitch Rubinstein, from 26 May 2005 for Bill Hauschildt and from 21 September 2005 for Peter Wissel.

## 31. RELATED PARTY INFORMATION CONTINUED

### B. DIRECTORS' HOLDINGS OF SHARES

At 31 December 2005, the directors of Caltex Australia Limited had relevant interests in 29,344 (2004: 29,500) shares in Caltex Australia Limited (in total). Since 31 December 2005, Dick Warburton has acquired 266 shares, and John Thorn has acquired 88 shares, via the Non-Executive Directors' Share Acquisition Plan. The directors have not disposed of any shares since 31 December 2005.

Leo Lonergan held 2,000 shares in Caltex Australia Limited when he resigned. Mitch Rubinstein did not hold any shares in Caltex Australia Limited when he resigned.

### 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 2005.

During the 2005 financial year, Dick Warburton was a director of Caltex Australia Limited and Citibank Pty Ltd. The banking relationship with Citibank Pty Ltd has been in place for many years and facilities are on normal commercial terms.

During the 2005 financial year, John Thorn was a director of Caltex Australia Limited and National Australia Bank Limited. The banking relationship with National Australia Bank Limited has been in place for many years and facilities are on normal commercial terms.

Minter Ellison, to which Ken Watson is a consultant, provides legal advice and services to the Caltex Australia Group. For the year ended 31 December 2005, Minter Ellison received, or was due to receive, legal fees totalling \$962,000 (less than 20% of the total legal expenditure). Minter Ellison received fees of \$808,000 (less than 20% of the total legal expenditure) in respect of the year ended 31 December 2004.

Malcolm Irving, a former director, entered into a consultancy services agreement with Caltex Australia Limited after leaving office. For the year ended 31 December 2005, he received service fees of \$41,250 (2004: \$22,000), and no further payment is due for services provided (2004: \$14,000).

Willis Australia Limited, a company associated with Malcolm Irving, received insurance consulting fees and insurance premiums of \$5,127,000 (2004: \$5,344,000).

During the 2005 financial year, no consultancy services fees were paid or payable to Blackburne Consulting Pty Ltd (2004: \$92,000), a company related to a 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 and interest received or receivable from controlled entities are set out in note 3.

The amounts receivable by and payable to Caltex Australia Limited and its controlled entities are included in note 9. Details of controlled entities are set out in note 25.

### E. OTHER RELATED ENTITIES

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

The Caltex Australia Group paid \$5,475,000 (2004: \$3,873,000) to the Chevron Group for technical service fees. The Group received \$10,775,000 (2004: \$9,080,000) for technical service fees from the Chevron Group. These fees are in the ordinary course of business and on normal commercial terms and conditions.

The Caltex Australia Group paid \$761,000 (2004: \$1,244,000) to the Chevron Group, including Traders Insurance Limited, for insurance coverage. 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 Chevron Group of \$4,559,592,000 (2004: \$2,908,580,000). The Caltex Australia Group sold crude, other refinery feedstocks and petroleum products to the Chevron Group of \$348,296,000 (2004: \$228,554,000). These purchases and sales are in the ordinary course of business and on normal commercial terms and conditions.

## 31. RELATED PARTY INFORMATION CONTINUED

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

Certain payments are made to the Chevron Group in respect of the secondment of Dave Reeves. Details of these payments are shown in note 33.

In addition to Dave Reeves, the Chevron Group seconded one executive (2004: three executives) primarily to provide specialist expertise in refineries. The cost borne by Caltex Australia was \$400,000 (2004: \$1,134,482). This cost includes salary and bonuses, allowances including relocation, and indirect payroll related expenses. In addition to this cost, the executive may be entitled to receive remuneration and bonuses from the Chevron Group.

Amounts receivable from and payable to other related entities are set out in notes 9 and 15 respectively.

## **F. ASSOCIATES**

The Caltex Australia Group sold petroleum products to associates totalling \$592,344,000 (2004: \$478,956,000). The Caltex Australia Group received income from associates for rental income of \$1,485,000 (2004: \$1,449,000).

Details of associates are set out in note 26. Amounts receivable from associates are set out in note 9. Dividend and disbursement income from associates is shown in note 26.

Caltex has interests in associates primarily for the marketing, sale and distribution of fuel products. Details of Caltex's interest are in note 26.

## **G. JOINT VENTURES**

The Caltex Australia Group sold petroleum products to joint ventures totalling \$49,254,000 (2004: \$23,777,000). The Caltex Australia Group received income from joint ventures for service fees, site fees, operating leases and licence fees of \$10,760,000 (2004: \$9,557,000).

The Caltex Australia Group purchased petroleum products from joint ventures of \$94,795,000 (2004: \$85,141,000). The Caltex Australia Group paid service fee income to joint ventures of \$130,000 (2004: \$130,000).

During the year ended 31 December 2005, the Caltex Australia Group had a provision of \$956,000 (2004: \$3,206,000) against receivables from Vitalgas Pty Ltd. Transactions with joint ventures are in the ordinary course of business and on normal commercial terms and conditions.

Caltex has interests in joint ventures primarily for the marketing, sale and distribution of fuel products. Details of Caltex's interest are in note 26.

## **32. 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.

## **33. KEY MANAGEMENT PERSONNEL DISCLOSURES**

### **A. REMUNERATION POLICIES**

To realise its vision to be the Australian oil refining and marketing company most admired for its people, partnership and performance, Caltex needs to attract, motivate and retain the right people for our business. Our people make the real difference – they create the company's future as well as their own. Caltex rewards its people through transparent performance management and reward systems which closely link employee rewards to company performance and the interests of shareholders.

Our performance-based reward system focuses on company, department and individual elements, with individual performance having a significant impact on employee remuneration. For all employees, including senior executives, individual performance is measured and assessed regularly with assessment outcomes driving reward levels.

## 33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

### **Caltex's Reward Policy**

High performance at individual and team levels is required to deliver the Total Shareholder Return (TSR) expectations established by the Caltex Business Plan and as translated into individual performance agreements. The Reward Policy at Caltex is structured to appropriately reward performance from motivated, highly skilled and results-orientated people.

The key principles of the Reward Policy of Caltex (which includes senior executives) are:

- financial and non-financial performance criteria are applied to deliver long-term creation of value to shareholders, consistent with Caltex's strategic objectives and values;
- company, department and individual performance determines reward outcomes;
- market competitive rewards are delivered commensurate with employee duties, responsibilities, accountabilities, competencies and behaviours; and
- attract, motivate and retain highly skilled people who are aligned to Caltex's vision and values.

The application of these principles results in a clear link being demonstrated between employee reward and performance that delivers Total Shareholder Return.

### **Governance of the Caltex Reward Policy and System**

Governance of the Caltex Reward Policy and System are undertaken by the Human Resources and Nomination Committee. It reviews our systems and approves outcomes, ensuring the Reward policy achieves its stated objectives of contributing to Total Shareholder Return. It has this role because it is independent of management and it can use independent external advisors as necessary.

The Committee has delegated authority from the Board to act on its behalf and approve:

- the annual Caltex employee reward program;
- remuneration of the members of the Caltex Leadership Team;
- the annual Performance Incentive Plan and the long-term incentive plan; and
- the Caltex Australia Limited employee tax exempt and tax deferred share plans.

The Committee also advises the Board on:

- the remuneration of non-executive directors, including remuneration for Board Committee memberships;
- the remuneration of the Managing Director & Chief Executive Officer; and
- general remuneration matters including superannuation.

