CALTEX
Caltex Australia

Caltex Annual Report 2006

COVER: Caltex's new clean fuels plants at the Kurnell refinery in Sydney's south were commissioned in 2006. They produce petrol with less benzene and diesel with less sulfur making our fuels among the cleanest in the world.

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 Services Pty Ltd and Caltex Lubricating Oil Refinery Pty Ltd, and
- a number of wholly owned entities and other companies that are controlled by the Group.

Please note that terms such as Caltex and Caltex Australia have the same meaning in the 2006 Annual Report as the Caltex Australia Group unless the context requires otherwise.

Advice to shareholders

The 2006 Annual Report provides an overview of Caltex Australia's main operating activities for the year ended 31 December 2006.

The 2006 Financial Report, which is contained within the 2006 Annual Report, provides detailed financial information for the Caltex Australia Group for the year ended 31 December 2006.

Please note that the 2006 Annual Report can be found on our website, www.caltex.com.au

Financial calendar for Caltex Australia Limited

Year ended 31 December 2006

Annual General Meeting	**24 April 2007**

Year ended 31 December 2007*

Half year results and interim dividend announcement	**24 August 2007**
Record date for interim dividend entitlement	**7 September 2007**
Interim dividend payable	**28 September 2007**
Full year results and final dividend announcement	**22 February 2008**
Record date for final dividend entitlement	**7 March 2008**
Final dividend payable	**28 March 2008**

* These dates may be subject to change.

Customers choose Caltex making us the leading fuel and convenience store retailer in Australia.

Contents

Highlights

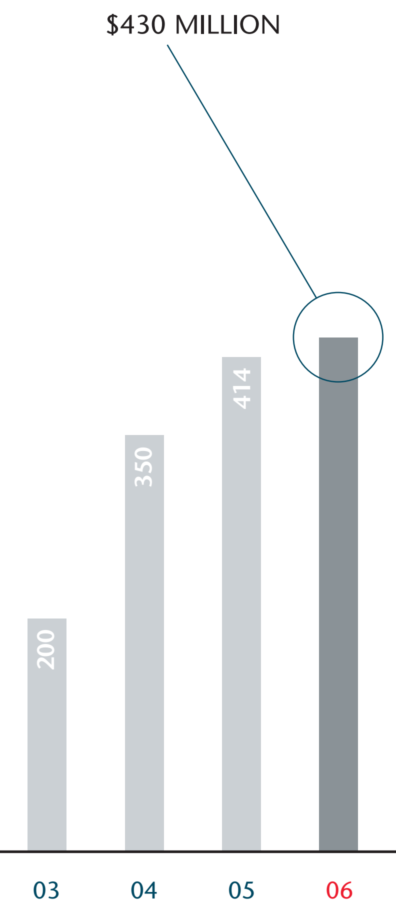
2006 was a year in which

Higher Profit

Record replacement cost of sales operating profit benefited from robust refiner margins, excellent second half refining performance and a strong marketing contribution

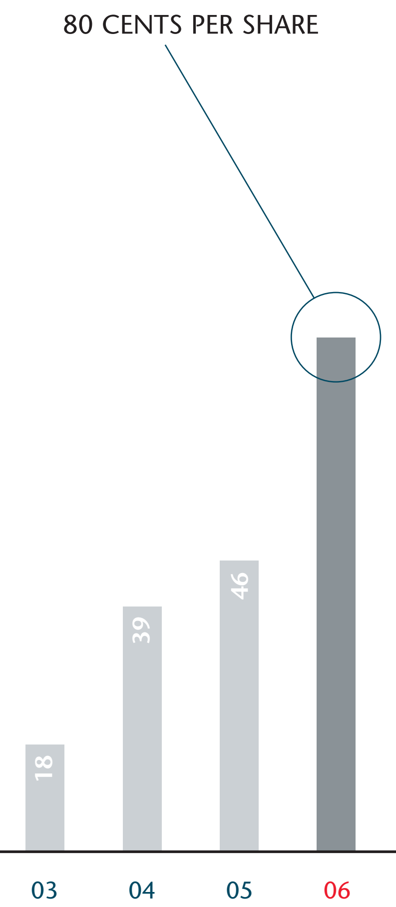
Higher Dividend

Full year dividends totalled 80 cents per share – up 74% on 2005



REPLACEMENT COST OF SALES OPERATING PROFIT ($MILLION)

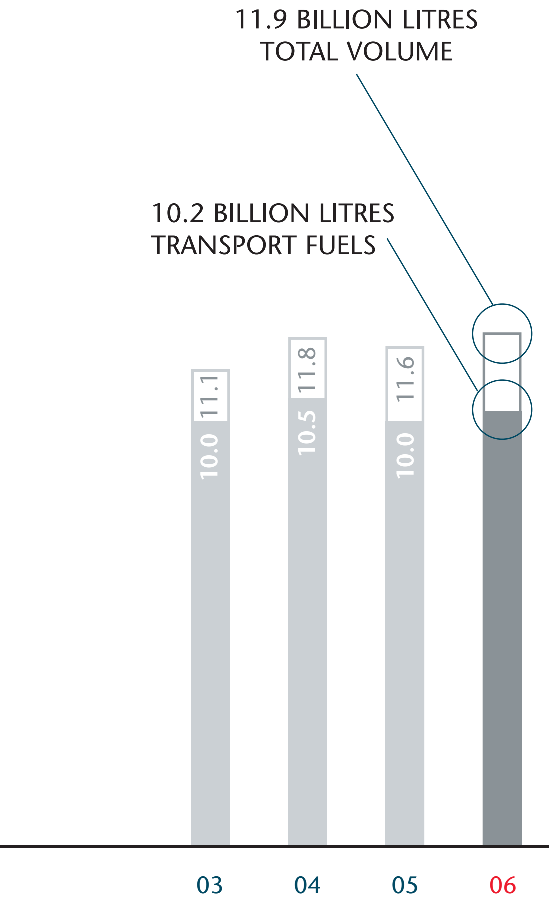
The replacement cost results exclude individually material items in 2003, 2004 and 2005.



DIVIDENDS (CENTS PER SHARE)

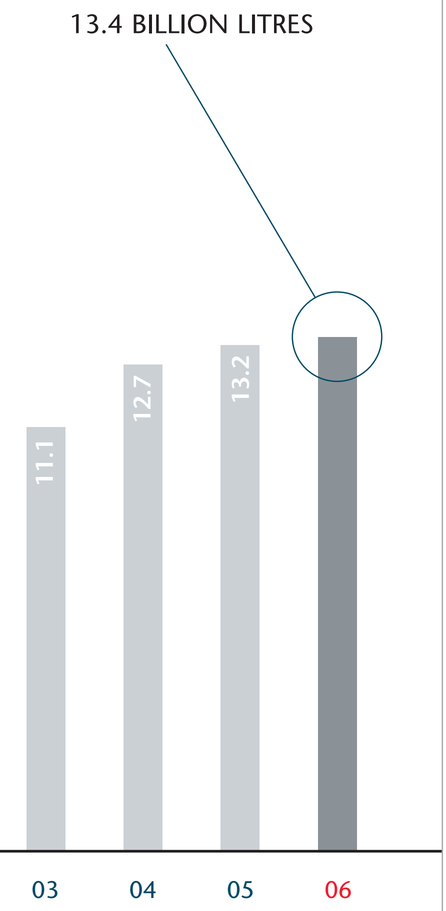
Total dividends were 80 cents per share fully franked (48 cents per share final dividend and 32 cents per share interim dividend) up from 46 cents per share total dividends in 2005.

Caltex strengthened its foundations.



TRANSPORT FUELS PRODUCTION VOLUMES (BILLION LITRES)

Production of high value transport fuels (petrol, diesel and jet) increased to 10.2 billion litres, up from 10.0 billion litres in 2005. Production of all products in 2006 was a record 11.9 billion litres, up from 11.6 billion litres in 2005.



TRANSPORT FUELS SALES (BILLION LITRES)

Caltex sales of transport fuels (petrol, diesel and jet) increased to 13.4 billion litres in 2006, up from 13.2 billion litres in 2005.

Higher Production

The refineries achieved record throughput rates and production

Higher Sales

Higher sales volumes of transport fuels and increased convenience store sales

Chairman & Managing Director's Report

In 2006, Caltex performed strongly in all areas of the business, with a share price increase of 19% over the year and total shareholder return of 22%. Dividends for 2006 were 74% higher than the previous year.

It was a year in which the company strengthened its foundations with the completion of the Clean Fuels Project, fuels terminals upgrades and benefits starting to flow from refining and supply chain improvement projects.

The company recorded an increased full year profit after tax of $430 million on a replacement cost of sales operating profit (RCOP) basis for the year ended 31 December 2006 (2005: $414 million excluding significant items).

This profit equates to approximately 2.2 cents per litre on average for all petroleum products sold.

Earnings benefited from stronger refiner margins with the Caltex Refiner Margin* averaging US$10.13 a barrel in 2006, up from US$8.40 a barrel in 2005 as a result of strong demand and tight supply.

2006 earnings were affected in the first half of the year by a delay in completing the Clean Fuels Project, which resulted in lower refinery production and increased fuel imports for the half but did not affect supply to customers. It is estimated that RCOP after tax in 2006 would have been higher by approximately $80 to $100 million if the delay had not occurred.

The strong operational performance in the second half enabled Caltex to increase its year on year underlying profit.

The refineries set new records for production and utilisation to achieve a record full year production of all products of 11.9 billion litres, up from 11.6 billion litres in 2005. This included increased production of high value transport fuels (petrol, diesel and jet fuel) to 10.2 billion litres (2005: 10.0 billion litres).

The marketing business in 2006 achieved stable transport fuels sales and margins in a challenging environment. Petrol sales volumes were affected in the first half of the year by higher pump prices that were mainly the result of the large increase in crude oil prices. Sales recovered in the second half of the year when pump prices eased, enabling a slight growth in petrol sales volumes for the full year in a market that shrank in 2006.

Non-fuel income in 2006 was higher than the prior year due to continued growth in the convenience retail business and higher StarCard sales. In 2006, Caltex strengthened its leadership in the national convenience retail market by increasing its market share to 32%.

The retail network is benefiting from a centralised logistics system launched in 2006 and improved buying arrangements for goods that are part of the Caltex Woolworths venture.

Chairman Richard Warburton and Managing Director and Chief Executive Officer Desmond King.

Dividend

The Board declared a final dividend of $129.6 million or 48 cents per share fully franked, making a total year dividend of 80 cents per share after 32 cents per share paid in September 2006 (2005 total dividends: 46 cents per share).

This payment reflects the company's stated dividend policy of lifting ordinary dividends to 40 – 60% of the RCOP (after tax excluding significant items) from 2006, when the high capital commitments of the Clean Fuels Project were completed.

Investing in the future

To ensure security of supply and meet Australia's expanding need for imported fuels (which represented over 25% of domestic sales in 2006), Caltex is investing in a program to improve supply chain infrastructure. The program was launched in 2006 with the completion of upgrade and expansion projects worth $17 million at a number of fuel storage and distribution facilities in Victoria, Queensland and the Northern Territory.

In 2006, Caltex also saw good progress with major refining and supply development programs which are designed to improve operational efficiency and profitability.

The refining performance improvement program which runs from 2004 to 2009 was successful in delivering further benefits in 2006. During the year a number of smaller projects were completed as well as the program's first major project, a $4 million bitumen tank.

The Caltex supply group is working on a number of initiatives for supply chain management from crude oil purchasing through to product delivery at terminals. These include significant improvements in information integration, refinery scheduling and supply planning. In 2006, new processes and data management technology for crude oil delivery and refining were introduced as the first stage of a wider integrated refinery scheduling project.

* 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.

FAST FACT

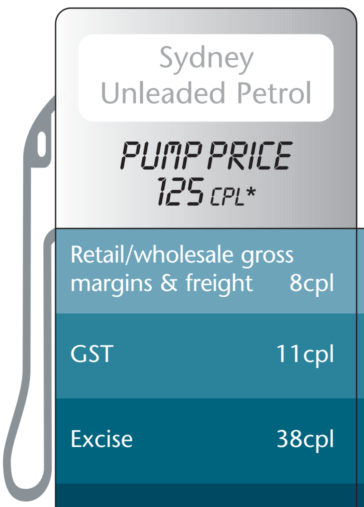
Caltex capital expenditure in the period 1996-2006 totalled $1.965 billion – $6.7 million higher than the company's total replacement cost of sales operating profit of $1.972 billion in those years.

Chairman & Managing Director's Report continued

In serving its employees, business partners, customers and shareholders, Caltex is committed to doing what it says it will do.

FAST FACT

THE PRICE OF PETROL



Retail/wholesale gross margins & freight	8cpl	6%
GST	11cpl	9%
Excise	38cpl	31%
Refined petrol	68cpl	54%

* CPL = cents per litre

Cleaner fuels

Caltex has been producing cleaner fuels which are contributing to cleaner air in urban areas following the completion in May 2006 of the company's $500 million Clean Fuels Project. This project upgraded the company's two refineries to enable them to meet the Government's new cleaner fuels standards for diesel with a maximum of 50 parts per million sulfur and petrol with a maximum of 1% benzene.

The refineries are also now equipped to produce fuels to the tougher standards regulated for 2008 and 2009. Already the Lytton refinery is producing diesel with 10 parts per million sulfur, well ahead of the 2009 deadline, and Caltex's premium unleaded petrol with a maximum of 50 parts per million sulfur is attracting an early incentive payment for producing to 2008 standards.

The four year Clean Fuels Project was a major milestone for Caltex and its design and construction partners at a time of unprecedented worldwide demand for engineers, construction workers and equipment fabrication facilities.

Biofuels

2006 was also a landmark year for biofuels with Caltex establishing the country's largest network of sites selling biofuels. The company met its target commitment for 2006 under the Australian Government's Biofuels Action Plan and will continue to meet its annual target commitments through to 2010.

By the end of 2006, Caltex's E10 (which contains 10% ethanol) was on sale at 132 metropolitan and regional sites from Canberra to Cairns. New Generation Diesel enhanced with 2% biodiesel was launched by Caltex in October 2006 and is being rolled out from Caltex's Newcastle terminal to over 160 service stations in New South Wales.

Strong commitment

Caltex must constantly move to stay competitive and be well prepared to meet changes in consumer preferences and emerging shifts in oil industry supply and demand.

We are focusing on opportunities to purchase and process a broader range of crude oils, adjusting our refineries to meet the growing demand for diesel and high octane fuels and expanding our sale of biofuels. In convenience retailing

we are working on the next generation of stores and meeting the changing demands for lines such as fresh foods.

These are some of the strategies and responses we are developing in line with our vision for Caltex to continue as a strong company for the future. In serving its employees, business partners, customers and shareholders, Caltex is committed to doing what it says it will do.

Acknowledgments

The Board acknowledges the strong contribution of Mr David Reeves who resigned as Caltex Managing Director and Chief Executive Officer in May to take up a new role in Chevron Corporation in North America. Mr Reeves joined Caltex in August 2003.

The Board expresses its appreciation to Mr Ken Watson who retired from the Board in April after 10 years service and Mr William Hauschildt who retired from the Board in June after 20 months.

The Board welcomes the appointment of Mr Trevor Bourne as a director in March, Mr Brant Fish who was appointed a director in June and Ms Colleen Jones-Cervantes who was appointed an alternate director in June.

Our sincere thanks go to employees, contractors, franchisees and resellers for their contributions during 2006 and their strong commitment to making Caltex the Australian oil refining and marketing company most admired for its people, partnership and performance.

Richard Warburton

RFE Warburton AO
CHAIRMAN

Desmond King

DF King
MANAGING DIRECTOR AND CEO

Flagging off the first delivery of our New Generation Diesel with biodiesel was the Minister for Transport and Regional Services Mark Vaile with Caltex Managing Director and CEO Desmond King and General Manager Marketing Mark Burrowes at the Newcastle terminal in October.

FAST FACT

Caltex paid over $5 billion in tax to the Australian Government in 2006. Around $4 billion was paid in excise, $892.7 million in GST and $182 million was paid as income tax. Other taxes paid include land tax, payroll tax and fringe benefits tax.

REVIEW OF OPERATIONS

Refining

Kurnell area specialists, from left Ian Ottaway, Bob Hutchings and Garry Casey are responsible for overseeing operations and production scheduling on the new clean fuels plants.

Caltex's refineries at Lytton in Queensland and Kurnell in NSW refine crude oil into petrol, diesel, jet fuel and specialty products such as LPG and bitumen.

FAST FACT

Caltex refineries produce a variety of high-value products. Typical production at Caltex refineries yields regular unleaded petrol 44%, premium petrol 10%, diesel 30%, jet fuel 13% and fuel oil 3%. Caltex supplies around 35% of all transport fuels in Australia.

Key points for 2006

- Record production and utilisation in second half
- Clean fuels facilities completed and operating well
- Refining performance improvement program helps lift production and reduce unit costs

2006 was a year in which Caltex's two refineries demonstrated their ability to maximise throughput and lift production to record levels in the absence of shutdowns or other constraints in the second half of the year.

All diesel and petrol produced by Caltex for sale in Australia has met the tougher 2006 government standards since the completion of the company's $500 million project to upgrade its two refineries for cleaner fuels production. Additional Australian standard diesel will be produced when a new diesel hydrotreater unit is built at the Lytton refinery obviating the need to export non-standard diesel.

Refiner margins were at historically high levels due to continued strong regional demand. The Caltex refiner margin in 2006 averaged $US10.13 a barrel (2005: US$8.40).

There was sound progress with the ongoing refining performance improvement program. A number of projects completed in 2006 produced significant benefits from improved production efficiency and higher revenue.

Production and utilisation

Production of all products in 2006 was a record 11.9 billion litres, up from 11.6 billion litres in 2005, and production of high value transport fuels increased to 10.2 billion litres, up from 10.0 billion litres in 2005.

The refineries set new throughput and production records when operations returned to normal in the second half of the year. This followed production constraints in the first half of the year due to the delayed start-up of the clean fuels plants and a maintenance shutdown at the Kurnell refinery.

The average utilisation for the refineries increased to 78% (2005: 74.5%) for the full year 2006 and averaged 85.2% in the second half. Throughput capability has been lifted by projects to improve reliability and scheduling. The challenge will be to sustain this performance and maintain the momentum for improvement through times of planned maintenance shutdowns.

The performance in the second half of the year also contributed to the best year on record for energy efficiency at the Kurnell refinery.

Cleaner fuels

Both Caltex refineries are now contributing to cleaner air in urban centres by producing petrol with reduced benzene levels and diesel with reduced sulfur levels in line with 2006 standards required by the Australian Government.

Since May, when the fourth and final clean fuels unit, the Kurnell diesel hydrotreater, was commissioned, both refineries have been producing ultra low sulfur diesel (ULSD) which has a maximum of 50 parts per million of sulfur. Caltex started producing petrol with maximum 1% benzene with the completion of the new benzene hydrogenation units at the Lytton refinery in January and the Kurnell refinery in February.

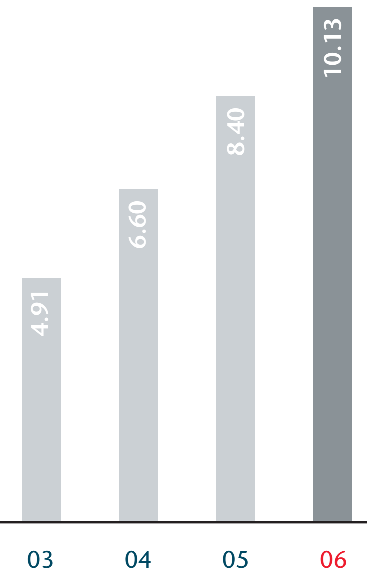
The new clean fuels facilities at both refineries were commissioned safely and smoothly and are operating well.

The delays in completing the Clean Fuels Project and overrun of original planned investment were primarily due to shortage of skilled labour and late delivery of materials and equipment. Lessons learned from the project were reviewed and are being applied to other major projects.

REVIEW OF OPERATIONS
Refining continued

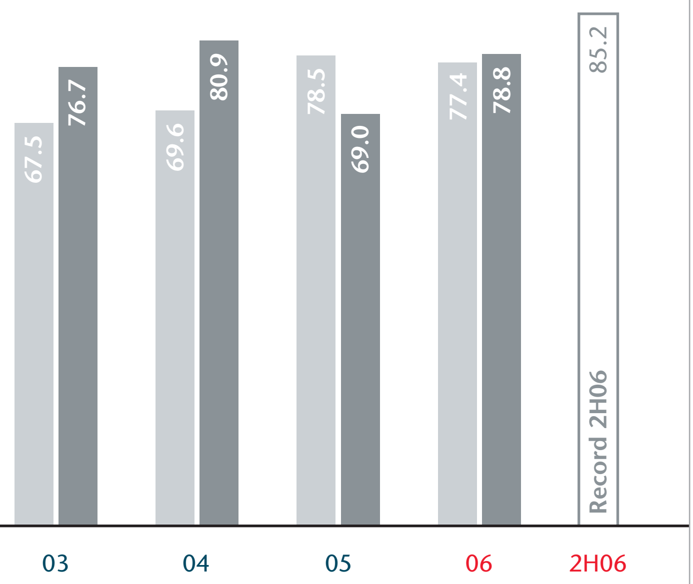
The program to lift production of high octane petrol and diesel, improve throughput and yield and increase revenue is expected to increase the capacity to produce 12 billion litres a year beginning 2009.

Refinery operator Geoff Turner checks a heater in the Lytton refinery's new diesel hydrotreating unit which is part of the clean fuels plant.



2006 CALTEX REFINER MARGIN (US$/bbl)

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.



REFINERY UTILISATION IS INCREASING
(Utilisation %) Kurnell Lytton

Investment in improvements paying off

Projects completed in 2006 delivered further benefits from the refining performance improvement program. The program was launched in 2004 to lift production of high octane petrol and diesel, improve throughput and yield and increase revenue. It is expected to increase the capacity to produce 12 billion litres a year beginning 2009.

To date, $63 million has been spent delivering ongoing benefits which are reflected in improved utilisation and higher production volumes. The cost of the total program is estimated at about $350 million.

The program consists of dozens of smaller projects and several major projects, including a new diesel hydrotreater at Lytton refinery, large crude oil and diesel storage tanks at Kurnell and octane optimisation projects at both refineries.

The new 3,000 tonne per day Lytton diesel hydrotreater unit will increase Caltex's capacity to produce Australian standard diesel by about 40%.

Additionally a sulfur recovery unit will be built to maintain the quality of the local air shed, and will convert the sulfur removed from the diesel into a solid sulfur filter cake suitable for sale or disposal.

Already making a difference since it was commissioned in May 2006 is a new bitumen storage tank at Kurnell. The 2,700 tonne capacity tank increased the site's bitumen storage capacity by 50% and made it possible to store product and maintain sales when the bitumen plant shut down in July while also enabling the production of an additional grade of bitumen. The tank cost around $4 million and is expected to provide payback within two years.

At Kurnell, benefits worth over $9 million EBIT a year are expected from a 2006 project which installed a new type of catalyst in the catalytic cracker. This will allow the refinery to process a wider range of crude oils with this greater flexibility providing most of the cost gains.

Also completed in 2006 was an octane optimisation project which involved changing the catalyst for Lytton refinery's isomerisation plant. This change will improve the octane of light naphtha and upgrade the refinery's blending mix, an improvement worth an estimated $4 million EBIT a year.

Work is well advanced on a new crude storage tank and diesel storage tank at Kurnell refinery. The tanks represent an investment of around $40 million and will be bigger than any current crude or diesel tanks at Kurnell. The crude tank will enable the refinery to better manage fluctuations in the timing of the delivery of crude oil while the diesel tank will prevent delays in production and enhance reliability of supply to customers.

The tanks are part of a suite of major projects which will provide the majority of benefits from the improvement program. The most significant will be a second diesel hydrotreater for Lytton refinery which is at an advanced planning stage.

FAST FACT

78% of the 14.4 million vehicles registered in Australia in 2006 use unleaded petrol and 11% use diesel. Around 9% – older vehicles – need to use unleaded petrol with an additive replacing lead that has been removed. The remaining 2% either use LPG or duel fuel.

REVIEW OF OPERATIONS

Supply

Caltex's Supply department buys crude oil for both refineries and is responsible for production planning at the refineries. It also buys products, schedules product movements to meet marketing sales and distributes products to a network of terminals around Australia.

Principal Chemist Fuels Technology Laurie Palmer tests the storage stability of diesel blended with biodiesel in the laboratory at Caltex's Lytton refinery.

FAST FACT

In 2006, around 40% of the crude oil and feedstock used in Caltex refineries came from Australian oilfields, 40% from South East Asia (Vietnam, Malaysia, Indonesia and the Philippines), 15% from Papua New Guinea and the balance from the Middle East and Africa.

Key points for 2006

- Maintained reliable supply to customers through the extended transition to clean fuels production in first half of year
- Supported record refinery throughput in second half of year
- Progress in supply chain improvement program
- Facilitated biofuels expansion

The Supply department successfully met significant challenges in atypical circumstances in 2006.

In the first half of 2006, to maintain reliable fuel supply Caltex had to expand its imports of diesel and petrol to offset the delays in completing the clean fuels manufacturing facilities at Caltex refineries.

The Caltex Supply team sourced and imported 1.48 billion litres of transport fuels to guarantee supply of petrol and diesel that met 2006 fuel standards. It also exported 0.69 billion litres of non-compliant transport fuels, fuel oils and petrochemical feedstocks. The transitional phase was managed without disruption to customers.

In the second half of the year when all fuels produced by Caltex were fully compliant with 2006 standards, record throughput rates by Caltex refineries led to increased crude oil requirements in a highly competitive environment. The department was successful in obtaining additional supplies of crude oil and carrying out scheduling which supported the higher production rates achieved by the refineries.

The company faces growing competition in the crude oil market due to factors that include the fast growth in fuels demand in China and India. As part of a strategy to access alternative oil markets, 2006 saw the completion of dredging of the channel approaches to Caltex's Lytton refinery wharf on the Brisbane River to accommodate larger crude oil cargoes. This provides Caltex with access to supply from crude oil markets in West Africa where the minimum cargo size is larger than Caltex's previous capability.

In 2006, the launch of new crude scheduling technology and processes at the Kurnell refinery marked a major step in Caltex's fuel supply chain improvement program. The program, launched in 2005, involves a number of projects related to achieving better blend optimisation, data management and reporting, refinery operations scheduling and product supply planning. When fully implemented in 2007, all projects combined are expected to deliver significant benefits from cost savings and improved refinery utilisation.

The Supply department is responsible for sourcing and ensuring standards are met for ethanol and biodiesel used in Caltex's petrol and diesel biofuels blends. Caltex's biofuels marketing program was significantly expanded in 2006 and the Supply department arranged supply contracts with two ethanol suppliers and two biodiesel suppliers.

Planning and negotiation for further growth in requirements was well progressed. A critical requirement for biodiesel is that quality specifications are met to ensure the blended product is fit for purpose.

LEFT: Refinery Scheduler Nathan Owens, at left, and Supply Chain Improvement Program Team Member Phillip Manson use Caltex's new refinery scheduling technology which has allowed better decisions on import needs and export sales of petroleum products. The ship at the Kurnell wharf on the left is loading an export while the one on the right is delivering imported product.

REVIEW OF OPERATIONS

Marketing

Customer Service Attendant Mohammed Roni and Retail Category Manager Crystal Petzer inspect the bakery display at Caltex Woolworths Chatswood. The new bakery sections in Caltex stores serve café style coffee, pastries and cake slices.

The Marketing department promotes and sells Caltex fuels, lubricants, specialties, convenience store goods and a branded StarCard through a national network of around 1,800 Caltex branded service stations and over 60 branded resellers. Marketing also sells directly to a large number of commercial customers.

FAST FACT

Between 50% and 75% of service station gross profit at Caltex retail sites is generated by sales in the convenience stores with the remainder coming from fuel sales.

All these customers are supported by Marketing's extensive network of terminals and depots across the country.

Key points for 2006

- Increased sales volume of transport fuels
- Growth in non-fuel income
- Strengthened position as number one convenience retailer
- Australia's largest network of sites selling biofuels
- Investment in terminals and distribution facilities

Caltex's Marketing business is laying strong foundations for future growth by strengthening its position in the largest and fastest growing markets, providing products that meet emerging consumer needs, investing in supply chain infrastructure, strengthening the positioning of its brand and building on its leadership in convenience retailing.

In 2006, there was a focus on innovation as part of the business culture. Over 300 Marketing employees participated in workshops on this theme and in the process identified nearly 200 areas for improving the business.

Fuel sales

Caltex fuel sales volumes grew marginally in 2006 in a market dampened by higher petrol and diesel prices driven by increased international crude oil and product prices. Sales volumes recovered in the final quarter of 2006 when pump prices eased.

Caltex sales of transport fuels increased to 13.4 billion litres in 2006, up from 13.2 billion litres in 2005.

Petrol sales grew 0.8% in a market which shrank by about 1.6% in 2006. Sales volumes continued to be underpinned by the Caltex Woolworths venture network. Diesel volumes grew by 3.6%, which was less than market growth and jet fuel sales declined in 2006 due to intense competition.

Higher prices particularly affected sales of premium fuels in 2006 but this was offset by growth in the number of sites selling Caltex high octane fuels under the Vortex and Vortex 98 brands. In 2006, Vortex 98 expanded in NSW, was rolled out in Queensland and Victoria and in 2007 will be introduced in Western Australia. Building growth in premium fuels is critical in the next two to three years to ensure Caltex is well placed to capitalise on the premium fuel shift when car manufacturers stipulate premium must be used in a higher percentage of models.

Direct sales channels

Caltex expanded its share of the Australian lubricants market in 2006, with growth in sales to the automotive, commercial and mining sectors contributing to a 2.9% increase in sales volumes of finished lubricants. Costs rose throughout the year driven by regional shortages of base oils.

Sales volumes of specialties including marine fuel, bitumen and petrochemicals increased by 5.1%.

Convenience store network

Caltex strengthened its position as Australia's leading convenience store retailer, increasing its market share to over 32% with its national network of around 500 Star convenience stores. Average weekly same shop sales in 2006 were 5.9% higher than in 2005.

A new centralised logistics program was launched at a number of franchised and company-operated stores in 2006 and is being rolled out through the remainder of the network in 2007. This system brings significant efficiencies to the dry goods supply chain and reduces store stock holding costs.

REVIEW OF OPERATIONS Marketing continued

Caltex strengthened its position as Australia's leading convenience store retailer increasing its market share to over 32% with its national network of around 500 Star convenience stores.

The retail business is strongly focused on meeting changing consumers' needs and in 2007 will be launching a fresh food range and trialling a next generation store. Innovations in the stores in 2006 included a combination of freshly brewed coffee with fresh milk and revamped bakery offer.

The company's strong commitment to franchising is reflected in a new Retail Star Franchise Agreement launched in 2006 to replace existing franchise agreements over the next two years. This offer, which incorporates requirements for compliance with the new federal Oilcode regulations, provides a simpler and more streamlined system for franchisees who operate Caltex sites across Australia. The structure is also expected to attract new, high calibre franchisees to Caltex.

