



**CALTEX**

Caltex Australia

2004 ANNUAL REPORT

*every minute  
every day*



**Front Cover** Caltex people across Australia are at work 24 hours a day, seven days a week, to deliver high quality products to the community. Driver Graham Williams on the road in Western Australia stops and revives with a cup of coffee.

## Advice to Shareholders

The 2004 Annual Report provides an overview of Caltex Australia's main operating activities for the year ended 31 December 2004.

The 2004 Financial Report, which is contained within the 2004 Annual Report, provides detailed financial information for the Caltex Australia Group for the year ended 31 December 2004.

Please note that the 2004 Annual Report can be found at our website [www.caltex.com.au](http://www.caltex.com.au)

## The Caltex Australia Group

The Caltex Australia Group consists of:

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

Please note that terms such as Caltex and Caltex Australia have the same meaning in the 2004 Annual Report as the Caltex Australia Group unless the context requires otherwise.

## Financial calendar for Caltex Australia Limited

### **Year ended 31 December 2004**

|                        |               |
|------------------------|---------------|
| Annual General Meeting | 27 April 2005 |
|------------------------|---------------|

### **Year ending 31 December 2005\***

|   |                   |
|---|-------------------|
| Half year results and interim dividend announcement | 26 August 2005    |
| Record date for interim dividend entitlement        | 9 September 2005  |
| Interim dividend payable                            | 30 September 2005 |
| Full year results and final dividend announcement   | 24 February 2006  |
| Record date for final dividend entitlement          | 10 March 2006     |
| Final dividend payable                              | 31 March 2006     |

\* These dates may be subject to change.

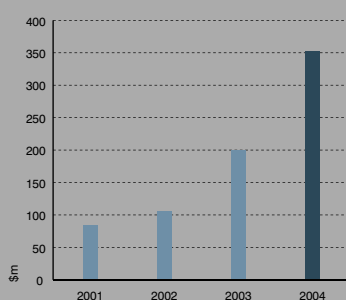
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## Highlights

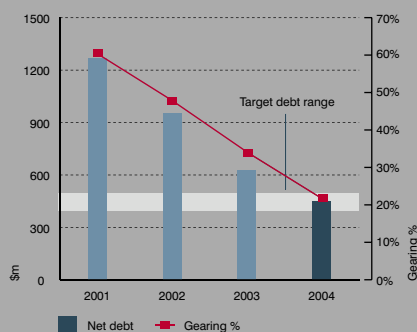
- RCOP earnings over 77% higher
- Total dividends increase to 39 cents per share (cps) (2003: 18 cps)
- Stronger refiner margins and higher refinery utilisation
- Record transport fuels sales volumes
- Clean Fuels Project construction starts

REPLACEMENT COST OF  
SALES OPERATING PROFIT



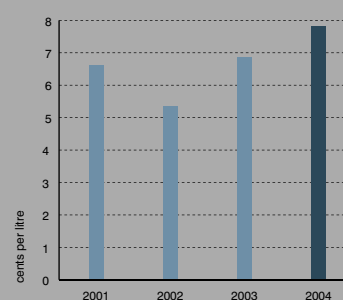
The replacement cost of sales excludes the impact of the fall or rise in oil prices (a key external factor) and presents a clearer picture of the company's underlying business performance.

NET DEBT AND GEARING



Gearing = net debt/(net debt + equity).

INTEGRATED TOTAL  
TRANSPORT FUELS\* MARGIN



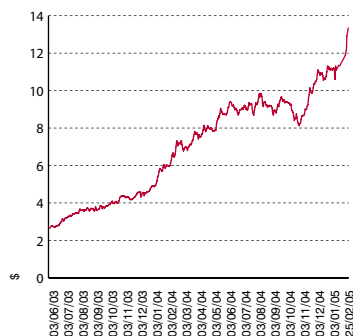
\* Transport fuel comprises petrol, diesel and jet.



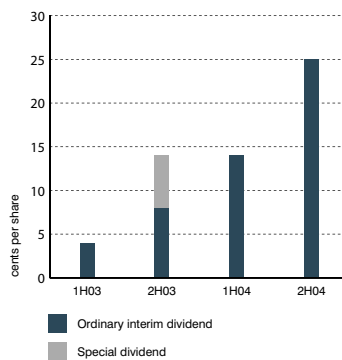
William  
Narrabeen  
NSW

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

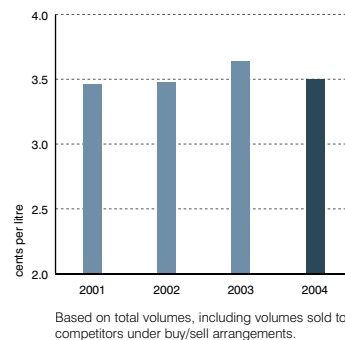
#### SHARE PRICE



#### CALTEX DECLARES FINAL DIVIDEND OF 25 CPS



#### UNIT OPERATING COSTS DECLINED IN 2004





## REPORT BY **CHAIRMAN AND MANAGING DIRECTOR**

2004 was a year of record profits for Caltex Australia. The company achieved 77% higher profits than the previous year on a replacement cost of sales operating profit (RCOP) basis mainly due to improved refiner margins, higher refinery utilisation, strong marketing sales volumes and stable marketing margins.

The company recorded a full year profit after tax on a RCOP basis (excluding significant items) of \$352.5 million for the year ended 31 December 2004 up from \$199.7 million for 2003. This result excludes the impact of international oil price movements and therefore provides a clearer picture of the company's underlying business performance.

When oil-price driven inventory gains are included, profit after tax for the year ended 31 December 2004 on an historical cost basis (excluding significant items) was \$458.8 million (2003: \$208.8 million). Inventory gains were \$106.3 million (after tax) in 2004 compared with inventory gains of \$9.1 million (after tax) in 2003. This historical cost result excludes a significant item of \$113.5 million (after tax) which represents a one-off gain as a result of tax consolidation (2003: significant expense item of \$11.3 million after tax).

The company also reduced net debt to \$447.2 million at 31 December 2004 (gearing 21%), down from \$624.4 million at 31 December 2003 (gearing 34%). This reduced debt level resulted in lower net borrowing costs of \$41.1 million compared with \$61.4 million in 2003.

# Report by Chairman and Managing Director

The capital expenditures during 2005 to 2007 will be largely offset by the incremental benefits of higher production over the period, with full benefit capture by 2008.

## DIVIDENDS

The Board declared a final dividend of \$67.5 million or 25 cents a share adding to the interim dividend of 14 cents per share paid in October 2004.

This is in line with the company's dividend policy announced by the Board in August 2004. The Board stated that its intention was to declare ordinary dividends of 20% to 30% of the RCOP after tax excluding significant items in 2004 and 2005 while the company meets the high capital commitments of the Clean Fuels Project.

After 2005, the company intends to increase the payout ratio to a range of 40% to 60% of the RCOP after tax excluding significant items. If there is surplus cash flow above the target payout ratio, the Board will consider a further distribution in the form of a fully franked special dividend and/or other capital management initiatives.

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

The company's debt is now within its target range with gearing (debt/debt plus equity) of 20.6% at 31 December 2004. This provides the company with the financial flexibility and liquidity to maintain dividend payment ratios through any cyclical downturns.

Returns to Caltex shareholders in 2004 were again outstanding. Shareholders benefited from the share price rising 135% during the year from \$4.62 to \$10.86. In addition to capital growth, investors were also rewarded with fully franked dividends of 39 cents a share declared in respect of the financial year 2004. Caltex repeated its 2003 performance in 2004 as one of the best performing shares on the Australian Stock Exchange.

## A YEAR OF PROGRESS

There were developments in Refining, Supply and Marketing during the year that were important to Caltex's future profitability and growth.

In February, the company announced a \$295 million Clean Fuels Project and met key procurement and construction targets for the project by the end of the year. The project, scheduled for completion in the fourth quarter of 2005, will enable our refineries to produce some of the cleanest fuels in Australia and the world.

The year saw a steady rollout of the Caltex Woolworths venture network to 348 sites by year end, of which 106 were contributed by Caltex. Our association with the country's leading food retailer and the fuel discount shopper docket offer boosted fuel sales volumes to record levels, resulting in impressive growth in a mature market.

To help meet the increased demand for Caltex products, the refineries in 2004 launched a successful improvement program to lift utilisation and production, capturing the benefits of strong refiner margins at a time when Australian demand exceeds production.

A major review of our marketing operations resulted in a stronger customer focus and strategies to enhance our market leadership position by achieving improved performance across transport fuels, lubricants, specialty products, the StarCard, StarFleet and StarCash business and the retail and reseller channels. We also relaunched the Caltex brand to make our image more relevant and meaningful to customers, and introduced a new high octane premium unleaded petrol, Vortex 98, to capture strong growth in the premium fuel market.

In 2004, the company had its best safety performance on record with improvements in total treatment injury frequency rates and a reduction in the number of vehicle accidents. Organisationally, Caltex approved a new reward (remuneration) system with effect from 1 January 2005 for employees, designed to improve recognition and reward for performance. Employees are now working through the business plan to achieve

company-wide goals: to have zero incidents, be first in the hearts and minds of customers, achieve 85% utilisation in our refineries and have 100% engagement in the business by all by 2007, captured in the formula

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

## OUTLOOK

This is an important time for Caltex's future development. During 2004 we further extended our position as Australia's leading oil refiner and marketer and strengthened our platform for growth. This will continue in 2005 with the completion of the Clean Fuels Project, implementation of our marketing growth strategies and investment in lifting the productivity of our operations and supply chain. Caltex plans to significantly increase investment this year across the business, focusing on areas with a high potential to increase earnings.

A review of our supply planning systems and refinery configuration has shown that we should increase diesel production after the introduction of cleaner fuels, upgrade lower value product to higher octane petrol, debottleneck refinery operations to remove production constraints and invest in tools and people to lift our supply chain capability. These initiatives will enable Caltex to lift production of transport fuels by approximately 20% over 2004 levels when complete.

The benefits from this program are expected to be in excess of \$150 million per annum (before interest and tax).

Preliminary estimates indicate an incremental investment required of around \$300 million over the next three years. We expect these investment costs will be largely offset by the incremental benefits of higher production during implementation, with full benefits being realised during 2008.

In our marketing business, a comprehensive review of the market in 2004 determined a number of initiatives to capture future growth. Investments include building or upgrading terminals in key locations, strengthening our branded reseller network by consolidating our

equity interests in selected businesses and upgrading the service station network in line with the new brand positioning.

The focus on debt reduction over the last three years has put the company in a strong position to take advantage of these market opportunities. It is likely that net debt will temporarily exceed \$500 million during 2005, but we expect it to return to target levels in 2006.

The outlook for refiner and marketing margins remains sound. Market opportunities have emerged from changes in the dynamics of supply and demand in Australia and the Asian region and we are taking steps to further grow shareholder value. Our proposed investment program will not materially impact debt levels over this period and our dividend policy remains unchanged.

## ACKNOWLEDGMENTS

The Board expresses its appreciation for the contribution of Martin Southern who joined the Board in February 2004 and stepped down on 1 July for health reasons, and Leo Lonergan who resigned from the Board on 23 February 2005 after serving as a director since July 2001. We welcome John Thorn who joined the Board in June 2004, Bill Hauschildt who joined the Board in September 2004 and Mitch Rubinstein who joined the Board on 24 February 2005.

The Board would like to acknowledge the contribution of employees, contractors, franchisees and resellers to Caltex's success in 2004 and thank them for their dedication and commitment to achieving our goals.



Richard FE Warburton  
Chairman



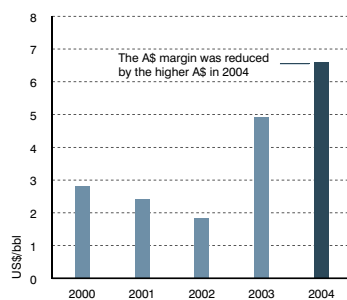
Dave Reeves  
Managing Director and CEO



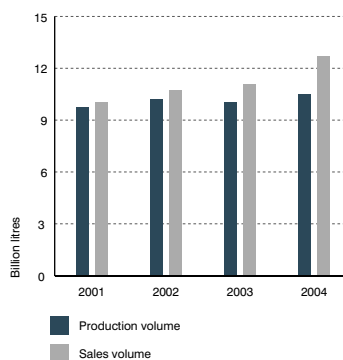
7:24pm  
Kurnell  
NSW

**Above** Loading Master Brian Dellaca oversees a diesel discharge at the Kurnell wharf.

#### CALTEX REFINER MARGIN

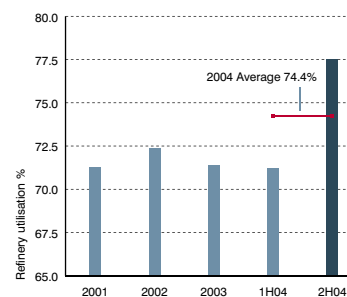


#### TRANSPORT FUELS\* PRODUCTION AND SALES



\* Petrol, Diesel and Jet.

#### REFINERY UTILISATION REMAINS AN OPPORTUNITY





## REFINING AND SUPPLY REVIEW

Caltex's Refining and Supply functions purchase crude oil, arrange its transportation to the company's refineries at Lytton in Queensland and Kurnell in New South Wales and refine the crude into petrol, diesel, jet and specialty products such as LPG and bitumen. They also distribute the products to a network of terminals around Australia, buy and sell products and schedule product movements to meet marketing sales.

- Higher utilisation and record production
- Improved supply reliability
- Commenced construction of new clean fuels facilities

Continued sound refiner margins present strong financial incentives for Caltex to maximise production at its two refineries. In addition to increased sales following the establishment of the Caltex Woolworths venture, there are opportunities for Caltex to produce more fuel for the Australian market due to changes in domestic supply and demand.

# Refining and Supply Review



5:45pm  
Lytton  
QLD

## OPERATIONAL EXCELLENCE

Refining has a strong commitment to reduce incidents through use of the Loss Prevention System and injury reduction programs which were further embedded during 2004. Overall, Refining recorded a small improvement in injury rates compared with 2003.

To improve plant reliability and hence throughput, extensive work is being done to establish the root cause of any chronic or consistent equipment failures. As part of this process, a pilot program was established during the year to improve plant maintenance and operating practices with very encouraging initial results.

Improved reliability enabled Refining to achieve record production volumes of 11.8 billion litres of all products in 2004 (2003: 11.1 billion). The average utilisation in 2004 for Refining overall was 74.4% – 3% higher than 2003. Refining has the goal of lifting utilisation to 85% by 2007.

Supply reliability was significantly improved in 2004. Increased production and sales were supported by the supply system in successfully meeting customers' demand for record volumes of 16 billion litres of transport fuels at Caltex facilities. The company's two time-chartered product ships were fully utilised in coastal movements in 2004 and the major Caltex marketing terminals in all states handled fuels throughput around 14% higher than in 2003, with December petrol deliveries the highest on record.

## SUSTAINED PROFITABILITY

An intensive Refining performance improvement program was launched in 2004 with the aim of significantly increasing profitability. Around 130 projects were identified as the result of widespread engagement with employees from various functions. These range from low cost projects with immediate impact to larger, more capital intensive projects.

Work commenced on a number of projects which began to deliver benefits by the end of the year. These included programs to lift throughput and utilisation, improve planning and forecasting and to find ways to remove production constraints.

Teamwork between refinery operators, maintenance personnel and engineers resulted in a range of successful outcomes. At the Kurnell refinery in Sydney, the crude supply forecasting process was modified in response to higher refining margins by planning

**Left** Instrumentation/Electrical Superintendent Vasanthi Weber oversees the installation of high voltage switch gear at the Lytton refinery.

**Right** Supply Planning Analyst Nathan Gately researches the availability of new regional crude oils.



on achieving higher than average expected crude throughput. This enabled a 2%–3% increase in crude throughput without capital investment. At the Lytton refinery in Brisbane, process constraints to diesel production were identified and removed by careful adjustment of controls. The result was improved yield of a high value product.

#### CAPITAL STEWARDSHIP

In February, Caltex announced the decision to proceed with a \$295 million Clean Fuels Project and work on constructing new facilities at both refineries commenced in September. The project will upgrade the refineries to reduce the benzene content of petrol to no more than 1% and produce diesel with sulfur content of 50 parts per million or less. The cleaner fuels will be on sale at terminals and service stations from 1 January 2006.

The upgrade involves building new benzene saturation plants and revamping the existing diesel hydrotreating facilities at both refineries. By the end of 2004, site preparation was well advanced, civil works were under way, key equipment had been purchased and a number of construction contracts had been awarded. More than 80% of the project expenditure will be on equipment, materials and services from within Australia. At its peak, the Clean Fuels Project will employ a construction workforce of up to 350 at the Kurnell refinery and 250 at the Lytton refinery.

To improve the effectiveness of engineering and technical services within Refining, a comprehensive review was done and implementation commenced during the year. The changes are intended to enhance the focus on optimisation of plant operations, improve the execution of capital projects and major shutdowns,

support the early adoption of best practices and ensure longer-term strategic issues are dealt with appropriately.

#### COST MANAGEMENT

A number of programs in Refining are focusing on reducing unit costs. Ongoing programs and new projects flowing from the Refining performance improvement program are expected to have an impact from 2006 and beyond. This includes introducing more flexible selection criteria for crude oils, increasing the recycling of waste water and improved planning, scheduling and preparation for maintenance work.

There will be increased costs associated with the more intensive processing required for clean fuels and the depreciation of capital invested, but this will be more than offset by the premiums earned by the sale of higher quality products.

#### PARTNERING WITH EMPLOYEES

During 2004, the second enterprise agreement in succession covering Kurnell refinery technicians was negotiated successfully – the first time this has been achieved.

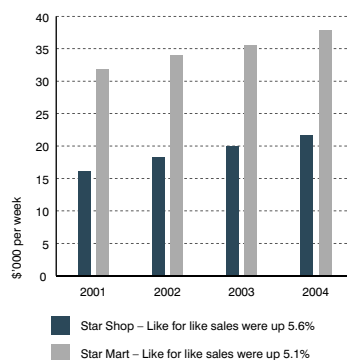
Employees from across Refining participated in over 70 'brainstorming' workshops for the Refining performance improvement program during August through November. A substantial number of ideas for efficiency improvement and cost reduction generated by the workshops are being implemented.

An improvement culture at the refineries was demonstrated by the record throughputs achieved in the final months of 2004, a source of pride and confidence for the workforce.

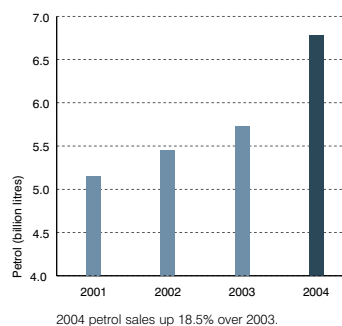


**Above** Transport Fuels Marketing Manager Phil Dunbar launched Caltex's Vortex 98 at the Eastern Creek M4 site in November.

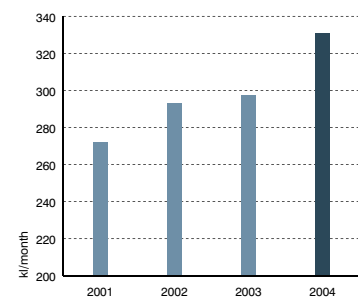
**AVERAGE SALES  
PER OUTLET**



**PETROL SALES**



**AVERAGE BRANDED SITE  
PETROL THROUGHPUT**





## MARKETING REVIEW

The Marketing department promotes and sells Caltex fuels, lubricants, specialty products and convenience store goods through a national network of 1,813 Caltex, Caltex Woolworths and Ampol branded service stations and 64 branded resellers. Marketing also sells directly to a large number of commercial customers. All of these customers are supported by Marketing's extensive network of terminals and depots across the country.

- Highest transport fuels sales volumes on record
- Launch of premium fuel Vortex 98
- Repositioning of the brand
- Double digit growth in finished lubricants sales volumes

Changes in the marketplace are presenting many new opportunities for Caltex. In 2004, Caltex Marketing conducted its most extensive review for many years. This produced strategies to extend its market leadership, strengthen its core business and ensure that it is positioned for long-term growth.

The resulting changes across the business have begun to impact on a number of areas including repositioning our brand, an emphasis on premium fuels, moves to strengthen the branded reseller business, new growth strategies for the lubricants and speciality products businesses and growth of the card business including an over 50% increase in StarCash sales volumes. The retail network has also delivered increased returns, benefiting from network optimisation and store sales growth.

# Marketing Review



Caltex has a strategy to build more into the branded reseller business model (previously known as distributors). This includes buying out selected resellers.

## FUEL SALES

In 2004, Caltex had its strongest growth in transport fuels sales on record with volumes up 14.7% on the previous year with vigorous growth in sales of all transport fuels. This reflected stronger economic conditions and Caltex's expanding presence across retail, reseller and commercial channels.

Petrol sales volumes rose by 18.5% driven by the successful rollout of the Caltex Woolworths venture and shopper docket discount offer. Diesel volumes were up by 11.7% while jet fuel sales rose by 8.3%.

## PREMIUM FUELS

Caltex increased its focus on the fast-growing premium fuels sector in 2004. Sales of 95 octane Vortex grew 32.9%, and in November 2004 the company launched a new 98 octane premium unleaded petrol, Vortex 98. Vortex 98 sales are exceeding expectations in Sydney and it is being rolled out to regional New South Wales, Queensland and Victoria in 2005.

## BUILDING THE BRAND

Caltex has made significant progress towards its goal of becoming the number one oil company in "the hearts and minds of customers". Since the launch of the Caltex Woolworths venture in November 2003, Caltex's profile has lifted significantly in the marketplace. Market research results have shown that Caltex has strengthened its brand image and competitive position.

To increase brand strength in the market, the company is moving to a more consistently branded network and is fast tracking conversions to the new Caltex image throughout its service station sites. The aim is to complete the conversions in metropolitan areas and major routes by the end of 2006, and in rural and remote areas by the end of 2009.

A refreshed brand image campaign focusing on performance, community and quality messages was launched in the second half of 2004. A new tagline was introduced – *we put more in* – which conveys the essence of the Caltex brand. *We put more in* is demonstrated by Caltex's association with the Starlight Children's Foundation, our support of driver safety and our quality products and services.

Caltex enjoyed a successful year in motorsport sponsorship. Caltex-sponsored Stone Brothers Racing finished first and second in the highly competitive V8 Supercar Championship and won the Australian Rally Championship using off-the-shelf Caltex Havoline engine oil and other products. The Caltex team changed its name to Caltex Racing in 2004, and was used successfully to promote Caltex's new premium petrol, Vortex 98.

## CALTEX WOOLWORTHS VENTURE

The successful rollout of the Caltex Woolworths venture continued in 2004 with a total of 348 sites jointly branded by 31 December 2004. Of these, 106 are Caltex sites which were contributed to the venture. Those that joined the network have reported an average 80% increase in fuel sales. The jointly branded network will have up to 470 sites when the rollout is complete.

**Left** Rules for safer driving practices, like that demonstrated by Retail Business Manager Lisa Reid in switching off her mobile phone when driving, are helping to reduce vehicle accidents.

**Below** Driver Steve Raffaele at Caltex's Fremantle Terminal, WA.

2:27pm  
Fremantle  
WA



#### CONVENIENCE STORE NETWORK

Caltex is Australia's leading convenience store retailer, with 197 Star Marts and 295 smaller Star Shops. There was continued growth in non-fuel income, with benefits gained from growth in store sales, site upgrades and divestment of uneconomic sites. Same store average Star Mart sales were up 5.1% and Star Shop sales up by 5.6%.

Benchmarking by the Australian Association of Convenience Stores (AACS) shows Caltex as market leader in NSW, Qld, WA, SA, NT and Tasmania. This benchmarking examines overall sales value and performance in key convenience categories of tobacco, confectionery and beverages.

#### BRANDED RESELLER – NEW NAME FOR A KEY BUSINESS

Caltex has a strategy to build more into the branded reseller business model (previously known as distributors). This includes buying out selected resellers.

In August 2004, Caltex moved from 50% to 100% ownership of Perth-based Cooper & Dysart which joined Caltex Petroleum Distributors (CPD) a group of 100% owned resellers that now collectively represent around one third of Caltex's reseller volume. Caltex is maximising the value chain in the branded reseller channel through synergies from larger fleets, consolidation of services and efficiency improvements.

#### LUBRICANTS AND DIRECT SALES

Caltex is focusing on improving lubricants sales volumes, margins and market share. Finished lubricants and specialty products achieved growth of 12.8% and 4.3% respectively during the year with an increase in direct sales to commercial customers and higher sales through our reseller channel. There was a 63% growth in sales of Delo 400 heavy duty engine oil due to strong demand from mining, automotive and industrial customers.

Havoline engine oil sales increased by 10% due to strong growth in independent resellers and workshop channels. Customers now have access to Caltex lubricant products at over 400 additional outlets, including mass merchandisers Auto One and BIG W.

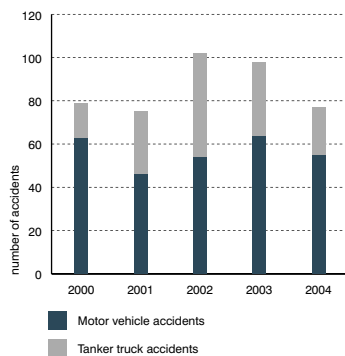
Sales and margins improved for specialty products including LPG, bitumen, fuel oil and waxes. Caltex is now the sole manufacturer of waxes and base oils in Australia following the closure of two competitor base oil facilities in the past two years.



3:10pm  
Bankstown  
NSW

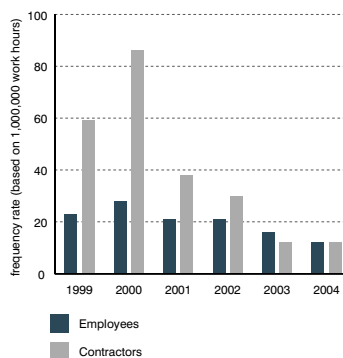
**Above** Introducing high school students to careers in nursing won Punchbowl Boys High School Deputy Principal Julie Grimshaw a Caltex and Rotary Club of Sydney award for innovative teaching.

#### TANKER TRUCK AND MOTOR VEHICLE ACCIDENTS



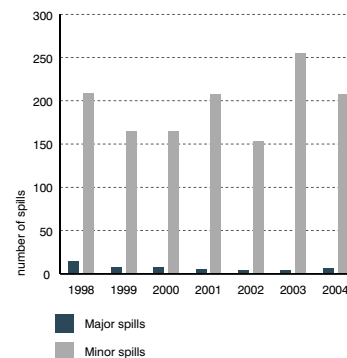
In 2003 reporting was broadened to include data from Caltex owned resellers, Caltex owned and operated Calstores retail network and refinery contractors (2002 figure is estimated).

#### EMPLOYEE AND CONTRACTOR INJURIES TTIFR\*



\* Total Treatment Injury Frequency Rate.

#### MAJOR/MINOR SPILLS



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



## CORPORATE REVIEW

- Best safety year on record
- New reward system for non-award employees
- Caltex Best All Rounder Awards in 97% of Australian secondary schools

### ENVIRONMENT, HEALTH, SAFETY AND RISK MANAGEMENT

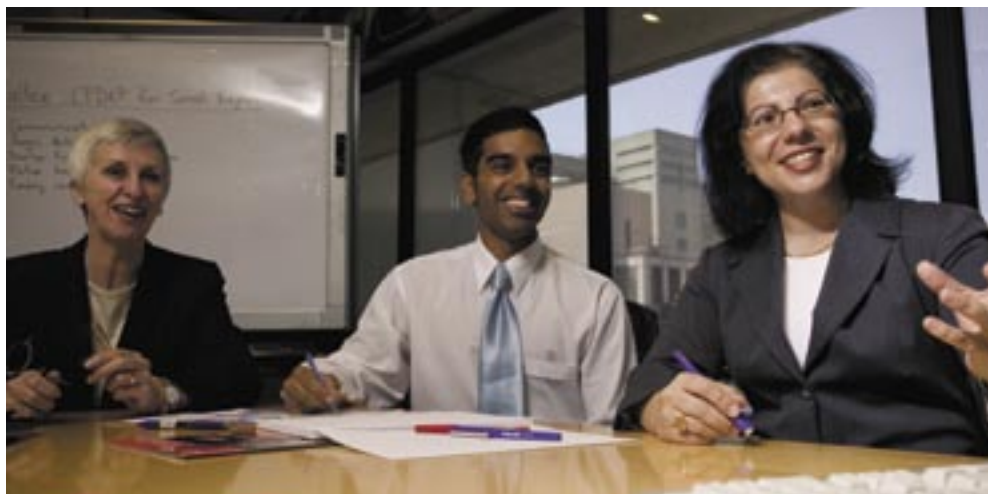
Caltex continues to focus on improving its risk management processes. In 2004, the company had its best safety year on record with improvements in the key areas of total treatment injury frequency rate (TTIFR) and vehicle accidents. This has moved Caltex further towards world-class performance for safety but is still short of the goal of zero incidents and a strongly developed safety culture focusing on prevention.

The TTIFR per million hours of work for Caltex employees went from 15.05 in 2003 to 11.96 – down from 35.5 four years ago. The total number of tanker truck and motor vehicle accidents across Caltex fell by 21% from the previous year. Environmentally, the total number of product spills was down by 15%.

During the year, much work was done across the company to obtain further benefit from the internationally proven Loss Prevention System (LPS), which was launched in Caltex in 2003. Every Caltex employee is required to undertake LPS training and use its behaviour-based tools and management techniques and reporting systems to prevent any unplanned event that has a negative impact on people or the business.

In an effort to cut the number of vehicle accidents involving Caltex employees, there was a strong focus on driver training and safety procedures in 2004. As part of the company's Drive to Survive program, a policy was introduced prohibiting employees using mobile phones or doing other tasks while driving. There was also an emphasis on applying the LPS tools to driving and making driving safely part of employees' performance management process. In August, behavioural-based driver training was launched to provide specific instruction in safe driving techniques for employees who spend many hours behind the wheel.