The Committee is comprised of two independent directors, Elizabeth Bryan (Chair) and Dick Warburton, and one non-executive director, Bill Hauschildt. Mr Hauschildt is not considered an independent director because he is a senior executive of Chevron, a 50% shareholder in Caltex Australia Limited. The Committee meets a minimum of four times each year to undertake its governance functions and member attendance at Committee meetings is set out in the Directors' Report.

### **Delivering Total Shareholder Return through performance and reward**

The Caltex Reward System applies to all employees including senior executives but excludes employees covered by enterprise bargaining agreements and Australian Workplace Agreements.

The key drivers of Total Shareholder Return for Caltex are identified as profitability, capital structure and market expectations. The major drivers that are within senior executive control and provide the inputs for managing and rewarding performance are:

- volume/product mix;
- profit;
- cash flow;
- unit costs;
- other income; and
- capital productivity.

In addition, there are a range of variable external market conditions that vary with global market dynamics including margins in refining and marketing. As demonstrated in Figure 1 below, senior executives must deliver profitability and generate cash flow in the context of these conditions.

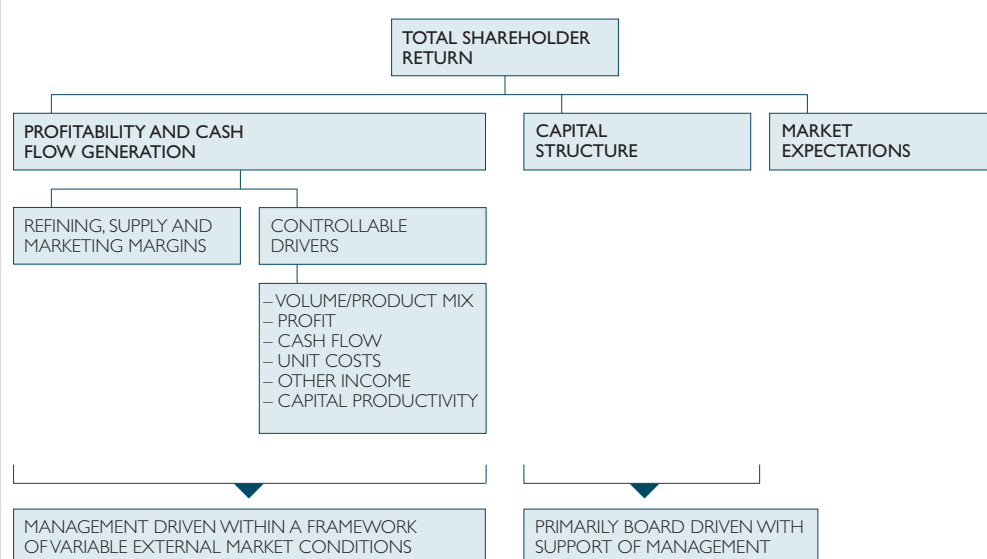
The Reward System recognises performance that delivers against the profitability expectations of Total Shareholder Return in our volatile, cyclical industry.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

FIGURE 1: KEY DRIVERS OF TOTAL SHAREHOLDER RETURN

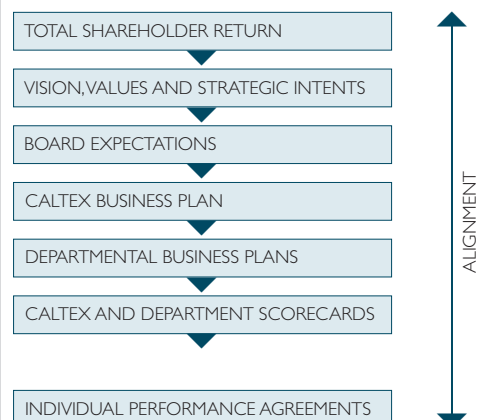


To ensure focus on Total Shareholder Return, each year the Board establishes a clear framework and approves the Caltex Business Plan. Progress against this plan is regularly reviewed and monitored by the Board.

The approved Caltex Business Plan is then translated into Department and Business Unit Plans and scorecards that incorporate the Total Shareholder Return drivers.

Within departments, specific performance agreements are developed for individual employees, thus completing the link between themselves and delivery of Total Shareholder Return as shown in Figure 2.

FIGURE 2: ALIGNING INDIVIDUAL PERFORMANCE AGREEMENTS TO TOTAL SHAREHOLDER RETURN



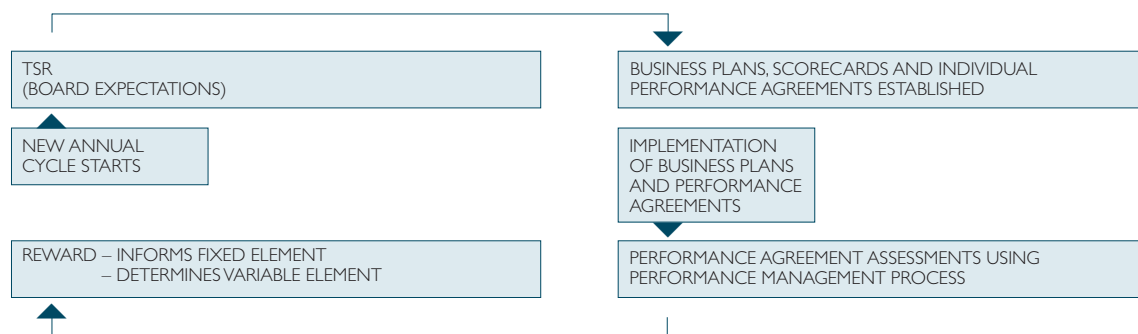
### 33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

#### Performance management

The integrity of the Reward System is contingent on the integrity of the performance management process.

The Caltex performance management process ensures employees know what is expected of them, how they are performing and how that will impact on their reward outcomes. As shown in Figure 3, this also provides employees with an understanding of how they are personally contributing to the delivery of Total Shareholder Return because their performance expectations are aligned to the delivery of the Caltex Business Plan.

FIGURE 3: RELATIONSHIP BETWEEN TOTAL SHAREHOLDER RETURN, PERFORMANCE AND REWARD



The assessment of individual performance covers specific performance agreements, relevant department and individual scorecards, development agreements and demonstration of Caltex values and appropriate behaviours, as well as overall performance against the individual job descriptions – that is, assessment is against the whole of job expectations. Regular whole of job assessment occurs during the course of the year resulting in a ranking at year end.

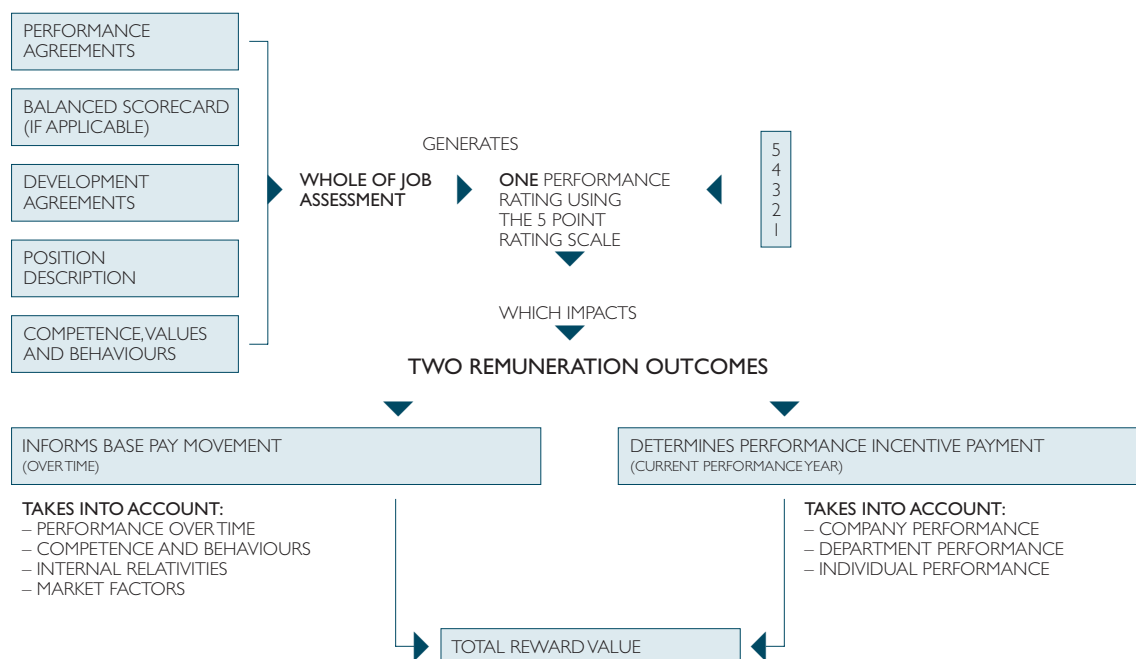
Figure 4 demonstrates how an employee's whole of job performance assessment ultimately informs their base pay (fixed remuneration) movement over time and determines their variable remuneration through the Performance Incentive Plan for the current performance year.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