StarCard and StarCash

Caltex's branded card business contributed to the strong growth in non-fuel income in 2006. Earnings from StarCard rose 25% as the fleet business continued to expand with a number of major new corporate and government accounts.

There was further growth in sales of StarCash, the prepaid card that can be used to purchase fuel, food, car repairs and grocery items at participating Caltex and Ampol stores across Australia. The product attracted new accounts across a wide range of businesses including rewards programs for the major banks.

A number of new systems and technical innovations introduced during the year are helping to increase sales, reduce costs and improve service to customers.

Investment in terminals and distribution facilities

Caltex has launched a major terminal infrastructure and expansion program to accommodate the Australian market's expanding need for fuel imports, support high growth areas and ensure safe and secure supply of petroleum products to its customers and communities.

As part of this program, Caltex spent $17 million in 2006 on projects to improve safety, storage and shipping facilities at a number of its terminals.

Projects completed during the year include a $4 million maintenance and environmental improvement program at the company's largest fuels terminal at Newport in Victoria and in Queensland the company celebrated the construction of an $8 million new diesel tank at the Gladstone terminal and upgrades at its Cairns terminal. The company also entered into a long-term terminal facilities contract in Darwin to enable growth in this region.

Australian Lubricants Manufacturing Company (ALMC), the 50:50 joint lubricants manufacturing venture between Caltex and BP, completed a restructuring of the east coast operations.

Brand activities

Caltex brand communications and sponsorships in 2006 received wide exposure and strong positive feedback.

A highlight of 2006 was partnering with the Starlight Children's Foundation in the 50 towns in 50 weeks outreach program. As a community celebration of the company's 50th anniversary of refining fuels for Australia, a Caltex-sponsored Starlight van commenced a year-long journey around Australia in May, delivering the magic of Starlight to sick children and their families in regional and remote rural towns.

The Caltex quality fuel and lubricants brand image was reinforced by an innovative integrated advertising campaign featuring V8 Supercar champion Russell Ingall in the "battle of the flies", racing against a simulated swarm of flies. The TV commercial and

associated promotions featured throughout the V8 Supercar race broadcasts and on-line web communities.

The performance message also featured strongly in the Committed to High Performance Machines State of Origin brand campaign and promotional activity in stores across Queensland and NSW.

New Generation Fuels communications and site promotions were launched into the market to promote awareness of the expanding range of Caltex's biofuel product offers (E10 Unleaded and New Generation Diesel) and educate consumers on product benefits and generate trial.

The branding of over 200 sites was upgraded in 2006 so over 90% of sites in major market locations are now branded with Caltex's Delta brand.

In 2006 industry surveys asking consumers which was the last service station they visited to purchase fuel, Caltex led the market and further consolidated its position with a strong increase in the final quarter.

Biofuels

2006 was a year of strong activity and achievements in biofuels for Caltex. By the end of the year Caltex had Australia's largest network of sites selling biofuels, with ethanol blended petrol and/or biodiesel on sale at 237 service stations. The company met the 2006 target agreed with the Government for marketing biofuels.

Caltex's E10 Unleaded petrol, which is a blend of petrol with 10% ethanol made from crops such as sugar cane or wheat, is now on sale at service stations in regional and metropolitan locations in Queensland, NSW and the ACT and we will increase the availability in these regions in 2007.

New Generation Diesel, launched by Caltex in October, is diesel enhanced with 2% biodiesel made from renewable feedstocks such as vegetable oils and tallow. It is being distributed to NSW service stations and direct customers. Caltex also supplies a B5 biodiesel blend (a 5% blend of biodiesel in diesel fuel) to a number of commercial and transport customers.

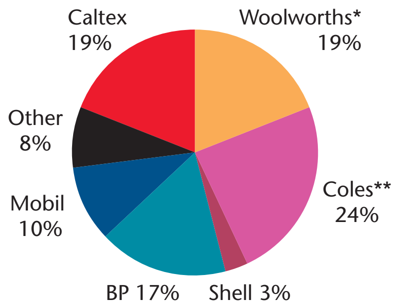
Caltex is committed to helping the Australian Government meet national biofuels targets and was commended by government members in 2006 for showing industry leadership in its support for biofuels.

A new 15 million litre diesel storage tank (middle ground left) was built and commissioned in 2006 at Caltex's Gladstone fuels terminal in Central Queensland to support the growing market in the region.

FAST FACT

PETROL MARKET SHARE BY BRAND

Caltex submission to the Senate Economics Committee: Inquiry into the price of petrol in Australia, August 2006



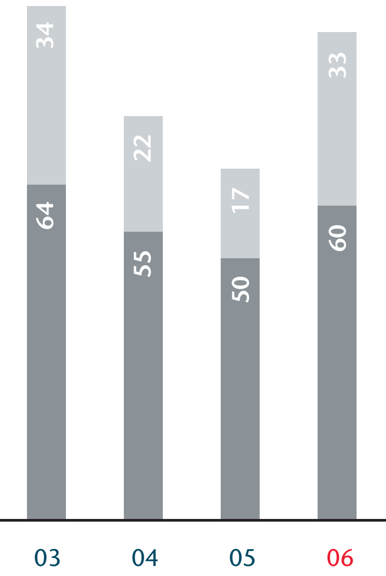
Note: Major oil company shares include branded independents. Ref: Caltex estimates based on published information.
* Co-branded Caltex Woolworths
** Co-branded Shell Coles.

REVIEW OF OPERATIONS

Corporate

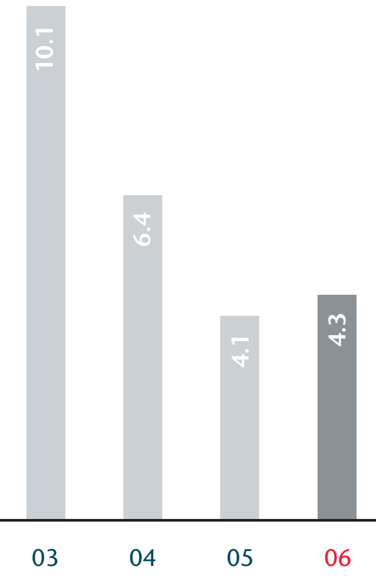
In 2006, a stronger focus on risk, reputation and sustainability was established across Caltex.

Assad Zaman, Acting Manager Caltex Coogee Bay, uses a new safety trolley developed for service station employees working on forecourts.



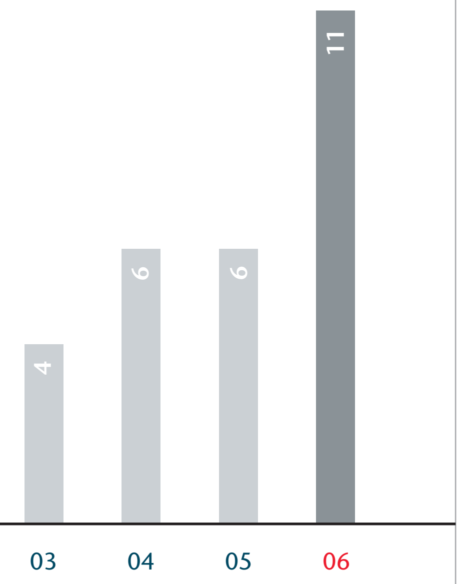
TANKER TRUCK AND MOTOR VEHICLE ACCIDENTS

■ Motor vehicles ■ Tanker trucks



EMPLOYEE AND CONTRACTOR LTIFR*

* Lost Time Injury Frequency Rate per million work hours.



MAJOR SPILLS

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

Environment, health, safety and risk management

2006 was a year of consolidation and preparation. After a series of year on year improvements in safety, as measured by Lost Time Injury Frequency Rates (LTIFR), our performance plateaued. The 2006 LTIFR was 4.3 compared with 4.1 for 2005. There were also a higher number of motor vehicle and tanker truck accidents than the previous year. Despite these disappointing results, there were solid gains in our organisational capability in risk which will equip us to break through the plateau and continue the downward trend in incidents.

In 2006, a stronger focus on risk, reputation and sustainability was established across Caltex. In particular we implemented a newly developed enterprise-wide risk management framework (RMF) and adopted an Operational Excellence Management System.

The RMF has improved and expanded the identification, reporting and management of risk across the Caltex business. To the existing focus on health, safety, environment and finance have been added areas ranging from operations, competition and reputation to asset integrity, fraud, systems and authorisation. This has provided the opportunity for clearer oversight of risk by Caltex directors and management.

Although we have traditionally reported our safety performance in terms of the LTIFR, it is increasingly becoming evident that this is only a partial, but important, indicator of safety performance. To address risk more systematically, we have adopted the Chevron developed Operational Excellence Management System (OEMS). Implementing OEMS enables us to take a more systematic approach to EHS risks and is an essential precursor to getting further and sustained improvement in our EHS performance.

We have also continued to develop our existing tools, such as the Loss Prevention System (LPS). A DVD version of LPS was deployed to all Caltex supervisors in 2006. This is a training tool to refresh supervisor knowledge and assist in improving the quality and effectiveness of incident investigations and job hazard assessments and other aspects of LPS.

Caltex achieved a bronze award in the 2005 Australian Corporate Responsibility Index (CRI) in its first year participating in the survey. The index assesses the extent to which corporate strategy is integrated into responsible business practice throughout an organisation.

The risk management framework, OEMS and CRI have provided Caltex with improved means of identifying gaps, improving and managing performance in environment, health, safety, risk reputation and sustainability.

FAST FACT

Improving safety performance is the single highest priority for Caltex in 2007. A new initiative, Incident and Injury Free, is being introduced to encourage a way of thinking by Caltex employees and contractors where safety and safe behaviour is second nature. The initiative will support established systems and programs such as the Risk Management Framework, Operational Excellence Management System, Process Safety Management and the Loss Prevention System.

REVIEW OF OPERATIONS Corporate continued

Across Caltex, more than 90% of employee respondents said they were optimistic about the future of the company.

Employees

Caltex strives to be a preferred place to work at a time when there is high demand for employees with the qualifications, skills and experience needed to operate our business successfully.

To retain our employees and improve their skills and experience we have a well embedded development process that requires employees to commit to development activities as part of their performance management plan. Operational excellence, capital stewardship and leadership were areas of focus in 2006.

Caltex also has a reward and recognition system that provides encouragement for employees to excel and be rewarded for outstanding performance.

Employee Share Plan

At the time Caltex celebrated 50 years of refining fuel for Australia, all Caltex full-time and part-time employees who were permanent at 31 December 2005, were offered a grant of Caltex shares valued at $1,000. Under the arrangement, 51 shares were allocated to all eligible employees in April 2006.

"Our achievements are a direct result of the efforts of all Caltex employees who have 'put more in' so we can get more out of the business," then Managing Director and CEO David Reeves wrote in a letter to employees giving details of the offer.

A high percentage of Caltex employees are members of the Caltex Australia Limited Employee Share Plan (CALESP). Those who have participated in the plan and held their shares since it was founded in 2000 have now acquired 2,118 shares, including the grant of 51 shares and a parcel of 200 free shares offered to all employees in 2003.

At the end of 2006 this represented an investment of $6,000 in CALESP purchases. With the share price at $23 at the end of the year these shares were valued at $48,714.

Employee survey

The annual Caltex employee survey conducted in October 2006 focused on issues related to employee engagement.

Across Caltex, more than 90% of respondents said they were optimistic about the future of the company, that they understood the challenges that Caltex faces and understood how their work contributes to meeting their department's business goals.

The results showed a high awareness of the importance of safety with 96% of respondents saying that they know what to do to achieve zero incidents. One of the most encouraging statistics was that 90% of respondents said that they are proud to be an employee of Caltex.

Areas for improvement revealed in survey responses included processes for communicating with employees and balance of work and personal life.

David Hind and David Harvey have implemented new business systems for Caltex leading to improved efficiency and cost reduction.

Business systems software

Additional projects were completed in 2006 as part of the expanded use of Caltex's core business systems software. This included the installation of modules supporting a new financial planning, analysis and forecasting system, a new system for accessing and managing employee records and a system for the forecasting of sales volumes across Australia.

The successful software upgrade at Caltex in 2005 received national recognition with a special award for excellence from the provider in early 2006.

Office relocation

In December 2006, Caltex moved to new corporate offices at 2 Market Street in the Sydney CBD. The move involved the relocation of corporate and marketing employees and contractors from Sydney's MLC Centre building in Martin Place, the site of the Caltex office since 1996.

The new Caltex offices occupy five floors and have several energy efficient features including natural and recycled materials used in the furniture and fittings and movement sensors controlling lighting.

Corporate Affairs

Corporate Affairs activities include government affairs and issues management, 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 improve its reputation.

In March 2006, Caltex negotiated a second government variation of 2006 fuel quality standards to allow continued refinery operation while the Clean Fuels Project was completed. The variation allowed security of supply to our customers to be maintained while a communications strategy minimised damage to Caltex's reputation.

Caltex presented a comprehensive submission in August 2006 to the petrol pricing inquiry by the Senate Economics Legislation Committee and Caltex representatives appeared before the committee in October. The detailed submission showed that petrol prices follow international prices, prices do not jump because of public holidays, weekly price cycles benefit consumers, and supermarkets are the major source of

FAST FACT

Caltex's corporate office recently moved to new premises at 2 Market Street in Sydney's CBD. The new office fitout included the use of recycled timber beams and workstations and chairs that are made of recyclable materials.

REVIEW OF OPERATIONS
Corporate continued

During the year Caltex's company magazine *The Star* launched *Talkingpoint*, an insert series with key messages about petrol pricing, biofuels, fuel quality and petroleum products supply reliability.

price competition. It also provided a detailed explanation of Caltex pricing formulas. The inquiry report supported the points in Caltex's submission and did not recommend any further regulation.

In October 2006, legislation advocated by Caltex for many years was enacted to provide a level playing field for petroleum retail marketing through repeal of restrictive legislation from March 2007 and its replacement with a mandatory code of conduct covering fuel reselling agreements, terminal gate pricing and dispute resolution. Caltex made submissions and representatives appeared before the Senate committee examining the reform bill and lobbied key stakeholders.

In October, the Australian Government confirmed a two-year grant of 1 cent a litre for producers and importers of extra low sulfur (10 ppm) diesel from January 2007. The grant is to encourage the early availability of this quality diesel, equal to the cleanest in the world and is consistent with longstanding Caltex advocacy of supportive regulatory and fiscal policies for cleaner fuels.

Caltex undertook extensive communications in the second half of 2006 to support achievement of our 2006 target under the Australian Government's Biofuels Action Plan, including point of sale material, product launches, advertising and political communications. The communications support a market based rather than regulatory approach to ethanol and biodiesel market development.

The National Nine Network *Sunday* program in November presented a well balanced report on Caltex operations following the story from the purchase of crude oil, through the Kurnell refinery, to a service station and a customer's fuel tank. The program clearly explained how the retail price of petrol in Australia is closely linked to the Singapore benchmark petrol price – the nearest import alternative – and what an intensely competitive market it is with oil companies, franchisees, independents and supermarkets all tussling for market share.

50th anniversary

In 2006, Caltex celebrated its fiftieth year of refining fuel for Australia. This milestone was commemorated in February with special open days and historical displays at the Kurnell refinery and a ceremony with a plaque formally unveiled by NSW Minister for Planning Frank Sartor. A special 36-page edition of Caltex's magazine *The Star* was dedicated to Caltex's 50 year contribution to keeping Australian industry, commerce and motorists on the move, a DVD on the history of Caltex refining was produced and the 2005 annual report published in March carried the 50 year anniversary theme with early photographs.

Publications

Communicating with the company's employees, franchisees and resellers in an environment of rapid change in the company's activities, political agendas and the expectations of the public was increasingly important in 2006.

The Star added a special insert, *Talkingpoint,* with key message information on issues such as petrol pricing, biofuels, fuel quality and petroleum products supply reliability.

Its circulation was extended to include Federal, NSW and Queensland politicians and the media with information on Caltex doing what it said it would do in achieving its biofuels sales volumes targets agreed with the Australian Government. That achievement was also communicated with advertising that appeared in national and NSW and Queensland newspapers.

Community support

Caltex has company contributions and sponsorship activities with welfare, education and arts organisations. Caltex refineries, terminals and service stations also support a number of community programs 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 in fundraising activities in addition to an annual 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. A special sponsored activity in 2006 was the 50 towns in 50 weeks program to help Starlight bring smiles to the faces of seriously ill and hospitalised children around the country.

Caltex has two programs supporting education. Now in its 22nd year, the Caltex Best All Rounder Award in 2006 was presented at 97% of Australian secondary schools to Year 12 students who have demonstrated excellence in the classroom, on the sports field and in the community. Each winning student was also invited to enter a national writing competition on why Caltex should donate $1,000 to a charity or community organisation the student is involved in or supports. The five winners 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 Teaching. In November 2006, three NSW teachers were honoured with awards valued at $6,500 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 in 2006 celebrated ten years of partnering the Australian Chamber Orchestra which also celebrated its 30th anniversary. The 2006 national program included the Caltex The Romantics tour which featured violin soloist and Guest Director Anthony Marwood.

Caltex employees helped launch the Starlight Children's Foundation's 50 towns in 50 weeks tour from Martin Place, Sydney in May. The van with its crew of Captain Starlights is travelling through every Australian state and territory delivering cheer to sick children and their families during a journey made possible by Caltex.

FAST FACT

Twenty NSW teachers have undertaken study tours overseas since 2000 as recipients of the Caltex and the Rotary Club of Sydney Awards for Innovation in Teaching. Winners have travelled to Canada, Germany, South Africa, Singapore, the United Kingdom and the United States.

Board of Directors



Richard Warburton AO
Chairman
(Non-executive/Independent)

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

Mr Warburton brings considerable board and corporate governance experience to Caltex and the role of Chairman. Prior to becoming a professional director, Mr Warburton 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.

Mr Warburton is Chairman of the Board of Taxation and a Fellow (and a former National President) of the Australian Institute of Company Directors.

Current directorships of listed companies

- Magellan Flagship Fund Ltd (Chairman) (appointed 19 October 2006)
- Tandou Limited (Chairman) (appointed 6 April 2004)
- Nufarm Limited (appointed 22 October 1993)

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)
- Tabcorp Holdings Limited (28 June 2000 – 27 November 2006)

Desmond King
Managing Director and Chief Executive Officer

Bachelor of Chemical Engineering (University of London, UK) and Doctor of Philosophy (University of Cambridge, UK)

Mr King was appointed as Managing Director and Chief Executive Officer with effect from 1 May 2006.

Before joining Caltex Australia, Mr King was responsible for the management of the 220,000 barrels a day Chevron Pembroke refinery in Wales, UK and was a director of Texaco, UK. He has previously held senior roles in Chevron including General Manager – Strategic Planning, responsible for developing the corporate strategy for both oil and gas exploration and production and refining and marketing for Chevron Corporation. Mr King joined Chevron in 1981, having previously been a Professor of Chemical Engineering at West Virginia University in Morgantown, West Virginia, USA.

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)

Mr Bourne was appointed as a director of Caltex Australia Limited on 2 March 2006 and has been a member of the Audit Committee since 1 May 2006.

Mr Bourne 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, Mr Bourne served as Chief Executive Officer of Tenix Industries Limited. Prior to Tenix Industries Limited, he spent 15 years at Brambles Industries Limited, six as Managing Director of Brambles Australasia. Before that he worked for Incitec Limited and BHP Limited.

Current directorships of listed companies

- Hastie Group Limited (appointed 14 February 2005) (Chairman)
- Origin Energy Limited (appointed 18 February 2000)
- Lighting Corporation Limited (appointed 12 February 2004)
- Coates Hire Limited (appointed 26 February 2004)

Elizabeth Bryan
Director
(Non-executive/Independent)

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

Ms Bryan was appointed as a director of Caltex Australia Limited on 18 July 2002 and is the Chair of the Human Resources and Nomination Committee.

Ms Bryan is a professional director and brings management, strategic and financial expertise to Caltex. Ms Bryan 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.

Ms Bryan is President of the NSW Council of the Australian Institute of Company Directors and on the National Board of the Institute of Company Directors. She is also Chair of UniSuper.

Current directorships of listed companies

- Ridley Corporation Limited (appointed 7 September 2001)
- Westpac Banking Corporation (appointed 6 November 2006)

Brant Fish
Director (Non-executive)

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

Mr Fish was appointed as a director on 27 July 2006 and as a member of the Human Resources and Nomination Committee on 1 August 2006.

Mr Fish brings significant downstream oil industry experience to Caltex Australia, particularly in the area of supply chain. Since 1 August 2006, Mr Fish has served as the General Manager Joint Venture Refineries with Chevron Global Refining. Prior to that, he was General Manager of Supply and Optimization, Asia Pacific for Chevron U.S.A Inc., where he had accountability for overall refining and marketing earnings, commercial decision making and optimisation across the Asia Pacific fuel supply chain – from refinery crude supply to consumer or export sale. Mr Fish is based in Singapore.

Mr Fish previously served as an alternate director for William Hauschildt, Peter Wissel and Mitchell Rubinstein.

John Thorn, FCA
Director
(Non-executive/Independent)

Mr Thorn was appointed as a director with effect from 2 June 2004. He has been a member of the Audit Committee since 22 July 2004 and Chair since 1 May 2006.

Mr Thorn 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. Mr Thorn 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 PricewaterhouseCoopers' Assurance and Business Advisory Service practice (from 1998 to 2001) and as the National Managing Partner (from 2001 to 2003).

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).

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)

Mr Wissel 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.

Mr Wissel brings significant downstream oil industry experience to Caltex Australia, particularly in the area of finance and risk management. He 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. Mr Wissel is based in Singapore.

Corporate Governance Statement

In July 2002, the Board of Caltex Australia Limited adopted the following set of 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.

Consistent with these values, and with the goal of increasing shareholder value, the Board has set the governance arrangements for Caltex to achieve outcomes the Board believes are in the best interests of the company. The Board and management of Caltex maintain a constant interest in governance, including assessing the guidelines of investor bodies and considering other national and international practices. This leads to the governance arrangements being reviewed regularly to ensure compliance with legal requirements, to meet the expectations of shareholders and to best address the circumstances of Caltex. During 2006, all Board and Committee Charters, as well as the Caltex Charter of Director Independence, the Caltex Share Trading Policy, the Caltex Continuous Disclosure Policy and the Caltex Financial Market Disclosure Policy (which was combined with the Caltex Continuous Disclosure Policy with effect from 1 January 2007) were reviewed and revised.

The tabular information on the following pages shows compliance by Caltex Australia Limited against the recommendations of the ASX Corporate Governance Council in accordance with Listing Rule 4.10. This statement also provides information on additional governance practices adopted by Caltex Australia Limited to address its circumstances. This statement is current as at the date of the 2006 Directors' Report and, unless otherwise indicated, the information was true for the whole of the financial year commencing on 1 January 2006. The information provided below contains references to the Caltex web site (www.caltex.com.au/about_gov.asp). If a shareholder does not have access to the internet, they may contact the Caltex Secretariat to obtain copies of any of the documents. This statement should be read in conjunction with the Directors' Report.

Recommendation	Comply
1.1 Formalise and disclose the functions reserved to the Board and those delegated to management	☑
The Board has adopted a Charter that details the functions and responsibilities of the Board, which is available on Caltex's web site. Management of Caltex's day-to-day operations is undertaken by the Managing Director and Chief Executive Officer, subject to specified delegations of authority approved by the Board. The Board has also adopted the practice of formal letters of appointment for all new directors. The letter sets out the key terms and conditions of the director's appointment.	
2.1 A majority of the Board should be independent directors	☑
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, which is available on Caltex's web site. The definition of independent director 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 and to Caltex. The Board will make an assessment of the independence of each director upon appointment and in February of each year. Directors are required on an ongoing basis to disclose to the Board any matter in which they have a personal interest or a potential conflict of interest. Upon any such disclosure, a director's independence is reassessed. Non-executive directors meet quarterly in the absence of management. In addition, all directors (including the Managing Director and Chief Executive Officer) meet before other members of management join each Board meeting.	
2.2 The Chairperson should be an independent director	☑
2.3 The roles of the Chairperson and Chief Executive Officer should not be exercised by the same individual	☑
2.4 The Board should establish a nomination committee	☑
The Board has established a Human Resources and Nomination Committee composed of three members, the majority of whom are independent directors. The Chair of the Human Resources and Nomination Committee is an independent director. The Committee complied with this composition except for a short period between William Hauschildt's resignation on 22 June 2006 and Brant Fish's appointment to the Committee on 1 August 2006, when there was only two members. The Board has adopted a Charter for the Committee which reflects the matters set out in the commentary and guidance to recommendation 2.4, a copy of which is available on Caltex's web site. Following recommendations from the Human Resources and Nomination Committee, the Board adopted a process and selection criteria for appointment to the Board of Caltex Australia Limited in October 2005. These were reviewed in July 2006. The selection criteria include generic corporate attributes, industry-specific attributes and personal attributes (including time availability) required in directors. Whenever a director is to be appointed, these desired attributes are considered. Further information on the selection process is outlined in the Director Appointment Policy and Process posted on Caltex's web site. 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.	
2.5 Provide the information indicated in the Guide to reporting on Principle 2	☑
Included on pages 24 to 25 and in the Directors' Report is information on: • the skills, experience and expertise of each director; • an assessment of independence of each director; • the term of office held by each director; and • the names of members of the Human Resources and Nomination Committee and their attendance at meetings of the Committee. Directors may obtain independent professional 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.	

Recommendation	Comply
3.1 Establish a code of conduct to guide the directors, the Chief Executive Officer, the Chief Financial Officer and any other key executives as to: 3.1.1 the practices necessary to maintain confidence in the company's integrity 3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices	☑
Caltex has adopted a Code of Conduct to guide the standards of ethical behaviour expected of Caltex directors and employees in the performance of work for Caltex. The code is founded on the values discussed in the introduction to this statement and connects the many policies and guidelines adopted at Caltex to these values. A copy of the Caltex Code of Conduct is available on Caltex's web site.	
3.2 Disclose the policy concerning trading in company securities by directors, officers and employees	☑
The Caltex Share Trading Policy is available on the Caltex web site. In particular, the Caltex Share Trading Policy prohibits directors and employees who hold unvested Caltex shares pursuant to any share scheme offered by Caltex to enter into any transaction that is designed or intended to hedge that person's exposure to those unvested shares.	
3.3 Provide any information indicated in the Guide to reporting on Principle 3	☑
4.1 Require the Chief Executive Officer and the Chief Financial Officer to state in writing to the Board that the company's financial reports present a true and fair view, in all material respects of the company's financial condition and operational results and are in accordance with relevant accounting standards	☑
When the Board considers the half-year and full-year financial statements, the Chief Executive Officer and Chief Financial Officer provide the requisite written statement. The statement is considered by the Audit Committee prior to being provided to the Board.	
4.2 The Board should establish an Audit Committee	☑
4.3 Structure the Audit Committee so that it consists of: • only non-executive directors • a majority of independent directors • an independent chairperson, who is not chairperson of the board; • at least three members	☑
The Audit Committee complied with the composition recommended by the ASX Corporate Governance Council except for a short period between Ken Watson's resignation on 27 April 2006 and Trevor Bourne's appointment to the Committee on 1 May 2006 when there were only two members.	
4.4 The Audit Committee should have a formal charter	☑
A copy of the Charter of the Audit Committee is available on the Caltex web site. The Charter reflects the matters set out in the commentary and guidance to recommendation 4.4.	
4.5 Provide the information indicated in the Guide to reporting on Principle 4	☑
Information on the names and qualifications of the members of the Audit Committee, as well as the number of meetings in 2006 of the Audit Committee and who attended those meetings, is included on pages 24 to 25 and in the Directors' Report. Information on the process for the appointment and monitoring of the external auditor and oversight of the rotation of external audit partners and the independence of the external auditor is set out in the External Auditor Policy available on Caltex's web site.	
5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance	☑
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). A copy of the Caltex Continuous Disclosure Policy is available on the Caltex web site.	
5.2 Provide the information indicated in the Guide to reporting on Principle 5	☑

Recommendation	Comply
6.1 Design and disclose a communication strategy to promote effective communication with shareholders and encourage effective participation at general meetings	☑
The Board has adopted a Caltex Shareholder Communications Strategy, a copy of which is posted on the Caltex web site. It is Caltex's practice to invite shareholders to submit written questions about, or make comments on, Caltex's performance and management prior to each Annual General Meeting. Key issues raised by shareholders are addressed in the Chairman's speech to the Annual General Meeting. In addition, responses to the questions received are then made available to shareholders attending the Annual General Meeting and on the Caltex web site.	
6.2 Request the external auditor to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.	☑
7.1 The Board or appropriate board committee should establish policies on risk oversight and management	☑
Caltex has introduced a new enterprise-wide risk management process. The policy underpinning this new framework was approved by the Board in August 2006. Reporting to the Board under the new framework commenced in October 2006. Caltex has an internal audit function which reports to both the Audit Committee and the Company Secretary. The Audit Committee oversees the internal audit function and the appointment of the Internal Audit Manager. The Internal Audit Manager meets with both the Chairman of the Audit Committee and the Audit Committee as a whole in the absence of management. This function has full access to personnel and information and is independent of the external auditor.	
7.2 The chief executive officer and the chief financial officer should state to the Board in writing that: 7.2.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board 7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects	☑
When the Board considers the half-year and full-year financial statements, the Chief Executive Officer and Chief Financial Officer provide the requisite written statement in terms consistent with the guidance from the Group of 100. The statement is considered by the Audit Committee prior to being provided to the Board.	
7.3 Provide the information indicated in the Guide to reporting on Principle 7	☑
A description of Caltex's risk management policy and internal compliance and control system was made available on the web site in January 2007.	
8.1 Disclose the process for performance evaluation of the Board, its committees and individual directors, and key executives	☑
The Caltex Performance Evaluation Process sets out the processes by which the performance of the Board and all Caltex employees is evaluated, and is available on Caltex's web site. Information on performance evaluation of key executives is also included in the Remuneration Report in the Directors' Report as Caltex strongly believes in the link between performance and remuneration. Directors are encouraged to attend director training and professional development courses, as required, at Caltex's expense. New directors also receive an information pack, meet with senior executives to gain further background on Caltex's business operations and visit facilities as appropriate. The Human Resources and Nomination Committee reviews this induction process on a regular basis to ensure that appropriate induction is provided for new directors. 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. Directors visit at least two Caltex facilities during the year and an off-site strategy session over two days is also held annually to review Caltex's financial, strategic and operational goals and to discuss key business developments.	

