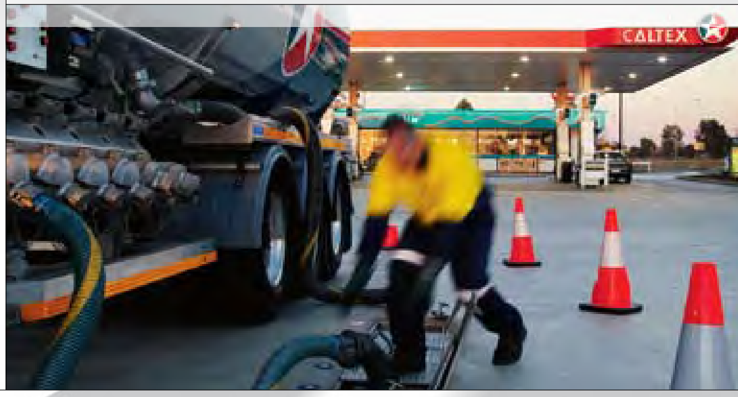
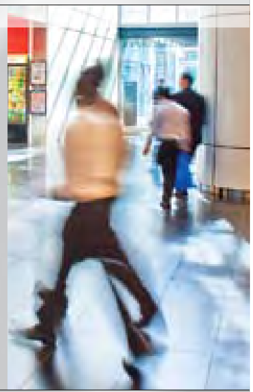


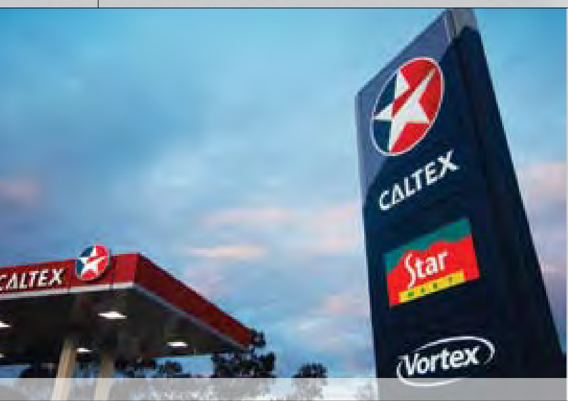




KEEPING AUSTRALIA MOVING

2008 ANNUAL REPORT

CALTEX
Caltex Australia



2008 ANNUAL REPORT:
This *2008 Annual Report* has been prepared as at 20 February 2009. The report provides an overview of Caltex Australia's main operating activities for the year ended 31 December 2008.

The 2008 Financial Report, which is contained within the *2008 Annual Report*, provides detailed financial information for the Caltex Australia Group for the year ended 31 December 2008.

Please note that the *2008 Annual Report* is available from our website (www.caltex.com.au).

Shareholders can request a printed copy of the *2008 Annual Report*, free of charge, by writing to the Company Secretary, Caltex Australia Limited, Level 24, 2 Market Street, Sydney NSW 2000 Australia.

For the purposes of this report, the Caltex Australia Group refers to:

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

Please note that terms such as Caltex and Caltex Australia have the same meaning in the *2008 Annual Report* as the Caltex Australia Group, unless the context requires otherwise.

FINANCIAL CALENDAR FOR CALTEX AUSTRALIA LIMITED:

YEAR ENDED 31 DECEMBER 2008

23 April 2009
Annual General Meeting

YEAR ENDING 31 DECEMBER 2009*

28 August 2009
Half year results and interim dividend announcement

11 September 2009
Record date for interim dividend entitlement

02 October 2009
Interim dividend payable

19 February 2010
Full year results and final dividend announcement

05 March 2010
Record date for final dividend entitlement

26 March 2010
Final dividend payable

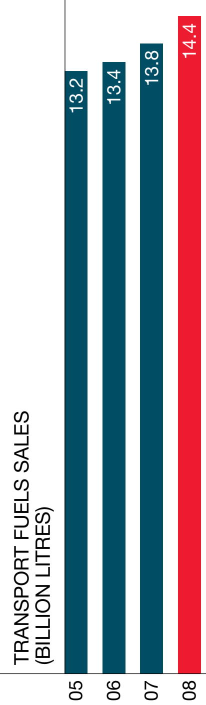
*These dates are subject to change.

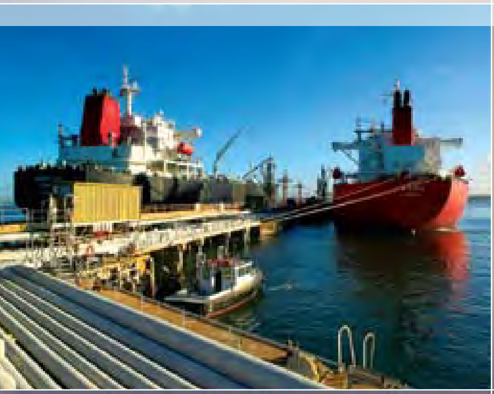
CALTEX IS THE NUMBER ONE AND GROWING FUEL AND CONVENIENCE MARKETER IN AUSTRALIA, UNDERPINNED BY A VALUE CREATING SUPPLY CHAIN THAT INCLUDES MANUFACTURING

RCOP
Replacement cost of sales profit was $186 million for 2008, down from $444 million in 2007, reflecting the unprecedented decline in the Australian dollar and crude oil prices, and the impact of lower refinery production.

PRODUCTION VOLUMES
The production of transport fuels (petrol, diesel and jet fuel) was down from the record highs of 10.9 billion litres in 2007 to 9.8 billion litres in 2008, impacted by refinery reliability issues.

FUELS SALES
Overall sales of transport fuels grew by 4% over 2007 to 14.4 billion litres, underpinned by 10% growth in both diesel and jet fuel sales.





SUPPLY

Caltex buys crude oil and refined products on the international market. Caltex sourced some 72 million barrels of crude and refinery feedstocks in 2008.

MARKETING

Caltex Marketing encompasses a range of downstream activities from retail service station operations, to equity and non-equity resellers and direct sales to corporate customers. Caltex's Star Mart, StarCard, StarCash, Vortex Premium, Bio E10 Unleaded, Havoline and Delo are leading sub-brands, each with significant and growing market shares in their respective product categories.

REFINING

Caltex is Australia's leading oil refiner. Combined production at Caltex's Kurnell refinery in Sydney and Lytton refinery in Brisbane comprises approximately 50% petrol, 30% diesel and 15% jet fuel. The remainder of production consists of fuel oil, waxes and lubricants, bitumen, sulfur, LPG and other gases.

LOGISTICS

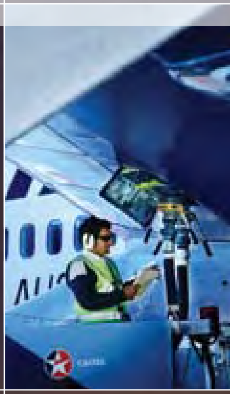
Caltex supplies product via a network of pipelines, terminals, depots and the company owned and contracted transportation fleet.

INTEGRATED BUSINESS

Caltex's integrated business value chain incorporates supply, refining, logistics and marketing. Caltex is committed to operational excellence at all levels. We strive for safe, reliable and incident free operations for the benefit of our employees, contractors, customers, franchisees, resellers and shareholders alike.

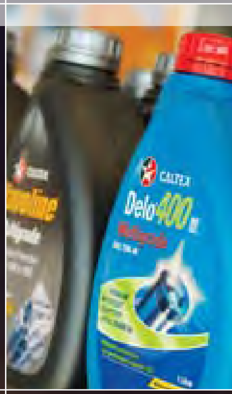
Transport fuels
Caltex currently offers its customers the most comprehensive suite of fuel products in Australia. In addition to unleaded petrol, Caltex offers Vortex 95 and Vortex 98 premium unleaded, as well as diesel, Vortex premium diesel, biofuel blends and low aromatic blends for regional Australia. Caltex's jet fuel is supplied to most major airports on the eastern seaboard of Australia.

Convenience
Caltex is the industry leader and the number one convenience retailer in Australia with a network that spans every state and territory. In 2008, Caltex was awarded the Australian Association of Convenience Stores (AACS) "Retailer of the Year" Awards in both the company owned and franchise operated categories.



Specialty products
Caltex produces specialty products such as bitumen, LPG, wax, fuel oil and process oils.

Cards
The Caltex card portfolio, encompassing StarCard, StarFleet and StarCash, is Australia's leading fuel card range.



Finished lubricants
Caltex supplies Havoline branded petrol engine oils and Delo branded diesel engine oils to car and truck dealers and workshops, auto accessory shops and retailers across Australia. In 2008, Caltex's lubricants market share grew from 12.5% to 16.2%, confirming Caltex's position as the number two lubricants marketer in Australia.

Brand and the customer
Caltex is the number one branded fuel retailer on site visitation. Caltex tracks its brand performance monthly on a range of key dimensions. Customer service solutions and programs in relationship management underpin our brand essence "great performance from people you like".

CHAIRMAN AND MANAGING DIRECTOR'S REPORT

2008 was a difficult year for Australian business. Our industry was no exception.

Volatility in the US/Australian dollar exchange rate and the poor performance of our refineries particularly impacted Caltex's full year results.

Caltex's full year profit after tax for 2008 was $186 million, compared with $444 million in 2007.

$210 million of the $258 million decline was due to an unprecedented fall in the Australian dollar in the second half of 2008. The Australian dollar fell from an average of 82 cents in September to an average of 68 cents in October. This one month change alone accounted for approximately one half of the total $210 million decline.

Caltex does not actively hedge its foreign currency exposures because the impact of key external factors normally nets out over time. In 2008, the lower crude oil price offset the increase in working capital due to the lower Australian dollar with no

Chairman Elizabeth Bryan and Managing Director & CEO Desmond King

significant impact on debt. We expect that the short-term negative effect of the weaker Australian dollar on 2008 replacement cost of sales operating profit (RCOP) earnings will be offset by the positive impact on future earnings via a stronger Australian dollar refiner margin.

Refinery reliability was disappointing in 2008, with a single process unit at each of Kurnell and Lytton accounting for most of the reliability impact. Specific actions have been undertaken to address these reliability issues.

The growth in our marketing business in 2008 was particularly pleasing and reflected our strategic focus on the development of this part of our business. Total transport fuels sales volume was 14.4 billion litres for the full year. This 3.9% volume growth over 2007 was supported by the strong growth in diesel sales, over and above growth in market demand. Diesel and jet fuel sales both grew by 10% to 5.7 billion litres and 1.8 billion litres respectively. In convenience retailing, shop sales continued to increase as new product categories and healthy food options were added to the Caltex offer.

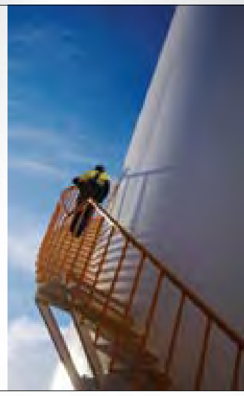
The supply and distribution arm of our business also had a successful year sourcing crude oil despite periods of regional short supply and an extremely volatile price environment. In addition, local expertise and a robust supply chain enabled us to source and deliver fuel products to market to minimise the impact of both planned and unplanned refinery shutdowns at Kurnell and Lytton.

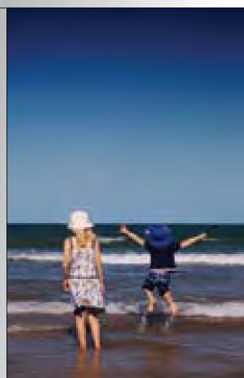
The management team responded early to the deteriorating financial climate. Cash flow improvement initiatives throughout the year, and a focus on the management of operating expenses, enabled Caltex's balance sheet to remain strong despite the volatility.

Cost management across the business remained a major focus with unit operating expenses growth broadly in line with inflation at 4.5% in 2008.

The Board declared no final dividend will be paid for 2008, reflecting the RCOP loss of $10 million in the second half of 2008. The interim dividend of 36 cents per share paid in September 2008, based on earnings of $196 million in the first half of 2008, represents a full year payout ratio of 52%, in line with Caltex's dividend policy of paying out between 40% and 60% of RCOP. This compares with a total dividend payout of 80 cents fully franked in 2007.

CHAIRMAN AND MANAGING DIRECTOR'S REPORT





We will continue to focus on our long-term strategy of profitably growing the marketing business, in order to remain the leading fuel and convenience operator in Australia

OUR PEOPLE

The Board would like to take this opportunity to thank our employees, contractors, franchisees and resellers for their contribution and commitment to Caltex in 2008.

The Board is committed to the health and safety of our people. Our lost time injury frequency rate has decreased from 3.8 per million hours worked in 2007 to 3.0 per million hours worked in 2008. This is an improvement of over 20% and Caltex's best ever performance.

On a sad and poignant note, Caltex farewelled Alex Strang, General Manager – Supply and Distribution, who passed away suddenly in December 2008. Alex's career with Caltex spanned almost 37 years and his contribution and leadership in engineering and executive management was widely recognised. Alex's counsel, expertise, passion and unyielding dedication will be sadly missed by the Caltex Board, management and employees alike. Caltex extends its deepest sympathies to Alex's wife, Young, and their two children.

RESPONSE TO CLIMATE CHANGE

The imperative to address the issue of climate change is acknowledged and supported by Caltex. However, as the largest refiner and marketer of petroleum products in Australia, Caltex will be significantly impacted by the proposed Carbon Pollution Reduction Scheme (CPRS).

Under the proposed scheme, Caltex will be liable for its own emissions and those of its customers. We will be seeking free permits for our own emissions so as to ensure a level playing field with our overseas competitors. We will also be passing on the costs of permits we must purchase to cover our customers' emissions.

We are cognisant of Caltex's responsibility to ensure environmental, economic and social sustainability. We remain committed to working with the Federal Government to design an effective CPRS that does not adversely impact our business.

OUTLOOK

Caltex recognises that, due to the economic slowdown, we may see an impact on both marketing growth and regional US dollar refiner margins in 2009. However, the weaker Australian dollar will bolster Caltex's refiner margin in Australian dollar terms.

We have always been cognisant of the need to maintain a strong balance sheet given we operate in a cyclical industry. We will maintain our focus on cost control, cash flow and debt management.

We will also continue to focus on our long-term strategy of profitably growing the marketing business, in order to remain the leading fuel and convenience operator in Australia, with this growth underpinned by an effective supply chain.

Elizabeth Bryan
CHAIRMAN

Desmond King
MANAGING DIRECTOR &
CHIEF EXECUTIVE OFFICER

With a strong business strategy and continued focus on operational excellence and the health and safety of our employees, contractors, franchisees and resellers, Caltex remains the number one and growing petroleum and convenience marketer in Australia.

The earnings from the marketing business underpinned Caltex's results, cementing its position as core to Caltex's overall strength.

Growth was experienced across all Caltex fuels, lubricants, specialty products, convenience store goods and StarCard products throughout Australia. This was through the broad reaching national retail network as well as a large and diverse number of commercial customers. Throughout 2008, this growth was continually supported by an integrated and efficient supply chain incorporating refining, supply and logistics.

RETAIL

Caltex has retained its position as the number one convenience retailer in Australia. Average weekly sales growth was a robust 3.6% across our national convenience store network, and significantly higher than the industry average.

Our growth was driven by superior operational execution, investment in major store upgrades, new to industry sites and the performance of key product categories such as beverages and the new fresh bakery and coffee offer.

The new twenty first century Caltex (21CC) store format is now the standard for all future Caltex Star Mart convenience retail stores following positive customer feedback and strong performance in trial sites. As at year end, 10 of the 21CC Star Mart stores were in operation, with plans to progressively roll out the format across the network.

A service station attendant prepares for an early morning fuel delivery at Hillside in Victoria

GROWING OUR NUMBER ONE POSITION

2008 saw a year of increased total transport fuel sales, with Caltex supplying over one third of the wholesale transport fuels in Australia

In recognition of our industry leadership, Caltex was honoured by the Australian Association of Convenience Stores (AACS) with their prestigious "Retailer of the Year 2008" Awards in both the company owned and franchise operated categories. Also, with around 490 franchise operated stores representing 85% of our convenience retail network, our established franchise business model was recognised by the Franchise Council of Australia as a finalist in their "Franchisor of the Year Award 2008".

Our continuing success as a major retailer and leading franchisor in Australia is underpinned by both a strong company network and a franchise operated network. All stores are supported by a world-class offering with systems, tools and programs incorporating field management, dry goods, logistics, mystery shopper and store execution programs, ensuring consistency and compliance across our convenience retail network.

COMMERCIAL

Direct sales to commercial customers continued to grow strongly across all channels including automotive, industrial, specialties, transport, mining, aviation, farming and small to medium enterprises.

The commercial business strives to consistently deliver value to customers by providing unrivalled customer support, superior personal service and high quality products at a competitive price. This focus has seen the commercial business grow significantly year-on-year since 2003. In 2008, direct sales to large strategic customers contributed strong growth to marketing earnings.

Targeted segment growth strategies and an increased focus on customer relationship management, supported by more effective business processes and technology, have driven both customer loyalty and revenue growth. In 2008, Caltex also invested in further sales and product training to build on the capabilities and knowledge across the commercial sales channels, ensuring continued comprehensive product knowledge and enhanced customer service.

One of the ways Caltex services our commercial customers is through resellers. These comprise both independent branded resellers and 100% equity resellers. Resellers service the small to medium enterprise customers in the transport, agricultural, mining and commercial and industrial sectors.

To facilitate further growth, a streamlining and restructuring program in the reseller business began in 2008 to remove duplication, create synergies, maximise asset optimisation and achieve overall economies of scale. The business has been transitioned into four regional hubs, New South Wales, Queensland, Western Australia and Victoria/South Australia and the business strategy has been redefined and realigned to focus on the small to medium business arena.

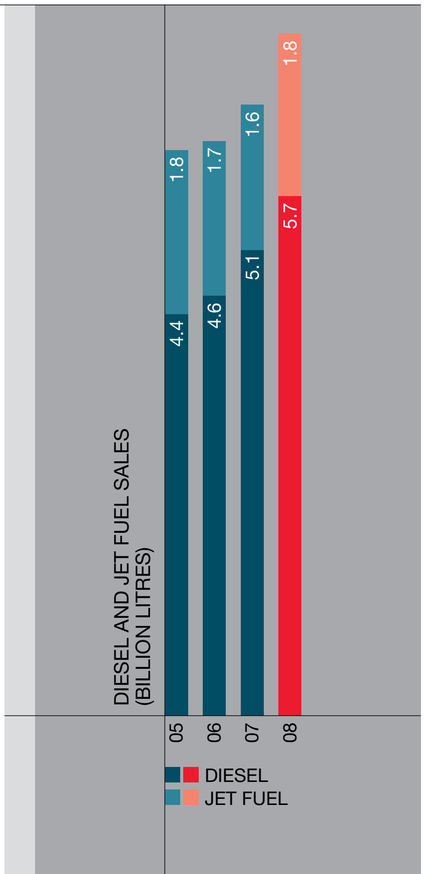
This restructure allows the reseller business to draw upon the knowledge and expertise of the broad Caltex network while still maintaining a focus on the needs of the local community. This is an appealing proposition to our local business partners.

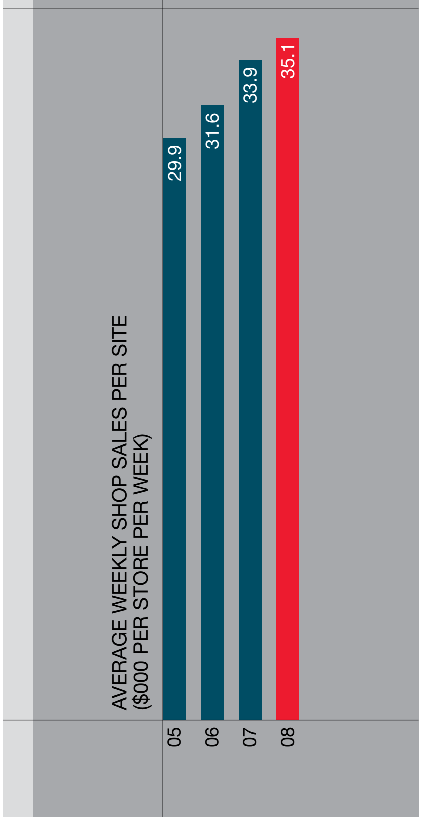
Through our ongoing commitment to local customer service and support, and with Caltex's broad range of fuels, lubricants and specialty products, Caltex will continue to actively pursue new and increased business going forward.

PRODUCTS

2008 saw a year of increased total transport fuel sales, with Caltex supplying over one third of the wholesale transport fuels in Australia. Since 2005, sales volume of transport fuels has grown by more than one billion litres to 14.4 billion litres in 2008.

Caltex currently offers our customers a large range of products including premium diesel, biofuel blends and low aromatic blends for regional Australia. This places





Caltex as the leader in the industry with the most comprehensive suite of fuels to meet our Australian customer needs.

The Caltex biofuel network is now the largest in Australia with over 400 Caltex branded sites selling one or more biofuel blends. This is supported by three new ethanol blending and storage facilities at the Banksmeadow terminal in Sydney, the Newcastle terminal and at the Lytton terminal in Brisbane. This is in response to customer demand and the New South Wales and Queensland state governments' current and pending mandates.

Caltex continued to lead unleaded fuel sales in part due to the Woolworths partnership with co-branded Caltex Woolworths sites.

Caltex diesel outperformed the industry with strong growth in diesel sales volumes of 10%, a result exceeding the industry growth rate of 6.6% and increasing Caltex's market share for diesel across Australia.

Vortex premium petrol sales growth outperformed the industry by 6.4% from 2007 to 2008, resulting in a market share jump from 30.9% to 32.9%. This was achieved in a turbulent year in which early strong sales were impacted by slowing sales in the middle of the year due to record high prices.

The Vortex Premium Fuel portfolio was expanded during 2008 with the conclusion of a successful trial of Vortex premium diesel. This product complements the current offering of Vortex 95 and Vortex 98 premium petrol products. In 2009, Caltex will roll out Vortex diesel to a number of key markets to take advantage of the significant growth in diesel passenger car sales in Australia, particularly among the premium import brands.

In 2008, Caltex revitalised the design of the fuel branding on the forecourt. This new livery makes for easy customer selection and points the customer to the desired island when entering the forecourt. The updated branding will continue to be rolled out across Australia in 2009.

Integration across the supply chain provides a wide range of products that add value to the overall business. Specialty products, by-products of refining, including base oils, marine products, lubricants, liquid petroleum gas, petrochemicals, bitumen and wax continued to contribute solidly to Caltex earnings.

2008 also saw a considerable increase in the market share held by finished lubricant products from 15.3% in 2007 to 16.5% in 2008, and a growth in sales volume of over 10%.

Jet fuel volumes also increased significantly to 1.8 billion litres in 2008 – an increase of 10% over 2007.

The Caltex card portfolio has experienced another year of strong growth and is the leading fuel card portfolio with the largest network and market penetration in Australia. A 9% increase in volume was achieved across the StarCard, StarFleet and StarCash portfolio.

BRAND OF CHOICE

Caltex regularly tracks customer satisfaction using a number of measures. Caltex is recognised among our customers as a brand of choice and this is reflected in the volume of site visits each day. The consistent intent and focus for the business is to be number one in the hearts and minds of our customers and to ensure we are meeting the needs of our customers with clean, safe and reliable operations.

LEADING CHANGE

Sound asset management, cost control and compliance are a priority within the marketing business and across Caltex. As such, the marketing business undertook a number of national compliance and reliability programs in 2008, including an enhanced pump meter calibration program ensuring all of Caltex's 27,000 pump hoses accurately dispense the correct volume. Other programs included upgrading the underground fuel storage systems, pump replacement, spillbox compliance and automatic tank gauging.

FUTURE FOCUS

The marketing business will continue to focus on operational excellence, the safety of our employees, contractors and customers, reliability of our products and services and strategies and processes to ensure Caltex remains the number one and growing petroleum and convenience marketer in Australia.

Caltex is focused on building upon the supply chain infrastructure to support the expanding marketing business.

Caltex will continue to progressively upgrade the retail network and drive profitable growth in shop and fuel sales. This is in addition to continuing to grow the commercial businesses and increase market share across all products.

Caltex is recognised as a brand of choice, reflected by the volume of site visits each day

DELIVERING AN EFFECTIVE SUPPLY CHAIN

Caltex's supply chain kept over one third of Australia moving in 2008.

A strong supply chain underpins effective and growing businesses and during 2008 Caltex's refining, supply and logistics once again provided a foundation for the success of the overall business.

A fully integrated supply chain from crude and product purchasing, through to refining, distribution to terminals, and ultimately to customers, ensures safety, reliability and security of supply. Caltex is continually improving and enhancing the processes, logistics and infrastructure of our supply chain.

Occasionally, the balance between supply and market demand shifts unexpectedly and the advantage of having full ownership and visibility across the supply chain provides Caltex with opportunities to effectively manage any impact and implement contingency plans if necessary.

REFINING

Caltex's Kurnell and Lytton refineries refine crude oil into petrol, diesel, jet fuel, base oil for lubricants and many specialty products such as liquid petroleum gas and bitumen. Caltex owns two of the seven refineries in Australia and these two refineries account for almost a third of Australia's total capacity.

Total production of petrol, diesel and jet was 9.8 billion litres, and average refinery utilisation for the year was 74%, compared with 84% in 2007. Caltex's refinery production and average utilisation were down in 2008 due to a major planned maintenance shutdown at the Kurnell refinery and unplanned shutdowns at both the Lytton and Kurnell refineries.

Specific actions have been undertaken to address the reliability issues at both Kurnell and Lytton which can be largely attributed to a single process unit at each refinery.

Work continues on the construction of the DHTU2 at Lytton refinery

The construction of the second diesel hydrotreater (DHTU2) at Lytton is the key growth initiative for refining, and supports Caltex's diesel growth strategy

For 2008, the Caltex Refiner Margin (CRM) averaged US$10.27 per barrel compared with US$9.26 per barrel in 2007, bolstered by strong regional diesel and jet demand. This equates to 7.9 Australian cents per litre in 2008 and 7.0 Australian cents per litre in 2007.

Refining in recent years has consumed the majority of Caltex's capital expenditure, with the introduction of clean fuel technology and asset improvement projects. Going forward, Caltex is focused on building upon its supply chain infrastructure to support its expanding marketing business. Caltex remains, however, cognisant of the need to invest capital to address risk and reliability in refining.

In 2008, a new diesel tank at Kurnell provided additional operating flexibility around diesel production and the refinery is now producing compliant 10 parts per million Australian grade sulfur diesel.

Also at Kurnell, a new crude oil tank increased crude oil storage capacity by around four days of equivalent production at the refinery, enabling higher utilisation during periods of disruption to crude supply and also the import of larger crude cargoes from further afield.

The construction of the second diesel hydrotreater (DHTU2) at Lytton is the key growth initiative for refining, and supports Caltex's diesel growth strategy. Good progress was made in 2008 and the project remains on target for construction to be completed at the end of March 2009. Costs remain on track to meet the previously advised figure of around $320 million.

SUPPLY

Caltex buys crude oil from Australian and international producers to manufacture Australian grade transport fuels and other products at the Kurnell refinery in New South Wales and the Lytton refinery in Queensland.

Caltex procured some 72 million barrels of crude and refinery feedstocks in 2008.

Preparations have now been completed for Caltex to conduct ship-to-ship transfer operations of crude oil 100–200 nautical miles off the coast of New South Wales. This capability will enable Caltex to transport crude in larger cargoes, making the transport of crude from further afield such as West Africa more economic. In 2009, Caltex crude traders will be factoring in this capability when making crude purchasing decisions.

Apart from fuels produced by our own refineries, Caltex purchases from other Australian and internatiional refineries approximately 8.5 billion litres per annum of fuel products. The product acquired from this diverse supply chain secures supply to Caltex's own marketing business and provides efficient supply of approximately 3.8 billion litres per annum to other major oil companies in New South Wales and Queensland.

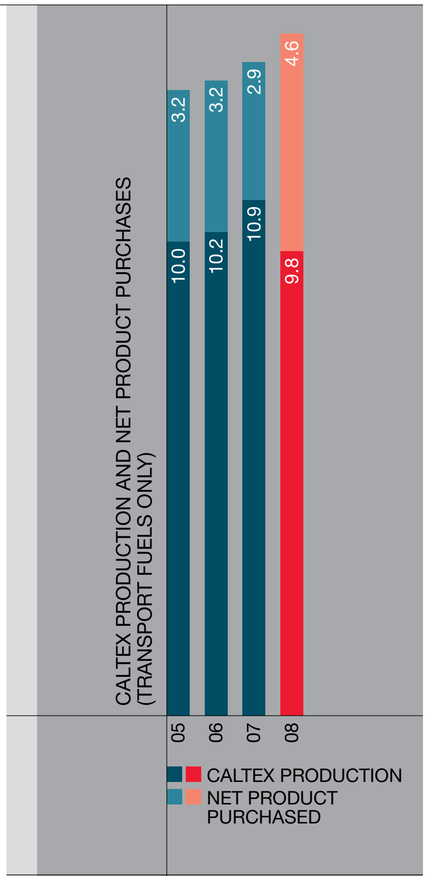
Australia is a significant net importer of product and this is expected to grow as demand increases. More than one in four litres of fuel consumed in Australia is currently imported.