FIGURE 4: WHOLE OF JOB ASSESSMENT AND OUTCOMES



### Determining reward

#### Total Reward Value

Caltex uses a Total Reward Value approach for award free employees. The core elements of the Total Reward Value are fixed remuneration including any allowances individuals are eligible to receive (base pay), variable remuneration and superannuation contributions. Variable remuneration comprises the cash based Performance Incentive Plan (short-term incentive plan) and the long-term incentive plan (LTI) (for eligible senior executives). The Total Reward Value is designed to ensure an appropriate mix of fixed and variable remuneration. The relative weighting of fixed and variable components for target performance varies with role level and complexity.

The Total Reward Value approach enables comparison and accurate monitoring of the market competitiveness of each employee's Total Reward Value package. Market comparisons of Total Reward Value are undertaken regularly to ensure that Caltex is in line with market median when rewarding its people.

While annual reviews are conducted, there are no guaranteed increases in either fixed or variable remuneration and any increases are determined by individual performance, company performance, economic indicators, and market data and the company's ability to pay.

Employees have some flexibility in packaging the delivery of their fixed and variable remuneration in accordance with Australian Taxation Office guidelines.

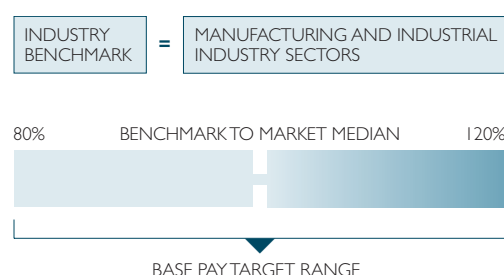
#### Fixed remuneration

The fixed remuneration is the component of Total Reward Value received for applying skills and competencies and demonstrating the appropriate behaviours to meet performance objectives as outlined in position descriptions.

Caltex aims to reward competitively with roles being benchmarked to the market median (refer to Figure 5). An individual's fixed remuneration is targeted at 80 – 120% of the market median with their position in this range determined by assessment of sustained performance over time and internal relativities.

### 33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

FIGURE 5: BENCHMARKING AND FIXED REMUNERATION

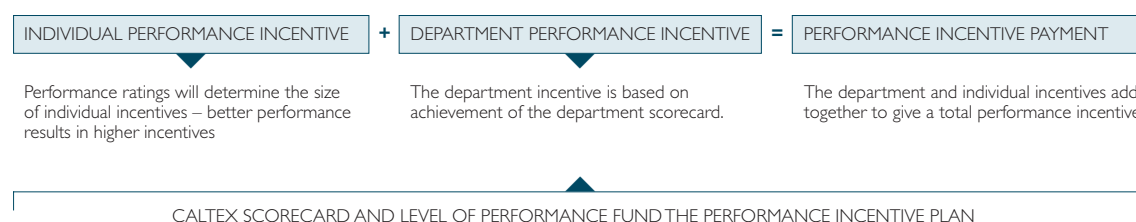


#### Variable remuneration – annual Performance Incentive Plan

Remuneration that is variable and directly dependent upon performance is delivered through the Performance Incentive Plan and the long-term incentive plan.

The annual Performance Incentive Plan is structured so that incentive payments reward employees based on individual, department and company performance (refer to Figure 6). Incentive opportunities increase as performance targets are exceeded at each level across the company. The greatest emphasis and weight are on individual performance, so that individuals have more control over their incentive outcome, with high performance resulting in higher incentives. The whole of job performance assessment includes consideration of behaviours that reinforce the values of Caltex and the importance of teamwork.

FIGURE 6: PERFORMANCE INCENTIVE PLAN AND TOTAL PERFORMANCE



The incentive potential within the Performance Incentive Plan ranges from 0% of base salary when performance expectations are not met, to a maximum of 40% of base salary for exceptional performance. The maximum is determined by the employee's level in the company, with senior executives qualifying for a maximum of 40% subject to achieving excellence against individual and department performance targets.

Overall performance against the total Caltex scorecard determines the size of the funding pool for the Performance Incentive Plan. If the Caltex scorecard does not meet the threshold, then there is no funding to support the department performance incentive component of the Performance Incentive Plan. The threshold for payment under the Performance Incentive Plan is the simultaneous achievement of 80% of the RCOP NPAT target and a company scorecard result of greater than or equal to 50 points. Should the threshold not be met, a maximum budget of 6.08% is available to fund individual performance outcomes as determined by annual performance review ratings.

Performance against the department scorecards will determine the level of funding available for the department performance incentive component of the Performance Incentive Plan.

The total incentive opportunity increases or decreases relative to company and department scorecard results and individual performance outcomes.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

The key Caltex scorecard measures for 2005 included:

**Sustained and strong profitability (60% weighting)**

- Replacement Cost Net Profit After Tax (RCOP NPAT) – annual performance against forecast (80% threshold to be achieved)
- free cash flow (after Clean Fuels investment)

**Operational excellence (30% weighting)**

- Total Treated Injury Frequency rate (per million work hours) score based on annual rate
- refinery utilisation (based on actual performance against forecast)

**Cost management (10% weighting)**

- unit operating expenditure cost per litre (total operating expenditure divided by total sales volume).

Actual scorecard performance is measured against the targets set and any payouts available under the Performance Incentive Plan are determined by the Human Resources and Nomination Committee. Each year, the Human Resources and Nomination Committee reviews the ongoing appropriateness of the Performance Incentive Plan including the scorecards and their measures and weightings, and performance assessment and reward outcomes. Caltex's financial results are confirmed by the Board Audit Committee and approved by the Board at the end of the assessment period before incentive payments are awarded.

The Human Resources and Nomination Committee has the overriding discretion to review and adjust the Performance Incentive Plan outcomes where there are unforeseen impacts on the scorecard elements. This discretion can be exercised through review of the scorecards and the adjustment of the scorecards as appropriate from time to time.

### **Variable remuneration – long-term incentive plan for 2005**

The long-term incentive plan was approved by shareholders in 1999 and is only available to nominated senior executives as determined by the Human Resources and Nomination Committee. The long-term incentive plan delivers incentives via a restricted share plan, where any bonus received is paid to a trustee to purchase Caltex Australia Limited shares on market. The objectives of the plan are to:

- reward senior executives for the performance of the company arising from them delivering against objectives designed to enhance delivery of Total Shareholder Return;
- align senior executives reward with longer-term shareholder gain through the vesting period of shares awarded; and
- facilitate retention of senior executive talent.