Recommendation	Comply
9.1 Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance	☑
A Remuneration Report can be found in the Directors' Report commencing at page 38.	
9.2 The Board should establish a remuneration committee	☑
The Board has established a Human Resources and Nomination Committee composed of three members, the majority of whom are independent directors. The Chair of the Human Resources and Nomination Committee is an independent director. The Committee complied with this composition except for a short period between Mr Hauschildt's resignation on 22 June 2006 and Mr Fish's appointment to the Committee on 1 August 2006 when there were only two members. 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 recommendation 9.2, a copy of which is available on Caltex's web site.	
9.3 Clearly distinguish the structure of the non-executive directors' remuneration from that of executives	☑
As discussed in the Remuneration Report contained in the Directors' Report, 100% of the remuneration of non-executive directors is fixed and non-executive directors do not participate in any incentive plan. Also, fees paid to non-executive directors must be within the aggregate remuneration pool approved by shareholders. Remuneration paid to executives in 2006 included fixed and variable components, with variable remuneration comprising a cash based short-term performance incentive plan and the long-term incentive plan under which shares in Caltex Australia Limited may be granted to executives.	
9.4 Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders	☑
Senior executives of Caltex may receive shares under Caltex's long-term incentive plan. The terms and conditions of the long-term incentive plan were approved by shareholders at the Annual General Meeting held in April 1999.	
9.5 Provide the information indicated in the Guide to reporting on Principle 9	☑
Information on the members of the Human Resources and Nomination Committee, as well as the number of meetings in 2006 of the Human Resources and Nomination Committee and who attended those meetings, is included on pages 24 to 25 and in the Directors' Report. Following the decision to discontinue the Caltex retirement scheme for non-executive directors with effect from 1 January 2004, non-executive directors residing in Australia are entitled only to statutory superannuation. Directors not residing in Australia are not entitled to any superannuation.	
10.1 Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders	☑
A copy of the Code of Conduct is available on Caltex's web site.	

Caltex Australia Limited is committed to best practice in corporate governance where these practices are appropriate and add value to Caltex. The Board recognises that one size does not fit all and, although Caltex complies with all of the recommendations of the ASX Corporate Governance Council, the Board has adopted additional governance practices which address particular circumstances relevant to Caltex Australia Limited. These include the management of the relationship with Chevron, the largest shareholder in Caltex Australia Limited, the appointment of senior executives from Chevron as directors, including the Managing Director and Chief Executive Officer from time to time, the limitation on non-audit services provided by the external auditor and compliance with the Trade Practices Act 1974 (Cth).

Relationship with Chevron and appointment of senior executives from Chevron as directors

Chevron Corporation, through one of its subsidiaries, holds 50% of the issued shares in Caltex Australia Limited. Various Chevron Corporation subsidiaries also enter into commercial arrangements with Caltex from time to time. Caltex benefits greatly from its relationship with the Chevron Group (Chevron) by being able to access Chevron's global scale and extensive research and development activities. Without these benefits Caltex may be at a competitive disadvantage to other oil refiners and marketers in the Australian market which are subsidiaries of international oil companies. Caltex is not a subsidiary of an international oil company and the Board recognises that this means that Caltex must be diligent in ensuring that Chevron is not favoured over other shareholders.

The Board has adopted a protocol to govern all transactions with Chevron. Under that protocol all transactions between Caltex and Chevron, regardless of dollar value, must be approved by the Board of Caltex Australia Limited prior to the transaction being entered into. A transaction will only be approved if the terms of the proposed transaction are arm's length terms or no less favourable to Caltex Australia than arm's length terms.

In particular, agreements are negotiated between Caltex and Chevron in relation to spot and term crude and product sales and purchases and the chartering of shipping for the transportation of crude and petroleum products purchased and sold by Caltex. Crudes purchased from all parties, including Chevron, are assessed using the same mathematical model and published market pricing data to determine the crude creating the greatest value for Caltex having regard to such factors as crude quality, purchase price, freight costs and processing suitability and value. If Chevron acts as an agent of Caltex in a crude transaction, it receives a commission fee which has been assessed to be less than the cost to Caltex of operating a Singapore trading office or of using an independent agent and Chevron only acts on instructions from Caltex. In relation to product purchases and sales, a program is considered annually by the Board. As part of that consideration, the Board receives information on the current year's transactions showing that they occurred on an arm's length basis and approves the independent criteria to be used to assess that the following year's arrangements will be on no worse terms than on an arm's length basis.

The Board of Caltex Australia Limited has three directors who are executives of Chevron, one of whom is currently seconded from Chevron to act as the Managing Director and Chief Executive Officer. The appointment of Chevron executives as 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. They bring important knowledge and experience to bear on the Board's consideration of operational and business matters which is not available from directors without industry involvement and which is not generally available in Australia.

Once appointed to the Board of Caltex Australia Limited, these directors are required under corporate law to act in the best interests of Caltex Australia Limited. It is a term of the letter of appointment for the Managing Director and Chief Executive Officer (to which the Managing Director and Chief Executive Officer agrees) that the scope, nature and performance of his duties are subject to, and must be undertaken in accordance with, the lawful directions of the Board of Caltex Australia Limited. Directors who are employees of Chevron must also participate in an education session conducted by external Australian legal counsel shortly after their appointment which emphasises their duties to Caltex and how to manage any conflicts of interest that might arise.

The performance of the Managing Director and Chief Executive Officer is assessed annually by the Chairman against Caltex performance benchmarks. The results of this assessment are reported to Chevron which Chevron takes into account in the remuneration it pays to the secondee.

Further information on the relationship with Chevron is available on Caltex's web site.

Provision of non-audit services

To ensure the independence of the 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 amount paid or payable to the external auditor in relation to the provision of non-audit services to Caltex are disclosed in the Directors' 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 stating whether it is satisfied the provision of non-audit services has not compromised the auditor independence requirements of the Corporations Act 2001 (Cth).

Compliance with Trade Practices Act

Caltex is committed to complying with the Trade Practices Act 1974 (Cth) and, to this end, has a rigorous Trade Practices Compliance Program in place.

A key element of the program is the Caltex Trade Practices Compliance Policy. It is a condition of employment that all Caltex employees comply with this policy. The policy requires all Caltex employees to comply with the Trade Practices Act and not engage in any conduct or activity which is compromising from a trade practices point of view.

A further key element of the program is the provision of annual tailored education for relevant employees and contractors.

Simplified Financial Report

Profit and Loss

for the year ended 31 December 2006

Millions of dollars	2006	2005
1 Total revenue[1]	18,665	15,895
2 Total expenses[2]	(18,010)	(15,312)
3 Replacement cost EBIT	**655**	**583**
4 Net finance costs	(46)	(23)
Income tax expense	(179)	(146)
Replacement cost profit (RCOP)	**430**	**414**
5 Inventory gain – after tax	36	160
Significant items	–	21
Historical cost net profit	**466**	**595**
Interim dividend per share	32c	15c
6 Final dividend per share	48c	31c
Basic earnings per share		
– Replacement cost	159c	153c
– Historical cost	173c	220c

Discussion and Analysis

1 Total revenue

↑17%

Total revenue increased primarily due to:

- higher product prices driven by higher crude prices and higher refiner margins on transport fuels; and
- marketing sales volumes and margins are higher than 2005 on transport fuels.

2 Total expenses – replacement cost basis

↑18%

Total expenses increased primarily due to higher cost of sales, which reflected higher crude prices:

- higher operating expenses due to:
  - increased depreciation due to completion of the Clean Fuels Project;
  - increased infrastructure maintenance-related costs; and
  - higher environmental remediation expenses.

1 Excludes interest revenue and individually material tax item (if applicable).

2 Excludes interest expense, inventory gains/(losses) and individually material tax item (if applicable).

3 Replacement cost EBIT ↑12%	The improvement in Caltex's underlying performance resulted primarily from: • higher refiner margins on transport fuels; and • higher marketing margins and sales volumes on transport fuels. This improvement was partially offset by: • higher operating expenses; • losses on imports and exports and other refinery losses due to the delay in the ability to produce products that comply with the Clean Fuels standards (Clean Fuels Project now completed). Breakdown of replacement cost EBIT is detailed below[1]:

RCOP EBIT breakdown

Caltex Refiner Margin (CRM) $928m	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 2006 at US$10.13/bbl, compared with US$8.40/bbl for 2005. Additionally, lower planned refinery shutdown activity, resulted in sales from production increasing from 10.4 billion litres in 2005 to 11.0 billion litres in 2006.
Transport fuels marketing margin $334m	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 5% higher than in 2005. • Additionally, transport fuels sales volume increased 1% driven by increased demand for diesel and petrol partly offset by the decline in jet.
Lubricants and specialties margin $107m	Lubricants and specialties products include finished lubricants, base oils, liquified petroleum gas, petrochemicals, bitumen, wax and marine fuels. • Finished Lubes margins lower than 2005 due to the rapid increases in cost of product in 1H06. Partly offset by: • specialties volumes grew overall by 5% mainly due to increased sales of marine fuels.
Non-fuel income $147m	Non-fuel income includes convenience store income, franchise income, royalties, property, plant and equipment rentals, StarCard income and share of profits from non-controlled equity distributors. • Non-fuel income increased by 16% compared with the same period last year due to increased card income, royalties and strong Calstores results.
Operating expenses ($698m)	Operating expenses in this caption include refining and supply, marketing, corporate and other operating expenditure. • Higher operating expenses due to increased depreciation (completion of the Clean Fuels Project) and a change in maintenance practices to undertake more work on a rolling basis than in shutdown periods; and • higher environmental remediation expenses.
Other ($163m)	Other includes foreign exchange impacts, pipeline and charter revenue. In addition, losses on exports and imports and other refinery losses occurred due to the delay in the ability to produce products that comply with the new Clean Fuels standards.
Total RCOP EBIT $655m	

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

Profit and Loss

Discussion and Analysis continued

4 Net finance costs ↑96%	The increase in net finance costs reflects a higher average net debt for 2006 which was 42% higher than for 2005 due to higher crude oil prices during the year. The net debt at 31 December 2006 was $539 million compared with $429 million at 31 December 2005.
5 Inventory gain after tax ↓77%	Regional crude oil (Tapis) prices rose significantly in 1H06 (US$70.86/bbl June 2006), however, they averaged US$59.54/bbl in December 2006 compared with US$57.24/bbl in December 2005. This increase resulted in net inventory gains of $52 million ($36 million after tax) compared with net inventory gains of $228 million ($160 million after tax) in 2005.
6 Final dividend	The Board declared a final fully franked dividend of $129.6 million, or 48 cents per share compared with 31 cents per share declared for the final 2005 dividend. The record date is 9 March 2007, with the dividend payable on 30 March 2007.

Balance Sheet

as at 31 December 2006

Millions of dollars	**Dec 2006**	Dec 2005	Change
1 Working capital	699	487	212
2 Property, plant and equipment (PP&E)	2,288	2,076	212
3 Net debt	(539)	(429)	(110)
Other non-current assets and liabilities	(5)	4	(9)
Total equity	2,443	2,138	305

Discussion and Analysis

1 Working capital ↑ $212m	The increase in working capital is primarily due to: • higher income tax instalment payments relative to income tax provided (hence reducing current tax liabilities); • higher crude and product prices (Tapis average December 2006 US$59.54/bbl vs. December 2005 US$57.24/bbl); • higher inventory volumes due to inventory build up for planned turnaround and inspection occurring in February 2007; • lower payables driven by the completion of the Clean Fuels Project. Partly offset by: • lower receivables due to decrease in export cargoes compared with December 2005.
2 PP&E ↑ $212m	The increase in property, plant and equipment is due to: • capital expenditure and major cyclical maintenance of $382 million, including $85 million relating to the Clean Fuels Project for Caltex's two refineries. Partly offset by: • depreciation of $147 million; and • net disposals of $22 million.
3 Net debt ↑ $110m	Net debt has increased to $539 million at 31 December 2006, an increase of $110 million from 31 December 2005. As a result, Caltex's gearing (net debt to net debt plus equity) was 18.1%, which increased from 16.7% at 31 December 2005. Debt at 31 December 2005 was temporarily low due to lower crude inventories during the Clean Fuels construction period.

Cash Flows

for the year ended 31 December 2006

	Millions of dollars	2006	2005	change
	Receipts from customers	21,290	17,546	3,744
	Payments to suppliers and employees	(16,046)	(12,268)	(3,778)
	Payments for excise	(4,412)	(4,372)	(40)
1	Finance costs paid	(57)	(43)	(14)
2	Other net operating activities	(309)	(245)	(64)
	Net operating cash flows	**466**	**618**	**(152)**
3	Purchases of property, plant and equipment (PP&E) and major cyclical maintenance	(387)	(499)	112
	Other investing cash flows	(18)	10	(28)
	Net investing cash outflows	**(405)**	**(489)**	**84**
4	**Net financing cash inflows/(outflows)**	**(34)**	**(115)**	**81**
	Net increase in cash held	**27**	**14**	**13**

Discussion and Analysis

1 Finance costs

↑$14m

Net debt increased to $539 million at 31 December 2006 (compared with $429 million at 31 December 2005). Average net debt for 2006 was 42% higher than for 2005. The higher average net debt level resulted in increased borrowing costs ($14 million).

2 Other net operating activities

↑$64m

Cash outflows from other net operating activities increased due to higher income tax instalments which are increasing in line with higher profitability.

3 Purchases of PP&E and major cyclical maintenance

↓$112m

Purchases of PP&E and major cyclical maintenance decreased due to completion of the Clean Fuels Project.

4 Net financing cash outflows

↓$81m

Net financing cash outflows decreased due to higher net loan borrowings of $136 million compared with $4 million (repayments) in 2005. This was partly offset by higher 2006 dividend payment of $170 million, comprising a 2006 interim dividend ($86 million) and 2005 final dividend ($84 million). Total dividend payments in 2005 amounted to $108 million.

Financial Report

THE 2006 FINANCIAL REPORT FOR CALTEX AUSTRALIA LIMITED INCLUDES:

FOR THE YEAR ENDED 31 DECEMBER 2006

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 Services Pty Ltd and Caltex Lubricating Oil Refinery Pty Ltd; and
- a number of wholly owned entities and other companies that are controlled by the Group.

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

CALTEX AUSTRALIA LIMITED
ACN 004 201 307

Directors' Report

For the financial year ended 31 December 2006

Introduction

The Board of Caltex Australia Limited presents this Directors' Report and the 2006 Financial Report for the Caltex Australia Group for the year ended 31 December 2006 to shareholders. An Independent Audit Report from KPMG, Caltex's external auditor, is also provided.

Board of directors

The Board of Caltex Australia Limited at the date of this report comprised Richard Warburton (Chairman), Desmond King (Managing Director and Chief Executive Officer), Trevor Bourne, Elizabeth Bryan, Brant Fish, John Thorn, and Peter Wissel.

Directors' profiles

Details of directors, their qualifications, experience and any special responsibilities, including committee memberships, are set out on pages 24 to 25. Details of alternate and former directors who served during 2006 follow.

Alternate director

Colleen Jones-Cervantes
Alternate Director

Bachelor of Mechanical Engineering (Michigan Technological University, USA)

Ms Jones-Cervantes was appointed as an alternate director for Mr Fish and Mr Wissel on 27 July 2006.

Ms Jones-Cervantes is the Vice-President – Global Marketing, Asia Pacific Region with Chevron U.S.A Inc., based in Singapore. In this role, she is responsible for retail sales for the Caltex brand, commercial and industrial sales, asphalt and LPG sales, and company operated stores in 11 countries.

Former directors

David Reeves
Managing Director and Chief Executive Officer

Bachelor of Civil Engineering (University of Washington, USA)

Mr Reeves served as Managing Director and Chief Executive Officer from 11 August 2003 to 30 April 2006. Mr Reeves was on secondment from Chevron to Caltex and returned to Chevron to take on the role of President of global crude oil and petroleum product supply and trading.

William Hauschildt
Director (Non-executive)

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

Mr Hauschildt was a director from 21 September 2004 to 22 June 2006. While a director, Mr Hauschildt also served as a member of the Human Resources and Nomination Committee.

Ken Watson
Director (Non-executive/Independent)

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

Mr Watson was a director from 9 February 1996 until his retirement at the conclusion of the annual general meeting on 27 April 2006. In 2006, Mr Watson also served as Chairman of the Audit Committee until his retirement.

Review of results and operations

General overview

Caltex achieved record earnings in 2006 with profits after tax (excluding individually material tax items) on a replacement cost of sales operating profit (RCOP) basis up 4% on 2005. This result reflected stronger refiner margins, higher refinery utilisation and stable marketing transport fuels margin in a challenging environment.

RCOP after tax (excluding individually material tax items) was $430 million for the year ended 31 December 2006, up from $414 million for 2005. This result excludes the impact of international oil price movements and therefore provides a clearer picture of the company's underlying business performance.

Higher refiner margins were driven by the continued strong regional growth in demand for refined products, reduction in Chinese exports and tight global supply. The 2006 Caltex Refiner Margin (CRM)[1] averaged US$10.13 a barrel compared with US$8.40 a barrel in 2005.

In Refining, average refinery utilisation increased to 78% compared to 74.5% in 2005. This was largely achieved during the second half of 2006 (85%) when operations returned to normal following the first half of the year which included the completion of the Clean Fuels plant (Lytton completed in March and Kurnell completed in May) and a maintenance shutdown at the Kurnell refinery.

On an historical cost basis (including inventory gains, but excluding individually material tax items), Caltex recorded an after tax profit of $466 million for the year ended 2006, compared with $574 million for 2005. This historical cost profit includes crude oil and petroleum product inventory gains of $36 million after tax, compared with inventory gains of $160 million after tax in 2005. This decrease in inventory gains reflects crude oil increases during 2006 (averaging US$59.54 a barrel in December 2006 compared with US$57.24 a barrel in December 2005, although crude prices rose significantly in first half 2006).

Net debt at 31 December 2006 was $539 million, up from $429 million at 31 December 2005. Debt at 31 December 2005 was temporarily low due to lower crude inventories during the Clean Fuels construction period.

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

Marketing

The Marketing department promotes and sells Caltex fuels, lubricants, specialties and convenience store goods through a national network of approximately 1,800 Caltex, Caltex Woolworths and Ampol branded service stations and 61 branded resellers. Marketing also sells directly to a large number of commercial customers.

Caltex maintained its sales and market leadership position despite the petrol market contracting slightly due to higher prices. Total transport fuels sales volume for full year 2006 increased to 13.4 billion litres, up from 13.2 billion litres in 2005.

Caltex met its target commitment for 2006 under the Australian Government's Biofuels Action Plan. By the end of 2006 the company had Australia's largest network of 237 sites selling blended biofuels.

Diesel sales volume grew by 3.6% for full year 2006 compared to 2005.

Premium fuel sales decreased by 5.7% compared with full year 2005, due to higher product prices depressing customer demands. Sales volumes recovered towards the end of the year as pump prices eased and premium petrols differential realigned to market price. Caltex continues to rollout high octane premium unleaded petrol Vortex98 in WA.

There was growth in specialty sales volume, which was 5.1% higher for the full year 2006 compared with 2005, driven by an increase in marine fuel sales volumes during the Clean Fuels construction. The introduction of a government subsidy on LPG car conversions resulted in higher propane and automotive LPG sales. Non-fuel income increased by 16% compared with 2005, driven by increased royalty income from the increase in shop sales, as well as strong results from company-operated stores. Caltex is now the number one convenience retailer in Australia with a 32% market share and shop sales that were 5.9% higher than 2005.

Refining and Supply

Caltex's Refining and Supply functions purchase crude oil, arrange its transportation to the company's refineries, refine the crude into petrol, diesel, jet and specialty products, distribute the products to a network of terminals around Australia and buy and sell products and schedule product movements to meet marketing sales.

The Clean Fuels Project was completed in 2006. This involved the construction or rebuilding of four major processing units which improve air quality by reducing benzene in petrol and sulphur in diesel to standards required by the Australian Government. The delay in the completion of this project adversely impacted refining utilisation and transport fuel production in the first half 2006. Caltex maintained reliable supply to our customers through this transition period thanks to excellent planning and scheduling functions within Refining and Supply. Record numbers of shipping movements with additional imports and exports were handled without incident. In the second half 2006, the refineries achieved record utilisation levels. Total production for 2006 of 11.9 billion litres of petroleum products was the highest on record (2005: 11.6 billion litres). Production of high value transport fuel products (petrol, diesel and jet fuel) was 10.2 billion litres (2005: 10.0 billion litres).

Caltex's Refining Performance Improvement Program launched in late 2004 to lift the productivity of refining operations has continued. Projects completed in 2006 include an additional bitumen tank at the Kurnell refinery and 29 smaller projects.

One of the two catalytic cracker units at the company's Kurnell refinery was shut down for 53 days from late April to early June for planned maintenance.

In February, a series of events were held at the Kurnell refinery to celebrate 50 years of Caltex refining in Australia.

Dividends declared and paid

The Board declared a final dividend of $129.6 million or 48 cents per share, adding to the interim dividend of 32 cents per share, paid during 2006 to give a total dividend of 80 cents per share fully franked (2005 total dividends: 46 cents per share, of which 31 cents was paid during 2006).

This is in line with the company's stated dividend policy of declaring ordinary dividends of 40% to 60% of the RCOP result (after tax excluding individually material tax items).

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 2006 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.

Environmental regulations

Caltex 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 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 2006, the enterprise-wide Caltex Risk Management Framework (CRMF) was implemented. The new framework builds on the existing risk management processes in Caltex and provides a common approach to documenting and communicating key risks and controls in relation to these risks.

Under the CRMF, assessment of risk and risk management is linked with the annual business planning cycle so that assessment and management of risk is integrated with the way Caltex plans initiatives and conducts day to day business functions. Reporting documentation for the CRMF links risk identification, risk control measures and the monitoring of risks and controls so that a complete picture is presented to management and to the Caltex Board.

Caltex supports a refining industry policy based on cleaner fuels for reduced air pollution and greenhouse gas emissions. In 2006, Caltex began producing and marketing cleaner fuels meeting the mandatory standards for reduction of benzene in petrol and sulphur in diesel that came into effect on 1 January 2006.

Caltex continues to be a participant in the Greenhouse Challenge Program, which requires reporting of emissions and progress against abatement plans, 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.

In 2006, Caltex participated in the Corporate Responsibility Index survey for the second time (reporting on the 2005 calendar year). The results of the independently audited survey are published in Fairfax newspapers. In April 2006, Caltex was awarded a bronze star for its overall performance in the 2005 survey.

Compliance with environmental obligations

A total of 14 environmental protection licences were held by companies in the Caltex Australia Group in 2006 for two refineries and 11 terminals.

Licence conditions were exceeded on 10 occasions in 2006, which required notification and reporting to government environmental authorities. These did not result in an infringement notice or fine.

Nil infringement notices for breaches of significant environmental regulation were received by Caltex in 2006.

Caltex was prosecuted once for a breach of environmental regulation in 2006:

– Caltex Refineries (NSW) Pty Ltd was fined $70,000 in the NSW Land and Environment Court for emission of odours related to overfilling a foul condensate storage tank. Under new provisions in legislation, the fine was paid to recover wetlands at Marton Park in Kurnell. Caltex also paid NSW EPA 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 64 and forms part of the Directors' Report for the financial year ended 31 December 2006.

Remuneration report

Only certain information included in this Remuneration Report has been audited. Such information has been specifically identified within the relevant section headings and sub-headings. All other information has not been audited.

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. We reward our 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.

In late 2006, the Board commissioned a detailed review of the Long-Term Incentive Plan. The intent of the review was to ensure that the plan meets the current and future needs of the changing Caltex business and the expectations of shareholders. Both the current (2006) and future (2007) plans are discussed in the course of this report.

Caltex's Reward Policy

High performance at individual and team levels is required to deliver the Total Shareholder Return expectations established by the Caltex Business Plan. Our Reward Policy 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 determine reward outcomes;
- market competitive rewards are delivered commensurate with employee duties, responsibilities, accountabilities, competencies and behaviours; and
- reward programs are designed to 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 including the satisfaction of performance conditions, 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 contract for the Managing Director and Chief Executive Officer; and
- general remuneration matters including superannuation.

The Committee is comprised of two independent directors, Ms Bryan (Chair) and Mr Warburton, and one non-executive director, Mr Fish. Mr Fish 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 on page 61.

Delivering total shareholder return through performance and reward

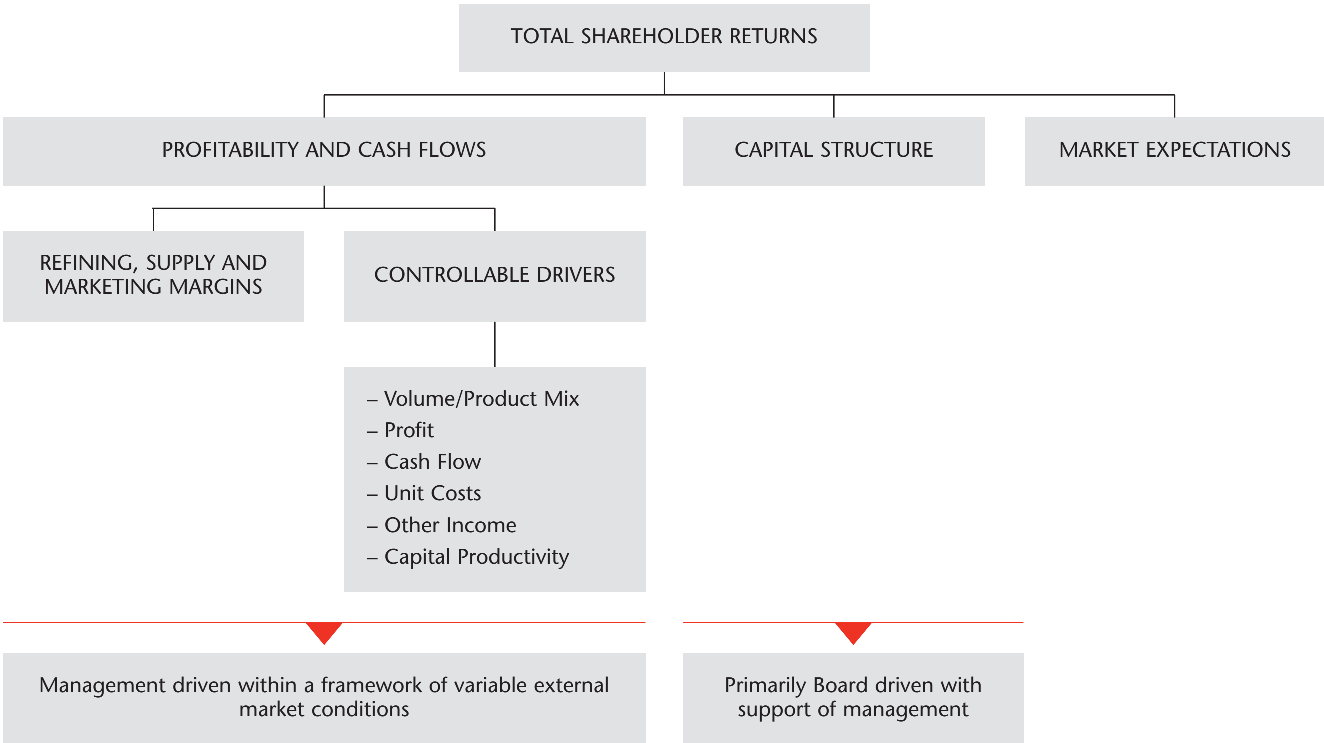
The Caltex Reward System applies to all salaried employees including senior executives but excludes employees covered by enterprise bargaining agreements and Australian Workplace Agreements.

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
- capital productivity.

In addition, there are a range of variable external market conditions that fluctuate 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 superior results in our cyclical industry.

Figure 1: Key drivers of Total Shareholder Returns



To ensure focus on Total Shareholder Return, each year the Board establishes a clear framework ("Corporate Direction") from which management develops the Caltex Business Plan. The Board approves the plan and regularly monitors and reviews progress.

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

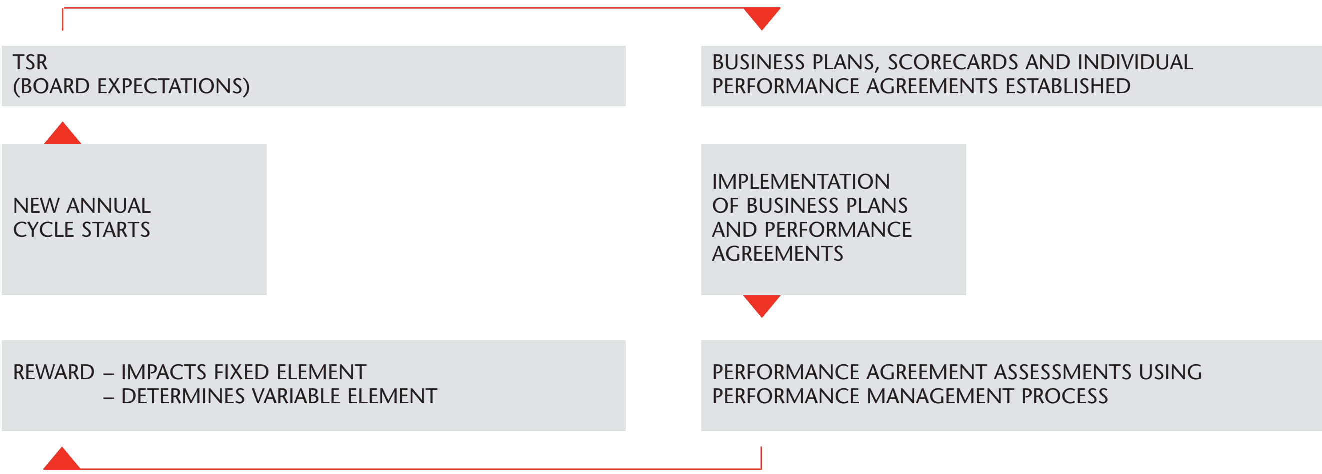
Within departments, specific performance agreements are developed for individual employees thus completing the link between themselves and delivery of Total Shareholder Return as shown in Figure 2.

Figure 2: Aligning individual performance agreements to Total Shareholder Return

Performance management

The efficacy 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.