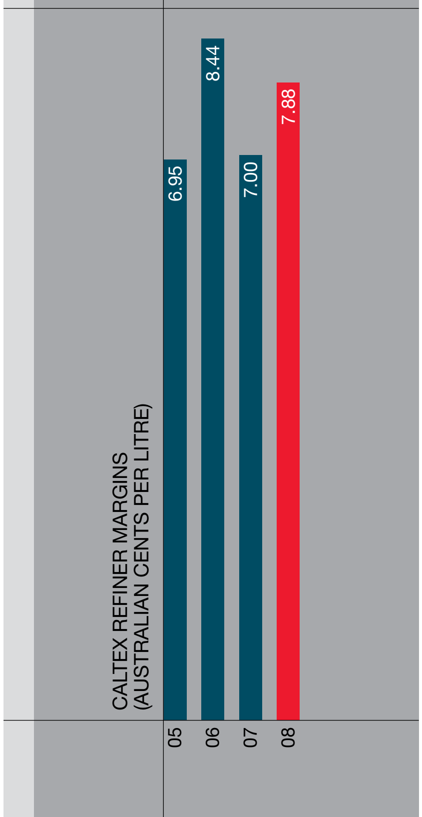
Caltex's access to supply of Australian grade fuels from a wide variety of sources within Australia and overseas allows Caltex to be highly responsive when dealing with supply interruptions or when unexpected demand for a product arises.

In August 2008, Caltex was able to respond within days to the sudden increase in demand for diesel in Western Australia brought about by an unplanned disruption to natural gas supplies. Diversion of import cargoes already on the water, plus rapid sourcing of additional supplies via our well established contacts in Asia, allowed key customers in the aluminium and power industries to continue operating.

LOGISTICS

Caltex operates 12 storage terminals across Australia. In addition, we have access to product supply at a further 10 terminals.





From these 22 terminals located right around Australia, Caltex's delivery of product to customers is achieved through its own truck fleet and the fleets of approved and accredited third party contractors. Caltex places an absolute priority on safe delivery, employing new technology together with stringent procedures and the maintenance of high standards of driver training and competency to reduce the risk of potential safety and environmental incidents.

During the year, three new biofuels blending and storage facilities at the Banksmeadow terminal in Sydney, the Newcastle terminal and the Lytton terminal in Brisbane were successfully commissioned. The upgraded facilities enable accurate and efficient ratio blending of Bio E10 Unleaded at the loading rack. Banksmeadow now has the capacity for over one million litres of ethanol storage and Lytton terminal now has the capacity for 780,000 litres ethanol storage. Plans are also underway to create further biofuels facilities nationally and to facilitate a wider rollout of Vortex diesel.

A new vapour recovery unit was commissioned at Caltex's Birkenhead terminal in South Australia in September 2008. This is the first vapour recovery unit at a fuel terminal in South Australia and represents a $2 million environmental initiative resulting in significant emissions reduction at the terminal.

Other projects currently underway include the implementation of a national preventative maintenance program to support reliable operations in our terminals, a control system upgrade for Caltex's Sydney to Newcastle pipeline and an expansion of tankage and loading gantry capacity at Mackay to facilitate efficient supply to the mining industry in the Bowen Basin.

Procurement of biodiesel and ethanol to meet the growing requirement for fuels made from renewable sources is a priority for Caltex. Caltex is a foundation customer with a long-term supply agreement with the Dalby ethanol plant which was commissioned in December 2008. The plant has the capacity to produce 80 million litres of ethanol per year. The supply of ethanol from this plant to Caltex will make an important contribution to Caltex achieving mandated ethanol targets in 2009.

FUTURE FOCUS

Operational excellence will remain a focus as Caltex continues to enhance and build upon the strengths of the integrated supply chain.

Operational excellence across the supply chain encompasses our interactions with our people, our resellers, our customers and the communities in which we operate. The communities surrounding our facilities are important to our operations and close alliances will continue to be pursued to ensure effective partnerships with these communities.

Caltex has an unwavering commitment to continually provide our customers with safe, secure, reliable and environmentally sound product and services and our employees with a safe and secure working environment and this commitment will continue.

Caltex's access to supply of Australian grade fuels from a wide variety of sources within Australia and overseas allows the company to be highly responsive when dealing with supply interruptions or when unexpected demand for a product arises

Caltex is engaged in helping to build a sustainable future. We are committed to limiting our impact on the environment, addressing climate change, being an employer of choice, remaining a good community neighbour and continuing to add value to the business for our shareholders. This commitment is reflected in our business plan and across our day-to-day operations.

A culture of operational excellence is embedded in the supply chain at Caltex and this incorporates sustainability at all levels. Caltex achieved a bronze ranking in the 2007 Australian Corporate Responsibility Index (CRI) for the third year. The index assists organisations measure and report on corporate performance relating to the community, environment, marketplace and workplace.

Caltex recognises that competing successfully in the oil industry requires us to be prudent about the way we approach and manage risk. As such, Caltex employs an enterprise wide risk management framework to ensure that risks are identified and appropriately managed in order to protect and grow shareholder value. Caltex fosters a culture of risk awareness and maintains a robust dialogue across the organisation to ensure appropriate management of risk is top of mind for all of our employees, contractors, franchisees and resellers.

Caltex is working towards building a sustainable future for generations to come

HELPING TO BUILD A SUSTAINABLE FUTURE

Caltex currently has over 400 sites supplying biofuels to customers. This includes both Bio E10 Unleaded petrol and B2 and B5 biodiesel blends

ENVIRONMENT

National greenhouse and energy reporting compliance

Since 1 July 2008, Caltex has been recording energy use and greenhouse gas emissions across the company in line with the new National Greenhouse Emissions Reporting System (NGERS). Prior to undertaking the mandatory reporting, Caltex had been reporting for over a decade under the voluntary Greenhouse Challenge Program. All Australian companies are now required to provide a report by 31 October 2009 if they emit greenhouse gases and produce or consume energy at, or above, specified quantities.

Carbon Pollution Reduction Scheme

Caltex supports action on climate change. However, as the biggest refiner and marketer of petroleum products in Australia, the proposed Carbon Pollution Reduction Scheme (CPRS) has significant implications for Caltex.

Under the proposed CPRS, Caltex's refineries will be treated as "emissions-intensive trade-exposed" and will likely receive approximately 60% free permits, although the rules for exact permit eligibility are still to be determined. The impact of the CPRS on Caltex's future profit will depend on the price for the remaining permits that must be purchased. Total refinery emissions will be approximately 2.5 million tonnes, so the net carbon liability will be approximately one million tonnes per annum. Caltex will be unable to recover these carbon costs due to import competition.

Fuel suppliers will also be required to purchase permits for their customers' emissions. Caltex customer emissions are approximately 40 million tonnes per annum and Caltex will have to incorporate the full cost of these permits into fuel prices. This will be offset by a government excise reduction for motorists and farmers to help avoid price increases for these customers.

We remain committed to working with the Federal Government to design an effective CPRS that does not adversely impact our business.

Energy Efficiency Opportunities Program

During 2008, Caltex conducted energy efficiency assessments across our refining operations as part of the Energy Efficiency Opportunities Program.

The assessments considered all aspects of energy efficiency – operational enhancements, capital investment and operational management for long-term sustainable benefits.

Meeting biofuels mandate

Caltex currently has over 400 sites supplying biofuel blends to customers. This includes both Bio E10 Unleaded petrol and B2 and B5 biodiesel blends.

Since the introduction of biofuel blends to our portfolio, we have been offering Caltex Bio E10 Unleaded petrol to customers at a discount to regular unleaded petrol to encourage customer take-up.

We have been taking all reasonable steps in order to meet the existing New South Wales 2% ethanol target and Caltex is currently on track to meet our share of the former Australian Government's biofuels target of 350 ML by 2010.

The New South Wales Government is proposing an increase from 2% to a 10% ethanol blend in all regular grade unleaded petrol to be phased in by 1 July 2011 and a minimum 2% biodiesel requirement rising to 5% by 1 January 2012. In addition, the Queensland Government is proposing a 5% ethanol content requirement in the total volume of unleaded petrol wholesaled or produced in Queensland by 31 December 2010.

	2008
Major spills	13

An accidental or unplanned spill or release to land, air or water that is of a volume sufficient to cause actual or likely harm to human health and/or damage to the environment; or has caused community outrage, e.g. numerous complaints (>10) and involvement of regulatory authorities; or a spill of hydrocarbon of a volume of 50 bbls/8000ltr (1 barrel = 160L) or greater to land; or any spill of hydrocarbon to a body of water (e.g. river, lake, marine). A spill includes any accidental or unplanned release that:

- Escapes from primary containment (intended container) onto a surface, or to air, water or land.
- Escapes from primary containment (intended container) into secondary containment not associated with routine operating practices, scheduled maintenance or authorised discharge.
- Results from company owned and/or operated transport of oil products.

Caltex continued to make improvements in flexible working arrangements in 2008

Move to recycled water at refineries

2008 saw the introduction of the use of recycled water at the Lytton refinery. Sourced from a local microfiltration reverse osmosis plant, the refinery at Lytton now saves up to 4.5 million litres of fresh drinking water per day for the local community.

Project work for the supply of recycled water to the Kurnell refinery is currently in the planning phase. The recycled water, when produced, will be used within process units to generate steam and for cooling. Savings of up to 4.5 million litres of drinking water every day at Kurnell are anticipated, replacing 70% of the current refinery water use. This project is supported by the New South Wales Government's Climate Change Fund.

Enhancing our environment

In 2008, Caltex also began dredging the Lytton refinery's wastewater storage ponds of contaminated deposit accumulated over years of operation. Technology used to de-water deposits included a set of large centrifuges and a chemical dosing plant. This assisted in reducing the environmental impact of the activity. The dredged deposit is being biologically remediated in preparation for an off site disposal. This work will continue in 2009.

Repeating similar work that was undertaken in 1994 and 2001, the refinery at Kurnell completed an off site groundwater sampling audit in 2008. In total, 39 residents from the Kurnell community gave permission for their bore water to be sampled. Each sample was tested for physical, biological and chemical characteristics. The survey confirmed there was no impact on Kurnell's groundwater from refining activities.

Underground tank replacement and monitoring

A risk assessment conducted in 2007 on underground tanks considered the age of the tanks, the location of the tanks in relation to water supply and the natural environment, and throughput of the tanks. As a result of the review, tanks were placed on a priority list and 12 stations with multiple underground tanks had their tanks replaced or repaired across Australia in 2008. This replacement program represents a significant investment in the ongoing security and reliability of supply and protection of the environment surrounding the tanks.

Monitoring wells were also installed at the 12 stations to continually monitor the tanks to ensure that no product is leaked into the surrounding soil.

In addition, the Caltex statistical inventory reconciliation and analysis system (SIRA) was upgraded in 2008. SIRA provides a statistical reconciliation of all product stored in Caltex's underground tanks. It allows monitoring of the product volume in the tanks and provides a checkpoint for tank and line integrity, and delivery accuracy.

MARKETPLACE

Petrol pricing

The average pump price for unleaded petrol in 2008 was 141 cents per litre compared to 126 cents per litre in 2007. However, Australian petrol prices were still low in 2008 relative to those in most other developed countries.

Throughout the year, prices of crude oil experienced unprecedented volatility. The wholesale price of Singapore grade petrol, on which Caltex bases its unleaded petrol prices (MOPS95), peaked at around US$148 a barrel in July and closed at the end of 2008 at a low of around US$39 a barrel. Retail and wholesale prices closely tracked these international prices, as they have in previous years.

Caltex sets the petrol price at only around 190 service stations in its branded service station site network. Prices are set by Caltex at these 190 sites in response to local market competition.

Petrol pricing is complex and we have included on our website, www.caltex.com.au, extensive information to help the public understand petrol pricing.

2008 saw the introduction of the use of recycled water at the Lytton refinery. Sourced from a local microfiltration reverse osmosis plant, the refinery at Lytton now saves up to 4.5 million litres of fresh drinking water per day for the local community

Our unwavering commitment to the safety of our workforce again resulted in an improvement to our lost time injury frequency rate

Suppliers audited for health, safety and environmental performance

During 2008, supplier audits were conducted with 10 suppliers who undertake potentially high risk activities on our sites. This was to ensure that the safety programs and processes of our suppliers complied with Caltex's internal safe work practices and environmental protection standards. The audits identified areas for improvement; Caltex worked alongside these suppliers to improve their work methods and they now fully comply with Caltex's health, safety and environment policies and procedures. In addition to this, Caltex also undertook an audit of food suppliers to our convenience store network to ensure compliance with national food regulations.

Biofuels website launch

Caltex launched its biofuels website in 2008. The website, www.caltex.com.au/biofuels, was designed to ensure that our customers have a clear understanding of the facts and figures around biofuels. It covers why they are being introduced, what they are made from, in which vehicles they can be used and the cost when compared with traditional fuels. It also includes a glossary and links to relevant external websites.

Commitment to sustainable biofuel sourcing

Caltex is committed to ensuring that all biofuel feedstocks are sourced from sustainable sources. Caltex is cognisant that biofuel production may impact on environmental sustainability and, as such, only uses locally manufactured biodiesel made using locally grown feedstocks processed in Australian plants. Our ethanol comes from wheat, in the form of waste from wheat starch manufacturing, from molasses, a byproduct of sugar refining, and sorghum, a stock feed. Caltex will not consider buying imported biodiesel feedstock like palm oil until we can be sure it has been sustainably produced.

WORKPLACE

Safety and risk management

Caltex employs an operational excellence management system (OEMS) to ensure we operate in a safe, secure, environmentally sound, efficient and reliable way.

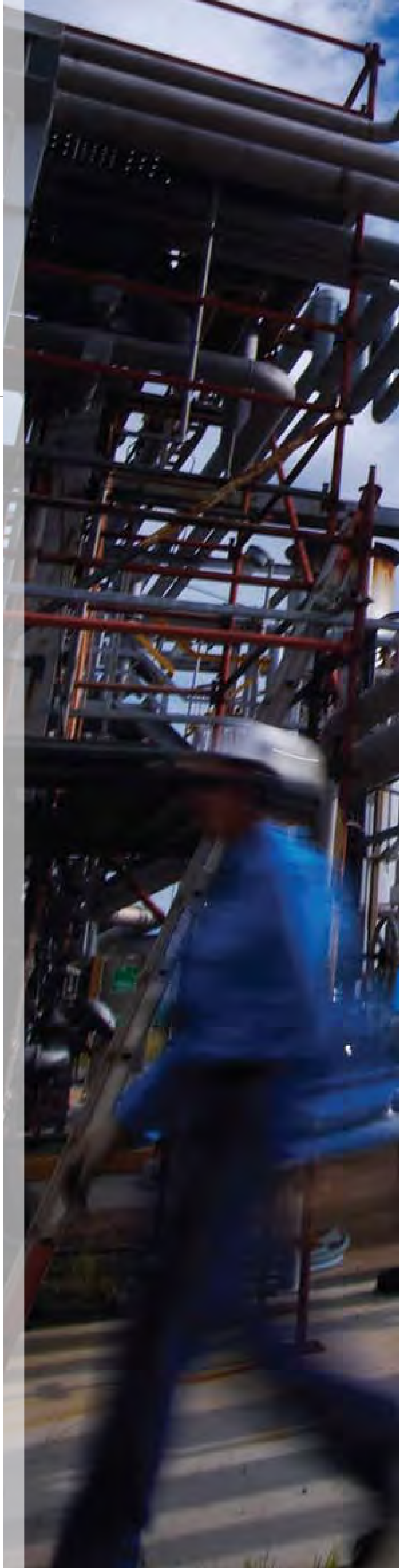
OEMS is a systematic approach to operational excellence that is linked to the business planning process. Caltex is continuing to drive improvement through OEMS across the entire supply chain, addressing both process safety and the personal safety of our employees.

We have an unwavering commitment to the safety of our workforce and want to ensure that every one of our people returns home safely every day. This commitment again resulted in an improvement to our lost time injury frequency rate (LTIFR) which was 3.0 per million hours worked, a decrease from 3.8 per million hours worked in 2007. Caltex also continued investing in driver training programs and fleet upgrades and maintenance to ensure the safety of our drivers. In 2008, the number of motor vehicle accidents decreased by 25% and the number of tanker truck accidents per million kilometres travelled decreased by 28%.

Caltex also made significant progress on improving process safety in the refineries during 2008. Hazard assessments were completed on operating plant and significant progress was made moving personnel outside of hazardous areas.

Attracting and developing talent

Caltex recognises that the supply of high quality talent is key to our sustained commercial success and as a result has made significant improvements in talent sourcing and talent development. The introduction of a dedicated team of Caltex



Lytton refinery moved to recycled water sourced from a local microfiltration reverse osmosis plant in 2008, with Kurnell planning to commence during 2009


RO WATER
RO WATER

Caltex launched an improved performance management process ensuring greater alignment of individual goals to strategic business goals

recruitment professionals, underpinned by contemporary technology and improved recruitment methodology, has greatly enhanced Caltex's ability to attract talent at a lower recruitment cost.

Developing an internal pipeline of leadership talent was a continuing priority for Caltex in 2008. The implementation of a rigorous talent management system has enabled Caltex to identify high potential talent across the middle and senior levels of the organisation and build development plans to prepare people for career growth.

Development of leadership capability is also a key strategic focus for Caltex. In support of this, a new Caltex curriculum was developed which includes a professional development stream and a leadership development stream. This is designed to support managers through the different transition passages in a typical leadership career path, shifting from tactical leadership and management positions to a high strategic level.

Building a performance culture

Caltex launched an improved performance management process ensuring greater alignment of individual goals to strategic business goals. The performance management system also reinforces personal accountability for performance outcomes. These enhancements were underpinned by comprehensive training programs for managers and employees designed to further improve the effectiveness of performance conversations.

Strengthening diversity in the workplace

Caltex continued to make improvements to the parental leave benefits and flexible working arrangements in 2008. We also reinforced our commitment to a more diverse and inclusive culture with the rollout of a workplace behaviours program to our workforce. A diversity program was also designed and developed to build manager capability in leading diverse teams.

Employees fuelling change

Fuelling Change is Caltex's employee contributions program that provides our people with an effective way to make a real difference in our community. The program enables our employees to make charitable contributions directly from their pay to one of our nominated charity partners. These charity partners are The Cancer Council of Australia, OZ Green, The Smith Family, The Heart Foundation, RSPCA and The Starlight Children's Foundation. In 2008, almost $70,000 was contributed by our employees through this program. This was then matched by Caltex, doubling our total contributions to our Fuelling Change partners.

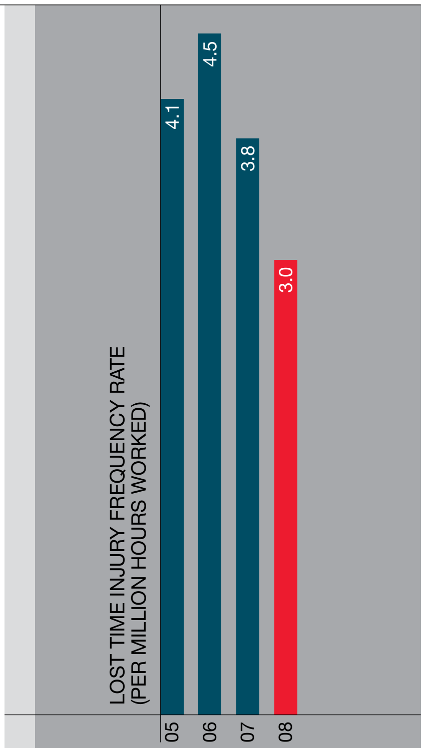
COMMUNITY

We are committed to supporting the Australian communities in which we work and live. This is achieved through a select range of community partnerships and sponsorships. Our community initiatives are focused on supporting and enhancing the communities within our areas of operation, in particular within the vicinity of major facilities such as our Lytton and Kurnell refineries.

In and around Kurnell and Lytton, Caltex actively supports a number of local community programs and provides sponsorships for schools, charities, sporting groups and cultural activities. This is achieved through donations in kind, such as StarCash, and through monetary contributions.

Caltex is proud that our employees also readily contribute both their time and money to company supported initiatives and are proactive in supporting the local community.

For over nine years Caltex has worked in partnership with The Starlight Children's Foundation to support Australian children and families in need. While Caltex contributes financially and through provision of fuel, it is Caltex's dedicated employees all over the country who have



Caltex is proud to support the communities in which we work and live through a range of community partnerships and sponsorships taken this partnership to heart and work tirelessly to raise funds and awareness in their local communities. We are the principal partner of Starlight Day which is the highlight of a year round program of support for Starlight by Caltex employees, resellers and franchisees across Australia. In 2008, Caltex employees dedicated countless hours to raise over $350,000 for The Starlight Children's Foundation which helped grant wishes and purchase Interactive Starlight Fun Centres for seriously ill children and their families.

Caltex also recognises excellence in the performing arts through its sponsorship of the internationally acclaimed Australian Chamber Orchestra (ACO). In 2008, Caltex was the National Tour partner of the ACO's The Red Tree. Music and imagery combined in a moving concert experience featuring the ACO, Gondwana Voices and projected illustrations from Shaun Tan's popular books *The Red Tree* and *The Arrival*.

In addition, Caltex sponsored the Rotary Sydney Award for Innovation in Teaching and awarded the Caltex Teaching Award for Excellence in Chemical Engineering. Caltex continues its commercial association with both the Australian Football League and the Australian Rugby League's State of Origin series, developing unique and entertaining promotions for fans and customers alike.

In its 23rd year, the Caltex Best All Rounder Award is still one of Australia's most prestigious secondary school awards. Caltex Best All Rounder Award winners excel across a number of areas including studies, sport, community involvement, conduct and leadership. In 2008, over 500 schools participated in this program nationally.

Each year, Caltex Best All Rounder Award recipients are invited to enter a national writing competition. In 2008, entrants were asked to submit a compelling written argument as to why Caltex should donate $1,000 to an Australian charity or community organisation along with $500 for themselves and $500 for their schools.

We are committed to supporting the Australian communities in which we work and live. This is achieved through a select range of community partnerships and sponsorships. Our community initiatives are focused on supporting and enhancing the communities within our areas of operation

LEFT: Sallese Gibson (centre) from Santa Maria College, one of the winners of the 2008 Caltex Best All Rounder National Writing Competition, with John Summers (left), Club Captain, Fremantle Surf Lifesaving Club and Clint White (right), Calstores Business Manager – WA, Caltex

RIGHT: Tony Nguyen and Heidi Ponder supported The Starlight Children's Foundation by selling merchandise in Sydney on Starlight Day

BOARD OF DIRECTORS

ELIZABETH BRYAN
Chairman
(Non-Executive/
Independent)

Elizabeth joined the Caltex Board in July 2002 and has served as Chairman from October 2007. She is Chairman of the Board's Nomination Committee.

Elizabeth is a professional director and brings management, strategic and financial expertise to Caltex. She is Chairman of UniSuper Limited, a director of Westpac Banking Corporation and a director of the Australian Institute of Company Directors.

DESMOND KING
Managing Director
& CEO

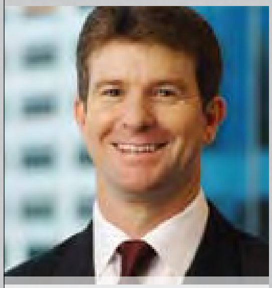
Des was appointed as Managing Director & CEO in May 2006. He is responsible for overseeing the day-to-day operations of the Caltex Australia Group.

Des has worked in the oil industry with Chevron for over 25 years and has held a number of senior roles, including General Manager of the Chevron Pembroke Refinery in Wales, director of Texaco UK, director of Nerefco (a Chevron/BP joint venture refinery in Holland), General Manager of Chevron Corporate Strategy & Planning, and Managing Director of Chevron Global Technology Marketing.

TREVOR BOURNE
Director
(Non-Executive/
Independent)

Trevor joined the Caltex Board in March 2006. He is the Chairman of the Board's OHS & Environmental Risk Committee.

Trevor brings broad management experience in industrial and capital intensive industries, and engineering and supply chain skills and experience, to the Board. He is Chairman of Hastie Group Limited and a director of Origin Energy Limited.



BRANT FISH
Director
(Non-Executive)

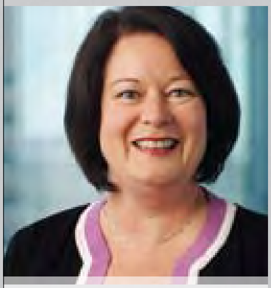
Brant joined the Caltex Board in July 2006.

Brant brings significant downstream oil industry experience to Caltex, particularly in the areas of supply chain, refining and marketing. He currently serves as the Global Vice President of Joint Ventures & Affiliates for Chevron Global Manufacturing and as Chevron's Downstream Regional Leader for Asia Pacific.

GREIG GAILEY
Director
(Non-Executive/
Independent)

Greig joined the Caltex Board in December 2007. He is Chairman of the Board's Human Resources Committee.

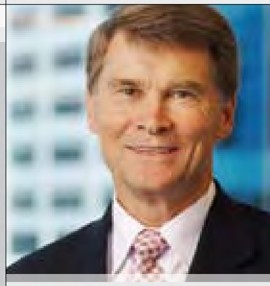
Greig brings extensive Australian and international oil industry experience, and broad management expertise from industrial and capital intensive industries, to the Board. He is currently President of the Business Council of Australia, a director of the Australian Davos Connection Limited and a director of the Victorian Opera Company Limited.



COLLEEN JONES-CERVANTES
Director
(Non-Executive)

Colleen joined the Caltex Board in June 2008.

Colleen brings important downstream oil industry knowledge and experience, especially in marketing, to the Board. She currently serves as Chevron's Vice President of Global Marketing, Asia Pacific Region and is responsible for retail sales for the Caltex brand (as operated by Chevron), commercial and industrial sales, asphalt and LPG sales and company operated stores in 11 countries.



JOHN THORN
Director
(Non-Executive/
Independent)

John joined the Caltex Board in June 2004. He is the Chairman of the Board's Audit Committee.

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

Further information
For further information on the directors, including disclosures required under the *Corporations Act 2001*, please refer to pages 42 and 43 of this *2008 Annual Report*.

CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

The corporate governance arrangements for Caltex Australia Limited ("Caltex") and its group companies (the "Caltex Australia Group") are set by the Caltex Board having regard to the particular circumstances of Caltex and the best interests of shareholders.

Caltex is committed to best practice in corporate governance where these practices are appropriate and add value to Caltex. The Board and management of Caltex maintain a constant interest in corporate governance practices, including assessing the guidelines of regulatory and investor bodies and considering other national and international practices. The Board reviews its governance arrangements each year to ensure compliance with legal requirements, to meet the expectations of shareholders and other stakeholders, and to best address the circumstances at Caltex.

This Corporate Governance Statement details Caltex's corporate governance practices, including compliance with the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations,* for 2008. This statement is current as at 20 February 2009 and should be read together with the directors' report at pages 42 to 68 of this *2008 Annual Report*.

This statement, and governance documents referred to in this statement, are available from the Caltex website (www.caltex.com.au). To go directly to the corporate governance section of the website, please visit www.caltex.com.au/about_gov.asp. You can also write to the Caltex Secretariat (at Level 24, 2 Market Street, Sydney NSW 2000) to request a copy of these corporate governance documents.

PRINCIPLES AND RECOMMENDATIONS		COMPLY
1	LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT	
1.1	**Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions**	✓

Board Charter
The *Board Charter* sets out the functions and responsibilities of the Caltex Board in order to facilitate Board and management accountability for Caltex's performance and strategic direction.

The *Board Charter* notes that management of Caltex's day-to-day operations is undertaken by the Managing Director & CEO, subject to specific delegations of authority approved by the Board. Any matters or transactions outside the delegations of authority must be referred to the appropriate Caltex Australia Group company board for approval.

The Managing Director & CEO has approved delegations of authority (subject to the limits referred to in the *Board Charter*) that apply across the Caltex business.

Letter of appointment for new directors
On appointment, a new director is provided with a formal letter of appointment.

The Board's Nomination Committee has approved a standard letter for new directors, which sets out the key terms of a director's appointment and the Board's expectations of the director. The standard letter covers the matters referred to in the guidance and commentary for Recommendation 1.1.

PRINCIPLES AND RECOMMENDATIONS		COMPLY
1.2	**Companies should disclose the process for evaluating the performance of senior executives**	✓

Managing Director & CEO
Mr Desmond King (Managing Director & CEO) is seconded to Caltex Australia from Chevron. The secondment ends on 30 June 2009.

The performance of the Managing Director & CEO is assessed annually against Caltex Australia's performance benchmarks, as set out in a performance agreement, including a company scorecard. The results of the assessments are reported to Chevron.