# Corporate Review



11:56am  
Sydney  
NSW

## EMPLOYEES

Organisational capability is a key component of Caltex's Vision, Values and Strategic Intents. Capable and effective employees are recognised as the key to achieving superior performance outcomes. The people related capability and process outcomes include:

- effective leadership
- development of skilled people capable of achieving results
- challenging work
- clearly understood accountabilities and performance targets for each individual
- a work environment that supports achievement of our performance targets
- opportunities to grow and develop key organisation competencies
- effective performance management processes, and
- rewards that recognise performance.

Each of these elements underpins sustainable high level business performance. In addition to business outcomes, the achievement of effective organisational capability is captured in Caltex's aspirational goal of 100% engagement of all employees.

2004 saw the first full year of operation of the Caltex Performance Management Process, designed to focus managers and employees on achieving the business outcomes by establishing key objectives linked to the annual business plan, creating personal development agreements to ensure the necessary skills and

behaviours are in place and holding managers accountable for ongoing coaching and personal and team performance.

In late 2004, a new reward system was approved with effect from 1 January 2005. The principal features of this system included a stronger emphasis on performance-based rewards, performance-linked base pay determinations, the creation of a consistent basis for calculating superannuation contributions and the replacement of three incentive schemes with a single improved annual incentive plan.

In Refining, there has been considerable focus on leadership development with an emphasis on team leader/team member relationships. The approach emphasises the accountability of managers to provide leadership and direction for their teams, and the importance of clarity in the accountabilities and authorities of every role.

In Marketing, a cultural change program was commenced to provide a common basis for the types of skills and behaviours needed to strengthen our market leadership position. A series of surveys, focus groups and management discussions has provided great insights into the desired cultural characteristics for Marketing. Work continues to convert the results into practical solutions supporting leadership, competency development, accountabilities and performance management.

## CORPORATE AFFAIRS

A number of significant government policy decisions consistent with positions advocated by Caltex were made in 2004.

**Left** Marketing Business Planning Manager Iris Pavlis discusses a new capital management process with Senior Business Analyst Richard DeMello and Manager Corporate IT Applications Team Tempe Hudson.

**Right** National Environmental Specialist Mohamad Daud and NSW Retail Business Manager Michelle Wood monitor a service station tank to confirm tank integrity.



New petrol and diesel standards were regulated for 2008 and 2009. Regulation was also passed enabling grants for early production of these cleaner fuels. Caltex announced it will produce petrol and diesel from 2006 and 2007 respectively to the tougher standards provided the grants make this economic. During the year, Corporate Affairs assisted with obtaining development approvals for the Clean Fuels Project at Lytton and Kurnell refineries.

The Australian Government's energy white paper detailed major fuel tax reform and made key statements on biofuels, fuel security, cleaner fuels and financial incentives, and support for the refining industry, consistent with positions advocated by Caltex.

The Caltex Cairns area ethanol trial was extended to end-May 2005, tax arrangements were finalised for biofuels and LPG, and regulation was put in place on ethanol labelling.

Caltex supports the plans announced by the Australian Government for reform of the retail petroleum sector including the repeal of the Sites and Franchise Acts and the introduction of a new mandatory code of conduct, Oilcode.

## COMMUNITY SUPPORT

Caltex has major sponsorships in the arts, education and welfare as well as programs contributing to the communities located near key company facilities and service stations.

In the arts field, Caltex supported the Australian Chamber Orchestra (ACO) for the eighth year. The 2004 national program included a tour, featuring pianist Imogen Cooper, led by Richard Tognetti.

Caltex's major welfare support sponsorship is with the Starlight Children's Foundation which is dedicated to brightening the lives of seriously ill and hospitalised children and their families throughout Australia. Starlight achieves its aims through entertainment programs promoting fun and laughter both within and outside hospitals with programs that distract children from their illnesses and lift their spirits. Caltex and its employees, franchisees and resellers provide fundraising and financial support as well as volunteers to assist Starlight during the annual Star Day appeal and other special events.

At a corporate level, Caltex has two programs that support education. The first is the Caltex Best All Rounder Award that attracts participation from 97% of Australian secondary schools. This annual award is presented to final year students recognised as good all rounders in academic, sporting, community service and leadership areas. The winners have had the opportunity to enter an essay competition with a winning entry published in *The Australian* and prize money going to winners and to their schools.

The second program is the Caltex Australia and Rotary Club of Sydney Award for Innovation in the Vocation of Teaching. Three NSW teachers received awards in November 2004 for developing schools programs introducing students to careers in nursing, a local environmental regeneration program and a special circus skills program to develop students' physical skills and creativity. Each of the winners receive a return overseas airfare to visit an agreed school or institution plus accommodation and expenses worth a total of \$6,000.

# Corporate Governance Report

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

## PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The business of Caltex Australia Limited is managed under the direction of the Board.

The key responsibilities of the Board include:

- setting the overall direction, financial objectives and operational goals for Caltex
- reviewing and approving the Caltex budget and business plan on an annual basis
- reviewing and approving Caltex's strategies, as formulated by Caltex management with guidance from the Board, to implement the objectives and goals set by the Board
- monitoring the performance of Caltex against the financial objectives and operational goals set by the Board and reviewing the implementation of Board approved strategies
- ensuring that appropriate standards of corporate governance and ethics are in place across Caltex
- approving Caltex's half year and full year reports to shareholders and the ASX
- determining the amount, nature and timing of, and franking credits attaching to, half year and full year dividends
- approving the capital structure and significant finance facility requirements for Caltex
- overseeing the delegations of authority for management in relation to the day-to-day operations of Caltex
- ensuring that risk management systems, internal controls, reporting systems and compliance processes are in place and operating efficiently and effectively

- approving risk management policies in relation to oil hedging, interest rate management, foreign exchange risk management and credit risk management
- ensuring adequate and suitably independent external audit arrangements are in place
- approving the terms of employment (including remuneration) of the Managing Director and Chief Executive Officer
- approving the terms of cessation of employment of the Managing Director and Chief Executive Officer
- ensuring that recruitment, retention, termination, remuneration, performance assessment and succession policies and processes are in place for staff
- ensuring that appointment, induction, continuing education, remuneration, performance assessment and succession policies and processes are in place for directors of Caltex Australia Limited, and
- reviewing the terms of proposed transactions with ChevronTexaco.

Management of Caltex's day-to-day operations has been formally delegated to the Managing Director and Chief Executive Officer and the senior management team, subject to specified delegations of authority. Delegations of authority to management have been in place for the entire year.

From 1 April 2004, the Board adopted a Charter setting out the functions and responsibilities of the Board in order to facilitate Board and management accountability for Caltex's performance and strategic direction. The Charter is reviewed annually and was reviewed in December 2004.

The Board Charter has been available from our website [www.caltex.com.au](http://www.caltex.com.au) since April 2004.

The Board also adopts the practice of formal letters of appointment for all new directors. The letter covers a wide range of matters relating to a director's appointment, including the director's duties to Caltex, the statutory contract between the director and the company, and the Board's expectations of the time commitment of the director. The letter advises that the Board expects non-executive directors to devote the necessary time and attention to assist the Board in carrying out its responsibilities. The letter is accompanied by an information pack on Caltex.

## PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

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

In 2004, the Board resolved to increase the number of directors from six directors to seven directors, with the addition of one independent director. Since June 2004, the Board has been composed of a majority of independent directors.

The Board adopted (from 25 February 2004) a Charter of Director Independence which sets out the matters and thresholds to be considered by the Board in assessing the independence of directors. The Charter of Director Independence has been available from our website [www.caltex.com.au](http://www.caltex.com.au) since April 2004.

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

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

The skills, experience and expertise of each director, and the Board's assessment of director independence at the end of February 2005 are set out below.

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### RICHARD (DICK) WARBURTON CHAIRMAN

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

**Skills, experience and expertise:**

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

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

**Assessment of independence:**

The Board has determined that Dick is an independent director.

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### DAVE REEVES MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

**Date of appointment:** 11 August 2003

**Skills, experience and expertise:**

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

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

**Assessment of independence:**

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

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# Corporate Governance Report

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## ELIZABETH BRYAN DIRECTOR

**Date of appointment:** 18 July 2002

**Skills, experience and expertise:**

Elizabeth is a professional director and brings management, strategic and financial expertise to Caltex. In her most recent corporate role before joining the Board, Elizabeth served as the Chief Executive Officer of Deutsche Asset Management (Australia). She is currently a director of Ridley Corporation Limited, Unisuper Limited, Australian Medical Insurance Limited and St Hilliers Holdings Pty Ltd.

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

**Assessment of independence:**

The Board has determined that Elizabeth is an independent director.

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## WILLIAM (BILL) HAUSCHILDT DIRECTOR

**Date of appointment:** 21 September 2004

**Skills, experience and expertise:**

Bill is Vice President – Refining Operations (Global Refining) with ChevronTexaco in San Ramon, California (USA). In this role, Bill is responsible for the overall financial and operating performance of ChevronTexaco's refineries in Salt Lake City (Utah, USA), Honolulu (Hawaii, USA), Burnaby (British Columbia, Canada) and Cape Town (South Africa). He is also responsible for ChevronTexaco's technology marketing operations and technical service contracts for Kuwait and Bahrain.

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

**Assessment of independence:**

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

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## MITCHELL (MITCH) RUBINSTEIN DIRECTOR

**Date of appointment:** 24 February 2005

**Skills, experience and expertise:**

Mitch is the General Manager, Crude Supply and Trading, Asia Pacific, with Chevron USA Inc. (a company in the ChevronTexaco Group) based in Singapore. He has responsibility for all crude oil trading activity in the Middle East and the Far East for ChevronTexaco.

Mitch holds a Bachelor of Arts in Political Science/Asian Studies from the University of Michigan (USA), a Master of Arts in International Relations from Columbia University (USA) and a Master of Business Administration in Finance from New York University (USA).

**Assessment of independence:**

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

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## JOHN THORN DIRECTOR

**Date of appointment:** 2 June 2004

**Skills, experience and expertise:**

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

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

**Assessment of independence:**

The Board has determined that John is an independent director.

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

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## KEN WATSON DIRECTOR

**Date of appointment:** 9 February 1996

**Skills, experience and expertise:**

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

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

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

**Assessment of independence:**

The Board has determined that Ken is an independent director.

In assessing Ken's status as an independent director, the Board has noted that Minter Ellison (of which Ken is a partner) provides legal advice and services to Caltex. For the year ended 31 December 2004, Minter Ellison received, or was due to receive, fees of \$808,000, which represented less than 20% of Caltex's total legal expenditure for the year. The fees represented to Minter Ellison less than 5% of its total revenue and accordingly, the level of transaction with Minter Ellison is within the thresholds as set out in the Charter of Director Independence. Ken is not usually involved in providing legal advice to Caltex on a day-to-day basis but was engaged to advise Caltex on various legal aspects of the venture arrangements with Woolworths.

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## LEO LONERGAN

Leo was a director throughout 2004 but resigned as a director on 23 February 2005.

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# Corporate Governance Report

## Benefits to Caltex Australia from appointment of ChevronTexaco executives

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

Bill Hauschildt and Mitch Rubinstein are senior executives of ChevronTexaco and bring a great depth of experience and knowledge of the oil and gas industry to Caltex. Bill's expertise in refinery operations, and Mitch's background in supply and trading, bring important knowledge and experience to bear on the Board's consideration of operational and business matters that would not be available from directors without industry involvement and not readily available in Australia.

## Meetings of directors in the absence of management

The Board has agreed to hold regular informal discussions for non-executive directors in the absence of management. These discussions are scheduled to occur quarterly at the commencement of a Board meeting, and in 2004 the non-executive directors met on four occasions without management.

## Disclosure of interests and conflicts

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

## Period of office

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

Any director (other than the Managing Director) who is appointed to the Board as a casual vacancy or as an addition to the Board during a year holds office until the end of the next Annual General Meeting, but is eligible for election by shareholders at that meeting.

## Independent professional advice

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

## Human Resources and Nomination Committee – nomination responsibilities

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

- the composition of the Board and number of directors
- the identification, development and maintenance of the required and desirable skills, expertise, experience and competencies of directors and the Board
- succession planning for the Board and Board committees, and
- the policy for the appointment of non-executive directors.

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

- induction processes for directors, and
- identifying candidates for appointment as non-executive directors.

In 2004, the Human Resources and Nomination Committee comprised Dick Warburton (Chairman), Elizabeth Bryan and Leo Lonergan. From 1 January 2005, Bill Hauschildt replaced Leo Lonergan. Senior management (including the Managing Director and Chief Executive Officer, Company Secretary and Group Manager – Human Resources) is also in attendance at Committee meetings.

The Human Resources and Nomination Committee met on nine occasions in 2004, and all of the members of the Committee attended each of those meetings.

The Board adopted (from 1 April 2004) a new Charter for the Human Resources and Nomination Committee to reflect the matters set out in the commentary and guidance to the ASX Corporate Governance Council's Recommendation 2.4. The Charter is reviewed annually and was reviewed in December 2004.

The Human Resources and Nomination Committee Charter has been available from our website [www.caltex.com.au](http://www.caltex.com.au) since April 2004.

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

Also disclosed on our website from October 2004 has been the Caltex Director Selection Policy and Process, which sets out the process for selecting new directors to the Board.

### **PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING**

#### **Code of Conduct for Directors and Senior Executives**

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

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

The Board is committed to living these values and, as an example of this commitment, all Board and Committee meetings commence with an incident-free operations topic. Caltex's Vision, Values and Strategic Intent is published on our website [www.caltex.com.au](http://www.caltex.com.au) and on the back cover of this report.

A code of conduct more fully addressing the matters referred to in the ASX Corporate Governance Council's Recommendation 3.1 is in the process of being developed.

#### **Share trading guidelines**

The Board adopted (from 1 April 2004) the Caltex Share Trading Policy in relation to dealings in Caltex shares by directors, senior executives and employees. This was a revision of an existing policy.

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

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

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

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

# Corporate Governance Report

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

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

In accordance with the terms of the Caltex Share Trading Policy, the policy was reviewed by the Board in December 2004.

The Caltex Share Trading Policy has been available from our website [www.caltex.com.au](http://www.caltex.com.au) since April 2004.

## PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

### Sign-off by Chief Executive Officer and Chief Financial Officer

In August 2004 (for the statutory half year report) and in February 2005 (for the statutory full year report), the Managing Director and Chief Executive Officer and the Chief Financial Officer provided the Board with statements about Caltex's financial reports and compliance with the Corporations Act and accounting standards. The statements reflected the declarations required to be made by directors for the half year and full year.

### Audit Committee

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

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

- the role of the internal audit function at Caltex and the appointment of the Internal Audit Manager.

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

- the scope of work for the external audit
- the provision of non-audit services by the external auditor to Caltex, and
- the annual internal audit plan.

At the end of 2004, the Audit Committee comprised Ken Watson (Chairman), John Thorn and Leo Loneragan. Prior to John Thorn's appointment to the Audit Committee on 22 July 2004, Elizabeth Bryan had served on the Audit Committee. The composition of the Committee at all times in 2004 was in accordance with the ASX Corporate Governance Council's Recommendation 4.3.

Representatives of KPMG (Caltex's external auditor), Dick Warburton (in an ex-officio capacity) and senior management (including the Managing Director and Chief Executive Officer, Chief Financial Officer, Company Secretary, Financial Controller and Internal Audit Manager) are also in attendance at Committee meetings.

The Audit Committee met on four occasions in 2004. With the exception of John Thorn, all members of the Audit Committee attended those meetings which they were eligible to attend. John attended one of the two meetings he was eligible to attend.

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

The Board adopted (from 1 April 2004) a new Charter for the Audit Committee to reflect the matters set out in the commentary and guidance to the ASX Corporate Governance Council's Recommendation 4.4. The Audit Committee reviewed its Charter in December 2004.

The Audit Committee Charter has been available from our website [www.caltex.com.au](http://www.caltex.com.au) since April 2004.

### 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 either the Chief Executive Officer or Chief Financial Officer or the Chair of the Audit Committee (subject to the authority delegated to those persons) or the Audit Committee. Details of all engagements for non-audit services are reported quarterly to the Audit Committee.

Procedures for the selection and appointment of the external auditor and for the rotation of the external audit engagement partners have been available from our website [www.caltex.com.au](http://www.caltex.com.au) since November 2004.

### PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

#### Caltex Continuous Disclosure Policy

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

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

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

The Caltex Continuous Disclosure Policy has been available from our website [www.caltex.com.au](http://www.caltex.com.au) since April 2004.

#### Caltex Financial Market Disclosure Policy

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

- all investors have equal and timely access to material information
- announcements are expressed in a clear and objective manner to allow investors to assess the impact of the information when making investment decisions, and
- commentary on the financial results includes information that is needed by an investor to make an informed assessment of Caltex's activities and performance.

The Caltex Financial Market Disclosure Policy is reviewed annually by the Board and was reviewed in December 2004.

The Caltex Financial Market Disclosure Policy has been available from our website [www.caltex.com.au](http://www.caltex.com.au) since April 2004.

#### Results announcements

Caltex follows a calendar of regular disclosures to the market:

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

# Corporate Governance Report

The Managing Director and Chief Executive Officer makes results presentations in relation to Caltex's financial performance after the announcement of the full year results (in late February) and the half year results (in late August) to the ASX.

## PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

### Communications strategy

The Board adopted (from 1 April 2004) the Caltex Shareholder Communications Strategy for communications with shareholders and potential investors and to encourage effective participation at shareholder meetings.

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

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

Shareholders may also request annual and half year reports, a copy of Caltex Australia Limited's Constitution, minutes of shareholders' meetings and other corporate information by writing to the Company Secretary.

The Caltex Shareholder Communications Strategy has been available from our website [www.caltex.com.au](http://www.caltex.com.au) since April 2004.

### Prior submission of questions for the 2005 Annual General Meeting

The 2004 Annual General Meeting of Caltex Australia Limited was held on 29 April 2004. In recognition that Annual General Meetings are a forum for shareholders to ask questions about, or make comments on, Caltex's performance and management, shareholders were invited to submit questions to Caltex prior to the 2004 Annual General Meeting.

Caltex prepared a list of questions submitted (and responses to these questions), which was made available to shareholders attending the 2004 Annual General Meeting. The list of shareholder questions is also available from our website [www.caltex.com.au](http://www.caltex.com.au).

Caltex will follow this practice again at its Annual General Meeting on 27 April 2005, and will also invite shareholders to submit written questions to the auditor in relation to its conduct of the external audit of Caltex's financial statements for the year ended 31 December 2004 or the content of its audit report.

### Attendance by External Auditor at the Annual General Meeting

Representatives of KPMG, Caltex's external auditor, attended the 2004 Annual General Meeting and were available to answer questions from shareholders about the conduct of KPMG's external audit (of Caltex's financial statements for the year ended 31 December 2003) and the preparation and content of its audit report.

A representative of the external auditor has again been invited to attend the 2005 Annual General Meeting. The external auditor has been asked to be available to answer questions from shareholders about the conduct of KPMG's external audit (of Caltex's financial statements for the year ended 31 December 2004), the preparation and content of its audit report, the accounting practices adopted by Caltex in relation to the financial statements, and the independence of KPMG.

**PRINCIPLE 7: RECOGNISE AND MANAGE RISK****Risk Management**

Caltex has implemented policies in relation to environmental compliance, occupational health and safety, interest rate risk management, foreign exchange risk management, credit risk management and oil hedging to minimise the risks that arise through its activities. Also, the Board has approved practices that are designed to ensure that:

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

During 2004, the Board reviewed its policies in relation to credit risk management, oil hedging, interest rate risk management, counterparty risk, and Treasury controls and procedures. In addition, a report on management of key risks was provided to the Board for the half year and full year.

In 2004, a project was initiated to review risk across Caltex. This project will include the development of overarching risk management policies taking into account the ASX Corporate Governance Council's Recommendation 7.1.

**Internal controls**

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

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

An internal audit plan, which is approved by the Audit Committee, is prepared each year to outline a program of internal audits to be conducted for the year. The results of internal audits are reported to

senior management and to the Audit Committee on a regular basis. In addition, processes have been put in place to ensure that appropriate follow-up actions are taken in relation to significant audit findings and identified areas of risk.

**Sign-off by Chief Executive Officer and Chief Financial Officer**

In August 2004 (for the statutory half year report) and in February 2005 (for the statutory full year report), the Managing Director and Chief Executive Officer and the Chief Financial Officer advised the Board that:

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

**PRINCIPLE 8: ENCOURAGE ENHANCED PERFORMANCE****Performance Evaluation****Board**

Directors and key executives participate in a review of Board performance every two to three years. As part of the process, directors complete a questionnaire and one-on-one interviews are conducted by an external consultant with directors and key executives. A report is prepared by the external consultant and the Board discusses the findings and recommendations of the review.

A review was last completed in February 2003, with the Board's response to recommendations made in the consultant's report adopted over the course of 2003 and 2004. In 2004, it was agreed that directors and key executives would again participate in a Board self-evaluation facilitated by an external consultant. The evaluation will also consider the effectiveness of the Board's Committees. Preparations for the evaluation commenced in late 2004 and the review is due to be completed in early 2005.

The Caltex Performance Evaluation Process has been available from our website [www.caltex.com.au](http://www.caltex.com.au) since October 2004.

# Corporate Governance Report

## Key executives

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

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

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

All staff, including key executives, receive regular feedback on progress against these targets and the key executives must have formal documented mid-year performance reviews with the Managing Director and Chief Executive Officer. At the end of each year, performance is assessed against the agreed objectives and targets and a performance assessment ranking and, where applicable, a weighted score based on the sum of the performance outcomes, is received. These measures are then used to determine an annual performance rating, which is considered when setting remuneration.

## Facilitation of Board and Committee performance

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

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

## New directors

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

With effect from 1 January 2005, directors appointed to Board Committees will also receive induction training from key executives with responsibility for the matters considered by the Committee and from the Committee Secretary.

## Director education

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

## PRINCIPLE 9: REMUNERATE FAIRLY AND RESPONSIBLY

### Remuneration

The Directors' Report in the 2004 Annual Report contains details of Caltex's remuneration policy for its directors and executives, and the remuneration paid to directors and executives in 2004. A summary of the information contained in the Directors' Report is provided below.

### Director Remuneration

Remuneration of directors in 2004

| Director                  | Base<br>Remuneration<br>(\$) | Super<br>Contributions<br>(\$) | 2004<br>Total<br>(\$) | 2003<br>Total<br>(\$) |
|---------------------------|------------------------------|--------------------------------|-----------------------|-----------------------|
| <b>Current directors:</b> |                              |                                |                       |                       |
| Dick Warburton            | 232,000                      | 20,880                         | 252,880               | 190,750               |
| Dave Reeves               | 1,200,000                    | —                              | 1,200,000             | 516,164               |
| Elizabeth Bryan           | 90,337                       | —                              | 90,337                | 70,552                |
| Bill Hauschildt           | 22,636                       | —                              | 22,636                | —                     |
| Mitch Rubinstein          | —                            | —                              | —                     | —                     |
| John Thorn                | 49,948                       | 4,495                          | 54,443                | —                     |
| Ken Watson                | 93,000                       | 8,370                          | 101,370               | 76,300                |
| <b>Former directors:</b>  |                              |                                |                       |                       |
| Leo Lonergan              | 93,000                       | —                              | 93,000                | 66,443                |
| Martin Southern           | 28,184                       | —                              | 28,184                | —                     |

#### Notes:

- Bill Hauschildt was appointed as a director on 21 September 2004 and his director's fee in 2004 is a pro-rata amount.
- John Thorn was appointed as a director on 2 June 2004 and as a member of the Audit Committee, replacing Elizabeth Bryan, on 22 July 2004. His director's fee in 2004 is a pro-rata amount.
- Leo Lonergan served as a director throughout 2004 but resigned as a director on 23 February 2005.
- Martin Southern served as a director between 25 February 2004 and 1 July 2004 and his director's fee in 2004 is a pro-rata amount.
- Steve de Bruyn and Mitch Rubinstein, who served as alternate directors during 2004, did not receive any remuneration from Caltex in 2004. Mitch Rubinstein was appointed a director on 24 February 2005.
- Directors are eligible to receive a discount on private fuel purchases in line with that available to Caltex employees.

### Directors' fees

The Board's policy is to remunerate non-executive directors at market rates for comparable companies for the time commitment and responsibilities involved. Annually, the Board reviews directors' fees considering external data, the time commitment of directors, the size and scale of Caltex's operations, market capitalisation and other factors.

In 2004, an annual base fee of \$232,000 (inclusive of Committee fees) was set for the Chairman of the Board and an annual base fee of \$81,000 set for other non-executive directors.

# Corporate Governance Report

Committee fees were not changed in 2004. Non-executive directors (other than the Chairman of the Board) who served on the Audit Committee or the Human Resources and Nomination Committee received an annual Committee fee of \$6,000 for each Committee membership, which increased to \$12,000 for the Chairman of the Committee.

With effect from 1 January 2005, directors' fees are as follows:

- Chairman (inclusive of committee fees): \$275,000 per annum
- non-executive director: \$100,000 per annum
- Chairman of the Audit Committee: \$20,000 per annum
- Chairman of the Human Resources and Nomination Committee: \$15,000 per annum, and
- Committee members: \$10,000 per annum.

The fees in 2004 and 2005 have been set having regard to the decision of the Board in December 2003 to discontinue the directors' retirement scheme from 1 January 2004 and to movements in relevant market rates for non-executive directors.

Fees for non-executive directors are not linked to the financial performance of Caltex in any way as the Board believes this may, or may be seen to, compromise director independence. Further, in order to clearly distinguish the structure of non-executive directors' remuneration from that of executives, non-executive directors do not receive any bonus payment nor participate in any share or incentive scheme operated by Caltex for its employees.

## Retirement payments to directors

Following the decision to terminate the Caltex retirement scheme for non-executive directors, non-executive directors resident in Australia are entitled only to statutory superannuation. Directors not resident in Australia are not entitled to any superannuation.

## Remuneration of the Managing Director and Chief Executive Officer

Managing Director and Chief Executive Officer  
Dave Reeves is on secondment from ChevronTexaco to Caltex.

Under the terms of the secondment arrangements, Caltex pays service fees to ChevronTexaco representing a partial reimbursement of the salary and other benefits paid by ChevronTexaco to Dave. Caltex has no obligation to pay any amount to Dave and he does not participate in the incentive schemes for Caltex senior management.

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

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

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

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

## Executive Remuneration

### Remuneration of Senior Executives in 2004

| Specified Executives  | Salary<br>and Fees<br>(\$) | Bonus<br>(\$) | Super<br>Contributions<br>(\$) | Non-monetary<br>Benefits<br>(\$) | Share<br>Benefits | 2004<br>Total<br>(\$) | 2003<br>Total<br>(\$) |
|---|----------------------------|---------------|--------------------------------|----------------------------------|-------------------|-----------------------|-----------------------|
| Mark Burrowes<br>(General Manager Marketing)                      | 437,189                    | 90,018        | 29,830                         | 14,811                           | 176,925           | 748,773               | 400,615               |
| Helen Conway<br>(Company Secretary and<br>General Counsel)        | 317,373                    | 76,104        | 23,222                         | 14,811                           | 238,226           | 669,736               | 580,783               |
| Simon Hepworth<br>(Chief Financial Officer)                       | 393,776                    | 89,594        | 27,001                         | 14,811                           | 283,573           | 808,755               | 676,697               |
| Alex Strang<br>(General Manager Supply<br>and Corporate Services) | 392,569                    | 87,001        | 27,267                         | 13,340                           | 287,622           | 807,799               | 695,770               |
| Eion Turnbull<br>(General Manager Refining)                       | 333,740                    | 73,345        | 23,687                         | 39,288                           | 228,739           | 698,799               | 588,951               |

**Note:**

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

### Remuneration policy

Remuneration at Caltex has been structured to attract, motivate and retain exceptional performers. The key principles of the remuneration policy for senior executives of Caltex are to:

- provide market competitive rewards commensurate with an executive's duties, responsibilities and accountabilities
- apply financial and non-financial performance criteria that reflect the long-term creation of value to stakeholders, and
- link executive rewards to Caltex, department and individual performance.

# Corporate Governance Report

## Remuneration components

Senior executive remuneration consists of fixed remuneration and variable remuneration.

Fixed remuneration is set having regard to the median remuneration for a person with the executive's role and responsibilities from a subset of companies in the S&P/ASX 100 Index (excluding the Financials Sector). Regard is also had to the scale of business.

Variable remuneration consists of:

- a short-term cash incentive based on personal performance against measures aligned with the Caltex business plan
- a short-term cash incentive based on Caltex's performance against Replacement cost Net Profit After Tax and the Caltex Balanced Scorecard, and
- a long-term share incentive plan.

The Caltex Balanced Scorecard comprises a combination of financial, operational and non-financial measures consistent with Caltex's Vision, Value and Strategic Intent.

## Long-term incentive scheme

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

For the purposes of the scheme, the return on capital employed target for 2004 was assigned at the beginning of 2004. Based on the performance against this target and Caltex's total shareholder return relative to the S&P/ASX 200 Accumulation Index (excluding the bancassurance and the telecommunication indices) over the year, shares were allocated to senior executives, based on a combination of base salary earned, bonuses received and level of responsibility.

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

## Termination payments

Senior executives are appointed as permanent Caltex employees. The employment contracts stipulate a range of one to six months as termination payment bases, reflecting market conditions at the time of contract negotiation and appointment of the senior executive.

## Secondments from ChevronTexaco

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

## Human Resources and Nomination Committee – remuneration responsibilities

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

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

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

- the annual Caltex employee salary program
- remuneration of the Caltex Leadership Team
- the short-term incentive scheme and the long-term incentive scheme, and
- the Caltex Australia Limited employee share plan.