Participation is at two tiers:

- Tier 1 – includes senior executive direct reports to the Managing Director & Chief Executive Officer; and
- Tier 2 – includes direct reports to the Managing Director and Chief Executive Officer not qualifying for Tier 1 participation, and key managerial roles with a significant strategic impact.

Tier 2 participants qualify for an allocation of shares equivalent to 75% of the scale that applies to Tier 1 participants. The award quantum is calculated as a percentage of total pay, being base pay plus cash incentive.

Fourteen Caltex senior executives participated in the plan in 2005 – five in Tier 1 and nine in Tier 2.

The award is determined on Caltex's performance versus two measures, namely:

- Return on Capital Employed (ROCE) – a target approved by the Board for the relevant financial year equating to the ratio of total earnings before interest and tax to the total of borrowings and shareholders' equity of Caltex.  
ROCE is an appropriate metric for the long-term incentive plan of Caltex. The refining and marketing industry is a volatile and cyclical industry whose margins are largely set by global and regional supply balances. It is a capital intensive industry whose asset base is constantly in a state of renewal and reinvestment. By rewarding senior executives for achieving ROCE targets, the long-term incentive plan reinforces sound capital investment strategies, conservation of working capital and excellence in operational execution to maximise earnings. The financial results are confirmed by the Board at the end of the assessment period, assuring independence from management in measuring results; and
- a one year Total Shareholder Return measure calculated as at 31 December of each year relative to the Total Shareholder Return of the members of a peer group of companies for the same period. Total Shareholder Return measures movements in a company's share price and dividend payments over the relevant period. The peer group of companies used in calculating shareholder return is based on the S&P/ASX 200 Accumulation Index, excluding bancassurance and the telecommunication indices. The monitoring of the performance of Total Shareholder Return is undertaken by remuneration consultants retained by Caltex who ensure independence from management in measurement of the target.

### 33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

The two measures above were chosen as they are key drivers of shareholder value and they closely reflect Caltex's financial and operational performance.

The interaction between these two measures and the award to executives is summarised in Table 1 below:

TABLE 1: STRUCTURE OF EXECUTIVE LONG-TERM INCENTIVE PROGRAM (2005) FOR TIER 1 PARTICIPANTS <sup>(a)</sup>

ROCE	SHAREHOLDER RETURN	BOTTOM QUINTILE	SECOND QUINTILE	MEDIAN QUINTILE	FOURTH QUINTILE	TOP QUINTILE
	0.80 – 0.89T	Nil	0 – 9	10 – 19	20 – 29	30 – 39
	0.90 – 0.99T	0 – 9	10 – 19	20 – 29	30 – 39	40 – 49
	T <sup>(b)</sup>	10	20	30	40	50
	1.01 – 1.10T	11 – 20	21 – 30	31 – 40	41 – 50	51 – 60
	1.11 – 1.20T	21 – 30	31 – 40	41 – 50	51 – 60	61 – 70

(a) The matrix above details the LTI grants for Tier 1 participants as a percentage of total cash for varying levels of ROCE and TSR performance. For example, if the Target ROCE was achieved and Shareholder Return was at the 50th percentile, a Tier 1 participant would receive an LTI payout equal to 30% of their total cash. A Tier 2 participant receives 75% of the payout to a Tier 1 participant.

(b) T is the target ROCE: The target is set annually by the Board, which reserves the right to adjust the target where justified.

At the end of the financial year, actual performance is measured against the preliminary targets set at the beginning of the year. Payouts, if any, are determined by the Human Resources and Nomination Committee.

The shares awarded vest to participants in three equal tranches:

- one third soon after the financial year for which the shares were acquired by the Trustee;
- one third on 1 January in the year following the date the Trustee acquires the shares; and
- one third on 1 January in the second year following the date the Trustee acquires the shares.

The growth in value of each grant over the three year vesting period is an important factor aligning shareholder and executive gain as senior executives have an incentive to maintain a high share price over time.

Where a participant ceases employment prior to the vesting of their shares, shares are not available to the participant unless cessation of employment is due to retirement or death.

Senior executives participating in the program are entitled to receive any declared dividend payments and capital returns that are made available to any Caltex shareholder on unvested shares.

#### Conclusion

The Caltex Reward Policy and System are designed to deliver the maximum return to shareholders while appropriately recognising the importance of the contributions of our people to the company's success.

Our Reward Policy and System are supported by a rigorous, transparent performance management process and are key elements in an integrated people management approach to delivering a high performance, motivated and engaged workforce.

#### Remuneration details for key management personnel

The following sections provide detailed information on the remuneration paid to, and how that remuneration was calculated, for key management personnel at Caltex. For Caltex, key management personnel are those persons who have authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director.

#### Senior executive remuneration structure

The Caltex Reward Policy and System apply to senior executives as they do for all other award free employees, with the addition of one component – the long-term incentive plan for incumbents of eligible senior executive positions. Therefore, senior executives receive both fixed and variable components (Performance Incentive Plan and long-term incentive plan) expressed as Total Reward Value. As with all other award free employees market comparisons of Total Reward Value are regularly undertaken to ensure Caltex is in line with the market median for target performance. Table 2 summarises the core senior executive reward components.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

TABLE 2: THE SENIOR EXECUTIVE REWARD COMPONENTS AND RELATIONSHIP TO TOTAL SHAREHOLDER RETURN

COMPONENTS	INPUTS	APPROVALS
<b>Fixed remuneration (base pay)</b>	<ul style="list-style-type: none"> <li>– Performance against Performance Agreement which includes: <ul style="list-style-type: none"> <li>– performance targets</li> <li>– where applicable, individual scorecard (including the performance targets, success measures and weightings)</li> <li>– relevant department scorecard</li> <li>– leadership behaviours</li> <li>– relativity of performance against other Caltex senior executives</li> </ul> </li> <li>– Assessment of sustained performance over time</li> <li>– Position against market median (range of 80 – 120%) established for position and in accordance with Caltex guidelines</li> <li>– Performance Agreements are agreed with the Managing Director and CEO prior to the commencement of each year with results measured and tracked regularly by the Managing Director and CEO and approved by the Human Resources and Nomination Committee</li> </ul>	<ul style="list-style-type: none"> <li>– Movements for senior executives recommended by Managing Director and CEO and approved by the Human Resources and Nominations Committee</li> <li>– Adjusted annually within Board approved limits</li> </ul>
<b>Variable remuneration (Performance Incentive Plan)</b> – all award free employees eligible to participate	<ul style="list-style-type: none"> <li>– Caltex scorecard performance versus goal (this determines funding for the plan)</li> <li>– Department scorecard performance versus goal</li> <li>– Individual performance against Performance Agreement (refer above)</li> <li>– Individual's role within the company (determines range of earning potential)</li> </ul>	<ul style="list-style-type: none"> <li>– Incentives for senior executives recommended by Managing Director and CEO and approved by the Human Resources and Nominations Committee</li> <li>– Calculated and paid annually within Board approved limits</li> </ul>
<b>Variable remuneration (2005 long-term incentive plan)</b> – key senior management roles identified for participation	<ul style="list-style-type: none"> <li>– Total Shareholder Return performance versus ASX 200 peer group subset (as assessed by independent remuneration consultants to ensure impartiality and objectivity)</li> <li>– Return On Capital Employed (ROCE) versus Plan</li> </ul>	<ul style="list-style-type: none"> <li>– TSR and ROCE targets approved by the Human Resources and Nominations Committee at commencement of performance year</li> <li>– Awarded annually based on achievement of TSR and ROCE targets</li> <li>– Key senior management roles recommended for participation by Managing Director and CEO and approved by the Human Resources and Nominations Committee annually</li> <li>– Awards to incumbents of key senior management roles by invitation of the Human Resources and Nominations Committee annually</li> </ul>

### 33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

Senior executive reward is aligned to the achievement of strategic objectives, the creation of shareholder value and delivery of the Vision, Values and Strategic Intent.