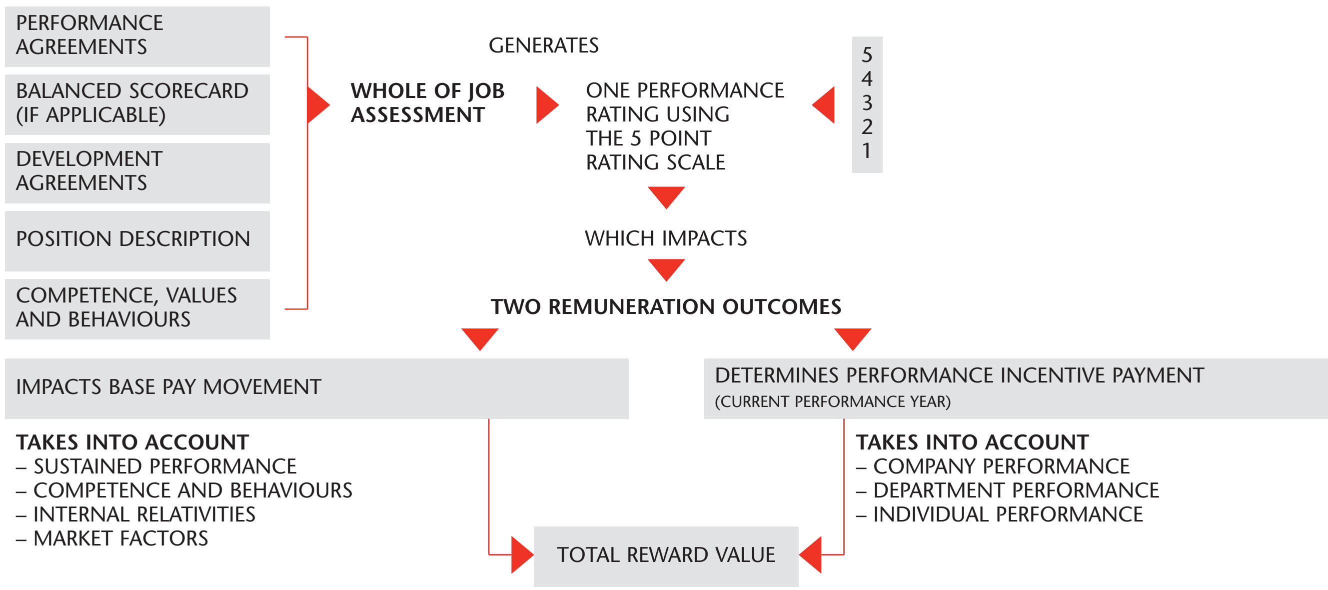
Figure 3: Relationship between Total Shareholder Return, performance and reward



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 rating at year end. Ratings are then calibrated at the business unit and department level.

Figure 4 demonstrates how an employee's whole of job performance assessment ultimately impacts 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 employees covered under the Caltex Reward System. 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 (for eligible senior executives). 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 the Total Reward Value are undertaken regularly to inform if Caltex is in line with its remuneration target (market median). Adjustments are made as appropriate when the Total Reward Value is not in line with the market.

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.

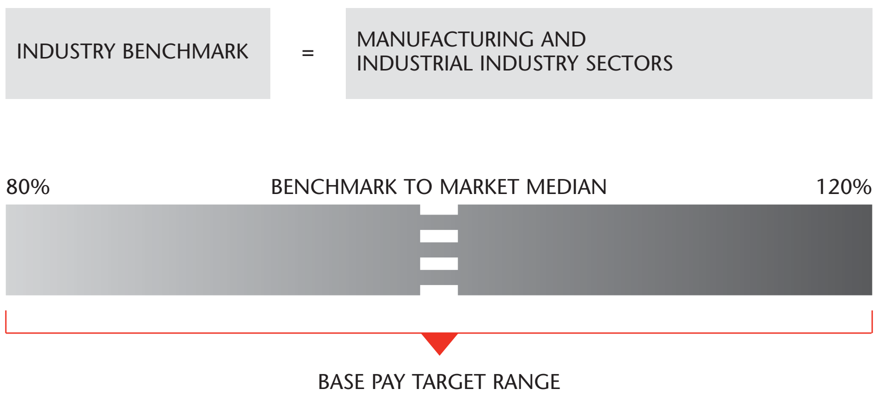
Employees have some flexibility in packaging the delivery of their fixed and variable remuneration.

Fixed remuneration (Audited)

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



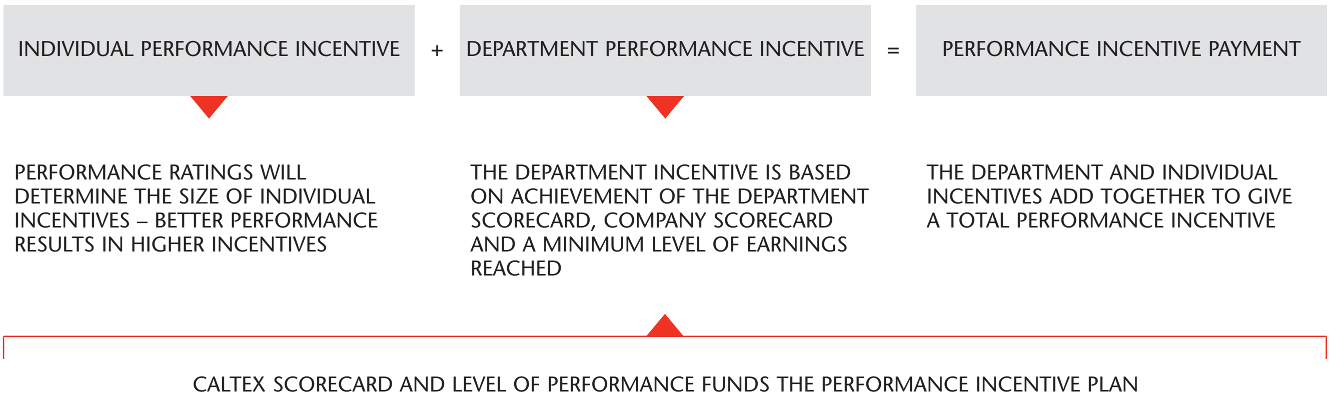
Variable remuneration (Audited)

Annual Performance Incentive Plan (Audited)

Remuneration that is variable and directly dependent upon performance is delivered through the annual 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 is on individual performance, so that individuals have more control over their incentive outcome, with high performance resulting in higher incentives.

Figure 6: Performance Incentive Plan



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 net profit after tax 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% of base pay is available to fund the individual performance incentive component as determined by annual performance review ratings.

As indicated above, the company scorecard result establishes the overall funding pool or total bonus opportunity. The actual portion of the pool that an individual receives is based on their department scorecard results, their level of responsibility (role) and individual performance. Performance against the department scorecards will determine the department performance incentive component. Employee role and performance review rating determine the quantum of the individual performance incentive component.

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

The key Caltex scorecard measures for 2006 are shown below. These measures were selected because they were identified as critical financial and operational drivers for the success of Caltex in 2006.

Sustained and strong profitability (70% weighting)

- Replacement Cost Net Profit After Tax (RCOP NPAT)
- free cash flow (after investment and before dividends)

Operational excellence (20% weighting)

- Total Treated Injury Frequency Rate (per million work hours)
- refinery utilisation

Cost management (10% weighting)

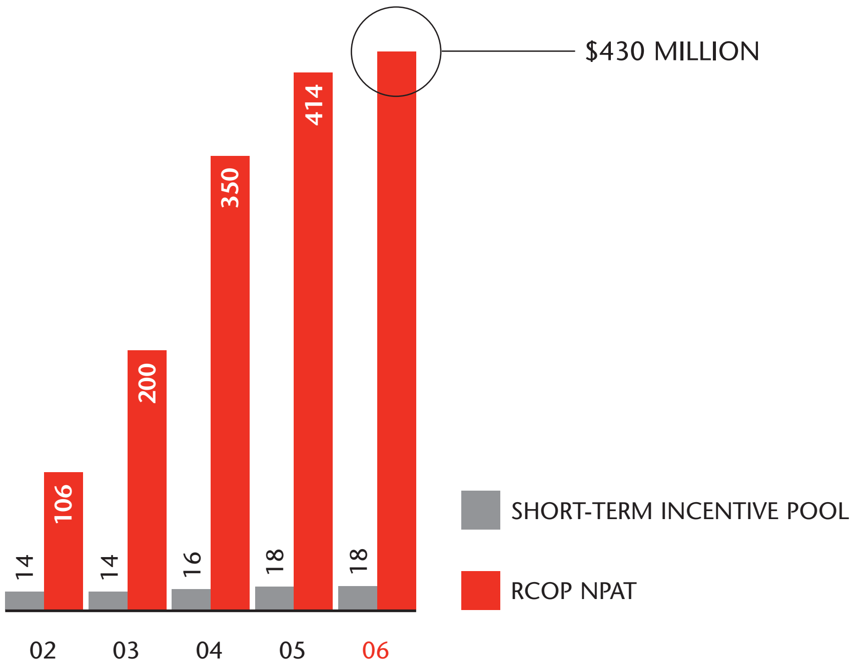
- unit operating expenditure cost per litre (total operating expenditure divided by total sales volume)

Actual scorecard performance is measured against the targets set and any payouts available under the Performance Incentive Plan are approved 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, the performance assessment process 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.

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 300% over the period, the total variable remuneration pool has reduced as a percent of RCOP NPAT over the same period, ranging from 13% of RCOP NPAT in 2002 to 4% in 2006.

Graph 1: Total variable remuneration pool and RCOP NPAT



Long-Term Incentive Plan for 2006 (Audited)

(refer to page 55 for revisions effective for the 2007 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 the 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 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.

In 2005, Caltex completed an interim review of its Long-Term Incentive Plan as it was determined that the existing plan while appropriate at its inception was not in line with changing market practice. As a result of the review, the Board approved several new features of the plan which were appropriate for Caltex's business and moved the plan closer to market practice. These features were introduced on 1 January 2006 and included: making the ROCE and TSR award components independent of one another, establishing minimum thresholds for payment of each component, lengthening the vesting period of the awarded shares and adding in a post-vesting deferral option. The 2006 plan is summarised below.

Participation is at two levels:

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

Level 2 participants qualify for an allocation of shares equivalent to 75% of the scale that applies to Level 1 participants. The Level 1 and Level 2 award levels are shown in Table 1 below. The award quantum is calculated as a percentage of base pay.

Eighteen Caltex senior executives participated in the plan in 2006 – five in Level 1 and 13 in Level 2.

The award is determined on Caltex's performance against 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.

  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 is intended to reinforce 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 other than those companies listed in the S&P/ASX – Financial excluding Property Trusts sector and the S&P/ASX – Telecommunications Services sector. 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 above two measures were chosen as they are key drivers of shareholder value and they closely reflect Caltex's financial and operational performance.

Table 1: Long-Term Incentive Plan schedules (Audited)

TSR			ROCE		
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.			Maximum ROCE represents 50% of total reward available.		
	Grant as % of base pay		**Grant as % base of pay**		
TSR ranking	**Level 1**	**Level 2**	**ROCE v target**	**Level 1**	**Level 2**
Below 51st percentile	0%	0%	80% and below	0%	0%
At 51st percentile	18%	14%	80 – 90%	7 – 14%	5.25 – 10.5%
Between 51st percentile and 75th percentile	18 – 45%	14 – 34%	90 – 100%	14 – 22%	10.5 – 16.5%
Above 75th percentile	45%	34%	100%	22%	16.5%
			100 – 110%	22 – 45%	16.5 – 34%
			>110%	45%	34%

The shares awarded vest to participants in three equal tranches:

- one third on 1 January in the year following the date the Trustee acquires the shares;
- one third on 1 January in the second year following the date the Trustee acquires the shares; and
- one third on 1 January in the third year following the date the Trustee acquires the shares.

There is a voluntary restriction on sale (post vesting) to allow the executives to defer tax. This is intended to encourage executives to retain the shares.

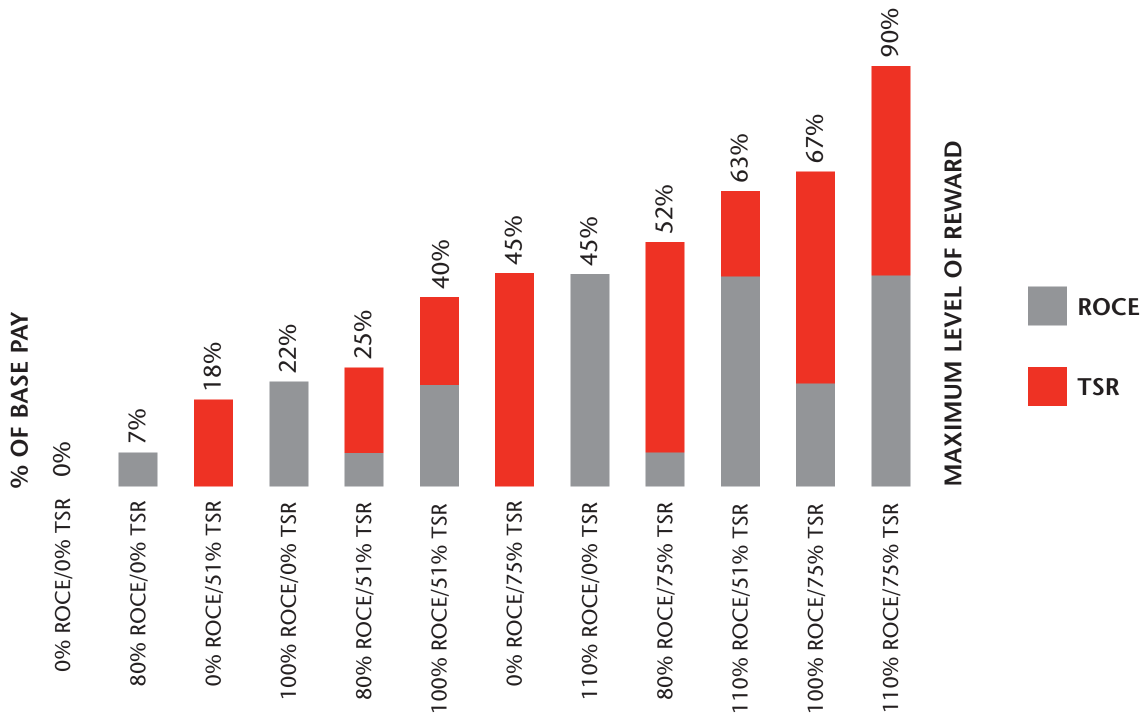
The potential growth in value of each grant over the three year vesting period is an important factor aligning shareholder and executive gain.

Where a participant ceases employment prior to the vesting of their shares, the shares are forfeited unless cessation of employment is due to retirement, total and permanent disability 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.

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 quantum of grants that may be earned by an executive for different performance outcomes is shown in Graph 2.

Graph 2: Interrelationship of TSR/ROCE outcomes given under the 2006 Long-Term Incentive Plan



Employees covered by enterprise bargaining agreements and Australian Workplace Agreements (Audited)

Employees covered by enterprise bargaining agreements and Australian Workplace Agreements have different fixed and variable pay 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 (Audited)

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 these share plans, employees sacrifice part of their salary to purchase Caltex Australia Limited shares on the market. Shares may be purchased under a Tax Exempt Plan (up to $1,000 annually) or under a Tax Deferred Plan (up to 10% of base pay). To date, more than 65% of our employees are shareholders in the company through CALESP.

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.

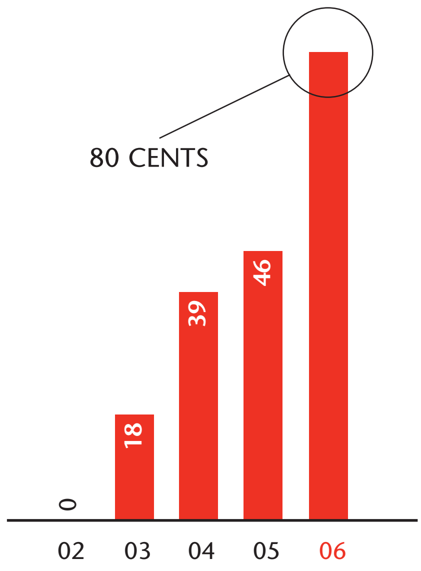
Caltex performance

During the last five years, Caltex's share price has risen significantly reflecting improved performance and outlook. The Board adopted a dividend policy in 2004, declaring ordinary dividends of 20% to 30% of the RCOP after tax excluding individually material tax items. The Board has since adopted a payout ratio in the range of 40% to 60% of the RCOP after tax excluding individually material tax 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.

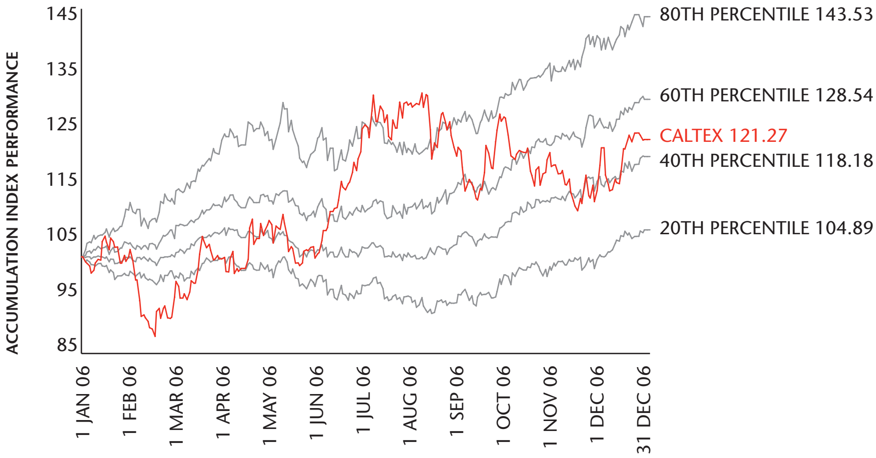
Further information on the dividends declared or paid for the last five years are highlighted in Graph 3. Also shown in Graph 4 is the relative Total Shareholder Return against our peer group for 2006. Both charts highlight how Caltex's shareholders have gained in recent years.

Graph 3: Dividends per share



Graph 4: 2006 Total Shareholder Return versus Long-Term Incentive Plan peer group

Caltex Australia Limited and the Constituents of the S&P/ASX 200 Accumulation Index[1]
(Less Constituents of the Financials and Telecommunications Sectors[2])
Performance 1 January – 31 December 2006



Indices based on a value of 100 at 1 January 2006

1 Constituents based on the S&P/ASX 200 Index (Less the Constituents of the "Financials-x-Property Trusts" and "Telecommunications Services" Sectors) as at 31 December 2006. There are 166 companies included.

2 The Standard and Poors sectors are "Financials-x-Property Trusts" and "Telecommunications Services"

Source: Thomson Financial Datastream

The list below contains the peer group of companies as at 31 December 2006 from the S&P/ASX 200 used in calculating shareholder return:

Alinta Limited, Adelaide Brighton Limited, ABC Learning Centres Limited, Adsteam Marine Limited, AGL Energy Limited, Alinta Infrastructure Holdings, Australian Infrastructure Fund, Aristocrat Leisure Limited, Alesco Corporation Limited, Amcor Limited, Ansell Limited, APA Group, Australian Pharmaceutical Industries Limited, APN News & Media Limited, Aquarius Platinum Limited, Arc Energy Limited, Austar United Communications Limited, AWB Limited, Alumina Limited, Australian Worldwide Exploration Limited, Billabong International Limited, Babcock & Brown Infrastructure Group, Babcock & Brown Wind Partners Group, Bendigo Mining Limited, BHP Billiton Limited, Babcock & Brown Japan Property Trust, Bradken Limited, Boral Limited, Boom Logistics Limited, Beach Petroleum Limited, Bolnisi Gold NL, Bluescope Steel Limited, Bunnings Warehouse Property Trust, Brambles Limited, Cabcharge Australia Limited, Coca-Cola Amatil Limited, Commander Communications Limited, Centro Retail, Connecteast Group, Centennial Coal Company Limited, CFS Retail Property Trust, Coles Group Limited, Centro Properties Group, Coates Hire Limited, Cochlear Limited, Commonwealth Property Office Fund, Computershare Limited, Crane Group Limited, CSL Limited, Consolidated Minerals Limited, CSR Limited, Corporate Express Australia Limited, David Jones Limited, Downer Edi Limited, DB RREEF Trust, Diversified Utility and Energy Trusts, Dyno Nobel Limited, Emeco Holdings Ltd, Energy Developments Limited, Envestra Limited, Energy Resources Of Australia Limited, Futuris Corporation Limited, Foster's Group Limited, Flight Centre Limited, Fortescue Metals Group Ltd, Fairfax (John) Holdings Limited, Goodman Fielder Limited, Gunns Limited, GPT Group, Galileo Shopping America Trust, Great Southern Plantations Limited, GUD. Holdings Limited, Gwa International Limited, Hastings Diversified Utilities Fund, Hills Industries Limited, Healthscope Limited, Harvey Norman Holdings Limited, ING Industrial Fund, Iluka Resources Limited, ING Office Fund, Investa Property Group, Incitec Pivot Limited, Iress Market Technology Limited, Invocare Limited, JB Hi-Fi Limited, Jubilee Mines NL, James Hardie Industries N.V., Just Group Limited, Kingsgate Consolidated Limited, Kimberley Diamond Company NL, Kagara Zinc Limited, Leighton Holdings Limited, Lihir Gold Limited, Lion Nathan Limited, Macquarie Airports, Macarthur Coal Limited, Macquarie Communications Infrastructure Group, Macquarie Countrywide Trust, Macquarie DDR Trust, Macquarie Goodman Group, Mirvac Group, Macquarie Infrastructure Group, Macquarie Media Group, Macquarie Office Trust, Macquarie Prologis Trust, Minara Resources Limited, Metcash Limited, Multiplex Group, Mayne Pharma Ltd, Newcrest Mining Limited, Nufarm Limited, Origin Energy Limited, Orica Limited, Oil Search Limited, Onesteel Limited, Oxiana Limited, Pacific Brands Limited, Publishing & Broadcasting Limited, Paladin Resources Limited, Perilya Limited, PMP Limited, Paperlinx Limited, Qantas Airways Limited, Ramsay Health Care Limited, Ridley Corporation Limited, Rinker Group Limited, Rio Tinto Limited, ResMed Inc., Roc Oil Company Limited, Southern Cross Broadcasting (Australia) Limited, Seek Limited, Seven Network Limited, Sims Group Limited, Stw Communications Group Limited, Stockland, Sino Gold Limited, Sonic Healthcare Limited, Sigma Pharmaceuticals Ltd, Spark Infrastructure Group, Sp Ausnet, Spotless Group Limited, Sydney Roads Group, Straits Resources Limited, Smorgon Steel Group Limited., Santos Limited, Symbion Health Limited, Tabcorp Holdings Limited, Transurban Group, Ten Network Holdings Limited, Timbercorp Limited, Toll Holdings Limited, Transpacific Industries, Transfield Services Limited, Tishman Speyer Office Fund, Tattersalls Limited, United Group Limited., Veda Advantage Limited, Valad Property Group, West Australian Newspapers Holdings Limited, Westfield Group, Wesfarmers Limited, Worleyparsons Limited, Woolworths Limited, Woodside Petroleum Limited, Zinifex Limited.

Conclusion

The Caltex Reward Policy and System are designed to appropriately recognise the importance of the contributions of our people to the company's success as measured by Total Shareholder Return.

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

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

Remuneration details for senior executives and directors (Audited)

The following sections of the Remuneration Report provide detailed information on the remuneration paid to senior executives and directors at Caltex, being the key management personnel which includes the five highest remunerated executives, and how that remuneration was calculated.

Senior executive remuneration structure (Audited)

The Caltex Reward Policy and System applies to senior executives as it does 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 administered under the Caltex Reward System, 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.

Table 2: The senior executive reward components and relationship to Total Shareholder Return (Audited)

Components	Inputs	Approvals
Fixed remuneration (Base pay)	• Performance against Performance Agreement which includes: – performance targets – where applicable, individual scorecard (including the performance targets, success measures and weightings) – relevant department scorecard – leadership behaviours – relativity of performance against other Caltex senior executives • Assessment of sustained performance over time • Position against market median (range of 80 – 120%) established and in accordance with Caltex guidelines • 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	• Increases for senior executives recommended by Managing Director and CEO and approved by the Human Resources and Nomination Committee • Adjusted annually within Board approved limits
Variable remuneration (Performance Incentive Plan) • **all award free employees eligible to participate**	• Caltex scorecard performance versus goal (this determines funding for the plan) • Department scorecard performance versus goal • Individual performance against Performance Agreement (refer above) • Individual's role within the company (determines range of earning potential)	• Incentives for senior executives recommended by Managing Director and CEO and approved by the Human Resources and Nomination Committee • Calculated and paid annually within Board approved limits
Variable remuneration (2006 Long-Term Incentive Plan) • **key senior management roles identified for participation** • **note the changes for the Caltex Equity Incentive Plan for 2007 at page 55**	• Total Shareholder Return performance versus ASX 200 peer group subset (as assessed by independent remuneration consultants to ensure impartiality and objectivity) • Return On Capital Employed (ROCE) versus Plan (Results confirmed by the Board at the end of performance period)	• TSR and ROCE targets approved by the Human Resources and Nomination Committee at commencement of performance year • Awarded annually based on achievement of TSR and ROCE targets • Key senior management roles recommended for participation by Managing Director and CEO and approved by the Human Resources and Nomination Committee annually • Awards to incumbents of key senior management roles by invitation of the Human Resources and Nomination Committee annually

Fixed remuneration (Audited)

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 (Audited)

Executives who were on Caltex's payroll as at 31 December 2006 will be eligible to receive a Performance Incentive Plan award based on 2006 company, department and individual performance. This award will be paid in April 2007.

Variable remuneration – Long-Term Incentive Plan (Audited)

Table 3 details the unvested senior executive share benefits for 2006. One-third of the 2005 performance year award was paid to executives in 2006.

Table 3: Unvested shareholdings of senior executives during 2006 (Audited)

Senior executives(ii)	Position	Shares unvested at 1 Jan 2006 for 2003 and 2004 performance years	Shares granted in 2006 for the 2005 performance year(i)	Shares vested from the 2003, 2004 and 2005 performance years	Other	Unvested shares at 31 Dec 2006 from the 2004 and 2005 performance years(ii)
Richard Beattie	Group Manager – Corporate Affairs	15,352	8,385	(14,177)	–	9,560
Mark Burrowes	General Manager – Marketing	24,696	20,563	(23,417)	–	21,842
Helen Conway	Company Secretary and General Counsel	25,348	14,274	(23,556)	–	16,066
Simon Hepworth	Chief Financial Officer	29,384	18,060	(27,713)	–	19,731
Lisbeth Long(iii)	Group Manager – Human Resources	11,031	9,547	(10,745)	(9,833)	–
Simon Willshire(v)	Group Manager – Human Resources	–	–	–	–	–
Mike McMenamin	Group Manager – Strategy and Planning	–	6,722	(2,241)	–	4,481
Alex Strang	General Manager – Supply and Corporate Services	29,942	16,438	(27,698)	–	18,682
Eion Turnbull(iv)	General Manager – Refining	24,608	14,884	(22,921)	(16,571)	–
Brian Waywell(vi)	General Manager – Refining	–	–	–	–	–
Peter Wilkinson	Group Manager – Operational Excellence and Risk	–	3,041	(1,014)	–	2,027

Notes:
(i) Grant date was 9 March 2006.
(ii) If the executive meets the service conditions, amounts will vest in 2007 and 2008 in accordance with the vesting conditions of the Long-Term Incentive Plan.
(iii) Ms Long resigned on 1 May 2006 and forfeited 9,833 unvested shares.
(iv) Mr Turnbull resigned on 15 August 2006 and forfeited 16,571 unvested shares.
(v) Mr Willshire commenced employment on 13 November 2006.
(vi) Mr Waywell is not eligible to participate for any of the grant periods under the secondment arrangement with Chevron.

In relation to the Long-Term Incentive Plan for each senior executive, Table 4 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 2006. It shows the future cost to Caltex that will be incurred as a result of the shares awarded in 2004, 2005 and 2006. 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 4: Long-Term Incentive grants to senior executives (Audited)

Senior executives	LTI year	Vested (% of shares vested)	Forfeited	Future years when shares will vest	Future cost to Caltex of unvested shares* ($)
Richard Beattie	2004	66%	–	2007	–
	2005	33%	–	2007, 2008	16,528
	2006	0%	–	2008, 2009, 2010	57,999
	Total				74,527
Mark Burrowes	2004	66%	–	2007	–
	2005	33%	–	2007, 2008	40,531
	2006	0%	–	2008, 2009, 2010	141,309
	Total				181,840
Helen Conway	2004	66%	–	2007	–
	2005	33%	–	2007, 2008	28,133
	2006	0%	–	2008, 2009, 2010	100,806
	Total				128,939
Simon Hepworth	2004	66%	–	2007	–
	2005	33%	–	2007, 2008	35,597
	2006	0%	–	2008, 2009, 2010	131,569
	Total				167,166
Lisbeth Long	2004	66%	33%	–	–
	2005	33%	66%	–	–
	Total				–
Mike McMenamin(i)	2004	N/A	–	–	–
	2005	33%	–	2007, 2008	13,249
	2006	0%	–	2008, 2009, 2010	55,175
	Total				68,424
Alex Strang	2004	66%	–	2007	–
	2005	33%	–	2007, 2008	32,400
	2006	0%	–	2008, 2009, 2010	122,765
	Total				155,165
Eion Turnbull	2004	66%	33%	–	–
	2005	33%	66%	–	–
	Total				–
Peter Wilkinson(ii)	2004	N/A	–	–	–
	2005	33%	–	2007, 2008	5,994
	2006	0%	–	2008, 2009, 2010	55,718
	Total				61,712
Simon Willshire(iii)	2004	N/A	–	–	–
	2005	N/A	–	–	–
	2006	0%	–	2008, 2009, 2010	13,225
	Total				13,225

Notes:

* The maximum and minimum total value of the grants is the same for the financial years after 2006 because such amounts are subject only to service conditions.

(i) Mr McMenamin was not eligible to participate in 2004 grant period.

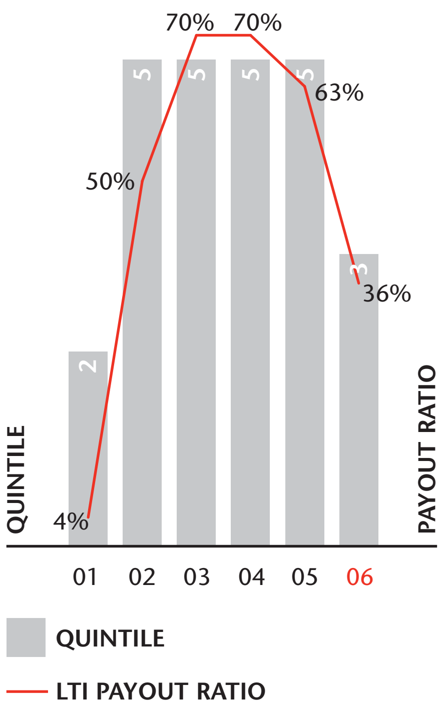
(ii) Mr Wilkinson was not eligible to participate in 2004 grant period.

(iii) Mr Willshire commenced on 13 November 2006.

(iv) Mr Waywell is not eligible to participate for any of the grant periods under the secondment arrangement with Chevron.

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 six years. It clearly demonstrates that the Long-Term Incentive Plan awards have been strongly correlated with Total Shareholder Return, our proxy for shareholder value creation.

Graph 5: Shareholder value creation and LTI plan outcomes



Summary of total remuneration value of senior executives in 2006 (Audited)

The proportion of each senior executive's remuneration for 2006 that was fixed, and the proportion that was subject to a performance condition, is shown in Table 5 below.