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

#### PRINCIPLE 10: RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS

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

Caltex's values, as endorsed by the Board in July 2002, are set out under Principle 3: Promote ethical and responsible decision making. Caltex's Vision, Values & Strategic Intent are published on our website [www.caltex.com.au](http://www.caltex.com.au).

A code of conduct more fully addressing the matters referred to in the ASX Corporate Governance Council's Recommendation 10.1 is in the process of being developed.

# Simplified Financial Report

## PROFIT AND LOSS

for the year ended 31 December 2004

| Millions of dollars                              | 2004       | 2003       | % change   |
|--|------------|------------|------------|
| 1 Total revenue <sup>1</sup>                     | 9,426      | 7,014      | 34         |
| 2 Total expenses <sup>2</sup>                    | (8,882)    | (6,674)    | 33         |
| 3 Replacement cost EBIT                          | 544        | 340        | 60         |
| 4 Net borrowing costs                            | (40)       | (61)       | (34)       |
| Income tax expense                               | (151)      | (79)       | 91         |
| <b>Replacement cost profit</b>                   | <b>353</b> | <b>200</b> | <b>77</b>  |
| 5 Inventory gain/(loss) – after tax              | 106        | 9          | 1,078      |
| 6 Significant income tax item                    | 113        | (11)       | –          |
| <b>Historical cost net profit</b>                | <b>572</b> | <b>198</b> | <b>189</b> |
| 7 Interim dividend per share                     | 14¢        | 4¢         |            |
| 7 Final (and special dividend in 2003) per share | 25¢        | 14¢        |            |
| <b>Basic earnings per share</b>                  |            |            |            |
| – Replacement cost – excluding significant items | 131¢       | 74¢        |            |
| – Historical cost                                | 212¢       | 73¢        |            |

<sup>1</sup> Excludes interest revenue, product duties and taxes and significant items (if applicable)

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

## DISCUSSION AND ANALYSIS

### 1 Total revenue

↑ **34%**

Total revenue increased primarily due to:

- Higher crude prices
- Strong refiner margins and stable marketing margins, and
- Significant growth in marketing sales volumes of transport fuels and lubricants.

### 2 Total expenses – replacement cost basis

↑ **33%**

Total expenses increased primarily due to:

- Higher cost of sales, reflecting higher sales volumes and higher crude prices, and
- Higher operating expenses in absolute terms but, on a per litre sold basis, operating expenses decreased by 4% compared with 2003.

**3 Replacement cost EBIT**
 **60%**

Improvement in Caltex's underlying performance was driven primarily by strong refiner margins, stable marketing margins and significant growth in sales volumes of transport fuels and lubricants.

Breakdown of replacement cost EBIT is detailed below:


**RCOP EBIT breakdown**
**Caltex refiner margin (CRM) \$594m**

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 strengthened significantly from an average of US\$4.91/bbl in 2003 to US\$6.60bbl in 2004 as Singapore refiner margins increased from an average of US\$4.45/bbl in 2003 to an average of US\$6.15/bbl in 2004. However, the increase in refiner margins was dampened by a higher AUD (against the USD) compared with 2003.

**Transport fuels marketing margin \$277m**

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 (revised basis excluding distribution costs) was stable compared with 2003. Transport fuels sales volumes increased overall by 15% across all products.

**Lubricants and specialties margin \$103m**

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

- Lubricants volumes grew overall by almost 30% mainly due to additional base oil volume, following the closure of the Mobil Port Stanvac refinery.

**Non-fuel income \$114m**

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 resellers.

- Like for like sales at Star Marts and Star Shops increased by 5.1% and 5.6% respectively compared with 2003.

**Operating expenses (\$616m)**

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

- Operating expenses increased in absolute terms, but on a per litre sold basis, decreased by 4% compared with 2003.

**Other \$72m**

Other comprises a number of components including miscellaneous income, pipeline and charter revenue and net exchange impacts.

**Total replacement cost EBIT \$544m**

Other comprises a number of components including miscellaneous income, pipeline and charter revenue and net exchange impacts.

# Simplified Financial Report

## 4 Net borrowing costs

↓ **34%**

Net debt reduced to \$447 million at 31 December 2004. This compares with \$624 million at 31 December 2003. The lower net debt level resulted in decreased borrowing costs.

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## 5 Inventory gain after tax

↑ **97m**

Regional crude oil prices rose significantly in 2004, (averaging US\$39.03/bbl in December 2004 compared with US\$30.59/bbl in December 2003). This increase resulted in net inventory gains of \$106 million (after tax) compared with net inventory gains of \$9 million (after tax) in 2003.

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## 6 Significant items

**\$113m gain**

As a consequence of entry into the new tax consolidation regime, the value of refining and pipeline assets has been reset for tax purposes. This has resulted in a \$113 million decrease in deferred tax liabilities, with the offset being a non-recurring tax credit to current year earnings. The cash flow benefit will be achieved over some 20-25 years, which is the effective life of revalued assets. In 2003, Caltex recognised as a significant item, an expense of \$12 million before tax (\$11 million after tax) for writedown of land, buildings and related plant & equipment.

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## 7 Final dividend

**25 cps**

The Board declared a final dividend of \$67.5 million or 25 cents per share. This brings the total dividends for 2004 to 39 cents per share. The dividends have a franking credit of 100%. The record date is 11 March 2005, with the dividend payable on 1 April 2005.

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## BALANCE SHEET

as at 31 December 2004

| Millions of dollars                        | 2004  | 2003  | change |
|--|-------|-------|--------|
| 1 Working capital                          | 422   | 343   | 79     |
| 2 Property, plant and equipment (PP&E)     | 1,710 | 1,615 | 95     |
| 3 Net debt                                 | (447) | (624) | 177    |
| 4 Other non-current assets and liabilities | 34    | (110) | 144    |
| Total equity                               | 1,719 | 1,224 | 495    |

## DISCUSSION AND ANALYSIS

## 1 Working capital

 \$79m

The increase in working capital is primarily due to:

- Higher crude and product prices, and
- Stronger Marketing volumes resulting in higher receivables.

Offset to some extent by:

- Higher income tax liability due to higher profits earned, and
- Higher payables due to increased volumes purchased from competitors and Clean Fuels capital expenditure.

## 2 PP&amp;E

 \$95m

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

- Capital expenditure and major cyclical maintenance of \$243 million, including \$81 million relating to the Clean Fuels Project for Caltex's two refineries, partly offset by
- Depreciation of \$122 million, and
- Net disposals of \$26 million.

## 3 Net debt

 \$177m

Net debt has reduced to \$447 million at 31 December 2004, a decrease of \$177 million from 31 December 2003. As a result, Caltex's gearing (net debt to net debt plus equity) was 21%, down from 34% at 31 December 2003.

## 4 Other non-current assets and liabilities

 \$144m

Other non-current assets and liabilities have decreased primarily as a consequence of entry into the new tax consolidation regime which resulted in a \$113 million decrease in deferred tax liabilities. For more information refer to the Profit and Loss, Discussion and Analysis, Item 6: "Significant items".

# Simplified Financial Report

## CASH FLOWS

for the year ended 31 December 2004

| Millions of dollars  | 2004         | 2003         | change      |
|--|--------------|--------------|-------------|
| Receipts from customers  | 14,847       | 11,501       | 3,346       |
| Payments to suppliers and employees  | (9,944)      | (6,831)      | (3,113)     |
| Payments for excise and GST  | (4,242)      | (4,046)      | (196)       |
| 1 Borrowing costs paid   | (49)         | (62)         | 13          |
| 2 Other net operating activities   | (156)        | (75)         | (81)        |
| <b>Net operating cash inflows</b>  | <b>456</b>   | <b>487</b>   | <b>(31)</b> |
| 3 Purchases of property, plant and equipment (PP&E) and major cyclical maintenance | (222)        | (148)        | (74)        |
| Other investing cash flows   | 19           | 2            | 17          |
| <b>Net investing cash outflows</b>   | <b>(203)</b> | <b>(146)</b> | <b>(57)</b> |
| 4 <b>Net financing cash outflows</b>   | <b>(275)</b> | <b>(323)</b> | <b>48</b>   |
| <b>Net (decrease)/increase in cash held</b>  | <b>(22)</b>  | <b>18</b>    | <b>(40)</b> |

## DISCUSSION AND ANALYSIS

### 1 Borrowing costs

↓ \$13m

Net debt reduced to \$447 million at 31 December 2004. This compares with \$624 million at 31 December 2003. The lower net debt level resulted in lower borrowing costs (\$13 million). Borrowing costs paid includes capitalised borrowing costs relating to the Clean Fuels Project of \$4 million (2003: \$1 million).

### 2 Other operating activities

↑ 81m

Income tax payments increased in 2004. This increase is primarily due to current year tax instalments being based on current year gross revenues which were higher than in 2003.

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

↑ 74m

The increase in capital expenditure in 2004 related primarily to the Clean Fuels Project (\$64 million).

### 4 Net financing cash outflows

↓ \$48m

The decrease in net financing cash outflows is primarily due to lower loan repayments (\$197 million) in 2004 (2003: \$311 million). This was partly offset by higher dividend payments in 2004, comprising a 2004 interim dividend (\$37.8 million) and 2003 final dividend (\$37.8 million) (2003: interim dividend of \$10.8 million).

CALTEX AUSTRALIA LIMITED

ACN 004 201 307

# FINANCIAL REPORT

2004

THE 2004 FINANCIAL REPORT FOR  
CALTEX AUSTRALIA LIMITED INCLUDES:

- DIRECTORS' REPORT
- DIRECTORS' DECLARATION
- INDEPENDENT AUDIT REPORT
- STATEMENTS OF FINANCIAL PERFORMANCE
- STATEMENTS OF FINANCIAL POSITION
- STATEMENTS OF CASH FLOWS
- NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004.

## CALTEX AUSTRALIA GROUP

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

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

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

# Directors' Report



Dick Warburton

Dave Reeves

Elizabeth Bryan

## BOARD OF DIRECTORS

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

### DICK WARBURTON

CHAIRMAN (NON-EXECUTIVE / INDEPENDENT)

Date of birth: 14 December 1940 (Age: 64 years)

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

Dick is one of Australia's most prominent company directors. Prior to becoming a professional director, Dick was the Chairman and Chief Executive Officer of DuPont Australia and New Zealand where he was responsible for Du Pont's petrochemical business operations in Australia and New Zealand.

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

#### Current directorships of listed companies

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

#### Previous directorships of listed companies in last three years

- David Jones Limited (6 October 1995 – 17 July 2003) (former Chairman)
- Southcorp Limited (11 June 1993 – 14 October 2003)
- AurionGold Limited (22 February 1995 – 30 October 2002) (former Chairman)

### DAVE REEVES

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Bachelor of Civil Engineering (University of Washington, USA)

Date of birth: 26 May 1955 (Age: 49 years)

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

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

### ELIZABETH BRYAN

DIRECTOR (NON-EXECUTIVE / INDEPENDENT)

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

Date of birth: 19 October 1946 (Age: 58 years)

Elizabeth was appointed as a director of Caltex Australia Limited on 18 July 2002 and is a member of the Human Resources & Nomination Committee. She was also a member of the Audit Committee during 2004 until 22 July 2004.

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

#### Current directorships of listed companies

- Ridley Corporation Limited (appointed 7 September 2001)

#### Previous directorships of listed companies in last three years

- Western Metals Limited (17 October 2000 – 2 November 2002)

### BILL HAUSCHILDT

DIRECTOR (NON-EXECUTIVE)

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

Date of birth: 20 May 1944 (Age: 60 years)

Bill was appointed as a director with effect from 21 September 2004 and has served as a member of the Human Resources & Nomination Committee since 1 January 2005.

The Board of Caltex Australia Limited presents this Directors' Report and the 2004 Financial Report for the Caltex Australia Group for the year ended 31 December 2004 to shareholders. An Independent Audit Report from KPMG, Caltex's external auditor, is also provided.



Bill Hauschildt

Leo Lonergan

John Thorn

Ken Watson

Bill serves as Vice President – Refining Operations (Global Refining) with ChevronTexaco in San Ramon, California (USA). In this role, Bill is responsible for the overall financial and operating performance of ChevronTexaco's refineries in Salt Lake City (Utah, USA), Honolulu (Hawaii, USA), Burnaby (British Columbia, Canada) and Cape Town (South Africa). He is also responsible for ChevronTexaco's technology marketing operations and technical service contracts for Kuwait and Bahrain.

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

### **JOHN THORN**

DIRECTOR (NON-EXECUTIVE / INDEPENDENT)

FCA

Date of birth: 28 June 1948 (Age: 56 years)

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

John had over 37 years professional experience with PricewaterhouseCoopers, where he was a partner from 1982 to 2003 undertaking work for major international and local companies. During this period, he served as Managing Partner of PricewaterhouseCoopers' Assurance and Business Advisory Services practice (from 1988 to 2001) and as National Managing Partner (from 2001 to 2003). After leaving professional practice, John has embarked on a career as a company director.

### **Current directorships of listed companies**

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

### **KEN WATSON**

DIRECTOR (NON-EXECUTIVE / INDEPENDENT)

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

Date of birth: 6 July 1943 (Age: 61 years)

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

Ken is a partner of the law firm Minter Ellison and works in the firm's Sydney office. He is admitted to practise as a solicitor in New South Wales, Victoria and Queensland.

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

### **MITCH RUBINSTEIN**

DIRECTOR (NON-EXECUTIVE)

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

Date of birth: 21 April 1960 (Age: 44 years)

Mitch was appointed a director effective from 24 February 2005. Mitch previously served as an alternate director from 25 February 2004 to 23 February 2005 for Leo Lonergan, from 25 February 2004 to 1 July 2004 for Martin Southern, and from 21 September 2004 to 23 February 2005 for Bill Hauschildt.

Mitch serves as General Manager, Crude Supply and Trading, Asia Pacific with Chevron U.S.A. Inc. (a company in the ChevronTexaco Group) based in Singapore. He has responsibility for all crude oil trading activity in the Middle East and the Far East for ChevronTexaco.

Mitch joined Texaco in 1989 and has held positions of increasing responsibility in refined products trading and crude oil trading. He has had responsibility for trading in the Asia Pacific, the Middle East, Latin America, Europe, West Africa, and the Russian/Caspian area.

# Directors' Report



Mitch Rubinstein

## Previous Directors

### **LEO LONERGAN**

DIRECTOR (NON-EXECUTIVE)

Leo was appointed a director on 1 July 2001, having previously served on the Board from 30 April 1998 to 29 July 1999 (after serving as an alternate director from 29 January 1998 to 30 April 1998). He resigned as a director with effect from 23 February 2005. Leo is relocating from Singapore to California, USA to take up a new position with ChevronTexaco.

### **MARTIN SOUTHERN**

DIRECTOR (NON-EXECUTIVE)

Martin was appointed as a director on 25 February 2004 to fill a casual vacancy on the Board. He resigned as a director on 1 July 2004 for health reasons.

### **JOHANNES (STEVE) DE BRUYN**

(ALTERNATE DIRECTOR)

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

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

## REVIEW OF RESULTS AND OPERATIONS

### General overview

Caltex Australia achieved record earnings in 2004 with profits after tax (excluding significant items) on a replacement cost of sales operating profit (RCOP) basis up 77% on 2003. Stronger refiner margins, higher refinery utilisation, record marketing transport fuels sales volumes, increased lubricants sales volumes and stable marketing margins all contributed to the outstanding result.

RCOP after tax (excluding significant items) was \$352.5 million for the year ended 31 December 2004, up from \$199.7 million for 2003. This result excludes the impact of international oil price movements and therefore provides a clearer picture of the company's underlying business performance.

When oil-price driven inventory gains are included, profit after tax for the year ended 31 December 2004 on an historical cost basis (excluding significant items) was \$458.8 million (2003: \$208.8 million).

Inventory gains were \$106.3 million (after tax) for the year ended 31 December 2004 compared with inventory gains of \$9.1 million (after tax) in 2003. This increase in inventory gains reflects crude oil price increases during 2004 (averaging US\$39.03 a barrel in December 2004 compared with US\$30.59 a barrel in December 2003).

In addition, a significant gain of \$113.5 million (after tax) arose in 2004 as a consequence of the company's entry into the new tax consolidation regime (2003: significant expense item of \$11.3 million after tax). The value of refining and pipeline assets was reset for tax purposes which resulted in a \$113.5 million decrease in deferred tax liabilities, with the offset being a non-recurring tax credit to current year earnings. The cash flow benefit will be realised over 20–25 years, which is the effective life of the revalued assets.

The stronger refiner margins reflect the continued rapid growth in demand for refined products in the region, particularly in China. The Singapore weighted average refiner margin<sup>1,2</sup>, (for Caltex's basket of products) was US\$6.15 a barrel in 2004 (2003: US\$4.45 a barrel). An internal measure, the Caltex Refiner Margin (CRM), is a more accurate measure of the refiner

margins achieved by the company and includes crude premiums, crude freight, product yields achieved by the Caltex refineries, product freight and product quality premiums. CRM strengthened significantly from an average of US\$4.91 a barrel in 2003 to US\$6.60 a barrel in 2004, although the impact on earnings was partially offset by a stronger Australian dollar which averaged 74 US cents in 2004 (2003: 65 US cents). Because refiner margins are denominated in US dollars, Caltex receives less refiner margin in Australia if the Australian dollar strengthens.

The improved earnings enabled Caltex to further reduce its net debt to \$447.2 million at 31 December 2004 (31 December 2003: \$624.4 million) and gearing to around 21% (31 December 2003: 34%). This resulted in lower net borrowing costs of \$41.1 million compared with \$61.4 million in 2003.

### 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 refineries in 2004 launched an intensive Refining performance improvement program to lift utilisation and production, capturing the benefits of strong refiner margins at a time when Australian domestic demand exceeds production.

Improved reliability in 2004 enabled Refining to achieve higher production volumes of 11.8 billion litres in 2004 (2003: 11.1 billion litres) and average utilisation overall of 74.4% (2003: 71.4%). Supply reliability significantly improved in 2004. Increased production and sales were supported by the supply system successfully meeting demand for record volumes of 16 billion litres of transport fuels.

In February 2004, the company announced a \$295 million Clean Fuels Project to meet new clean fuel standards. The project, scheduled for completion in the fourth quarter 2005, will upgrade the refineries to reduce the benzene content of petrol to no more than 1% and produce diesel with a sulfur content of 50 parts per million or less.

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

2 The basis of Singapore refiner margins and CRM changed in 2004 to more accurately reflect a higher grade of petrol used in Australia. The 2003 comparatives have been restated to reflect this change.

# Directors' Report

## Marketing

The Marketing department promotes and sells Caltex fuels, lubricants, specialties and convenience store goods through a national network of 1,813 Caltex, Caltex Woolworths and Ampol branded service stations and 64 branded resellers. Marketing also sells directly to a large number of commercial customers.

In 2004, Caltex had its strongest growth in transport fuels sales on record with volumes up 14.7% compared with 2003. This was achieved in a mature market and reflected Caltex's expanding presence across retail, reseller and commercial channels. Caltex also achieved sales volume growth of 29.4% in lubricants and 4.3% in specialties compared with 2003, with an increase in direct sales to commercial customers and higher sales in the reseller channel.

The steady rollout of the Caltex Woolworths venture helped lift petrol sales volumes by 18.5% in 2004. By 31 December 2004, there were 348 jointly branded sites, of which 106 were contributed by Caltex. Caltex contributed sites recorded an average 80% increase in fuel sales. The jointly branded network will have up to 470 sites and the majority of the rollout will be completed by mid-2005.

Caltex strengthened its focus on the fast-growing premium fuels sector with sales of 95 octane Vortex unleaded petrol growing by 32.9% in 2004. In November 2004, the company launched Vortex 98, a new high octane premium unleaded petrol which has enjoyed sales that exceeded expectations in its initial rollout in Sydney.

There was continued growth in non-fuel income, with benefits gained from growth in store sales, site upgrades and divestment of uneconomic sites. In the convenience store network of 492 Star Marts and Star Shops, like for like sales grew 5.1% and 5.6% respectively.

A major review of our marketing operations resulted in a stronger customer focus and strategies to enhance our market leadership position focusing on areas that include lubricants and specialties, the StarCard, StarFleet and StarCash business and the reseller channel. The Caltex brand was also relaunched to make our image more relevant and meaningful to customers with a new advertising campaign.

## Outlook

This is an important time for Caltex's future development. During 2004, we further extended our position as Australia's leading oil refiner and marketer and strengthened our platform for growth. This will

continue in 2005, with the completion of the Clean Fuels Project, implementation of our marketing growth strategies and investment in lifting the productivity of our operations and supply chain.

The outlook for refiner and marketing margins remains sound. Market opportunities have emerged from changes in the dynamics of supply and demand in Australia and the Asian region and we are taking steps to further grow shareholder value. A review of our supply planning systems and refinery configuration has shown that certain initiatives are expected to result in annual benefits in excess of \$150 million (before interest and tax), with full benefits being realised during 2008. Preliminary estimates indicate an incremental investment in the order of \$300 million over the next three years. Additionally, in our marketing business, a review of the market in 2004 has determined a number of initiatives to capture future growth.

It is likely that net debt will temporarily exceed \$500 million during 2005, but we expect it to return to target levels during 2006. As a result, our announced dividend policy will not be impacted by these initiatives.

Our commitment to shareholders is to both secure and grow the value of Caltex. Caltex has been and is being recognised by investors as a company with a positive outlook. Much of the improvement over the past two years in our performance has come from changing industry fundamentals and we are now laying the foundations to ensure that Caltex captures as much value from the improving market place as possible. Ultimately, Caltex's success will be determined by our focus on the key controllables of safety, customer focus, utilisation and operational excellence.

## DIVIDENDS DECLARED AND PAID

The Board declared a final dividend of \$67.5 million or 25 cents a share adding to the interim dividend of 14 cents per share paid in October 2004.

This is in line with the company's dividend policy announced by the Board in August 2004. The Board stated that its intention was to declare ordinary dividends of 20% to 30% of RCOP after tax (excluding significant items) in 2004 and 2005 while the company meets the high capital commitments of the Clean Fuels Project. After 2005, the company intends to increase the payout ratio to a range of 40% to 60% of RCOP after tax (excluding significant items). If there is surplus cash flow above the target payout ratio, the Board will consider a further distribution in the form of a fully franked special dividend and/or other capital management initiatives.

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

A final dividend for 2003 of \$37.8 million or 14 cents a share was paid in April 2004.

## 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 2004 to the date of this report.

## LIKELY DEVELOPMENTS

### Business operations

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

## ENVIRONMENTAL REGULATIONS

### EHS and risk management

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

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

During 2004, EHS audits, and post audit reviews, were carried out to ensure compliance with relevant legislation and the standards imposed by the Caltex Australia Group. These audits found no major non-compliance issues but did identify areas where

opportunity for improvement existed. Results of all EHS management system audits along with resultant action items are reported to the Board.

Caltex supports a refining industry policy based on cleaner fuels for reduced air pollution and greenhouse gas emissions. Caltex continued work towards having an initial clean fuels manufacturing capability in operation by late 2005, in readiness for mandatory reductions of benzene in petrol and sulfur in diesel that will come into effect on 1 January 2006.

Caltex continues to be a participant in the Greenhouse Challenge Program and also discloses data on its air emissions to Environment Australia for inclusion in the National Pollution Inventory (NPI). This data is available at the NPI website at [www.npi.gov.au](http://www.npi.gov.au).

### Compliance with environmental obligations

A total of 14 pollution control licences were held by companies in the Caltex Australia Group in 2004 for two refineries and 11 terminals.

Licence conditions were exceeded on 15 occasions in 2004, which required notification and reporting to government environmental authorities.

Four infringement notices for breaches of significant environmental regulation were received by Caltex in 2004:

- Caltex Refineries (NSW) Pty Ltd received a penalty infringement notice for \$1,500 following the removal from site and incorrect disposal of a hazardous waste skip by a contractor
- Caltex Refineries (Qld) Pty Ltd received a penalty infringement notice of \$600 for the release of hydrocarbon from a pipeline at Lytton refinery
- Caltex Australia Petroleum Pty Ltd received a penalty infringement notice for \$1,500 when old contaminated water was released from a blocked stormwater line into an open stormwater trench at a Sydney service station, and
- Caltex Refineries (NSW) Pty Ltd received a penalty notice for \$1,500 following the release of effluent with high phenol levels at Yena Gap, Kurnell.

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

Caltex is well into the implementation of the Loss Prevention System which is a system to prevent or reduce incidents using behaviour based tools and proven management techniques.

# Directors' Report

## REMUNERATION REPORT

### Remuneration of directors in 2004

Details of the remuneration of the directors of Caltex Australia Limited for 2004 are set out below (on the basis of the cost to the Caltex Australia Group):

|  |      | Salary<br>& fees | Primary<br>Bonus | Non-monetary<br>benefits | Post employment<br>Superannuation | Equity<br>Share<br>benefits | Total     |
|--|------|------------------|------------------|--------------------------|-----------------------------------|-----------------------------|-----------|
| Dollars  |      |                  |                  |                          |                                   |                             |           |
| <b>Specified directors</b>                     |      |                  |                  |                          |                                   |                             |           |
| <b>Executive</b>                               |      |                  |                  |                          |                                   |                             |           |
| Dave Reeves<br>(Managing Director<br>and CEO)  | 2004 | 1,200,000        | –                | –                        | –                                 | –                           | 1,200,000 |
|  | 2003 | 516,164          | –                | –                        | –                                 | –                           | 516,164   |
| <b>Non-executive</b>                           |      |                  |                  |                          |                                   |                             |           |
| Dick Warburton<br>(Chairman)                   | 2004 | 232,000          | –                | –                        | 20,880                            | –                           | 252,880   |
|  | 2003 | 175,000          | –                | –                        | 15,750                            | –                           | 190,750   |
| Elizabeth Bryan                                | 2004 | 90,337           | –                | –                        | –                                 | –                           | 90,337    |
|  | 2003 | 66,214           | –                | –                        | 4,338                             | –                           | 70,552    |
| Bill Hauschildt                                | 2004 | 22,636           | –                | –                        | –                                 | –                           | 22,636    |
|  | 2003 | –                | –                | –                        | –                                 | –                           | –         |
| Mitch Rubinstein                               | 2004 | –                | –                | –                        | –                                 | –                           | –         |
|  | 2003 | –                | –                | –                        | –                                 | –                           | –         |
| John Thorn                                     | 2004 | 49,948           | –                | –                        | 4,495                             | –                           | 54,443    |
|  | 2003 | –                | –                | –                        | –                                 | –                           | –         |
| Ken Watson                                     | 2004 | 93,000           | –                | –                        | 8,370                             | –                           | 101,370   |
|  | 2003 | 70,000           | –                | –                        | 6,300                             | –                           | 76,300    |
| <b>Former non-executive</b>                    |      |                  |                  |                          |                                   |                             |           |
| Leo Lonergan                                   | 2004 | 93,000           | –                | –                        | –                                 | –                           | 93,000    |
|  | 2003 | 66,443           | –                | –                        | –                                 | –                           | 66,443    |
| Martin Southern                                | 2004 | 28,184           | –                | –                        | –                                 | –                           | 28,184    |
|  | 2003 | –                | –                | –                        | –                                 | –                           | –         |
| <b>Total remuneration: specified directors</b> |      |                  |                  |                          |                                   |                             |           |
|  | 2004 | 1,809,105        | –                | –                        | 33,745                            | –                           | 1,842,850 |
|  | 2003 | 893,821          | –                | –                        | 26,388                            | –                           | 920,209   |

- Notes:
- Bill Hauschildt was appointed as a director on 21 September 2004 and his director's fee in 2004 is a pro-rata amount.
  - John Thorn was appointed as a director on 2 June 2004 and as a member of the Audit Committee, replacing Elizabeth Bryan, on 22 July 2004. His director's fee in 2004 is a pro rata amount.
  - Leo Lonergan served as a director throughout 2004 but resigned as a director on 23 February 2005.
  - Martin Southern served as a director between 25 February 2004 and 1 July 2004 and his director's fee in 2004 is a pro-rata amount.
  - Directors are eligible to receive a discount on private fuel purchases in line with that available to Caltex employees.
  - Steve de Bruyn and Mitch Rubinstein, who served as alternate directors during 2004, did not receive any remuneration from Caltex in 2004.

### Policy for non-executive directors' fees

The maximum aggregate amount of fees that can be paid to non-executive directors is approved by shareholders. The allocation of fees to non-executive directors within this remuneration pool is then a matter for the Board.

The allocation of fees is reviewed annually, at which time the Board considers external data on fee levels, the time commitment of directors, the size and scale of Caltex's operations, market capitalisation and other factors.

The Board's policy is to remunerate non-executive directors at market rates for comparable companies for the time commitment and responsibilities involved.

Fees for non-executive directors are not linked to the financial performance of Caltex in any way as the Board believes this may, or may be seen to, compromise director independence. Further, in order to clearly distinguish the structure of non-executive directors' remuneration from that of executives, non-executive directors do not receive any bonus payment nor participate in any share or incentive plan operated for executives by Caltex.

#### Non-executive directors' fees

Currently, fees paid to non-executive directors are subject to a maximum Board remuneration pool of \$900,000 per annum exclusive of statutory entitlements. The remuneration pool for non-executive directors was approved by shareholders of Caltex Australia Limited at the Annual General Meeting held in April 2004 with effect from 1 January 2004.

The Chairman receives a base fee inclusive of all committee fees. Other non-executive directors receive a base fee and a fee for their committee duties.

Base fees for the Chairman and other non-executive directors were reviewed in December 2003 and in December 2004, with the changes in base fees taking effect from 1 January in the year following the review. The rates effective in 2004 and 2005 are shown in the table below.