For the 2008 performance year, the following process was followed in reviewing the performance of the Managing Director & CEO:
- the Chairman carried out an initial assessment of performance
- the Board's Human Resources Committee took this into account, along with the Managing Director & CEO's self assessment, and agreed a rating and assessment to recommend to the Board, and
- the Board approved a rating and assessment to be passed onto Chevron.

Caltex Leadership Team
The executive leadership team at Caltex (the Caltex Leadership Team) comprises the Managing Director & CEO and senior executives who report directly to the Managing Director & CEO.

At the beginning of each year, Caltex Leadership Team members agree performance objectives with the Managing Director & CEO. The objectives are based on Caltex's annual business plan and strategic direction, and are documented in a performance agreement. Where applicable, a scorecard setting out performance targets, success measures and weightings is also agreed. The performance agreement, scorecard and senior leadership behavioural expectations all form part of the executive's performance objectives for the year. Performance is formally reviewed mid-year and at the end of the year. This process was followed in 2008.

1.3	**Companies should provide the information indicated in the Guide to reporting on Principle 1**	✓

Caltex complies with Recommendations 1.1, 1.2 and 1.3.

The following information is available from the Caltex website (www.caltex.com.au):
- *Board Charter*
- *Performance Evaluation Process*

2 STRUCTURE THE BOARD TO ADD VALUE

2.1	**A majority of the board should be independent directors**	✓

Caltex Board
The Caltex Board comprised a majority of independent directors at all times throughout 2008.

The Board, at the date of this report (20 February 2009), comprises:
- Ms Elizabeth Bryan (Chairman; Non-Executive Director/Independent)
  Appointed: 18 July 2002. Appointed as Chairman: 1 October 2007
- Mr Desmond King (Managing Director & CEO)
  Appointed: 1 May 2006
- Mr Trevor Bourne (Non-Executive Director/Independent)
  Appointed: 2 March 2006
- Mr Brant Fish (Non-Executive Director)
  Appointed: 27 July 2006
- Mr Greig Gailey (Non-Executive Director/Independent)
  Appointed: 11 December 2007
- Ms Colleen Jones-Cervantes (Non-Executive Director)
  Appointed: 1 June 2008; previously an alternate director from 27 July 2006 to 31 May 2008
- Mr John Thorn (Non-Executive Director/Independent)
  Appointed: 2 June 2004
  (Mr Peter Wissel serves as an alternate director for each of Mr Fish and Ms Jones-Cervantes)

Details of the skills, experience and expertise of each director are provided at pages 42 and 43 of this *2008 Annual Report*.

PRINCIPLES AND RECOMMENDATIONS	COMPLY

Previous directors in 2008
As noted previously, Mr Peter Wissel serves as an alternate director for each of Mr Fish and Ms Jones-Cervantes. He was appointed as an alternate director from 1 June 2008. In 2008, Mr Wissel also served as a non-executive director until 31 May 2008; he had been appointed as a director on 23 August 2005. He was not considered to be an independent director because of his executive position with Chevron.

Mr Richard (Dick) Warburton served as a director until the end of the Annual General Meeting on 24 April 2008. He was appointed as a director on 29 July 1999 and served as Chairman from 26 April 2001 to 30 September 2007. Mr Warburton was an independent director.

Process for assessing independence
The Board makes an assessment of the independence of each director at the time of appointment and in February of each year. Directors are required, on an ongoing basis, to disclose relevant personal interests and conflicts of interest. A new interest or conflict of interest may trigger a review of the director's independent status.

The matters and thresholds considered by the Board when determining whether a director is independent are set out in the Board's *Charter of Director Independence*. The Board's criteria for assessing independence reflect the guidance and commentary for Recommendation 2.1.

The independence criteria include:
- a relationship with a substantial shareholder
- previous employment in an executive capacity with Caltex
- service as a principal or an officer of a professional advisory firm, consultant, supplier or customer
- involvement in the external audit of Caltex or service as a partner, principal or director of the external auditor, and
- length of service.

The following materiality thresholds have been applied to:
- professional advisory firms and consultants:
  - 5% of total revenues (billings) of the professional adviser or consultant, or
  - 20% of Caltex's total expenses for all services of the same, or a similar, nature, and
- suppliers and customers:
  - 5% of total supplies of the supplier or total purchases of the customer, or
  - 20% of Caltex's total supplies or purchases of the same, or a similar, nature.

Under the Board's *Charter of Director Independence*, Mr Brant Fish and Ms Colleen Jones-Cervantes, who are executives of Chevron, are not independent. Mr Desmond King (Managing Director & CEO) is not independent as he serves as an executive at Caltex; he is also an executive of Chevron but is seconded to Caltex.

The appointment of Chevron executives as directors allows Caltex to access the industry experience that these directors have gained from working at Chevron, one of the world's leading global energy companies. These directors bring important knowledge and experience to the Board's consideration of operational, strategic and business matters. This level and breadth of experience is generally not available from Australian based directors unless they are, or have been, involved in the petroleum industry. The potential pool of Australian based directors who would be available to Caltex is relatively small because many candidates have current or recent associations with Caltex's competitors.

Meetings of non-executive directors
In 2008, it was the practice of the Board, at scheduled Board meetings, to hold preliminary meetings in the absence of Caltex management. Generally speaking, the non-executive directors met first, followed by a meeting of the non-executive directors and the Managing Director & CEO, with management then joining the Board meeting as required.

Access to independent professional advice
Directors may obtain independent professional advice at Caltex's expense. Under a policy approved by the Board, a director who wishes to seek professional advice at Caltex's expense must obtain the prior approval of the Chairman; in the case of the Chairman, the Chairman must obtain the prior approval of the Audit Committee Chairman.

PRINCIPLES AND RECOMMENDATIONS		COMPLY
2.2	**The chair should be an independent director** The Chairman, Ms Elizabeth Bryan, is an independent director.	✓
2.3	**The roles of chair and chief executive officer should not be exercised by the same individual** The roles of Chairman and CEO at Caltex are not exercised by the same person. As noted previously, Ms Elizabeth Bryan serves as Chairman and Mr Desmond King serves as Managing Director & CEO.	✓
2.4	**The board should establish a nomination committee** The Nomination Committee is a standing committee of the Caltex Board. In 2008, the Nomination Committee comprised all Caltex directors. The Board Chairman, Ms Elizabeth Bryan, serves as Chairman of the Nomination Committee. The responsibilities of the Nomination Committee are set out in the *Committee Charter*. The *Committee Charter* reflects the matters set out in the commentary and guidance for Recommendation 2.4. The Nomination Committee met on two occasions in 2008. The number of meetings attended by each committee member is shown at page 66 of this *2008 Annual Report*.	✓
2.5	**Companies should disclose the process for evaluating the performance of the board, its committees and individual directors** Directors and key executives participate in a review of Board performance every two to three years. The review is facilitated by an external consultant who conducts one-on-one interviews with directors and key executives based on a structured format agreed by the Board. The review includes directors providing feedback on other directors. The external consultant prepares a report relating to Board performance as a whole, which is discussed by the Board. The actions agreed by the Board in response to the recommendations made in the consultant's report are documented and completion of these items is monitored by the Board. The external consultant also meets with the Chairman to discuss the peer assessment of each director's performance. A Board performance review was carried out in late 2008 in accordance with this process. The results of the review were discussed by directors in February 2009.	✓
2.6	**Companies should provide the information indicated in the Guide to reporting on Principle 2** Caltex complies with Recommendations 2.1, 2.2, 2.3, 2.4, 2.5 and 2.6. The following information is available from the Caltex website (www.caltex.com.au): • *Board Composition, Appointment, Induction & Election* • *Committee Charter* of the Nomination Committee • *Performance Evaluation Process*	✓

PRINCIPLES AND RECOMMENDATIONS		COMPLY
3	PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING	

3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to: ✓

- **the practices necessary to maintain confidence in the company's integrity**
- **the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders**
- **the responsibility and accountability of individuals for reporting and investigating reports of unethical practices**

Caltex Code of Conduct

The *Caltex Code of Conduct*, as approved by the Board, sets out Caltex's commitment to successfully conduct our business in accordance with all applicable laws while demonstrating and promoting the highest ethical standards. The code provides a framework for decision-making and business behaviour, which builds and sustains Caltex's corporate integrity, reputation and success, and identifies responsibilities for reporting and investigating breaches. The code applies to directors and employees.

Each year, the Board reviews the *Caltex Code of Conduct* and receives a report from the Group Manager – Human Resources in relation to the administration of, and compliance with, the code.

The *Caltex Code of Conduct* reflects the matters set out in the commentary and guidance for Recommendation 3.1.

Relationship with Chevron

Chevron Corporation, through one of its subsidiaries, holds 50% of the ordinary shares in Caltex Australia Limited. Various subsidiaries of Chevron Corporation also enter into commercial arrangements with Caltex Australia from time to time.

Caltex benefits greatly from its relationship with Chevron. The Board is mindful of ensuring that Chevron is not favoured over other shareholders and that all arrangements with Chevron are appropriate. To this end, the Caltex Board has adopted a policy to govern all transactions with Chevron. Details of that policy, and other information concerning the relationship with Chevron, are set out in a document titled *Relationship with Chevron* on the Caltex website (www.caltex.com.au).

3.2 Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy ✓

The *Caltex Share Trading Policy*, as approved by the Board, is designed to:

- minimise the potential for insider trading in contravention of the law by designated Caltex officers and other Caltex staff
- prohibit the hedging of unvested Caltex shares held by designated Caltex officers through incentive schemes, and
- set out clear rules for designated Caltex officers in relation to dealings in Caltex shares.

Directors and senior executives are nominated as designated Caltex officers under the policy.

In addition to the requirements of the insider trading laws, the policy requires that designated Caltex officers must not trade in Caltex shares in the following closed periods:

- for Caltex's half year results (in August): from 1 July to (and including) the day of the announcement
- for Caltex's full year results (in February): from 1 January to (and including) the day of the announcement, and
- any other periods designated and advised by the Board.

At any time other than a closed period, a designated Caltex officer may trade in Caltex shares but only if they are not in possession of inside information. All other Caltex staff may trade in Caltex shares at any time but only if they are not in possession of inside information.

Under the policy, designated Caltex officers who hold unvested Caltex shares must not enter into any transaction that is designed or intended to hedge the exposure to the unvested shares. The policy was revised from 1 November 2008 to require designated Caltex officers to include details of margin lending arrangements when giving notice of a proposed transaction in Caltex shares. The policy also requires that designated Caltex officers provide a certificate to the Company Secretary following the end of each year in which the officer confirms compliance with the policy.

The *Caltex Share Trading Policy* reflects the matters set out in the commentary and guidance for Recommendation 3.2.

PRINCIPLES AND RECOMMENDATIONS		COMPLY
3.3	**Companies should provide the information indicated in the Guide to reporting on Principle 3** Caltex complies with Recommendations 3.1, 3.2 and 3.3. The following information is available from the Caltex website (www.caltex.com.au): • *Caltex Code of Conduct* • *Relationship with Chevron* • *Caltex Share Trading Policy*	✓
4	**SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**	
4.1	**The board should establish an audit committee** The Audit Committee is a standing committee of the Caltex Board. The committee's role is to assist the Board to fulfil its responsibilities in relation to: • the integrity of reporting to shareholders and the market on the financial performance and position of Caltex and its controlled entities, and • overseeing the independence of the external auditor.	✓
4.2	**The audit committee should be structured so that it:** **• consists only of non-executive directors** **• consists of a majority of independent directors** **• is chaired by an independent chair, who is not chair of the board** **• has at least three members** The Audit Committee comprises Mr John Thorn (Committee Chairman), Mr Trevor Bourne and Mr Greig Gailey (appointed 1 May 2008). As noted previously, Mr Thorn, Mr Bourne and Mr Gailey are independent, non-executive directors. In 2008, Mr Peter Wissel served as a member of the committee until 30 April 2008. Mr Wissel was not an independent director. Details of the skills, experience and expertise of each committee member are provided at pages 42 and 43 of this *2008 Annual Report*. From 1 May 2008, the Audit Committee was comprised of only independent directors. The *Committee Charter* was formally amended with effect from 1 September 2008 to require all committee members to be independent directors. Previously, the charter required a majority of members to be independent. The Audit Committee met on four occasions in 2008. The number of meetings attended by each committee member is shown at page 66 of this *2008 Annual Report*.	✓
4.3	**The audit committee should have a formal charter** The responsibilities of the Audit Committee are set out in the *Committee Charter*. The *Committee Charter* reflects the matters set out in the commentary and guidance for Recommendation 4.3.	✓
4.4	**Companies should provide the information indicated in the Guide to reporting on Principle 4** Caltex complies with Recommendations 4.1, 4.2, 4.3 and 4.4. The following information is available from the Caltex website (www.caltex.com.au): • *Committee Charter* of the Audit Committee • *Caltex External Auditor Policy*	✓

PRINCIPLES AND RECOMMENDATIONS		COMPLY
5	**MAKE TIMELY AND BALANCED DISCLOSURE**	
5.1	**Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies** The *Caltex Continuous Disclosure Policy*, as approved by the Board, sets out the key obligations of the Board and senior management to ensure that Caltex complies with its disclosure obligations under the ASX Listing Rules and the *Corporations Act 2001*. As noted in the policy, the Board has appointed three disclosure officers (the Managing Director & CEO, the Chief Financial Officer and the Company Secretary/General Manager – Office of the CEO), who are responsible for compliance with Caltex's continuous disclosure obligations. In addition, the Board has appointed the Company Secretary as the primary person responsible for communications with the ASX in relation to Listing Rule matters. The *Caltex Continuous Disclosure Policy* reflects the matters set out in the commentary and guidance for Recommendation 5.1.	✓
5.2	**Companies should provide the information indicated in the Guide to reporting on Principle 5** Caltex complies with Recommendations 5.1 and 5.2. The *Caltex Continuous Disclosure Policy* is available from the Caltex website (www.caltex.com.au).	✓
6	**RESPECT THE RIGHTS OF SHAREHOLDERS**	
6.1	**Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy** The *Caltex Shareholder Communications Policy*, as approved by the Board, is designed to promote effective communication with shareholders and encourage participation at general meetings. As noted in the policy, Caltex supports the use of electronic and other means of communicating with investors and utilises the means of communication best suited to the information and audience at the time and most relevant and effective for the shareholder base. The Caltex website (www.caltex.com.au) contains links to our Board and committee charters, corporate governance policies and processes, investor presentations, full year and half year results announcements, ASX announcements, annual and half year reports, shareholder meetings and other corporate information. To go directly to the corporate governance section of the website, please visit www.caltex.com.au/about_gov.asp. Shareholders can also write to the Caltex Secretariat (at Level 24, 2 Market Street, Sydney NSW 2000) to request a copy of corporate governance documents. The *Caltex Shareholder Communications Policy* reflects the matters set out in the commentary and guidance for Recommendation 6.1.	✓
6.2	**Companies should provide the information indicated in the Guide to reporting on Principle 6** Caltex complies with Recommendations 6.1 and 6.2. The *Caltex Shareholder Communications Policy* is available from the Caltex website (www.caltex.com.au).	✓

PRINCIPLES AND RECOMMENDATIONS		COMPLY
7	**RECOGNISE AND MANAGE RISK**	
7.1	**Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies** The Board has approved a risk management policy for the effective management of risk across the Caltex business. The policy sets out details of the proactive and systematic approach that Caltex takes to managing risks and identifies the roles and responsibilities of the Board, management and employees in the oversight and management of Caltex's risks. The Managing Director & CEO is responsible for implementing the policy across the Caltex Australia Group. The Board has approved risk management policies in relation to crude, product and freight hedging, interest rate management, liquidity risk management, foreign exchange risk management, treasury controls, credit risk management and trade practices. The Board's OHS & Environmental Risk Committee has approved policies in relation to occupational health and safety and the environment.	✓
7.2	**The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks** Caltex has adopted a risk management framework throughout its operations to proactively and systematically identify, assess and address events that could potentially impact upon business objectives. This framework integrates the consideration of risk into activities at Caltex so that the key risks in relation to the efficient and effective operation of functions and the successful execution of Caltex's business strategy are identified, control measures are evaluated and, where required, improvements in these controls are scheduled. Under Caltex's risk management policy, which supports the risk management framework, every department must complete risk and control snapshots relating to key risks as part of the development of the annual business plan. In addition, a consistent project development and execution process has been adopted to manage risks for all of Caltex's major initiatives and projects. For each key business risk identified through the risk management framework, the control measures in relation to those risks must be identified and documented and their effectiveness regularly assessed. Where a control is assessed as ineffective, improvements in the control must be scheduled. Regular reports are provided (as appropriate) to the Board, the Audit Committee, the OHS & Environmental Risk Committee, the Compliance & Risk Committee (a management governance committee) and departmental leadership teams on key business risks, including the status and effectiveness of control measures in relation to each of those risks. The key business risks reported are determined having regard to "worst case" scenario planning (for people, environment, financial and reputation categories). In 2008, reports on key risks were provided to the Board and the OHS & Environmental Risk Committee on four occasions. Internal audit reports were also provided to the Audit Committee and the OHS & Environmental Risk Committee during the year. Risks involving progressively lower "worst case" impacts are reported to the Caltex Leadership Team, the Compliance & Risk Committee and departmental leadership teams.	✓

PRINCIPLES AND RECOMMENDATIONS		COMPLY
7.3	**The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks** In February 2009, the Board received a statement in relation to the 2008 full year results from the Managing Director & CEO and the Chief Financial Officer covering the matters set out in section 295A of the *Corporations Act 2001* and in accordance with the terms stipulated in Recommendation 7.3. The Board received a similar statement from the Managing Director & CEO and the Chief Financial Officer in August 2008 for the 2008 half year results.	✓
7.4	**Companies should provide the information indicated in the Guide to reporting on Principle 7** Caltex complies with Recommendations 7.1, 7.2, 7.3 and 7.4. The *Summary of Risk Oversight & Management Policies* is available from the Caltex website (www.caltex.com.au).	✓
8	**REMUNERATE FAIRLY AND RESPONSIBLY**	
8.1	**The board should establish a remuneration committee** The Human Resources Committee is a standing committee of the Caltex Board. The committee's role is to: • assist the Board by reviewing remuneration policies and programs that create appropriate incentives for senior executives and employees to work in the best interests of Caltex and support the retention and development of those senior executives and employees • advise the Board on remuneration arrangements for directors, and • advise the Board on the disclosure of Caltex's remuneration practices in the annual report to shareholders. The Human Resources Committee comprises Mr Greig Gailey (Committee Chairman), Mr Brant Fish and Mr John Thorn (appointed 1 May 2008). As noted previously, Mr Gailey and Mr Thorn are independent directors. Mr Richard (Dick) Warburton served as a member of the committee until 24 April 2008. Mr Warburton was an independent director. The Human Resources Committee's responsibilities are set out in its *Committee Charter*. The *Committee Charter* reflects the matters set out in the commentary and guidance for Recommendation 8.1. The Human Resources Committee met on seven occasions in 2008. The number of meetings attended by each committee member is shown at page 66 of this *2008 Annual Report*.	✓

PRINCIPLES AND RECOMMENDATIONS		COMPLY
8.2	**Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives**	✓

Non-executive directors

Remuneration for non-executive directors is fixed. Non-executive directors do not participate in any incentive plans. The Board operates a share plan which allows non-executive directors based in Australia to sacrifice fees to acquire Caltex shares. Non-executive directors do not receive any retirement benefits except superannuation.

In 2008, Mr Richard (Dick) Warburton received $330,629 as payment of an accrued retirement benefit under a previous scheme for non-executive directors (which was discontinued by the Board in December 2003). Mr Warburton's accrued retirement benefit at 31 December 2003 was frozen and paid into a separate interest bearing account pending his retirement. No current directors are entitled to an accrued retirement benefit.

For information about Caltex's remuneration practices for non-executive directors, please refer to the remuneration report at pages 45 to 65 of this *2008 Annual Report*.

Managing Director & CEO

As noted previously, the Managing Director & CEO is seconded to Caltex from Chevron.

For information about Caltex's remuneration practices for the Managing Director & CEO, please refer to the remuneration report at pages 45 to 65 of this *2008 Annual Report*.

Caltex Leadership Team

Members of the Caltex Leadership Team have the following remuneration components:

- base salary
- statutory entitlements (including superannuation and long service leave, where applicable)
- a short-term incentive, and
- a long-term incentive.

In 2008, two members of the Caltex Leadership Team, Mr Andrew Walz (General Manager – Marketing) (appointed: 1 April 2008) and Mr Brian Waywell (General Manager – Refining) (resigned: 30 November 2008), were seconded to Caltex from Chevron.

For information about Caltex's remuneration practices for members of the Caltex Leadership Team and other senior managers, including Mr Walz and Mr Waywell, please refer to the remuneration report at pages 45 to 65 of this *2008 Annual Report*.

8.3	**Companies should provide the information indicated in the Guide to reporting on Principle 8**	✓

Caltex complies with Recommendations 8.1, 8.2 and 8.3.

The following information is available from the Caltex website (www.caltex.com.au):

- *Committee Charter* of the Human Resources Committee
- *Caltex Share Trading Policy*

SIMPLIFIED FINANCIAL REPORT

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

MILLIONS OF DOLLARS	**2008**	2007
1 Total revenue[1]	23,891	19,342
2 Total expenses[2]	(23,570)	(18,667)
3 **Replacement cost earnings before interest and tax**	**321**	**675**
Finance income	4	7
Finance expenses	(60)	(46)
4 **Net finance costs**	(56)	(39)
Income tax expense	(79)	(192)
Replacement cost profit (RCOP)	**186**	**444**
5 Inventory (loss)/gain after tax	(152)	202
Historical cost net profit after tax	**34**	**646**
Interim dividend per share	36c	47c
6 Final dividend per share	nil	33c
Basic earnings per share		
– Replacement cost	69c	164c
– Historical cost	13c	239c

DISCUSSION AND ANALYSIS

1 **TOTAL REVENUE** ▲ **24%**	Total revenue increased primarily due to: • higher product prices driven by higher average crude oil prices. Crude oil prices rose from US$101/bbl in December 2007, peaked at US$147/bbl in July 2008, before falling to US$42/bbl in December 2008, and • higher sales volumes.
2 **TOTAL EXPENSES – REPLACEMENT COST BASIS** ▲ **26%**	Total expenses increased primarily due to higher cost of sales, which reflected: • higher average crude prices for the majority of 2008 • inflationary impact on operating costs, and • increased product imports.

1 Excludes interest revenue.
2 Excludes interest expense and inventory gains/(losses).

DISCUSSION AND ANALYSIS (CONTINUED)

3 REPLACEMENT COST EBIT ▼ 52%	Caltex's underlying performance weakened, driven by foreign exchange losses resulting from the rapid fall in the Australian dollar in the last quarter of the year, and the impact of lower refinery production.

RCOP EBIT BREAKDOWN[1]

CALTEX REFINER MARGIN (CRM) $789M	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. Despite lower production volumes (2008: 9.8 billion litres of petrol, diesel and jet; 2007: 10.9 billion litres), total CRM was A$3 million higher in 2008 than in 2007. The US dollar CRM was 11% higher in 2008 at US$10.27/bbl, compared with US$9.26/bbl in 2007. The Australian dollar CRM was 13% higher at 7.88 Australian cents per litre in 2008, compared with 7.00 Australian cents per litre in 2007.
TRANSPORT FUELS MARKETING MARGIN $393M	Transport fuels comprise petrol, diesel and jet. The transport fuels marketing margin is based on the average net margin over Import Parity Price in Australia. The average transport fuels marketing margin was 11% higher than in 2007, driven by higher transport fuel sales of 14.4 billion litres in 2008, compared with 13.8 billion litres in the same period in 2007. The strongest growth was in diesel sales with Caltex volumes up 10% over the prior year.
LUBRICANTS AND SPECIALTIES MARGIN $128M	Lubricants and specialties products include finished lubricants, base oils, liquified petroleum gas, petrochemicals, bitumen, wax and marine fuels. Lubes and specialty margins increased 11% compared with 2007.
NON-FUEL INCOME $154M	Non-fuel income includes convenience store income, franchise income, royalties, property, plant and equipment rentals, StarCard income and share of profits from non-controlled equity distributors. Non-fuel income was up slightly over 2007 in tougher economic conditions.
OPERATING EXPENSES ($806M)	While cost pressures remained high through 2008, operating cost on a cents-per-litre basis was held to an increase of 4.5% above 2007. Increased refinery depreciation as well as increased maintenance costs were a major contributor. Caltex has maintained its focus on cost structure and, as a result, cents per litre cost increases tracked in line with official inflation figures.
OTHER ($337M)	Other margin includes: • gross margin other than CRM (includes unfavourable imports, purchases and export sales), and • foreign exchange loss on payables ($243 million).
TOTAL RCOP EBIT $321M	

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

DISCUSSION AND ANALYSIS (CONTINUED)

4 NET FINANCE COSTS ▲ 44%	The increase in net finance costs reflects a higher average net debt for 2008 (39% above 2007). The net debt at 31 December 2008 was $832 million, compared with $582 million at 31 December 2007. Debt increased in the year due to the weakened historical profit driven by the inventory losses caused by falling crude prices. In addition, capital expenditure remained at a high level ($462 million) as progress on a new diesel hydrotreater unit at the Lytton refinery continued. The interest on this debt was partially offset by higher capitalised finance costs, $20 million in 2008 vs. $4 million in 2007.
5 INVENTORY LOSS AFTER TAX ▼ 175%	Regional crude oil (Tapis) prices decreased significantly in the second half of 2008 (US$138.60/bbl July 2008, compared with US$41.71/bbl in December 2008). This decrease resulted in a net inventory loss of $217 million ($152 million after tax), compared with net inventory gains of $290 million ($202 million after tax) in 2007. Included in the inventory loss is a write-down of inventory on hand at year end to its net realisable value by an amount of $65 million ($46 million after tax). There was no net realisable value write-down to inventory in 2007.
6 FINAL DIVIDEND	The Board declared no final dividend will be paid for 2008, reflecting the RCOP loss of $10 million in the second half of 2008. This makes the total 2008 dividend declared 36 cents per share fully franked after the interim dividend of 36 cents per share, paid on 28 September 2008 (2007 total dividends: 80 cents per share). This represents a payout of 52% of full year RCOP earnings, in line with the dividend policy of 40–60%.

BALANCE SHEET

AS AT 31 DECEMBER 2008

MILLIONS OF DOLLARS		DEC 2008	DEC 2007	CHANGE
1	Working capital	803	937	(134)
2	Property, plant and equipment (PP&E)	2,742	2,477	265
3	Net debt	(832)	(582)	(250)
4	Other non-current assets and liabilities	(111)	(3)	(108)
	Total equity	2,602	2,829	(227)

DISCUSSION AND ANALYSIS

1 WORKING CAPITAL
▼ $134m

The decrease in working capital is primarily due to:

- lower value of crude and finished product inventory due to the lower Tapis price (US$41.71/bbl in December 2008, compared with US$100.85/bbl in December 2007)
- lower crude inventory volumes due to refinery shutdowns in December 2008, and
- lower receivables due to the impact of lower crude prices on product sales prices.

Partly offset by:

- lower crude payables due to decreased Tapis price, and
- a significant prepaid tax asset ($135 million). This prepayment has resulted from tax instalment payments made prior to the recognition of inventory losses caused by the fall in crude oil prices.

2 PP&E
▲ $265m

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

- capital expenditure and major cyclical maintenance of $462 million.

Partly offset by:

- depreciation of $168 million, and
- net disposals of $28 million.

3 NET DEBT
▲ $250m

Net debt was $832 million at 31 December 2008, an increase of $250 million from 31 December 2007. Debt increased in the year due to the reduced historical profit, the high capital expenditure program and the overpayment of tax instalments.

4 OTHER NON-CURRENT ASSETS AND LIABILITIES
▲ $108m

Other non-current assets and liabilities increased from a net liability of $3 million at 31 December 2007 to a net liability of $111 million at 31 December 2008. The unprecedented 20% fall in equity markets in the second half of 2008 resulted in a deficit in the Caltex Defined Benefit superannuation plan. This will be funded in future years in accordance with advice received from the actuary.

CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2008

	MILLIONS OF DOLLARS	**2008**	2007	CHANGE
	Receipts from customers	27,608	21,469	6,139
	Payments to suppliers and employees	(22,191)	(16,041)	(6,150)
	Payments for excise	(4,767)	(4,629)	(138)
1	Finance costs paid	(66)	(54)	(12)
2	Tax and other activities	(204)	(149)	(55)
	Net operating cash inflows	**380**	**596**	**(216)**
3	Purchases of property, plant and equipment (PP&E) and major cyclical maintenance	(427)	(351)	(76)
	Other investing cash flows	(9)	(17)	8
	Net investing cash outflows	**(436)**	**(368)**	**(68)**
4	**Net financing cash inflows/(outflows)**	**74**	**(270)**	**344**
	Net increase/(decrease) in cash held	**18**	**(42)**	**60**

DISCUSSION AND ANALYSIS

1 **FINANCE COSTS** ▲ **$12m**	Net average debt increased to $748 million in 2008, compared with $537 million at 31 December 2007. As a result, financing costs also increased.
2 **TAX AND OTHER ACTIVITIES** ▲ **$55m**	Net cash outflows from tax and other operating activities were higher than 2007 due to income taxes paid of $209 million in 2008, compared with $162 million in 2007. In addition, interest received was $5 million lower in 2008.
3 **PURCHASES OF PP&E AND MAJOR CYCLICAL MAINTENANCE** ▲ **$76m**	Capital expenditure in 2008 increased primarily due to the ongoing investment on the new diesel hydrotreater unit at the Lytton refinery. This unit is scheduled to be commissioned in the second quarter 2009.
4 **NET FINANCING CASH INFLOWS** ▲ **$344m**	Net financing cash inflows increased due to higher net borrowings in 2008 and a decrease in dividends paid. Total dividend payments in 2008 were $186 million, compared to $257 million in 2007.

FINANCIAL REPORT

THE 2008 FINANCIAL REPORT FOR CALTEX AUSTRALIA LIMITED INCLUDES:

for the year ended 31 December 2008.

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
- major operating companies, including Caltex Australia Petroleum Pty Ltd, Caltex Refineries (NSW) Pty Ltd, Caltex Refineries (Qld) Pty Ltd, Caltex Petroleum Services Pty Ltd and Caltex Lubricating Oil Refinery Pty Ltd, and
- a number of wholly owned entities and other companies that are controlled by the Group.

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

CALTEX AUSTRALIA LIMITED

ACN 004 201 307

INTRODUCTION

The Board of Caltex Australia Limited presents the 2008 Directors' Report (including the 2008 Remuneration Report) and the 2008 Financial Report for Caltex Australia Limited (and the Caltex Australia Group) for the year ended 31 December 2008 to shareholders. An Independent Audit Report from KPMG, Caltex's external auditor, is also provided.

BOARD OF DIRECTORS

The Board of Caltex Australia Limited comprises Ms Elizabeth Bryan (Chairman), Mr Desmond King (Managing Director & CEO), Mr Trevor Bourne, Mr Brant Fish, Mr Greig Gailey, Ms Colleen Jones-Cervantes and Mr John Thorn.

All directors have been in office since before 1 January 2008, except for Ms Jones-Cervantes. The following changes to the composition of the Board have occurred since 1 January 2008:

- Ms Jones-Cervantes was appointed as a director (to fill a casual vacancy) from 1 June 2008. She previously served as an alternate director for each of Mr Fish and Mr Wissel until 31 May 2008.
- Mr Wissel resigned as a director with effect from 31 May 2008. He was appointed as an alternate director for each of Mr Fish and Ms Jones-Cervantes from 1 June 2008.
- Mr Richard (Dick) Warburton retired as a director at the close of the Annual General Meeting held on 24 April 2008.

BOARD PROFILES

Elizabeth Bryan
Chairman (Non-Executive/Independent)

Date of appointment – director: 18 July 2002

Date of appointment – Chairman: 1 October 2007

Board committees: Nomination Committee (Chairman); attends meetings of the Audit Committee, Human Resources Committee and OHS & Environmental Risk Committee in an ex-officio capacity

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

Elizabeth is Chairman of UniSuper Limited, a director of Westpac Banking Corporation (appointed November 2006) and a director of the Australian Institute of Company Directors. She was previously a director of Ridley Corporation Limited (September 2001 to October 2007).

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

Desmond King
Managing Director & CEO

Date of appointment: 1 May 2006

Board committees: Nomination Committee

Des has served as the Managing Director & CEO from 1 May 2006. He is responsible for overseeing the day-to-day operations of the Caltex Australia Group.

Des has worked in the oil industry with Chevron for over 25 years and has held a number of senior roles, including General Manager of the Chevron Pembroke Refinery in Wales, director of Texaco UK, director of Nerefco (a Chevron/BP joint venture refinery in Holland), General Manager of Chevron Corporate Strategy & Planning, and Managing Director of Chevron Global Technology Marketing.

Des is a member of the Board of the Australian Institute of Petroleum.

Des holds a Bachelor of Chemical Engineering from Imperial College London (UK) and a Doctor of Philosophy in Chemical Engineering from the University of Cambridge (UK).

Trevor Bourne
Director (Non-Executive/Independent)

Date of appointment: 2 March 2006

Board committees: OHS & Environmental Risk Committee (Chairman), Audit Committee and Nomination Committee

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

Trevor is Chairman of Hastie Group Limited (where he has served as a director since February 2005) and a director of Origin Energy Limited (appointed February 2000). He was previously a director of Coates Hire Limited (February 2004 to January 2008) and Lighting Corporation Limited (February 2004 to January 2008).

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

Brant Fish
Director (Non-Executive)

Date of appointment: 27 July 2006

Board committees: Human Resources Committee and Nomination Committee

Brant brings significant downstream oil industry experience to Caltex, particularly in the areas of supply chain, refining and marketing. He currently serves as the Global Vice President of Joint Ventures & Affiliates for Chevron Global Manufacturing and as Chevron's Downstream Regional Leader for Asia Pacific. Brant is based in Singapore and has accountability for overall Chevron Downstream earnings in Asia Pacific – from refinery crude supply to a consumer or export sale. He was previously the General Manager of Supply Chain Optimization – Asia Pacific for Chevron U.S.A. Inc.

Brant holds a Bachelor of Science (Mechanical Engineering) from the University of Florida (USA).

Brant previously served as an alternate director of Caltex Australia Limited (April 2005 to July 2006).

Greig Gailey
Director (Non-Executive/Independent)

Date of appointment: 11 December 2007

Board committees: Human Resources Committee (Chairman), Audit Committee, Nomination Committee and OHS & Environmental Risk Committee

Greig brings extensive Australian and international oil industry experience, and broad management expertise from industrial and capital intensive industries, to the Board. From 1964 to 1998, he worked at British Petroleum Company (BP) where he held various positions throughout Australia and offshore, including management of refining, supply and distribution in Australia and Europe.

Greig was subsequently appointed CEO of Fletcher Challenge Energy (New Zealand), a position he held from 1998 to 2001. In August 2001, he joined Pasminco Limited as CEO. Pasminco was subsequently transformed and relisted as Zinifex Limited on the Australian Stock Exchange in April 2004. Greig became Managing Director & CEO of Zinifex Limited from that date until standing down in June 2007. He is currently President of the Business Council of Australia, a director of the Australian Davos Connection Limited and a director of the Victorian Opera Company Limited.

Greig holds a Bachelor of Economics from the University of Queensland.

Colleen Jones-Cervantes
Director (Non-Executive)

Date of appointment: 1 June 2008

Board committees: Nomination Committee and OHS & Environmental Risk Committee

Colleen brings important downstream oil industry knowledge and experience, especially in marketing, to the Board. She currently serves as Chevron's Vice President of Global Marketing, Asia Pacific Region and is responsible for retail sales for the Caltex brand (as operated by Chevron), commercial and industrial sales, asphalt and LPG sales and company operated stores in 11 countries.

Colleen holds a Bachelor of Science (Mechanical Engineering) from Michigan Technological University (USA). She is based in Singapore.

Colleen previously served as an alternate director of Caltex Australia Limited (July 2006 to May 2008).

John Thorn
Director (Non-Executive/Independent)

Date of appointment: 2 June 2004

Board committees: Audit Committee (Chairman), Human Resources Committee and Nomination Committee

John is a professional director and brings expertise to the Board in the areas of accounting and financial services, business advisory, risk and general management. He has had over 37 years' professional experience with PricewaterhouseCoopers, where he was a partner from 1982 to 2003, and undertook work for major international and local companies. During this period, he served as the Managing Partner of PricewaterhouseCoopers' Assurance and Business Advisory Service practice from 1998 to 2001 and as the National Managing Partner until 2003.

John is a director of Amcor Limited (appointed December 2004), National Australia Bank Limited (appointed October 2003) and Salmat Limited (appointed September 2003).

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

Peter Wissel
Alternate Director* (Non-Executive)

Date of appointment: (* for each of Brant Fish and Colleen Jones-Cervantes) 1 June 2008

Peter is the Regional Finance Officer, Asia Pacific for Chevron's downstream business. In this role, he is responsible for financial and management reporting, credit approval, local cash management, local tax matters, and risk management in the 14 countries in the Asia Pacific region where Chevron conducts refining and marketing operations.

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

Peter previously served as a director of Caltex Australia Limited (August 2005 to May 2008).

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Mr Richard (Dick) Warburton AO served as a director from 29 July 1999 to the close of the Annual General Meeting on 24 April 2008, when he retired as a director. Mr Warburton served as Chairman from 26 April 2001 to 30 September 2007.

In 2008 (during his time with the Board), Mr Warburton served as Chairman of The Board of Taxation, Chairman of Magellan Flagship Fund Limited (appointed (as director) October 2006) and Chairman of Tandou Limited (appointed (as director) April 2004). In the previous three years, he was a director of Tabcorp Holdings Limited (June 2000 to November 2006) and Nufarm Limited (October 1993 to December 2007).

Prior to becoming a professional director, Mr Warburton was the Chairman and CEO of DuPont Australia & New Zealand, where he was responsible for DuPont's petrochemical business operations in Australia and New Zealand.

REVIEW OF RESULTS AND OPERATIONS
General overview

Caltex Australia Limited recorded an after tax profit of $186 million on a replacement cost of sales operating profit (RCOP) basis for the year to 31 December 2008, down from $444 million in 2007.

$210 million of the $258 million decline is due to the unprecedented fall in the Australian dollar in the second half of 2008. The Australian dollar fell from an average of 82 cents in September to an average of 68 cents in October. This one month change alone accounted for approximately one half of the total $210 million decline.

Caltex does not actively hedge its foreign currency exposures because the impact of key external factors normally nets out over time. In 2008, the lower crude oil price offset the increase in working capital due to the lower Australian dollar with no significant impact on debt. Caltex expects that the short-term negative effect of the weaker Australian dollar on 2008 RCOP earnings will be offset by the positive impact on future earnings via a stronger Australian dollar refiner margin.

Refinery reliability was disappointing in 2008 with a single process unit at each of Kurnell and Lytton accounting for the majority of the reliability impact. Specific actions have been undertaken to address these reliability issues.

Caltex saw strong marketing volume growth and market share gains during the year. Overall, the marketing business was the major contributor to Caltex's earnings. Caltex's robust supply chain enabled the company to source and deliver high quality product to market to minimise the impact of both planned and unplanned refinery shutdowns at Kurnell and Lytton.

Overall, Caltex's 2008 RCOP profit after tax equates to an average of 0.9[1] cents per litre for all petroleum products sold in comparison to 2.2 cents per litre sold in 2007.

Cash flow improvement initiatives throughout the year, and a focus on the management of operating expenses, enabled Caltex's balance sheet to remain strong in an environment of unprecedented volatility. Caltex's BBB+ credit rating was also reconfirmed in the fourth quarter of 2008.

1 This calculation is based on 2008 RCOP NPAT ($186 million), which includes non-fuel income, divided by the total Caltex sales of petrol, diesel and jet fuel including sales to domestic refiners, lubricants and specialty products (20.4 billion litres).

On a historical cost profit basis (including inventory gains/losses), Caltex recorded an after tax profit of $34 million for 2008, compared with $646 million in 2007. This decline was dominated by the fall in crude oil prices and the unprecedented drop in the Australian dollar.

Debt at 31 December 2008 was $832 million (31 December 2007: $582 million).

DIVIDEND

The Board declared no final dividend will be paid for 2008, reflecting the RCOP loss of $10 million in the second half of 2008. The interim dividend of 36 cents per share paid in September 2008, based on earnings of $196 million in the first half of 2008, represents a full year payout ratio of 52% of RCOP, in line with Caltex's dividend policy. This compares with a total dividend payout of 80 cents fully franked for 2007. The final 2007 dividend of 33 cents per share was paid in March 2008.

MARKETING

Caltex's marketing business continued to provide a stable and growing platform for earnings in 2008. Total transport fuels sales volume grew to in excess of 14.4 billion litres for the full year. This 3.9% increase from 2007 was primarily driven by the strong growth in total diesel and jet sales which grew by 10.1%. In convenience retailing shop sales increased 3.6%.

SUPPLY CHAIN

Total production of petrol, diesel and jet was 9.8 billion litres, at an average refinery utilisation of 74%. Production and utilisation were impacted in 2008 by a combination of planned and unplanned maintenance activity and softening petrol margins in the second half of the year.

For 2008, the Caltex Refiner Margin[2] averaged US$10.27 per barrel, bolstered by strong diesel and jet demand which offset flagging petrol demand. This equates to 7.9 Australian cents per litre in 2008 compared with 7.0 Australian cents per litre in 2007.

During the year, three new biofuels blending and storage facilities at the Banksmeadow terminal in Sydney, the Newcastle terminal and the Lytton terminal in Brisbane were successfully commissioned. As at the end of January 2009, Bio E10 Unleaded has been rolled out to 191 Caltex branded petrol stations in NSW, 125 in Queensland and seven in the ACT, and biodiesel blends are now available at 151 petrol stations in NSW and distributed commercially in Adelaide and Newcastle.

OUTLOOK

Caltex recognises that the economic slowdown may impact both marketing growth and regional US dollar refiner margins in 2009. However, the weaker Australian dollar will bolster Caltex's refiner margin in Australian dollar terms.

Caltex has always been cognisant of the need to maintain a strong balance sheet given Caltex operates in a cyclical industry. Caltex will maintain its focus on cost control, cash flow and debt management. Caltex will also continue to focus on its long-term strategy of profitably growing the marketing business, in order to remain the leading fuel and convenience operator in Australia, with growth underpinned by an effective supply chain.

Carbon Pollution Reduction Scheme (CPRS)

The Federal Government's Carbon Pollution Reduction Scheme (CPRS) is due to start in 2010.

Refining

Under the proposed CPRS, Caltex's refineries will be treated as "emissions-intensive trade-exposed" and will receive approximately 60% free permits, although the rules for exact permit eligibility are still to be determined. The impact of the CPRS on Caltex's future profit will depend on the price for the remaining permits that must be purchased. Total refinery emissions will be approximately 2.5 million tonnes, so permits for approximately 1 million tonnes p.a. must be purchased. Caltex will be unable to recover these permit purchase costs due to import competition.

Marketing

Fuel suppliers will be required to purchase permits for their customers' emissions. Caltex customer emissions are approximately 40 million tonnes p.a. and Caltex will have to incorporate the full cost of these permits into fuel prices. This will be offset by a government excise reduction for motorists and farmers to help avoid price increases for these customers.

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 2008 to the date of this report.

LIKELY DEVELOPMENTS

Business operations

Caltex will continue to purchase, refine, distribute and market petroleum products and operate convenience stores throughout Australia.

ENVIRONMENTAL REGULATIONS

Caltex is committed to compliance with Australian laws, regulations and standards, as well as to minimising the impact of our operations on the environment. The Board OHS & Environmental Risk Committee has oversight of Caltex's environmental risks and the systems in place to manage operational risks and support the Caltex Environment Policy.

Caltex sets key performance indicators to measure environmental, health and safety performance and drive improvements against targets. In addition to Board review, progress against these performance measures is discussed regularly by the Managing Director & CEO with General Managers and Business Unit managers.

Risks are examined and communicated through the Caltex Risk Management Framework, an enterprise-wide risk management system which provides a consistent approach to identifying and assessing all risks, including environmental risks. Under the framework, risks and controls are assessed, improvements identified, and quarterly reports made to the Board.

In 2008, Caltex continued to disclose information on pollution and greenhouse gas emissions from its facilities under the National Pollutant Inventory and Greenhouse Challenge Plus respectively. Caltex also made its first public report on energy

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

use and potential energy savings at the refineries under the federal Energy Efficiency Opportunities program, based on detailed assessments of energy usage at the refinery facilities to determine opportunities for savings.

In 2008, Caltex made its fourth submission to the Corporate Responsibility Index (reporting on the 2007 calendar year), and received a bronze ranking in the Index for its Corporate Responsibility performance in the 2006 calendar year.

Compliance with environmental regulations

A total of 12 environmental protection licences were held by companies in the Caltex Australia Group in 2008 for two refinery sites and 10 terminals.

Nine non-compliances were recorded against the conditions in these licences in 2008. Each of these was reported to government environmental authorities. These did not result in an infringement notice or fine. All non-compliances were investigated and corrective actions implemented.

Caltex was prosecuted for one breach of environmental regulations in 2008, and was issued one penalty infringement notice:

Caltex Refineries (NSW) Pty Ltd, at Kurnell, was fined $78,000 in the NSW Land and Environment Court for failure to properly and efficiently operate the refinery flare which resulted in odour complaints between 23 and 29 December 2006, and paid an additional $48,000 in NSW EPA legal costs. The fine was paid to the NSW National Parks and Wildlife Service to implement a Weed Management Strategy for Towra Point Nature Reserve, an internationally recognised wetland used by migratory birds.

Caltex Refineries (NSW) Pty Ltd, at Kurnell, was issued a penalty infringement notice of $1,500 by Sydney Ports Corporation in November 2008 for a spill of less than 10 litres of oil into Botany Bay from Caltex's wharf facilities which occurred on 30 August 2008. Caltex immediately initiated a clean-up activity and all the oil was safely removed from Silver Beach. There was no significant environmental impact.

In April 2008, the Victorian EPA brought proceedings against Caltex Australia Petroleum Pty Ltd relating to a loss of containment incident in August 2006 at Newport terminal. The matter is listed for hearing before the Melbourne Magistrates Court in March 2009.

Caltex is committed to achieving 100% compliance and all breaches of environmental regulations have been investigated thoroughly and appropriate corrective actions taken to prevent recurrence.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 70 and forms part of the Directors' Report for the financial year ended 31 December 2008.

REMUNERATION REPORT

Introduction

To realise its vision to be the number one and growing petroleum and convenience marketer in Australia, Caltex needs to attract, motivate and retain the right people for its business. Caltex rewards its people through transparent performance management and reward systems which closely link employee rewards to company performance and the interests of shareholders.

Our performance based reward system focuses on company, department and individual elements, with individual performance having a significant impact on employee remuneration. For all employees, including senior executives, individual performance is measured and assessed regularly through our Performance Management Process (PMP), with assessment outcomes driving reward levels.

Caltex's Reward Policy

High performance at individual and team levels is required to deliver the relative Total Shareholder Return expectations established by the Caltex Business Plan. Our Reward practices are structured to appropriately reward performance from motivated, highly skilled and results-orientated people.

The key principles for how Caltex rewards its employees (which includes senior executives) are:

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

The application of these principles focuses employee rewards on improving our relative Total Shareholder Return.

Governance of the Caltex Reward System

Governance of the Caltex Reward System is undertaken by the Board's Human Resources Committee. It reviews our systems and approves outcomes including the satisfaction of performance conditions, ensuring the rewards remain aligned and contribute to relative Total Shareholder Return expectations. The committee is independent of management and can use independent external advisors as necessary.

The Human Resources Committee has delegated authority from the Board to:

- approve the annual Caltex employee reward program
- oversee Caltex's incentive schemes for senior executives (including the Caltex Equity Incentive Plan) and the Performance Incentive Plan and approve the following aspects of the schemes:
  - structure
  - rules
  - eligibility parameters
  - targets, and
  - incentive pools, and
- oversee the Caltex Australia Limited employee share plan.

The Human Resources Committee also advises the Board on:

- the remuneration of non-executive directors, including remuneration for Board committee memberships
- the remuneration for the Managing Director & CEO and other members of the Caltex leadership team
- major changes to rewards policies or practices by reviewing and commenting on changes proposed by management, and
- remuneration matters generally, including superannuation.

The Human Resources Committee is comprised of three non-executive directors, Mr Greig Gailey (Committee Chairman), Mr Brant Fish and Mr John Thorn (from 1 May 2008). Mr Gailey and Mr Thorn have been determined by the Board to be "independent", while Mr Fish, who is a senior executive at Chevron, is not considered to be "independent". Ms Elizabeth Bryan (Board Chairman) attends meetings in an ex-officio capacity. The committee is scheduled to meet a minimum of four times each year to undertake its governance functions. The number of meetings held in 2008, and the attendance by committee members, is set out on page 66 of this Report.

In 2008, Mr Richard (Dick) Warburton served as a member of this committee until his retirement as a director on 24 April 2008.

Delivering Total Shareholder Return through performance and reward

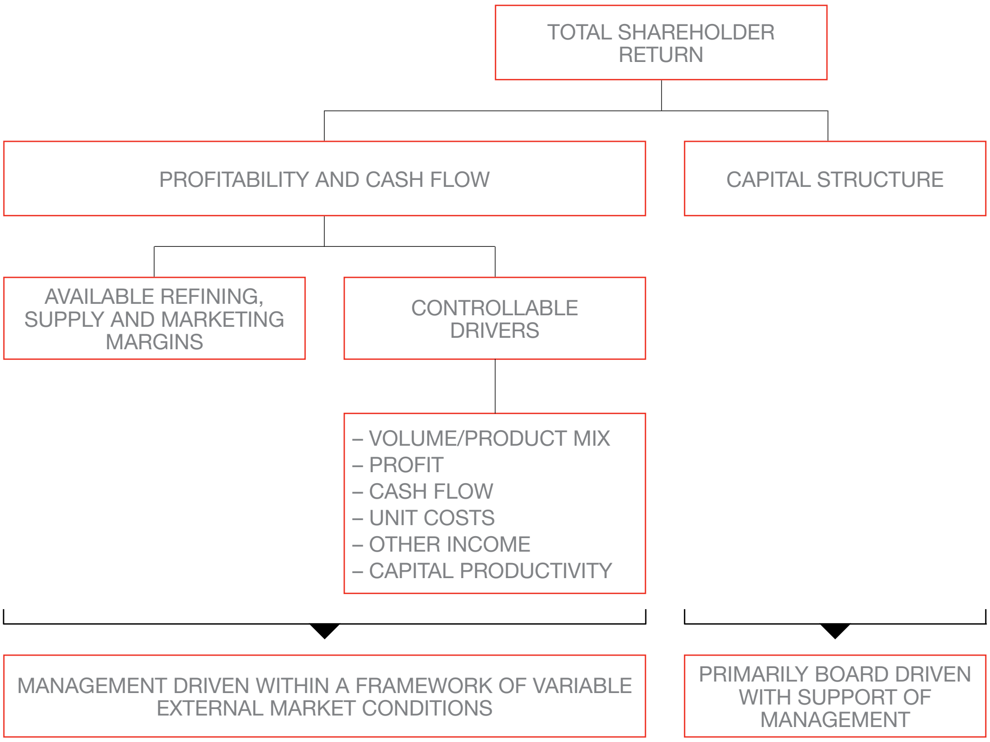
The Caltex Reward System applies to all salaried employees including senior executives but excludes employees covered by enterprise bargaining agreements, Australian Workplace Agreements and employees in Calstores Pty Ltd and Caltex Petroleum Services Pty Ltd.

The key drivers of Total Shareholder Return (TSR) for Caltex are identified as *profitability* and *capital structure*. The major drivers that are wholly or partially within senior executive control and provide the inputs for managing and rewarding performance are:

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

There is a range of variable external market conditions that fluctuates with global market dynamics including margins in Refining and Marketing over which senior executives have little control. As demonstrated in Figure 1, senior executives must deliver profitability and generate cash flow in the context of these conditions. The Reward System recognises performance that delivers superior results in our cyclical industry.

FIGURE 1: KEY DRIVERS OF TOTAL SHAREHOLDER RETURN

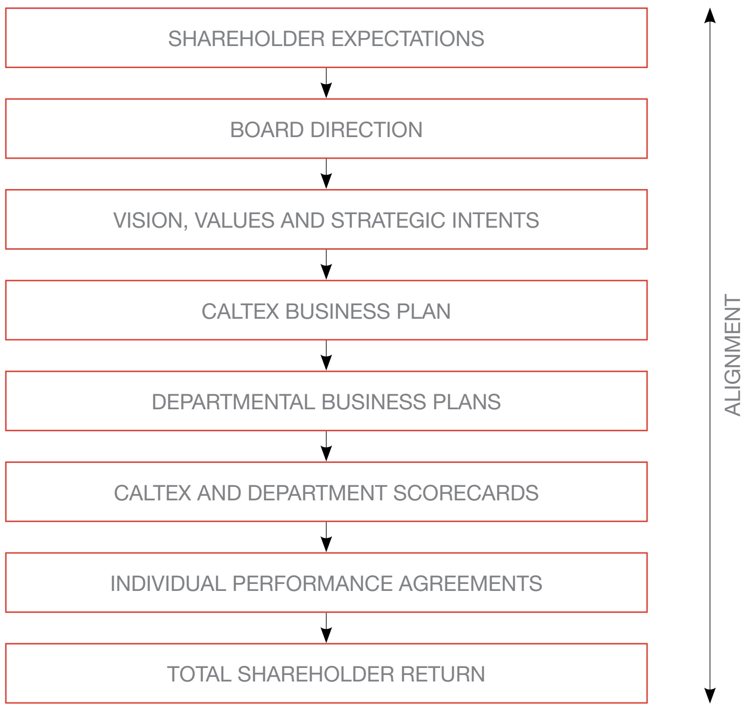


To ensure focus on TSR, each year the Board establishes a clear framework ("Corporate Direction") from which management develops the Caltex Business Plan. The Board approves the plan and regularly monitors and reviews progress.

The approved Caltex Business Plan is then translated into Department and Business Unit Plans and scorecards that incorporate the TSR drivers. Scorecards are approved by the Human Resources Committee prior to the commencement of each performance year.

Within departments, specific performance agreements are developed for individual employees, thus completing the link between employees and delivery of TSR as shown in Figure 2. Performance agreements must be agreed between the employee and his or her manager. The manager once removed must then endorse the performance agreement. For executives directly reporting to the Managing Director & CEO, performance agreements are set jointly with the Managing Director & CEO.

FIGURE 2: ALIGNING INDIVIDUAL PERFORMANCE AGREEMENTS TO TOTAL SHAREHOLDER RETURN

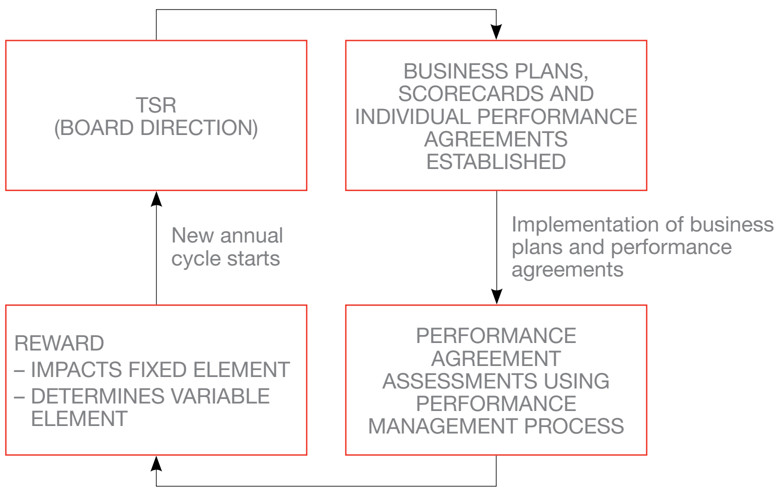


Performance management

The efficacy of the Reward System is contingent on the integrity of the Performance Management Process (PMP).

The Caltex PMP ensures employees know what is expected of them, how they are performing and how that will impact on their reward outcomes. As shown in Figure 3, this also provides employees with an understanding of how the performance expected of them is aligned with the Caltex Business Plan.