#### Fixed remuneration

For senior executives fixed remuneration is calculated on the cost to Caltex of base salary, superannuation contributions, fringe benefits tax and gross-up in relation to costs that do not qualify as company income tax deductions.

Fixed remuneration for executives is compared with the median of a subset of companies from the S&P/ASX 200 index. The subset excludes the financials sector from the index. The comparators are selected annually based on the scale of business and the executive's role and accountabilities.

#### Variable remuneration – Performance Incentive Plan

In relation to the short-term cash incentive, 100% of the bonus vests in 2005, and will be paid in 2006.

#### Variable remuneration – long-term incentive plan

Table 3 details senior executive unvested shareholdings for 2005. One third of the long-term incentive was paid to the above executives in 2006. No amount was forfeited.

TABLE 3: UNVESTED SHAREHOLDINGS OF SENIOR EXECUTIVES FOR YEAR ENDED 31 DECEMBER 2005

SENIOR EXECUTIVES	POSITION	SHARES UNVESTED AT 1 JAN 2005 FOR 2002 AND 2003 PERFORMANCE YEARS AND CALESP	SHARES GRANTED AS REMUNERATION IN 2005 FOR THE 2004 PERFORMANCE YEAR <sup>(i)</sup>	SHARES VESTED FROM THE 2002, 2003 AND 2004 PERFORMANCE YEARS AND CALESP	OTHER CHANGES (CALESP)	UNVESTED SHARES AT 31 DEC 2005 FROM THE 2003 AND 2004 PERFORMANCE YEARS <sup>(ii)</sup>
Richard Beattie	Group Manager – Corporate Affairs	33,570	11,913	(29,378)	–	16,105
Mark Burrowes	General Manager – Marketing	17,007	24,402	(16,563)	–	24,846
Helen Conway	Company Secretary and General Counsel	53,252	19,653	(46,805)	–	26,100
Simon Hepworth	Chief Financial Officer	63,815	23,070	(57,302)	–	29,583
Lisbeth Long	Group Manager – Human Resources	8,339	10,407	(7,564)	–	11,182
Mike McMenamin	Group Manager – Strategy and Planning	24	–	–	50	74
Alex Strang	General Manager – Supply and Corporate Services	65,798	23,166	(58,272)	–	30,692
Eion Turnbull	General Manager – Refining	49,370	19,941	(43,953)	–	25,358
Peter Wilkinson	Group Manager – Operational Excellence and Risk	–	–	–	–	–

Notes:

(i) Grant date was 4 March 2005.

(ii) If the executive meets the service conditions, amounts will vest in 2006 and 2007 in accordance with the vesting conditions of the long-term incentive plan.

# Notes to the financial statements

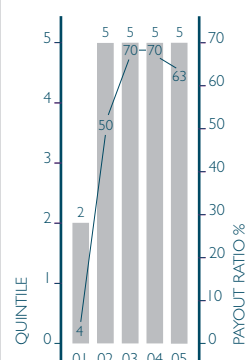
FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

Graph 1 below shows the relationship between the long-term incentive (LTI) payout ratio paid to senior executives during the year, compared to the Total Shareholder Return performance quintile achieved over the past five years. It clearly demonstrates that the long-term incentive plan awards have been strongly correlated with shareholder value creation.

GRAPH 1: SHAREHOLDER VALUE CREATION IN THE CONTEXT OF THE LTI PLAN OUTCOMES

— LTI Payout ratio  
■ Quintile



### Summary of Total Remuneration Value of senior executives in 2005

The proportion of each senior executives' remuneration for 2005 that was fixed, and the proportion that was subject to a performance condition, is shown in Table 4 below.

TABLE 4: DISTRIBUTION OF FIXED AND VARIABLE ELEMENTS OF SENIOR EXECUTIVE REMUNERATION FOR 2005

SENIOR EXECUTIVES	POSITION	FIXED	VARIABLE (INCLUDING SHORT AND LONG-TERM INCENTIVE PAYMENTS, CALCULATED AS COST TO CALTEX)
Richard Beattie	Group Manager – Corporate Affairs	59%	41%
Mark Burrowes	General Manager – Marketing	53%	47%
Helen Conway	Company Secretary and General Counsel	53%	47%
Simon Hepworth	Chief Financial Officer	54%	46%
Lisbeth Long	Group Manager – Human Resources	54%	46%
Mike McMenamin	Group Manager – Strategy and Planning	73%	27%
Alex Strang	General Manager – Supply and Corporate Services	54%	46%
Eion Turnbull	General Manager – Refining	56%	44%
Peter Wilkinson	Group Manager – Operational Excellence and Risk	71%	29%

### 33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

#### **Notes on senior executives**

- All of the above people have been in their positions for the whole year, with the exception of Peter Wilkinson who was appointed on 11 July 2005.
- Mike McMenamin commenced on 3 May 2004 and was appointed to a senior executive position on 1 December 2004.
- Lisbeth Long was on unpaid maternity leave from 26 July 2005 to 11 October 2005.

#### **Contracts of employment**

The senior executives of Caltex (other than Dave Reeves, the Managing Director and Chief Executive Officer) are appointed as permanent Caltex employees. Their employment contracts require both the company and the senior executive to give a notice period within a range of one to three months as stipulated by their individual contracts should they resign or have their service terminated by Caltex. The terms and conditions of the executives reflect market conditions at the time of their contract negotiation and appointment.

If a senior executive were to resign, entitlement to unvested shares payable through the long-term incentive plan would be forfeited, and if resignation was on or before 31 December of the year, payment from the Performance Incentive Plan would also be forfeited.

The details of the contracts of the senior executives of Caltex (other than Dave Reeves, which are provided later in this report) are set out below:

TABLE 5: SUMMARY OF CONTRACTS OF EMPLOYMENT FOR SENIOR EXECUTIVES

SENIOR EXECUTIVES	POSITION	APPOINTED TO CURRENT ROLE	CONTRACT	TERMINATION NOTICE
Richard Beattie	Group Manager – Corporate Affairs	8 August 1995	Open ended	One month
Mark Burrowes	General Manager – Marketing	1 May 2003	Open ended	One month
Helen Conway	Company Secretary and General Counsel	13 September 1999	Open ended	Three months
Simon Hepworth	Chief Financial Officer	1 January 2001	Open ended	Three months
Lisbeth Long	Group Manager – Human Resources	18 March 2003	Open ended	One month
Mike McMenamin	Group Manager – Strategy and Planning	1 December 2004	Open ended	One month
Alex Strang	General Manager – Supply and Corporate Services	1 August 2002	Open ended	One month
Eion Turnbull	General Manager – Refining	19 December 2003	Open ended	Three months
Peter Wilkinson	Group Manager – Operational Excellence and Risk	11 July 2005	Open ended	One month

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

### Directors' remuneration structure

#### Determination of non-executive directors' fees

Non-executive directors' fees are determined annually by the Board, based on a recommendation from the Human Resources and Nomination Committee. The fees are set within the aggregate remuneration pool approved by shareholders. No directors' fees are paid to executive directors.

The level of non-executive directors' fees is based on the scope of director responsibility and the size and complexity of Caltex. In making recommendations to the Board, the Human Resources and Nomination Committee takes into account survey data on the level of directors' fees being paid to directors of companies of comparative size and complexity. The Human Resources and Nomination Committee also obtains external professional advice as necessary.

Non-executive directors do not receive any bonus payment or participate in any incentive plan. Accordingly, 100% of the remuneration of non-executive directors is fixed.