The annual fee rates for committee memberships or the committee chairman were also reviewed in December 2003 and in December 2004. Fees were not increased following the annual review in December 2003, with the annual rates applying in 2004 and 2005 shown in the table below.

|   | 2004      | 01/01/2005<br>onwards |
|---|-----------|-----------------------|
| Chairman's fee<br>(inclusive of all committee fees) | \$232,000 | \$275,000             |
| Non-executive directors' fees                       | \$81,000  | \$100,000             |
| Audit Committee fees                                |           |                       |
| • Chairman  | \$12,000  | \$20,000              |
| • Member  | \$6,000   | \$10,000              |
| Human Resources & Nomination<br>Committee fees      |           |                       |
| • Chairman  | \$12,000  | \$15,000              |
| • Member  | \$6,000   | \$10,000              |

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

The increase in the annual base fees for 2004 and 2005 related to the decision of the Board in December 2003 to discontinue the retirement scheme for non-executive directors from 1 January 2004. Under the terms of the retirement scheme for non-executive directors, the directors resident in Australia had been entitled to a retirement payment equal to:

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

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

In addition, consistent with the policy for non-executive directors' fees, the directors' fees have been increased to reflect movements in relevant market rates.

#### Retirement benefits to non-executive directors

As indicated above, the retirement scheme that operated for non-executive directors resident in Australia was discontinued with effect from 31 December 2003. Non-executive directors resident in Australia remain entitled to statutory superannuation. Statutory superannuation is paid in addition to any fees.

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

#### Managing Director and Chief Executive Officer

Dave Reeves is seconded from ChevronTexaco to Caltex. ChevronTexaco Global Energy Inc. holds 50% of the shares in Caltex Australia Limited.

Under the terms of the secondment arrangement, Caltex pays a maximum of \$1.2 million per annum to ChevronTexaco representing a partial reimbursement of the salary and other benefits, including allowance, bonus and incentive payments, incurred by ChevronTexaco in relation to Dave Reeves. Caltex has no obligation to pay any other amount to Dave Reeves and he does not participate in the incentive schemes for Caltex senior management. However, Dave Reeves' performance is assessed annually by the Chairman against the performance benchmarks and criteria of the short-term and long-term incentive plans of Caltex.

# Directors' Report

The result of Dave Reeves' assessment is reported to ChevronTexaco which determine the entitlements payable to Dave Reeves under the performance-based bonus and incentive plans of ChevronTexaco.

The secondment is for a period of three years ending on 28 July 2006. Caltex and ChevronTexaco may agree to vary the contract term by early termination or extension. The secondment agreement may also be terminated by Caltex if Dave Reeves commits a wilful breach or wilfully neglects to perform or observe any of his statutory or contractual duties, fails to perform or observe any of his statutory or contractual duties and does not correct or rectify the failure within seven days of being requested to do so, or he ceases to hold the office of a director of Caltex Australia Limited. On termination, Dave Reeves has no rights against Caltex for payment of any amounts or claims.

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

## Remuneration of senior executives in 2004

Details of the classification and amount of each element of the remuneration of the five senior executives of Caltex Australia Limited, and the group, who received the highest total remuneration for 2004 are set out below (on the basis of the cost to Caltex):

|  |      | Dollars   | Salary<br>& fees | Primary<br>Bonus | Non-monetary<br>benefits | Post employment<br>Superannuation | Equity<br>Share<br>benefits | Total |
|--|------|-----------|------------------|------------------|--------------------------|-----------------------------------|-----------------------------|-------|
| Specified executives                               |      |           |                  |                  |                          |                                   |                             |       |
| Mark Burrowes                                      |      |           |                  |                  |                          |                                   |                             |       |
| (General Marketing Manager)                        | 2004 | 437,189   | 90,018           | 14,811           | 29,830                   | 176,925                           | 748,773                     |       |
|  | 2003 | 261,333   | 59,061           | –                | 19,242                   | 60,979                            | 400,615                     |       |
| Helen Conway                                       |      |           |                  |                  |                          |                                   |                             |       |
| (Company Secretary<br>& General Counsel)           | 2004 | 317,373   | 76,104           | 14,811           | 23,222                   | 238,226                           | 669,736                     |       |
|  | 2003 | 300,532   | 100,200          | 8,275            | 22,204                   | 149,572                           | 580,783                     |       |
| Simon Hepworth                                     |      |           |                  |                  |                          |                                   |                             |       |
| (Chief Financial Officer)                          | 2004 | 393,776   | 89,594           | 14,811           | 27,001                   | 283,573                           | 808,755                     |       |
|  | 2003 | 362,891   | 95,633           | 13,382           | 25,256                   | 179,535                           | 676,697                     |       |
| Alex Strang  |      |           |                  |                  |                          |                                   |                             |       |
| (General Manager<br>Supply and Corporate Services) | 2004 | 392,569   | 87,001           | 13,340           | 27,267                   | 287,622                           | 807,799                     |       |
|  | 2003 | 366,468   | 107,505          | 12,122           | 26,136                   | 183,539                           | 695,770                     |       |
| Eion Turnbull                                      |      |           |                  |                  |                          |                                   |                             |       |
| (General Manager, Refining)                        | 2004 | 333,740   | 73,345           | 39,288           | 23,687                   | 228,739                           | 698,799                     |       |
|  | 2003 | 297,689   | 85,540           | 46,132           | 20,677                   | 138,913                           | 588,951                     |       |
| Total remuneration: specified executives           |      |           |                  |                  |                          |                                   |                             |       |
|  | 2004 | 1,874,647 | 416,062          | 97,061           | 131,007                  | 1,215,085                         | 3,733,862                   |       |
|  | 2003 | 1,588,913 | 447,939          | 79,911           | 113,515                  | 712,538                           | 2,942,816                   |       |

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

## Remuneration policy for senior executives

Remuneration at Caltex has been structured to attract, motivate and retain highly skilled, results orientated executives.

The key principles of the remuneration philosophy are to:

- Provide market competitive rewards in the sector in which Caltex operates
- Apply financial and non-financial performance criteria that reflect the long-term creation of value to stakeholders
- Link executive rewards to Caltex, department and individual performance.

Remuneration is divided into fixed and variable components. Variable remuneration comprises short-term cash incentives and a long-term share incentive plan. The cost and value of all components (Total Reward Value) is considered in determining the appropriateness of remuneration. The Total Reward Value is benchmarked at the median for target performance, with the opportunity to earn above the upper quartile for sustained high performance.

If Caltex and individual performance targets are achieved the total package composition for senior executives will be as follows:

| Component of Total Reward Value              | Level 1 executives |             | Level 2 executives |             |
|--|--------------------|-------------|--------------------|-------------|
| Fixed remuneration                           |                    | 65%         |                    | 69%         |
| Variable remuneration – Short-term incentive | 12%                |             | 13%                |             |
| – Long-term incentive                        | 23%                | 35%         | 18%                | 31%         |
| <b>Total Reward Value</b>                    |                    | <b>100%</b> |                    | <b>100%</b> |

Note: Level 1 – Senior direct reports to the MD/CEO (All specified executives are Level 1).

Level 2 – Direct reports to the MD/CEO not qualifying for Level 1 participation, and key managerial roles with a significant strategic impact.

### Fixed remuneration

Fixed remuneration or base salary consists of the cost to Caltex of salary, superannuation benefits, fringe benefit 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 100 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. Individual performance is also taken into account when reviewing the quantum of fixed remuneration and determining the amount of increase, if any, to be provided.

### Variable remuneration

#### Short-term cash incentives

The performance incentives are designed to drive sustainable, financial and operational performance and reward the results and behaviour consistent with Caltex's objectives and values. Short-term cash performance incentives are delivered through a combination of two incentive plans as described below.

#### Personal performance bonus

This is a short-term cash incentive plan based on personal performance. The incentive is determined by assessing the executive's performance over the financial year against a set of performance measures aligned with Caltex's business plan. The performance targets are set and assessed by the Managing Director and Chief Executive Officer. The Human Resources & Nomination Committee (HR&NC), which is composed of a majority of independent directors, has oversight to ensure that due process is followed.

The incentive potential ranges from 0% of base salary for poor performance to a potential 15% of base salary for top performance.

#### Senior short-term incentive scheme

This is a senior short-term cash incentive plan based on Caltex performance. The incentive is determined by two company performance measures:

- Replacement cost Net Profit After Tax (RCOP NPAT) ranging between 100% and 130% of budget, with commensurate incentive payments ranging from 0% to 10% of base salary.

RCOP NPAT was selected as it is a reliable indicator of business performance that is both well understood and transparent. The replacement cost of sales excludes the impact of the fall or rise in oil prices (a key external factor) and presents a clear picture of Caltex's underlying business performance.

- Caltex Balanced Scorecard comprising a combination of financial, operational and non-financial measures. A scorecard minimum is required to qualify for incentive payments.

The Balance Scorecard was chosen as it reflects the appropriate mix of key performance indicators which drive sustainable financial and operational performance. The Balance Scorecard is approved annually by the Board.

Potential payments range between 0% to 14% of base salary.

Caltex's financial results are confirmed by the Audit Committee and approved by the Board at the end of the assessment period. Actual scorecard performance is measured against the targets set and payouts are determined accordingly by the HR&NC.

# Directors' Report

Caltex believes that shareholder interests are appropriately considered by having a Board committee, which is composed of a majority of independent directors, determine executive remuneration payouts.

Only selected senior executive roles are eligible for participation in the senior short-term incentive scheme as approved by the HR&NC.

## Long-term share incentives

Long-term performance incentives are delivered through the Long-term Incentive Plan. The objectives of this plan are to:

- drive the behaviour of senior executives to maximise shareholder value
- link senior executive remuneration with the strategic long-term goals of Caltex, and
- align senior executive rewards with the financial benefits delivered to shareholders.

Only selected senior executive roles are eligible to participate in the Caltex Long-term Incentive Plan as determined by the HR&NC.

Participation is at two levels:

- Level 1 – includes senior direct reports to the MD/CEO, and
- Level 2 – includes direct reports to the MD/CEO 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.

Fifteen Caltex executives participate in the plan; five at Level 1 and 10 at Level 2.

The long-term incentive plan is a restricted share plan, wherein the grant quantum is based on a bonus related to company performance. The bonus is paid to the Trustee and Caltex Australia Limited shares are purchased on market. The bonus quantum is calculated as a percentage of total remuneration (including cash incentives), based on performance versus two measures, namely:

- Return on Capital Employed – a target approved by the Board for the relevant financial year, and
- a one year Total Shareholder Return (TSR) calculated as at 31 December of each year relative to a peer group of companies.

The peer group is the S&P/ASX 200 Accumulation Index, excluding bancassurance and the telecommunication indices.

These two measures are proven drivers of shareholder value and they closely reflect Caltex's financial and operational performance and align senior executive reward with increased shareholder value.

At the end of the financial year, actual performance is measured against the targets set at the beginning of the year, and payouts are determined accordingly by the HR&NC.

The shares vest to participants in three equal tranches:

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

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

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

The potential bonus for Level 1 participants expressed as a percentage of total remuneration is shown in the table below. Total remuneration is defined as the base remuneration plus short-term cash incentives received during the financial year.

## Structure of executive long-term incentive program (2004) for Level 1 participants

| Shareholder return: <sup>(a)</sup> | Bottom quintile | Second quintile | Median quintile | Fourth quintile | Top quintile |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|--------------|
| <b>ROCE: <sup>(b)</sup></b>        |                 |                 |                 |                 |              |
| 0.80–0.89T                         | Nil             | 0–9             | 10–19           | 20–29           | 30–39        |
| 0.90–0.99T                         | 0–9             | 10–19           | 20–29           | 30–39           | 40–49        |
| T <sup>(c)</sup>                   | 10              | 20              | 30              | 40              | 50           |
| 1.01–1.10T                         | 11–20           | 21–30           | 31–40           | 41–50           | 51–60        |
| 1.11–1.20T                         | 21–30           | 31–40           | 41–50           | 51–60           | 61–70        |

The terms adopted in the above table are:

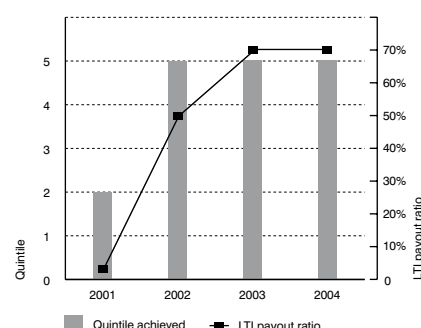
- (a) **Shareholder return:** This is a comparison of the Caltex's Share Price and dividend performance against companies contained in the S&P/ASX 200 Accumulation Index, excluding bancassurance and the telecommunication indices. The monitoring of the performance of Shareholder Return is made by remuneration consultants retained by Caltex;
- (b) **ROCE is the Return of Capital Employed:** It is calculated as the ratio of total earnings before interest and tax to the total of borrowings and shareholders' equity of Caltex; and
- (c) **T is the target ROCE:** The target is set annually by the Board, and then subsequently monitored for initiatives undertaken during the year which were not part of the business plan, as well as for significant uncontrollables.

The overall features of the plan were approved at the Annual General Meeting in 1999. Caltex will undertake a comprehensive review of the Caltex long-term incentive plan during 2005. This will not affect the bonus that can be earned by participants in 2005.

## LONG-TERM INCENTIVE GRANTS

The graph opposite shows the relationship between the long-term incentive (LTI) payout ratio (LTI remuneration = LTI payout ratio multiplied by salary and short-term cash incentives received) paid to senior executives during the year, compared to the total shareholder return performance quintile achieved.

As shown right, the long-term incentive plan gain is therefore aligned with sound shareholder value creation.



## Unvested executive share benefits for 2004

| Specified executives | Unvested at 1 Jan 2004 | Granted as remuneration in 2004 <sup>(i)</sup> | Vested   | Other changes | Unvested at 31 Dec 2004 | Value of unvested shares granted as part of current year remuneration <sup>(ii)</sup> (\$) |
|----------------------|------------------------|--|----------|---------------|-------------------------|--|
| Mark Burrowes        | 56                     | 25,287   | (8,429)  | 93            | 17,007                  | 183,078  |
| Helen Conway         | 58,244                 | 36,741   | (41,826) | 93            | 53,252                  | 266,005  |
| Simon Hepworth       | 74,847                 | 42,010   | (53,042) | —             | 63,815                  | 304,152  |
| Alex Strang          | 76,414                 | 43,492   | (54,201) | 93            | 65,798                  | 314,882  |
| Eion Turnbull        | 54,438                 | 33,939   | (39,100) | 93            | 49,370                  | 245,718  |

(i) Grant date was 17 March 2004.

(ii) If the person meets the service conditions, amounts will vest in 2005 and 2006 in accordance with the vesting conditions of the long-term incentive plan.

One third of the long-term incentive was paid to the above executives in 2004. No amount was forfeited.

# Directors' Report

## Contracts

The senior executives are appointed as permanent Caltex employees. The employment contracts stipulate a range of one to three months as resignation periods, and one to six months as termination payment bases. The diverse terms and conditions of the executives reflect market conditions at the time of their contract negotiation and appointment.

## Secondments from ChevronTexaco

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

## Additional remuneration disclosures

Note 31 of the 2004 Financial Report discloses remuneration paid or payable, or otherwise made available, to specified directors and executives by any related party, which includes the amounts paid or payable by ChevronTexaco.

## DIRECTORS' INTERESTS

The directors of Caltex Australia Limited held the following relevant interests in the company's shares at 31 December 2004:

| Director                 | Number of shares | Nature of interest                                      |
|--------------------------|------------------|---|
| <b>Current directors</b> |                  |   |
| Dick Warburton           | 10,000           | Indirect (beneficial interest through Teampass Pty Ltd) |
| Dave Reeves              | 5,000            | Direct (held jointly with Becky Reeves)                 |
| Elizabeth Bryan          | 5,000            | Direct  |
| Bill Hauschildt          | —                |   |
| Mitch Rubinstein         | —                |   |
| John Thorn               | —                |   |
| Ken Watson               | 7,500            | Direct  |
| <b>Former directors</b>  |                  |   |
| Leo Lonergan             | 2,000            | Direct (held jointly with Robyn Lonergan)               |
| Martin Southern          | —                |   |
| <b>Total</b>             | <b>29,500</b>    |   |

Notes:

- (a) The directors have not acquired or disposed of any shares since 31 December 2004.
- (b) Martin Southern was a director from 25 February 2004 to 1 July 2004. He did not hold any shares during the term of his appointment.
- (c) Steve de Bruyn resigned as an alternate director for Leo Lonergan with effect from 25 February 2004. He did not hold any shares during the term of his appointment.

## MEETINGS OF DIRECTORS

The Board of Caltex Australia Limited formally met on 11 occasions during the year ended 31 December 2004. Board papers were circulated to the directors on two additional occasions 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, with the exception of Leo Lonergan who was represented by his alternate, Mitch Rubinstein.

The Audit Committee met on four occasions, and the Human Resources & Nomination Committee met on nine occasions during 2004. Special purpose committees were convened on two occasions during the year.

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

| Director                 | Board of directors | Audit committee | Human resources & nomination committee | Special purpose | Total   |
|--------------------------|--------------------|-----------------|--|-----------------|---------|
| <b>Current directors</b> |                    |                 |  |                 |         |
| Dick Warburton           | 10 (11)            | 4               | 9 (9)                                  | 2 (2)           | 25 (22) |
| Dave Reeves              | 11 (11)            | 4               | 7                                      | 2 (2)           | 24 (13) |
| Elizabeth Bryan          | 9 (11)             | 3 (2)           | 9 (9)                                  |                 | 21 (22) |
| Bill Hauschildt          | 3 (3)              |                 |  |                 | 3 (3)   |
| Mitch Rubinstein         | 1                  |                 |  |                 | 1       |
| John Thorn               | 5 (6)              | 1 (2)           |  |                 | 6 (8)   |
| Ken Watson               | 11 (11)            | 4 (4)           |  |                 | 15 (15) |
| <b>Former directors</b>  |                    |                 |  |                 |         |
| Leo Lonergan             | 11 (11)            | 4 (4)           | 9 (9)                                  |                 | 24 (24) |
| Martin Southern          | 6 (6)              |                 |  |                 | 6 (6)   |

Notes:

- (i) The table shows the number of Board and committee meetings attended by each director during the year ended 31 December 2004, with the number of meetings held during the time in office as a Board or committee member shown in brackets.
- (ii) Dick Warburton was not a member of the Audit Committee in 2004 but attended four Committee meetings during the year in an ex-officio capacity.
- (iii) Dave Reeves was not a member of the Audit Committee or the Human Resources & Nomination Committee in 2004, but attended four meetings of the Audit Committee and seven meetings of the Human Resources & Nomination Committee.
- (iv) Elizabeth Bryan attended one Audit Committee meeting in 2004 in an ex-officio capacity after she was no longer a member of the Audit Committee.
- (v) Steve de Bruyn, who served as alternate director until 25 February 2004, did not attend any Board or committee meetings.
- (vi) Mitch Rubinstein, who served as an alternate director from 25 February 2004 to 23 February 2005, attended one meeting in 2004 as an observer and attended the two day strategy session as an alternate for Leo Lonergan. Mitch was appointed a director on 24 February 2005.

## NON-AUDIT SERVICES

Details of the amount paid or payable to the auditor of Caltex Australia Limited, KPMG, in relation to the provision of non-audit services in 2004 to Caltex Australia Group are set out below.

| KPMG non-audit fees                                      | \$             |
|--|----------------|
| Other assurance services                                 |                |
| • Reporting on US private placement covenants            | 4,250          |
| • Reporting on bank covenants                            | 3,415          |
| • Share registry review                                  | 6,000          |
| • AGM assistance   | 5,000          |
| • Franchisees Act reporting                              | 3,150          |
| • International Financial Reporting Standards assistance | 128,036        |
| • Audit of Caltex superannuation plan                    | 56,920         |
| • Transaction services                                   | 20,300         |
| Taxation services  |                |
| • Tax consolidation                                      | 9,000          |
| • R&D  | 68,966         |
| <b>Total</b>   | <b>305,037</b> |

# Directors' Report

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

The directors are satisfied that the provision of non-audit services during the year ended 31 December 2004 by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001, as if such general standard was applicable for the audit of the financial report of Caltex Australia Limited for the year ended 31 December 2004.

The directors are also satisfied that the provision of those non-audit services during the year ended 31 December 2004 by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001, as if such requirements were applicable for the audit of the financial report of Caltex Australia Limited for the year ended 31 December 2004, 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 2.1:1, and
- after enquiring, the directors are unaware of any matter relating to the provision of non-audit services which would impair the impartial and objective judgement of the external auditor.

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

## COMPANY SECRETARIES

Helen Conway is Company Secretary and General Counsel of Caltex and was appointed a company secretary of Caltex Australia Limited on 13 September 1999. Prior to joining Caltex, Helen was the General Counsel for Airservices Australia and, prior to that, Group Secretary and General Counsel and General Manager, Corporate Advisory Division at NRMA. Before joining corporate life, Helen worked as a lawyer in private practice. Helen is a director of the Caltex Australia Superannuation Plan, Chartered Secretaries Australia Limited and Catholic Health Care Services Limited. Helen has a Bachelor of Arts and a Bachelor of Laws from the University of Sydney, Australia. She is a Fellow of Chartered Secretaries Australia.

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

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

## INDEMNITY INSURANCE

### Deeds of indemnity and insurance

During the year ended 31 December 2004, Caltex Australia Limited entered into a deed of indemnity and insurance with John Thorn, Bill Hauschildt and Diane Brown, and resolved to enter into a deed of indemnity and insurance with Martin Southern and Mitch Rubinstein with effect from the date of their appointment as a director and alternate director respectively.

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

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

- liabilities incurred as an officer of Caltex Australia Limited or a company in the Caltex Australia Group, except for those incurred in relation to the matters set out in section 199A(2) of the Corporations Act 2001 (Cth), and
- reasonable legal costs incurred in defending an action for a liability or alleged liability as an officer of Caltex Australia Limited or a company in the Caltex Australia Group, except for costs incurred in relation to the matters set out in section 199A(3) of the Corporations Act.

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

Caltex Australia Limited also effects, maintains and pays the premium on an insurance policy covering Martin Southern, Mitch Rubinstein, John Thorn, Bill Hauschildt and Diane Brown on terms that are no less favourable than:

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

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.

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 (Dick) Warburton  
Chairman



DC (Dave) Reeves  
Managing Director & Chief Executive Officer

Sydney, 25 February 2005

#### DIRECTORS' DECLARATION

The Board of Caltex Australia Limited has declared that:

- all of the directors have received from Dave Reeves, Managing Director and Chief Executive Officer, and Simon Hepworth, Chief Financial Officer, a declaration dated 22 February 2005 stating that in their opinion:
  - the financial records for the year ended 31 December 2004 for Caltex Australia Limited have been properly maintained in accordance with the Corporations Act
  - the financial statements for the year ended 31 December 2004 and the notes required by the Accounting Standards in Australia comply with the Accounting Standards
  - the financial statements for the year ended 31 December 2004 and notes give a true and fair view of the financial position of the Caltex Australia Group at 31 December 2004 and its performance for the year
- the financial statements for the year ended 31 December 2004 and the notes required by the Accounting Standards in Australia comply with the Accounting Standards
- the financial statements for the year ended 31 December 2004 and notes give a true and fair view of the financial position of the Caltex Australia Group at 31 December 2004 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

# Directors' Report

- in the directors' opinion, the financial statements for the year ended 31 December 2004 and notes are in accordance with the Corporations Act 2001 (Cth), and
- as at the date of this declaration, there are reasonable grounds to believe that all companies in the Caltex Australia Group that are parties to the Deed of Cross Guarantee with Caltex Australia Limited will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee.

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



RFE (Dick) Warburton  
Chairman



DC (Dave) Reeves  
Managing Director & Chief Executive Officer

Sydney, 25 February 2005

## INDEPENDENT AUDIT REPORT

Independent audit report to the members of Caltex Australia Limited

### Scope

We have audited the financial report of Caltex Australia Limited ("the company") for the financial year ended 31 December 2004, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes 1 to 33, and the directors' declaration, as set out in the 2004 Financial Report. The financial report includes the consolidated financial statements of the consolidated entity, comprising the company and the entities it controlled at the end of the year or from time to time during the financial year. The company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the company.

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

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

### Audit opinion

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

- a) the Corporations Act 2001, including:
  - i. giving a true and fair view of the company's and the consolidated entity's financial position as at 31 December 2004 and of their performance for the financial year ended on that date, and
  - ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.



KPMG



Trent van Veen  
Partner

Sydney, 25 February 2005

# Statements of Financial Performance

FOR THE YEAR ENDED 31 DECEMBER 2004

| Thousands of dollars   | Note | Consolidated       |             | Parent entity   |          |
|--|------|--------------------|-------------|-----------------|----------|
|  |      | 2004               | 2003        | 2004            | 2003     |
| Gross sales revenue from sale of goods   |      | <b>13,447,872</b>  | 10,385,878  | –               | –        |
| Product duties and taxes   |      | <b>(4,242,080)</b> | (3,617,743) | –               | –        |
| Net sales revenue  |      | <b>9,205,792</b>   | 6,768,135   | –               | –        |
| Cost of goods sold – replacement cost  |      | <b>(8,318,484)</b> | (6,169,278) | –               | –        |
| Inventory gains  |      | <b>151,758</b>     | 13,048      | –               | –        |
| Cost of goods sold – historical cost   |      | <b>(8,166,726)</b> | (6,156,230) | –               | –        |
| Gross profit   |      | <b>1,039,066</b>   | 611,905     | –               | –        |
| Other revenue from ordinary activities   | 2    | <b>221,791</b>     | 247,381     | <b>97,359</b>   | 71,222   |
| Refining and supply expenses   |      | <b>(25,675)</b>    | (23,326)    | –               | –        |
| Marketing expenses   |      | <b>(492,055)</b>   | (453,539)   | –               | –        |
| Borrowing costs  | 3    | <b>(42,185)</b>    | (62,804)    | <b>(44,370)</b> | (56,664) |
| Other expenses   | 3    | <b>(48,292)</b>    | (43,800)    | <b>(1,634)</b>  | (1,316)  |
| Share of net profit of associated entities accounted for using the equity method | 28   | <b>3,302</b>       | 3,986       | –               | –        |
| <b>Profit from ordinary activities before income tax expense</b>                 |      | <b>655,952</b>     | 279,803     | <b>51,355</b>   | 13,242   |
| Income tax expense relating to ordinary activities                               | 5    | <b>(82,674)</b>    | (81,464)    | <b>(3,912)</b>  | 142      |
| <b>Net profit</b>  |      | <b>573,278</b>     | 198,339     | <b>47,443</b>   | 13,384   |
| Net profit attributable to outside equity interests                              | 19   | <b>(1,004)</b>     | (842)       | –               | –        |
| <b>Net profit attributable to members of the parent entity</b>                   |      | <b>572,274</b>     | 197,497     | <b>47,443</b>   | 13,384   |
| <b>Basic and diluted earnings per share</b>                                      |      |                    |             |                 |          |
| <b>Historical cost including significant items – cents per share</b>             | 7    | <b>212.0</b>       | 73.1        |                 |          |
| Replacement cost excluding significant items – cents per share                   | 7    | <b>130.6</b>       | 74.0        |                 |          |

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

# Statements of Financial Position

AS AT 31 DECEMBER 2004

| Thousands of dollars                              | Note | Consolidated |           | Parent entity |           |
|---|------|--------------|-----------|---------------|-----------|
|   |      | 2004         | 2003      | 2004          | 2003      |
| Current assets                                    |      |              |           |               |           |
| Cash at bank and on hand                          |      | 14,196       | 36,318    | –             | –         |
| Receivables                                       | 8    | 636,372      | 540,990   | 127,189       | 103,657   |
| Inventories                                       | 9    | 822,083      | 502,732   | –             | –         |
| Other   | 10   | 19,398       | 20,761    | 1,444         | 1,931     |
| Total current assets                              |      | 1,492,049    | 1,100,801 | 128,633       | 105,588   |
| Non-current assets                                |      |              |           |               |           |
| Receivables                                       | 8    | 24,367       | 25,638    | 424,422       | 554,422   |
| Investments accounted for using the equity method | 28   | 7,583        | 9,829     | –             | –         |
| Other financial assets                            | 11   | 6,783        | 2,340     | 928,734       | 928,734   |
| Property, plant and equipment                     | 13   | 1,709,728    | 1,615,321 | –             | –         |
| Intangibles                                       | 12   | 14,004       | 12,592    | –             | –         |
| Deferred tax assets                               |      | 17,196       | –         | 17,304        | 131       |
| Other   | 10   | 6,015        | 7,125     | –             | –         |
| Total non-current assets                          |      | 1,785,676    | 1,672,845 | 1,370,460     | 1,483,287 |
| Total assets                                      |      | 3,277,725    | 2,773,646 | 1,499,093     | 1,588,875 |
| Current liabilities                               |      |              |           |               |           |
| Payables  | 14   | 868,218      | 602,684   | 12,394        | 13,324    |
| Interest bearing liabilities                      | 15   | 27,761       | 96,652    | 38,612        | 108,153   |
| Current tax liabilities                           |      | 140,774      | 72,865    | 140,120       | 1,274     |
| Provisions  | 16   | 46,127       | 45,791    | –             | –         |
| Total current liabilities                         |      | 1,082,880    | 817,992   | 191,126       | 122,751   |
| Non-current liabilities                           |      |              |           |               |           |
| Payables  | 14   | –            | 1,300     | –             | –         |
| Interest bearing liabilities                      | 15   | 433,681      | 564,094   | 424,422       | 554,422   |
| Deferred tax liabilities                          |      | –            | 128,623   | –             | –         |
| Provisions  | 16   | 41,945       | 37,978    | 437           | 437       |
| Total non-current liabilities                     |      | 475,626      | 731,995   | 424,859       | 554,859   |
| Total liabilities                                 |      | 1,558,506    | 1,549,987 | 615,985       | 677,610   |
| Net assets  |      | 1,719,219    | 1,223,659 | 883,108       | 911,265   |
| Equity  |      |              |           |               |           |
| Contributed equity                                | 17   | 543,415      | 543,415   | 543,415       | 543,415   |
| Retained profits                                  | 18   | 1,168,558    | 671,884   | 339,693       | 367,850   |
| Total parent entity interest                      |      | 1,711,973    | 1,215,299 | 883,108       | 911,265   |
| Outside equity interests                          | 19   | 7,246        | 8,360     | –             | –         |
| Total equity                                      | 20   | 1,719,219    | 1,223,659 | 883,108       | 911,265   |

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

# Statements of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2004

| Thousands of dollars                                   | Note  | Consolidated |              | Parent entity |             |
|--|-------|--------------|--------------|---------------|-------------|
|  |       | 2004         | 2003         | 2004          | 2003        |
| Cash flows from operating activities                   |       |              |              |               |             |
| Receipts from customers                                |       | 14,846,848   | 11,500,656   | –             | –           |
| Payments to suppliers, employees and governments       |       | (14,186,011) | (10,877,185) | –             | –           |
| Dividends received                                     |       | 3,533        | 2,250        | 39,626        | –           |
| Interest received                                      |       | 2,135        | 1,996        | 58,715        | 67,176      |
| Interest and other borrowing costs paid                |       | (49,144)     | (61,490)     | (47,429)      | (55,648)    |
| Income taxes (paid)/received                           |       | (160,851)    | (79,553)     | 27,229        | (2,421)     |
| Net operating cash inflows                             | 29(b) | 456,510      | 486,674      | 78,141        | 9,107       |
| Cash flows from investing activities                   |       |              |              |               |             |
| Purchases of controlled entities, net of cash acquired | 29(c) | (2,225)      | –            | –             | –           |
| Deferred payment for purchase of controlled entities   |       | (3,879)      | (3,833)      | –             | –           |
| Payment for investment                                 |       | (5,607)      | (2,325)      | –             | –           |
| Hanson Australia consideration                         |       | –            | (12,000)     | –             | (12,000)    |
| Purchases of property, plant and equipment             |       | (197,550)    | (117,966)    | –             | –           |
| Major cyclical maintenance                             |       | (24,841)     | (29,675)     | –             | –           |
| Proceeds from sale of property, plant and equipment    |       | 28,297       | 17,108       | –             | –           |
| Loans repaid from controlled entities                  |       | –            | –            | 197,000       | 311,000     |
| Loans repaid from associated entities                  |       | 2,500        | 2,750        | –             | –           |
| Net investing cash inflows/(outflows)                  |       | (203,305)    | (145,941)    | 197,000       | 299,000     |
| Cash flows from financing activities                   |       |              |              |               |             |
| Proceeds from borrowings                               |       | 5,650,879    | 5,626,916    | 5,650,000     | 5,626,000   |
| Repayments of borrowings                               |       | (5,847,879)  | (5,937,690)  | (5,847,000)   | (5,937,000) |
| Repayment of finance lease principal                   |       | (807)        | (810)        | –             | –           |
| Dividends paid to outside equity interests             |       | (1,920)      | –            | –             | –           |
| Dividends paid   |       | (75,600)     | (10,800)     | (75,600)      | (10,800)    |
| Net financing cash outflows                            |       | (275,327)    | (322,384)    | (272,600)     | (321,800)   |
| Net increase/(decrease) in cash held                   |       | (22,122)     | 18,349       | 2,541         | (13,693)    |
| Cash/(overdraft) at the beginning of the year          |       | 36,318       | 17,969       | (14,153)      | (460)       |
| Cash/(overdraft) at the end of the year                | 29(a) | 14,196       | 36,318       | (11,612)      | (14,153)    |

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

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

### (a) Basis of preparation

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

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

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

### (b) Changes in accounting policy

There have been no significant changes in the accounting policies applied by the Caltex Australia Group during 2004.