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

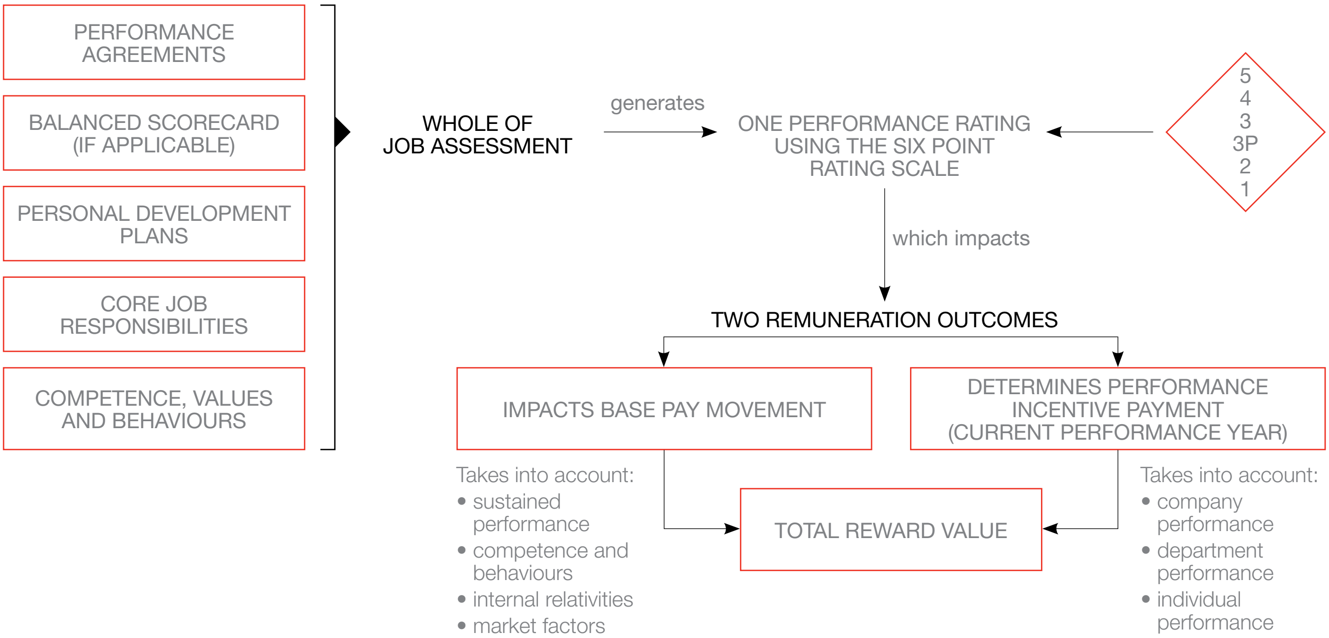


The assessment of individual performance covers specific performance agreements, relevant department and individual scorecards, personal development plans and demonstration of Caltex values and appropriate behaviours, as well as overall performance against the individual's job description – that is, assessment is against the whole of job expectations. Regular whole of job assessment occurs during the course of the year, resulting in a rating at year end. Ratings are then calibrated at the business unit and department level.

The performance of senior executives against their performance agreement is measured and tracked regularly by the Managing Director & CEO. Ratings recommended by the Managing Director & CEO for his direct reports must be approved by the Human Resources Committee, along with any resulting changes in fixed remuneration and payments of variable remuneration.

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

FIGURE 4: WHOLE OF JOB ASSESSMENT AND OUTCOMES



Determining reward

Total Reward Value

Caltex uses a Total Reward Value approach for employees covered under the Caltex Reward System. The core elements of the Total Reward Value are fixed remuneration (base pay) including any allowances individuals are eligible to receive, variable remuneration and superannuation contributions. Variable remuneration comprises the cash based Performance Incentive Plan (short-term incentive plan) and the equity based Caltex Equity Incentive Plan for eligible senior executives (long-term incentive plan). The relative weighting of fixed and variable components for target performance varies with role seniority and complexity.

The Total Reward Value approach enables comparison and accurate monitoring of the market competitiveness of each employee's Total Reward Value package. Market comparisons of the Total Reward Value are undertaken regularly to inform if Caltex is in line with its remuneration target (market median). Adjustments are made as appropriate when the Total Reward Value is not in line with the market.

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

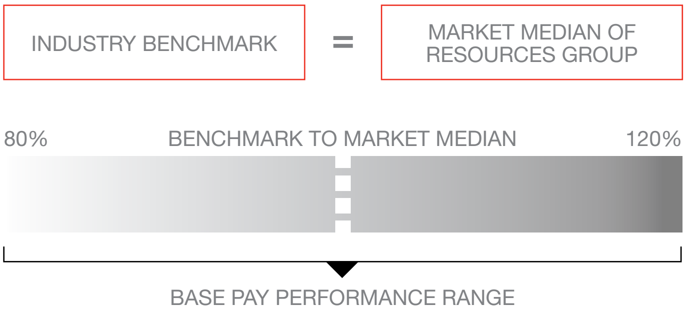
Employees have some flexibility in packaging the delivery of their fixed and variable remuneration, i.e. they can salary sacrifice such things as novated car leases, the purchase of company shares in our employee share scheme, superannuation contributions, etc.

Fixed remuneration

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

Caltex aims to reward competitively, with roles being benchmarked to the market median of the industry benchmark (refer to Figure 5). An individual's fixed remuneration, including senior executives, is targeted within a performance range of 80–120% of the market median with their position in this range determined by assessment of sustained performance over time and internal relativities.

FIGURE 5: BENCHMARKING AND FIXED REMUNERATION



The industry benchmark is the "Resources Group", defined as mining, oil and gas companies with greater than $1 billion revenue and greater than 600 staff. The reasons for having this group as our market target include:

- The Resources Group includes all major oil, mining and gas companies, which represent our "true" competitors in the attraction and retention of top performers, particularly in the engineering and production job functions.
- The market comparator group allows us to effectively compete for future employees across all functions in a talent tight market.
- The small number of companies and their "brands" is easily related to by all managers and employees.

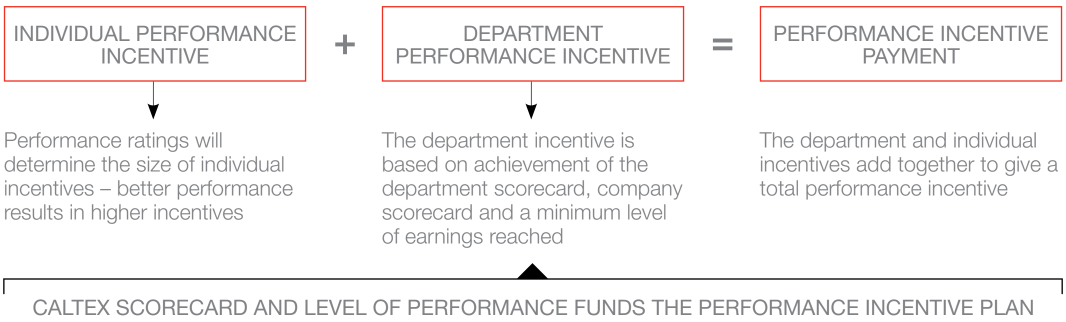
Variable remuneration

Remuneration that is variable and directly dependent upon performance is delivered through the annual Performance Incentive Plan and the Caltex Equity Incentive Plan (CEIP). All employees covered by the Caltex Reward System participate in the annual Performance Incentive Plan. Senior executives may also be invited to participate in the CEIP.

Annual Performance Incentive Plan

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

FIGURE 6: PERFORMANCE INCENTIVE PLAN AND TOTAL PERFORMANCE INCENTIVE



The incentive potential within the Performance Incentive Plan ranges from 0% of base salary when performance expectations are not met, to a maximum of 41% of base salary for exceptional performance. The maximum is determined by the employee's level in the company, with senior executives qualifying for a maximum of 41% subject to achieving excellence against individual and department performance targets.

Overall performance against the total Caltex Scorecard determines the size of the funding pool for the Performance Incentive Plan. If the Caltex Scorecard does not meet the threshold then there is no funding to support the department performance incentive component of the plan. The threshold for payment under the Performance Incentive Plan is the simultaneous achievement of 80% of the replacement cost of sales operating profit after tax (RCOP NPAT) target and a company scorecard result of greater than or equal to 50 points (out of a total of 100 points). Should the threshold not be met, a maximum budget of 6% of base pay is available to fund the individual performance incentive component as determined by annual performance review ratings.

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

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

The key Caltex Scorecard measures for 2008, as approved by the Human Resources Committee, are as follows. These measures were selected because they were identified as important financial and operational drivers for the success of Caltex in 2008.

Sustained and strong profitability (35% weighting)

- RCOP NPAT – annual performance
- Free cash flow (after investment and before dividends) – annual performance

Operational excellence (35% weighting)

- Lost Time Injury Frequency Rate (per million work hours) score based on annual rate
- Percentage of employees who have been trained in an improved performance management process. The new process is expected to improve employee and business performance over time

Cost management (20% weighting)

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

Capital stewardship (10% weighting)

- Percentage of leaders who have been trained in best practices for managing capital expenditures (includes decision quality and project planning and execution practices)

Targets are set as part of the Business Planning process and approved prior to the start of the year. Each year the Human Resources Committee reviews the Performance Incentive Plan including the scorecards and their measures and weightings, performance assessment and reward outcomes. Actual scorecard performance is measured against the targets set and any payouts available under the Performance Incentive Plan are approved by the Human Resources Committee. Caltex's financial results are approved by the Board after the end of the assessment period before incentive payments are awarded.

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

While RCOP NPAT has been variable over the last five years, the total variable remuneration pool has ranged between 3.8–4.6% of RCOP NPAT. This is a reflection of our conservative administration of the Performance Incentive Plan and management's attempt to moderate the plan's outcomes to exclude any excessive gains that may have been driven by external market conditions.

Caltex Equity Incentive Plan (CEIP)

In late 2006, the Board commissioned a detailed review of the Caltex Long-Term Incentive Plan with the assistance of an external consultant. The intent of the review was to ensure that the plan met the current and future needs of the Caltex business and the expectations of shareholders. A new plan, the Caltex Equity Incentive Plan (CEIP), was implemented with effect from 1 January 2007.

Information on the previous plan, the Long-Term Incentive Plan (LTIP), follows (page 53) as the awards under this plan will continue to vest through to 1 January 2010. Grants were only made under the CEIP in 2008. Grants under the CEIP are on a prospective basis (performance rights grant for the 2008 performance year has a performance and vesting period from 2008–2010).

The primary objectives of the CEIP are to:

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

The CEIP has two distinct tiers:

- A long-term tier whereby performance rights are granted to participants which vest after three years, subject to relative market based performance criteria over those three years being satisfied. Upon vesting, the rights are automatically exercised to acquire shares.
- A medium-term tier whereby restricted shares are granted subject to performance against more controllable performance criteria over the one year prior to the grant of shares. The shares granted vest progressively over two years from date of grant (three years from start of performance period). The performance criteria are the same as those in the short-term cash incentive plan and are approved by the Human Resources Committee before the start of the performance year.

The relative market based performance criteria used in the long-term tier is the three year relative Total Shareholder Return performance measured against two comparator groups; with half of the rights measured against the companies in the ASX 100 Accumulation Index and half against the performance of an international comparator group of refining and marketing companies. Specifically, the international comparator group consists of Frontier Oil (USA), Motor Oil (Greece), Neste (Finland), Singapore Petroleum Company (Singapore), S-Oil (Korea), Sunoco (USA), Tesoro (USA), Valero (USA) and Western Refining (USA). These companies were selected because they represent competitors for investor capital in the global refining and marketing sector.

When measuring against these two peer groups, 50% of the rights will vest if TSR performance just exceeds median performance and 100% of the rights will vest if TSR performance meets or exceeds the 75% percentile. Payout will be based on company ranking for performance between these two levels. If performance conditions are not met, rights will lapse.

In relation to the medium-term tier, the performance metrics are the same as the short-term cash performance incentive plan which uses balanced scorecards comprised of both financial and non-financial measures. The scorecards are approved at the start of the year by the Human Resources Committee. As such, a quantum of restricted shares equivalent in value to the size of the annual Performance Incentive Plan award is granted under the medium-term tier.

Participants in the CEIP are approved annually by the Human Resources Committee and include direct reports to the Managing Director & CEO, as well as other key management roles with significant profitability, strategic and operational impact. In 2008, 22 senior executives participated in the CEIP.

Participation in the CEIP is at two levels, with four Level 1 and 18 Level 2 participants in 2008. In relation to the long-term tier, the target for Level 1 participants is 22% of base pay, with a 44% of base pay maximum. In relation to the medium-term tier, Level 1 target is 23% of base pay with a 41% of base pay maximum. Level 2 participants are eligible for quantums at approximately 75% of Level 1 participants. All grants are approved by the Human Resources Committee.

To encourage participants to continue to hold the shares after vesting, both tiers of the CEIP include voluntary restrictions on sale of shares after vesting to enable tax deferral of up to 10 years from the grant date. Participants must submit a request for release in order to sell shares after vesting.

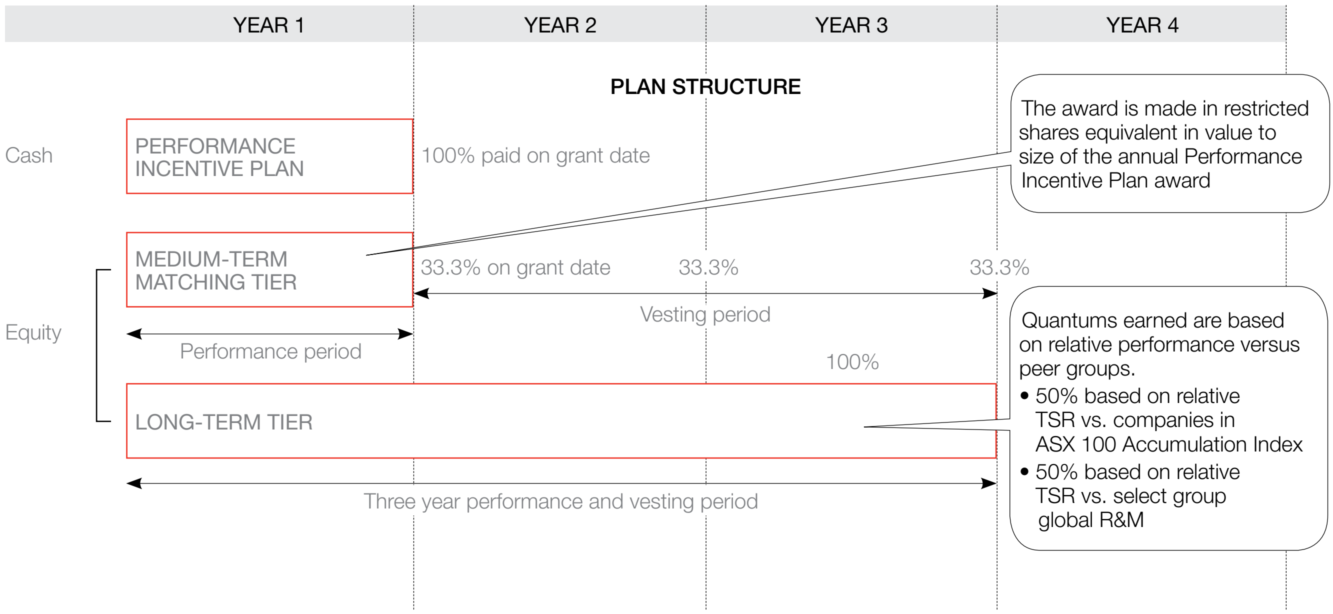
Under the Board share trading policy participants must not enter into any transaction that is designed or intended to hedge their exposure to unvested shares from the CEIP or LTIP. Participants must provide a compliance certificate with this policy to the Company Secretary each year.

In relation to the cessation of employment, the default provision for both tiers of the CEIP is that unvested grants will lapse upon termination. However:

- If a participant ceases employment due to retirement and more than 12 months since the date the Equity Awards were granted have passed, the maximum number of unvested Equity Awards which may vest is determined by applying the performance conditions (if any) as if the date of retirement was the completion of the performance period in relation to those Equity Awards ("Maximum Number"). The actual number of Equity Awards to vest is equal to or less than the Maximum Number as follows:
  (a) if the participant has provided 10 years continuous service, the Maximum Number of Equity Awards will vest
  (b) if the participant has provided continuous service of more than five years, but less than 10 years, the Maximum Number of Equity Awards is pro-rated based on the time between the date of grant and the date of retirement and that proportion of the Maximum Number will vest, or
  (c) if the participant has provided less than five years continuous service, all Equity Awards lapse unless the Board determines otherwise.
- If a participant ceases employment due to total and permanent disability, death or redundancy, all service conditions are waived and the number of unvested Equity Awards to vest is determined solely by applying the performance conditions (if any) as if the date of cessation was the completion of the performance period in relation to those Equity Awards.
- If a participant ceases employment for any other reason, the Board will determine the number, if any, of unvested Equity Awards which vest.

Figure 7 shows the current variable remuneration structure.

FIGURE 7: 2008 CALTEX VARIABLE REMUNERATION STRUCTURE



Key business and competitive drivers which influenced the design of the CEIP included the following:

1. Our business is cyclical in nature as can be seen by recent and historical crude oil and refined product price movement. This impacts the length with which we can reliably predict business outcomes and our planning cycle. The three year performance period established in the long-term tier of the CEIP corresponds with our typical planning cycle and is very consistent with other long-term incentive plans in major companies.
2. In order to increase shareholder value, senior management must continuously deliver against all of the key business drivers. These drivers include safety, volume/product mix, profit, cash flow, unit costs, and capital productivity. The medium-term tier of the plan uses metrics which touch all of these key controllable areas.
3. Our external remuneration consultants have advised us that the typical variable remuneration mix for this level of executives is 50% short-term and 50% long-term. CEIP maintains the heavy emphasis on equity awards, but balances the amounts related to long and medium-term tiers of the plan. The medium-term tier has more controllable measures, similar to typical short-term incentive plans.
4. To continue to attract and retain key leaders, the design strikes a balance between when the awards are granted, vest and are delivered to the executive. The three tier approach to our variable pay structure (short-term, medium-term and long-term) provides the right mix of rewards to attract potential executives in the marketplace while retaining those that are already here through the variety of vesting periods in the medium-term and long-term tiers of the plan.

The CEIP:

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

It has been our past practice and is our future expectation that shares awarded under this plan will be purchased on market.

Valuation of grant of performance rights

For accounting purposes, the fair value of performance rights for the CEIP was calculated at grant date by an independent valuer. The Monte Carlo simulation technique has been used based on the following assumptions:

2008

Peer group	ASX 100	International Refining & Marketing companies
Exercise price	Nil	Nil
Volatility	30%	30%
Risk free interest rate	6.76%	6.76%
Dividend yield	4.4%	4.4%
Expected life	3.0 years	3.0 years
Share price at grant date	$19.37	$19.37
Valuation per right	$10.41	$10.76

2007

Peer group	ASX 100	International Refining & Marketing companies
Exercise price	Nil	Nil
Volatility	30%	30%
Risk free interest rate	6.00%	6.00%
Dividend yield	3.6%	3.6%
Expected life	3.0 years	3.0 years
Share price at grant date	$23.00	$23.00
Valuation per right	$12.49	$12.49

Long-Term Incentive Plan for 2006 and prior years

The terms of this plan are being included for completeness. No new awards are being granted under the terms of this plan. However, awards previously granted under this plan will continue to vest through to 1 January 2010.

The Long-Term Incentive Plan was approved by shareholders in 1999 and was only available to nominated senior executives as determined by the Human Resources Committee. Like the CEIP, participation was limited to senior executives, being direct reports to the Managing Director & CEO and other key managerial roles with a significant strategic impact. Also like the CEIP, participation was at two levels, with Level 2 participants qualifying for an allocation of shares equivalent to 75% of the scale that applies to Level 1 participants.

The Long-Term Incentive Plan delivered incentives via a restricted share plan, where any bonus received is paid to a trustee to purchase Caltex Australia Limited shares on the market. The award was determined on Caltex's performance against two measures, namely:

- Return on Capital Employed (ROCE) – a target approved by the Board for the relevant financial year equating to the ratio of total earnings before interest and tax to the total of borrowings and shareholders' equity of Caltex, and
- a one year Total Shareholder Return measure calculated as at 31 December of each year relative to the Total Shareholder Return of the members of a peer group of companies for the same period.

Accordingly, the performance criteria for the LTIP were backward-looking such that at the end of the financial year, actual performance was measured against the preliminary targets set at the beginning of the year. Payouts, if any, were determined by the Human Resources Committee. The rate of award for each of those measures is shown in the table below:

TABLE 1: LONG-TERM INCENTIVE PLAN SCHEDULES

TSR			**ROCE**		
The TSR schedule reflects market practice where no award is made for below 51st percentile and the full award can be earned for ranking at the 75th percentile or above. Maximum TSR represents 50% of total reward available.			Maximum ROCE represents 50% of total reward available.		
	Grant as % of base pay			**Grant as % of base pay**	
TSR ranking	Level 1	Level 2	ROCE v target	Level 1	Level 2
Below 51st percentile	0%	0%	80% and below	0%	0%
At 51st percentile	18%	14%	80–90%	7–14%	5.25–10.5%
Between 51st percentile and 75th percentile	18–45%	14–34%	90–100%	14–22%	10.5–16.5%
Above 75th percentile	45%	34%	100%	22%	16.5%
			100–110%	22–45%	16.5–34%
			>110%	45%	34%

The shares awarded vested to participants in three equal tranches:

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

Grants awarded in relation to performance years prior to 2007 accordingly will vest up to 2010 subject to the participant still being employed by Caltex, unless the participant ceases employment due to retirement, redundancy, total and permanent disability, or death.

Shares acquired pursuant to the LTIP are subject to a voluntary restriction on sale (post vesting) to allow the executives to defer tax.

Further information on the LTIP is available in the *2006 Annual Report*.

Beyond total remuneration value

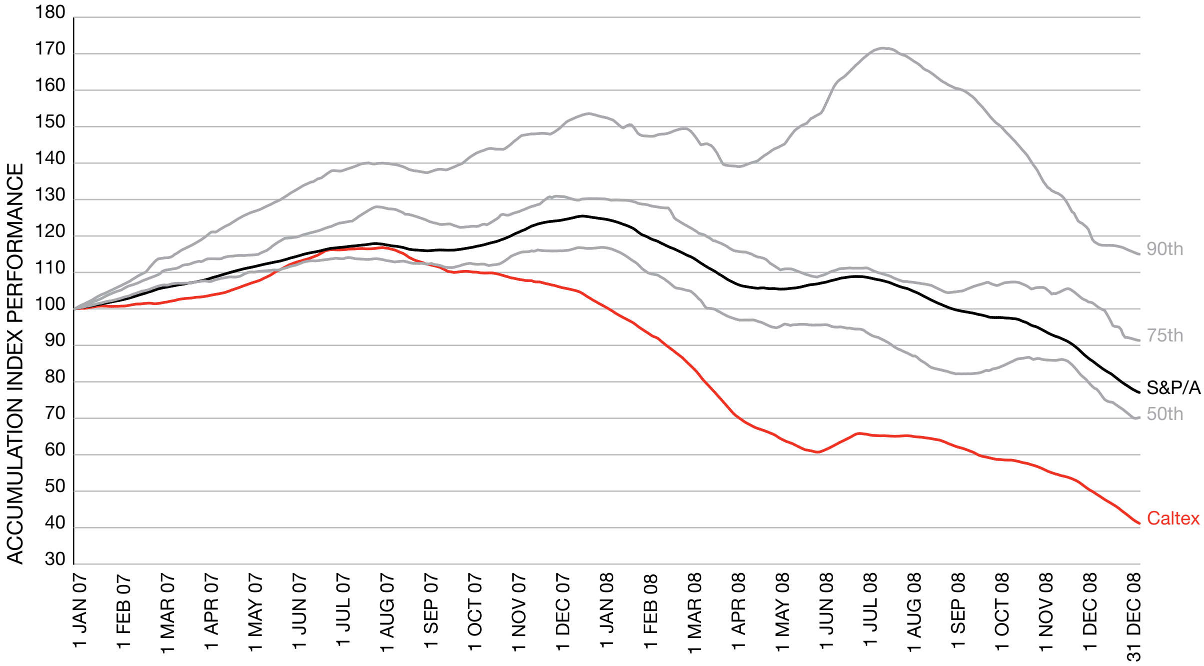
Caltex also offers employees the opportunity to participate in the company's business success through the Caltex Australia Limited Employee Share Plans (CALESP). CALESP provides eligible employees with a simple and tax-effective means of sharing in the future of Caltex Australia. Under these share plans, employees sacrifice part of their salary to purchase Caltex Australia Limited shares on market. Shares may be purchased under a Tax Exempt Plan (up to $1,000 annually) or under a Tax Deferred Plan (up to 10% of base pay). Approximately 70% of our employees are shareholders in the company through CALESP.

Caltex performance

The Caltex Reward Policy links remuneration to performance which should, in turn, link to the returns available to Caltex's shareholders, including share price growth and dividends.

Graphs 1 and 2 show the relative Total Shareholder Return against the peer groups for the period 1 January 2007 to 31 December 2008.

GRAPH 1: 2008 TOTAL SHAREHOLDER RETURN VERSUS LONG-TERM INCENTIVE PLAN PEER GROUP – ASX 100
Caltex Australia Limited and the Constituents of the S&P/ASX 100 Index
Total Shareholder Return Performance
1 January 2007–31 December 2008

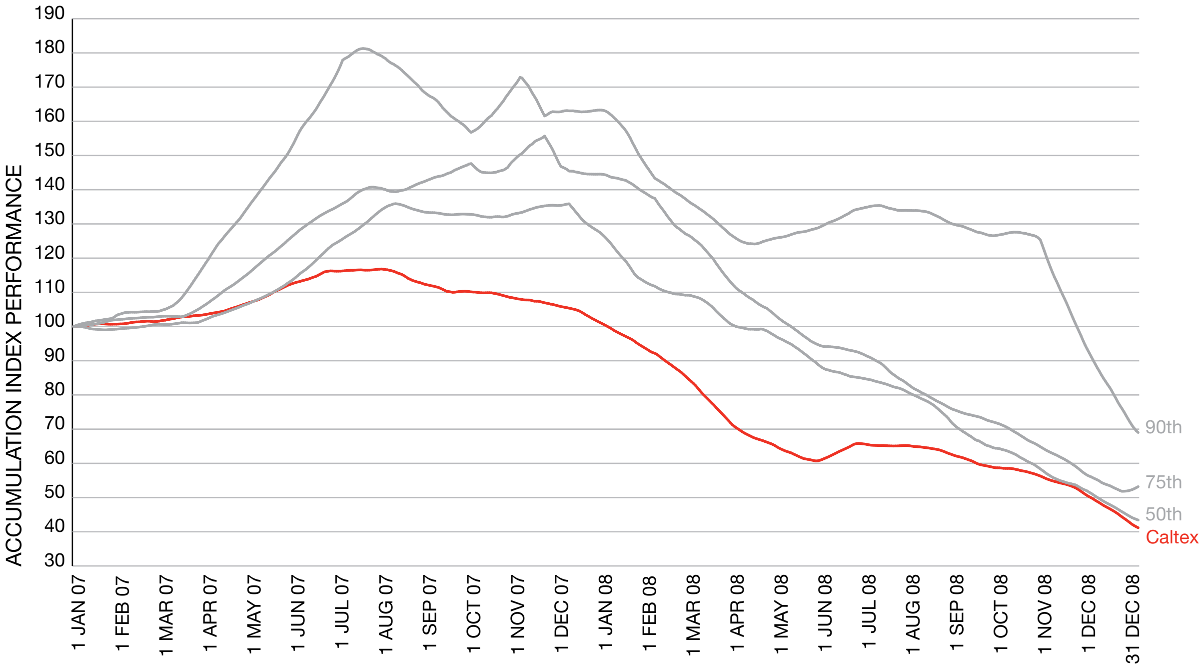


Indices based on a value of 100 at 1 January 2007. 60-trading day smoothing applied.
(1) Constituents based on the S&P/ASX 100 Index as at grant date (i.e. 1 January 2007). Caltex is included in the S&P/ASX 100 Index.

The list below contains the peer group companies for the long-term tier of the Caltex Equity Incentive Plan in 2008:

The ASX 100 peer group for the 2008 performance year is: AGL Energy, Alumina, Amcor, AMP, Aristocrat Leisure, Asciano Group, ASX, ANZ Banking Group, AXA Asia Pacific Holding, Babcock & Brown, Babcock & Brown Infrastructure Group, Bendigo & Adelaide Bank, BHP Billiton, Billabong International, Bluescope Steel, Boart Longyear Limited, Boral, Brambles, Centro Properties Group, CFS Retail Property Trust, Challenger Financial Services Group, Coca-Cola Amatil, Cochlear, Commonwealth Bank of Australia, Commonwealth Pr.Offe.Fd., Computershare, Connecteast Group, Consolidated Media Holding, CSL, CSR, David Jones, Dexus Property Group, Downer Edi, Fairfax Media, Fortescue Metals Group, Foster's Group, Futuris, Goodman Fielder, Goodman Group, GPT Group, Harvey Norman Holdings, Incitec Pivot, ING Individual Fund, ING Office Fund, Insurance Australia Group, James Hardie Inds.Cdi., Leighton Holdings, Lend Lease, Lihir Gold, Lion Nathan, Macquarie Airports, Macquarie Comms. Infrastructure Group, Macquarie Country Trust, Macquarie Group, Macquarie Infrastructure Group, Macquarie Office Trust, Metcash, Mirvac Group, National Australia Bank, Newcrest Mining, News Corp.Cdi.'B' (ASX), Oil Search, Onesteel, Orica, Origin Energy (Ex Boral), Oz Minerals, Paladin Energy, Perpetual, Qantas Airways, QBE Insurance Group, Rio Tinto, Santos, Sigma Pharmaceuticals, Sims Metal Management, Sonic Healthcare, St.George Bank, Stockland, Suncorp-Metway, Tabcorp Holdings, Tatts Group, Telecom Corp.NZ. (ASX), Telstra, Toll Holdings, Transurban Group, United Group, Valad Property Group, Wesfarmers, West Australia Newspaper Holding, Westfield Group, Westpac Banking, Woodside Petroleum, Woolworths, Worleyparsons.