Table 5: Distribution of fixed and variable elements of senior executive remuneration for 2006 (Audited)

Senior executives	Position	Fixed	Variable (including short and long-term incentive payments)
Richard Beattie	Group Manager – Corporate Affairs	68%	32%
Mark Burrowes	General Manager – Marketing	68%	32%
Helen Conway	Company Secretary and General Counsel	63%	37%
Simon Hepworth	Chief Financial Officer	64%	36%
Lisbeth Long(i)	Group Manager – Human Resources	63%	37%
Mike McMenamin	Group Manager – Strategy and Planning	72%	28%
Alex Strang	General Manager – Supply and Corporate Services	62%	38%
Eion Turnbull(ii)	General Manager – Refining	76%	24%
Brian Waywell(iv)	General Manager – Refining	87%	13%
Peter Wilkinson	Group Manager – Operational Excellence and Risk	84%	16%
Simon Willshire(iii)	Group Manager – Human Resources	91%	9%

Notes:

(i) Ms Long resigned on 1 May 2006.

(ii) Mr Turnbull resigned on 15 August 2006.

(iii) Mr Willshire commenced employment on 13 November 2006.

(iv) Mr Waywell is not eligible to participate in any of Caltex's variable incentive programs.

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 2006, are set out below (on the basis of the cost to Caltex) in Table 6. The 11 senior executives below, all of whom are members of the Caltex Leadership Team, or who were prior to their resignation, along with the directors of Caltex Australia Limited are considered the key management personnel for whom details of their remuneration must be disclosed in accordance with accounting standards.

Table 6: Total remuneration for senior executives for 2006 (in dollars) (Audited)

	Primary			Post employment	Other long-term	Equity	Total
	Salary and fees(i)	Bonus (short-term incentive)	Non-monetary benefits	Super-annuation	Long service leave	Share benefits (long-term incentive)(viii)	
Richard Beattie (Group Manager – Corporate Affairs)							
2006	**266,562**	**54,000**	**–**	**29,626**	**11,613**	**92,979**	**454,780**
2005	248,573	47,707	9,258	28,362	3,810	156,042	493,752
Mark Burrowes (General Manager – Marketing)							
2006	**488,800**	**57,000**	**20,197**	**58,403**	**14,034**	**219,876**	**858,310**
2005	457,909	125,580	14,944	52,163	2,714	340,108	993,418
Helen Conway (Company Secretary and General Counsel)							
2006	**357,602**	**94,000**	**14,225**	**41,348**	**16,769**	**158,455**	**682,399**
2005	312,467	88,754	28,979	36,208	10,450	262,246	739,104
Simon Hepworth (Chief Financial Officer)							
2006	**462,471**	**123,000**	**15,238**	**53,687**	**32,898**	**199,925**	**887,219**
2005	402,179	111,386	14,944	45,814	43,055	321,111	938,489
Lisbeth Long (Group Manager – Human Resources)(ii)							
2006	**90,643**	**–**	**–**	**16,854**	**–**	**63,543**	**171,040**
2005	224,014	59,044	–	24,218	1,542	154,683	463,501
Mike McMenamin (Group Manager – Strategy and Planning)							
2006	**254,346**	**46,000**	**–**	**25,594**	**6,956**	**64,331**	**397,227**
2005	239,438	24,221	–	22,735	596	72,929	359,919
Alex Strang (General Manager – Supply and Corporate Services)							
2006	**431,382**	**155,000**	**14,287**	**55,672**	**58,196**	**187,102**	**901,639**
2005	385,204	105,796	47,707	39,000	17,603	305,085	900,395
Eion Turnbull (General Manager – Refining)(iv)							
2006	**257,089**	**–**	**36,240**	**31,075**	**6,856**	**104,950**	**436,210**
2005	350,646	83,283	54,056	37,757	9,299	267,771	802,812
Brian Waywell (General Manager – Refining)(vi)							
2006	**333,333**	**–**	**–**	**–**	**–**	**–**	**333,333**
2005	–	–	–	–	–	–	–
Peter Wilkinson (Group Manager – Operational Excellence and Risk)(iii)							
2006	**262,969**	**25,000**	**89,501**	**24,989**	**5,491**	**46,487**	**454,437**
2005	118,901	21,156	5,130	10,286	–	32,994	188,467
Simon Willshire (Group Manager – Human Resources)(v)							
2006	**175,615**	**10,000**	**1,122**	**4,234**	**–**	**7,475**	**198,446**
2005	–	–	–	–	–	–	–
Total remuneration: senior executives							
2006	**3,380,812**	**564,000**	**190,810**	**341,482**	**152,813**	**1,145,123**	**5,775,040**
2005	2,739,331	666,927	175,018	296,543	89,069	1,912,969	5,879,857

Notes:

(i) Salary and fees includes base pay and annual leave.

(ii) Ms Long was on unpaid maternity leave from 26 July 2005 to 11 October 2005. She resigned as at 1 May 2006.

(iii) Mr Wilkinson was appointed on 11 July 2005.

(iv) Mr Turnbull resigned effective 15 August 2006.

(v) Mr Willshire was appointed 13 November 2006 and received a recruitment incentive of $125,000 to offset lost benefits with previous employer.

(vi) Mr Waywell was appointed General Manager – Refining on 1 August 2006.

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

(viii) Long-Term Incentive benefits decreased between 2005 and 2006 due to the vesting period for the 2006 performance year grants being extended by one year. This resulted in only two tranches vesting in 2006 rather than the normal three. Awards will return to normal levels in 2007.

Mr Waywell assumed the role General Manager – Refining on 1 August 2006. He is seconded from Chevron Corporation to Caltex. Under the terms of the secondment arrangements, Caltex pays a maximum of $800,000 per annum to Chevron. Caltex has no obligation to pay any individual amounts to Chevron or Mr Waywell beyond $800,000 per annum. The terms of these arrangements were considered to be no less favourable to Caltex than arm's length terms at the time of commencement.

In 2006, Caltex incurred a pro rata cost for Mr Waywell of $333,333. Chevron paid Mr Waywell an additional $139,395 in remuneration above that amount. The components of this remuneration are described later in this report as they are the same remuneration arrangements as are applicable to Mr King, Managing Director and Chief Executive Officer.

Other information required by the Corporations Act 2001

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 2006 financial year and no options lapsed during the 2006 financial year. However, Mr King and Mr Waywell, who are secondees, are eligible for options (delivered in Chevron shares) under the Chevron remuneration package.

Contracts of employment

The senior executives of Caltex (other than Mr Reeves, the former Managing Director and Chief Executive Officer through 30 April 2006, Mr King, the Managing Director and Chief Executive Officer commencing 1 May 2006 and Mr Waywell, General Manager, Refining commencing on 1 August 2006) 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 six 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. Our intention is to reset the termination notice for all key senior executives to at least three months.

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 Mr Reeves and Mr King, which are provided later in this report) are set out below:

Table 7: 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	Six months
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
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	Reasonable notice
Peter Wilkinson	Group Manager – Operational Excellence and Risk	11 July 2005	Open ended	One month
Simon Willshire	Group Manager – Human Resources	13 November 2006	Open ended	Six months

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. No termination benefits were payable to, or paid, to Ms Long (Group Manager – Human Resources) and Mr Turnbull (General Manager – Refining) who both resigned in 2006.

Mr Waywell's secondment is for a period of two years ending on 1 August 2008 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 Mr Waywell:

- commits a wilful breach or wilfully neglects to perform or observe any of his statutory or contractual duties; or
- 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.

On termination Mr Waywell 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.

Caltex Equity Incentive Plan for 2007 (replaces 2006 Long-Term Incentive Plan)

In late 2006, the Board commissioned a detailed review of the Caltex Long-Term Incentive program with the help of an external consultant. The intent of the review was to ensure that the plan meets the current and future needs of the Caltex business and the expectations of shareholders. The primary objectives of the new plan are to:

- reward senior executives for the performance of the company arising from them delivering against objectives designed to enhance shareholder value;
- align senior executives' rewards with longer term shareholder gain; and
- facilitate retention of senior executive talent.

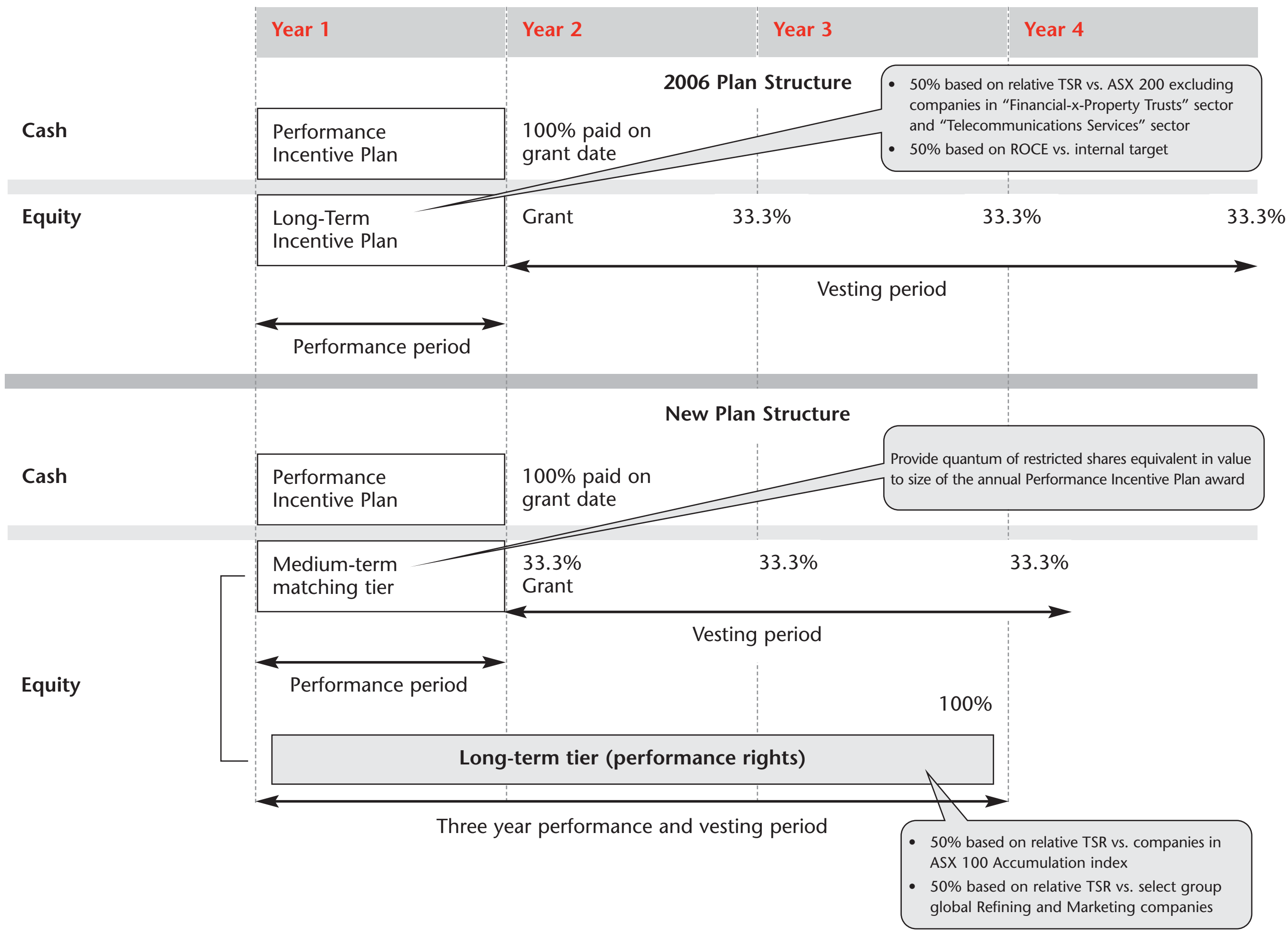
The current (2006) Long-Term Incentive Plan design aligns executives' rewards with the shareholder interests using controllable (ROCE) and market based (TSR) performance criteria in a single tier structure. The new Caltex Equity Incentive Plan separates the plan into two distinct tiers:

- a long-term tier (performance rights) having grants subject to relative market based performance criteria and a forward looking, three year performance and vesting period; and
- a medium-term tier (restricted shares) subject to more controllable performance criteria that vests over two years from date of grant (three years from start of performance period). The performance criteria are the same as those in the short-term cash incentive plan and are approved by the Board before the start of the performance year.

Participation in both tiers will still be at two levels, with Level 2 participants being eligible for quantums at approximately 75% of Level 1 participants.

Figure 7 shows the current and new plan structures.

Figure 7: 2006 Long-Term Incentive Plan and 2007 Caltex Equity Incentive Plan designs



Key business and competitive drivers which impacted the new design include the following:

1. Our business is cyclical in nature as can be seen by recent and historical crude oil and refined product price movement. This impacts the length with which we can reliably predict business outcomes and our planning cycle. The three year performance period established in the new plan corresponds with our typical planning cycle and is very consistent with other long-term plans in major companies.
2. In order to increase shareholder value, senior management must continuously deliver against all of the key business drivers. These drivers include safety, volume/product mix, profit, cash flow, unit costs, and capital productivity. The measures in the previous plan design only touched on capital productivity in the form of Return on Capital Employed (ROCE). The medium-term tier of the new plan uses metrics which touch all of these key areas. We will use a balanced scorecard approach with the same financial and non-financial metrics that are used in our short-term variable pay program.
3. Our external remuneration consultants have advised us that the typical variable remuneration mix for this level of executives is 50% short-term and 50% long-term. Our 2006 plan design was heavily weighted towards the long-term (33% short-term/66% long-term). Our new design maintains the heavy emphasis on equity awards, but shifts some of the quantum (medium-term tier) to more controllable measures, similar to typical short-term incentive plans. Although these are "controllable measures", the targets continue to be approved by the Board prior to the start of the performance period.
4. The market for senior executive talent is tightening across Australia. As such, it was important for us to have a plan design that will continue to attract and retain key leaders. The new design therefore has to strike a balance between when the awards are granted, vest and are delivered to the executive. The three tier approach to our new variable pay structure (short-term, medium-term and long-term) provides the right mix of rewards to attract potential executives in the market place while retaining those that are already here through the variety of vesting periods in the medium-term and long-term tiers of the plan.

The new plan:

- clearly aligns the executive's rewards with that of the shareholder.
  - 66% of the executive's variable reward is equity based and thus is subject to the same market forces as that of the shareholder;
  - uses industry specific (International Refining and Marketing companies[1]) and broader market (ASX 100) peer groups to measure relative Total Shareholder Return performance. Having multiple peer groups is aligned with the different choices our investors have in the market place; and
  - the final quantum of shares that the executive receives under the long-term tier of the plan is subject to Caltex outperforming the peer groups.
- provides competitive, market based reward levels;
- provides for attraction and retention of critical executives; and
- balances controllable and market based elements that are used in determining the overall executive's reward.

The proposed changes were approved by the Board at its meeting on 22 February 2007 with effect for the 2007 performance year which begins 1 January 2007. Table 8 provides further details on the new plan.

Table 8: 2007 Caltex Equity Incentive Plan

	Medium-term matching tier	**Long-term tier**
Eligibility	Limited number of senior executives at the invitation of the Board. Includes direct reports to the Managing Director and Chief Executive Officer as well as other key management roles with significant profitability, strategic and operational impact.	Limited number of senior executives at the invitation of the Board. Includes direct reports to the Managing Director and Chief Executive Officer as well as other key management roles with significant profitability, strategic and operational impact.
Plan type	Restricted shares.	Performance rights.
Performance period	One year prior to grant of shares.	Performance measured over the three years from the date of grant of rights.
Performance measures and vesting schedule	Same metrics as the short-term cash incentive plan which uses a balanced scorecard comprising both financial and non-financial measures (e.g. Sustained and Strong Profitability, Operational Excellence and Cost Management). Shares vest over two years from date of grant.	Three year relative TSR performance is measured against two comparator groups with half of the rights measured against entities in the ASX 100 Accumulation Index and half against the performance of an international comparator group of refining and marketing companies. When measuring against the companies in ASX 100 Accumulation Index, 50% of these rights will vest if TSR performance just exceeds median performance and 100% will vest if TSR performance meets or exceeds the 75th percentile of companies included in the index. Payout will be based on company ranking for performance between these two levels. When measuring against the international comparator group of refining and marketing companies, 50% of these rights vest if TSR performance just exceeds median performance and 100% vest if performance meets or exceeds the 75th percentile of companies included in the index. Payout will be based on company ranking for performance between these two levels. If performance conditions are not met, rights will lapse (i.e. no retesting of performance).
Vesting period	1/3 on date of grant, 1/3 on anniversary of date of grant in each of the following two years.	Provided that performance hurdles are met, rights vest after three years and are automatically exercised to acquire shares.
Quantum (Total quantum from both tiers is equivalent to that provided under the 2006 Long-Term Incentive Plan – no increase in quantums to executives as a result of the plan change.)	Provides a quantum of restricted shares equivalent in value to the size of the annual Performance Incentive Plan (PIP) award, i.e. matches PIP. Level 1 target is 23% of base pay with a 40% of base pay maximum. Level 2 target is 18% of base pay with a 30% of base pay maximum.	Level 1 target is 22% of base pay with a 44% of base pay maximum. Level 2 target is 16% of base pay with a 32% of base pay maximum.

1 The Refining and Marketing peer group for the 2007 performance year is Frontier Oil (USA), Motor Oil (Greece), Neste (Finland), Singapore Refining Company (Singapore), S-Oil (Korea), Sunoco (USA), Tesoro (USA), Valero (USA), Western Refining (USA). These companies were selected because they represent competitors for investor capital in the global refining and marketing sector.

	Medium-term matching tier	Long-term tier
Restriction on sale	Voluntary restrictions on sale to enable tax deferral. Participant must submit request for release in order to sell shares.	Voluntary restrictions on sale to enable tax deferral. Participant must submit request for release in order to sell shares. Maximum tax deferral is 10 years from grant of performance rights.
Cessation of employment	Default provision is that unvested shares will lapse upon termination. However, if a participant ceases employment due to retirement on "good terms" after a grant is made, unvested shares will vest (10 years continuous service will result in full vesting, vesting will be pro-rata based on time since grant for continuous service of more than five and less than 10 years). For redundancy, death or total and permanent disability, unvested shares will vest in full. If a participant ceases employment for any other reason or with less than five years of continuous service, subject to Board discretion, the unvested shares will be forfeited.	Default provision is that unvested performance rights will lapse upon termination. However, if a participant ceases employment due to retirement on "good terms" and more than 12 months of the performance period has passed, unvested performance rights will vest (10 years continuous service will result in full vesting, vesting will be pro-rata based on time since grant for continuous service of more than five and less than 10 years). For redundancy, death or total and permanent disability, unvested rights will vest in full. If a participant ceases employment for any other reason or in the first 12 months of the performance period, subject to Board discretion, the unvested performance rights will lapse.

Participants will be eligible to receive awards from both tiers of the plan in 2007 (performance rights granted for the 2007 performance year and restricted shares which match the quantum of the 2006 Performance Incentive Plan award to be given in April 2007).

The above changes do not affect the Long-Term Incentive Plan grants that were earned by participants in 2006 and paid in 2007.

Directors' remuneration structure

Policy for determining non-executive directors' fees (Audited)

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.

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 fees payable in 2006 were also determined having regard to the report of an independent external consultant engaged to benchmark the remuneration for non-executive directors at Caltex Australia Limited against market practice.

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, Mr Warburton participated in a directors' retirement scheme and amounts that had accrued under the scheme for him have been frozen and paid into a separate interest bearing account pending his retirement.

Non-executive directors' fees (Audited)

In 2006, fees paid to non-executive directors were subject to a maximum Board remuneration pool of $1,150,000 per annum, inclusive of statutory entitlements. The remuneration pool for non-executive directors applicable to 2006 was approved by shareholders of Caltex Australia Limited at the Annual General Meeting held in April 2005. This amount was increased to $1,400,000 per annum at the 2006 Annual General Meeting with effect from 1 January 2007. This increase was sought to allow reasonable increases in director fees over the foreseeable future in line with market rates and the growth in demands placed on non-executive directors and to allow increases in the Board size, if appropriate.

The fees paid in 2006, and following the review in December 2006, the fees to be paid in 2007, are shown in the table below:

	2006	01/01/2007 onwards
Chairman's fee (inclusive of all committee fees)	$310,000	$358,000
Non-executive directors' fees	$115,000	$130,000
Audit Committee fees		
• Chairman	$30,000	$30,000
• Member	$15,000	$15,000
Human Resources and Nomination Committee fees		
• Chair	$20,000	$20,000
• Member	$10,000	$10,000

The statutory superannuation guarantee charge (where applicable) is paid as an additional amount. As Ms Bryan elected not to receive any superannuation guarantee contributions, the fees paid to her in 2006 were increased by 9%, being the current rate of the superannuation guarantee contribution.

Non-executive directors can elect to forgo part of their fees to acquire shares, on market, of Caltex Australia Limited via a non-executive director 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 and Chief Executive Officer (Audited)

Mr King, the Managing Director and Chief Executive Officer, is seconded from Chevron to Caltex. Chevron Global Energy Inc. holds 50% of the shares in Caltex Australia Limited. The appointment of a Chevron executive as Managing Director and Chief Executive Officer allows Caltex to access industry experience that Chevron executives have gained through involvement in the day to day operations of one of the world's leading global energy companies.

Under the terms of the secondment arrangements, Caltex pays $1.4 million per annum to Chevron representing a reimbursement of the salary and other benefits incurred by Chevron in relation to Mr King's services to Caltex. During 2006, Caltex paid Chevron $933,333 (pro rated) and Chevron paid additional remuneration of $2,365 to Mr King. Mr King's remuneration was distributed on the basis of 86% fixed and 14% variable components.

Although Caltex has no obligation to pay any amount to Mr King and he does not participate in the incentive schemes for Caltex senior management, Caltex's Chairman of the Board has input into the amount Mr King receives under Chevron's short-term management incentive plan (MIP). Over the course of 2007, however, Caltex will be working with Chevron to better align Mr King's remuneration with the performance of Caltex.

In addition to housing, expatriate and other allowances, Mr King's remuneration consisted of base salary and a cash bonus under the Chevron MIP.

Mr King's secondment to Caltex is for a period of three years ending on 1 May 2009 and Caltex and Chevron may agree to vary the contract term by extension or by early termination. The secondment arrangement may also be terminated by Caltex if Mr King:

- commits a wilful breach or wilfully neglects to perform or observe any of his statutory or contractual duties or obligations as an officer of Caltex;
- fails to perform or observe any of his statutory or contractual duties or obligations imposed on him as an officer of Caltex 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 Mr King has no rights against Caltex for payment of any amounts or claims.

Under the secondment agreement, Chevron agrees that the scope, nature and performance of Mr King's duties are subject to, and are to be undertaken in accordance with, the lawful directions of the Board of Caltex Australia Limited. In his letter of appointment Mr King also agrees that the scope, nature and performance of his duties are subject to, and must be undertaken in accordance with, the lawful directions of the Board of Caltex Australia Limited.

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

Mr Reeves, who served as Managing Director and Chief Executive Officer until 30 April 2006, was also on secondment from Chevron. A secondment fee of $1.2 million per annum (pro rata for part years) was paid to Chevron and Chevron paid additional remuneration of $456,953 in 2006 ($1,238,806 in 2005) to Mr Reeves.

Chevron Management Incentive Plan

The MIP awards an annual cash bonus to a participant which is based on three components, with each component weighted equally. The components are the performance of Chevron, the performance of the participant's reporting unit (which in Mr King's case is Chevron Global Refining) and the participant's performance, all in the prior year. At target, the MIP award would be an amount equal to 50% of Mr King's base salary.

The performance conditions in the MIP were chosen to give employees a direct line of sight with performance and to tie accountability with actual performance.

All awards under the MIP are approved by the Management Compensation Committee of the Board of Directors of Chevron. That committee assesses the performance of Chevron by comparing corporate results against business plan targets. The reporting unit performance assessment of Chevron Global Refining is made by senior management at Chevron based on the achievement of financial objectives (e.g. ROCE, cash flow and operating expense) and operational objectives (e.g. safety, diversity and reliability). Mr King's individual performance is assessed annually by his reporting unit head at Chevron based on the assessment of Mr King by the Chairman of Caltex against Caltex performance benchmarks. The benchmarks are agreed between the Chairman of Caltex and Mr King at the beginning of the performance year.

The methods of assessing individual performance under the Chevron MIP plan are the same as those used in Chevron's general Performance and Salary Administration process. These methods have been chosen because they assess the full range of individual performance and leadership behaviours. Assessing Corporate and Reporting Unit performance against business plan targets, which include financial and operational measures, ensures that management is being evaluated on the full range of metrics that ultimately lead to increased shareholder value.

The assessment of Mr King's performance made by the Chairman as part of the MIP, is also relevant to determining any changes to the base salary Chevron pays to Mr King. Mr King also participates in the long-term incentive schemes offered by Chevron and in 2006 received an amount under these schemes of $230,661 from Chevron.

Remuneration for directors in 2006 (Audited)

Details of the remuneration of directors of Caltex Australia Limited for 2006 are set out below:

Directors		Primary: Salary and fees	Primary: Bonus	Primary: Non-monetary benefits	Post employment: Superannuation	Termination benefits	Total
Executive							
Desmond King (Managing Director and Chief Executive Officer)	**2006**	**933,333**	–	–	–	–	**933,333**
	2005	–	–	–	–	–	–
Non-executive–							
Richard Warburton (Chairman)	**2006**	**251,667**	–	–	**86,233**	–	**337,900**
	2005	275,000	–	–	24,750	–	299,750
Trevor Bourne	**2006**	**105,417**	–	–	**9,525**	–	**114,942**
	2005	–	–	–	–	–	–
Elizabeth Bryan	**2006**	**147,150**	–	–	–	–	**147,150**
	2005	133,284	–	–	–	–	133,284
Brant Fish	**2006**	**53,629**	–	–	–	–	**53,629**
	2005	–	–	–	–	–	–
John Thorn	**2006**	**128,750**	–	–	**23,850**	–	**152,600**
	2005	110,000	–	–	9,900	–	119,900
Peter Wissel	**2006**	**130,000**	–	–	–	–	**130,000**
	2005	39,086	–	–	–	–	39,086
Former executive							
David Reeves	**2006**	**400,000**	–	–	–	–	**400,000**
	2005	1,200,000	–	–	–	–	1,200,000
Former non-executive							
William Hauschildt	**2006**	**59,722**	–	–	–	–	**59,722**
	2005	110,000	–	–	–	–	110,000
Ken Watson	**2006**	**48,333**	–	–	**4,350**	**193,946**	**246,629**
	2005	120,000	–	–	10,800	–	130,800
Leo Lonergan	**2006**	–	–	–	–	–	–
	2005	16,274	–	–	–	–	16,274
Mitchell Rubinstein	**2006**	–	–	–	–	–	–
	2005	52,497	–	–	–	–	52,497
Total remuneration: directors	**2006**	**2,258,001**	–	–	**123,958**	**193,946**	**2,575,905**
	2005	2,056,141	–	–	45,450	–	2,101,591

Notes:

- Mr King commenced as the Managing Director and Chief Executive Officer on 1 May 2006.
- Mr Warburton served as the Chairman of the Board and as a member of the Human Resources and Nomination Committee for the whole of 2006. He attends Audit Committee meetings in an ex-officio capacity.
- Mr Bourne served as a director from 2 March 2006 and as a member of the Audit Committee from 1 May 2006.
- Ms Bryan served as a director and as Chair of the Human Resources and Nomination Committee throughout 2006. Ms Bryan was paid an additional 9% in director's fees, following her election not to receive superannuation guarantee contributions.
- Mr Fish served as a director from 27 July 2006 and as a member of the Human Resources and Nomination Committee from 1 August 2006. Prior to his appointment as a director, he served as an Alternate Director, for which he received no remuneration.
- Mr Thorn served as a director throughout 2006. He was a member of the Audit Committee until 30 April 2006 and was appointed Chair of the Audit Committee with effect from 1 May 2006.
- Mr Wissel served as a director and as a member of the Audit Committee throughout 2006.
- Mr Reeves served as the Managing Director and Chief Executive Officer until 30 April 2006.
- Mr Hauschildt resigned as a director on 22 June 2006. Until that date, he also served as a member of the Human Resources and Nomination Committee.
- Mr Watson served as a director and Chair of the Audit Committee until his retirement at the conclusion of the 2006 Annual General Meeting on 27 April 2006. Upon retirement, Mr Watson received the amount that had accrued for him under the directors' retirement scheme, shown as termination benefit in the above table. This scheme was terminated on 31 December 2003 and amounts that had accrued under the scheme were frozen and paid into a separate interest bearing account pending the retirement of participants.
- Ms Jones-Cervantes served as an alternate director from 27 July 2006 and did not receive any remuneration from Caltex in 2006.

Directors' interests

The directors of Caltex Australia Limited held the following relevant interests in the company's shares at 31 December 2006:

Directors	Number of shares	Nature of interest
Current directors		
Richard Warburton	12,225	10,000 shares held indirectly (beneficial interest through Teampass Pty Ltd) and 2,225 shares held directly (acquired via the Non-Executive Directors' Share Acquisition Plan)
Desmond King	1,000	Direct
Trevor Bourne	3,462	3,462 shares held directly (of which 462 shares were acquired via the Non-Executive Directors' Share Acquisition Plan)
Elizabeth Bryan	5,000	Direct
Brant Fish	–	
John Thorn	1,510	1,000 shares held indirectly (beneficial interest through Revikta Pty Ltd) and 510 shares held directly (acquired via the Non-Executive Directors' Share Acquisition Plan)
Peter Wissel	1,000	Direct (held jointly with Susan Philbrick)
Former directors		
David Reeves	–	
William Hauschildt	–	
Ken Watson	7,500	Direct

Notes:

(i) The directors have not disposed of any shares or acquired any shares since 31 December 2006.

(ii) Ms Jones-Cervantes serves as an alternate director for Mr Fish and Mr Wissel. She 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 2006. 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 Mr Fish.

The Audit Committee met on four occasions, and the Human Resources and Nomination Committee met on seven occasions during 2006. Special purpose committees were convened on four occasions during the year.

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

Directors	Board of Directors	Audit Committee	Human Resources and Nomination Committee	Special purpose	Total
Current directors					
Richard Warburton	11 (11)	4	7 (7)	4 (4)	26 (22)
Desmond King	8 (7)	3	6	3 (3)	20 (10)
Trevor Bourne	9 (10)	3 (3)			12 (13)
Elizabeth Bryan	11 (11)	1	7 (7)		19 (18)
Brant Fish	6 (5)		4 (4)		10 (9)
John Thorn	11 (11)	4 (4)		2 (2)	17 (17)
Peter Wissel	10 (11)	4 (4)			14 (15)
Former directors					
David Reeves	4 (4)	1	1	1 (1)	7 (5)
William Hauschildt	6 (5)		3 (3)		9 (8)
Ken Watson	3 (4)	1 (1)			4 (5)

Notes:

(i) The table shows the number of Board and Committee meetings attended by each director during the year ended 31 December 2006, with the number of meetings held during the time in office as a Board or committee member shown in brackets. Where no brackets appear after a number, the director was attending in an ex-officio capacity.