The Board does not operate a directors' retirement scheme but non-executive directors resident in Australia are entitled to statutory superannuation. Prior to 1 January 2004, Dick Warburton and Ken Watson did participate in a directors' retirement scheme and amounts that had accrued under the scheme for them have been frozen and paid into a separate interest bearing account pending their retirement.

#### Non-executive directors' fees

In 2005, fees paid to non-executive directors were subject to a maximum Board remuneration pool of \$900,000 per annum, exclusive of statutory entitlements. The remuneration pool for non-executive directors applicable to 2005 was approved by shareholders of Caltex Australia Limited at the Annual General Meeting held in April 2004. This amount was increased to \$1,150,000 per annum, inclusive of statutory entitlements, at the 2005 Annual General Meeting with effect from 1 January 2006. This increase was sought to allow fee increases in line with the market and to accommodate director succession plans.

Table 6 outlines the fees payable to the directors effective 1 January 2005 and 1 January 2006.

TABLE 6: FEES PAYABLE TO DIRECTORS

	EFFECTIVE 1 JANUARY 2005	EFFECTIVE 1 JANUARY 2006
<b>Chairman's fees</b>	\$275,000	\$310,000
(Inclusive of all Committee fees)		
<b>Non-executive directors' fees</b>	\$100,000	\$115,000
<b>Audit Committee fees</b>		
– Chairman	\$20,000	\$30,000
– Member	\$10,000	\$15,000
<b>Human Resources &amp; Nomination Committee Fees</b>		
– Chairman	\$15,000	\$20,000
– Member	\$10,000	\$10,000

As Elizabeth Bryan has elected not to receive any superannuation guarantee contributions, the fees which are paid to her are increased by 9%, being the current rate of the superannuation guarantee contribution.

From 2005, non-executive directors could elect to forgo part of their fees, with the amount foregone to be contributed to fund the acquisition, on market, of Caltex Australia Limited shares via a non-executive directors' share acquisition plan. Participation in the share acquisition plan is not open to directors who are employed in the Chevron Corporation Group. The acquisition of shares under this plan is not subject to any performance conditions as they are acquired on a fee sacrifice basis.

### 33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

#### ***Remuneration for Managing Director and Chief Executive Officer***

Dave Reeves, the Managing Director and Chief Executive Officer, is seconded from Chevron Corporation (Chevron) to Caltex. Chevron Global Energy Inc. holds 50% of the shares in Caltex Australia Limited.

Under the terms of the secondment arrangements, Caltex pays a maximum of \$1,200,000 per annum to Chevron. Caltex has no obligation to pay any additional amounts to Chevron beyond \$1,200,000 per annum or to pay any amount to Dave. The terms of these arrangements are considered to be no less favourable to Caltex than arm's length terms.

Chevron incurred additional costs being \$1,238,806 (2004: \$1,530,166), in relation to Dave. These costs may include performance-based short-term and long-term incentives, housing allowances, and other non-monetary items. In determining the additional amounts paid to Dave, Chevron considers Caltex's performance and Dave's contribution to that performance as assessed by Caltex's Chairman.

#### ***Contract of employment for Managing Director and Chief Executive Officer***

The secondment is for a period of three years ending on 28 July 2006 and Caltex and Chevron may agree to vary the contract term by early termination or extension. The secondment arrangement may also be terminated by Caltex if Dave:

- commits a wilful breach or wilfully neglects to perform or observe any of his statutory or contractual duties;
- fails to perform or observe any of his statutory or contractual duties and does not correct or rectify the failure within seven days of being requested to do so; or
- ceases to hold the office of director of Caltex Australia Limited.

On termination Dave has no rights against Caltex for payment of any amounts or claims.

The terms of these arrangements are considered by Caltex to be no less favourable to Caltex than arm's length terms.

#### ***Notes on directors***

- Dave Reeves served as the Managing Director and Chief Executive Officer for the whole of 2005.
- Dick Warburton served as the Chairman for the whole of 2005. He was the Chair of the Human Resources and Nomination Committee until 30 April 2005, after which time he was a member of the Human Resources and Nomination Committee. He attends Audit Committee meetings in an ex-officio capacity.
- Elizabeth Bryan served as a director throughout 2005 and was appointed as Chair of the Human Resources and Nomination Committee from 1 May 2005. Accordingly, Elizabeth received Committee fees at the rate applying to the Chair of that Committee from that date. Prior to 1 May 2005, Elizabeth served as a member of the Human Resources and Nomination Committee. Elizabeth is also paid an additional 9% in director fees, following her election not to receive superannuation guarantee contributions. The payment of these additional fees was backdated to the date that Caltex ceased making superannuation guarantee contributions to her.
- Bill Hauschildt served as a director and a member of the Human Resources and Nomination Committee throughout 2005.
- John Thorn served as a director and a member of the Audit Committee throughout 2005.
- Ken Watson served as a director and Chair of the Audit Committee throughout 2005.
- Peter Wissel was appointed as a director on 23 August 2005 and as a member of the Audit Committee on 1 September 2005. His director's fee in 2005 is a pro-rata amount.
- Leo Lonergan resigned as a director on 23 February 2005. Until that date, he also served as a member of the Audit Committee.
- Mitch Rubinstein served a director between 24 February 2005 and 23 August 2005 and as a member of the Audit Committee from 1 May 2005 to 23 August 2005. His director's fee in 2005 is a pro rata amount. Mitch Rubinstein also served as an alternate director in 2005 until 23 February 2005, but did not receive any remuneration for acting as an alternate director.
- Brant Fish, who served as an alternate director in 2005, did not receive any remuneration from Caltex in 2005.

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

### B. SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL

The movement during the reporting period in the number of shares of Caltex Australia Limited held, directly, indirectly or beneficially, by each key management personnel, including their personally related entities, is as follows:

	HELD AT 1 JANUARY 2005	PURCHASED	VESTED	SOLD	HELD AT 31 DECEMBER 2005
<b>CURRENT DIRECTORS</b>					
Dick Warburton	10,000	633	—	—	10,633
Dave Reeves	5,000	—	—	—	5,000
Elizabeth Bryan	5,000	—	—	—	5,000
Bill Hauschildt	—	—	—	—	—
John Thorn	—	211	—	—	211
Ken Watson	7,500	—	—	—	7,500
Peter Wissel	—	1,000	—	—	1,000
<b>FORMER DIRECTORS</b>					
Leo Lonergan	2,000	—	—	(2,000)	—
Mitch Rubinstein	—	—	—	—	—
<b>SENIOR EXECUTIVES</b>					
Richard Beattie	25,721	—	29,378	(17,560)	37,539
Mark Burrowes	18,929	—	16,563	(21,258)	14,234
Helen Conway	36,466	—	46,805	(25,000)	58,271
Simon Hepworth	54,004	—	57,302	(80,000)	31,306
Lisbeth Long	4,095	—	7,564	—	11,659
Mike McMenamin	—	—	—	—	—
Alex Strang	53,748	—	58,272	(45,000)	67,020
Eion Turnbull	39,215	—	43,953	(62,000)	21,168
Peter Wilkinson	—	—	—	—	—

### 33. KEY MANAGEMENT PERSONNEL DISCLOSURES 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 Return). 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 2005 are entitled to receive shares in three equal instalments as their shares vest, although dividend and voting entitlements vest immediately. The first instalment vested at the end of 2005, with the second and third instalments vesting at the end of 2006 and 2007. Shares are included as part of bonuses upon vesting.

The executive share plan purchases the shares on market for the 2005-2007 obligation in 2006, and distributes the portion related to the 2005 obligation in 2006.

The fair value of services received in return for shares granted is measured by reference to the market price of shares on the grant date.