### (c) Principles of consolidation

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

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

### (d) Revenue recognition

#### **Sales revenue**

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

#### **Other revenue**

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

### (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.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (f) Goods and services tax

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

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

### (g) Borrowing costs

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

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

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

### (h) Foreign currency translations

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

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

#### Hedges

Where hedge transactions are designed to hedge the purchase or sale of goods or services, exchange differences arising up to the date of purchase or sale, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the purchase or sale. Except as outlined under note 1(r) below, any exchange differences on the hedge transaction after that date are included in the statement of financial performance.

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

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

### (i) Income tax

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

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

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004 CONTINUED

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (i) Income tax continued

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

#### **Tax consolidation**

Caltex Australia Limited is the head entity in the tax consolidated group comprising all Australian wholly-owned subsidiaries. The implementation date for the tax consolidated group was 1 July 2003. The head entity recognises all of the current and deferred tax assets and liabilities of the tax consolidated group (after elimination of group transactions).

The tax consolidated group has entered into a tax funding agreement that requires wholly-owned subsidiaries to make contributions to the head entity for:

- deferred tax balances recognised by the head entity on the implementation date, including the impact of any relevant reset tax cost bases, and
- current tax assets and liabilities and deferred tax balances arising from external transactions occurring after the implementation of tax consolidation.

Under the tax funding agreement, the contributions are calculated based on earnings before interest and tax, so that the contributions are equivalent to the wholly-owned subsidiaries' contribution to the group's earnings before interest and tax. The contributions are payable as set out in the agreement and reflect the timing of the head entity's obligations to make payments for tax liabilities to the relevant tax authorities. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense/benefit.

### (j) Receivables

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

### (k) Inventories

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

### (l) Investments

#### **Controlled entities**

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

#### **Associated entities**

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

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

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### Other entities

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

### (m) Property, plant and equipment

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

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

Property, plant and equipment are depreciated as outlined below.

#### Depreciation and amortisation

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

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

|                            |                             |
|----------------------------|-----------------------------|
| Freehold buildings         | 2%                          |
| Leasehold property         | 2% or the lease period      |
| Plant and equipment        | 3%–20%                      |
| Leased plant and equipment | 3%–20% or the lease period. |

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

#### Leased assets

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

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

Payments made under operating leases are charged against net profit or loss in equal instalments over the accounting period covered by the lease term, except where an alternative basis is more representative of the benefits to be derived from the leased property.

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

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

### (o) Goodwill

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

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

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004 CONTINUED

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (p) Payables

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

### (q) Borrowings

#### **Bank loans**

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

#### **Short-term notes**

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

#### **US notes**

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

### (r) Derivatives

The Caltex Australia Group is exposed to changes in interest rates, foreign exchange rates and commodity prices from its activities. The group uses interest rate instruments, forward foreign exchange contracts, crude swap contracts and refiner margin swap contracts to hedge these risks. Derivative financial instruments are not held for speculative purposes. Derivative financial instruments designated as hedges are accounted for on the same basis as the underlying exposure.

#### **Interest rate instruments**

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

#### **Forward foreign exchange contracts**

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

#### **Refiner margin swap contracts**

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

### (s) Employee benefits

#### **Wages and salaries**

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

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

The provisions for employee entitlements to annual leave, long service leave and retirement benefits represent the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to the balance date.

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

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED****Superannuation**

The Caltex Australia Group contributes to several defined benefit and defined contribution superannuation plans. Contributions are charged against net profit or loss as they are made. In addition, Caltex provides for any deficiency of vested benefits compared to plan assets. No provision is made for any deficiency in excess of the vested benefits deficiency on the basis that no legal or constructive obligation exists. Refer note 22(c) for further information.

**(t) Major cyclical maintenance**

Major cyclical maintenance expenditure is capitalised to the extent that it is probable that future economic benefits, in excess of the originally assessed standard of performance, will eventuate. All other such costs are expensed as incurred. Capitalised cyclical maintenance expenditure is depreciated over the additional useful life.

**(u) Environmental costs**

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

Costs incurred to prevent future contamination or costs that are otherwise of a capital nature are capitalised. Costs to prepare a property for resale are capitalised where they can be recovered from expected sales proceeds. All other costs, including costs of compliance with environmental regulations and ongoing maintenance and monitoring, are expensed as incurred. Recoveries from third parties are recorded as assets when their realisation is probable.

**(v) Provisions**

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

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, being risk free rates on government bonds most closely matching the expected future payments. The unwinding of the discount is treated as part of the expense related to the particular provision.

**Dividends**

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

**Restructuring and employee termination benefits**

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

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004 CONTINUED

| Thousands of dollars   | Note | Consolidated |         | Parent entity |        |
|--|------|--------------|---------|---------------|--------|
|  |      | 2004         | 2003    | 2004          | 2003   |
| 2. OTHER REVENUE   |      |              |         |               |        |
| From operating activities  |      |              |         |               |        |
| Dividends received or due and receivable from controlled entities                                    |      | –            | –       | 39,626        | –      |
| Interest received or due and receivable from:  |      |              |         |               |        |
| Controlled entities  |      | –            | –       | 57,688        | 70,564 |
| Other corporations   |      | 1,127        | 1,361   | 45            | 58     |
| Rental income  |      | 33,864       | 34,871  | –             | –      |
| Royalties and franchise income   |      | 85,995       | 81,012  | –             | –      |
| Net foreign exchange gains   |      | 15,356       | 67,419  | –             | –      |
| Other income   |      | 40,880       | 38,034  | –             | 600    |
| From outside operating activities  |      |              |         |               |        |
| Gross proceeds from the disposal of property, plant and equipment                                    |      | 44,569       | 24,684  | –             | –      |
|  |      | 221,791      | 247,381 | 97,359        | 71,222 |
| 3. COSTS AND EXPENSES  |      |              |         |               |        |
| Borrowing costs:   |      |              |         |               |        |
| Interest paid or due and payable to other corporations   |      | 44,461       | 61,647  | 44,235        | 56,545 |
| Finance charges on capitalised leases  |      | 1,995        | 1,962   | 135           | 119    |
| Less:  |      |              |         |               |        |
| Capitalised borrowing costs (i)  |      | (4,271)      | (805)   | –             | –      |
|  |      | 42,185       | 62,804  | 44,370        | 56,664 |
| Depreciation of:   |      |              |         |               |        |
| Freehold buildings   |      | 7,587        | 9,071   | –             | –      |
| Plant and equipment  |      | 108,620      | 113,701 | –             | –      |
|  |      | 116,207      | 122,772 | –             | –      |
| Amortisation of:   |      |              |         |               |        |
| Leasehold property   |      | 5,274        | 4,837   | –             | –      |
| Leased plant and equipment   |      | 707          | 713     | –             | –      |
| Intangibles  |      | 1,596        | 1,459   | –             | –      |
|  |      | 7,577        | 7,009   | –             | –      |
| Total depreciation and amortisation  |      | 123,784      | 129,781 | –             | –      |
| Write-down in value of buildings and related plant and equipment to recoverable amount               |      | 4,938        | –       | –             | –      |
| Provision for write-down in value of buildings and related plant and equipment to recoverable amount |      | 7,267        | –       | –             | –      |
| Write-down in value of land and buildings and related plant and equipment to recoverable amount      | 4(b) | –            | 12,482  | –             | –      |
| Operating leases rental expense  |      | 78,135       | 78,012  | –             | –      |
| Finance lease contingent rentals   |      | 137          | 128     | –             | –      |
| Net expense from movement in allowances for:   |      |              |         |               |        |
| Bad and doubtful debts   |      | (685)        | (1,460) | –             | –      |
| Employee benefits  |      | 32,631       | 20,545  | –             | –      |
| Gain on disposal of non-current assets   |      | (12,284)     | (220)   | –             | –      |
| Reconciliation of other expenses in the statements of financial performance:                         |      |              |         |               |        |
| Other  |      | 48,292       | 43,800  | 1,634         | 1,316  |
|  |      | 48,292       | 43,800  | 1,634         | 1,316  |

(i) Borrowing costs were capitalised to capital projects in progress (note 13) at a weighted average rate of 7.30% p.a. (2003: 7.35%).

#### 4. INDIVIDUALLY SIGNIFICANT ITEMS

##### (a) Individually significant item in 2004

The Caltex Australia Group has chosen to implement tax consolidation from 1 July 2003. Caltex Australia Limited, as the head entity in the tax consolidated group, has applied UIG 52 "Income Tax Accounting under the Tax Consolidation System".

Where assets have had their tax value reset under tax consolidation, the subsidiary related deferred tax balances recognised in the Caltex Australia Group have been determined based on the tax consolidated group carrying amount for the subsidiaries' assets less the reset tax bases. For other assets and liabilities, the subsidiary related deferred tax balances recognised in the Caltex Australia Group have been determined based on the previous timing differences at the level of the tax consolidated group. The Caltex Australia Group has reflected all adjustments in income tax expense as it has elected not to open past acquisition accounting. Future acquisition accounting will take deferred tax balances into account.

In the Caltex Australia Group, the effect of implementing tax consolidation and of applying UIG 52 at 1 July 2003 was:

- an increase in deferred tax assets of \$113.5 million from resetting the tax cost base of specific items of property, plant and equipment; and
- a corresponding decrease in income tax expense of \$113.5 million.

The effect represents the amount recorded in the year ended 31 December 2004.

##### (b) Individually significant item in 2003

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

| Thousands of dollars   | Consolidated   |         | Parent entity   |         |
|--|----------------|---------|-----------------|---------|
|  | 2004           | 2003    | 2004            | 2003    |
| <b>5. INCOME TAX</b>   |                |         |                 |         |
| <b>(a) Income tax expense</b>  |                |         |                 |         |
| The income tax expense provided in the financial statements and the prima facie income tax expense are reconciled as follows:        |                |         |                 |         |
| Profit from ordinary activities before income tax expense  | <b>655,952</b> | 279,803 | <b>51,355</b>   | 13,242  |
| Prima facie tax thereon at 30%   | <b>196,786</b> | 83,941  | <b>15,407</b>   | 3,973   |
| Tax effect of permanent and other differences:   |                |         |                 |         |
| – Imputation gross-up on dividends received  | <b>689</b>     | 212     | –               | –       |
| – Franking credits on dividends received   | <b>(2,298)</b> | (707)   | –               | –       |
| – Non-allowable depreciation and leasehold amortisation  | –              | 536     | –               | –       |
| – Amortisation of goodwill   | <b>479</b>     | 233     | –               | –       |
| – Income tax expense related to current and deferred tax transactions of the wholly-owned subsidiaries in the tax consolidated group | –              | –       | <b>67,267</b>   | –       |
| – Recovery of income tax expense under a tax funding agreement   | –              | –       | <b>(78,563)</b> | –       |
| – Write-down of land and buildings   | –              | 1,848   | –               | –       |
| – Share of net profit of associated entities   | <b>(991)</b>   | (1,196) | –               | –       |
| – Research and development allowances  | <b>(38)</b>    | (38)    | –               | –       |
| – Non-assessable profit on disposal of property, plant and equipment   | –              | (935)   | –               | –       |
| – Tax losses transferred for no consideration from controlled entities   | –              | –       | –               | (1,146) |
| – Net tangible capital gains tax   | <b>1,500</b>   | –       | –               | –       |
| – Other non-allowable items  | <b>4,216</b>   | 3,025   | –               | –       |

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004 CONTINUED

| Thousands of dollars   | Consolidated     |         | Parent entity    |         |
|--|------------------|---------|------------------|---------|
|  | 2004             | 2003    | 2004             | 2003    |
| <b>5. INCOME TAX CONTINUED</b>   |                  |         |                  |         |
| <b>(a) Income tax expense continued</b>  |                  |         |                  |         |
| Income tax expense on the profit from ordinary activities before individually significant income tax items   | <b>200,343</b>   | 86,919  | <b>4,111</b>     | 2,827   |
| Individually significant income tax items:   |                  |         |                  |         |
| – Net deferred tax balances recognised by head entity in relation to wholly-owned subsidiaries within the tax consolidation group upon implementation of tax consolidation | <b>(113,523)</b> | –       | <b>(113,523)</b> | –       |
| – Recovery of income tax expense under a tax funding agreement at transition   | –                | –       | <b>113,523</b>   | –       |
|  | <b>86,820</b>    | 86,919  | <b>4,111</b>     | 2,827   |
| Income tax overprovided in prior years   | <b>(4,146)</b>   | (5,455) | <b>(199)</b>     | (2,969) |
| Income tax expense/(benefit) attributable to net profit  | <b>82,674</b>    | 81,464  | <b>3,912</b>     | (142)   |

## **(b) Deferred tax assets**

### **(i) Future income tax benefit**

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

– – – –

### **(ii) Future income tax benefit not taken to account**

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

– 1,421 – –

## **6. DIVIDENDS**

### **(a) Dividends declared or paid**

**Dividends provided for or paid by Caltex are:**

| <b>2004</b>  | <b>Date of payment</b> | <b>Franked/unfranked</b> | <b>Cents per share</b> | <b>Total amount \$'000</b> |
|--------------|------------------------|--------------------------|------------------------|----------------------------|
| Interim 2004 | 1 October 2004         | Franked                  | 14                     | 37,800                     |
| Final 2003   | 1 April 2004           | Franked                  | 14                     | 37,800                     |
| Total amount |                        |                          |                        | 75,600                     |
| <b>2003</b>  |                        |                          |                        |                            |
| Interim 2003 | 3 October 2003         | Franked                  | 4                      | 10,800                     |

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

### **Subsequent events**

Since the end of the financial year, the directors declared the following dividend:

Final 2004 1 April 2005 Franked 25 67,500

The financial effect of this final dividend has not been brought to account in the financial statements for the year ended 31 December 2004 and will be recognised in subsequent financial reports.

| Thousands of dollars   | Consolidated |      | Parent entity  |       |
|--|--------------|------|----------------|-------|
|  | 2004         | 2003 | 2004           | 2003  |
| <b>6. DIVIDENDS CONTINUED</b>  |              |      |                |       |
| <b>(b) Dividend franking account</b>   |              |      |                |       |
| Balance of franking account at year end adjusted for franking credits arising from payment of income tax and payment of the above declared dividends | –            | –    | <b>237,668</b> | 2,614 |

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

(ii) Entries in the franking account are recorded on a tax paid basis rather than on a grossed-up basis.

**(c) Tax consolidation legislation**

On 1 July 2003, Caltex Australia Limited and its wholly-owned subsidiaries adopted the tax consolidation legislation which requires a tax consolidated group to keep a single franking account. The amount of franking credits available to shareholders of the parent entity (being the head entity in the tax consolidated group) disclosed at 31 December 2004 has been measured under the new legislation as those available from the tax consolidated group.

The comparative information has not been restated for this change in measurement. Had the comparative information been calculated on the new basis, the “franking credits available” balance as at 31 December 2003 would have been \$108,022,000.

**7. BASIC AND DILUTED EARNINGS PER SHARE**

|   |              |      |   |   |
|---|--------------|------|---|---|
| Historical cost including significant items – cents per share   | <b>212.0</b> | 73.1 | – | – |
| Replacement cost excluding significant items – cents per share  | <b>130.6</b> | 4.0  | – | – |
| Weighted average number of ordinary shares used in the calculation of earnings per share was 270 million shares (2003: 270 million shares). |              |      |   |   |

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

**8. RECEIVABLES**

|                              |                |         |                |         |
|------------------------------|----------------|---------|----------------|---------|
| <b>Current</b>               |                |         |                |         |
| Trade debtors                | <b>565,816</b> | 428,285 | –              | –       |
| Allowance for doubtful debts | <b>(1,955)</b> | (3,225) | –              | –       |
|                              | <b>563,861</b> | 425,060 | –              | –       |
| Associated entities          | <b>33,327</b>  | 39,180  | –              | –       |
| Controlled entities          | –              | –       | <b>127,189</b> | 103,657 |
| Other related entities       | –              | 15,282  | –              | –       |
| Other debtors                | <b>39,184</b>  | 61,468  | –              | –       |
|                              | <b>636,372</b> | 540,990 | <b>127,189</b> | 103,657 |
| <b>Non-current</b>           |                |         |                |         |
| Loans to associated entities | <b>19,969</b>  | 22,469  | –              | –       |
| Allowance for non-recovery   | <b>(3,206)</b> | (5,706) | –              | –       |
|                              | <b>16,763</b>  | 16,763  | –              | –       |
| Loans to controlled entities | –              | –       | <b>424,422</b> | 554,422 |
| Other loans                  | <b>7,604</b>   | 8,875   | –              | –       |
|                              | <b>24,367</b>  | 25,638  | <b>424,422</b> | 554,422 |

**9. INVENTORIES**

|                                      |                |         |   |   |
|--------------------------------------|----------------|---------|---|---|
| Crude oil and raw materials, at cost | <b>323,847</b> | 216,003 | – | – |
| Inventory in process, at cost        | <b>100,995</b> | 57,395  | – | – |
| Finished goods, at cost              | <b>368,302</b> | 200,771 | – | – |
| Materials and supplies, at cost      | <b>28,939</b>  | 28,563  | – | – |
|                                      | <b>822,083</b> | 502,732 | – | – |

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004 CONTINUED

| Thousands of dollars                     | Consolidated |             | Parent entity |         |
|--|--------------|-------------|---------------|---------|
|  | 2004         | 2003        | 2004          | 2003    |
| <b>10. OTHER ASSETS</b>                  |              |             |               |         |
| <b>Current</b>                           |              |             |               |         |
| Prepayments                              | 19,398       | 20,761      | 1,444         | 1,931   |
| <b>Non-current</b>                       |              |             |               |         |
| Other                                    | 6,015        | 7,125       | –             | –       |
|  | 6,015        | 7,125       | –             | –       |
| <b>11. OTHER FINANCIAL ASSETS</b>        |              |             |               |         |
| Investments in other entities            | 6,783        | 2,340       | –             | –       |
| Investments in controlled entities       | –            | –           | 928,734       | 928,734 |
|  | 6,783        | 2,340       | 928,734       | 928,734 |
| <b>12. INTANGIBLES</b>                   |              |             |               |         |
| Goodwill, at cost                        | 20,505       | 16,289      | –             | –       |
| Accumulated amortisation                 | (6,501)      | (3,697)     | –             | –       |
|  | 14,004       | 12,592      | –             | –       |
| <b>13. PROPERTY, PLANT AND EQUIPMENT</b> |              |             |               |         |
| <b>Freehold land</b>                     |              |             |               |         |
| At cost                                  | 406,114      | 407,494     | –             | –       |
| Recoverable amount write-down            | –            | (6,142)     | –             | –       |
|  | 406,114      | 401,352     | –             | –       |
| <b>Buildings</b>                         |              |             |               |         |
| At cost                                  | 282,399      | 278,568     | –             | –       |
| Accumulated depreciation                 | (114,618)    | (93,267)    | –             | –       |
| Recoverable amount write-down            | –            | (1,706)     | –             | –       |
|  | 167,781      | 183,595     | –             | –       |
| <b>Leasehold property</b>                |              |             |               |         |
| At cost                                  | 84,695       | 82,513      | –             | –       |
| Accumulated amortisation                 | (52,478)     | (50,720)    | –             | –       |
|  | 32,217       | 31,793      | –             | –       |
| <b>Plant and equipment</b>               |              |             |               |         |
| At cost                                  | 2,129,277    | 2,084,096   | –             | –       |
| Accumulated depreciation                 | (1,257,864)  | (1,182,556) | –             | –       |
| Recoverable amount write-down            | –            | (4,634)     | –             | –       |
|  | 871,413      | 896,906     | –             | –       |
| <b>Leased plant and equipment</b>        |              |             |               |         |
| At capitalised cost                      | 14,200       | 14,201      | –             | –       |
| Accumulated amortisation                 | (8,522)      | (7,814)     | –             | –       |
|  | 5,678        | 6,387       | –             | –       |
| <b>Capital projects in progress</b>      |              |             |               |         |
| At cost                                  | 226,525      | 95,288      | –             | –       |
|  | 1,709,728    | 1,615,321   | –             | –       |

(i) Recoverable amount write-down disclosed as a significant item in 2003. If applicable, any recoverable amount write-downs in 2004 have not been disclosed as a significant item.

| Thousands of dollars | Consolidated |      | Parent entity |      |
|----------------------|--------------|------|---------------|------|
|                      | 2004         | 2003 | 2004          | 2003 |

### 13. PROPERTY, PLANT AND EQUIPMENT CONTINUED

**Valuations of land and buildings**

No valuation has been performed since the directors' valuation at 30 June 2003 determined that the value of Caltex Australia's land and buildings was \$1,015 million, \$411 million above their net book value of \$604 million.

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

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

**Recoverable amount of non-current assets**

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

**Reconciliations**

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

**Freehold land**

|  |         |         |   |   |
|--|---------|---------|---|---|
| Carrying amount at the beginning of the year | 401,352 | 408,128 | — | — |
| Additions                                    | —       | 88      | — | — |
| Acquisition through business acquired        | 282     | —       | — | — |
| Write-offs                                   | —       | (6,142) | — | — |
| Disposals                                    | (9,893) | (722)   | — | — |
| Transfers from buildings                     | 14,373  | —       | — | — |
| Carrying amount at the end of the year       | 406,114 | 401,352 | — | — |

**Buildings**

|  |          |          |   |   |
|--|----------|----------|---|---|
| Carrying amount at the beginning of the year | 183,595  | 200,235  | — | — |
| Additions                                    | —        | 409      | — | — |
| Write-offs                                   | (1,259)  | (1,706)  | — | — |
| Disposals                                    | (3,856)  | (10,606) | — | — |
| Transfers from freehold land                 | (14,373) | —        | — | — |
| Transfers from capital projects in progress  | 11,261   | 4,334    | — | — |
| Depreciation                                 | (7,587)  | (9,071)  | — | — |
| Carrying amount at the end of the year       | 167,781  | 183,595  | — | — |

**Leasehold property**

|  |         |         |   |   |
|--|---------|---------|---|---|
| Carrying amount at the beginning of the year | 31,793  | 31,948  | — | — |
| Additions                                    | 106     | 1       | — | — |
| Disposals                                    | (697)   | (839)   | — | — |
| Transfers from capital projects in progress  | 6,289   | 5,520   | — | — |
| Amortisation                                 | (5,274) | (4,837) | — | — |
| Carrying amount at the end of the year       | 32,217  | 31,793  | — | — |

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004 CONTINUED

| Thousands of dollars                               | Consolidated |           | Parent entity |         |
|--|--------------|-----------|---------------|---------|
|  | 2004         | 2003      | 2004          | 2003    |
| <b>13. PROPERTY, PLANT AND EQUIPMENT CONTINUED</b> |              |           |               |         |
| <b>Plant and equipment</b>                         |              |           |               |         |
| Carrying amount at the beginning of the year       | 896,906      | 915,194   | –             | –       |
| Additions  | 31,591       | 35,630    | –             | –       |
| Acquisition through business acquired              | 2,668        | –         | –             | –       |
| Disposal through business sold                     | –            | (194)     | –             | –       |
| Write-offs   | (3,607)      | (4,634)   | –             | –       |
| Disposals  | (7,247)      | (8,709)   | –             | –       |
| Transfers from capital projects in progress        | 59,722       | 73,320    | –             | –       |
| Depreciation                                       | (108,620)    | (113,701) | –             | –       |
| Carrying amount at the end of the year             | 871,413      | 896,906   | –             | –       |
| <b>Leased plant and equipment</b>                  |              |           |               |         |
| Carrying amount at the beginning of the year       | 6,387        | 7,178     | –             | –       |
| Disposals  | (2)          | (78)      | –             | –       |
| Amortisation                                       | (707)        | (713)     | –             | –       |
| Carrying amount at the end of the year             | 5,678        | 6,387     | –             | –       |
| <b>Capital projects in progress</b>                |              |           |               |         |
| Carrying amount at the beginning of the year       | 95,288       | 62,644    | –             | –       |
| Additions  | 204,238      | 115,013   | –             | –       |
| Borrowing costs capitalised                        | 4,271        | 805       | –             | –       |
| Transfers to property, plant and equipment         | (77,272)     | (83,174)  | –             | –       |
| Carrying amount at the end of the year             | 226,525      | 95,288    | –             | –       |
| <b>14. PAYABLES</b>                                |              |           |               |         |
| <b>Current</b>                                     |              |           |               |         |
| Trade creditors – unsecured                        |              |           |               |         |
| Related entities                                   | 23,882       | 126,313   | –             | –       |
| Other corporations and persons                     | 452,347      | 190,988   | –             | –       |
| Other creditors and accrued expenses               | 391,989      | 285,383   | 12,394        | 13,324  |
|  | 868,218      | 602,684   | 12,394        | 13,324  |
| <b>Non-current</b>                                 |              |           |               |         |
| Other creditors and accrued expenses               | –            | 1,300     | –             | –       |
| <b>15. INTEREST BEARING LIABILITIES</b>            |              |           |               |         |
| <b>Current – unsecured</b>                         |              |           |               |         |
| Bank overdrafts (i)                                | –            | –         | 11,612        | 14,153  |
| Bank loans (ii)                                    | 27,000       | 94,000    | 27,000        | 94,000  |
| Other loans  | –            | 2,264     | –             | –       |
| Lease liabilities (iv)                             | 761          | 388       | –             | –       |
|  | 27,761       | 96,652    | 38,612        | 108,153 |
| <b>Non-current – unsecured</b>                     |              |           |               |         |
| US notes (ii)                                      | 288,132      | 295,039   | 288,133       | 295,039 |
| Bank loans (ii)                                    | 70,000       | 200,000   | 70,000        | 200,000 |
| Hedge payable (iii)                                | 66,289       | 59,383    | 66,289        | 59,383  |
| Lease liabilities (iv)                             | 9,260        | 9,672     | –             | –       |
|  | 433,681      | 564,094   | 424,422       | 554,422 |

**15. INTEREST BEARING LIABILITIES CONTINUED**

- (i) Interest on bank overdrafts is charged at prevailing market rates. The weighted average interest rate for all overdrafts as at 31 December 2004 was 8.5% p.a. (2003: 8.5% p.a.).
- (ii) The bank loans and the US notes are provided by a number of banks and the capital markets. The majority of interest rates on these loans and notes are on a floating rate basis. Maturity dates of the loans and notes vary from February 2006 to July 2012. Under the loan and note agreements, the Caltex Australia Group is required to comply with certain financial covenants.
- (iii) The hedge payable, with no interest bearing component, is disclosed within interest bearing liabilities as the hedge was entered into solely as a result of the US dollar borrowings and is inextricably linked to the debt. The amount represents the impact of the movement in the exchange rate from the date of inception (30 July 2002, USD exchange rate 0.5643) to 31 December 2004 (USD exchange rate 0.7784), on the amount hedged (USD136 million).
- (iv) The implicit rate of interest on finance leases is 14.0% p.a. (2003: 14.0% p.a.). Refer to note 23 for details on the timing and amount of future lease payments.

| Thousands of dollars           | Note | Consolidated |        | Parent entity |      |
|--------------------------------|------|--------------|--------|---------------|------|
|                                |      | 2004         | 2003   | 2004          | 2003 |
| 16. PROVISIONS                 |      |              |        |               |      |
| Current                        |      |              |        |               |      |
| Employee and director benefits |      | 36,900       | 36,908 | —             | —    |
| Other                          |      | 9,227        | 8,883  | —             | —    |
|                                |      | 46,127       | 45,791 | —             | —    |
| Non-current                    |      |              |        |               |      |
| Employee and director benefits |      | 41,500       | 36,841 | 437           | 437  |
| Other                          |      | 445          | 1,137  | —             | —    |
|                                |      | 41,945       | 37,978 | 437           | 437  |

**17. CONTRIBUTED EQUITY**

|  |  |                |         |                |         |
|--|--|----------------|---------|----------------|---------|
| Issued capital 270 million (2003: 270 million) |  |                |         |                |         |
| ordinary shares, fully paid                    |  | <b>543,415</b> | 543,415 | <b>543,415</b> | 543,415 |

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

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.