GRAPH 2: 2008 TOTAL SHAREHOLDER RETURN VERSUS LONG-TERM INCENTIVE PLAN PEER GROUP – INTERNATIONAL REFINING & MARKETING
Caltex Australia Limited and the Constituents of the Bespoke International Comparator Group
Total Shareholder Return Performance
1 January 2007–31 December 2008



Indices based on a value of 100 at 1 January 2007. 60-trading day smoothing applied.
The Refining and Marketing peer group for the 2008 performance year is Frontier Oil (USA), Motor Oil (Greece), Neste (Finland), Singapore Petroleum Company (Singapore), S-Oil (Korea), Sunoco (USA), Tesoro (USA), Valero (USA), Western Refining (USA).

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

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

Conclusion
The Caltex Reward Policy and System are designed to align rewards with shareholder interests while appropriately recognising the importance of the contributions of our people to the company's success.

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

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

Remuneration details for directors and senior executives
The following sections of the Remuneration Report provide detailed information on the remuneration paid to the non-executive directors of Caltex Australia Limited, the Managing Director & CEO and senior executives at Caltex, being the key management personnel which include the five highest remunerated executives, and how that remuneration was calculated.

Table 2 details the unvested senior executive share benefits for 2008.

TABLE 2: UNVESTED SHAREHOLDINGS OF SENIOR EXECUTIVES DURING 2008

SENIOR EXECUTIVES	POSITION	UNVESTED SHARES AT 1 JAN 2008 FROM THE 2005, 2006 AND 2007 PERFORMANCE YEARS(i)	RESTRICTED SHARES GRANTED FOR THE 2008 PERFORMANCE YEAR(i)	SHARES VESTED FROM THE 2005, 2006, 2007 AND 2008 PERFORMANCE YEARS	UNVESTED SHARES AT 31 DEC 2008 FROM THE 2006, 2007 AND 2008 PERFORMANCE YEARS(ii)
Richard Beattie(iii)	Group Manager – Policy, Public and Government Affairs	11,705	–	(11,705)	–
Andrew Brewer(iv)	Acting Group Manager – Strategy and Planning	11,161	–	(3,782)	7,379
Helen Conway(v)	General Manager – Office of the CEO, Company Secretary and General Counsel	21,286	5,563	(10,697)	16,152
Simon Hepworth	Chief Financial Officer	26,346	3,060	(13,357)	16,049
Kenneth James(vi)	Acting General Manager – Supply and Distribution	6,117	2,503	(2,200)	6,420
Mike McMenamin(vii)	Group Manager – Strategy, Planning & Development	12,403	4,172	(5,838)	10,737
Alex Strang	General Manager – Supply and Distribution	26,437	6,640	(33,077)	–
Andrew Walz(viii)	General Manager – Marketing	–	–	–	–
Brian Waywell(viii)	General Manager – Refining	–	–	–	–
Peter Wilkinson	Group Manager – Operational Excellence and Risk	8,679	2,782	(3,682)	7,779
Simon Willshire	Group Manager – Human Resources	7,936	5,563	(2,691)	10,808

Notes:

(i) Grant date for the CEIP medium-term award related to the 2008 performance year will be in the second quarter of 2009, so the number of shares granted is shown at fair value at 31 December 2008. Similarly the opening balance at 1 January 2008 includes the actual shares granted from the 2007 performance year, rather than the 31 December 2007 fair value.

(ii) If the executive meets the service conditions, amounts will vest in 2009, 2010 and 2011 in accordance with the vesting conditions of the Long-Term Incentive Plan and the Caltex Equity Incentive Plan.

(iii) Mr Beattie retired on 4 July 2008.

(iv) Mr Brewer commenced his role on 20 April 2007 and was seconded to Chevron as at 1 April 2008. The vesting periods on his unvested awards as at that date were extended until his return, which is estimated in 2011.

(v) Ms Conway was appointed to General Manager – Office of the CEO, Company Secretary and General Counsel on 4 July 2008. Prior to that she held the role of Company Secretary and General Counsel.

(vi) Mr James was appointed on 3 November 2008.

(vii) Mr McMenamin was appointed to Group Manager – Strategy, Planning & Development on 1 April 2008. Prior to that he held the role of Acting General Manager – Marketing.

(viii) Mr Waywell and Mr Walz are not eligible to participate for any of the grant periods under the secondment arrangement with Chevron.

In relation to the Long-Term Incentive Plan and Caltex Equity Incentive Plan for each senior executive, Table 3 shows the percentage paid and forfeited in relation to each grant, the years in which the grant is still to vest and the total value of the grant for each financial year after 2008. It shows the future cost to Caltex that will be incurred as a result of the shares awarded in 2006, 2007 and 2008. The cost to Caltex of the shares is recorded as at 31 December of each year; however, the shares vest in the senior executive in January/March of the following year.

TABLE 3: LONG-TERM INCENTIVE/CALTEX EQUITY INCENTIVE GRANTS TO SENIOR EXECUTIVES AFTER 2008

SENIOR EXECUTIVES	CEIP YEAR	LTI YEAR	VESTED (% OF SHARES VESTED)	FUTURE YEARS WHEN SHARES WILL VEST	FUTURE COST TO CALTEX OF UNVESTED SHARES* ($)
Andrew Brewer[iii]		2006	33%	2011	7,571
	2007[iv]		33%	2011	8,170
	2007[v]		0%	2011	19,470
	Total				**35,211**
Helen Conway		2006	33%	2009, 2010	13,159
	2007[iv]		66%	2009	–
	2007[v]		33%	2009, 2010	10,684
	2008[vi]		0%	2009, 2010, 2011	15,560
	Total				**39,403**
Simon Hepworth		2006	33%	2009, 2010	17,175
	2007[iv]		66%	2009	–
	2007[v]		33%	2009, 2010	12,019
	2008[vi]		0%	2009, 2010, 2011	8,558
	Total				**37,752**
Kenneth James		2006	33%	2009, 2010	5,191
	2007[iv]		66%	2009	–
	2007[v]		33%	2009, 2010	3,678
	2008[vi]		0%	2009, 2010, 2011	7,002
	Total				**15,871**
Mike McMenamin		2006	33%	2009, 2010	7,202
	2007[iv]		66%	2009	–
	2007[v]		33%	2009, 2010	7,789
	2008[vi]		0%	2009, 2010, 2011	11,670
	Total				**26,661**
Peter Wilkinson		2006	33%	2009, 2010	7,273
	2007[iv]		66%	2009	–
	2007[v]		33%	2009, 2010	4,787
	2008[vi]		0%	2009, 2010, 2011	7,780
	Total				**19,840**
Simon Willshire		2006	33%	2009, 2010	1,726
	2007[iv]		66%	2009	–
	2007[v]		33%	2009, 2010	10,348
	2008[vi]		0%	2009, 2010, 2011	15,560
	Total				**27,634**

Notes:
- * The maximum and minimum total value of the grants is the same for the financial years after 2006 because such amounts are subject only to service conditions.
- (i) There are no future shares to vest, or cost to Caltex, for Mr Beattie or Mr Strang.
- (ii) Mr Waywell and Mr Walz are not eligible to participate for any of the grant periods under the secondment arrangement with Chevron.
- (iii) Mr Brewer commenced his role on 20 April 2007 and was seconded to Chevron in an expatriate role on 1 April 2008. The vesting periods on his unvested awards as at that date were extended until his return, which is estimated in 2011.
- (iv) Medium-term grant relating to 2006 performance year.
- (v) Medium-term grant relating to 2007 performance year.
- (vi) Medium-term grant relating to 2008 performance year.

TABLE 4: SENIOR EXECUTIVE PERFORMANCE RIGHTS DURING 2008

SENIOR EXECUTIVES	POSITION	PERFORMANCE RIGHTS AT 1 JAN 2008	PERFORMANCE RIGHTS GRANTED IN 2008	PERFORMANCE RIGHTS VESTED IN 2008	LAPSED	UNVESTED PERFORMANCE RIGHTS AT 31 DEC 2008
Richard Beattie(i)	Group Manager – Policy, Public and Government Affairs	3,400	4,870	(3,400)	(4,870)	–
Andrew Brewer(ii)	Acting Group Manager – Strategy and Planning	3,070	–	–	–	3,070
Helen Conway(iii)	General Manager – Office of the CEO, Company Secretary and General Counsel	6,220	9,070	–	–	15,290
Simon Hepworth	Chief Financial Officer	8,210	11,870	–	–	20,080
Kenneth James(iv)	Acting General Manager – Supply and Distribution	2,360	3,320	–	–	5,680
Mike McMenamin(v)	Group Manager – Strategy, Planning & Development	3,300	5,480	–	–	8,780
Alex Strang(vi)	General Manager – Supply and Distribution	7,630	10,820	(10,936)	(7,514)	–
Andrew Walz(vii)	General Manager – Marketing	–	–	–	–	–
Brian Waywell(vii)	General Manager – Refining	–	–	–	–	–
Peter Wilkinson	Group Manager – Operational Excellence and Risk	3,300	4,420	–	–	7,720
Simon Willshire	Group Manager – Human Resources	5,980	8,410	–	–	14,390

Notes:
(i) Mr Beattie retired on 4 July 2008. The service vesting condition was approved as satisfied early for his performance rights under the rules of the plan. 4,870 of these rights lapsed as a result of not meeting the 50th percentile performance hurdle.
(ii) Mr Brewer commenced his role on 20 April 2007 and was seconded to Chevron on 1 April 2008. The vesting periods on his performance rights as at that date were extended until his return, which is estimated in 2011.
(iii) Ms Conway was appointed to General Manager – Office of the CEO, Company Secretary and General Counsel on 4 July 2008. Prior to that she held the role of Company Secretary and General Counsel.
(iv) Mr James was appointed on 3 November 2008.
(v) Mr McMenamin was appointed to Group Manager – Strategy, Planning & Development on 1 April 2008. Prior to that he held the role of Acting General Manager – Marketing.
(vi) Mr Strang passed away on 17 December 2008. The service vesting condition was approved as satisfied early for his performance rights under the rules of the plan. 7,514 of these rights lapsed as a result of not meeting the 50th percentile performance hurdle.
(vii) Mr Waywell and Mr Walz are not eligible to participate for any of the grant periods under the secondment arrangement with Chevron.

Tables 5 and 6 below show the relationship between the Long-Term Incentive (LTI) payout paid to senior executives during the year, compared to the TSR performance quintile achieved over the past five years. It clearly demonstrates that the Long-Term Incentive Plan awards have been strongly correlated with Total Shareholder Return, our proxy for shareholder value creation.

TABLE 5: LONG-TERM INCENTIVE SCHEME PAYOUT FOR CALTEX SENIOR EXECUTIVES (LEVEL 1) 2004–2006

MEASURE	2004	2005	2006
Long-Term Incentive Plan (pre 2007)			
Measure 1: Total Shareholder Return (TSR) Performance versus ASX 200	Upper Quintile (Q5)	Upper Quintile (Q5)	44th percentile (Q3)
Measure 2: ROCE (% of business plan target)	185%	113%	127%
Payout in Restricted Caltex Shares (Quantum as % of maximum allowable payout – 90%)	96%	86%	50%
Caltex Equity Incentive Plan (post 2006)	New Plan as at 1 January 2007. No awards made under this plan prior to that date		
– Medium-term tier			
Measure: Company Balanced Scorecard Result which includes metrics on safety, earnings, cash flow, capital efficiency, cost management (100 points represent hitting the business plan targets)			
Payout in Restricted Caltex Shares (Quantum as % of maximum allowable payout – 40.5%)			
– 2007 Long-term tier (Grant Date 1 January 2007)			
Measure 1: 3 Year TSR Performance versus ASX 100			
Measure 2: 3 Year TSR Performance versus International Refining and Marketing			
Payout in Caltex Shares (Quantum as % of base salary)			
– 2008 Long-term tier (Grant Date 1 January 2008)			
Measure 1: 3 Year TSR Performance versus ASX 100			
Measure 2: 3 Year TSR Performance versus International Refining and Marketing			
Payout in Caltex Shares (Quantum as % of base salary)			

TABLE 6: CALTEX EQUITY INCENTIVE SCHEME PAYOUT FOR CALTEX SENIOR EXECUTIVES (LEVEL 1) 2007–2008

MEASURE	2007	2008	2009	2010
Long-Term Incentive Plan (pre 2007)	No awards were granted post 2006 as the incentive scheme was redesigned. Post 2006, all awards are being granted under the Caltex Equity Incentive Plan			
Measure 1: Total Shareholder Return (TSR) Performance versus ASX 200				
Measure 2: ROCE (% of business plan target)				
Payout in Restricted Caltex Shares (Quantum as % of maximum allowable payout – 90%)				
Caltex Equity Incentive Plan (post 2006)				
– Medium-term tier				
Measure: Company Balanced Scorecard Result which includes metrics on safety, earnings, cash flow, capital efficiency, cost management (100 points represent hitting the business plan targets)	93	55		
Payout in Restricted Caltex Shares (Quantum as % of maximum allowable payout – 40.5%)	55%	24.20%		
– 2007 Long-term tier (Grant Date 1 January 2007)				
Measure 1: 3 Year TSR Performance versus ASX 100	19th percentile (Q1) thru 31/12/2008			
Measure 2: 3 Year TSR Performance versus International Refining and Marketing	44th Percentile (Q2) thru 31/ 12/2008			
Payout in Caltex Shares (Quantum as % of base salary)	Payouts of 0–44% to be determined based on three year TSR results ending on 31/12/2009			
– 2008 Long-term tier (Grant Date 1 January 2008)				
Measure 1: 3 Year TSR Performance versus ASX 100		23rd percentile (Q2) thru 31/12/2008		
Measure 2: 3 Year TSR Performance versus International Refining and Marketing		55th Percentile (Q3) thru 31/12/2008		
Payout in Caltex Shares (Quantum as % of base salary)		Payouts of 0–44% to be determined based on three year TSR results ending on 31/12/2010		

Summary of total remuneration value of senior executives in 2008

The proportion of each senior executive's remuneration for 2008 that was fixed, and the proportion that was subject to a performance condition, is shown in Table 7.

TABLE 7: DISTRIBUTION OF FIXED AND VARIABLE ELEMENTS OF SENIOR EXECUTIVE REMUNERATION FOR 2008

SENIOR EXECUTIVE	POSITION	FIXED	VARIABLE (INCLUDING SHORT AND LONG-TERM INCENTIVE PAYMENTS)
Richard Beattie[(i)]	Group Manager – Policy, Public and Government Affairs	86%	14%
Andrew Brewer[(ii)]	Acting Group Manager – Strategy and Planning	82%	18%
Helen Conway[(iii)]	General Manager – Office of the CEO, Company Secretary and General Counsel	72%	28%
Simon Hepworth	Chief Financial Officer	76%	24%
Kenneth James[(iv)]	Acting General Manager – Supply and Distribution	78%	22%
Mike McMenamin[(v)]	Group Manager – Strategy, Planning & Development	76%	24%
Alex Strang[(vi)]	General Manager – Supply and Distribution	76%	24%
Andrew Walz[(vii)]	General Manager – Marketing	77%	23%
Brian Waywell[(viii)]	General Manager – Refining	73%	27%
Peter Wilkinson	Group Manager – Operational Excellence and Risk	78%	22%
Simon Willshire	Group Manager – Human Resources	76%	24%

Notes:

(i) Mr Beattie retired on 4 July 2008.

(ii) Mr Brewer commenced his role on 20 April 2007 and was seconded to Chevron on 1 April 2008.

(iii) Ms Conway was appointed to General Manager – Office of the CEO, Company Secretary and General Counsel on 4 July 2008. Prior to that she held the role of Company Secretary and General Counsel.

(iv) Mr James was appointed on 3 November 2008.

(v) Mr McMenamin was appointed to Group Manager – Strategy, Planning & Development on 1 April 2008. Prior to that he held the role of Acting General Manager – Marketing.

(vi) Mr Strang passed away on 17 December 2008.

(vii) Mr Walz was appointed to General Manager – Marketing on 1 April 2008.

(viii) Mr Waywell resigned on 30 November 2008.

Details of the classification and amount of each element of the remuneration of senior executives (excluding the Managing Director & CEO) who received the highest total remuneration for 2008 are set in Table 8. The 12 senior executives below, all of whom are (or were) members of the Caltex Leadership Team, along with the directors of Caltex Australia Limited are considered the key management personnel for whom details of their remuneration must be disclosed in accordance with accounting standards.

TABLE 8: TOTAL REMUNERATION FOR SENIOR EXECUTIVES FOR 2008 (IN DOLLARS)(i)

	PRIMARY			POST EMPLOYMENT	OTHER LONG-TERM	EQUITY		TOTAL
	SALARY AND FEES(ii)	BONUS (SHORT-TERM INCENTIVE)	NON-MONETARY BENEFITS	SUPER-ANNUATION	OTHER(iii)	SHARE BENEFITS (LONG-TERM INCENTIVE)	RIGHTS BENEFITS (LONG-TERM INCENTIVE)	
Richard Beattie (Group Manager – Policy, Public and Government Affairs)(iv)								
2008	**448,518**	**–**	**–**	**40,089**	**–**	**52,525**	**80,327**	**621,459**
2007	291,369	47,000	–	30,780	19,554	111,038	14,389	514,130
Andrew Brewer (Acting Group Manager – Strategy and Planning)(v)								
2008	**44,329**	**–**	**22,678**	**12,100**	**1,690**	**17,648**	**–**	**98,445**
2007	274,372	50,000	66,204	28,007	15,978	108,534	12,993	556,088
Mark Burrowes (General Manager – Marketing)(vi)								
2008	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2007	521,851	–	8,442	20,190	–	–	–	550,483
Helen Conway (General Manager – Office of the CEO, Company Secretary and General Counsel)(vii)								
2008	**437,277**	**40,000**	**10,626**	**45,945**	**17,302**	**97,488**	**58,326**	**706,964**
2007	385,877	96,000	12,276	43,403	22,672	201,224	26,324	787,776
Simon Hepworth (Chief Financial Officer)								
2008	**537,631**	**22,000**	**13,843**	**74,798**	**30,341**	**104,021**	**76,628**	**859,262**
2007	491,562	108,000	12,669	56,902	35,140	251,129	34,747	990,149
Kenneth James (Acting General Manager – Supply and Distribution)(viii)								
2008	**34,697**	**3,000**	**2,669**	**6,342**	**3,559**	**6,359**	**3,617**	**60,243**
2007	–	–	–	–	–	–	–	–
Mike McMenamin (Group Manager – Strategy, Planning & Development)(ix)								
2008	**345,610**	**30,000**	**11,331**	**36,795**	**14,223**	**62,258**	**33,301**	**533,518**
2007	330,613	70,000	4,227	33,311	8,371	115,317	13,966	575,805
Alex Strang (General Manager – Supply and Distribution)(x)								
2008	**433,217**	**–**	**23,871**	**92,448**	**–**	**123,230**	**99,576**	**772,342**
2007	487,340	113,000	11,082	84,870	57,214	265,576	32,291	1,051,373
Andrew Walz (General Manager – Marketing)(xi)								
2008	**425,165**	**96,805**	**541,311**	**12,951**	**193,155**	**–**	**–**	**1,269,387**
2007	–	–	–	–	–	–	–	–
Brian Waywell (General Manager – Refining)(xii)								
2008	**564,436**	**137,051**	**533,853**	**17,724**	**276,018**	**–**	**–**	**1,529,082**
2007	800,000	–	–	–	–	–	–	800,000
Peter Wilkinson (Group Manager – Operational Excellence and Risk)								
2008	**288,035**	**20,000**	**1,446**	**29,453**	**8,582**	**45,305**	**29,561**	**422,382**
2007	264,935	43,000	–	26,168	5,558	79,047	13,966	432,674
Simon Willshire (Group Manager – Human Resources)								
2008	**407,014**	**40,000**	**11,574**	**43,673**	**8,909**	**56,003**	**54,982**	**622,155**
2007	370,344	93,000	12,669	33,570	6,435	70,414	25,308	611,740
Total remuneration: senior executives								
2008	**3,965,929**	**388,856**	**1,173,202**	**412,318**	**553,779**	**564,837**	**436,318**	**7,495,239**
2007	4,218,263	620,000	127,569	357,201	170,922	1,202,279	173,984	6,870,218

Notes:

(i) All of the senior executives have been in the position stated above for the whole year of 2008, with the exception of those noted.
(ii) Salary and fees includes base pay, annual leave and termination benefits.
(iii) Other long-term remuneration represents the Chevron Long-Term Incentive plan for Mr Waywell and Mr Walz and is long service leave all the other executives.
(iv) Mr Beattie retired on 4 July 2008.
(v) Mr Brewer was appointed Group Manager – Strategy and Planning on 20 April 2007 and was seconded to Chevron on 1 April 2008.
(vi) Mr Burrowes resigned on 13 April 2007.
(vii) Ms Conway was appointed to General Manager – Office of the CEO, Company Secretary and General Counsel on 4 July 2008. Prior to that she held the role of Company Secretary and General Counsel.
(viii) Mr James was appointed on 3 November 2008.
(ix) Mr McMenamin was appointed to Group Manager – Strategy, Planning & Development on 1 April 2008. Prior to that he held the role of Acting General Manager – Marketing.
(x) Mr Strang passed away on 17 December 2008.
(xi) Mr Walz was appointed on 1 April 2008.
(xii) Mr Waywell resigned on 30 November 2008.

Brian Waywell and Andrew Walz were appointed as General Manager – Refining and General Manager – Marketing on 1 August 2006 and 1 April 2008, respectively. They are both seconded from Chevron to Caltex. Under the terms of the secondment arrangements, Caltex has agreed to pay Chevron, from 1 January 2008, the full cost of providing Mr Waywell and Mr Walz, including the cost of their targeted long-term incentive. Chevron's long-term incentive plan may pay out in future years based on Chevron's TSR performance and stock performance. The targeted value for both Mr Waywell and Mr Walz was 95% of 2008 base salary (2007: Mr Waywell's target was 95% of 2007 base salary). Caltex has no obligation to pay any individual amounts to Chevron, Mr Waywell or Mr Walz beyond this amount. The remuneration components for Mr Waywell and Mr Walz are described later in this report as they are the same remuneration arrangements as are applicable to Mr King, Managing Director & CEO.

In 2007, the terms of the secondment arrangement for Mr Waywell capped the cost to Caltex. An additional amount of $255,314 in remuneration was paid to Mr Waywell by Chevron above the cap. The components of his 2007 remuneration are as follows:

2007	SALARIES AND FEES (A$)	BONUS (SHORT-TERM INCENTIVE – CIP) (A$)	EXPATRIATE AND OTHER ALLOWANCES (A$)	NON-MONETARY BENEFITS (A$)	TOTAL (A$)
Brian Waywell	306,315	164,309	355,667	229,023	1,055,314

Other information required by the *Corporations Act 2001*

Options

Options do not form a part of the remuneration package of directors or senior executives. However, performance rights, subject to a forward-looking three year performance period, were issued to senior executives under the 2007 and 2008 Caltex Equity Incentive Plan. Subject to meeting performance hurdles, the rights will vest on 31 December 2009 and 2010, respectively. Mr King, Mr Walz and Mr Waywell, who are secondees, are eligible for Chevron options under the Chevron remuneration package.

Contracts of employment

The senior executives of Caltex other than Mr King, the Managing Director & CEO (commencing 1 May 2006), Mr Waywell, General Manager – Refining (commencing 1 August 2006 and ending 1 December 2008) and Mr Walz, General Manager – Marketing (commencing 1 April 2008) are appointed as permanent Caltex employees. Their employment contracts require both the company and the senior executive to give a notice period within a range of one to nine months as stipulated by their individual contracts should they resign or have their service terminated by Caltex. The terms and conditions of the executives reflect market conditions at the time of their contract negotiation and appointment. Our intention is to reset the termination notice for all key senior executives to at least three months.

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

The details of the contracts of the senior executives of Caltex (other than Mr King, Mr Waywell and Mr Walz, which are provided later in this report) are set out in Table 9:

TABLE 9: SUMMARY OF CONTRACTS OF EMPLOYMENT FOR SENIOR EXECUTIVES

SENIOR EXECUTIVES	POSITION	APPOINTED TO CURRENT ROLE	CONTRACT	TERMINATION NOTICE
Helen Conway	General Manager – Office of the CEO, Company Secretary and General Counsel	4 July 2008	Open ended	3 months
Simon Hepworth	Chief Financial Officer	1 January 2001	Open ended	3 months
Kenneth James	Acting General Manager – Supply and Distribution	3 November 2008	Open ended	1 month
Mike McMenamin	Group Manager – Strategy, Planning & Development	1 April 2007	Open ended	1 month
Peter Wilkinson	Group Manager – Operational Excellence and Risk	11 July 2005	Open ended	1 month
Simon Willshire	Group Manager – Human Resources	13 November 2006	Open ended	6 months

Other than prescribed notice periods, there is no special termination benefits payable under the contracts of employment. However, a benefit may be required to be paid in accordance with the legislative requirements at the time of the senior executive's termination.

Mr Beattie (Group Manager – Policy, Public and Government Affairs) was remunerated $316,199 upon retirement.

Mr Waywell returned to Chevron on 1 December 2008. Mr Walz's secondment is for a period of three years ending on 1 April 2011 and Caltex and Chevron may agree to vary the contract term by early termination or extension. The secondment arrangement may also be terminated by Caltex if Mr Walz:

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

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

Non-executive directors

Policy for determining non-executive directors' fees

Under the Constitution of Caltex Australia Limited and the ASX Listing Rules, the total remuneration pool for non-executive directors is determined by shareholders. The Constitution provides that, within this overall pool amount, remuneration for non-executive directors is to be divided among the directors in the proportion and manner agreed by the Board (and, in default of agreement, equally). The Board, after taking advice from the Human Resources Committee, reviews the remuneration of non-executive directors for Board and committee work on an annual basis and, if considered appropriate, approves new fees.

Fees for non-executive directors are set at a level appropriate to attract and retain directors with the necessary skills and experience to allow the Board to have a proper understanding of, and competence to deal with, current and emerging issues for Caltex's business and to effectively review and challenge the performance of management. In setting fees the Board has regard to external data on fees, external advice from a specialist remuneration consultant and to the size and complexity of Caltex's operations.

Non-executive directors resident in Australia are entitled to statutory superannuation. Superannuation is included as part of the total remuneration pool.

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

Caltex does not have a directors' retirement scheme. Prior to 1 January 2004, Mr Richard (Dick) Warburton participated in a directors' retirement scheme which was in place at that time and amounts accrued under the scheme were frozen and paid into a separate interest bearing account pending his retirement. Mr Warburton retired as a director at the end of the Annual General Meeting on 24 April 2008. An amount of $330,629 was paid to Mr Warburton on retirement. No current directors are entitled to an accrued retirement benefit.

Non-executive directors' fees

In 2008, fees paid to non-executive directors were subject to a maximum Board remuneration pool of $1,600,000 per annum, inclusive of statutory entitlements. The remuneration pool for non-executive directors was approved by shareholders at the Annual General Meeting held on 24 April 2008. This represented an increase in the pool of $200,000.

Fees paid to non-executive directors in 2008 were paid at the following rates:

	2008
Board fees	
Chairman (inclusive of committee fees)	$378,500
Non-executive directors	$137,000
Audit Committee fees	
• Chairman	$30,000
• Member	$15,000
Human Resources Committee fees	
• Chairman	$20,000
• Member	$10,000
OHS & Environmental Risk Committee fees	
• Chairman	$20,000
• Member	$10,000
Nomination Committee fees	
• Chairman	Nil
• Member	Nil

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

The Board reviewed board and committee fee rates in December 2008 and determined that board and committee fees for 2009 are to be paid at the same rates as in 2008.

Non-executive directors can elect to forgo fees to acquire shares, on market, in Caltex Australia Limited through a non-executive director share plan (NED Share Plan). Participation in the NED Share Plan is not open to directors who are employed by Chevron.

Shares acquired through the NED Share Plan are subject to a trading lock of 10 years from the date of acquisition. Shares are released from the trading lock when the director leaves office and may be released early in other cases (for example, on the director making an early request for release).

The NED Share Plan year runs from 1 July to 30 June. A non-executive director who wishes to participate in the NED Share Plan for a year must lodge an application to participate in the plan for that year. Caltex pays brokerage and other acquisition costs.

The acquisition of shares under the NED Share Plan is not subject to any performance conditions, as shares are acquired on market on a fee-sacrifice basis.

For the 2008 year, Ms Elizabeth Bryan elected to participate in the NED Share Plan. She acquired 4,238 shares on market (at $11.77 per share) on 8 September 2008. The balance of fees sacrificed for the 2008/09 plan year will be used to purchase shares on market in March 2009.