The summary of share movements in the plan is:

OPENING BALANCE		ISSUED TO PLAN		VESTED DURING THE YEAR			CLOSING BALANCE	
NUMBER OF SHARES	GRANT DATE	NUMBER OF SHARES	WEIGHTED AVERAGE FAIR VALUE PER SHARE (\$)	VESTING DATE	NUMBER OF SHARES	WEIGHTED AVERAGE FAIR VALUE PER SHARE (\$)	NUMBER OF SHARES	FAIR VALUE (\$)
<b>2005</b>								
484,262	28 Feb – 4 Mar 05	190,107	14.29	5 Jan 05 8 Mar 05	(319,132) (63,254)	10.80 14.19	291,983	5,658,631
484,262		190,107			(382,386)		291,983	5,658,631
<b>2004</b>								
516,718	1 Mar – 17 Mar 04	353,973	7.23	2 Jan 04 17 Mar 04	(268,392) (118,037)	4.67 6.95	484,262	5,259,085
516,718		353,973			(386,429)		484,262	5,259,085
<b>2003</b>								
86,913	3 Mar – 13 Mar 03	750,313	2.04	3 Jan 03 28 Mar 03	(49,632) (270,876)	2.16 2.31	516,718	2,387,237
86,913		750,313			(320,508)		516,718	2,387,237
<b>2002</b>								
66,749	25 Feb – 1 Mar 02	92,291	1.63	4 Jan 02 11 Apr 02 26 Sep 02	(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								
THOUSANDS OF DOLLARS							2005	2004
Executive share plan expense							2,965	2,543

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2005 CONTINUED

## 33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

### D. REMUNERATION OF KEY MANAGEMENT PERSONNEL

		SHORT-TERM				POST-EMPLOYMENT	OTHER LONG-TERM	SHARE BASED PAYMENTS	
DOLLARS		SALARY AND FEES	BONUS	NON-MONETARY BENEFITS	TOTAL	SUPER-ANNUATION	LONG SERVICE LEAVE	SHARE BENEFITS	TOTAL
DIRECTORS									
Executive									
Dave Reeves, Managing Director and Chief Executive Officer	2005	1,200,000	—	—	1,200,000	—	—	—	1,200,000
	2004	1,200,000	—	—	1,200,000	—	—	—	1,200,000
Non-executive									
Dick Warburton, Chairman	2005	275,000	—	—	275,000	24,750	—	—	299,750
	2004	232,000	—	—	232,000	20,880	—	—	252,880
Elizabeth Bryan	2005	133,284	—	—	133,284	—	—	—	133,284
	2004	90,337	—	—	90,337	—	—	—	90,337
Bill Hauschildt	2005	110,000	—	—	110,000	—	—	—	110,000
	2004	22,636	—	—	22,636	—	—	—	22,636
John Thorn	2005	110,000	—	—	110,000	9,900	—	—	119,900
	2004	49,948	—	—	49,948	4,495	—	—	54,443
Ken Watson	2005	120,000	—	—	120,000	10,800	—	—	130,800
	2004	93,000	—	—	93,000	8,370	—	—	101,370
Peter Wissel (appointed 23 August 2005)	2005	39,086	—	—	39,086	—	—	—	39,086
	2004	—	—	—	—	—	—	—	—
Leo Lonergan (resigned 23 February 2005)	2005	16,274	—	—	16,274	—	—	—	16,274
	2004	93,000	—	—	93,000	—	—	—	93,000
Mitch Rubinstein (appointed 24 February 2005) (resigned 23 August 2005)	2005	52,497	—	—	52,497	—	—	—	52,497
	2004	—	—	—	—	—	—	—	—

### 33. KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

		SHORT-TERM				POST- EMPLOYMENT	OTHER LONG- TERM	SHARE BASED PAYMENTS	
DOLLARS		SALARY AND FEES	BONUS	NON- MONETARY BENEFITS	TOTAL	SUPER- ANNUATION	LONG SERVICE LEAVE	SHARE BENEFITS	TOTAL
SENIOR EXECUTIVES									
Richard Beattie, Group Manager – Corporate Affairs	2005 2004	248,573 249,277	47,707 57,885	9,258 –	305,538 307,162	28,362 18,671	3,810 23,172	156,042 160,405	493,752 509,410
Mark Burrowes, General Manager – Marketing	2005 2004	457,909 453,858	125,580 127,372	14,944 14,811	598,433 596,041	52,163 29,830	2,714 1,106	340,108 263,392	993,418 890,369
Helen Conway, Company Secretary and General Counsel	2005 2004	312,467 324,277	88,754 80,184	28,979 14,811	430,200 419,272	36,208 23,222	10,450 7,888	262,246 263,797	739,104 714,179
Simon Hepworth, Chief Financial Officer	2005 2004	402,179 388,170	111,386 110,039	14,944 14,811	528,509 513,020	45,814 27,001	43,055 30,792	321,111 309,636	938,489 880,449
Lisbeth Long, Group Manager – Human Resources	2005 2004	224,014 244,788	59,044 59,250	– –	283,058 304,038	24,218 17,464	1,542 696	154,683 115,346	463,501 437,544
Mike McMenamin, Group Manager – Strategy and Planning	2005 2004	239,438 124,790	24,221 24,615	– 42,998	263,659 192,403	22,735 8,862	596 –	72,929 –	359,919 201,265
Alex Strang, General Manager – Supply and Corporate Services	2005 2004	385,204 381,304	105,796 79,076	47,707 13,340	538,707 473,720	39,000 18,000	17,603 19,063	305,085 313,457	900,395 824,240
Eion Turnbull, General Manager – Refining	2005 2004	350,646 334,692	83,283 71,020	54,056 39,288	487,985 445,000	37,757 23,687	9,299 6,326	267,771 259,320	802,812 734,333
Peter Wilkinson, Group Manager – Operational Excellence and Risk (appointed 11 July 2005)	2005 2004	118,901 –	21,156 –	5,130 –	145,187 –	10,286 –	– –	32,994 –	188,467 –
Total compensation: key management personnel (Group and parent entity)	2005 2004	4,795,472 4,282,077	666,927 609,441	175,018 140,059	5,637,417 5,031,577	341,993 200,482	89,069 89,043	1,912,969 1,685,353	7,981,448 7,006,455

# Comparative financial information

CALTEX AUSTRALIA LIMITED CONSOLIDATED RESULTS	2005	2004	2003	2002	2001
<b>PROFIT AND LOSS (\$MILLION)</b>					
Historical cost operating profit before significant items, interest and income tax expense	811	687	353	388	15
Interest income	4	1	1	1	1
Borrowing costs	(27)	(41)	(63)	(76)	(91)
Historical cost income tax (expense)/benefit before significant items	(214) <sup>(i)</sup>	(190) <sup>(i)</sup>	(83)	(85)	29
Historical cost operating profit after tax and before significant items	574	457	209	227	(46)
Significant items (net of tax)	21 <sup>(i)</sup>	113 <sup>(i)</sup>	(11)	(12)	(140)
Historical cost operating profit/(loss) after income tax	595	570	197	215	(186)
<b>DIVIDENDS</b>					
Amount paid and payable (\$/share)	0.46	0.39	0.18	—	—
Times covered (excl. significant items)	4.62	4.34	4.30	—	—
<b>OTHER DATA</b>					
Equity attributable to members of the company (\$m)	2,129	1,635	1,215	1,029	813
Total equity (\$m)	2,138	1,645	1,224	1,036	821
Return on equity attributable to members of the parent entity after tax, excluding significant items (%)	27	28	17	22	(6)
Total assets (\$m)	4,079	3,245	2,774	2,837	2,747
Net tangible asset backing (\$/share)	7.73	5.98	4.46	3.76	3.01
Debt (\$m)	458	461	661	972	1,265
Net debt (\$m)	429	447	624	954	1,265
Net debt to net debt plus equity (%)	17	21	34	48	61

(i) Includes a significant item of \$21 million in 2005 (\$113 million in 2004) relating to an income tax benefit upon entry into the tax consolidation regime.