**18. RETAINED PROFITS**

|  |   |                  |          |                 |          |
|--|---|------------------|----------|-----------------|----------|
| Retained profits at the beginning of the year                  |   | <b>671,884</b>   | 485,187  | <b>367,850</b>  | 365,266  |
| Net profit attributable to members of Caltex Australia Limited |   | <b>572,274</b>   | 197,497  | <b>47,443</b>   | 13,384   |
| Dividends recognised during the year                           | 6 | <b>(75,600)</b>  | (10,800) | <b>(75,600)</b> | (10,800) |
| Retained profits at the end of the year                        |   | <b>1,168,558</b> | 671,884  | <b>339,693</b>  | 367,850  |

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004 CONTINUED

| Thousands of dollars | Note | Consolidated |      | Parent entity |      |
|----------------------|------|--------------|------|---------------|------|
|                      |      | 2004         | 2003 | 2004          | 2003 |

|  |  |         |       |   |   |
|--|--|---------|-------|---|---|
| 19. OUTSIDE EQUITY INTERESTS   |  |         |       |   |   |
| Outside equity interests in controlled entities comprises:                     |  |         |       |   |   |
| Interest in retained profits at the beginning of the year                      |  | 3,333   | 2,491 | – | – |
| Interest in net profit   |  | 1,004   | 842   | – | – |
| Interest in dividends provided for or paid                                     |  | (2,118) | –     | – | – |
| Interest in retained profits at the end of the year                            |  | 2,219   | 3,333 | – | – |
| Interest in issued capital   |  | 1,864   | 1,864 | – | – |
| Interest in reserves   |  | 3,163   | 3,369 | – | – |
| Purchase of outside equity interests in Brisbane Airport Fuel Services Pty Ltd |  | –       | (206) | – | – |
| Outside equity interests at the end of the year                                |  | 7,246   | 8,360 | – | – |

|  |   |           |           |          |          |
|--|---|-----------|-----------|----------|----------|
| 20. TOTAL EQUITY RECONCILIATION  |   |           |           |          |          |
| Total equity at the beginning of the year  |   | 1,223,659 | 1,036,326 | 911,265  | 908,681  |
| Total changes in Caltex Australia Limited's interest recognised in the statements of financial performance |   | 572,274   | 197,497   | 47,443   | 13,384   |
| Dividends recognised during the year   | 6 | (75,600)  | (10,800)  | (75,600) | (10,800) |
| Total changes in outside equity interests  |   | (1,114)   | 636       | –        | –        |
| Total equity at the end of the year  |   | 1,719,219 | 1,223,659 | 883,108  | 911,265  |

## 21. FINANCIAL INSTRUMENTS

### (a) Interest rate risk

#### Interest rate instruments

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

Each contract involves quarterly payment or receipt of the net amount of interest. At 31 December 2004, the fixed rates varied from 4.5% p.a. to 5.9% p.a. (2003: 4.5% p.a. to 6.0% p.a.), a weighted average rate of 5.1% p.a. (2003: 5.3% p.a.). The floating rates were at bank bill rates.

The Caltex Australia Group has entered into cross currency swap contracts maturing in three and five years to manage interest rate and currency risks on the US dollar denominated borrowings.

## 21. FINANCIAL INSTRUMENTS CONTINUED

## Interest rate risk exposure

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

## Thousands of dollars

| 31 December 2004                       | Note | Floating<br>interest<br>rate | Fixed interest maturing in: |                        |                      | Non<br>interest<br>bearing | Total     | Weighted<br>average<br>interest<br>rate p.a. |
|--|------|------------------------------|-----------------------------|------------------------|----------------------|----------------------------|-----------|--|
|  |      |                              | One year<br>or less         | Over one<br>to 5 years | More than<br>5 years |                            |           |  |
| <b>Financial assets</b>                |      |                              |                             |                        |                      |                            |           |  |
| Cash at bank and on hand               |      | (1,670)                      | —                           | —                      | —                    | 15,866                     | 14,196    | 8.5%   |
| Receivables                            | 8    | —                            | —                           | —                      | —                    | 660,739                    | 660,739   | —  |
| Investment in other entities           | 11   | —                            | —                           | —                      | —                    | 6,783                      | 6,783     | —  |
|  |      | (1,670)                      | —                           | —                      | —                    | 683,388                    | 681,718   |  |
| <b>Financial liabilities</b>           |      |                              |                             |                        |                      |                            |           |  |
| Payables                               | 14   | —                            | —                           | —                      | —                    | 868,218                    | 868,218   | —  |
| Bank and other loans                   | 15   | 97,000                       | —                           | —                      | —                    | —                          | 97,000    | 5.7%   |
| US notes                               | 15   | —                            | —                           | 174,717                | 113,415              | —                          | 288,132   | 7.1%   |
| Hedge payable                          | 15   | —                            | —                           | 66,289                 | —                    | —                          | 66,289    | 7.1%   |
| Lease liabilities                      | 15   | —                            | 761                         | 4,333                  | 4,927                | —                          | 10,021    | 14.0%  |
| Employee and director benefits (i)     | 16   | —                            | 36,900                      | 13,280                 | 28,220               | —                          | 78,400    | 5.3%   |
|  |      | 97,000                       | 37,661                      | 258,619                | 146,562              | 868,218                    | 1,408,060 |  |
| Interest rate swaps                    |      |                              |                             |                        |                      |                            |           |  |
| notional amount                        |      | (150,000)                    | 50,000                      | 100,000                | —                    | —                          | —         | 5.1%   |
| Cross currency swaps                   |      | 241,007                      | —                           | (241,007)              | —                    | —                          | —         | 7.6%   |
| (i) This represents the discount rate. |      |                              |                             |                        |                      |                            |           |  |
| <b>31 December 2003</b>                |      |                              |                             |                        |                      |                            |           |  |
| <b>Financial assets</b>                |      |                              |                             |                        |                      |                            |           |  |
| Cash at bank and on hand               |      | 10,420                       | —                           | —                      | —                    | 25,898                     | 36,318    | 5.0%   |
| Receivables                            | 8    | —                            | —                           | —                      | —                    | 566,628                    | 566,628   | —  |
| Investment in other entities           | 11   | —                            | —                           | —                      | —                    | 2,340                      | 2,340     | —  |
|  |      | 10,420                       | —                           | —                      | —                    | 594,866                    | 605,286   |  |
| <b>Financial liabilities</b>           |      |                              |                             |                        |                      |                            |           |  |
| Payables                               | 14   | —                            | —                           | —                      | —                    | 603,984                    | 603,984   | —  |
| Bank and other loans                   | 15   | 296,264                      | —                           | —                      | —                    | —                          | 296,264   | 5.7%   |
| US notes                               | 15   | —                            | —                           | 74,786                 | 220,253              | —                          | 295,039   | 7.1%   |
| Hedge payable                          | 15   | —                            | —                           | 24,452                 | 34,931               | —                          | 59,383    | 7.1%   |
| Lease liabilities                      | 15   | —                            | 388                         | 4,747                  | 4,925                | —                          | 10,060    | 14.0%  |
| Employee and director benefits         | 16   | —                            | 36,908                      | 8,842                  | 27,999               | —                          | 73,749    | 5.7% (i)                                     |
|  |      | 296,264                      | 37,296                      | 112,827                | 288,108              | 603,984                    | 1,338,479 |  |
| Interest rate swaps                    |      |                              |                             |                        |                      |                            |           |  |
| notional amount                        |      | (350,000)                    | 225,000                     | 125,000                | —                    | —                          | —         | 5.3%   |
| Cross currency swaps                   |      | 241,007                      | —                           | (99,238)               | (141,769)            | —                          | —         | 6.7%   |

(i) This represents the discount rate.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004 CONTINUED

## 21. FINANCIAL INSTRUMENTS CONTINUED

### (b) Foreign exchange risk

The Caltex Australia Group is exposed to the effect of changes in exchange rates on the margin derived by the group. In particular, at least in the short-term, the refiner margin is determined principally with reference to the US dollar Singapore spot product price. The Caltex Australia Group does not use financial instruments to hedge the foreign exchange exposure, except for forward foreign exchange contracts to cover major capital expenditure. All trade transactions which require the sale or purchase of foreign currencies are covered on a spot basis. As at 31 December 2004, the total of all outstanding spot contracts amounted to \$2.2 million (2003: \$44.1 million).

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

### (c) Commodity price risk

The Caltex Australia Group uses refiner margin hedges from time to time as a hedge against movements in refiner margins, and specific cargo hedges to eliminate the risk of adverse price movements. Both hedges are in strict compliance with the Board approved Caltex Hedging Policy and the terms of these hedges are never more than 12 months. During 2004, the group hedged approximately 0.8% (2003: 4.2%) of its finished product using refiner margin hedges; several (crude) cargo hedges covering part of the basis risk, amounted to an additional 0.6% of refinery throughput (2003: 1.1%). The total of outstanding refiner margin and cargo hedges at 31 December 2004 is nil (2003: nil).

### (d) Credit risk

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

#### Recognised financial instruments

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

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

#### Unrecognised financial instruments

Credit risk on unrecognised derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised 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 the ChevronTexaco Group or large banks.

The maximum credit risk exposure on foreign currency contracts is the full amount of the foreign currency the Caltex Australia Group pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the group. The full amount of the exposure is disclosed at note 21(b) above.

The credit risk on interest rate swaps is limited to the positive mark to market amount to be received from counterparties over the life of contracts that are favourable to the Caltex Australia Group. Credit risk is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency.

**21. FINANCIAL INSTRUMENTS CONTINUED****(e) Net fair values of financial assets and liabilities**

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

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

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

| Thousands of dollars                     | Consolidated<br>asset/(liability) |          |
|--|-----------------------------------|----------|
|  | 2004                              | 2003     |
| Cross currency swaps (i)                 | (70,266)                          | (57,455) |
| Interest rate swaps (ii)                 | 1,068                             | 2,238    |
| Forward foreign exchange contracts (iii) | (694)                             | (692)    |
|  | (69,892)                          | (55,909) |

(i) This includes a hedge payable of \$66,289,000 which is disclosed in notes 15 and 21(a). The variance between the hedge payable and the net fair value relates to the interest rate component of the cross currency swap.

(ii) Interest rate swaps are unrecognised in the statement of financial position.

(iii) This amount has been deferred as a hedge of specific commitment and forms part of other creditors and accrued expenses in note 14.

| Thousands of dollars                             | Note | Consolidated |        | Parent entity |      |
|--|------|--------------|--------|---------------|------|
|  |      | 2004         | 2003   | 2004          | 2003 |
| 22. EMPLOYEE AND DIRECTOR BENEFITS               |      |              |        |               |      |
| (a) Liability for employee and director benefits |      |              |        |               |      |
| Current  |      |              |        |               |      |
| Employee and director benefits                   | 16   | 36,900       | 36,908 | –             | –    |
| Non-current                                      |      |              |        |               |      |
| Employee and director benefits                   | 16   | 41,500       | 36,841 | 437           | 437  |
|  |      | 78,400       | 73,749 | 437           | 437  |

**(b) Number of employees**

|                                 |       |       |
|---------------------------------|-------|-------|
| Number of employees at year end | 2,989 | 2,986 |
|---------------------------------|-------|-------|

**(c) Superannuation commitments**

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

**Caltex Australia Superannuation Plan – CSP Division**

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

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

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004 CONTINUED

## 22. EMPLOYEE AND DIRECTOR BENEFITS CONTINUED

### (c) Superannuation commitments continued

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

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

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

No provision for future contributions has been made as the Caltex Australia Group has received advice from Mercer that there is a surplus of planned assets over vested benefits in the plan as at 31 December 2004.

|  | Consolidated |        | Parent entity |      |
|--|--------------|--------|---------------|------|
|  | 2004         | 2003   | 2004          | 2003 |
| Employer contributions to the plan during the year | 13,727       | 10,855 | –             | –    |
| Employer contributions provided at year end        | –            | 4,600  | –             | –    |

### Caltex Australia Superannuation Plan – APF Division

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

|  |        |       |   |   |
|--|--------|-------|---|---|
| Employer contributions to the plan during the year | 12,066 | 6,494 | – | – |
| Employer contributions provided at year end        | –      | –     | – | – |

### (d) Other benefits

The Caltex Australia Limited employee share plan is open to all full and permanent part-time employees of the Caltex Australia Group. The plan takes advantage of the concessions available under the tax provisions and uses a salary sacrifice arrangement to acquire the shares on behalf of the employees. The incidental costs of the purchases met by Caltex Australia during the year were \$2,000 (2003: \$4,000).

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

## 23. COMMITMENTS

### Capital expenditure

Capital expenditure contracted but not provided for in the financial report and payable:

|                 |        |        |   |   |
|-----------------|--------|--------|---|---|
| Within one year | 13,113 | 10,864 | – | – |
|-----------------|--------|--------|---|---|

### Leases

#### Finance leases

Finance lease rentals payable:

|                           |         |         |   |   |
|---------------------------|---------|---------|---|---|
| Within one year           | 2,257   | 2,001   | – | – |
| Between one to five years | 8,066   | 7,837   | – | – |
| After five years          | 6,036   | 7,893   | – | – |
|                           | 16,359  | 17,731  | – | – |
| Future finance charges    | (6,338) | (7,671) | – | – |
|                           | 10,021  | 10,060  | – | – |

| Thousands of dollars             | Consolidated  |        | Parent entity |      |
|----------------------------------|---------------|--------|---------------|------|
|                                  | 2004          | 2003   | 2004          | 2003 |
| <b>23. COMMITMENTS CONTINUED</b> |               |        |               |      |
| <b>Leases continued</b>          |               |        |               |      |
| <b>Finance leases continued</b>  |               |        |               |      |
| Classified as:                   |               |        |               |      |
| Current (note 15)                | <b>761</b>    | 388    | –             | –    |
| Non-current (note 15)            | <b>9,260</b>  | 9,672  | –             | –    |
|                                  | <b>10,021</b> | 10,060 | –             | –    |

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

**Non-cancellable operating leases and other financial commitments**

Future gross payments, prior to sub-lease receipts, not provided for in the financial reports and payable:

|                           |                |         |   |   |
|---------------------------|----------------|---------|---|---|
| Within one year           | <b>95,650</b>  | 92,818  | – | – |
| Between one to five years | <b>289,049</b> | 304,640 | – | – |
| After five years          | <b>68,836</b>  | 92,470  | – | – |
|                           | <b>453,535</b> | 489,928 | – | – |

The Caltex Australia Group leases property under operating leases expiring from one to 45 years. Leases generally provide the group with a right of renewal at which time all terms are renegotiated. Lease payments comprise mainly of a base amount; however, in a few cases, they include a base amount and incremental contingent rental. Contingent rentals are based on operating performance criteria. No contingent rentals were paid during the year (2003: nil).

**24. 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.

|   |   |   |   |   |
|---|---|---|---|---|
| <b>(a) Contingent assets – legal and other claims</b> | – | – | – | – |
|---|---|---|---|---|

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

|  |              |       |   |   |
|--|--------------|-------|---|---|
| <b>(b) Contingent liabilities – legal and other claims</b> | <b>5,360</b> | 4,500 | – | – |
|--|--------------|-------|---|---|

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

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

**(c) Bank guarantees**

Caltex Australia Limited has granted indemnities to banks to cover bank guarantees given on behalf of controlled entities to a maximum exposure of \$4,516,000 (2003: \$4,738,000). At 31 December 2004, the total outstanding was \$2,010,000 (2003: \$2,001,000).

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004 CONTINUED

## 24. CONTINGENT ASSETS AND LIABILITIES CONTINUED

### (d) Deed of Cross Guarantee and Class Order relief

Note 27(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.

### (e) Environmental matters

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

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

### (f) Merger warranties

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

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

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

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

| Dollars                             | Consolidated   |         | Parent entity |        |
|-------------------------------------|----------------|---------|---------------|--------|
|                                     | 2004           | 2003    | 2004          | 2003   |
| <b>25. AUDITORS' REMUNERATION</b>   |                |         |               |        |
| Payment for audit services to KPMG  | <b>651,500</b> | 599,920 | <b>31,000</b> | 31,000 |
| Payment for other services to KPMG: |                |         |               |        |
| Transaction services                | <b>20,300</b>  | 234,350 | —             | —      |
| Other assurance services            | <b>206,771</b> | 135,651 | —             | —      |
| Taxation services                   | <b>77,966</b>  | 52,006  | —             | —      |
|                                     | <b>305,037</b> | 422,007 | —             | —      |

## 26. DIRECTOR AND EXECUTIVE DISCLOSURES

### (a) Remuneration policy

#### Policy for non-executive directors' fees

The maximum aggregate amount of fees that can be paid to non-executive directors is approved by shareholders. The allocation of fees to non-executive directors within this remuneration pool is then a matter for the Board.

The allocation of fees is reviewed annually, at which time the Board considers external data on fee levels, the time commitment of directors, the size and scale of Caltex's operations, market capitalisation and other factors. The Board's policy is to remunerate non-executive directors at market rates for comparable companies for the time commitment and responsibilities involved.

Fees for non-executive directors are not linked to the financial performance of Caltex in any way as the Board believes this may, or may be seen to, compromise director independence. Further, in order to clearly distinguish the structure of non-executive directors' remuneration from that of executives, non-executive directors do not receive any bonus payment nor participate in any share or incentive plan operated by Caltex.

#### Non-executive directors' fees

Currently, fees paid to non-executive directors are subject to a maximum Board remuneration pool of \$900,000 per annum exclusive of statutory entitlements. The remuneration pool for non-executive directors was approved by shareholders of Caltex Australia Limited at the Annual General Meeting held in April 2004 with effect from 1 January 2004.

The Chairman receives a base fee inclusive of all committee fees. Other non-executive directors receive a base fee and a fee for their committee duties.

Base fees for the Chairman and other non-executive directors were reviewed in December 2003 and in December 2004, with the changes in base fees taking effect from 1 January in the year following the review. The rates effective in 2004 and 2005 are shown in the table below.

The annual fee rates for committee memberships or the committee chairman were also reviewed in December 2003 and in December 2004. Fees were not increased following the annual review in December 2003, with the rates applying in 2004 and 2005 shown in the table below.

| Dollars  | 2004    | 1 January 2005 onwards |
|--|---------|------------------------|
| Chairman's fee (inclusive of all committee fees) | 232,000 | 275,000                |
| Non-executive directors' fee                     | 81,000  | 100,000                |
| Audit Committee fees                             |         |                        |
| – Chairman                                       | 12,000  | 20,000                 |
| – Member   | 6,000   | 10,000                 |
| Human Resources & Nomination Committee fees      |         |                        |
| – Chairman                                       | 12,000  | 15,000                 |
| – Member   | 6,000   | 10,000                 |

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

The increase in the annual base fees for 2004 and 2005 related to the decision of the Board in December 2003 to discontinue the retirement scheme for non-executive directors from 1 January 2004. Under the terms of the retirement scheme for non-executive directors, the directors resident in Australia had been entitled to a retirement payment equal to:

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

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

In addition, consistent with the policy for non-executive directors' fees, the directors' fees have been increased to reflect movements in relevant market rates.

#### Retirement benefits to non-executive directors

As indicated above, the retirement scheme that operated for non-executive directors resident in Australia was discontinued with effect from 31 December 2003. Non-executive directors resident in Australia remain entitled to statutory superannuation. Statutory superannuation is paid in addition to any fees.

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

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004 CONTINUED

## 26. DIRECTOR AND EXECUTIVE DISCLOSURES CONTINUED

### (a) Remuneration policy continued

#### Managing Director and Chief Executive Officer

Dave Reeves is seconded from ChevronTexaco to Caltex. Chevron Texaco Global Energy Inc. holds 50% the shares in Caltex Australia Limited.

Under the terms of the secondment arrangement, Caltex pays a maximum of \$1.2 million to ChevronTexaco representing a partial reimbursement of the salary and other benefits, including allowance, bonus and incentive payments, incurred by ChevronTexaco in relation to Dave Reeves. Caltex has no obligation to pay any other amount to Dave Reeves and he does not participate in the incentive schemes for Caltex senior management. However, Dave Reeves' performance is assessed annually by the Chairman against the performance benchmarks and criteria of the short-term and long-term incentive plans of Caltex. The result of Dave Reeves' assessment is reported to ChevronTexaco to determine the entitlements payable to Dave Reeves under the performance-based bonus and incentive plans of ChevronTexaco.

The secondment is for a period of three years ending on 28 July 2006 and Caltex and ChevronTexaco may agree to vary the contract term by early termination or extension. The secondment agreement may also be terminated by Caltex if Dave Reeves commits a wilful breach or wilfully neglects to perform or observe any of his statutory or contractual duties, fails to perform or observe any of his statutory or contractual duties and does not correct or rectify the failure within seven days of being requested to do so, or he ceases to hold the office of a director of Caltex Australia Limited. On termination, Dave Reeves has no rights against Caltex for payment of any amounts or claims.

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

#### Remuneration policy for senior executives

Remuneration at Caltex has been structured to attract, motivate and retain highly skilled, results orientated executives

The key principles of the remuneration philosophy are to:

- Provide market competitive rewards in the sector in which Caltex operates
- Apply financial and non-financial performance criteria that reflect the long-term creation of value to stakeholders
- Link executive rewards to Caltex, department and individual performance.

Remuneration is divided into fixed and variable components. Variable remuneration comprises short-term cash incentives and a long-term share incentive plan. The cost and value of all components (Total Reward Value) is considered in determining the appropriateness of remuneration. The Total Reward is benchmarked at the median for target performance, with the opportunity to earn above the upper quartile for sustained high performance.

If Caltex and individual performance targets are achieved the total package composition for senior executives will be as follows:

| Component of Total Reward Value | Level 1 executives |     | Level 2 executives |     |
|---------------------------------|--------------------|-----|--------------------|-----|
| Fixed remuneration              | 65%                |     | 69%                |     |
| Variable remuneration           |                    |     |                    |     |
| – Short-term incentive          | 12%                |     | 13%                |     |
| – Long-term incentive           | 23%                | 35% | 18%                | 31% |
| Total Reward Value              | 100%               |     | 100%               |     |

Note:

Level 1 – Senior direct reports to the MD/CEO (all specified executive are Level 1).

Level 2 – Direct reports to the MD/CEO not qualifying for Level 1 participation, and key managerial roles with a significant strategic impact.

#### Fixed remuneration

Fixed remuneration or base salary consists of the cost to Caltex of salary, superannuation benefits, fringe benefit 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 100 index. The subset excludes the Financials Sector. The comparators are selected annually based on the scale of business and the executive's role and accountabilities. Individual performance is also taken into account when reviewing the quantum of fixed remuneration and determining the amount of increase, if any, to be provided.

## 26. DIRECTOR AND EXECUTIVE DISCLOSURES CONTINUED

### (a) Remuneration policy continued

#### Variable remuneration

##### Short-term cash incentives

The performance incentives are designed to drive sustainable, financial and operational performance and reward the results and behaviour consistent with Caltex's objectives and values. Short-term cash performance incentives are delivered through a combination of two incentive plans as described below.

##### Personal performance bonus

This is a short-term cash incentive plan based on personal performance. The incentive is determined by assessing the executive's performance over the financial year against a set of performance measures aligned with Caltex's business plan. The performance targets are set and assessed by the Managing Director and Chief Executive Officer. The Human Resources & Nomination Committee (HR&NC), which is composed of a majority of independent directors, have oversight to ensure that due process is followed.

The incentive potential ranges from 0% of base salary for poor performance to a potential 15% of base salary for top performance.

##### Senior short-term incentive scheme

This is a senior short-term cash incentive plan based on Caltex performance. The incentive is determined by two company performance measures:

- Replacement cost Net Profit After Tax (RCOP NPAT) ranging between 100% and 130% of budget, with commensurate incentive payments ranging from 0% to 10% of base salary.  
  
RCOP NPAT was selected as it is a reliable indicator of business performance that is both well understood and transparent. The replacement cost of sales excludes the impact of the fall or rise in oil prices (a key external factor) and presents a clear picture of Caltex's underlying business performance.
- Caltex Balanced Scorecard comprising a combination of financial, operational and non-financial measures. A scorecard minimum is required to qualify for incentive payments.

The Balance Scorecard was chosen as it reflects the appropriate mix of key performance indicators which drive sustainable financial and operational performance. The Balance Scorecard is approved annually by the Board.

Potential payments range between 0% to 14% of base salary.

Caltex's financial results are confirmed by the Audit Committee and approved by the Board at the end of the assessment period. Actual scorecard performance is measured against the targets set and payouts are determined accordingly by the HR&NC.

Caltex believes that shareholder interests are appropriately considered by having a Board committee, which is composed of a majority of independent directors, determine executive remuneration payouts.

Only selected senior executive roles are eligible for participation in the senior short-term incentive scheme as approved by the HR&NC.

##### Long-term share incentives

Long-term performance incentives are delivered through the long-term incentive plan. The objectives of this plan are to:

- drive the behaviour of senior executives to maximise shareholder value;
- link senior executive remuneration with the strategic long-term goals of Caltex, and
- align senior executive rewards with the financial benefits delivered to shareholders.

Only selected senior executive roles are eligible to participate in the Caltex long-term incentive plan as determined by the HR&NC.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004 CONTINUED

## 26. DIRECTOR AND EXECUTIVE DISCLOSURES CONTINUED

### (a) Remuneration policy continued

Participation is at two levels:

- Level 1 – includes senior direct reports to the MD/CEO, and
- Level 2 – includes direct reports to the MD/CEO 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.

Fifteen Caltex executives participate in the plan; five at Level 1 and ten at Level 2.

The Long-Term Incentive Plan is a restricted share plan, wherein the grant quantum is based on a bonus related to company performance. The bonus is paid to the Trustee and Caltex Australia Limited shares are purchased on market. The bonus quantum is calculated as a percentage of total remuneration (including cash incentives), based on performance versus two measures, namely:

- Return on Capital Employed – a target approved by the Board for the relevant financial year, and then adjusted for initiatives undertaken during the year, and
- a one year Total Shareholder Return calculated as at 31 December of each year relative to a peer group of companies.

The peer group is the S&P/ASX 200 Accumulation Index, excluding bancassurance and the telecommunication indices.

These two measures are proven drivers of shareholder value and they closely reflect Caltex's financial and operational performance and align senior executive reward with increased shareholder value.

At the end of the financial year, actual performance is measured against the targets set at the beginning of the year, and payouts are determined accordingly by the HR&NC.

The shares are distributed to participants in three equal tranches:

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

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

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

The potential bonus for Level 1 participants expressed as a percentage of total remuneration is shown in the table below. Total remuneration is defined as the base remuneration plus short-term cash incentives received during the financial year.

#### Structure of executive long-term incentive program (2004) for level 1 participants

| Shareholder return <sup>(a)</sup><br>ROCE <sup>(b)</sup> | Bottom<br>quintile | Second<br>quintile | Median<br>quintile | Fourth<br>quintile | Top<br>quintile |
|--|--------------------|--------------------|--------------------|--------------------|-----------------|
| 0.80 – 0.89T   | Nil                | 0 – 9              | 10 – 19            | 20 – 29            | 30 – 39         |
| 0.90 – 0.99T   | 0 – 9              | 10 – 19            | 20 – 29            | 30 – 39            | 40 – 49         |
| T <sup>(c)</sup>   | 10                 | 20                 | 30                 | 40                 | 50              |
| 1.01 – 1.10T   | 11 – 20            | 21 – 30            | 31 – 40            | 41 – 50            | 51 – 60         |
| 1.11 – 1.20T   | 21 – 30            | 31 – 40            | 41 – 50            | 51 – 60            | 61 – 70         |

The terms adopted in the above table are:

- (a) Shareholder return: This is a comparison of the Caltex's Share Price and dividend performance against companies contained in the S&P/ASX 200 Accumulation Index, excluding bancassurance and the telecommunication indices. The monitoring of the performance of Shareholder Return is made by remuneration consultants retained by Caltex
- (b) ROCE is the Return of Capital Employed: It is calculated as the ratio of total earnings before interest and tax to the total of borrowings and shareholders equity of Caltex, and
- (c) T is the target ROCE: This target is set annually in advance and approved by the Board.