Mr Trevor Bourne participated in the NED Share Plan in the 2007/08 plan year. He acquired 988 shares on market (at $12.15 per share) on 5 March 2008.

Remuneration of directors in 2008

Details of the remuneration of directors of Caltex Australia Limited for 2008:

	PRIMARY			POST EMPLOYMENT	EQUITY	OTHER	TOTAL
	SALARY AND FEES	BONUS	NON-MONETARY BENEFITS	SUPER-ANNUATION	SHARE BENEFITS		
Executive							
Desmond King (Managing Director & CEO)							
2008	**492,090**	**264,601**	**1,222,197**	**23,919**	**–**	**527,128**	**2,529,935**
2007	1,400,000	–	–	–	–	–	1,400,000
Non-executives							
Elizabeth Bryan (Chairman)							
2008	**328,502**	**–**	**357**	**34,065**	**49,998**	**–**	**412,922**
2007	127,000	–	–	93,180	–	–	220,180
Trevor Bourne							
2008	**160,000**	**–**	**695**	**15,480**	**12,000**	**–**	**188,175**
2007	145,107	–	–	13,050	–	–	158,157
Brant Fish							
2008	**147,000**	**–**	**–**	**–**	**–**	**–**	**147,000**
2007	140,000	–	–	–	–	–	140,000
Greig Gailey							
2008	**51,692**	**–**	**–**	**141,238**	**–**	**–**	**192,930**
2007	–	–	–	7,999	–	–	7,999
Colleen Jones-Cervantes							
2008	**85,750**	**–**	**–**	**–**	**–**	**–**	**85,750**
2007	–	–	–	–	–	–	–
John Thorn							
2008	**177,000**	**–**	**1,482**	**15,930**	**–**	**–**	**194,412**
2007	80,000	–	–	94,400	–	–	174,400
Former non-executive directors							
Richard (Dick) Warburton							
2008	**105,418**	**–**	**1,219**	**25,227**	**–**	**330,629**	**462,493**
2007	293,200	–	–	97,020	–	–	390,220
Peter Wissel							
2008	**62,916**	**–**	**–**	**–**	**–**	**–**	**62,916**
2007	145,000	–	–	–	–	–	145,000
Total remuneration: directors							
2008	**1,610,368**	**264,601**	**1,225,950**	**255,859**	**61,998**	**857,757**	**4,276,533**
2007	2,330,307	–	–	305,649	–	–	2,635,956

Notes:

- A share benefit arises when Caltex shares are acquired under the Non-Executive Directors Share Plan by a director via a salary sacrifice arrangement.
- Mr King participated in Chevron's long-term incentive plan. In 2008, Caltex incurred the cost of this plan for Mr King paid to target of 135% of base salary, shown as other benefit in the table. Non-monetary benefits for Mr King include Australian income tax and FBT payments, as well as local housing and services.
- Ms Elizabeth Bryan was appointed as Board Chairman with effect from 1 October 2007.
- Mr Greig Gailey was appointed as a director on 11 December 2007.
- Ms Colleen Jones-Cervantes was appointed as a director from 1 June 2008. Previously in 2008, and in 2007, she served as an alternate director. She did not receive any remuneration from Caltex in her role as an alternate director.
- Mr Richard (Dick) Warburton served as a director until 24 April 2008. Mr Warburton, a former Board Chairman, was paid at the Chairman's rate until his retirement as a director. The payment of the Chairman's rate to Mr Warburton was approved by the Board on the basis that Mr Warburton would be assisting the then incoming Chairman, Ms Elizabeth Bryan.
- On retirement, Mr Warburton received payment of an accrued retirement benefit under a previous scheme for non-executive directors (which was discontinued by the Board in December 2003). Mr Warburton's accrued retirement benefit at 31 December 2003 was frozen and paid into a separate interest bearing account pending his retirement.
- Mr Peter Wissel was appointed as an alternate director from 1 June 2008. He did not receive any remuneration from Caltex in his role as an alternate director. Mr Wissel previously served as a director to 31 May 2008 and in 2007.

Remuneration for Managing Director & CEO

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

Under the terms of the secondment arrangements, from 1 January 2008 Caltex pays the full cost to Chevron of providing Mr King, representing a reimbursement of the salary and other benefits incurred by Chevron in relation to Mr King's services to Caltex including the cost of Chevron's Long-Term Incentive Plan paid to target. The target value of this Chevron Long-Term Incentive Plan is 135% of Mr King's 2008 base salary (2007: 135%). Chevron's Long-Term Incentive Plan may pay out in future years based on Chevron's TSR performance and stock performance.

Mr King's remuneration was distributed on the basis of 69% fixed and 31% variable.

In 2007, the terms of the secondment arrangement for Mr King capped the cost to Caltex. An additional amount of $98,715 in remuneration was paid to Mr King by Chevron above the cap. The components of his 2007 remuneration are detailed below. In addition to housing, expatriate and other allowances, Mr King's remuneration consisted of base salary and a cash bonus under the Chevron Incentive Plan (CIP) as detailed below.

2007	SALARIES AND FEES (A$)	BONUS (SHORT-TERM INCENTIVE – CIP) (A$)	EXPATRIATE AND OTHER ALLOWANCES (A$)	NON-MONETARY BENEFITS (A$)	TOTAL (A$)
Desmond King	365,476	251,027	608,956	273,256	1,498,715

In 2007, Mr King also participated in the long-term incentive schemes offered by Chevron and received an amount under these schemes of $299,600 from Chevron.

Although Caltex has no obligation to pay any amount to Mr King and he does not participate in the incentive schemes for Caltex senior management, Caltex has input into the amount Mr King receives under the CIP.

Mr King's secondment to Caltex ends on 30 June 2009 and Caltex and Chevron may agree to vary the contract term by extension or by early termination.

The secondment agreement may be also be terminated by Caltex if Mr King:

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

On termination, Mr King has no rights against Caltex for payment of any amounts or claims. Under the secondment agreement, Chevron agrees that the scope, nature and performance of Mr King's duties are subject to, and are to be undertaken in accordance with, the lawful directions of the Board of Caltex. In his letter of appointment, Mr King also agrees that the scope, nature and performance of his duties are subject to, and must be undertaken in accordance with, the lawful directions of the Board of Caltex Australia Limited.

Chevron Incentive Plan (CIP)

The CIP awards an annual cash bonus to participants which is based on three components, with each component weighted equally. The components are the performance of Chevron, the performance of the participant's Award Unit (which in Mr King's case is Caltex Australia) and the participant's performance, all in the prior year. At target, the CIP award would be an amount equal to 50% of Mr King's base salary. The performance conditions in the CIP were chosen to give employees a direct line of sight with performance and to tie accountability with actual performance.

All awards under the CIP are approved by the Management Compensation Committee of the Board of Directors of Chevron. That committee assesses the performance of Chevron by comparing corporate results against business plan targets. The Award Unit performance assessment of Caltex Australia is made by senior management at Chevron with input from Caltex based on the achievement of financial objectives (e.g. earnings, cash flow and operating expense) and operational objectives (e.g. safety, and reliability, etc.). Mr King's individual performance is assessed by his Award Unit head at Chevron based on the assessment of Mr King made annually by Caltex against Caltex performance benchmarks agreed between Caltex and Mr King. The assessment made by Caltex of Mr King's performance as part of the CIP, also directly influences the size of any increase to the base salary Chevron pays to Mr King. As can be seen, there is an alignment between Mr King's remuneration and his performance at Caltex.

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

DIRECTORS' INTERESTS

The directors of Caltex Australia Limited held the following relevant interests in the company's shares at 31 December 2008:

DIRECTOR	SHAREHOLDING	NATURE OF INTEREST
Ms Elizabeth Bryan	9,238	Direct interest (including 4,238 shares acquired through the Non-Executive Directors Share Plan)
Mr Desmond King	1,000	Direct interest
Mr Trevor Bourne	5,395	Direct interest (including 2,395 shares acquired through the Non-Executive Directors Share Plan)
Mr Brant Fish	–	–
Mr Greig Gailey	–	–
Ms Colleen Jones-Cervantes	–	–
Mr John Thorn	1,510	Indirect interest in 1,000 shares; direct interest in 510 shares acquired through the Non-Executive Directors Share Plan

Notes:

(a) The directors have not acquired or disposed of any shares in the period from 1 January 2009 to the date of this report.

(b) Mr Peter Wissel, who serves as an alternate director for each of Mr Fish and Ms Jones-Cervantes, has a relevant interest in 1,000 shares. The shares are held jointly with Ms Susan Philbrick. Mr Wissel has held this interest at all times in 2008 (including when he served as a director) and since 1 January 2009.

(c) Mr Richard (Dick) Warburton, a former director, had a relevant interest in 13,519 shares at 24 April 2008, when he retired as a director; 3,519 shares were held directly and 10,000 were held indirectly.

BOARD AND COMMITTEE MEETINGS

The Board of Caltex Australia Limited met 12 times during the year ended 31 December 2008. In addition, the Board's strategy session was held over two days during the year.

In 2008, the Board operated the following standing committees:

- Audit Committee, which met four times
- Human Resources Committee, which met seven times
- Nomination Committee, which met twice, and
- OHS & Environmental Risk Committee, which met five times.

Special purpose committees were convened on three occasions in 2008.

Papers were circulated for Board and committee meetings and on one other occasion to directors for information. Additionally, papers were circulated for the strategy session.

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

DIRECTOR	BOARD	AUDIT COMMITTEE	HUMAN RESOURCES COMMITTEE	NOMINATION COMMITTEE	OHS & ENVIRONMENTAL RISK COMMITTEE	SPECIAL PURPOSE COMMITTEES
Current directors						
Ms Elizabeth Bryan	12 (12)	4	7	2 (2)	5	3 (3)
Mr Desmond King	12 (12)	4	7	2 (2)	5	3 (3)
Mr Trevor Bourne	12 (12)	4 (4)	–	2 (2)	5 (5)	–
Mr Brant Fish	11 (12)	–	7 (7)	2 (2)	–	–
Mr Greig Gailey	12 (12)	3 (3)	7 (7)	2 (2)	5 (5)	1 (1)
Ms Colleen Jones-Cervantes	7 (8)	–	–	2 (2)	3 (3)	–
Mr John Thorn	11 (12)	4 (4)	5 (5)	2 (2)	2 (2)	1 (1)
Former directors						
Mr Richard (Dick) Warburton	1 (2)	–	1 (2)	–	–	–
Mr Peter Wissel	4 (4)	1 (1)	–	–	–	–

Notes:

(a) The table shows the number of Board and committee meetings attended by each director during the year ended 31 December 2008, with the number of meetings held during the director's time in office shown in brackets. Where a director has attended a meeting of a committee in an ex-officio capacity the table records the number of meetings attended.

(b) The Chairman, Ms Elizabeth Bryan, attended meetings of the Audit Committee, the Human Resources Committee and the OHS & Environmental Risk Committee in an ex-officio capacity. The Managing Director & CEO, Mr Desmond King, attended meetings of these committees as a member of management.

(c) Mr Brant Fish and Mr John Thorn were unable to attend a Board meeting in 2008. In each case, the meeting had been convened as a special meeting (in addition to the Board's scheduled meetings).

(d) Ms Colleen Jones-Cervantes attended three Board meetings as a visitor prior to her appointment as a director. Her attendance at these meetings is in addition to the number of meetings noted in the table.

(e) Mr Peter Wissel attended one meeting of the Board as an alternate director for Ms Jones-Cervantes. He also attended three meetings of the Audit Committee following his appointment as an alternate director. Mr Wissel's attendance at these meetings is in addition to the number of meetings noted in the table.

(f) Audit Committee: Mr Greig Gailey was appointed to the Audit Committee with effect from 1 May 2008. Mr Wissel served on the Committee until 30 April 2008. Mr Fish attended one meeting as a visitor.

(g) Human Resources Committee: Mr Thorn was appointed to the Human Resources Committee with effect from 1 May 2008. Mr Richard (Dick) Warburton served on the Committee until 24 April 2008. Each of Mr Trevor Bourne and Ms Jones-Cervantes attended one meeting as a visitor.

(h) Nomination Committee: All directors served on the Nomination Committee in 2008. Ms Jones-Cervantes served on the Committee from 1 June 2008. Mr Warburton served on the Committee until 24 April 2008. Mr Wissel served on the Committee until 31 May 2008.

(i) OHS & Environmental Risk Committee: Ms Jones-Cervantes was appointed to the OHS & Environmental Risk Committee with effect from 1 June 2008. Mr Thorn served on the Committee until 30 April 2008. Mr Wissel served on the Committee from 1 to 31 May 2008.

SHARES AND INTERESTS

The total number of ordinary shares on issue at the date of this report and during 2008 is 270 million shares. The total number of performance rights on issue at the date of this report is 152,760 (2007: 73,010). 110,950 performance rights were issued during 2008 (2007: 73,010). 31,200 performance rights were distributed or lapsed during the year (2007: nil). On vesting, Caltex is required to allocate one ordinary share for each performance right, either by way of an issue of shares or the purchase of shares on market.

NON-AUDIT SERVICES

In 2008, KPMG (Caltex's external auditor) performed non-audit services for the Caltex Australia Group in addition to its audit and assurance engagements for the full year and half year.

KPMG received or was due to receive the following amounts for services performed for the Caltex Australia Group during the year ended 31 December 2008:

- for non-audit services – total fees of $102,000 (2007: $121,000); these services included taxation services ($59,000) and other assurance services ($43,000), and
- for audit and assurance services – total fees of $1,048,000 (2007: $885,000).

The Board has received a written advice from Mr John Thorn (Audit Committee Chairman) for and on behalf of the Audit Committee in relation to the independence of the external auditor for 2008. The advice was made in accordance with a resolution of the Audit Committee.

The directors are satisfied that:

- the provision of non-audit services to the Caltex Australia Group during the year ended 31 December 2008 by KPMG is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*, and
- the provision of non-audit services during the year ended 31 December 2008 by KPMG did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:
  - the provision of non-audit services in 2008 was consistent with the Board's policy on the provision of non-audit services by the external auditor
  - the non-audit services provided in 2008 are not considered to be in conflict with the role of external auditor
  - the directors are not aware of any matter relating to the provision of the non-audit services in 2008 that would impair the impartial and objective judgement of KPMG as external auditor.

COMPANY SECRETARIES

Ms Helen Conway

Ms Helen Conway serves as Company Secretary, General Counsel and General Manager – Office of the CEO. In this role, she serves as Company Secretary to the Board, as Committee Secretary for the Nomination Committee, and as a company secretary for various companies in the Caltex Australia Group.

Ms Conway was appointed as Company Secretary of Caltex Australia Limited with effect from 13 September 1999. Prior to joining Caltex, she was General Counsel for Air Services Australia and, before that, Group Secretary, General Counsel and General Manager – Corporate Advisory Division at NRMA. Ms Conway has also worked as a lawyer in private practice.

Ms Conway is a director of Caltex Australia Nominees Pty Ltd, the former trustee of the Caltex Australia Superannuation Plan, and Sydney Ferries Corporation.

Ms Conway holds a Bachelor of Arts and a Bachelor of Laws from the University of Sydney. She is a Fellow of Chartered Secretaries Australia.

Mr John Willey

Mr John Willey, Assistant Company Secretary, serves as a company secretary of Caltex Australia Limited. He also serves as Committee Secretary for the Audit Committee, the Human Resources Committee and the OHS & Environmental Risk Committee, and as a company secretary for various companies in the Caltex Australia Group.

Mr Willey was appointed as a company secretary of Caltex Australia Limited with effect from 1 June 2008 and has previously served as a company secretary from 30 August 2001 to 2 December 2004.

Mr Willey holds a Bachelor of Laws and a Bachelor of Business from the University of Technology, Sydney. He is a member of Chartered Secretaries Australia.

INDEMNITY AND INSURANCE

Constitution

The Constitution of Caltex Australia Limited provides that, to the extent permitted by law and subject to the restrictions in sections 199A and 199B of the *Corporations Act 2001*, Caltex Australia Limited indemnifies every person who is or has been a director or secretary of the company or of a subsidiary at the request of the Board of Caltex Australia Limited. The indemnities cover against:

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

Deeds of indemnity and insurance

During the year ended 31 December 2008, Caltex Australia Limited entered into a deed of access, insurance and indemnity with each of Mr Greig Gailey (director) and Mr John Willey (company secretary). Deeds of access, insurance and indemnity have previously been entered into by Caltex Australia Limited with other current directors and secretaries and with former directors and secretaries.

Under the deeds, Caltex Australia Limited has agreed, in broad terms, to indemnify its directors and company secretaries (to the extent permitted by law and subject to the prohibitions in section 199A of the *Corporations Act 2001* and the terms of the deed) against any and all:

- liabilities incurred as an officer of Caltex Australia Limited or a group company (but not including liabilities for legal costs covered by the legal costs indemnity), and
- legal costs reasonably incurred in defending an action for a liability incurred or allegedly incurred as an officer of Caltex Australia Limited or a group company and preparing for, attending or appearing in administrative proceedings or an investigation or inquiry by any regulatory authority or external administrator in respect of or arising out of or connected with any act.

Under the deeds entered into with directors and company secretaries, Caltex Australia Limited (either itself or through a group company) is required to maintain and pay the premium on an insurance policy covering each director and company secretary (to the extent permitted by law and subject to the prohibitions in sections 199B and 199C of the *Corporations Act 2001*). In each case, the obligation continues for a period of seven years after the director or secretary (as the case may be) ceases to be an officer or, if proceedings or an inquiry has commenced or arises within this seven year period and this has been notified to the company, a further period up to the outcome of the proceedings or inquiry or when the company is satisfied that the proceedings or inquiry will not proceed.

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 Class Order 98/100 (as issued by the Australian Securities and Investments Commission) applies. Amounts in the 2008 Directors' Report and the 2008 Financial Report have been rounded off to the nearest thousand dollars (unless otherwise stated) in accordance with this class order.

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

EB Bryan
CHAIRMAN

DF King
MANAGING DIRECTOR & CEO

Sydney, 20 February 2009

DIRECTORS' DECLARATION

The Board of Caltex Australia Limited has declared that:

(a) the directors have received the declarations required by section 295A of the *Corporations Act 2001* from the Managing Director & CEO and the Chief Financial Officer for the year ended 31 December 2008

(b) in the directors' opinion, the financial statements for the year ended 31 December 2008, and the notes to the financial statements, are in accordance with the *Corporations Act 2001*, including:

(i) section 296 (compliance with Accounting Standards), and

(ii) section 297 (true and fair view)

(c) 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, and

(d) at the date of this declaration, there are reasonable grounds to believe that the companies in the Caltex Australia Group that are parties to the Deed of Cross Guarantee dated 22 December 1992 with Caltex Australia Limited (including companies added by Assumption Deed), as identified in note 23 of the 2008 Financial Report, 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.

EB Bryan
CHAIRMAN

DF King
MANAGING DIRECTOR & CEO

Sydney, 20 February 2009

LEAD AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001*

To: the directors of Caltex Australia Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2008 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit, and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Steven Gatt

PARTNER

Sydney, 20 February 2009

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF CALTEX AUSTRALIA LIMITED

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Caltex Australia Limited (the "company"), which comprises the balance sheets as at 31 December 2008, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 31 and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report of the Group, comprising the financial statements and notes, complies with International Financial Reporting Standards.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the company's and the Group's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's opinion

In our opinion:

(a) the financial report of Caltex Australia Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the company's and the Group's financial position as at 31 December 2008 and of their performance for the year ended on that date, and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

REPORT ON THE REMUNERATION REPORT

We have audited the remuneration report included in pages 45 to 65 of the directors' report for the year ended 31 December 2008. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Caltex Australia Limited for the year ended 31 December 2008 complies with section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Steven Gatt
PARTNER

Sydney, 20 February 2009

INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

THOUSANDS OF DOLLARS	NOTE	CONSOLIDATED 2008	CONSOLIDATED 2007	PARENT ENTITY 2008	PARENT ENTITY 2007
Revenue from sale of goods		**23,646,653**	19,078,481	**–**	–
Replacement cost of goods sold (excluding product duties and taxes and inventory gains & losses)		**(17,764,562)**	(13,344,223)	**–**	–
Product duties and taxes		**(4,767,186)**	(4,628,750)	**–**	–
Inventory (losses)/gains		**(216,811)**	289,767	**–**	–
Cost of goods sold – historical cost		**(22,748,559)**	(17,683,206)	**–**	–
Gross profit		**898,094**	1,395,275	**–**	–
Other income	2	**248,429**	214,374	**253,634**	286,418
Refining and supply expenses		**(118,862)**	(20,996)	**–**	–
Marketing expenses		**(626,364)**	(609,171)	**–**	–
Net foreign exchange (losses)/gains		**(243,219)**	56,162	**–**	–
Finance costs	3	**(59,830)**	(46,246)	**(64,488)**	(48,635)
Other expenses		**(52,638)**	(64,256)	**(7,120)**	(3,511)
Share of net profit of entities accounted for using the equity method	24(b)	**997**	3,313	**–**	–
Profit before income tax expense		**46,607**	928,455	**182,026**	234,272
Income tax expense	4	**(13,426)**	(279,639)	**3,260**	(3,387)
Net profit		**33,181**	648,816	**185,286**	230,885
Net (loss)/profit attributable to minority interest		**(1,081)**	2,466	**–**	–
Net profit attributable to members of the parent entity		**34,262**	646,350	**185,286**	230,885
Basic and diluted earnings per share:					
Historical cost – cents per share[(i)]	6	**12.7**	239.4		

(i) Replacement cost earnings per share is also disclosed in note 6.

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

BALANCE SHEETS

AS AT 31 DECEMBER 2008

THOUSANDS OF DOLLARS	NOTE	CONSOLIDATED 2008	CONSOLIDATED 2007	PARENT ENTITY 2008	PARENT ENTITY 2007
Current assets					
Cash and cash equivalents		**31,703**	14,019	**–**	244
Receivables	7	**833,452**	1,146,974	**–**	–
Inventories	8	**1,044,187**	1,551,605	**–**	–
Current tax assets		**135,030**	–	**135,108**	–
Other	9	**21,131**	23,155	**1,137**	489
Total current assets		**2,065,503**	2,735,753	**136,245**	733
Non-current assets					
Receivables	7	**239**	282	**713,415**	593,842
Investments accounted for using the equity method		**24,828**	25,008	**–**	–
Other investments	10	**15**	15	**1,226,375**	1,226,375
Intangibles	11	**84,217**	79,485	**–**	–
Property, plant and equipment	12	**2,742,281**	2,476,963	**–**	–
Deferred tax assets	4	**–**	–	**114**	331
Other	9	**4,500**	12,430	**–**	–
Total non-current assets		**2,856,080**	2,594,183	**1,939,904**	1,820,548
Total assets		**4,921,583**	5,329,936	**2,076,149**	1,821,281
Current liabilities					
Payables	13	**1,158,901**	1,621,499	**434,461**	372,560
Interest bearing liabilities	14	**143,928**	31,871	**142,147**	30,000
Current tax liabilities		**–**	76,829	**–**	76,883
Provisions	15	**72,261**	86,487	**–**	–
Total current liabilities		**1,375,090**	1,816,686	**576,608**	479,443
Non-current liabilities					
Payables	13	**7,530**	8,478	**–**	–
Interest bearing liabilities	14	**719,806**	564,158	**713,415**	556,042
Deferred tax liabilities	4	**15,296**	31,410	**–**	–
Provisions	15	**201,898**	80,582	**–**	243
Total non-current liabilities		**944,530**	684,628	**713,415**	556,285
Total liabilities		**2,319,620**	2,501,314	**1,290,023**	1,035,728
Net assets		**2,601,963**	2,828,622	**786,126**	785,553
Equity					
Issued capital	16	**543,415**	543,415	**543,415**	543,415
Treasury stock	17	**(1,959)**	(2,919)	**(1,959)**	(2,919)
Reserves	17	**3,086**	3,092	**3,086**	2,459
Retained earnings	17	**2,047,348**	2,273,880	**241,584**	242,598
Total parent entity interest		**2,591,890**	2,817,468	**786,126**	785,553
Minority interest	17	**10,073**	11,154	**–**	–
Total equity		**2,601,963**	2,828,622	**786,126**	785,553

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

STATEMENTS OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 31 DECEMBER 2008

	CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	**2008**	2007	**2008**	2007
Net profit	**33,181**	648,816	**185,286**	230,885
Actuarial loss on defined benefit plans	**(74,494)**	(3,126)	**–**	–
Cash flow hedge fair value gains	**(633)**	311	**–**	–
Total recognised income and expense for the year	**(41,946)**	646,001	**185,286**	230,885
Attributable to:				
Equity holders of the parent entity	**(40,865)**	643,535	**185,286**	230,885
Minority interest	**(1,081)**	2,466	**–**	–
Total recognised income and expense for the year	**(41,946)**	646,001	**185,286**	230,885
Total equity at the beginning of the year	**2,828,622**	2,442,510	**785,553**	812,560
Total recognised income and expense for the year	**(41,946)**	646,001	**185,286**	230,885
Own shares acquired	**(1,326)**	(2,851)	**(1,326)**	(2,851)
Expense on equity settled transactions	**2,913**	1,459	**2,913**	1,459
Dividends to minority interest	**–**	(1,997)	**–**	–
Dividends to shareholders	**(186,300)**	(256,500)	**(186,300)**	(256,500)
Total equity at the end of the year	**2,601,963**	2,828,622	**786,126**	785,553

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

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

		CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	NOTE	2008	2007	2008	2007
Cash flows from operating activities					
Receipts from customers		**27,608,324**	21,468,811	**–**	–
Receipts from subsidiaries		**–**	–	**203,699**	181,464
Payments to suppliers, employees and governments		**(26,957,677)**	(20,670,462)	**(243)**	–
Dividends and disbursements received		**1,176**	3,915	**191,544**	222,983
Interest received		**3,521**	8,969	**61,458**	64,046
Interest and other finance costs paid		**(66,324)**	(54,232)	**(62,569)**	(51,980)
Income taxes paid		**(208,810)**	(161,605)	**(207,836)**	(160,013)
Net operating cash inflows	26	**380,210**	595,396	**186,053**	256,500
Cash flows from investing activities					
Purchase of controlled entities, net of cash acquired		**(1,456)**	(11,747)	**–**	–
Purchases of property, plant and equipment		**(391,824)**	(293,310)	**–**	–
Major cyclical maintenance		**(35,246)**	(57,874)	**–**	–
Purchases of intangibles		**(11,998)**	(22,211)	**–**	–
Net proceeds from sale of property, plant and equipment		**4,383**	17,718	**–**	–
Loans to controlled entities		**–**	–	**(269,040)**	(182)
Net investing cash (outflows)		**(436,141)**	(367,424)	**(269,040)**	(182)
Cash flows from financing activities					
Proceeds from borrowings		**11,927,841**	9,463,518	**11,924,450**	9,455,000
Repayments of borrowings		**(11,663,360)**	(9,472,701)	**(11,655,407)**	(9,454,818)
Repayment of finance lease principal		**(4,566)**	(1,872)	**–**	–
Dividends paid to minority interest		**–**	(1,997)	**–**	–
Dividends paid		**(186,300)**	(256,500)	**(186,300)**	(256,500)
Net financing cash inflows/(outflows)		**73,615**	(269,552)	**82,743**	(256,318)
Net increase/(decrease) in cash and cash equivalents		**17,684**	(41,580)	**(244)**	–
Cash and cash equivalents at the beginning of the year		**14,019**	55,599	**244**	244
Cash and cash equivalents at the end of the year		**31,703**	14,019	**–**	244

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

1. SIGNIFICANT ACCOUNTING POLICIES

Caltex Australia Limited (the "company") is a company domiciled in Australia. The financial statements for the year ended 31 December 2008 comprise the company and its controlled entities (together referred to as the Group) and the Group's interest in associates and jointly controlled entities. The financial statements were authorised for issue by the directors on 20 February 2009.

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

(a) Statement of compliance and basis of preparation

The financial report has been prepared as a general purpose financial report and complies with the requirements of the *Corporations Act 2001*, and Australian Accounting Standards (AASBs) including Australian Interpretations adopted by the Australian Accounting Standards Board (AASB). The consolidated financial report of the Group and the financial report of the company comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

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

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

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

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

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

The standards and amendments that were made available for early adoption by the AASB but have not been applied by the Group in this financial report are disclosed in note 1(x).

The accounting policies set out below have been applied consistently to all periods presented in the financial report by the company and the Group, except where stated.

(b) Basis of consolidation

Subsidiaries

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

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

Prior year restatement

During 2004, the parent entity received a dividend from a wholly owned subsidiary which was incorrectly omitted from the 2004 financial statements, resulting in an understatement of other income, non-current receivables and equity of $37,800,003. The comparative period balance sheet for the parent entity has been restated to correct this adjustment. The effect on the 2007 balance sheet of the parent entity is an increase of $37,800,003 in non-current receivables and opening retained earnings. The impact on the Group's financial statements is nil.