(ii) Mr Warburton was not a member of the Audit Committee in 2006 but attended four Committee meetings during the year in an ex-officio capacity.

(iii) Mr King was appointed Managing Director and Chief Executive Officer with effect from 1 May 2006 and attended one Board meeting as a visitor prior to his appointment. Mr King was not a member of the Audit Committee or the Human Resources and Nomination Committee in 2006, but attended three meetings of the Audit Committee and six meetings of the Human Resources and Nomination Committee.

(iv) Ms Bryan attended one Audit Committee meeting in 2006 in an ex-officio capacity.

(v) Mr Fish was appointed a director with effect from 27 July 2006 and attended one Board meeting as a visitor prior to his appointment and also attended the two day strategy session.

(vi) Mr Hauschildt resigned as a director with effect from 22 June 2006 and attended one Board meeting as a visitor after his resignation.

(vii) Ms Jones-Cervantes, an alternate director, attended one meeting in 2006 as a visitor.

Non-audit services

During the year KPMG, the company auditor, has performed certain other services in addition to its statutory duties.

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 those non-audit services during the year by the auditor is compatible with, and 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 4.6:1; 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, Ms Conway 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, Ms Conway worked as a lawyer in private practice.

Ms Conway is a director of the Caltex Australia Superannuation Plan and Catholic Healthcare Limited and was previously a director of Hawkesbury District Health Services Limited.

Ms Conway 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, Ms Brown was an Associate Director in the Company Secretarial Division of Macquarie Bank Limited. Before joining the company secretarial profession, Ms Brown worked in politics, as a lawyer in private practice and as a senior analyst at the Reserve Bank of Australia.

Ms Brown 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. Ms Brown also has a Graduate Diploma in Company Secretarial Practices from Chartered Secretaries Australia.

Indemnity insurance

Deeds of indemnity 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;
- reasonable 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 2006, Caltex Australia Limited reviewed its deed of indemnity and insurance with its directors and entered into a new deed of indemnity and insurance with each person who served as a director or alternate director during 2006.

Under the deeds, Caltex Australia Limited has agreed to indemnify the officers (to the extent permitted by law and subject to the prohibitions in section 199A of the Corporations Act 2001 (Cth)) 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 legal costs of a kind referred to in the next paragraph; and
- legal costs reasonably incurred in defending an action for a liability incurred or allegedly incurred, and preparing for, attending or appearing in administrative proceedings or an investigation or inquiry by a regulatory authority or external administrator in relation to any act, as an officer of Caltex Australia Limited or a company in the Caltex Australia Group.

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.

Contract of insurance

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

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 Warburton AO
Chairman

DF King
Managing Director and
Chief Executive Officer

Sydney, 23 February 2007

Directors' Declaration

For the financial year ended 31 December 2006

The Board of Caltex Australia Limited has declared that:

- all of the directors have received from Desmond King, Managing Director and Chief Executive Officer, and Simon Hepworth, Chief Financial Officer, a declaration dated 21 February 2007 stating that in their opinion:
  - the financial records for the year ended 31 December 2006 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 2006 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 2006 and notes give a true and fair view of the financial position of the Caltex Australia Group at 31 December 2006 and its performance for the year;
- the financial statements for the year ended 31 December 2006 and the notes required by the Accounting Standards in Australia comply with the Accounting Standards;
- the financial statements for the year ended 31 December 2006 and notes give a true and fair view of the financial position of the Caltex Australia Group at 31 December 2006 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 2006 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 Warburton AO
Chairman

DF King
Managing Director and
Chief Executive Officer

Sydney, 23 February 2007

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 2006, 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.

KPMG

Stephen Gatt
Partner

Sydney, 23 February 2007

Independent Audit Report to the members of Caltex Australia Limited

For the financial year ended 31 December 2006

Scope

We have audited the financial report of Caltex Australia Limited ("the Company") for the financial year ended 31 December 2006, consisting of the income statements, statements of recognised income and expense, balance sheets, statements of cash flows, accompanying notes 1 to 30 and the directors' declaration. The financial report includes the consolidated financial statements of the group, comprising the Company and the subsidiaries it controlled at the end of the year or from time to time during the financial year. We have audited specific information disclosed by the Company, as permitted by the Corporations Regulations 2001, about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 Related Party Disclosures, within those sections identified as "Audited" in the "Remuneration report" forming part of the directors' report and not in the financial report. All other sections and information within the "Remuneration report" that have not been identified as audited are not subject to our audit. The Company's directors are responsible for the financial report and the remuneration disclosures. We have conducted an independent audit of the financial report and the remuneration disclosures in order to express an opinion on them 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 and that the remuneration disclosures comply with AASB 124. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the remuneration disclosures, 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 and the group's financial position, and performance as represented by the results of their operations and their cash flows and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124.

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

Audit opinion

In our opinion:

(1) the financial report of Caltex Australia Limited is in accordance with:

- a) the Corporations Act 2001, including:
  - i. giving a true and fair view of the Company's and the group's financial position as at 31 December 2006 and of their performance for the financial year ended on that date; and
  - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia; and

(2) the remuneration disclosures that are contained in those sections specifically identified as "Audited" within the "Remuneration report" report comply with Australian Accounting Standard AASB 124 Related Party Disclosures.

KPMG

KPMG

Steven Gatt
Partner

Sydney, 23 February 2007

Income statements

For the year ended 31 December 2006

		Consolidated		Parent Entity	
	Note	2006 $000	2005 $000	2006 $000	2005 $000
Revenue from sale of goods		**18,441,437**	15,700,797	–	–
Replacement cost of goods sold (excluding product duties and taxes and inventory gains)		**(12,997,732)**	(10,345,940)	–	–
Product duties and taxes		**(4,411,846)**	(4,371,659)	–	–
Inventory gains		**51,683**	228,068	–	–
Cost of goods sold – historical cost		**(17,357,895)**	(14,489,531)	–	–
Gross profit		**1,083,542**	1,211,266	–	–
Other income	2	**226,360**	198,411	**190,176**	92,917
Refining and supply expenses		**(18,731)**	(26,084)	–	–
Marketing expenses		**(542,138)**	(484,046)	–	–
Finance costs	3	**(48,513)**	(27,307)	**(56,595)**	(41,419)
Other expenses		**(43,773)**	(88,807)	**(4,164)**	(5,531)
Share of net profit of entities accounted for using the equity method		**5,118**	4,601	–	–
Profit before income tax expense		**661,865**	788,034	**129,417**	45,967
Income tax expense	4	**(194,668)**	(193,081)	**(3,826)**	(1,940)
Net profit		**467,197**	594,953	**125,591**	44,027
Net profit attributable to minority interest		**(1,221)**	(381)	–	–
Net profit attributable to members of the parent entity		**465,976**	594,572	**125,591**	44,027
Basic and diluted earnings per share:					
Historical cost including individually material tax items – cents per share (i)	6	**172.6**	220.2		

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

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

Balance sheets

as at 31 December 2006

		Consolidated		Parent Entity	
	Note	2006 $000	2005 $000	2006 $000	2005 $000
Current assets					
Cash and cash equivalents		**55,599**	28,484	**244**	437
Receivables	7	**809,449**	826,075	**–**	56,286
Inventories	8	**1,100,034**	1,044,805	**–**	–
Current tax assets		**39,742**	–	**39,859**	–
Other	9	**24,293**	25,451	**766**	720
Total current assets		**2,029,117**	1,924,815	**40,869**	57,443
Non-current assets					
Receivables	7	**3,916**	5,134	**456,188**	380,882
Investments accounted for using the equity method		**26,718**	26,016	**–**	–
Other investments	10	**15**	21	**941,375**	941,375
Intangibles	11	**54,633**	41,656	**–**	–
Property, plant and equipment	12	**2,288,442**	2,076,279	**–**	–
Deferred tax assets	4	**–**	–	**418**	131
Other	9	**14,585**	4,627	**–**	–
Total non-current assets		**2,388,309**	2,153,733	**1,397,981**	1,322,388
Total assets		**4,417,426**	4,078,548	**1,438,850**	1,379,831
Current liabilities					
Payables	13	**1,194,221**	1,230,895	**78,277**	12,514
Interest bearing liabilities	14	**130,833**	68,829	**129,382**	68,000
Current tax liabilities		**–**	97,888	**–**	98,036
Provisions	15	**80,355**	80,427	**–**	–
Total current liabilities		**1,405,409**	1,478,039	**207,659**	178,550
Non-current liabilities					
Payables	13	**5,378**	5,509	**–**	–
Interest bearing liabilities	14	**463,752**	389,130	**456,188**	380,882
Deferred tax liabilities	4	**30,662**	10,042	**–**	–
Provisions	15	**69,715**	57,373	**243**	437
Total non-current liabilities		**569,507**	462,054	**456,431**	381,319
Total liabilities		**1,974,916**	1,940,093	**664,090**	559,869
Net assets		**2,442,510**	2,138,455	**774,760**	819,962
Equity					
Issued capital	16	**543,415**	543,415	**543,415**	543,415
Treasury stock	17	**(2,092)**	(2,664)	**(2,092)**	(2,664)
Reserves	17	**3,346**	4,205	**3,024**	4,289
Retained earnings	17	**1,887,156**	1,583,835	**230,413**	274,922
Total parent entity interest		**2,431,825**	2,128,791	**774,760**	819,962
Minority interest	17	**10,685**	9,664	**–**	–
Total equity		**2,442,510**	2,138,455	**774,760**	819,962

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 2006

	Note	Consolidated 2006 $000	Consolidated 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
Net profit		**467,197**	594,953	**125,591**	44,027
Actuarial gain on defined benefit plans	19	**7,445**	6,452	–	–
Adjustment on change of accounting policy		–	566	–	–
Cash flow hedge fair value gains		**406**	16	–	–
Total recognised income and expense for the year		**475,048**	601,987	**125,591**	44,027
Attributable to:					
Equity holders of the parent entity		**473,827**	601,606	**125,591**	44,027
Minority interest		**1,221**	381	–	–
Total recognised income and expense for the year		**475,048**	601,987	**125,591**	44,027
Total equity at the beginning of the year		**2,138,455**	1,645,319	**819,962**	883,686
Total recognised income and expense for the year		**475,048**	601,987	**125,591**	44,027
Impact on change of accounting policy		–	(100)	–	–
Own shares acquired		**(2,843)**	(2,716)	**(2,843)**	(2,716)
Expense on equity settled transactions		**2,150**	2,965	**2,150**	2,965
Dividends to minority interest		**(200)**	(1,000)	–	–
Dividends to shareholders		**(170,100)**	(108,000)	**(170,100)**	(108,000)
Total equity at the end of the year		**2,442,510**	2,138,455	**774,760**	819,962

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 2006

	Note	Consolidated 2006 $000	Consolidated 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
Cash flows from operating activities					
Receipts from customers		**21,290,363**	17,546,661	**–**	–
Receipts from subsidiaries		**–**	–	**351,150**	325,417
Payments to suppliers, employees and governments		**(20,458,455)**	(16,640,384)	**–**	–
Dividends and disbursements received		**3,685**	2,931	**117,734**	39,500
Interest received		**2,555**	3,887	**70,653**	53,349
Interest and other finance costs paid		**(57,229)**	(42,862)	**(55,547)**	(44,329)
Income taxes paid		**(315,361)**	(252,484)	**(314,083)**	(253,888)
Net operating cash inflows	26	**465,558**	617,749	**169,907**	120,049
Cash flows from investing activities					
Purchases of businesses, net of cash acquired		**(14,388)**	115	**–**	–
Deferred payment for purchase of controlled entities		**–**	(333)	**–**	–
Payment for purchase of controlled entity, net of cash acquired		**(6,952)**	–	**–**	–
Purchases of property, plant and equipment		**(357,285)**	(457,362)	**–**	–
Major cyclical maintenance		**(29,530)**	(41,917)	**–**	–
Purchases of intangibles		**(2,189)**	(7,088)	**–**	–
Net proceeds from sale of property, plant and equipment		**5,176**	15,441	**–**	–
Loans to controlled entities		**–**	–	**(136,376)**	–
Loans repaid from controlled entities		**–**	–	**–**	4,000
Loans repaid from associated entities		**956**	2,250	**–**	–
Net investing cash (outflows)/inflows		**(404,212)**	(488,894)	**(136,376)**	4,000
Cash flows from financing activities					
Proceeds from borrowings		**9,595,161**	5,954,386	**9,593,296**	5,952,000
Repayments of borrowings		**(9,458,785)**	(5,958,385)	**(9,456,920)**	(5,956,000)
Repayment of finance lease principal		**(307)**	(1,368)	**–**	–
Dividends paid to minority interest		**(200)**	(1,200)	**–**	–
Dividends paid		**(170,100)**	(108,000)	**(170,100)**	(108,000)
Net financing cash outflows		**(34,231)**	(114,567)	**(33,724)**	(112,000)
Net increase/(decrease) in cash and cash equivalents		**27,115**	14,288	**(193)**	12,049
Cash at the beginning of the year		**28,484**	14,196	**437**	(11,612)
Cash at the end of the year	26	**55,599**	28,484	**244**	437

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 2006

1. Significant accounting policies

Caltex Australia Limited (Company) is a company domiciled in Australia. The financial statements for the year ended 31 December 2006 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 23 February 2006.

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

(a) Statement of compliance and basis of preparation

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).

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.

The financial report is presented in Australian dollars, which is the Group's functional currency. 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(c).

The following standards and amendments were made available for early adoption by the AASB but have not been applied by the Group in this financial report:

- AASB 101 *Presentation of Financial Statements (October 2006)*.
- AASB 7 *Financial Instruments: Disclosures*.
- 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*.
- Interpretation 8 *Scope of* AASB 2 *Share-based Payments*.
- Interpretation 9 *Reassessment of Embedded Derivatives*.
- Interpretation 11 AASB 2 *Share-based Payment – Group and Treasury Share Transactions*.

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 by the Company and the Group.

(b) Basis of consolidation

Subsidiaries

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

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

Associates

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

Joint ventures

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

Jointly controlled entities

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

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

1. Significant accounting policies continued

(b) Basis of consolidation continued

Joint ventures continued

Jointly controlled operations and assets

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

Transactions eliminated on consolidation

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

(c) Accounting estimates and judgements

Notes 1(n) and 11 contain information about the assumptions and their risk factors relating to impairment.

In note 1(j), explanation is given of the foreign exchange exposure, interest rate exposure and commodity price exposure of the Group and risks in relation to foreign exchange movements, interest rate movements and commodity price movements.

Note 19(b) contains information about the principal actuarial assumptions used in determining pension obligations for the Group's defined benefit plan.

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

(d) Revenue

Sales revenue

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

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

Prior year restatement

During 2005, the Group did not eliminate on consolidation all intercompany sales and cost of sales relating to distributor businesses, resulting in an overstatement of these disclosure line items of $920,654,000. The comparative period income statement and cash flow statement have been restated to correct this adjustment. There was no net profit impact arising from this restatement.

Other income

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

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

Profit/loss on disposal of property assets

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

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

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

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

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

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

(f) Product duties and taxes

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

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

(g) Goods and services tax

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

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

(h) Finance costs

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

1. Significant accounting policies continued

(h) Finance costs continued

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

(i) Foreign currencies

Foreign currency transactions are recorded, on initial recognition, in Australian dollars by applying the exchange rate at the date of the transaction.

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

(j) Derivative financial instruments

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

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

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

Interest rate instruments

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

Foreign exchange contracts

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

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

Crude and refiner margin swap contracts

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

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

Hedging

Cash flow hedges

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

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

Fair value hedges

Cross currency swaps are fair value hedges.

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

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

(k) Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

1. Significant accounting policies continued

(k) Income tax continued

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

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

Tax consolidation

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

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

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

Any current tax liabilities and deferred tax assets arising from unused tax losses of the subsidiaries are 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 agreements

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

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

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

(l) Receivables

Receivables are measured at amortised cost less impairment losses.

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

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

(m) Inventories

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

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

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

(n) Impairment

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

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

Calculation of recoverable amount

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

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

1. Significant accounting policies continued

(n) Impairment continued

Reversals of impairment

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

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

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

(o) Property, plant and equipment

Owned assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of property, plant and equipment at 1 January 2004 is included on the basis of deemed cost. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

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

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

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

Leased assets

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

Finance leases

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

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

Operating leases

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

Subsequent expenditure

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

Major cyclical maintenance

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

Depreciation

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

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

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

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

(p) Intangible assets

Goodwill

Business combinations prior to 1 January 2004

As part of the transition to A-IFRS, the Group elected to restate only those business combinations that occurred on or after 1 January 2004. In respect of acquisitions prior to 1 January 2004, goodwill represents the amount recognised under the Group's previous accounting framework.

Business combinations since 1 January 2004

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

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(n)). In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

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

Research and development

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

1. Significant accounting policies continued

(p) Intangible assets continued

Research and development continued

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible, future economic benefits are probable and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see note 1(n)).

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (see note 1(n)).

Subsequent expenditure

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

Amortisation

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

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

(q) Cash and cash equivalents

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

(r) Payables

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

Payables related to statutory obligations are measured at cost with other payables measured at amortised cost.

(s) Interest bearing liabilities

Interest bearing bank loans

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

Short-term notes

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

Medium-term notes

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

US notes

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

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

(t) Employee benefits

Wages and salaries

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

Annual leave, long service leave and retirement benefits

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

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

Superannuation

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

Defined contribution plans

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

Defined benefit plans

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

All actuarial gains and losses that arise in calculating the Group's obligation in respect of the plan are recognised directly in retained earnings. When the calculation results in plan assets exceeding liabilities to the Group, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

(u) Share based payments

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

1. Significant accounting policies continued

(u) Share based payments continued

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.

In the Company's financial statements, the transactions of the Company sponsored employee share plan trust are treated as being executed directly by the Company (as the trust acts as the Company's agent). Accordingly, shares held by the trust are recognised as treasury stock and deducted from equity.

(v) Environmental costs

Environmental costs related to known environmental obligations under existing law are accrued when they can be reasonably estimated. Accruals are based on best available information and are adjusted as further information develops or circumstances change. Environmental provisions are accounted for in accordance with the provisions accounting policy.

Costs of compliance with environmental regulations and ongoing maintenance and monitoring are expensed as incurred. Recoveries from third parties are recorded as assets when their realisation is virtually certain.

(w) Provisions

A provision is recognised when there is a present legal or constructive obligation as a result of a past event that can be measured reliably and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Subsequent accretion to the amount of a provision due to unwinding of the discount is recognised as a finance cost.

Estimate of the amount of an obligation is based on current legal and constructive obligations, technology and price levels. Actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions and can take place many years in the future. The carrying amounts of provisions and liabilities are regularly reviewed and adjusted to take account of such change.

In general, the further in the future that a cash outflow for a liability is expected to occur, the greater the degree of uncertainty around the amount and timing of that cash outflow. Examples of cash outflows that are expected to occur a number of years in the future and, as a result, about which there is uncertainty of the amounts involved, include asset decommissioning and restoration obligations and employee pension obligations.

A change in the estimate of a recognised provision or liability would impact the income statement, with the exception of decommissioning and certain restoration costs that relate to the initial construction of an asset, which would be accounted for on a prospective basis.

Restoration and remediation

Provisions relating to current and future restoration and remediation activities are recognised as liabilities when a legal or constructive obligation arises.

The provision is the best estimate of the present value of the expenditure to settle the obligation at the reporting date. These costs are reviewed annually and any changes are reflected in the provision at the end of the reporting period through the income statement.

The ultimate cost of restoration and remediation is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal and environmental requirements, the emergence of new techniques or experience at other sites and uncertainty as to the remaining life of existing sites.

Asset retirements

Costs for the future dismantling and removal of assets, and restoration of the site on which the assets are located, are provided for and capitalised upon initial construction of the asset, where an obligation to incur such costs arises. The present value of the expected future cash flows required to settle these obligations is capitalised and depreciated over the useful life of the asset. Subsequent accretion to the amount of a provision due to unwinding of the discount is recognised as a finance cost. A change in estimate of the provision is added to or deducted from the cost of the related asset in the period of the change, to the extent that any amount of deduction does not exceed the carrying amount of the asset. Any deduction in excess of the carrying amount is recognised in the income statement immediately. If an adjustment results in an addition to the cost of the related asset, consideration will be given to whether an indication of impairment exists and the impairment policy will be applied.

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount.

Restructuring and employee termination benefits

Provisions for restructuring or termination benefits are only recognised when a detailed plan has been approved and the restructuring or termination benefits have either commenced or been publicly announced, or when firm contracts related to the restructuring or termination benefits have been entered into. The liabilities for termination benefits have been included in the provision for employee and director benefits.

	Consolidated		Parent Entity	
	2006 $000	2005 $000	2006 $000	2005 $000

2. Other income

Dividends received from controlled entities	–	–	**117,702**	39,500
Rental income	**30,084**	32,172	–	–
Royalties and franchise income	**99,227**	92,262	–	–
Net foreign exchange gains	**23,677**	–	–	–
Other	**70,466**	70,007	**2,146**	–
	223,454	194,441	**119,848**	39,500
Finance income				
Interest from controlled entities	–	–	**70,173**	53,352
Interest from other corporations	**2,906**	3,970	**155**	65
	2,906	3,970	**70,328**	53,417
	226,360	198,411	**190,176**	92,917

3. Costs and expenses

Finance costs				
Interest expense	**56,356**	41,158	**56,907**	39,959
Finance charges on capitalised leases	**1,892**	1,942	–	–
(Gain)/loss on fair value derivative	**(312)**	1,460	**(312)**	1,460
Less:				
Capitalised finance costs	**(9,423)**	(17,253)	–	–
Finance costs	**48,513**	27,307	**56,595**	41,419
Depreciation and amortisation				
Depreciation of:				
Buildings	**7,981**	8,208	–	–
Plant and equipment	**132,355**	108,971	–	–
	140,336	117,179	–	–
Amortisation of:				
Leasehold property	**6,273**	5,818	–	–
Leased plant and equipment	**703**	703	–	–
Intangibles	**5,005**	3,099	–	–
	11,981	9,620	–	–
Total depreciation and amortisation	**152,317**	126,799	–	–
Selected expenses				
Total personnel expenses	**206,686**	187,356	–	–
Impairment on goodwill	**225**	32	–	–
Provision for write-down in value of buildings and related plant and equipment to recoverable amount	–	2,500	–	–
Operating leases rental expense	**73,340**	79,485	–	–
Net foreign exchange losses	–	36,957	–	–
Finance lease contingent rentals	**43**	424	**43**	422
Loss on disposal of non-current assets	**8,397**	10,271	–	–

4. Income tax expense

	Consolidated 2006 $000	Consolidated 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
(a) Recognised in the income statements				
Current tax expense:				
Current year	**179,759**	246,358	**4,113**	1,940
Adjustments for prior years	**(2,341)**	(12,935)	–	–
	177,418	233,423	**4,113**	1,940
Deferred tax expense:				
Origination and reversal of temporary differences	**17,250**	(40,342)	**(287)**	–
Total income tax expense in the income statements	**194,668**	193,081	**3,826**	1,940
(b) Numerical reconciliation between income tax expense and profit before income tax expense				
Profit before income tax expense	**661,865**	788,034	**129,417**	45,967
Income tax using the domestic corporate tax rate of 30% (2005: 30%)	**198,559**	236,410	**38,825**	13,790
Increase in income tax expense due to:				
Imputation gross-up on dividends received	**1,106**	855	–	–
Impairment of goodwill	**68**	–	–	–
Net tangible capital gains tax	**610**	2,171	–	–
Other	–	–	**312**	–
Decrease in income tax expense due to:				
Share of net profit of associated entities	**(1,535)**	(1,380)	–	–
Research and development allowances	**(375)**	(375)	–	–
Depreciable repairs and maintenance	–	(2,008)	–	–
Origination of temporary differences	–	(7,680)	–	–
Dividends received from subsidiaries	–	–	**(35,311)**	(11,850)
Other	**(1,079)**	(1,006)	–	–
Franking credits on dividends received	**(345)**	(117)	–	–
Income tax expense on the profit before income tax expense before individually material income tax items	**197,009**	226,870	**3,826**	1,940
Individually material income tax items:				
Net deferred tax balances recognised upon implementation of tax consolidation	–	(20,854)	–	–
	197,009	206,016	**3,826**	1,940
Income tax over-provided in prior years	**(2,341)**	(12,935)	–	–
Total income tax expense in the income statements	**194,668**	193,081	**3,826**	1,940
(c) Deferred tax recognised directly in equity				
Related to actuarial gains	**(3,195)**	(2,765)	–	–
Related to financial instruments	**(175)**	(6)	–	–
	(3,370)	(2,771)	–	–

(d) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Consolidated	Assets 2006 $000	Assets 2005 $000	Liabilities 2006 $000	Liabilities 2005 $000	Net 2006 $000	Net 2005 $000
Receivables	**3,327**	1,668	–	–	**3,327**	1,668
Inventories	–	–	**(2,229)**	(914)	**(2,229)**	(914)
Property, plant and equipment and intangibles	–	–	**(82,231)**	(77,390)	**(82,231)**	(77,390)
Payables	**6,793**	23,313	–	–	**6,793**	23,313
Interest bearing liabilities	**2,689**	2,876	–	–	**2,689**	2,876
Provisions	**45,021**	41,349	–	–	**45,021**	41,349
Other	–	–	**(4,032)**	(944)	**(4,032)**	(944)
Net tax assets/(liabilities)	**57,830**	69,206	**(88,492)**	(79,248)	**(30,662)**	(10,042)

4. Income tax expense continued

Parent Entity	Assets 2006 $000	Assets 2005 $000	Liabilities 2006 $000	Liabilities 2005 $000	Net 2006 $000	Net 2005 $000
Provisions	**73**	131	–	–	**73**	131
Interest bearing liabilities	**345**	–	–	–	**345**	–
Net tax assets	**418**	131	–	–	**418**	131

(e) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in both the consolidated entity and parent entity in respect to the following items.

	2006 $000	2005 $000
Tax losses	**195,704**	197,744

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which these benefits can be utilised by the Group.

(f) Movement in temporary differences during the year

Consolidated	Balance at 1 Jan 06 $000	Recognised in income $000	Recognised in equity $000	Balance at 31 Dec 06 $000
Receivables	**1,668**	**1,659**	–	**3,327**
Inventories	**(914)**	**(1,315)**	–	**(2,229)**
Property, plant and equipment	**(77,390)**	**(4,841)**	–	**(82,231)**
Payables	**23,313**	**(16,520)**	–	**6,793**
Interest bearing liabilities	**2,876**	**(12)**	**(175)**	**2,689**
Provisions	**41,349**	**3,958**	**(286)**	**45,021**
Other	**(944)**	**(179)**	**(2,909)**	**(4,032)**
	(10,042)	**(17,250)**	**(3,370)**	**(30,662)**

Consolidated	Balance at 1 Jan 05 $000	Recognised in income $000	Recognised in equity $000	Balance at 31 Dec 05 $000
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)
	(47,613)	40,342	(2,771)	(10,042)

Parent Entity	Balance at 1 Jan 06 $000	Recognised in income $000	Recognised in equity $000	Balance at 31 Dec 06 $000
Interest bearing liabilities	–	**345**	–	**345**
Provisions	**131**	**(58)**	–	**73**
	131	**287**	–	**418**

Parent Entity	Balance at 1 Jan 05 $000	Recognised in income $000	Recognised in equity $000	Balance at 31 Dec 05 $000
Interest bearing liabilities	–	–	–	–
Provisions	131	–	–	131
	131	–	–	131

4. Income tax expense continued

(g) Individually material tax item in 2005

Following the passing of Tax Law Amendment Bill (2004 Measures No. 6) by the Senate in early 2005, 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.

5. Dividends

	Date of payment	Franked/ unfranked	Cents per share	Total amount $000
(a) Dividends declared or paid				
Dividends recognised in the current year by the Company are:				
2006				
Interim 2006	29 September 2006	Franked	32	**86,400**
Final 2005	31 March 2006	Franked	31	**83,700**
Total amount				**170,100**
2005				
Interim 2005	30 September 2005	Franked	15	40,500
Final 2004	1 April 2005	Franked	25	67,500
Total amount				108,000

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

Subsequent events

Since 31 December 2006, the directors declared the following dividend. The dividend has not been provided for and there are no income tax consequences for the Group.

Final 2006	30 March 2007	Franked	48	129,600

The financial effect of this final dividend has not been reflected in the financial statements for the year ended 31 December 2006 and will be recognised in subsequent financial reports.

	Parent Entity	
	2006 $000	2005 $000
(b) Dividend franking account		
30% franking credits available to shareholders of Caltex Australia Limited for subsequent financial years	**683,960**	441,445

(i) The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability, is to reduce the balance by $55,543,000 (2005: $35,871,000).

In accordance with the tax consolidation legislation, the Company as the head entity in the tax-consolidated group has also assumed the benefit of $683,960,000 (2005: $441,445,000) in franking credits.

6. Basic and diluted earnings per share

	Consolidated		Parent Entity	
	2006	2005	2006	2005
Historical cost including individually material tax items – cents per share	**172.6**	220.2	–	–
Replacement cost excluding individually material tax items – cents per share	**159.2**	153.4	–	–

The calculation of historical cost basic earnings per share for the year ended 31 December 2006 was based on the net profit attributable to ordinary shareholders of the parent entity of $465,976,000 (2005: $594,572,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2006 of 270 million shares (2005: 270 million shares).

The calculation of replacement cost basic earnings per share for the year ended 31 December 2006 was based on the net replacement cost profit attributable to ordinary shareholders of the parent entity of $429,798,000 (2005: $414,071,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2006 of 270 million shares (2005: 270 million shares).