The overall features of the plan were approved at the Annual General Meeting in 1999. Caltex will undertake a comprehensive review of the Caltex long-term incentive plan during 2005. This will not affect the bonus that can be earned by participants in 2005.

## 26. DIRECTOR AND EXECUTIVE DISCLOSURES CONTINUED

## (a) Remuneration policy continued

**Contracts**

The senior executives are appointed as permanent Caltex employees. The employment contracts stipulate a range of one to three months as resignation periods, and one to six months as termination payment bases. The diverse terms and conditions of the executives reflect market conditions at the time of their contract negotiation and appointment.

## (b) Remuneration of specified directors and specified executives

|  |                  | Primary |                          | Post Employment | Equity            | Total     |
|--|------------------|---------|--------------------------|-----------------|-------------------|-----------|
| Dollars  | Salary<br>& Fees | Bonus   | Non-monetary<br>benefits | Superannuation  | Share<br>benefits |           |
| <b>Specified directors</b>                                     |                  |         |                          |                 |                   |           |
| <b>Executive</b>   |                  |         |                          |                 |                   |           |
| Dave Reeves (Managing Director<br>and Chief Executive Officer) |                  |         |                          |                 |                   |           |
| 2004   | 1,200,000        | —       | —                        | —               | —                 | 1,200,000 |
| 2003   | 516,164          | —       | —                        | —               | —                 | 516,164   |
| <b>Non-executive</b>   |                  |         |                          |                 |                   |           |
| Dick Warburton (Chairman)                                      |                  |         |                          |                 |                   |           |
| 2004   | 232,000          | —       | —                        | 20,880          | —                 | 252,880   |
| 2003   | 175,000          | —       | —                        | 15,750          | —                 | 190,750   |
| Elizabeth Bryan  |                  |         |                          |                 |                   |           |
| 2004   | 90,337           | —       | —                        | —               | —                 | 90,337    |
| 2003   | 66,214           | —       | —                        | 4,338           | —                 | 70,552    |
| Bill Hauschildt  |                  |         |                          |                 |                   |           |
| 2004   | 22,636           | —       | —                        | —               | —                 | 22,636    |
| 2003   | —                | —       | —                        | —               | —                 | —         |
| Mitch Rubinstein   |                  |         |                          |                 |                   |           |
| 2004   | —                | —       | —                        | —               | —                 | —         |
| 2003   | —                | —       | —                        | —               | —                 | —         |
| John Thorn   |                  |         |                          |                 |                   |           |
| 2004   | 49,948           | —       | —                        | 4,495           | —                 | 54,443    |
| 2003   | —                | —       | —                        | —               | —                 | —         |
| Ken Watson   |                  |         |                          |                 |                   |           |
| 2004   | 93,000           | —       | —                        | 8,370           | —                 | 101,370   |
| 2003   | 70,000           | —       | —                        | 6,300           | —                 | 76,300    |
| <b>Former non-executive</b>                                    |                  |         |                          |                 |                   |           |
| Leo Lonergan   |                  |         |                          |                 |                   |           |
| 2004   | 93,000           | —       | —                        | —               | —                 | 93,000    |
| 2003   | 66,443           | —       | —                        | —               | —                 | 66,443    |
| Martin Southern  |                  |         |                          |                 |                   |           |
| 2004   | 28,184           | —       | —                        | —               | —                 | 28,184    |
| 2003   | —                | —       | —                        | —               | —                 | —         |
| <b>Total remuneration:<br/>specified directors</b>             |                  |         |                          |                 |                   |           |
| 2004   | 1,809,105        | —       | —                        | 33,745          | —                 | 1,842,850 |
| 2003   | 893,821          | —       | —                        | 26,388          | —                 | 920,209   |

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004 CONTINUED

## 26. DIRECTOR AND EXECUTIVE DISCLOSURES CONTINUED

### (b) Remuneration of specified directors and specified executives continued

| Dollars  | Salary<br>& Fees | Primary<br>Bonus | Non-monetary<br>benefits | Post Employment<br>Superannuation | Equity<br>Share<br>benefits | Total     |
|--|------------------|------------------|--------------------------|-----------------------------------|-----------------------------|-----------|
| <b>Specified executives</b>                                  |                  |                  |                          |                                   |                             |           |
| Mark Burrowes (General Manager Marketing)                    |                  |                  |                          |                                   |                             |           |
| 2004   | 437,189          | 90,018           | 14,811                   | 29,830                            | 176,925                     | 748,773   |
| 2003   | 261,333          | 59,061           | –                        | 19,242                            | 60,979                      | 400,615   |
| Helen Conway (Company Secretary and General Counsel)         |                  |                  |                          |                                   |                             |           |
| 2004   | 317,373          | 76,104           | 14,811                   | 23,222                            | 238,226                     | 669,736   |
| 2003   | 300,532          | 100,200          | 8,275                    | 22,204                            | 149,572                     | 580,783   |
| Simon Hepworth (Chief Financial Officer)                     |                  |                  |                          |                                   |                             |           |
| 2004   | 393,776          | 89,594           | 14,811                   | 27,001                            | 283,573                     | 808,755   |
| 2003   | 362,891          | 95,633           | 13,382                   | 25,256                            | 179,535                     | 676,697   |
| Alex Strang (General Manager, Supply and Corporate Services) |                  |                  |                          |                                   |                             |           |
| 2004   | 392,569          | 87,001           | 13,340                   | 27,267                            | 287,622                     | 807,799   |
| 2003   | 366,468          | 107,505          | 12,122                   | 26,136                            | 183,539                     | 695,770   |
| Eion Turnbull (General Manager Refining)                     |                  |                  |                          |                                   |                             |           |
| 2004   | 333,740          | 73,345           | 39,288                   | 23,687                            | 228,739                     | 698,799   |
| 2003   | 297,689          | 85,540           | 46,132                   | 20,677                            | 138,913                     | 588,951   |
| <b>Total remuneration: specified executives</b>              |                  |                  |                          |                                   |                             |           |
| 2004   | 1,874,647        | 416,062          | 97,061                   | 131,007                           | 1,215,085                   | 3,733,862 |
| 2003   | 1,588,913        | 447,939          | 79,911                   | 113,515                           | 712,538                     | 2,942,816 |

For dates of service of directors and details regarding alternate directors, please refer to the Directors' Report. All specified executives have been employed in their current roles for all of 2004.

The 2003 amounts have been restated to comply with AASB 1046 "Director and Executive Disclosures by Disclosing Entities".

### (c) Unvested share plan holdings

The movement during the reporting period in the share plan of the number of shares in Caltex Australia Limited held, directly, indirectly or beneficially, by each specified executive, including their personally related entities, is as follows:

|                             | Unvested at<br>1 January 2004 | Granted as<br>remuneration (i) | Vested   | Other<br>changes | Unvested at<br>31 December 2004 |
|-----------------------------|-------------------------------|--------------------------------|----------|------------------|---------------------------------|
| <b>Specified executives</b> |                               |                                |          |                  |                                 |
| Mark Burrowes               | 56                            | 25,287                         | (8,429)  | 93               | 17,007                          |
| Helen Conway                | 58,244                        | 36,741                         | (41,826) | 93               | 53,252                          |
| Simon Hepworth              | 74,847                        | 42,010                         | (53,042) | –                | 63,815                          |
| Alex Strang                 | 76,414                        | 43,492                         | (54,201) | 93               | 65,798                          |
| Eion Turnbull               | 54,438                        | 33,939                         | (39,100) | 93               | 49,370                          |

(i) Grant date was 17 March 2004.

**26. DIRECTOR AND EXECUTIVE DISCLOSURES CONTINUED****(d) Shareholdings of specified directors and specified executives**

The movement during the reporting period in the number of shares of Caltex Australia Limited held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally related entities, is as follows:

|                             | <b>Held at<br/>1 January 2004</b> | <b>Purchased</b> | <b>Vested</b> | <b>Sold</b> | <b>Held at<br/>31 December 2004</b> |
|-----------------------------|-----------------------------------|------------------|---------------|-------------|-------------------------------------|
| <b>Specified directors</b>  |                                   |                  |               |             |                                     |
| Dick Warburton              | 10,000                            | —                | —             | —           | 10,000                              |
| Dave Reeves                 | 5,000                             | —                | —             | —           | 5,000                               |
| Elizabeth Bryan             | 5,000                             | —                | —             | —           | 5,000                               |
| Bill Hauschildt             | —                                 | —                | —             | —           | —                                   |
| Mitch Rubinstein            | —                                 | —                | —             | —           | —                                   |
| John Thorn                  | —                                 | —                | —             | —           | —                                   |
| Ken Watson                  | 7,500                             | —                | —             | —           | 7,500                               |
| Leo Loneragan               | 2,000                             | —                | —             | —           | 2,000                               |
| Martin Southern             | —                                 | —                | —             | —           | —                                   |
| <b>Specified executives</b> |                                   |                  |               |             |                                     |
| Mark Burrowes               | 5,500                             | 5,000            | 8,429         | —           | 18,929                              |
| Helen Conway                | 39,640                            | —                | 41,826        | (45,000)    | 36,466                              |
| Simon Hepworth              | 44,462                            | —                | 53,042        | (43,500)    | 54,004                              |
| Alex Strang                 | 60,913                            | —                | 54,201        | (61,366)    | 53,748                              |
| Eion Turnbull               | 32,927                            | 6,700            | 39,100        | (32,812)    | 45,915                              |

**(e) Executive share plan**

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

Executives in the executive share plan for 2004 are entitled to receive shares in three equal instalments as their shares vest, although dividend and voting entitlements vest immediately. The first instalment vests at the end of 2004, with the second and third instalments vesting at the end of 2005 and 2006. Shares are included as part of bonuses upon vesting.

The executive share plan purchases the shares on market for the 2004–2006 obligation in 2005, and distributes the portion related to the 2004 obligation in 2005.

Summary of share movements in the plan:

| <b>Opening balance</b>       |                         | <b>Issued to plan</b> |                         |                                 | <b>Distribution during the year</b> |                                  |                                 | <b>Closing balance</b>  |                                 |
|------------------------------|-------------------------|-----------------------|-------------------------|---------------------------------|-------------------------------------|----------------------------------|---------------------------------|-------------------------|---------------------------------|
| <b>Grant date</b>            | <b>Number of shares</b> | <b>Grant date</b>     | <b>Number of shares</b> | <b>Fair value per share(\$)</b> | <b>Distribution date</b>            | <b>Number of shares</b>          | <b>Fair value per share(\$)</b> | <b>Number of shares</b> | <b>Fair value aggregate(\$)</b> |
| <b>2004</b>                  |                         |                       |                         |                                 |                                     |                                  |                                 |                         |                                 |
| 25/02/03 – 01/03/03          | 516,718                 | 01/03/04 – 17/03/04   | 353,973                 | 7.23                            | 02/01/04<br>17/03/04                | (268,392)<br>(118,037)           | 4.67<br>6.95                    | 484,262                 | 5,259,085                       |
|                              | 516,718                 |                       | 353,973                 |                                 |                                     | (386,429)                        |                                 | 484,262                 | 5,259,085                       |
| <b>2003</b>                  |                         |                       |                         |                                 |                                     |                                  |                                 |                         |                                 |
| 25/02/02 – 01/03/02          | 86,913                  | 03/03/03 – 13/03/03   | 750,313                 | 2.04                            | 03/02/03<br>28/03/03                | (49,632)<br>(270,876)            | 2.16<br>2.31                    | 516,718                 | 2,387,237                       |
|                              | 86,913                  |                       | 750,313                 |                                 |                                     | (320,508)                        |                                 | 516,718                 | 2,387,237                       |
| <b>2002</b>                  |                         |                       |                         |                                 |                                     |                                  |                                 |                         |                                 |
| 26/02/01 – 02/03/01          | 66,749                  | 25/02/02 – 01/03/02   | 92,291                  | 1.63                            | 04/01/02<br>11/04/02<br>26/09/02    | (33,376)<br>(25,698)<br>(13,053) | 1.38<br>1.72<br>1.65            | 86,913                  | 185,994                         |
|                              | 66,749                  |                       | 92,291                  |                                 |                                     | (72,127)                         |                                 | 86,913                  | 185,994                         |
|                              |                         |                       |                         |                                 |                                     |                                  |                                 |                         | <b>Consolidated</b>             |
| <b>Dollars</b>               |                         |                       |                         |                                 |                                     |                                  |                                 |                         | <b>2004      2003</b>           |
| Executive share plan expense |                         |                       |                         |                                 |                                     |                                  | <b>2,096,211</b>                | 1,255,799               |                                 |

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004 CONTINUED

## 27. PARTICULARS IN RELATION TO CONTROLLED ENTITIES

|  |              | % interest |      |
|--|--------------|------------|------|
| (a) Name                                 | Note         | 2004       | 2003 |
| 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), (vii) | 100        | 100  |
| Ampol Lending Pty Ltd                    | (iii)        | 100        | 100  |
| Ampol Metro Fuels Pty Ltd                | (iii)        | 100        | 100  |
| Ampol Property (Holdings) Limited        | (iii)        | 100        | 100  |
| Ampol Bendigo Pty Ltd                    | (iii)        | 100        | 100  |
| Ampol Realty Pty Ltd                     | (iii)        | 100        | 100  |
| Ampol Refineries (Matraville) Limited    | (iii)        | 100        | 100  |
| Ampol Road Pantry Pty Ltd                | (iii)        | 100        | 100  |
| Ampol Workshops Pty Ltd                  | (iii)        | 100        | 100  |
| B&S Distributors Pty Ltd                 | (ii)         | 50         | 50   |
| Big Country Oils Pty Ltd                 | (iii)        | 100        | 100  |
| Brisbane Airport Fuel Services Pty Ltd   |              | 100        | 100  |
| Calstores Pty Ltd                        | (iii)        | 100        | 100  |
| Caltex Australia Management Pty Ltd      |              | 100        | 100  |
| Caltex Australia Nominees Pty Ltd        |              | 100        | 100  |
| Caltex Lubricating Oil Refinery Pty Ltd  | (iii), (vii) | 100        | 100  |
| Caltex Petroleum Pty Ltd                 | (iii)        | 100        | 100  |
| Australian Petroleum Marine Pty Ltd      | (iii)        | 100        | 100  |
| Sydney Metropolitan Pipeline Pty Ltd     | (ii)         | 60         | 60   |
| Caltex Petroleum Distributors Pty Ltd    | (iii)        | 100        | 100  |
| Australian Petroleum Holdings Pty Ltd    | (iii)        | 100        | 100  |
| Bowen Petroleum Services Pty Ltd         |              | 100        | 100  |
| Caltex Petroleum (Qld) Pty Ltd           | (iii)        | 100        | 100  |
| Caltex Petroleum (Victoria) Pty Ltd      | (iii)        | 100        | 100  |
| R&T Lubricants Limited                   | (iii)        | 100        | 100  |
| Caltex Refineries (NSW) Pty Ltd          | (iii), (vii) | 100        | 100  |
| Caltex Refineries (Qld) Ltd              | (iii), (vii) | 100        | 100  |
| Circle Petroleum (Q'land) Pty Ltd        | (iii)        | 100        | 100  |
| Coopers & Dysart Pty Ltd                 | (v)          | 100        | 50   |
| Hayport Pty Ltd                          | (iii)        | 100        | 100  |
| Hunter Pipe Line Company Pty Ltd         | (iii)        | 100        | 100  |
| Jayvee Petroleum Pty Ltd                 |              | 100        | 100  |
| Jet Fuels Petroleum Distributors Pty Ltd | (iii)        | 100        | 100  |
| Northern Marketing Pty Ltd               | (iii)        | 100        | 100  |
| Hanietee Pty Ltd                         | (iii)        | 100        | 100  |
| Newcastle Pipe Line Company Pty Ltd      | (iii)        | 100        | 100  |
| Security Computer Services Pty Ltd       | (iii)        | 100        | 100  |
| Solo Oil Investments Pty Ltd             | (iii)        | 100        | 100  |
| Devorant Pty Ltd                         | (iii)        | 100        | 100  |
| Manworth Pty Ltd                         | (iii)        | 100        | 100  |
| Metdale Pty Ltd                          | (iii)        | 100        | 100  |
| Solo Oil Leasing Pty Ltd                 | (iii)        | 100        | 100  |
| Southern Cross Petroleum Pty Ltd         | (iii)        | 100        | 100  |

**27. PARTICULARS IN RELATION TO CONTROLLED ENTITIES CONTINUED**

| (a) Name                           | Note  | 2004 | % interest<br>2003 |
|------------------------------------|-------|------|--------------------|
| Companies                          |       |      |                    |
| Solo Oil Pty Ltd                   | (iii) | 100  | 100                |
| Brooklyn Bagel (Systems) Pty Ltd   | (iii) | 100  | 100                |
| Carmonott Constructions Pty Ltd    | (iii) | 100  | 100                |
| Chapmore Pty Ltd                   | (iii) | 100  | 100                |
| Ditta (Service Station) Pty Ltd    | (iii) | 100  | 100                |
| First Bildarama Pty Ltd            | (iii) | 100  | 100                |
| Grosvenor Constructions Pty Ltd    | (iii) | 100  | 100                |
| Kanegood Pty Ltd                   | (iii) | 100  | 100                |
| Leberg Holdings Pty Ltd            | (iii) | 100  | 100                |
| Liglen Pty Ltd                     | (iii) | 100  | 100                |
| Matland Holdings Pty Ltd           | (iii) | 100  | 100                |
| Pagold Holdings Pty Ltd            | (iii) | 100  | 100                |
| Pruland Holdings Pty Ltd           | (iii) | 100  | 100                |
| Ruzack Nominees Pty Ltd            | (iii) | 100  | 100                |
| Solo Oil Australia Pty Ltd         | (iii) | 100  | 100                |
| Solo Oil Corporation Pty Ltd       | (iii) | 100  | 100                |
| Solo Petroleum Pty Ltd             | (iii) | 100  | 100                |
| Solo Rent A Car Pty Ltd            | (iii) | 100  | 100                |
| Sunrise Transport Pty Ltd          | (iii) | 100  | 100                |
| Wildbank Pty Ltd                   | (iii) | 100  | 100                |
| South Coast Oils Pty Ltd           | (iii) | 100  | 100                |
| Southern Cross Service Pty Ltd     | (iii) | 100  | 100                |
| Teraco Pty Ltd                     | (ii)  | 50   | 50                 |
| Travelmate.com.au Pty Ltd          | (iii) | 100  | 100                |
| Tulloch Petroleum Services Pty Ltd | (iii) | 100  | 100                |
| Western Fuel Distributors Pty Ltd  | (ii)  | 50   | 50                 |
| Unit trusts                        |       |      |                    |
| Petroleum Leasing Unit Trust       | (vi)  | 100  | 100                |
| Petroleum Property Unit Trust      | (vi)  | 100  | 100                |

- (i) All companies were incorporated in Australia. The unit trusts were formed in Australia.
- (ii) These entities have been included as controlled entities in accordance with "AASB 1024 Consolidated Accounts". Control exists because a company within the Caltex Australia Group has the ability to dominate the composition of their boards of directors, or enjoys the majority of the benefits and is exposed to the majority of the risks of these entities.
- (iii) These companies are parties to a Deed of Cross Guarantee dated 22 December 1992 with Caltex Australia Limited and each other. As parties to the Deed of Cross Guarantee, and by virtue of ASIC Class Order CO 98/1418, these companies are relieved from complying with certain requirements of the Corporations Act 2001. Under the Deed of Cross Guarantee, each company agrees to guarantee all of the debts (in full) of all companies that are parties to the deed in accordance with the terms set out in the deed.
- (iv) There are no other parties to the Deed of Cross Guarantee, and no companies have been added or removed during the year ended 31 December 2004 or since 1 January 2005.
- (v) Caltex Petroleum Distributors Pty Ltd acquired a 50% interest in Coopers & Dysart Pty Ltd on 12 August 2004, indirectly making Coopers & Dysart Pty Ltd a wholly-owned subsidiary of Caltex Australia Petroleum Pty Ltd from that time.
- (vi) Solo Oil Limited is the sole unitholder of these trusts.
- (vii) Employees of these companies may be eligible to participate in the Caltex Australia Limited employee share plan (refer note 22(d)).

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004 CONTINUED

| Thousands of dollars   | 2004             | 2003      |
|--|------------------|-----------|
| <b>27. PARTICULARS IN RELATION TO CONTROLLED ENTITIES CONTINUED</b>                                |                  |           |
| <b>(b) Statements of financial performance for entities covered by the Deed of Cross Guarantee</b> |                  |           |
| Profit from ordinary activities before income tax expense  | <b>651,581</b>   | 275,384   |
| Income tax expense relating to ordinary activities   | <b>(81,451)</b>  | (80,189)  |
| Net profit   | <b>570,130</b>   | 195,195   |
| Retained profits at the beginning of the year  | <b>669,559</b>   | 485,164   |
| Dividends provided for or paid   | <b>(75,600)</b>  | (10,800)  |
| Retained profits at the end of the year  | <b>1,164,089</b> | 669,559   |
| <b>(c) Statements of financial position for entities covered by the Deed of Cross Guarantee</b>    |                  |           |
| <b>Current assets</b>  |                  |           |
| Cash at bank and on hand   | <b>8,813</b>     | 28,080    |
| Receivables  | <b>545,423</b>   | 463,365   |
| Inventories  | <b>820,583</b>   | 499,349   |
| Other  | <b>19,051</b>    | 22,354    |
| Total current assets   | <b>1,393,870</b> | 1,013,148 |
| <b>Non-current assets</b>  |                  |           |
| Receivables  | <b>24,800</b>    | 26,070    |
| Investments accounted for using the equity method  | <b>7,583</b>     | 12,154    |
| Property, plant and equipment  | <b>1,694,687</b> | 1,596,356 |
| Intangibles  | <b>3,782</b>     | 4,047     |
| Deferred tax assets  | <b>17,303</b>    | –         |
| Other  | <b>51,304</b>    | 43,971    |
| Total non-current assets   | <b>1,799,459</b> | 1,682,598 |
| <b>Total assets</b>  | <b>3,193,329</b> | 2,695,746 |
| <b>Current liabilities</b>   |                  |           |
| Payables   | <b>795,695</b>   | 536,873   |
| Interest bearing liabilities   | <b>29,860</b>    | 96,652    |
| Tax liabilities  | <b>140,122</b>   | 74,554    |
| Provisions   | <b>45,274</b>    | 45,249    |
| Total current liabilities  | <b>1,010,951</b> | 753,328   |
| <b>Non-current liabilities</b>   |                  |           |
| Payables   | –                | 1,300     |
| Interest bearing liabilities   | <b>433,282</b>   | 564,094   |
| Deferred tax liabilities   | –                | 126,501   |
| Provisions   | <b>41,592</b>    | 37,549    |
| Total non-current liabilities  | <b>474,874</b>   | 729,444   |
| <b>Total liabilities</b>   | <b>1,485,825</b> | 1,482,772 |
| <b>Net assets</b>  | <b>1,707,504</b> | 1,212,974 |
| <b>Equity</b>  |                  |           |
| Contributed equity   | <b>543,415</b>   | 543,415   |
| Retained profits   | <b>1,164,089</b> | 669,559   |
| <b>Total equity</b>  | <b>1,707,504</b> | 1,212,974 |
| The movement in entities participating in the class order is shown in note 27(a)(iv).              |                  |           |

| Thousands of dollars | Note | % interest |      | Balance date | Investment carrying amount |      |
|----------------------|------|------------|------|--------------|----------------------------|------|
|                      |      | 2004       | 2003 |              | 2004                       | 2003 |

28. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

|   |           |      |      |             |       |       |
|---|-----------|------|------|-------------|-------|-------|
| Airport Fuel Services Pty Ltd                         |           | 40   | 40   | 31 December | 769   | 769   |
| Australasian Lubricants Manufacturing Company Pty Ltd |           | 50   | 50   | 31 December | (157) | (852) |
| Cairns Airport Refuelling Services Pty Ltd            |           | 25   | 25   | 31 December | -     | -     |
| Cooper & Dysart Pty Ltd                               | 27 (a)(v) | 100  | 50   | 31 December | -     | 2,418 |
| Geraldton Fuel Company Pty Ltd                        |           | 50   | 50   | 31 December | 1,458 | 1,278 |
| JVC1 Pty Ltd  |           | 50   | 50   | 30 June     | -     | -     |
| JVC2 Pty Ltd  |           | 50   | 50   | 30 June     | -     | -     |
| Link Energy Pty Ltd (formerly Mopal Pty Ltd)          |           | 50   | 50   | 30 June     | 2,743 | 2,222 |
| 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     | 1,867 | 2,036 |
| R&JK Petroleum Pty Ltd                                |           | 50   | 50   | 31 December | -     | 847   |
| South Coast Fuels Pty Ltd                             |           | 50   | 50   | 31 December | 450   | 450   |
| South East Queensland Fuels Pty Ltd                   |           | 50   | 50   | 31 December | 453   | 661   |
| South East Queensland Fuels Unit Trust                |           | 50   | 50   | 31 December | -     | -     |
| Vitalgas Pty Ltd                                      |           | 50   | 50   | 31 December | -     | -     |
|   |           |      |      |             | 7,583 | 9,829 |

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.

|   | Consolidated   |         |
|---|----------------|---------|
|   | 2004           | 2003    |
| <b>Results of associated entities</b>   |                |         |
| Share of associated entities' profit before income tax expense                        | <b>4,802</b>   | 6,430   |
| Share of associated entities' income tax expense                                      | <b>(1,231)</b> | (1,513) |
| Share of associated entities' net profit  | <b>3,571</b>   | 4,917   |
| Unrealised profit in inventories  | <b>(269)</b>   | (931)   |
| Share of associated entities' net profit – equity accounted                           | <b>3,302</b>   | 3,986   |
| <b>Share of post-acquisition retained profits attributable to associated entities</b> |                |         |
| Share of associated entities' retained profits at the beginning of the year           | <b>909</b>     | (827)   |
| Share of associated entities' net profit  | <b>3,302</b>   | 3,986   |
| Dividends and disbursements from associated entities                                  | <b>(3,533)</b> | (2,250) |
| Share of associated entities' retained profits at the end of the year                 | <b>678</b>     | 909     |

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004 CONTINUED

## 28. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD CONTINUED

| Thousands of dollars   | Consolidated |         |               |      |
|--|--------------|---------|---------------|------|
|  | 2004         | 2003    | 2004          | 2003 |
| <b>Movement in the carrying amount of investments</b>  |              |         |               |      |
| Investments in associated entities at the beginning of the year  | 9,829        | 8,093   |               |      |
| Share of associated entities' net profit   | 3,302        | 3,986   |               |      |
| Dividends and disbursements from associated entities   | (3,533)      | (2,250) |               |      |
| Investment in Cooper & Dysart Pty Ltd transferred to controlled entities   | (2,015)      | –       |               |      |
| Investments in associated entities at the end of the year  | 7,583        | 9,829   |               |      |
|  |              |         |               |      |
|  | Consolidated |         | Parent entity |      |
|  | 2004         | 2003    | 2004          | 2003 |
| <b>Commitments</b>   |              |         |               |      |
| Share of associated entities' capital expenditure contracted but not provided for in the financial report and payable: |              |         |               |      |
| Within one year  | 142          | 209     | –             | –    |
|  |              |         |               |      |
| Share of associated entities' operating lease commitments not provided for in the financial report and payable:        |              |         |               |      |
| Within one year  | 323          | 504     | –             | –    |
| Between one to five years  | 694          | 579     | –             | –    |
| After five years   | –            | –       | –             | –    |
|  | 1,017        | 1,083   | –             | –    |
|  |              |         |               |      |
| Share of associated entities' finance lease commitments not provided for in the financial report and payable:          |              |         |               |      |
| Within one year  | 593          | 717     | –             | –    |
| Between one to five years  | 1,929        | 1,783   | –             | –    |
| After five years   | –            | –       | –             | –    |
|  | 2,522        | 2,500   |               |      |
| Future finance charges   | (275)        | (295)   | –             | –    |
|  | 2,247        | 2,205   | –             | –    |
| <b>Contingent liabilities</b>  |              |         |               |      |
| Share of associated entities' contingent liabilities:  |              |         |               |      |
| Secured overdrafts   | –            | 476     | –             | –    |

## 29. NOTES TO THE STATEMENTS OF CASH FLOWS

### (a) Reconciliation of cash

For the purposes of the statements of cash flows, cash includes:

|   |        |        |          |          |
|---|--------|--------|----------|----------|
| Cash at bank and on hand, net of bank overdrafts offset | 14,196 | 36,318 | (11,612) | (14,153) |
|---|--------|--------|----------|----------|

| Thousands of dollars  | Consolidated     |          | Parent entity   |         |
|---|------------------|----------|-----------------|---------|
|   | 2004             | 2003     | 2004            | 2003    |
| <b>29. NOTES TO THE STATEMENTS OF CASH FLOWS CONTINUED</b>                                      |                  |          |                 |         |
| <b>(b) Reconciliation of net profit after income tax expense to net operating cash flows</b>    |                  |          |                 |         |
| Net profit after income tax expense   | <b>572,274</b>   | 197,497  | <b>47,443</b>   | 13,384  |
| Add/(less) items classified as investing/financing activities:                                  |                  |          |                 |         |
| Profit on sale of non-current assets and intangibles  | <b>(12,284)</b>  | (220)    | —               | —       |
| Finance charges and contingent rentals on capitalised leases                                    | <b>2,132</b>     | 2,090    | —               | —       |
| Interest paid capitalised   | <b>(4,271)</b>   | —        | —               | —       |
| Loan repaid from associated entity  | <b>(2,500)</b>   | —        | —               | —       |
| Add/(less) non-cash items:  |                  |          |                 |         |
| Depreciation of property, plant and equipment   | <b>122,188</b>   | 128,322  | —               | —       |
| Amortisation of intangibles   | <b>1,596</b>     | 1,459    | —               | —       |
| Write-down in value of land and buildings and related plant and equipment to recoverable amount | <b>12,205</b>    | 12,482   | —               | —       |
| Amounts set aside to allowances   | <b>31,946</b>    | 19,085   | —               | —       |
| Unrealised exchange gain  | <b>(3,139)</b>   | (1,872)  | —               | —       |
| Share of associated entities' net profit  | <b>(3,302)</b>   | (1,736)  | —               | —       |
| (Decrease)/increase in deferred tax liability/asset   | <b>(145,819)</b> | (10,731) | <b>(17,173)</b> | (34)    |
| Net cash from operating activities before changes in assets and liabilities                     | <b>571,026</b>   | 346,376  | <b>30,270</b>   | 13,350  |
| Changes in assets and liabilities net of the effects of the purchase of controlled entities:    |                  |          |                 |         |
| (Increase)/decrease in trade and other debtors  | <b>(86,043)</b>  | 46,748   | <b>(90,532)</b> | (6,350) |
| (Increase)/decrease in inventories  | <b>(317,412)</b> | 22,814   | —               | —       |
| (Increase)/decrease in prepayments  | <b>2,663</b>     | 930      | <b>487</b>      | 1,765   |
| Increase/(decrease) in trade and other creditors  | <b>253,677</b>   | 71,831   | <b>(930)</b>    | (115)   |
| Increase/(decrease) in income tax payable   | <b>67,802</b>    | 13,573   | <b>138,846</b>  | 420     |
| (Decrease)/increase in provisions   | <b>(35,203)</b>  | (15,598) | —               | 37      |
| Net operating cash inflows  | <b>456,510</b>   | 486,674  | <b>78,141</b>   | 9,107   |

**(c) Purchases of controlled entities**

On 12 August 2004, the Caltex Australia Group's ownership interest in Cooper & Dysart Pty Ltd increased from 50% to 100%. The operating results of this entity have been included in the consolidated operating profit from the acquisition date. There were no acquisitions of controlled entities in the year ended 31 December 2003.