# 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 \$414 million, compared to a profit of \$350 million in 2004.
- 2005 net profit before interest, income tax and significant items on a replacement cost of sales basis was \$583 million, (2004: \$536 million).

\$ MILLION	FIVE YEARS	2005	2004	2003	2002	2001
Historical cost net profit before interest, income tax and significant items	1,443	811	687	353	388	15
(Deduct)/add inventory (gains)/losses <sup>(ii)</sup>	(151)	(228)	(151)	(13)	(173)	186
Replacement cost net profit before interest, income tax and significant items	1,292	583	536	340	215	201
Net borrowing costs	(267)	(23)	(40)	(61)	(76)	(90)
Historical cost tax (expense)/benefit	(329)	(214)	(190)	(83)	(85)	29
Add/(deduct) tax effect of inventory (losses)/gains	44	68	44	4	52	(56)
Replacement cost profit after income tax <sup>(iii)</sup>	740	414	350	200	106	84

- (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 2005, the historical cost result includes \$228 million inventory gain (2004: \$151 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:
- 2001: \$143 million loss before tax (\$140 million after tax)
  - 2002: \$12 million loss before and after tax
  - 2003: \$13 million loss before tax (\$11 million loss after tax)
  - 2004: \$113 million gain before and after tax
  - 2005: \$21 million gain before and 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 8234 5050, or through its web site ([www.computershare.com](http://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 Limited  
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 Report should notify the company's share registry in writing. Alternatively, shareholders who have previously requested not to receive an Annual Report or Half Yearly Report may 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 2001 (Cth) and the ASX Listing Rules.

At a general meeting, individual shareholders may vote their shares 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 on a show of hands.

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: Frank Boys 02 9250 5166

Company Secretaries : Ms Helen Conway, Ms Diane Brown

The address and telephone of the registered office is:  
Level 12, MLC Centre, 19 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](http://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 2000  
Telephone 02 8234 5000 Facsimile 02 8234 5050  
with the postal address being GPO Box 7045, Sydney NSW 2001  
Web site ([www.computershare.com.au](http://www.computershare.com.au))

## GENERAL INFORMATION

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

1. As at 26 February, 2006

1.1 Substantial shareholders:

Chevron Energy Inc holding 135,000,000 ordinary shares

Barclays Global Investors (Group) holding 15,317,475 ordinary shares

1.2 There is only one class of equity securities (namely ordinary shares) and the number of holders is 21,277.

1.3 The shareholding is distributed as follows:

	NO OF HOLDERS	NO OF SHARES	%
<b>A.</b>			
0 – 1,000	14,310	7,260,823	2.69
1,001 – 5,000	5,957	14,084,016	5.22
5,001 – 10,000	588	4,540,348	1.68
10,001 – 100,000	374	9,879,684	3.66
100,001 and over	48	234,235,129	86.75
	21,277	270,000,000	100.00
<b>B.</b>			
Holders of less than a marketable parcel	79		

1.4 The 20 largest shareholders held 84.99% of the ordinary shares in the company

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

CATEGORY	NO OF SHARES	%
1 Chevron Energy Inc	135,000,000	50.00
2 J P Morgan Nominees Australia Limited	24,461,872	9.09
3 National Nominees Limited	23,291,024	8.65
4 Westpac Custodian Nominees Limited	17,879,702	6.64
5 ANZ Nominees Limited	8,350,712	3.10
6 Cogent Nominees Pty Limited	5,472,450	2.03
7 Citicorp Nominees Pty Limited	4,080,893	1.52
8 UBS Nominees Pty Ltd	1,745,800	0.65
9 Queensland Investment Corporation	1,430,805	0.53
10 IAG Nominees Pty Limited	980,003	0.36
11 Suncorp Custodian Services Pty Limited	946,534	0.35
12 Citicorp Nominees Pty Limited	766,993	0.28
13 Victorian Workcover Authority	718,035	0.27
14 AMP Life Limited	717,409	0.27
15 Citicorp Nominees Pty Limited	548,399	0.20
16 PSS Board	531,945	0.20
17 Cogent Nominees Pty limited	500,400	0.19
18 Wildflower Investment Pty Ltd	494,661	0.18
19 Bond Street Custodians Limited	447,870	0.17
20 Beautess Investments Pty Ltd	400,000	0.15
Total	228,765,507	84.99

# Statistical information

YEAR ENDED 31 DECEMBER	2005	2004	2003	2002
<b>PEOPLE</b>				
Employees <sup>(i)</sup>	3,046	2,989	2,986	2,638
<b>ASSETS</b>				
Fuels refineries	2	2	2	2
Lube oil refinery	1	1	1	1
Road tankers	18	18	17	28
Rail cars (operational)	62	62	52	68
Storage terminals operated by Caltex <sup>(ii)</sup>	12	12	12	12
Star convenience stores (Star Mart, Star Supermarket and Star Shop)	496	476	473	426
Service stations (owned or leased)	546	577	605	643
Depots	108	108	115	124
<b>OPERATIONS</b>				
Nameplate refining capacity (barrels per day):				
Caltex Refineries (NSW) Pty Ltd	124,500	124,500	124,500	124,500
Caltex Refineries (Qld) Ltd	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)	11,436	11,608	11,011	11,045
Lubes production (ML)	158	170	135	125
Total sales volumes (ML) <sup>(iii)</sup>	15,249	14,329	12,429	12,183
Total treated injury frequency rate (TTIFR) <sup>(iv)</sup>	8.2	11.8	15.9	21.0

(i) Includes employees of Calstores Pty Ltd (2005: 825) and Caltex 100% owned resellers (2005: 544).

(ii) This description has changed from previous years. Caltex has access to supply at a further ten terminals.

(iii) 2005 Sales volumes excludes sales made to domestic refiners.

(iv) Includes employees of Calstores Pty Ltd and Caltex 100% owned resellers. Formula for calculation changed in 2004. Previous years have been re-calculated to reflect new formula.

# Directory

## CORPORATE OFFICES

**Caltex Australia Limited**  
ACN 004 201 307

**CALTEX AUSTRALIA PETROLEUM PTY LTD**  
ACN 000 032 128

Level 12, MLC Centre  
19 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](http://www.caltex.com.au)

## SHARE REGISTRY

**Computershare Investor Services Pty Limited**  
GPO Box 7045  
Sydney NSW 1115  
Australia

Tollfree: 1 300 855 080 (enquiries within Australia)  
Telephone: 61 3 9615 5970 (enquiries outside Australia)  
Facsimile: 02 8235 8220  
Web site: [www.computershare.com.au](http://www.computershare.com.au)

## 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) Pty Ltd**  
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  
Penhryn 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 to Fri 8.30am to 5.00pm (EST)  
Telephone: 1800 240 398

Card Support Centre  
Card enquiries 24 hours/seven days  
Telephone: 1300 365 096

Lubelink  
Mon to Fri 8.00am to 6.00pm (EST)  
Telephone: 1300 364 169

## Notes

The Caltex Annual Report 2005 is printed on Euro Art, an EMAS accredited paper stock from Spicers Paper. EMAS is the European Union's regulated environmental management system. It aims to continually improve the environmental performance of a company by requesting regular public environmental performance statements, including aspects such as energy and resource efficiency, waste reduction and pollution control.



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**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
- the industry leader 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.