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

	Consolidated		Parent Entity	
	2006 $000	2005 $000	2006 $000	2005 $000

7. Receivables

Current				
Trade debtors	**685,593**	697,599	–	–
Allowance for impairment	**(8,090)**	(1,994)	–	–
	677,503	695,605	–	–
Associated entities	**63,625**	36,338	–	–
Controlled entities	–	–	–	56,286
Other related entities	**17,099**	47,657	–	–
Other debtors	**51,222**	46,475	–	–
	809,449	826,075	–	56,286
Non-current				
Loans to associated entities	–	956	–	–
Allowance for impairment	–	(956)	–	–
	–	–	–	–
Loans to controlled entities	–	–	**456,188**	380,882
Other loans	**3,916**	5,134	–	–
	3,916	5,134	**456,188**	380,882

8. Inventories

Crude oil and raw materials	**406,817**	425,438	–	–
Inventory in process	**116,865**	111,332	–	–
Finished goods	**541,663**	477,790	–	–
Materials and supplies	**34,689**	30,245	–	–
	1,100,034	1,044,805	–	–

9. Other assets

Current				
Pre payments	**24,293**	25,451	**766**	720
Non-current				
Other	**14,585**	4,627	–	–
	14,585	4,627	–	–

10. Other investments

Investment in other entities	**15**	21	–	–
Investment in controlled entities	–	–	**941,375**	941,375
	15	21	**941,375**	941,375

11. Intangibles

Consolidated	Goodwill $000	Rights $000	Software $000	Total $000
Cost				
Balance at 1 January 2006	**33,130**	**4,778**	**44,255**	**82,163**
Acquisitions through business combinations	**17,345**	**–**	**–**	**17,345**
Additions	**–**	**–**	**2,188**	**2,188**
Disposals	**–**	**(1,326)**	**–**	**(1,326)**
Balance at 31 December 2006	**50,475**	**3,452**	**46,443**	**100,370**
Cost				
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
Amortisation and impairment losses				
Balance at 1 January 2006	**(11,166)**	**–**	**(29,341)**	**(40,507)**
Amortisation for the year	**–**	**(660)**	**(4,345)**	**(5,005)**
Impairment losses for the year	**(225)**	**–**	**–**	**(225)**
Balance at 31 December 2006	**(11,391)**	**(660)**	**(33,686)**	**(45,737)**
Amortisation and impairment losses				
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)
Carrying amount				
At 1 January 2006	**21,964**	**4,778**	**14,914**	**41,656**
At 31 December 2006	**39,084**	**2,792**	**12,757**	**54,633**
At 1 January 2005	9,444	1,325	10,895	21,664
At 31 December 2005	21,964	4,778	14,914	41,656

Amortisation and impairment losses

The amortisation and impairment charge of $5,230,000 (2005: $3,131,000) 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 tested for impairment as follows.

	Consolidated		Parent Entity	
	2006 $000	2005 $000	2006 $000	2005 $000
Distributor businesses	**39,084**	21,964	**–**	–

Distributor businesses

The recoverable amount of goodwill with distributor businesses has been determined based on a "value in use" calculation. This calculation uses cash flow projections based on an extrapolation of the year end cash flows and available budget information, 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. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of goodwill recorded 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

12. Property, plant and equipment

	Consolidated 2006 $000	Consolidated 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
Freehold land				
At cost	**385,394**	395,997	–	–
Net carrying amount	**385,394**	395,997	–	–
Buildings				
At cost	**281,196**	282,085	–	–
Accumulated depreciation	**(118,176)**	(116,213)	–	–
Net carrying amount	**163,020**	165,872	–	–
Leasehold property				
At cost	**83,777**	83,177	–	–
Accumulated amortisation	**(57,148)**	(52,751)	–	–
Net carrying amount	**26,629**	30,426	–	–
Plant and equipment				
At cost	**2,776,914**	2,139,919	–	–
Accumulated depreciation	**(1,356,899)**	(1,262,749)	–	–
Net carrying amount	**1,420,015**	877,170	–	–
Leased plant and equipment				
At capitalised cost	**14,170**	14,170	–	–
Accumulated amortisation	**(9,903)**	(9,200)	–	–
Net carrying amount	**4,267**	4,970	–	–
Capital projects in progress				
At cost	**289,117**	601,844	–	–
Total net carrying amount	**2,288,442**	2,076,279	–	–

Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	Consolidated 2006 $000	Consolidated 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
Freehold land				
Carrying amount at the beginning of the year	**395,997**	406,114	–	–
Disposals	**(10,603)**	(10,117)	–	–
Carrying amount at the end of the year	**385,394**	395,997	–	–
Buildings				
Carrying amount at the beginning of the year	**165,872**	167,781	–	–
Additions	–	53	–	–
Disposals	**(5,114)**	(5,492)	–	–
Transfers from capital projects in progress	**10,243**	11,738	–	–
Depreciation	**(7,981)**	(8,208)	–	–
Carrying amount at the end of the year	**163,020**	165,872	–	–
Leasehold property				
Carrying amount at the beginning of the year	**30,426**	32,217	–	–
Additions	**532**	109	–	–
Disposals	**(166)**	(411)	–	–
Transfers from capital projects in progress	**2,110**	4,329	–	–
Amortisation	**(6,273)**	(5,818)	–	–
Carrying amount at the end of the year	**26,629**	30,426	–	–
Plant and equipment				
Carrying amount at the beginning of the year	**877,170**	866,425	–	–
Additions	**29,692**	58,643	–	–
Acquisition through entity acquired	**2,443**	–	–	–
Write-offs	–	(4,327)	–	–
Disposals	**(6,312)**	(6,583)	–	–
Transfers from capital projects in progress	**649,377**	71,983	–	–
Depreciation	**(132,355)**	(108,971)	–	–
Carrying amount at the end of the year	**1,420,015**	877,170	–	–

12. Property, plant and equipment continued

Reconciliations continued

	Consolidated 2006 $000	Consolidated 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
Leased plant and equipment				
Carrying amount at the beginning of the year	**4,970**	5,678	–	–
Disposals	–	(5)	–	–
Amortisation	**(703)**	(703)	–	–
Carrying amount at the end of the year	**4,267**	4,970	–	–
Capital projects in progress				
Carrying amount at the beginning of the year	**601,844**	219,292	–	–
Additions	**339,580**	453,349	–	–
Finance costs capitalised	**9,423**	17,253	–	–
Transfers to property, plant and equipment	**(661,730)**	(88,050)	–	–
Carrying amount at the end of the year	**289,117**	601,844	–	–

13. Payables

	Consolidated 2006 $000	Consolidated 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
Current				
Trade creditors – unsecured (a)				
Related entities	**438,734**	466,862	–	–
Other corporations and persons	**330,389**	282,145	–	–
Controlled entities	–	–	**64,554**	–
Other creditors and accrued expenses	**425,098**	481,888	**13,723**	12,514
	1,194,221	1,230,895	**78,277**	12,514
Non-current				
Other creditors and accrued expenses	**5,378**	5,509	–	–

(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.

14. Interest bearing liabilities

	Consolidated 2006 $000	Consolidated 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
Current – unsecured				
US notes (i)	**70,276**	–	**70,276**	–
Bank loans (i)	**30,000**	68,000	**30,000**	68,000
Hedge payable (ii)	**29,106**	–	**29,106**	–
Lease liabilities (iii)	**1,451**	829	–	–
	130,833	68,829	**129,382**	68,000
Non-current – unsecured				
US notes (i)	**212,731**	296,360	**212,731**	296,360
Bank loans (i)	**200,000**	25,000	**200,000**	25,000
Hedge payable (ii)	**43,457**	59,522	**43,457**	59,522
Lease liabilities (iii)	**7,564**	8,248	–	–
	463,752	389,130	**456,188**	380,882

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 18.

(i) The bank loans and the US notes are provided by a number of banks and the capital markets. The majority of interest rates on these loans and notes are on a floating rate basis. Maturity dates of the loans and notes vary from July 2007 to July 2012. Under the loan and note agreements, the Group is required to comply with certain financial covenants. There is no security or demand placed on the bank loans and US notes. The bank loans are denominated in Australian dollars, and US notes are denominated in Australian and US dollars.

(ii) The hedge payable is disclosed within interest bearing liabilities as the hedge was entered into solely as a result of the US dollar borrowings and is inextricably linked to the debt. The amount mainly represents the impact of the movement in the exchange rate from the date of inception (30 July 2002, USD exchange rate 0.5643) to 31 December 2006 (USD exchange rate 0.7903), on the amount hedged (USD136 million).

(iii) The implicit rate of interest on finance leases is 14.0% p.a. (2005: 14.0% p.a.). Refer to note 20 for details on the timing and amount of future lease payments.

15. Provisions

2006

Consolidated	Employee and director benefits $000	Site remediation $000	OIL insurance $000	Other $000	Total $000
Balance at 1 January 2006	84,402	28,999	15,580	8,819	137,800
Provisions made during the year	34,734	17,110	1,202	7,866	60,912
Provisions used during the year	(32,531)	(3,975)	(6,041)	(2,844)	(45,391)
Discounting	(1,411)	(1,840)	–	–	(3,251)
Balance at 31 December 2006	**85,194**	**40,294**	**10,741**	**13,841**	**150,070**
Current	39,571	16,302	10,741	13,741	80,355
Non-current	45,623	23,992	–	100	69,715
	85,194	**40,294**	**10,741**	**13,841**	**150,070**
Parent Entity					
Balance at 1 January 2006	437	–	–	–	437
Provisions used during the year	(194)	–	–	–	(194)
Balance at 31 December 2006	**243**	–	–	–	**243**
Non-current	243	–	–	–	243
	243	–	–	–	**243**

Employee and director benefits

The current provisions for employee and director benefits, which include annual leave, long service leave, employee bonus and retirement benefits, represent the present value of the estimated future cash outflows to be made by the Group 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.

Restoration and remediation

Provision is made for the remediation of oil refining, distribution and marketing sites. 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

The Group 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 and BHP. The premium charged utilises loss information from the entire shareholder base as the pricing mechanism to determine a rate per $1,000 of insured assets.

If the shareholder were 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.

Other

Other includes the legal provision and other provisions.

16. Issued capital

	Consolidated 2006 $000	Consolidated 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
Ordinary shares				
Issued capital 270 million (2005: 270 million) ordinary shares, fully paid	**543,415**	543,415	**543,415**	543,415

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. 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.

17. Reconciliation of equity

Consolidated	Issued capital $000	Treasury stock $000	Hedging reserve $000	Equity compensation reserve $000	Retained earnings $000	Total $000	Minority interest $000	Total equity $000
Balance at 1 January 2006	**543,415**	**(2,664)**	**(84)**	**4,289**	**1,583,835**	**2,128,791**	**9,664**	**2,138,455**
Total recognised income for the year	–	–	**406**	–	**473,421**	**473,827**	**1,221**	**475,048**
Own shares acquired	–	**(2,843)**	–	–	–	**(2,843)**	–	**(2,843)**
Shares vested to employees	–	**2,706**	–	**(2,706)**	–	–	–	–
Disposal of unvested shares	–	**709**	–	**(677)**	–	**32**	–	**32**
Expense on equity settled transactions	–	–	–	**2,118**	–	**2,118**	–	**2,118**
Dividends to shareholders	–	–	–	–	**(170,100)**	**(170,100)**	**(200)**	**(170,300)**
Balance at 31 December 2006	**543,415**	**(2,092)**	**322**	**3,024**	**1,887,156**	**2,431,825**	**10,685**	**2,442,510**
Balance at 1 January 2005	543,415	(2,219)	–	3,595	1,090,245	1,635,036	10,283	1,645,319
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	543,415	(2,664)	(84)	4,289	1,583,835	2,128,791	9,664	2,138,455
Parent Entity								
Balance at 1 January 2006	**543,415**	**(2,664)**	–	**4,289**	**274,922**	**819,962**	–	**819,962**
Total recognised income for the year	–	–	–	–	**125,591**	**125,591**	–	**125,591**
Own shares acquired	–	**(2,843)**	–	–	–	**(2,843)**	–	**(2,843)**
Shares vested to employees	–	**2,706**	–	**(2,706)**	–	–	–	–
Disposal of unvested shares	–	**709**	–	**(677)**	–	**32**	–	**32**
Expense on equity settled transactions	–	–	–	**2,118**	–	**2,118**	–	**2,118**
Dividends to shareholders	–	–	–	–	**(170,100)**	**(170,100)**	–	**(170,100)**
Balance at 31 December 2006	**543,415**	**(2,092)**	–	**3,024**	**230,413**	**774,760**	–	**774,760**
Balance at 1 January 2005	543,415	(2,219)	–	3,595	338,895	883,686	–	883,686
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)
Balance at 31 December 2005	543,415	(2,664)	–	4,289	274,922	819,962	–	819,962

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 fair value of services received relating to share based payment plans for which shares have not yet vested.

18. Financial instruments

The 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 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 the Group to swap floating rate borrowings into fixed rates. Maturities of swap contracts are principally between one and three years.

Each contract involves periodic payment or receipt of the net amount of interest. At 31 December 2006, the fixed rates varied from 5.8% p.a. to 6.3% p.a. (2005: 4.5% p.a. to 4.9% p.a.), a weighted average rate of 6.0% p.a. (2005: 4.7% p.a.). The floating rates were at bank bill rates.

The net fair value of interest rate swap contracts at 31 December 2006 was $1,001,000 (2005: $630,000). The Group classifies qualifying interest rate swap contracts as cash flow hedges.

The Group has entered into cross currency swap contracts maturing in one and three 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 2006 was $72,563,000 (2005: $59,522,000). The Group classifies cross currency swap contracts as fair value hedges.

Interest rate risk exposure

The 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:

			Fixed interest maturing in:					
31 December 2006	Note	Floating interest rate $000	Less than one year $000	Between one and five years $000	Greater than five years $000	Non-interest bearing $000	Total $000	Effective interest rate p.a.
Consolidated								
Financial assets								
Cash at bank and on hand		–	–	–	–	**55,599**	**55,599**	–
		–	–	–	–	**55,599**	**55,599**	
Financial liabilities								
Bank loans	14	**230,000**	–	–	–	–	**230,000**	**5.7%**
US notes	14	–	**70,276**	**99,316**	**113,415**	–	**283,007**	**7.1%**
Hedge payable	14	–	**29,106**	**43,457**	–	–	**72,563**	**7.1%**
Lease liabilities	14	–	**1,451**	**5,371**	**2,193**	–	**9,015**	**14.0%**
		230,000	**100,833**	**148,144**	**115,608**	–	**594,585**	
31 December 2005								
Financial assets								
Cash at bank and on hand		–	–	–	–	28,484	28,484	–
		–	–	–	–	28,484	28,484	
Financial liabilities								
Bank and other loans	14	93,000	–	–	–	–	93,000	5.7%
US notes	14	–	–	182,945	113,415	–	296,360	7.1%
Hedge payable	14	–	–	59,522	–	–	59,522	7.1%
Lease liabilities	14	–	829	4,495	3,753	–	9,077	14.0%
		93,000	829	246,962	117,168	–	457,959	

18. Financial instruments continued

(a) Interest rate risk continued

Parent Entity — **Fixed interest maturing in:**

31 December 2006	Note	Floating interest rate $000	Less than one year $000	Between one and five years $000	Greater than five years $000	Non-interest bearing $000	Total $000	Effective interest rate p.a.
Financial assets								
Cash at bank and on hand		–	–	–	–	**244**	**244**	–
		–	–	–	–	**244**	**244**	
Financial liabilities								
Bank and other loans	14	**230,000**	–	–	–	–	**230,000**	**5.7%**
US notes	14	–	**70,276**	**99,316**	**113,415**	–	**283,007**	**7.1%**
Hedge payable	14	–	**29,106**	**43,457**	–	–	**72,563**	**7.1%**
		230,000	**99,382**	**142,773**	**113,415**	–	**585,570**	
31 December 2005								
Financial assets								
Cash at bank and on hand		–	–	–	–	437	437	–
		–	–	–	–	437	437	
Financial liabilities								
Bank and other loans	14	93,000	–	–	–	–	93,000	5.7%
US notes	14	–	–	182,945	113,415	–	296,360	7.1%
Hedge payable	14	–	–	59,522	–	–	59,522	7.1%
		93,000	–	242,467	113,415	–	448,882	

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.

(b) Foreign exchange risk

The 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 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 month to two years.

All trade transactions which require the sale or purchase of foreign currencies are covered on a spot basis. As at 31 December 2006, the total fair value of all outstanding forward contracts amounted to $221,000 (2005: $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 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 (2005: nil). There were no cargo hedges covering the basis risk (2005: nil).

(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 Group which have been recognised on the balance sheet is the carrying amount of trade debtors, net of allowances for impairment.

The 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 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 18(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 Group. As at 31 December 2006, there is no expected credit risk on any financial instruments (2005: nil).

18. Financial instruments continued

(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)	
Consolidated	Carrying amount 2006 $000	Fair value 2006 $000	Carrying amount 2005 $000	Fair value 2005 $000
Receivables	**813,365**	**813,365**	831,209	831,209
Cash and cash equivalents	**55,599**	**55,599**	28,484	28,484
Other investments	**15**	**15**	21	21
Interest bearing liabilities				
Bank loans	**(230,000)**	**(230,000)**	(93,000)	(93,000)
US notes	**(283,007)**	**(281,379)**	(296,360)	(300,375)
Cross currency swaps	**(72,563)**	**(72,563)**	(59,522)	(59,522)
Lease liabilities	**(9,015)**	**(9,732)**	(9,077)	(9,920)
Payables				
Interest rate swaps	**1,001**	**1,001**	630	630
Forward foreign exchange contracts	**(221)**	**(221)**	(323)	(323)
Payables	**(1,200,379)**	**(1,200,379)**	(1,236,711)	(1,236,711)
	(925,205)	**(924,294)**	(834,649)	(839,507)
Parent entity				
Receivables	**456,188**	**456,188**	437,168	437,168
Cash and cash equivalents	**244**	**244**	437	437
Other investments	**941,375**	**941,375**	941,375	941,375
Interest bearing liabilities				
Bank loans	**(230,000)**	**(230,000)**	(93,000)	(93,000)
US notes	**(283,007)**	**(281,379)**	(296,360)	(300,375)
Cross currency swaps	**(72,563)**	**(72,563)**	(59,522)	(59,522)
Payables	**(78,277)**	**(78,277)**	(12,514)	(12,514)
	733,960	**735,588**	917,584	913,569

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

The Group used the government bond rate as of 31 December 2006 plus an adequate constant credit spread to discount financial instruments. The annual interest rates used are as follows:

	2006	2005
Bank loans	**9%**	8%
Lease liabilities	**9%**	8%
Receivables	**7 – 8%**	6%
Payables	**3 – 7%**	3 – 6%

	Note	Consolidated 2006 $000	Consolidated 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000

19. Employee and director benefits

(a) Liability for employee and director benefits

	Note	Consolidated 2006 $000	Consolidated 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
Current					
Liability for annual leave		**19,028**	17,465	–	–
Liability for long service leave		**1,150**	1,150	–	–
Bonus accrued		**18,457**	18,755	–	–
Other		**936**	1,540	–	–
		39,571	38,910	–	–
Non-current					
Liability for long service leave		**45,235**	44,135	–	–
Liability for deficit in defined benefit plan		–	920	–	–
Other		**388**	437	**243**	437
		45,623	45,492	**243**	437
Total liability for employee and director benefits	15	**85,194**	84,402	**243**	437

(b) Superannuation commitments

The Group contributes to superannuation plans to provide benefits to employees and their dependants upon retirement, disability or death, and directors. 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.

Caltex Australia Superannuation Plan – Defined Benefit Division

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

The last actuarial review of the defined benefit plan was made as at 1 January 2006 by Peter R Hughes FIA, FIAA, Actuary, Mercer Human Resources Consulting Pty Ltd. The review concluded that the assets of the plan were sufficient to meet all benefits payable in the event of termination of the plan or the voluntary or compulsory termination of employment of each employee in the plan.

Information from the most recent actuarial valuation for the defined benefit plan at 31 December 2006 follows:

	Consolidated 2006 $000	Consolidated 2005 $000
Movements in the net (asset)/liability for defined benefit obligation recognised in the balance sheet		
Net liability for defined benefit obligation at the beginning of the year	**920**	11,195
Expense recognised in the income statement	**2,324**	4,133
Actuarial gains recognised in retained earnings	**(9,697)**	(9,217)
Employer contributions	**(4,008)**	(5,191)
Net (asset)/liability for defined benefit obligation at the end of the year	**(10,461)**	920
Reconciliation of the present value of the defined benefit obligation		
Present value of defined benefit obligation at the beginning of the year	**177,900**	164,734
Current service cost	**6,760**	7,499
Interest cost	**7,291**	6,862
Contributions by plan participants	**2,281**	2,531
Actuarial (gains)/losses	**(1,115)**	10,537
Benefits paid	**(13,830)**	(14,263)
Present value of defined benefit obligation at the end of the year	**179,287**	177,900
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the year	**176,980**	153,539
Expected return on plan assets	**11,727**	10,228
Actuarial gains	**8,582**	19,754
Employer contributions	**4,008**	5,191
Contributions by plan participants	**2,281**	2,531
Benefits paid	**(13,830)**	(14,263)
Fair value of plan assets at the end of the year	**189,748**	176,980
Reconciliation of the net (asset)/liability recognised in the balance sheet		
Defined benefit obligation	**179,287**	177,900
Fair value of plan assets	**(189,748)**	(176,980)
Net (asset)/liability	**(10,461)**	920

19. Employee and director benefits continued

(b) Superannuation commitments continued

Caltex Australia Superannuation Plan – Defined Benefit Division continued

	Consolidated 2006 $000	Consolidated 2005 $000
Expense recognised in the income statement		
The expense is recognised in refining and supply expenses, marketing expenses and other expenses in the income statement.		
Service cost	**6,760**	7,499
Interest cost	**7,291**	6,862
Expected return on assets	**(11,727)**	(10,228)
Superannuation expense	**2,324**	4,133
Amounts recognised in equity		
Actuarial gains	**9,697**	9,217
Cumulative actuarial gains	**36,240**	26,543
Plan assets		
The percentage invested in each asset class at the balance sheet date was:		
Australian equity	**33%**	35%
International equity	**30%**	30%
Fixed income	**24%**	24%
Property	**9%**	9%
Cash	**4%**	2%

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.

	2006	2005
Actual return on plan assets		
Actual return on plan assets	**20,309**	29,982
Principal actuarial assumptions at the balance sheet date (% p.a.)		
Discount rate (active members)	**5%**	4%
Discount rate (pensioners)	**6%**	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%

Historical information

	2006 $000	2005 $000	2004 $000
Present value of defined benefit obligation	**179,287**	177,900	164,734
Fair value of plan assets	**189,748**	176,980	153,539
(Surplus)/deficit in plan	**(10,461)**	920	11,195
Experience adjustments on plan assets – gain	**8,582**	19,754	6,231
Experience adjustments on plan liabilities – gain/(loss)	**(4,205)**	(10,537)	11,095

Expected employer contributions for the reporting year to 31 December 2007 is $4,077,000.

Information from last actuarial review on the plan as at 1 January 2006

Accrued benefits	**194,084**
Net market value of plan assets	**203,381**
Net surplus	**9,297**

The contribution recommendation was 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.

The long-term economic assumptions adopted for the last actuarial review of the plan as at 1 January 2006 were (% p.a.):

Expected rate of return on assets (discount rate)	**7%**
Expected salary increase rate	**4%**

19. Employee and director benefits continued

(b) Superannuation commitments continued

Caltex Australia Superannuation Plan – Accumulation 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.

	Consolidated		Parent Entity	
	2006 $000	2005 $000	2006 $000	2005 $000
Employer contributions to the plan during the year	**8,877**	9,188	–	–

(c) 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 income 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 (2005: $2,000).

All employees of the Group are entitled to receive a discount on private fuel purchases.

20. Commitments

(a) Capital expenditure

	Consolidated 2006 $000	Consolidated 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
Capital expenditure contracted but not provided for in the financial report and payable:				
Within one year	**75,930**	46,833	–	–
	75,930	46,833	–	–

(b) Leases

Finance leases

Consolidated	31 December 2006			31 December 2005		
	Minimum lease payments $000	Interest $000	Principal $000	Minimum lease payments $000	Interest $000	Principal $000
Within one year	**2,519**	**1,068**	**1,451**	1,997	1,168	829
Between one and five years	**8,095**	**2,724**	**5,371**	7,802	3,307	4,495
After five years	**2,341**	**148**	**2,193**	4,309	556	3,753
	12,955	**3,940**	**9,015**	14,108	5,031	9,077

The Caltex Australia Group leases production plant and equipment under finance leases expiring in 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 3.

Parent entity

The Company has no finance leases.

Operating leases

	Consolidated		Parent Entity	
	2006 $000	2005 $000	2006 $000	2005 $000
Non-cancellable operating leases – Group as lessee				
Future minimum rentals payable:				
Within one year	**97,012**	87,185	–	–
Between one and five years	**238,129**	282,375	–	–
After five years	**66,778**	54,787	–	–
	401,919	424,347	–	–

The Group leases property under operating leases expiring in 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 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 (2005: nil).

20. Commitments continued

(b) Leases continued

Operating leases continued

Note 3 shows the expense recognised in the income statement in respect of operating leases.

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.

Parent entity

The Company has no operating leases as lessee.

	Consolidated		Parent Entity	
	2006 $000	2005 $000	2006 $000	2005 $000
Non-cancellable operating leases – Group as lessor				
Future minimum rentals receivable:				
Within one year	**18,100**	17,397	–	–
Between one and five years	**63,650**	32,725	–	–
After five years	**53,002**	36,410	–	–
	134,752	86,532	–	–

The Group leases property under operating leases expiring in from one to 17 years.

Some of the leased properties have been sublet by the Group. The lease and sublease expire between 2006 and 2022.

Note 2 shows the rental income recognised in the income statement in respect of operating leases.

Parent entity

The Company has no operating leases as lessor.

21. Contingent assets and liabilities

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

(a) Contingent assets – legal and other claims	–	–	–	–

In the ordinary course of business, the Group 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**	1,000	–	–

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

A liability has been recognised for any known losses expected to be incurred where such losses are capable of reliable measurement.

Taxation

The Australian Taxation Office has served a statutory demand on Caltex to pay an amount of $48.7 million in excise duty.

This sum would be tax deductible to Caltex. The ATO has formed the view that the excise duty should be paid in relation to certain liquid fuel by-products used in the refining process and that Caltex should have paid the excise duty on such fuel usage over the past four years. Caltex is of the strong view that the excise duty legislation does not apply to the refineries' own use of such fuels in the refining process and has instituted legal proceedings in the Federal Court against the ATO in this regard. No liability has been recognised as at 31 December 2006, as Caltex is of the view that this legislation is not applicable to this type of fuel usage.

Due to a change in the excise legislation, any future purported excise duty on this type of fuel usage ceased from 1 July 2006.

(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 $1,679,000 (2005: $4,869,000).

21. Contingent assets and liabilities (continued)

(d) Deed of Cross Guarantee and Class Order relief

Note 23(a) lists the companies in the Caltex Australia Group that are parties to a Deed of Cross Guarantee dated 22 December 1992 with Caltex Australia Limited and each other.

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

For part of 2006, the companies listed below were also parties to the Deed of Cross Guarantee. A Deed of Revocation removing those companies from the Deed of Cross Guarantee took effect from 19 June 2006.

Ampol Lending Pty Ltd
Ampol Metro Fuels Pty Ltd
Ampol Realty Pty Ltd
Ampol Refineries (Matraville) Pty Ltd
Ampol Road Pantry Pty Ltd
Ampol Workshops Pty Ltd
Australian Petroleum Holdings Pty Ltd
Big Country Oils Pty Ltd
Brooklyn Bagel (Systems) Pty Ltd
Carmonott Constructions Pty Ltd
Chapmore Pty Ltd
Circle Petroleum (Qld) Pty Ltd
Devorant Pty Ltd
Ditta (Service Station) Pty Ltd
First Bildarama Pty Ltd
Grosvenor Constructions Pty Ltd
Hayport Pty Ltd
Kanegood Pty Ltd
Leberg Holdings Pty Ltd
Liglen Pty Ltd
Manworth Pty Ltd
Matland Holdings Pty Ltd
Metdale Pty Ltd
Pagold Holdings Pty Ltd
Pruland Holdings Pty Ltd
Ruzack Nominees Pty Ltd
Security Computer Services Pty Ltd
Solo Oil Australia Pty Ltd
Solo Oil Corporation Pty Ltd
Solo Oil Leasing Pty Ltd
Solo Petroleum Pty Ltd
Solo Rent a Car Pty Ltd
South Coast Oils Pty Ltd
Southern Cross Petroleum Pty Ltd
Southern Cross Service Pty Ltd
Sunrise Transport Pty Ltd
Wildbank Pty Ltd

22. Auditor's remuneration

	Consolidated		Parent Entity	
	2006 $000	2005 $000	2006 $000	2005 $000
Payment for audit services to KPMG	**789**	640	–	–
Payment for other services to KPMG:				
Transaction services	**94**	60	–	–
Other assurance services	**44**	231	–	–
Taxation services	**33**	111	–	–
	171	402	–	–

23. Particulars in relation to controlled entities

	Note	% interest 2006	2005
(a) Name			
Companies			
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), (viii)	**100**	100
Ampol Lending Pty Ltd	(iv), (v)	**0**	100
Ampol Metro Fuels Pty Ltd	(iv)	**100**	100
Ampol Property (Holdings) Pty Ltd	(iii)	**100**	100
Ampol Bendigo Pty Ltd	(iii)	**100**	100
Ampol Realty Pty Ltd	(iv), (v)	**0**	100
Ampol Refineries (Matraville) Pty Ltd	(iv)	**100**	100
Ampol Road Pantry Pty Ltd	(iv)	**100**	100
Ampol Workshops Pty Ltd	(iv)	**100**	100
B&S Distributors Pty Ltd	(ii)	**50**	50
Big Country Oils Pty Ltd	(iv), (v)	**0**	100
Brisbane Airport Fuel Services Pty Ltd		**100**	100
Calstores Pty Ltd	(iii), (viii)	**100**	100
Caltex Australia Management Pty Ltd		**100**	100
Caltex Australia Nominees Pty Ltd		**100**	100
Caltex Lubricating Oil Refinery Pty Ltd	(iii), (viii)	**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 Services Pty Ltd	(iii), (vii), (viii)	**100**	100
Australian Petroleum Holdings Pty Ltd	(iv), (v)	**0**	100
Bowen Petroleum Services Pty Ltd		**100**	100
South East Queensland Fuels Pty Ltd	(ix)	**100**	50
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), (viii)	**100**	100
Caltex Refineries (Qld) Pty Ltd	(iii), (viii)	**100**	100
Circle Petroleum (Q'land) Pty Ltd	(iv)	**100**	100
Cooper & Dysart Pty Ltd	(viii)	**100**	100
Hayport Pty Ltd	(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	(iv), (v)	**0**	100
Solo Oil Investments Pty Ltd	(iii)	**100**	100
Devorant Pty Ltd	(iv), (v)	**0**	100
Manworth Pty Ltd	(iv)	**100**	100
Metdale Pty Ltd	(iv), (v)	**0**	100
Solo Oil Leasing Pty Ltd	(iv), (v)	**0**	100
Southern Cross Petroleum Pty Ltd	(iv), (v)	**0**	100
Solo Oil Pty Ltd	(iii)	**100**	100
Brooklyn Bagel (Systems) Pty Ltd	(iv), (v)	**0**	100
Carmonott Constructions Pty Ltd	(iv), (v)	**0**	100
Chapmore Pty Ltd	(iv), (v)	**0**	100
Ditta (Service Station) Pty Ltd	(iv), (v)	**0**	100
First Bildarama Pty Ltd	(iv), (v)	**0**	100
Grosvenor Constructions Pty Ltd	(iv), (v)	**0**	100
Kanegood Pty Ltd	(iv)	**100**	100
Leberg Holdings Pty Ltd	(iv), (v)	**0**	100
Liglen Pty Ltd	(iv), (v)	**0**	100

23. Particulars in relation to controlled entities continued

	Note	% interest 2006	2005
(a) Name continued			
Companies continued			
Matland Holdings Pty Ltd	(iv), (v)	**0**	100
Pagold Holdings Pty Ltd	(iv), (v)	**0**	100
Pruland Holdings Pty Ltd	(iv), (v)	**0**	100
Ruzack Nominees Pty Ltd	(iv)	**100**	100
Solo Oil Australia Pty Ltd	(iv)	**100**	100
Solo Oil Corporation Pty Ltd	(iv)	**100**	100
Solo Petroleum Pty Ltd	(iv), (vi)	**0**	100
Solo Rent A Car Pty Ltd	(iv), (v)	**0**	100
Sunrise Transport Pty Ltd	(iv), (v)	**0**	100
Wildbank Pty Ltd	(iv)	**100**	100
South Coast Oils Pty Ltd	(iv)	**100**	100
Southern Cross Service Pty Ltd	(iv), (v)	**0**	100
Teraco Pty Ltd	(ii)	**50**	50
Travelmate.com.au Pty Ltd	(iii)	**100**	100
Tulloch Petroleum Services Pty Ltd	(iii)	**100**	100
Western Fuel Distributors Pty Ltd	(ii)	**50**	50
Unit trusts			
Petroleum Leasing Unit Trust	(x)	**100**	100
Petroleum Property Unit Trust	(x)	**100**	100
South East Queensland Fuels Unit Trust	(ix), (xi)	**100**	50

(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 2006, or since 1 January 2007.