Details of the acquisitions are as follows:

|  |                |   |   |   |
|--|----------------|---|---|---|
| Consideration paid                           | <b>(2,842)</b> | — | — | — |
| Cash balance included in net assets acquired | <b>617</b>     | — | — | — |
| Outflow of cash                              | <b>(2,225)</b> | — | — | — |

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004 CONTINUED

| Thousands of dollars  | Consolidated     |                  | Parent entity    |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2004             | 2003             | 2004             | 2003             |
| <b>29. NOTES TO THE STATEMENTS OF CASH FLOWS CONTINUED</b>              |                  |                  |                  |                  |
| (c) Purchases of controlled entities continued                          |                  |                  |                  |                  |
| <b>Fair value of net assets acquired</b>                                |                  |                  |                  |                  |
| Cash at bank and on hand  | 617              | —                | —                | —                |
| Receivables   | 8,068            | —                | —                | —                |
| Inventories   | 1,939            | —                | —                | —                |
| Other current assets  | 242              | —                | —                | —                |
| Property, plant and equipment   | 2,668            | —                | —                | —                |
| Intangibles   | 2,190            | —                | —                | —                |
| Payables  | (10,557)         | —                | —                | —                |
| Interest bearing liabilities  | (631)            | —                | —                | —                |
| Tax liabilities   | (107)            | —                | —                | —                |
| Deferred tax liabilities  | (6)              | —                | —                | —                |
| Provisions  | (293)            | —                | —                | —                |
| Other liabilities   | —                | —                | —                | —                |
| <b>Fair value of net assets acquired</b>                                | <b>4,130</b>     | <b>—</b>         | <b>—</b>         | <b>—</b>         |
| Net assets acquired – 50%   | 2,065            | —                | —                | —                |
| Goodwill on acquisition   | 777              | —                | —                | —                |
| <b>Consideration</b>  | <b>2,842</b>     | <b>—</b>         | <b>—</b>         | <b>—</b>         |
| <b>30. FINANCING ARRANGEMENTS</b>                                       |                  |                  |                  |                  |
| The Caltex Australia Group has access to the following lines of credit: |                  |                  |                  |                  |
| Total facilities available:   |                  |                  |                  |                  |
| Bank overdrafts   | 30,000           | 30,000           | 30,000           | 30,000           |
| Bank loans and capital markets  | 999,400          | 1,149,400        | 999,400          | 1,149,400        |
|   | <b>1,029,400</b> | <b>1,179,400</b> | <b>1,029,400</b> | <b>1,179,400</b> |
| Facilities utilised at balance date:                                    |                  |                  |                  |                  |
| Bank overdrafts   | 1,670            | —                | 11,612           | 14,153           |
| Bank loans and capital markets  | 424,422          | 604,422          | 424,422          | 604,422          |
|   | <b>426,092</b>   | <b>604,422</b>   | <b>436,034</b>   | <b>618,575</b>   |
| Facilities not utilised at balance date:                                |                  |                  |                  |                  |
| Bank overdrafts   | 28,330           | 30,000           | 18,388           | 15,847           |
| Bank loans and capital markets  | 574,978          | 544,978          | 574,978          | 544,978          |
|   | <b>603,308</b>   | <b>574,978</b>   | <b>593,366</b>   | <b>560,825</b>   |

These facilities are unsecured and have an average maturity of 2.8 years (2003: 3.5 years).

## 31. RELATED PARTY INFORMATION

### (a) Directors

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

Leo Lonergan served on the Board throughout 2004 but resigned on 23 February 2005. Steve de Bruyn served as an alternate director until 25 February 2004, and Mitch Rubinstein served as an alternate director from 25 February 2004 to 23 February 2005, for Leo Lonergan.

Martin Southern served on the Board from 25 February 2004 to 1 July 2004. During that period, Mitch Rubinstein served as his alternate.

Mitch Rubinstein also served as an alternate director from 21 September 2004 to 23 February 2005 for Bill Hauschildt.

### (b) Directors' holdings of shares

At 31 December 2004, the directors of Caltex Australia Limited at 31 December 2004 had relevant interests in 29,500 (2003: 29,500) shares in Caltex Australia Limited (in total). The directors have not acquired or disposed of any fully paid ordinary shares since 31 December 2004.

Mitch Rubinstein holds no shares in Caltex Australia Limited.

Neither Martin Southern nor Steve de Bruyn held any shares in Caltex Australia Limited when they resigned.

### (c) Other director transactions

No director had entered into a material contract, loan or other transaction with any entity in the Caltex Australia Group during the year ended 31 December 2004.

During the 2004 financial year, Dave Reeves was seconded from ChevronTexaco to Caltex Australia (ChevronTexaco Global Energy Inc. holds 50% of the shares of Caltex Australia Limited). Under the terms of the secondment arrangement, Caltex Australia paid service fees to ChevronTexaco representing a partial reimbursement of the salary and other benefits paid or payable by ChevronTexaco. The terms of these arrangements are considered to be no less favourable to Caltex Australia than arm's length terms. The additional cost incurred or to be incurred by ChevronTexaco is \$248,316 (2003: \$68,205). In addition, he may be entitled to receive performance-based and equity-based remuneration from ChevronTexaco.

During the 2004 financial year, John Thorn was a director of Caltex Australia Limited and National Australia Bank Limited.

The banking relationship with National Australia Bank Limited has been in place for many years and facilities are on normal commercial terms.

Minter Ellison, of which Ken Watson is a partner, provides legal advice and services to the Caltex Australia Group. For the year ended 31 December 2004, Minter Ellison received, or was due to receive, fees totalling \$808,000 (less than 20% of the total legal expenditure). Minter Ellison received fees of \$710,000 (less than 20% of the total legal expenditure) in respect of the year ended 31 December 2003.

Malcolm Irving, a former director, entered into a consultancy services agreement with Caltex Australia Limited after leaving office. For the year ended 31 December 2004, he received service fees of \$22,000 (2003: \$16,570), and a further payment of \$14,000 is due for services provided (2003: \$7,500).

Willis Australia Limited, a company associated with Malcolm Irving, received insurance consulting fees and insurance premiums of \$5,344,000 (2003: \$4,379,000).

During the 2004 financial year, consultancy services fees of \$92,000 (2003: \$276,000) were paid or payable to Blackburne Consulting Pty Ltd, a company related to a former director, Ian Blackburne, in accordance with the terms of a consultancy services agreement.

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

### (d) Controlled entities

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

The amounts receivable and payable to or by Caltex Australia Limited and its controlled entities are included in note 8. Details of controlled entities are set out in note 27.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004 CONTINUED

## 31. RELATED PARTY INFORMATION CONTINUED

### (e) Other related entities

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

The Caltex Australia Group paid \$3,873,000 (2003: \$1,132,000) to the ChevronTexaco Group for technical service fees. The group received \$9,080,000 (2003: \$1,001,000) for technical service fees from the ChevronTexaco Group. These fees are in the ordinary course of business and on normal commercial terms and conditions.

The Caltex Australia Group paid \$1,244,000 (2003: \$640,000) to the ChevronTexaco Group, including Traders Insurance Limited for insurance coverage. The insurance claim payment received by the group was nil (2003: \$63,000) from Traders Insurance Limited. Dealings with Traders Insurance Limited are in the ordinary course of business and on normal commercial terms and conditions.

The Caltex Australia Group purchased crude, other refinery feedstocks and petroleum products from the ChevronTexaco Group of \$2,908,580,000 (2003: \$1,860,095,000). The Caltex Australia Group sold crude, other refinery feedstocks and petroleum products to these entities of \$228,554,000 (2003: \$130,600,000). These purchases and sales are in the ordinary course of business and on normal commercial terms and conditions.

The Caltex Australia Group entered into refiner margin and crude hedges with the ChevronTexaco Group during the year. The fair value of open hedges at 31 December 2004 were both nil (2003: nil). Dealings with the ChevronTexaco Group are in the ordinary course of business and on normal commercial terms and conditions.

Certain payments are made to the ChevronTexaco Group in respect of the secondment of Dave Reeves. Details of these payments are shown in note 26.

In addition to Dave Reeves, the ChevronTexaco Group seconded three executives (2003: five executives) primarily to provide specialist expertise in refineries, the Loss Prevention System, and management of the Clean Fuels Project. The cost borne by Caltex Australia was \$1,134,482 (2003: \$2,854,674). This cost includes salary and bonuses, allowances including relocation, and indirect payroll related expenses. In addition to this cost, these executives may be entitled to receive bonuses from the ChevronTexaco Group.

Amounts receivable from and payable to other related entities are set out in notes 8 and 14 respectively.

### (f) Associated entities

The Caltex Australia Group sold petroleum products to associated entities totalling \$502,733,000 (2003: \$502,102,000). The Caltex Australia Group purchased petroleum products from associated entities of \$85,141,000 (2003: \$80,359,000). The Caltex Australia Group received income from associated entities for rental income, service fees, site fees, operating leases and licence fees of \$11,006,000 (2003: \$4,771,000). The Caltex Australia Group paid service fee income to associated entities of \$130,000 (2003: \$3,956,000).

During the year ended 31 December 2004, the Caltex Australia Group had a provision of \$3,206,000 (2003: \$5,706,000) against trade receivables from Vitalgas Pty Ltd. Transactions with associated entities are in the ordinary course of business and on normal commercial terms and conditions.

Details of associated entities are set out in note 28. Amounts receivable from associated entities are set out in note 8. Dividend and disbursement income from associated entities is shown in note 28.

## 32. SEGMENT REPORTING

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

The Caltex Australia Group operates within one geographic region – Australia.

### 33. SIGNIFICANT EVENTS AFTER BALANCE DATE

#### International Financial Reporting Standards

For reporting periods on or after 1 January 2005, Caltex will comply with Australian equivalents to International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended on 31 December 2004. The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the Caltex financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

Caltex has not completed its project to assess the impact of adoption of IFRS and has not quantified the effects of all the differences discussed below.

The Board established a formal project to prepare the Caltex Australia Group for the introduction of IFRS. This project commenced in early 2003 with an objective of achieving transition to IFRS reporting, beginning with the half year ending 30 June 2005. The company's implementation project consists of three phases as described below.

#### Awareness and assessment phase

The awareness and assessment phase produced a high level overview of the impacts of conversion to IFRS reporting on existing accounting and reporting policies and procedures, systems, business structures and staff. This phase included:

- high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting IFRS;
- assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes; and
- evaluation of the implications for staff including training requirements.

Caltex considers that the awareness and assessment phase was complete in most respects as at 30 June 2004.

#### Build and design phase

The build and design phase aims to formulate the changes required to existing accounting policies and procedures and systems and processes in order to transition to IFRS. This phase includes:

- preparing a conversion plan for expected changes to accounting policies, reporting structures systems, accounting and business process for staff training;
- formulating revised accounting policies and procedures for compliance with IFRS requirements;
- identifying potential impacts as at the transition date and for subsequent reporting periods prior to adoption of IFRS;
- developing revised IFRS disclosures; and
- designing accounting and business processes to support IFRS reporting obligations.

Caltex has commenced its build and design phase, with work progressing in each of the areas described above. The build and design phase is expected to be substantially completed by 15 April 2005.

#### Implementation phase

The implementation phase will include implementation of identified changes to accounting and business procedures, processes, and systems and operational training for staff.

Caltex expects this phase to be substantially complete by 30 April 2005.

The key potential implications of the conversion to IFRS on Caltex identified to date are as follows:

- (i) **Employee benefits (AASB 119):** The current policy for superannuation commitments for the defined benefit plan is to provide for the shortfall of plan assets over vested benefits. On adoption of Australian standards that comply with IFRS, Caltex will recognise actuarial gains and losses in full, but directly through equity.
- (ii) **Intangible assets (AASB 136):** Expenditure on research type activities must be expensed. Development phase expenditure, in certain circumstances, must be capitalised and subsequently amortised over its useful life. Goodwill acquired in a business combination will not require amortisation. Impairment testing, at least annually, will be required to determine the appropriate carrying value.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2004 CONTINUED

## 33. SIGNIFICANT EVENTS AFTER BALANCE DATE CONTINUED

### Implementation phase continued

- (iii) **Borrowing costs (AASB 123):** Caltex currently expenses borrowing costs as they are incurred unless they relate to qualifying assets, in which case they are capitalised to the cost of the assets. Under IFRS, Caltex will expense all borrowing costs as they are incurred.
- (iv) **Provisions (AASB 137):** Currently, provisions are not required to be discounted to present value. Under IFRS, Caltex must discount certain non-current provisions to present value.
- (v) **Impairment (AASB 136):** Impairment of assets will be determined on a discounted cash flow basis, with strict tests for determining whether cash-generating operations have been impaired.
- (vi) **Functional currency (AASB 121):** Caltex will use the Australian dollar as its functional currency. There will be no impact from this standard.
- (vii) **Share-based payments (AASB 2):** Equity-based compensation in the form of shares will be recognised as expenses over the relevant vesting periods. Caltex currently expenses equity-based compensation on a pro-rata basis over the periods during which employees provide related services.
- (viii) **Provision for initial estimate of dismantling costs, remediation and restoration (AASB 137 and AASB 116):** Under IFRS, the initial estimate of the provision for dismantling costs, remediation and restoration must be raised, and capitalised and amortised over the life of the asset. Caltex currently doesn't provide nor capitalise the initial estimate of the provision for dismantling costs, remediation and restoration.
- (ix) **Financial instruments (AASB 132 and AASB 139):** Financial instruments must be recognised in the statement of financial position. All derivatives used as hedging instruments or otherwise, and most financial assets, will be carried at fair value. IFRS introduces strict tests, including effectiveness tests, for determining and accounting for hedge transactions.
- (x) **Income tax (AASB 112):** Income tax will be calculated based on the balance sheet method, which will replace the income statement method. The balance sheet method recognises deferred tax balances based on the difference between the carrying value of an asset or a liability and its tax base. Under the income statement method, items are only tax-effected if they are included in the determination of the pre-tax accounting result and/or taxable income/(loss).

# Comparative Financial Information

| <b>Caltex Australia Limited consolidated results</b>   | <b>2004</b>  | <b>2003</b>  | <b>2002</b>  | <b>2001</b>   | <b>2000</b> |
|--|--------------|--------------|--------------|---------------|-------------|
| <b>Profit and loss (\$million)</b>   |              |              |              |               |             |
| Historical cost operating profit before significant items, interest and income tax expense               | 696.0        | 352.8        | 388.1        | 14.8          | 155.8       |
| Interest income  | 1.1          | 1.4          | 0.5          | 0.8           | 1.3         |
| Borrowing costs  | (42.2)       | (62.8)       | (76.1)       | (91.1)        | (97.7)      |
| Historical cost income tax expense before significant items  | (196.1) (i)  | (82.6)       | (85.3)       | 29.1          | (23.3)      |
| <b>Historical cost operating profit after tax and before significant items</b>                           | <b>458.8</b> | <b>208.8</b> | <b>227.2</b> | <b>(46.4)</b> | <b>36.1</b> |
| Significant items (net of tax)   | 113.5 (i)    | (11.3)       | (12.0)       | (139.7)       | –           |
| Historical cost operating profit/(loss) after income tax   | 572.3        | 197.5        | 215.2        | (186.1)       | 36.1        |
| <b>Dividends</b>   |              |              |              |               |             |
| Amount paid and payable (\$/share)   | 0.39         | 0.18         | –            | –             | 0.16        |
| Times covered (excl. significant items)  | 4.36         | 4.30         | –            | –             | 0.84        |
| <b>Other data</b>  |              |              |              |               |             |
| Equity attributable to members of the company (\$m)  | 1,712.0      | 1,215.3      | 1,028.6      | 813.4         | 999.6       |
| Total equity (\$m)   | 1,719.2      | 1,223.7      | 1,036.3      | 821.2         | 1,009.1     |
| Return on equity attributable to members of the parent entity after tax, excluding significant items (%) | 26.8         | 17.2         | 22.1         | (5.7)         | 3.6         |
| Total assets (\$m)   | 3,277.7      | 2,773.6      | 2,837.2      | 2,747.1       | 3,167.4     |
| Net tangible asset backing (\$/share)  | 6.29         | 4.46         | 3.76         | 3.01          | 3.12        |
| Debt (\$m)   | 461.4        | 660.7        | 972.2        | 1,264.7       | 1,282.9     |
| Net debt (\$m)   | 447.2        | 624.4        | 954.2        | 1,264.7       | 1,241.2     |
| Net debt to net debt plus equity (%)   | 20.6         | 33.8         | 47.9         | 60.6          | 55.2 (ii)   |

(i) The significant item in 2004 of \$113.5 million arose as a consequence of entry into the new tax consolidation regime.

(ii) Gearing at 31 December 2000 was 59.3% when measured excluding goodwill. Therefore, four-fifths of the year on year movement between 2000 and 2001 arose as a result of the writeoff of the \$147.5 million balance of goodwill in 2001.

# Replacement Cost of Sales Basis of Accounting

- To assist in understanding the group's operating performance, the directors have provided additional disclosure of the group's results for the year on a replacement cost of sales basis (i), which excludes net inventory gains and losses.
- On a replacement cost of sales basis, the group's net profit after income tax for the year was \$352.5 million, compared to a profit of \$199.7 million in 2003.
- 2004 net profit before interest, income tax and significant items on a replacement cost of sales basis was \$544.2 million, an increase of \$204.4 million over 2003.

| \$ million  | Five years   | 2004         | 2003         | 2002         | 2001        | 2000       |
|---|--------------|--------------|--------------|--------------|-------------|------------|
| Historical cost net profit before interest, income tax and significant items  | 1,607.5      | 696.0        | 352.8        | 388.1        | 14.8        | 155.8      |
| (Deduct)/add inventory (gains)/losses (ii)                                    | (191.7)      | (151.8)      | (13.0)       | (172.9)      | 186.1       | (40.1)     |
| Replacement cost net profit before interest, income tax and significant items | 1,415.8      | 544.2        | 339.8        | 215.2        | 200.9       | 115.7      |
| Net borrowing costs   | (364.9)      | (41.1)       | (61.4)       | (75.6)       | (90.3)      | (96.5)     |
| Historical cost tax expense   | (358.6)      | (196.1)      | (82.7)       | (85.4)       | 28.9        | (23.3)     |
| Add/(deduct) tax effect of inventory (losses)/gains                           | 59.2         | 45.5         | 4.0          | 51.9         | (55.8)      | 13.6       |
| Replacement cost profit after income tax (iii)                                | <b>751.5</b> | <b>352.5</b> | <b>199.7</b> | <b>106.1</b> | <b>83.7</b> | <b>9.5</b> |

- (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 2004, the historical cost result includes \$151.8 million inventory gain (2003: \$13.0 million inventory gain). Net inventory gain/(loss) is adjusted to reflect impact of revenue lags.
- (iii) Replacement cost profit after income tax is calculated before taking into account any significant items over the five years. The total effect of these significant items in each year was:
- 2000: no significant items
- 2001: \$143.4 million loss before tax (\$139.7 million after tax)
- 2002: \$12.0 million loss before and after tax
- 2003: \$12.5 million loss before tax (\$11.3 million loss after tax)
- 2004: \$113.5 million gain before and after tax

# Shareholder Information

## SHAREHOLDER ENQUIRIES

Shareholders with queries about their shares or dividend payments should contact the company's share registry on telephone 1300 855 080 or facsimile 02 8234 5050, or through its web site ([www.computershare.com](http://www.computershare.com)) using their holder identification number or shareholder reference number to access their shareholder specific information, or write to:

Computershare Investor Services Pty Limited  
GPO Box 7045, Sydney NSW 2001.

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

## CHANGE OF ADDRESS

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

## CALTEX AUSTRALIA PUBLICATIONS

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

## VOTING RIGHTS

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

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

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

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

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

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

If the shareholder has appointed a proxy, the proxy may vote but, if two proxies are appointed, neither proxy may vote 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: Harvey Ward 02 9250 5166

Company Secretaries: Ms Helen Conway, Ms Diane Brown.

The address and telephone of the registered office is:

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

Telephone 02 9250 5000 Facsimile 02 9250 5742

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

Web site ([www.caltex.com.au](http://www.caltex.com.au))

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

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

Telephone 02 8234 5000 Facsimile 02 8234 5050

with the postal address being GPO Box 7045, Sydney NSW 2001

Web site ([www.computershare.com](http://www.computershare.com))

# Shareholder Information

## GENERAL INFORMATION

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

1. As at 14 February 2005.

1.1 Substantial shareholders:

Chevron Texaco Global Energy Inc. holding 135,000,000 ordinary shares

1.2 There is only one class of equity securities (namely ordinary shares) and the number of holders is 20,612.

1.3 The shareholding is distributed as follows:

| Category         | No of holders | No of shares       | %             |
|------------------|---------------|--------------------|---------------|
| <b>a)</b>        |               |                    |               |
| 1 – 1,000        | 13,096        | 6,783,565          | 2.51          |
| 1,001 – 5,000    | 6,337         | 15,183,410         | 5.62          |
| 5,001 – 10,000   | 685           | 5,335,708          | 1.98          |
| 10,001 – 100,000 | 440           | 11,455,280         | 4.24          |
| 100,001 and over | 54            | 231,242,037        | 85.65         |
|                  | <b>20,612</b> | <b>270,000,000</b> | <b>100.00</b> |

### b) Holders of less than a marketable parcel

**185**

1.5 The 20 largest shareholders held 83.11% of the ordinary shares in the company.

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

| Category                                       | No of shares       | %            |
|--|--------------------|--------------|
| 1) Chevron Texaco Global Energy Inc.           | 135,000,000        | 50.00        |
| 2) J P Morgan Nominees Australia Limited       | 21,019,142         | 7.78         |
| 3) National Nominees Australia Limited         | 19,543,006         | 7.24         |
| 4) Westpac Custodian Nominees Limited          | 18,316,151         | 6.78         |
| 5) ANZ Nominees Limited                        | 7,764,444          | 2.88         |
| 6) Cogent Nominees Pty Limited                 | 4,465,195          | 1.65         |
| 7) Citicorp Nominees Pty Limited               | 3,541,269          | 1.31         |
| 8) IOOF Investment Management Limited          | 3,171,011          | 1.17         |
| 9) IAG Nominees Pty Limited                    | 2,250,383          | 0.83         |
| 10) Queensland Investment Corporation Nominees | 1,984,631          | 0.74         |
| 11) AMP Life Limited                           | 1,789,662          | 0.66         |
| 12) Suncorp Custodian Services Pty Limited     | 1,337,342          | 0.50         |
| 13) UBS Nominees Pty Ltd                       | 775,899            | 0.29         |
| 14) Citicorp Nominees Pty Limited              | 662,873            | 0.25         |
| 15) Mr John Evans & Mrs Marian Rose Evans      | 558,947            | 0.21         |
| 16) Victorian WorkCover Authority              | 476,015            | 0.18         |
| 17) RBC Global Services Australia Nominees     | 442,580            | 0.16         |
| 18) Bond Street Custodians Limited             | 441,370            | 0.16         |
| 19) PSS Board C/O J P Morgan                   | 439,725            | 0.16         |
| 20) Government Superannuation Office           | 425,714            | 0.16         |
| <b>Total</b>                                   | <b>224,405,359</b> | <b>83.11</b> |

# Statistical Information

| Year ended 31 December                                    | 2004           | 2003    | 2002    | 2001    |
|---|----------------|---------|---------|---------|
| <b>People</b>   |                |         |         |         |
| Employees (i)   | 2,989          | 2,986   | 2,638   | 2,934   |
| <b>Assets</b>   |                |         |         |         |
| Fuel refineries   | <b>2</b>       | 2       | 2       | 2       |
| Lube oil refinery   | <b>1</b>       | 1       | 1       | 1       |
| Road tankers  | <b>18</b>      | 17      | 28      | 27      |
| Rail cars (operational)                                   | <b>62</b>      | 60      | 60      | 60      |
| Storage terminals (owned or leased, and operational) (ii) | <b>11</b>      | 11      | 11      | 11      |
| Star Mart convenience stores                              | <b>197</b>     | 187     | 175     | 171     |
| Service stations (owned or leased)                        | <b>577</b>     | 605     | 643     | 651     |
| Depots  | <b>108</b>     | 115     | 124     | 126     |
| <b>Operations</b>   |                |         |         |         |
| Nameplate refining capacity (barrels per day):            |                |         |         |         |
| Caltex Refineries (NSW)                                   | <b>124,500</b> | 124,500 | 124,500 | 124,500 |
| Caltex Refineries (Qld)                                   | <b>105,500</b> | 105,500 | 105,500 | 105,500 |
| Caltex Lubricating Oil Refinery                           | <b>3,750</b>   | 3,750   | 3,750   | 3,750   |
| Fuel production (ML)                                      | <b>11,608</b>  | 11,011  | 11,045  | 10,858  |
| Lubes production (ML)                                     | <b>170</b>     | 135     | 125     | 169     |
| Total sales volume (ML) (iii)                             | <b>14,329</b>  | 12,429  | 12,183  | 11,669  |
| Total treated injury frequency rate (iv)                  | <b>12.0</b>    | 15.1    | 15.6    | 18.3    |

(i) Includes employees of Calstores Pty Ltd (2004:804) and Caltex 100% owned distributors (2004:526).

(ii) Caltex is a party to six additional joint ventures terminals.

(iii) 2004 sales volumes excludes sales made to domestic refiners.

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

# Directory

## CORPORATE OFFICES

### Caltex Australia Limited

ACN 004 201 307  
Caltex Australia Petroleum Pty Ltd  
ACN 000 032 128  
Level 12, MLC Centre  
19–29 Martin Place  
Sydney NSW 2000  
Australia  
Mail GPO Box 3916  
Sydney NSW 2001  
Australia  
Telephone: 02 9250 5000  
Facsimile: 02 9250 5742  
Web site: [www.caltex.com.au](http://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 3 9615 5970  
(enquiries outside Australia)  
Facsimile: 02 8235 8220  
Web site: [www.computershare.com](http://www.computershare.com)

## REFINERIES

### Caltex Refineries (NSW) Pty Ltd

ACN 000 108 725  
Solander Street  
Kurnell NSW 2231  
Telephone: 02 9668 1111  
Facsimile: 02 9668 1188  
Community hotline: 02 9668 1244

### Caltex Lubricating Oil Refinery Pty Ltd

ACN 000 352 205  
Sir Joseph Banks Drive  
Kurnell NSW 2231  
Telephone: 02 9668 1111  
Facsimile: 02 9668 1188

### Caltex Refineries (Qld) 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  
Penrhyn Road  
Banksmeadow NSW 2019  
Telephone: 02 9695 3600  
Facsimile: 02 9666 5737

### Queensland/Northern Territory

Caltex Lytton Terminal  
Tanker Street, off Port Drive  
Lytton Qld 4178  
Telephone: 07 3877 7333  
Facsimile: 07 3877 7464

### Victoria/South Australia/Tasmania

Caltex Newport Terminal  
Douglas Parade  
Newport Vic 3015  
Telephone: 03 9287 9555  
Facsimile: 03 9287 9572

### Western Australia

Caltex Fremantle Terminal  
85 Bracks Street  
North Fremantle WA 6159  
Telephone: 08 9430 2888  
Facsimile: 08 9335 3062

## Customer Support

Feedback Line (complaints, compliments and suggestions) Mon–Fri 8.30 am to 5.00 pm (EST)  
1800 240 398

Card Support Centre  
Card enquiries 24 hours/seven days  
1300 365 096

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



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

## Our values

We treat all people with fairness, respect and dignity.

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

We respect and comply with the law.

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

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

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

## Our strategic intents

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

## Our success

We earn “most admired” status when we are:

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

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

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