(iv) These companies entered into a Deed of Revocation dated 9 December 2005 and were released from the Deed of Cross Guarantee with effect from 19 June 2006.

(v) These dormant entities were deregistered on 25 September 2006.

(vi) This dormant entity was deregistered on 10 December 2006.

(vii) Caltex Petroleum Distributors Pty Ltd changed its name to Caltex Petroleum Services Pty Ltd on 3 July 2006.

(viii) Employees of these companies may be eligible to participate in the Caltex Australia Limited employee share plan (refer note 19(c)).

(ix) 100% of these entities were acquired on 1 December 2006.

(x) Solo Oil Limited is the sole unitholder of these trusts.

(xi) Caltex Australia Petroleum Pty Ltd and Caltex Petroleum Services Pty Ltd each own half of the units in this trust.

(b) Income statement for entities covered by the Deed of Cross Guarantee

	2006 $000	2005 $000
Profit before income tax expense	**640,222**	782,936
Income tax expense	**(193,557)**	(190,938)
Net profit	**446,665**	591,998
Retained earnings at the beginning of the year	**1,596,194**	1,092,715
Movement in reserves	**7,445**	7,018
Dividends provided for or paid	**(170,100)**	(108,000)
Retained earnings at the end of the year	**1,880,204**	1,583,731

23. Particulars in relation to controlled entities continued

	2006 $000	2005 $000
(c) Balance sheet for entities covered by the Deed of Cross Guarantee		
Current assets		
Cash and cash equivalents	**47,822**	25,443
Receivables	**678,094**	786,763
Inventories	**1,094,867**	1,042,690
Current tax asset	**39,856**	–
Other	**24,038**	25,282
Total current assets	**1,884,677**	1,880,178
Non-current assets		
Receivables	**19,349**	5,567
Investments accounted for using the equity method	**26,718**	26,016
Other investments	**15**	21
Property, plant and equipment	**2,261,468**	2,061,717
Intangibles	**37,866**	32,472
Deferred tax assets	**–**	1,764
Other	**100,549**	43,133
Total non-current assets	**2,445,965**	2,170,690
Total assets	**4,330,642**	4,050,868
Current liabilities		
Payables	**1,127,175**	1,214,601
Interest bearing liabilities	**130,574**	68,599
Current tax liabilities	**–**	97,340
Provisions	**80,128**	80,083
Total current liabilities	**1,337,877**	1,460,623
Non-current liabilities		
Payables	**5,378**	5,509
Interest bearing liabilities	**463,752**	388,998
Deferred tax liabilities	**29,287**	10,042
Provisions	**69,475**	57,009
Total non-current liabilities	**567,892**	461,558
Total liabilities	**1,905,769**	1,922,181
Net assets	**2,424,873**	2,128,687
Equity		
Issued capital	**543,415**	543,415
Treasury stock	**(2,092)**	(2,664)
Reserves	**3,346**	4,205
Retained earnings	**1,880,204**	1,583,731
Total equity	**2,424,873**	2,128,687

24. Investments accounted for using the equity method

	% interest 2006	% interest 2005	Balance date
(a) Investments in associates and joint ventures			
Airport Fuel Services Pty Ltd	**40**	40	31 December
Australasian Lubricants Manufacturing Company Pty Ltd	**50**	50	31 December
Cairns Airport Refuelling Services Pty Ltd	**25**	25	31 December
Geraldton Fuel Company Pty Ltd	**50**	50	31 December
Link Energy Pty Ltd	**50**	50	30 June
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
R&JK Petroleum Pty Ltd	–	50	31 December
South Coast Fuels Pty Ltd	**50**	50	31 December
South East Queensland Fuels Pty Ltd	–	50	31 December
South East Queensland Fuels Unit Trust	–	50	31 December
Vitalgas Pty Ltd	**50**	50	31 December

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 and the company deregistered on 23 July 2006.

South East Queensland Fuels Pty Ltd and South East Queensland Fuels Unit Trust became fully owned entities on 1 December 2006.

(b) Investments in associates

	Revenue (100%) $000	Profit (100%) $000	Share of associates' net profit recognised $000	Total assets (100%) $000	Total liabilities (100%) $000	Net assets as reported by associates (100%) $000	Share of associates' net assets equity accounted $000
2006	**485,026**	**9,299**	**4,195**	**75,053**	**50,016**	**25,037**	**8,499**
2005	688,012	10,104	4,680	104,501	85,620	18,881	8,720

	Consolidated 2006 $000	Consolidated 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
Results of associates				
Share of associates' profit before income tax expense	**5,518**	4,425	–	–
Share of associates' income tax expense	**(1,267)**	330	–	–
Share of associates' net profit	**4,251**	4,755	–	–
Unrealised profit in inventories	**(56)**	(75)	–	–
Share of associates' net profit – equity accounted	**4,195**	4,680	–	–
Commitments				
Share of associates' capital expenditure contracted but not provided for in the financial report and payable:				
Within one year	–	330	–	–
Share of associates' operating lease commitments not provided for in the financial report and payable:				
Within one year	**13**	69	–	–
Between one and five years	**63**	29	–	–
	76	98	–	–
Share of associates' finance lease commitments not provided for in the financial report and payable:				
Within one year	**1,393**	834	–	–
Between one and five years	**6,089**	4,876	–	–
	7,482	5,710	–	–
Future finance charges	**(870)**	(705)	–	–
	6,612	5,005	–	–

24. Investments accounted for using the equity method continued

(c) Investments in joint ventures

	Revenue (100%) $000	Profit/(loss) (100%) $000	Share of joint ventures' net profit/(loss) recognised $000	Total assets (100%) $000	Total liabilities (100%) $000	Net assets as reported by joint venture (100%) $000	Share of joint ventures' net assets equity accounted $000
2006	**524,280**	**2,635**	**923**	**467,324**	**433,164**	**34,160**	**18,219**
2005	296,781	3,167	(79)	254,480	220,493	33,987	17,296

	Consolidated 2006 $000	Consolidated 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
Results of joint ventures				
Share of joint ventures' profit before income tax expense	**1,732**	373	–	–
Share of joint ventures' income tax expense	**(401)**	(55)	–	–
Share of joint ventures' net profit	**1,331**	318	–	–
Unrealised profit in inventories	**(408)**	(397)	–	–
Share of joint ventures' net profit/(loss) – equity accounted	**923**	(79)	–	–
Commitments				
Share of joint ventures' capital expenditure contracted but not provided for in the financial report and payable:				
Within one year	**3,624**	4,160	–	–
Share of joint ventures' operating lease commitments not provided for in the financial report and payable:				
Within one year	**673**	629	–	–
Between one and five years	**1,451**	1,368	–	–
	2,124	1,997	–	–

25. Interest in joint venture operations

The Group has joint interests in multiple Joint User Hydrant Installations (JUHIs), which are based at airports across Australia. The principal activity of the JUHIs is refuelling aircraft at the airports. For the year ended 31 December 2006, the contribution of the JUHIs to the operating profit of the Group was nil (2005: nil), and of the parent entity was nil (2005: 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:

	Consolidated 2006 $000	Consolidated 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
Non-current assets				
Plant and equipment expenditure	**29,430**	28,026	–	–
Less: accumulated amortisation	**(19,891)**	(18,793)	–	–
Total non-current assets	**9,539**	9,233	–	–
Total assets	**9,539**	9,233	–	–

26. Notes to the cash flow statements

	Consolidated		Parent entity	
	2006 $000	2005 $000	2006 $000	2005 $000
(a) Reconciliation of cash and cash equivalents				
For the purposes of the cash flow statements, cash and cash equivalents includes:				
Cash at bank	**55,599**	28,484	**244**	437
Bank overdrafts	**–**	–	**–**	–
Total cash and cash equivalents	**55,599**	28,484	**244**	437
(b) Reconciliation of net profit to net operating cash flows				
Net profit	**467,197**	594,572	**125,591**	44,027
Adjustments for:				
Loss on sale of non-current assets and intangibles	**8,397**	10,271	**–**	–
Finance charges on finance leases	**43**	2,366	**–**	–
Interest paid capitalised	**(9,423)**	(17,253)	**–**	–
Loan repaid from associate	**(956)**	(2,250)	**–**	–
Fair value adjustment on financial instruments	**(312)**	1,460	**(312)**	1,460
Depreciation of property, plant and equipment	**147,312**	123,700	**–**	–
Amortisation of intangibles	**5,005**	3,099	**–**	–
Write-down in value of land and buildings and related plant and equipment to recoverable amount	**225**	2,532	**–**	–
Equity settled share based payment transactions	**(693)**	–	**(693)**	–
Share of associates' and joint ventures' net profit	**(5,118)**	(4,601)	**–**	–
Movements in assets and liabilities:				
(Increase)/decrease in receivables	**47,584**	(207,822)	**179,771**	91,662
(Increase)/decrease in inventories	**(51,064)**	(216,707)	**–**	–
(Increase)/decrease in other current assets	**2,054**	(6,186)	**(46)**	724
Increase/(decrease) in payables	**(36,270)**	366,236	**3,972**	120
Increase/(decrease) in current tax liabilities	**(138,122)**	(18,747)	**(137,895)**	(17,944)
(Decrease)/increase in deferred tax liability/asset	**17,429**	(37,571)	**(287)**	–
(Decrease)/increase in provisions	**12,270**	24,650	**(194)**	–
Net operating cash inflows	**465,558**	617,749	**169,907**	120,049

27. Acquisitions

2006

(a) South East Queensland Fuels Pty Ltd

On 1 December 2006, the Group acquired the remaining 50% of South East Queensland Fuels Pty Ltd and South East Queensland Fuels Unit Trust for $8,008,000, satisfied in cash. The company distributes petroleum. In the month to 31 December 2006, the subsidiary contributed a net loss of $200,000 to the consolidated net profit for the year. If the acquisition had occurred on 1 January 2006, the Group estimates that gross sales revenue would have been $18,612,778,000 and net profit would have been $466,022,000.

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

	Recognised values $000
Cash and cash equivalents	2,111
Receivables	24,901
Inventories	1,386
Other current assets	61
Property, plant and equipment	2,443
Payables	(30,053)
Net identifiable assets and liabilities	849
Net assets acquired – 50%	425
Goodwill on acquisition	7,583
Consideration paid, satisfied in cash	(8,008)
Cash acquired	1,056
Net cash outflow	6,952

The recognised values are based on the pre-acquisition carrying amounts and represent the fair value recorded on acquisition.

Goodwill has arisen on acquisition of the business of South East Queensland Fuels because of future business synergies that did not meet the criteria for recognition as a separately identifiable intangible asset at the date of acquisition.

(b) Independent Fuel Supplies

On 1 December 2006, the Group acquired the business of Independent Fuel Supplies for $14,388,000, satisfied in cash. The business of Independent Fuel Supplies is to distribute petroleum. In the one month to 31 December 2006, the business contributed a net profit of $200,000 to the consolidated net profit for the year. If the acquisition had occurred on 1 January 2006, the Group estimates that gross sales revenue would have been $18,652,366,000 and net profit would have been $470,147,000.

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

	Recognised values $000
Property, plant and equipment	1,847
Inventories	2,779
Net identifiable assets and liabilities	4,626
Goodwill on acquisition	9,762
Consideration paid in cash	(14,388)
Cash acquired	–
Net cash outflow	14,388

The recognised values are based on the pre-acquisition carrying amounts and represent the fair value recorded on acquisition.

Goodwill has arisen on acquisition of the business of Independent Fuel Supplies because of future business synergies that did not meet the criteria for recognition as a seperately identifiable intangible asset at the date of acquisition.

27. Acquisitions continued

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 $15,729,359,000 and net profit would have been $594,661,000.

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

	Recognised values $000
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

The recognised values are based on the pre-acquisition carrying amounts and represent the fair value recorded on acquisition.

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

(b) 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 was 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 a 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 $15,779,123,000 and net profit would have been $595,744,000.

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

	Recognised values $000
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

The recognised values are based on the pre-acquisition carrying amounts and represent the fair value recorded on acquisition.

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

27. Acquisitions continued

2005 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 was 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 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 $15,900,485,000 and net profit would have been $597,163,000.

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

	Recognised values $000
Property, plant and equipment	1,073
Inventories	3,330
Cash and cash equivalents	64
Intangibles	1,500
Other current assets	25
Provisions	(311)
Net identifiable assets and liabilities	5,681
Goodwill on acquisition	10,727
Consideration paid, satisfied by reducing accounts payable	(13,108)
Consideration deferred	(3,300)
Cash acquired	64
Net cash inflow	64

The recognised values are based on the pre-acquisition carrying amounts and represent the fair value recorded on acquisition.

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

28. Financing arrangements

The Group has access to the following lines of credit:

	Consolidated 2006 $000	Consolidated 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
Total facilities available:				
Bank overdrafts	**30,000**	30,000	**–**	30,000
Bank loans and capital markets	**1,255,570**	1,004,400	**1,255,570**	1,004,400
	1,285,570	1,034,400	**1,255,570**	1,034,400
Facilities utilised at balance date:				
Bank overdrafts	**6,602**	10,928	**–**	–
Bank loans and capital markets	**555,570**	379,400	**555,570**	424,422
	562,172	390,328	**555,570**	424,422
Facilities not utilised at balance date:				
Bank overdrafts	**23,398**	19,072	**–**	30,000
Bank loans and capital markets	**700,000**	625,000	**700,000**	579,978
	723,398	644,072	**700,000**	609,978

These facilities are unsecured and have an average maturity of 2.9 years (2005: 3.3 years).

29. Related party information

(a) Key management personnel

The key management personnel (KMP) of the Caltex Australia Group during the year were:

Richard Warburton	Chairman	
Desmond King	Managing Director and Chief Executive Officer	(appointed 1 May 2006)
David Reeves	Managing Director and Chief Executive Officer	(resigned 30 April 2006)
Trevor Bourne	Non-executive Director	(appointed 1 May 2006)
Elizabeth Bryan	Non-executive Director	
Brant Fish	Non-executive Director	(appointed 27 July 2006)
William Hauschildt	Non-executive Director	(resigned 22 June 2006)
John Thorn	Non-executive Director	
Ken Watson	Non-executive Director	(retired 27 April 2006)
Peter Wissel	Non-executive Director	
Richard Beattie	Group Manager – Corporate Affairs	
Mark Burrowes	General Manager – Marketing	
Helen Conway	Company Secretary and General Counsel	
Simon Hepworth	Chief Financial Officer	
Lisbeth Long	Group Manager – Human Resources	(resigned 1 May 2006)
Mike McMenamin	Group Manager – Strategy and Planning	
Alex Strang	General Manager – Supply and Corporate Services	
Eion Turnbull	General Manager – Refining	(resigned 15 August 2006)
Brian Waywell	General Manager – Refining	(appointed 1 August 2006)
Peter Wilkinson	Group Manager – Operational Excellence and Risk	
Simon Willshire	Group Manager – Human Resources	(appointed 13 November 2006)

(b) Key management personnel compensation

	Consolidated		Parent Entity	
	2006 $000	2005 $000	2006 $000	2005 $000
Short-term benefits	**6,393,623**	5,637,417	**6,393,623**	5,637,417
Other long-term benefits	**152,813**	89,069	**152,813**	89,069
Post-employment benefits	**465,440**	341,993	**465,440**	341,993
Termination benefits	**193,946**	–	**193,946**	–
Share based payments	**1,145,123**	1,912,969	**1,145,123**	1,912,969
	8,350,945	7,981,448	**8,350,945**	7,981,448

Information regarding individuals' and executives' compensation and some equity instruments disclosures is provided in the Remuneration Report section of the Directors' Report on pages 40 to 60.

(c) 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 2006	Purchased	Vested	Sold	Held at 31 December 2006
Current directors					
Richard Warburton	10,633	1,592	–	–	12,225
Desmond King	–	1,000	–	–	1,000
Elizabeth Bryan	5,000	–	–	–	5,000
John Thorn	211	1,299	–	–	1,510
Peter Wissel	1,000	–	–	–	1,000
Trevor Bourne	–	3,462	–	–	3,462
Brant Fish	–	–	–	–	–
Former directors					
David Reeves	5,000	–	–	(5,000)	–
William Hauschildt	–	–	–	–	–
Ken Watson	7,500	–	–	–	7,500

29. Related party information continued

(c) Shareholdings of key management personnel continued

	Held at 1 January 2006	Purchased	Vested	Sold	Held at 31 December 2006
Senior executives					
Richard Beattie	38,290	–	14,177	(32,384)	20,083
Mark Burrowes	14,383	–	23,417	(24,697)	13,103
Helen Conway	59,022	–	23,556	(20,000)	62,578
Simon Hepworth	31,506	–	27,713	(45,000)	14,219
Lisbeth Long	11,808	–	10,745	(22,404)	149
Mike McMenamin	74	–	2,275	–	2,349
Alex Strang	67,771	–	27,698	(20,000)	75,469
Eion Turnbull	21,919	–	22,921	(39,000)	5,840
Peter Wilkinson	–	–	1,014	–	1,014
Brian Waywell	–	–	–	–	–
Peter Willshire	–	–	–	–	–

(d) Other key management personnel transactions

No key management personnel had entered into a material contract, loan or other transaction with any entity in the Caltex Australia Group during the year ended 31 December 2006 (2005: nil).

During 2006 Richard 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 2006 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.

During 2006 Elizabeth Bryan was a director of Caltex Australia Limited and was appointed a director of Westpac Banking Corporation. The banking relationship with Westpac Banking Corporation has been in place for many years and facilities are on normal commercial terms.

For part of 2006 Ken Watson was a director of Caltex Australia Limited and was a consultant with Minter Ellison. Minter Ellison provides legal advice and services to the Caltex Australia Group. For the year ended 31 December 2006, Minter Ellison received, or was due to receive, legal fees totalling $561,000, less than 18% of the total legal expenditure (2005: $962,000).

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

(e) Controlled entities

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

The amounts receivable by and payable to Caltex Australia Limited and its controlled entities are included in note 7. Details of controlled entities are set out in note 23.

(f) 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 $4,544,000 (2005: $5,475,000) to the Chevron Group for technical service fees. The Caltex Australia Group received $6,360,000 (2005: $10,775,000) 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 $2,050,000 (2005: $761,000) to the Chevron Group, including Heddington Insurance Limited, for insurance coverage. Dealings with Heddington 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 $5,843,833,000 (2005: $4,559,592,000). The Caltex Australia Group sold crude, other refinery feedstocks and petroleum products to the Chevron Group of $258,534,000 (2005: $348,296,000). These purchases and sales are in the ordinary course of business and on normal commercial terms and conditions and are discussed further in the Corporate Governance Statement on pages 26 to 31.

Certain payments are made to the Chevron Group in respect of the secondment of Desmond King, David Reeves and Brian Waywell. Details of these payments are shown in the Directors' Report.

In addition to the above, the Chevron Group seconded one executive (2005: one executive) primarily to provide specialist expertise in refineries. The cost borne by Caltex Australia was $333,000 (2005: $400,000). This cost includes salary and bonuses, allowances including relocation, and indirect payroll related expenses.

Amounts receivable from and payable to other related entities are set out in notes 7 and 13 respectively.

(g) Associates

The Caltex Australia Group sold petroleum products to associates totalling $664,176,000 (2005: $592,344,000). The Caltex Australia Group received income from associates for rental income of $1,603,000 (2005: $1,485,000).

Details of associates are set out in note 24. Amounts receivable from associates are set out in note 7. Dividend and disbursement income from associates is $3,685,000 (2005: 2,931,000).

Caltex has interests in associates primarily for the marketing, sale and distribution of fuel products. Details of Caltex's interests are in note 24.

29. Related party information continued

(h) Joint ventures

The Caltex Australia Group sold petroleum products to joint ventures totalling $57,889,000 (2005: $49,254,000). The Caltex Australia Group received income from joint ventures for service fees, site fees, operating leases and licence fees of $12,409,000 (2005: $10,760,000).

The Caltex Australia Group purchased petroleum products from joint ventures of $122,259,000 (2005: $94,795,000). The Caltex Australia Group paid service fee income to joint ventures of $130,000 (2005: $130,000).

During the year ended 31 December 2006, the Caltex Australia Group had a provision of $nil (2005: $956,000) 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 25.

(i) Executive share plan

Senior executives may receive shares under Caltex Australia Limited's Long-Term Incentive 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 Long-Term Incentive Plan for 2006 are entitled to receive shares in three equal instalments as their shares vest, although dividend and voting entitlements vest immediately. Shares are included as part of bonuses upon vesting. Details of the Long-Term Incentive Plan are included in the Remuneration Report on pages 40 to 60.

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.

Summary of share movements in the plan:

	Opening balance	Issued to plan			Distribution during the year			Closing balance	
	Number of shares	Grant date	Number of shares	Weighted average fair value per share ($)	Distribution date	Number of shares	Weighted average fair value per share ($)	Number of shares	Weighted average fair value aggregate ($)
2006	291,983	27 February – 3 March 2006	159,742	17.75	4 January 2006 24 March 2006	(158,887) (53,248)	19.34 19.50	239,590	5,510,570
	291,983		159,742			(212,135)		239,590	5,510,570
2005	484,262	28 February – 4 March 2005	190,107	14.29	5 January 2005 8 March 2005	(319,132) (63,254)	10.80 14.19	291,983	5,658,631
	484,262		190,107			(382,386)		291,983	5,658,631
2004	516,718	1 March – 17 March 2004	353,973	7.23	2 January 2004 17 March 2004	(268,392) (118,037)	4.67 6.95	484,262	5,259,085
	516,718		353,973			(386,429)		484,262	5,259,085
2003	86,913	3 March – 13 March 2003	750,313	2.04	3 January 2003 28 March 2003	(49,632) (270,876)	2.16 2.31	516,718	2,387,237
	86,913		750,313			(320,508)		516,718	2,387,237
2002	66,749	25 February – 1 March 2002	92,291	1.63	4 January 2002 11 April 2002 26 September 2002	(33,376) (25,698) (13,053)	1.38 1.72 1.65	86,913	185,994
	66,749		92,291			(72,127)		86,913	185,994

	Consolidated	
	2006 $000	2005 $000
Executive share plan expense	**2,118**	2,965

30. Segment reporting

The Group operates as a vertically integrated refiner and marketer of petroleum products in Australia.

Comparative financial information

Caltex Australia Limited consolidated results	2006	2005	2004	2003	2002
Profit and loss ($ million)					
Historical cost operating profit before individually material items, interest and income tax expense	**706**	811	687	353	388
Interest income	**3**	4	1	1	1
Borrowing costs	**(49)**	(27)	(41)	(63)	(76)
Historical cost income tax expense before individually material items	**(195)**	(214)[(i)]	(190)[(i)]	(83)	(85)
Historical cost operating profit after tax and before individually material items	**466**	574	457	209	227
Individually material items (net of tax)	**–**	21[(i)]	113[(i)]	(11)	(12)
Historical cost operating profit/(loss) after income tax	**466**	595	570	197	215
Dividends					
Amount paid and payable ($/share)	**0.80**	0.46	0.39	0.18	–
Times covered (excluding significant items)	**2.16**	4.62	4.34	4.30	–
Other data					
Equity attributable to members of the company ($ million)	**2,432**	2,129	1,635	1,215	1,029
Total equity ($ million)	**2,443**	2,138	1,645	1,224	1,036
Return on equity attributable to members of the parent entity after tax, excluding individually material items (%)	**19**	27	28	17	22
Total assets ($ million)	**4,417**	4,079	3,245	2,774	2,837
Net tangible asset backing ($/share)	**8.80**	7.73	5.98	4.46	3.76
Debt ($ million)	**595**	458	461	661	972
Net debt ($ million)	**539**	429	447	624	954
Net debt to net debt plus equity (%)	**18**	17	21	34	48

(i) Includes an individually material tax 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 $430 million, compared to a profit of $414 million in 2005.
- 2006 net profit before interest, income tax and individually material items on a replacement cost of sales basis was $655 million, an increase of $72 million over 2005.

$ million	Five years	2006	2005	2004	2003	2002
Historical cost net profit before interest, income tax and individually material items	2,945	**706**	811	687	353	388
(Deduct)/add inventory (gains)/losses(ii)	(617)	**(52)**	(228)	(151)	(13)	(173)
Replacement cost net profit before interest, income tax and individually material items	2,329	**655**	583	536	340	215
Net borrowing costs	(246)	**(46)**	(23)	(40)	(61)	(76)
Historical cost tax expense	(767)	**(195)**	(214)	(190)	(83)	(85)
Add/(deduct) tax effect of inventory (losses)/gains	184	**16**	68	44	4	52
Replacement cost profit after income tax(iii)	1,500	**430**	414	350	200	106

(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 2006, the historical cost result includes $52 million inventory gain (2005: $228 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 individually material items over the five years. The total effect of these individually material items in each year was:
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
2006: nil

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) 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 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
Mr Frank Boys 02 9250 5166

Company Secretaries
Ms Helen Conway, Ms Diane Brown.

The address and telephone of the registered office is:

Level 24
2 Market Street
Sydney NSW 2000

Telephone: 02 9250 5000
Facsimile: 02 9250 5742

with the postal address being
GPO Box 3916
Sydney NSW 2001

Web site: www.caltex.com.au

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

Computershare Investor Services
Pty Limited
Level 3
60 Carrington Street
Sydney NSW 2000

Telephone: 02 8234 5000
Facsimile: 02 8234 5050

with the postal address being
GPO Box 7045
Sydney NSW 1115

Web site: 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 31 January 2007

1.1 Substantial shareholders:
Chevron Energy Inc holding 135,000,000 ordinary shares
Perennial Group holding 14,276,572 ordinary shares

1.2 There is only one class of equity securities (namely ordinary shares) and the number of holders is 22,302.

1.3 The shareholding is distributed as follows:

Category	Number of holders	Number of shares	%
A.			
0 – 1,000	15,764	7,414,177	2.75
1,001 – 5,000	5,577	13,167,488	4.88
5,001 – 10,000	563	4,358,359	1.61
10,001 – 100,000	356	9,008,632	3.34
100,001 and over	42	236,051,344	87.42
	22,302	270,000,000	100.00
B.			
Holders of less than a marketable parcel	65		

1.4 The 20 largest shareholders held 86.15% 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		Number of shares	%
1)	Chevron Global Energy Inc	135,000,000	50.00
2)	National Nominees Limited	25,566,084	9.47
3)	J P Morgan Nominees Australia Limited	24,966,580	9.25
4)	Westpac Custodian Nominees Limited	18,547,613	6.87
5)	Cogent Nominees Pty Limited	5,832,899	2.16
6)	ANZ Nominees Limited	5,800,293	2.15
7)	Citicorp Nominees Pty Limited	3,428,240	1.27
8)	UBS Nominees Pty Ltd	2,700,000	1.00
9)	Queensland Investment Corporation	1,890,446	0.70
10)	IAG Nominees Pty Limited	1,449,094	0.54
11)	Australian Reward Investment Alliance	1,254,518	0.46
12)	Citicorp Nominees Pty Limited	1,152,555	0.43
13)	HSBC Custody Nominees (Australia) Limited	1,139,835	0.42
14)	HSBC Custody Nominees (Australia) Limited – A/C 2	782,063	0.29
15)	AMP Life Limited	756,496	0.28
16)	UBS Wealth Management Australia Nominees Pty Ltd	690,232	0.26
17)	Dervat Nominees Pty Limited	550,000	0.20
18)	Wildflower Investment Pty Ltd	475,461	0.18
19)	Marzon Pty Ltd	308,570	0.11
20)	Citicorp Nominees Pty Limited	285,244	0.11
Total		232,576,223	86.15

Statistical Information

Year ended 31 December	**2006**	2005	2004	2003
People				
Employees[i]	**3,164**	3,046	2,989	2,986
Assets				
Fuels refineries	**2**	2	2	2
Lube oil refinery	**1**	1	1	1
Road tankers	**18**	18	18	17
Rail cars (operational)	**62**	62	62	52
Storage terminals operated by Caltex[ii]	**12**	12	12	12
Star convenience stores (Star Mart, Star Supermarket and Star Shop)	**488**	496	476	473
Service Stations (owned or leased)	**511**	546	577	605
Depots	**99**	108	108	115
Operations				
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)	**11,703**	11,436	11,608	11,011
Lubes Production (ML)	**166**	158	170	135
Total sales volume (ML)[iii]	**15,492**	15,249	14,329	12,429
Injury frequency rate (LTIFR)[iv]	**4.3**	4.1	6.4	10.1

(i) Includes employees of Calstores Pty Ltd and Caltex 100% owned resellers.

(ii) Caltex has access to supply at a further ten terminals.

(iii) 2006 and 2005 sales volumes exclude sales made to domestic refiners.

(iv) Employee and contractor lost time injury frequency rate per million work hours.

Directory

Corporate offices

Caltex Australia Limited
ACN 004 201 307

Caltex Australia Petroleum Pty Ltd
ACN 000 032 128

Level 24
2 Market Street
Sydney NSW 2000
Australia

Mail: GPO Box 3916
Sydney NSW 2001
Australia

Telephone: 02 9250 5000
Facsimile: 02 9250 5742

Web site: www.caltex.com.au

Share registry

Computershare Investor Services
Pty Limited

GPO Box 7045
Sydney NSW 1115
Australia

Tollfree: 1300 855 080
(enquiries within Australia)

Telephone: 61 2 8234 5000
(enquiries outside Australia)

Facsimile: 02 8234 5050
Website: 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 111
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 – Fri 8.30am to 5.00pm (EST)
1800 240 398

Card Support Centre

Card enquiries 24 hours/seven days
1300 365 096

Lubelink

Mon-Fri 8.00am to 6.00 pm (EST)
1300 364 169

CALTEX
Caltex Australia

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.