Associates

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

Joint ventures

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

Jointly controlled entities

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

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

Jointly controlled operations and assets

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

Transactions eliminated on consolidation

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

(c) Accounting estimates and judgements

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

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

Note 1(t) contains information about the principal actuarial assumptions used in determining pension obligations for the Group's defined benefit plan.

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

In assessing the carrying value of property, plant and equipment management considers long-term assumptions relating to key external factors including crude oil prices, foreign exchange rates and Singapore refiner margins. Any changes in these assumptions can have a material impact on the carrying value.

(d) Revenue

Sales revenue

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

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

Other income

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

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

Profit/loss on disposal of property assets

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

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

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

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

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

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

(f) Product duties and taxes

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

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

(g) Goods and services tax

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

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

(h) Finance costs

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

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

(i) Foreign currencies

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

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

(j) Derivative financial instruments

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Derivative financial instruments (continued)

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

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

Interest rate instruments

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

Foreign exchange contracts

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

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

Crude and finished product swap contracts

Tapis crude and product swap contracts may be used to reduce exposure to changes in absolute crude and finished product prices and their fair values are calculated by reference to market prices. There are no exchanges of principal amounts involved in these contracts.

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

Hedging

Cash flow hedges

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

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

Fair value hedges

Cross currency swaps are fair value hedges.

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

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

(k) Income tax

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

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

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

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

Tax consolidation

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

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

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

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

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

Nature of tax funding arrangements and tax sharing arrangements

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

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

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

(l) Receivables

Receivables are measured at amortised cost less impairment losses.

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

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

(m) Inventories

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

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

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

Change in accounting policy

On 1 January 2008, the Group's accounting policy for inventories changed. Inventories are still valued at the lower of cost and net realisable value; however, the cost is based on the First In First Out (FIFO) principle (as stated above). In prior periods the Weighted Average Cost principle was used. Had the FIFO principle been applied in the prior year the cost of goods sold for the year ended 31 December 2007 would have decreased by $52 million and the inventory amount as at 31 December 2007 would have increased by $24 million.

This change in accounting policy has no impact on the replacement cost operating profit (RCOP) result.

(n) Impairment

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

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

Calculation of recoverable amount

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

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

Reversals of impairment

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

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

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

(o) Property, plant and equipment

Owned assets

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Property, plant and equipment (continued)

Leased assets

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

Finance leases

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

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

Operating leases

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

Subsequent expenditure

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

Major cyclical maintenance

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

Depreciation

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

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

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

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

(p) Intangible assets

Goodwill

Business combinations prior to 1 January 2004

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

Business combinations since 1 January 2004

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

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

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

Research and development

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

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

Other intangible assets

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

Subsequent expenditure

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

Amortisation

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

Software development	5–20%
Software not integrated with hardware	17–20%
Licences	6–10%

(q) Cash and cash equivalents

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

(r) Payables

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

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

(s) Interest bearing liabilities

Interest bearing bank loans

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

Short-term notes

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

Medium-term notes

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

US notes

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

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

(t) Employee benefits

Wages and salaries

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

Annual leave, long service leave and retirement benefits

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

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

Superannuation

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

Defined contribution plans

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

Defined benefit plans

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

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

(u) Share based payments

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

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

The cost of equity settled transactions is recognised over the specified service period and ending on the date on which the relevant employees become fully entitled to the award (vesting date). The cumulative expense recognised for equity settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired.

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

(v) Environmental costs

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

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

(w) Provisions

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Provisions (continued)

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

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

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

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

Restoration and remediation

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

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

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

Asset retirements

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

Dividends

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

Restructuring and employee termination benefits

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

(x) New standards and interpretations not yet adopted

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

- Revised AASB 3 Business Combinations (August 2008).
- Revised AASB 8 Operating Segments (February 2007).
- Revised AASB 101 Presentation of Financial Statements (September 2007).
- Revised AASB 123 Borrowing Costs (June 2007).
- Revised AASB 127 Consolidated and Separate Financial Statements (March 2008).
- AASB 1039 Concise Financial Statements.
- AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 Operating Segments.
- AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 Borrowing Costs.
- AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101 Presentation of Financial Statements.
- AASB 2007-10 Further Amendments to Australian Accounting Standards arising from AASB 101 Presentation of Financial Statements.
- AASB 2008-1 Amendments to Australian Accounting Standards – Share-based Payments: Vesting Conditions and Cancellations.
- AASB 2008-2 Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation.
- AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 Business Combinations and AASB 127 Consolidated and Separate Financial Statements.
- AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project.
- AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project.
- AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate.
- AASB 2008-8 Amendments to Australian Accounting Standards – Eligible Hedged Items.
- AASB 2008-10 Amendments to Australian Accounting Standards – Reclassification of Financial Assets.
- AI 13 Customer Loyalty Programmes.

These statements will be effective for the Group as of 1 January 2009. The Group is currently in the process of assessing the impact of the adoption of these standards.

THOUSANDS OF DOLLARS	CONSOLIDATED 2008	CONSOLIDATED 2007	PARENT ENTITY 2008	PARENT ENTITY 2007

2. OTHER INCOME

Dividends received from controlled entities	**–**	–	**191,544**	222,983
Rental income	**33,549**	32,331	**–**	–
Royalties and franchise income	**108,539**	106,225	**–**	–
Transaction and merchant fees	**74,727**	56,064	**–**	–
Other	**27,941**	12,604	**–**	1,155
	244,756	207,224	**191,544**	224,138
Finance income				
Interest from controlled entities	**–**	–	**61,142**	61,801
Interest from other corporations	**3,194**	6,860	**469**	189
Gain on fair value derivative	**479**	290	**479**	290
	3,673	7,150	**62,090**	62,280
	248,429	214,374	**253,634**	286,418

3. COSTS AND EXPENSES

Finance costs				
Interest expense	**77,716**	48,208	**64,488**	48,635
Finance charges on capitalised leases	**1,655**	1,722	**–**	–
Less: Capitalised finance costs	**(19,541)**	(3,684)	**–**	–
Finance costs	**59,830**	46,246	**64,488**	48,635
Depreciation and amortisation				
Depreciation of:				
Buildings	**8,620**	8,278	**–**	–
Plant and equipment	**152,682**	144,232	**–**	–
	161,302	152,510	**–**	–
Amortisation of:				
Leasehold property	**5,738**	6,273	**–**	–
Leased plant and equipment	**1,354**	1,380	**–**	–
Intangibles	**8,575**	6,568	**–**	–
	15,667	14,221	**–**	–
Total depreciation and amortisation	**176,969**	166,731	**–**	–
Selected expenses				
Total personnel expenses	**321,169**	286,097	**–**	–
Impairment of capital projects	**4,934**	–	**–**	–
Operating leases rental expense	**89,531**	85,559	**–**	–
Finance lease contingent rentals	**2,019**	796	**2,178**	808
Divestment expenses of non-current assets	**27,798**	16,999	**–**	–

During the year, the internal reporting structure of Caltex changed such that terminal expenses ($82,364,000) now form part of refining and supply expenses (2007: $74,754,000 recorded in marketing expenses).

THOUSANDS OF DOLLARS	CONSOLIDATED 2008	CONSOLIDATED 2007	PARENT ENTITY 2008	PARENT ENTITY 2007

4. INCOME TAX EXPENSE

(a) Recognised in the income statements

	CONSOLIDATED 2008	CONSOLIDATED 2007	PARENT ENTITY 2008	PARENT ENTITY 2007
Current tax expense:				
Current year	**670**	274,439	**(3,477)**	3,300
Adjustments for prior years	**(3,327)**	3,245	**–**	–
	(2,657)	277,684	**(3,477)**	3,300
Deferred tax expense:				
Origination and reversal of temporary differences	**16,083**	1,955	**217**	87
Total income tax expense in the income statements	**13,426**	279,639	**(3,260)**	3,387

(b) Reconciliation between income tax expense and profit before income tax expense

	CONSOLIDATED 2008	CONSOLIDATED 2007	PARENT ENTITY 2008	PARENT ENTITY 2007
Profit before income tax expense	**46,607**	928,455	**182,026**	234,272
Income tax using the domestic corporate tax rate of 30% (2007: 30%)	**13,982**	278,537	**54,608**	70,282
Increase in income tax expense due to:				
Imputation gross-up on dividends received	**423**	1,090	**–**	–
Net tangible capital gains tax	**287**	962	**–**	–
Other	**3,683**	–	**–**	–
Decrease in income tax expense due to:				
Share of net profit of associated entities	**(218)**	(910)	**–**	–
Research and development allowances	**(900)**	(1,125)	**–**	–
Dividends received from subsidiaries	**–**	–	**(57,463)**	(66,895)
Other	**–**	(1,075)	**(405)**	–
Franking credits on dividends received	**(504)**	(1,085)	**–**	–
Income tax (over)/under provided in prior years	**(3,327)**	3,245	**–**	–
Total income tax expense in the income statements	**13,426**	279,639	**(3,260)**	3,387

(c) Deferred tax recognised directly in equity

	CONSOLIDATED 2008	CONSOLIDATED 2007	PARENT ENTITY 2008	PARENT ENTITY 2007
Related to actuarial losses	**31,926**	1,340	**–**	–
Related to financial instruments	**271**	(133)	**–**	–
	32,197	1,207	**–**	–

(d) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	ASSETS 2008	ASSETS 2007	LIABILITIES 2008	LIABILITIES 2007	NET 2008	NET 2007
Consolidated						
Receivables	**1,778**	3,686	**–**	–	**1,778**	3,686
Inventories	**–**	–	**(9,667)**	(3,020)	**(9,667)**	(3,020)
Property, plant and equipment and intangibles	**–**	–	**(96,936)**	(86,448)	**(96,936)**	(86,448)
Payables	**6,400**	5,537	**–**	–	**6,400**	5,537
Interest bearing liabilities	**2,258**	2,072	**–**	–	**2,258**	2,072
Provisions	**81,509**	50,121	**–**	–	**81,509**	50,121
Other	**–**	–	**(638)**	(3,358)	**(638)**	(3,358)
Net tax assets/(liabilities)	**91,945**	61,416	**(107,241)**	(92,826)	**(15,296)**	(31,410)

	ASSETS 2008	ASSETS 2007	LIABILITIES 2008	LIABILITIES 2007	NET 2008	NET 2007
Parent entity						
Provisions	**114**	73	**–**	–	**114**	73
Interest bearing liabilities	**–**	258	**–**	–	**–**	258
Net tax assets	**114**	331	**–**	–	**114**	331

4. INCOME TAX EXPENSE (CONTINUED)

(e) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items.

THOUSANDS OF DOLLARS	2008	2007
Capital tax losses	**195,773**	198,949

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

(f) Movement in temporary differences during the year

THOUSANDS OF DOLLARS	BALANCE AT 1 JAN 08	RECOGNISED IN INCOME	RECOGNISED IN EQUITY	BALANCE AT 31 DEC 08
Consolidated				
Receivables	**3,686**	**(1,908)**	**–**	**1,778**
Inventories	**(3,020)**	**(6,647)**	**–**	**(9,667)**
Property, plant and equipment	**(86,448)**	**(10,488)**	**–**	**(96,936)**
Payables	**5,537**	**863**	**–**	**6,400**
Interest bearing liabilities	**2,072**	**(85)**	**271**	**2,258**
Provisions	**50,121**	**2,074**	**29,314**	**81,509**
Other	**(3,358)**	**108**	**2,612**	**(638)**
	(31,410)	**(16,083)**	**32,197**	**(15,296)**

	BALANCE AT 1 JAN 07	RECOGNISED IN INCOME	RECOGNISED IN EQUITY	BALANCE AT 31 DEC 07
Consolidated				
Receivables	3,327	359	–	3,686
Inventories	(2,229)	(791)	–	(3,020)
Property, plant and equipment	(82,231)	(4,217)	–	(86,448)
Payables	6,793	(1,256)	–	5,537
Interest bearing liabilities	2,689	(484)	(133)	2,072
Provisions	45,021	5,124	(24)	50,121
Other	(4,032)	(690)	1,364	(3,358)
	(30,662)	(1,955)	1,207	(31,410)

	BALANCE AT 1 JAN 08	RECOGNISED IN INCOME	RECOGNISED IN EQUITY	BALANCE AT 31 DEC 08
Parent entity				
Interest bearing liabilities	**258**	**(144)**	**–**	**114**
Provisions	**73**	**(73)**	**–**	**–**
	331	**(217)**	**–**	**114**

	BALANCE AT 1 JAN 07	RECOGNISED IN INCOME	RECOGNISED IN EQUITY	BALANCE AT 31 DEC 07
Parent entity				
Interest bearing liabilities	345	(87)	–	258
Provisions	73	–	–	73
	418	(87)	–	331

5. DIVIDENDS

(a) Dividends declared or paid

Dividends recognised in the current year by the company are:

	DATE OF PAYMENT	FRANKED/ UNFRANKED	CENTS PER SHARE	TOTAL AMOUNT $'000
2008				
Interim 2008	26 September 2008	Franked	36	97,200
Final 2007	28 March 2008	Franked	33	89,100
Total amount				186,300
2007				
Interim 2007	28 September 2007	Franked	47	126,900
Final 2006	30 March 2007	Franked	48	129,600
Total amount				256,500

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

Subsequent events

Since 31 December 2008, the directors declared no final dividend will be paid for 2008.

	PARENT ENTITY	
THOUSANDS OF DOLLARS	**2008**	2007
(b) Dividend franking account		
30% franking credits available to shareholders of Caltex Australia Limited for subsequent financial years	**864,589**	737,016

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

There is no impact on the dividend franking account of a final dividend proposed after the balance sheet date but not recognised as a liability (2007: $38,186,000).

In accordance with the tax consolidation legislation, the company as the head entity in the tax consolidated group has also assumed the benefit of $864,589,000 (2007: $737,016,000) in franking credits.

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	**2008**	2007
6. BASIC AND DILUTED EARNINGS PER SHARE				
Historical cost – cents per share	**12.7**	239.4	**–**	–
Replacement cost – cents per share	**68.9**	164.3	**–**	–

The calculation of historical cost basic earnings per share for the period ended 31 December 2008 was based on the net profit attributable to ordinary shareholders of the parent entity of $34,262,000 (2007: $646,350,000) and a weighted average number of ordinary shares outstanding during the period ended 31 December 2008 of 270 million shares (2007: 270 million shares).

The calculation of replacement cost basic earnings per share for the year ended 31 December 2008 was based on the net replacement cost profit attributable to ordinary shareholders of the parent entity of $186,030,000 (2007: $443,513,000) and a weighted average number of ordinary shares outstanding during the period ended 31 December 2008 of 270 million shares (2007: 270 million shares).

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

THOUSANDS OF DOLLARS	CONSOLIDATED 2008	2007	PARENT ENTITY 2008	2007

7. RECEIVABLES

	2008	2007	2008	2007
Current				
Trade debtors	**730,066**	1,015,982	**–**	–
Allowance for impairment	**(6,332)**	(10,202)	**–**	–
	723,734	1,005,780	**–**	–
Associated entities	**42,888**	24,004	**–**	–
Other related entities	**24,430**	74,113	**–**	–
Other debtors	**42,400**	43,077	**–**	–
	833,452	1,146,974	**–**	–
Non-current				
Loans to controlled entities	**–**	–	**713,415**	593,842
Other loans	**239**	282	**–**	–
	239	282	**713,415**	593,842

(a) Impaired receivables

As at 31 December 2008, current trade receivables of the Group with a nominal value of $6,332,000 (2007: $10,202,000) were impaired. The individually impaired receivables relate to a variety of customers who are in financial difficulties.

No collateral is held over these impaired receivables.

As at 31 December 2008, trade receivables of $22,043,000 (2007: $30,145,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of receivables past due but not impaired is as follows:

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	2008	2007
Past due 0–30 days	**14,974**	26,145	**–**	–
Past due 31–60 days	**5,097**	2,960	**–**	–
Past due greater than 60 days	**1,972**	1,310	**–**	–
	22,043	30,415	**–**	–

Movements in the allowance for impairment of receivables are as follows:

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	2008	2007
At 1 January	**10,202**	8,090	**–**	–
Provision for impairment recognised during the year	**5,211**	2,112	**–**	–
Receivables written off during the year as uncollectible	**(2,447)**	–	**–**	–
Unused amount reversed	**(6,634)**	–	**–**	–
At 31 December	**6,332**	10,202	**–**	–

The creation and release of the provision for impaired receivables has been included in "other expenses" in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. There are no receivables that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired.

(b) Foreign exchange and interest rate risk

Refer to note 18 for exposures to foreign exchange and interest rate risk relating to trade and other receivables.

(c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value. Maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group holds collateral and other credit enhancements with a fair value of $194,988,000 (2007: $318,914,000) in respect of these assets. Refer to note 18 for further details.

THOUSANDS OF DOLLARS	CONSOLIDATED 2008	CONSOLIDATED 2007	PARENT ENTITY 2008	PARENT ENTITY 2007

8. INVENTORIES

Crude oil and raw materials held at cost	**359,720**	681,634	**–**	–
Inventory in process held at cost	**149,018**	203,244	**–**	–
Finished goods held at cost	**220,616**	630,862	**–**	–
Finished goods held at net realisable value	**272,970**	–	**–**	–
Materials and supplies held at cost	**41,863**	35,865	**–**	–
	1,044,187	1,551,605	**–**	–

Inventories held at 31 December 2008 were written down to their net realisable value. The amount of the write-down was $64,863,000 (2007: nil) and is included in inventory losses.

9. OTHER ASSETS

Current				
Prepayments	**21,131**	23,155	**1,137**	489
Non-current				
Other	**4,500**	12,430	**–**	–

10. OTHER INVESTMENTS

Investment in other entities	**15**	15	**–**	–
Investment in controlled entities	**–**	–	**1,226,375**	1,226,375
	15	15	**1,226,375**	1,226,375

THOUSANDS OF DOLLARS	CONSOLIDATED GOODWILL	CONSOLIDATED RIGHTS	CONSOLIDATED SOFTWARE	CONSOLIDATED TOTAL

11. INTANGIBLES

Cost				
Balance at 1 January 2007	50,475	3,452	46,443	100,370
Acquisitions through business combinations	9,209	–	–	9,209
Additions	–	534	20,503	21,037
Goodwill adjustments	1,174	–	–	1,174
Balance at 31 December 2007	60,858	3,986	66,946	131,790
Cost				
Balance at 1 January 2008	**60,858**	**3,986**	**66,946**	**131,790**
Acquisitions through business combinations	**1,309**	**–**	**–**	**1,309**
Additions	**–**	**–**	**11,998**	**11,998**
Balance at 31 December 2008	**62,167**	**3,986**	**78,944**	**145,097**
Amortisation and impairment losses				
Balance at 1 January 2007	(11,391)	(660)	(33,686)	(45,737)
Amortisation for the year	–	(1,693)	(4,875)	(6,568)
Balance at 31 December 2007	(11,391)	(2,353)	(38,561)	(52,305)
Amortisation and impairment losses				
Balance at 1 January 2008	**(11,391)**	**(2,353)**	**(38,561)**	**(52,305)**
Amortisation for the year	**–**	**(413)**	**(8,162)**	**(8,575)**
Balance at 31 December 2008	**(11,391)**	**(2,766)**	**(46,723)**	**(60,880)**

THOUSANDS OF DOLLARS	CONSOLIDATED GOODWILL	RIGHTS	SOFTWARE	TOTAL

11. INTANGIBLES (CONTINUED)

Carrying amount

	GOODWILL	RIGHTS	SOFTWARE	TOTAL
At 1 January 2007	39,084	2,792	12,757	54,633
At 31 December 2007	49,467	1,633	28,385	79,485
At 1 January 2008	**49,467**	**1,633**	**28,385**	**79,485**
At 31 December 2008	**50,776**	**1,220**	**32,221**	**84,217**

Amortisation and impairment losses

The amortisation charge of $8,575,000 (2007: $6,568,000) is recognised in refining and supply expenses, marketing expenses and other expenses on the income statement.

Impairment tests for cash-generating units containing goodwill

Goodwill acquired through business combinations has been tested for impairment as follows.

	CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	**2008**	2007	**2008**	2007
Distributor businesses	**50,776**	49,467	**–**	–

No impairment losses have been recognised during the year ended 31 December 2008 (2007: nil).

Distributor businesses

The recoverable amount of goodwill with distributor businesses has been determined based on a "value in use" calculation. This calculation uses cash flow projections based on an extrapolation of the year end cash flows and available budget information, over 20 years. Management believes that a forecast period of 20 years was justified due to the long-term nature of petroleum distributor businesses. The cash flows have been discounted using the pre-tax discount rate of 14.6% p.a. The cash flows have been extrapolated using a constant growth rate of between 0% and 3.5% as considered appropriate for each distributor business. The growth rates used do not exceed the long-term growth rate for the industry.

Key assumptions used in "value in use" calculations

Key assumption	Basis for determining value in use assigned to key assumption
Gross profit	Earnings before interest, tax, depreciation and amortisation (EBITDA)
Estimated long-term average growth rate	Between 0% and 3.5% as considered appropriate for each distributor business based on past experience
Discount period	Represents the longest remaining life of assets acquired
Discount rate	The risk specific to the asset

The values assigned to the key assumptions represent management's assessment of future trends in the petroleum industry and are based on both external sources and internal sources (historic data).

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of goodwill recorded to exceed its recoverable amount.

THOUSANDS OF DOLLARS	CONSOLIDATED 2008	CONSOLIDATED 2007	PARENT ENTITY 2008	PARENT ENTITY 2007

12. PROPERTY, PLANT AND EQUIPMENT

	2008	2007	2008	2007
Freehold land				
At cost	**374,248**	377,990	**–**	–
Net carrying amount	**374,248**	377,990	**–**	–
Buildings				
At cost	**322,869**	301,147	**–**	–
Accumulated depreciation	**(126,619)**	(124,484)	**–**	–
Net carrying amount	**196,250**	176,663	**–**	–
Leasehold property				
At cost	**91,940**	93,919	**–**	–
Accumulated amortisation	**(62,852)**	(62,076)	**–**	–
Net carrying amount	**29,088**	31,843	**–**	–
Plant and equipment				
At cost	**3,140,445**	2,956,422	**–**	–
Accumulated depreciation	**(1,612,043)**	(1,489,574)	**–**	–
Net carrying amount	**1,528,402**	1,466,848	**–**	–
Leased plant and equipment				
At capitalised cost	**22,987**	14,168	**–**	–
Accumulated amortisation	**(20,065)**	(10,596)	**–**	–
Net carrying amount	**2,922**	3,572	**–**	–
Capital projects in progress				
At cost	**611,371**	420,047	**–**	–
Net carrying amount	**611,371**	420,047	**–**	–
Total net carrying amount	**2,742,281**	2,476,963	**–**	–

Reconciliations

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

	2008	2007	2008	2007
Freehold land				
Carrying amount at the beginning of the year	**377,990**	385,394	**–**	–
Additions	**1,856**	2,390	**–**	–
Disposals	**(5,598)**	(9,794)	**–**	–
Carrying amount at the end of the year	**374,248**	377,990	**–**	–
Buildings				
Carrying amount at the beginning of the year	**176,663**	163,020	**–**	–
Additions	**49**	297	**–**	–
Acquisition through entity acquired	**3,232**	8,772	**–**	–
Disposals	**(10,293)**	(2,548)	**–**	–
Transfers from capital projects in progress	**35,219**	15,400	**–**	–
Depreciation	**(8,620)**	(8,278)	**–**	–
Carrying amount at the end of the year	**196,250**	176,663	**–**	–
Leasehold property				
Carrying amount at the beginning of the year	**31,843**	26,629	**–**	–
Additions	**–**	308	**–**	–
Disposals	**(563)**	(190)	**–**	–
Transfers from capital projects in progress	**3,546**	11,369	**–**	–
Amortisation	**(5,738)**	(6,273)	**–**	–
Carrying amount at the end of the year	**29,088**	31,843	**–**	–

THOUSANDS OF DOLLARS	CONSOLIDATED 2008	2007	PARENT ENTITY 2008	2007

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Plant and equipment

Carrying amount at the beginning of the year	**1,466,848**	1,420,015	**–**	–
Additions	**40,575**	62,542	**–**	–
Acquisition through entity acquired	**2,044**	5,180	**–**	–
Disposals	**(6,512)**	(1,805)	**–**	–
Transfers from capital projects in progress	**178,129**	125,148	**–**	–
Depreciation	**(152,682)**	(144,232)	**–**	–
Carrying amount at the end of the year	**1,528,402**	1,466,848	**–**	–

Leased plant and equipment

Carrying amount at the beginning of the year	**3,572**	4,267	**–**	–
Additions	**704**	685	**–**	–
Amortisation	**(1,354)**	(1,380)	**–**	–
Carrying amount at the end of the year	**2,922**	3,572	**–**	–

Capital projects in progress

Carrying amount at the beginning of the year	**420,047**	289,117	**–**	–
Additions	**393,611**	279,163	**–**	–
Write-offs	**(4,934)**	–	**–**	–
Borrowing costs capitalised	**19,541**	3,684	**–**	–
Transfers to property, plant and equipment	**(216,894)**	(151,917)	**–**	–
Carrying amount at the end of the year	**611,371**	420,047	**–**	–

13. PAYABLES

Current

Trade creditors – unsecured[(a)]				
Related entities	**229,850**	433,282	**–**	–
Other corporations and persons	**456,718**	668,234	**–**	–
Controlled entities	**–**	–	**422,280**	361,784
Other creditors and accrued expenses	**472,333**	519,983	**12,181**	10,776
	1,158,901	1,621,499	**434,461**	372,560

Non-current

Other creditors and accrued expenses	**7,530**	8,478	**–**	–

(a) Trade creditors are non-interest bearing and are normally settled on 30 day terms.

THOUSANDS OF DOLLARS	CONSOLIDATED 2008	CONSOLIDATED 2007	PARENT ENTITY 2008	PARENT ENTITY 2007

14. INTEREST BEARING LIABILITIES

Current – unsecured				
US notes(i)	**117,757**	–	**117,757**	–
Bank loans(i)	**–**	30,000	**–**	30,000
Hedge payable(ii)	**24,390**	–	**24,390**	–
Lease liabilities(iii)	**1,781**	1,871	**–**	–
	143,928	31,871	**142,147**	30,000
Non-current – unsecured				
US notes(i)	**113,415**	205,315	**113,415**	205,315
Bank loans(i)	**600,000**	300,000	**600,000**	300,000
Hedge payable(ii)	**–**	50,727	**–**	50,727
Lease liabilities(iii)	**6,391**	8,116	**–**	–
	719,806	564,158	**713,415**	556,042

This note provides information about the contractual terms of Caltex's interest bearing loans and other liabilities. For more information about Caltex's exposure to interest rate and foreign currency risk, see note 18.

(i) The bank loans and the US notes are provided by a number of banks and the capital markets. The majority of interest rates on these loans and notes are on a floating rate basis. The hedge payable and a portion of the US notes, totalling $142,147,000, mature in July 2009. The remainder of the US notes mature in July 2012. Under the loan and note agreements, the Caltex Australia Group is required to comply with certain financial covenants. There is no security or demand placed on the bank loans and US notes. The bank loans are denominated in Australian dollars, and US notes are denominated in Australian and US dollars.

(ii) The hedge payable is disclosed within interest bearing liabilities as the hedge was entered into solely as a result of the US dollar borrowings and is inextricably linked to the debt. The amount mainly represents the impact of the movement in the exchange rate from the date of inception (30 July 2002, USD exchange rate 0.5643) to 31 December 2008 (USD exchange rate 0.6912), on the amount hedged (USD80 million).

(iii) The implicit rate of interest on finance leases is 14.0% p.a. (2007: 14.0% p.a.). Refer to note 20 for details on the timing and amount of future lease payments.

THOUSANDS OF DOLLARS	EMPLOYEE BENEFITS	SITE REMEDIATION	OIL INSURANCE	OTHER	TOTAL

15. PROVISIONS

Consolidated					
Balance at 1 January 2008	92,526	55,499	11,828	7,216	167,069
Provisions made during the year	135,942	17,599	3,700	1,927	159,168
Provisions used during the year	(38,755)	(20,349)	(148)	(5,170)	(64,422)
Discounting	6,820	5,524	–	–	12,344
Balance at 31 December 2008	**196,533**	**58,273**	**15,380**	**3,973**	**274,159**
Current	43,267	9,641	15,380	3,973	72,261
Non-current	153,266	48,632	–	–	201,898
	196,533	**58,273**	**15,380**	**3,973**	**274,159**

	EMPLOYEE BENEFITS	SITE REMEDIATION	OIL INSURANCE	OTHER	TOTAL
Parent entity					
Balance at 1 January 2008	243	–	–	–	243
Provisions used during the year	(243)	–	–	–	(243)
Balance at 31 December 2008	**–**	**–**	**–**	**–**	**–**

Employee benefits

The current provisions for employee benefits, which include annual leave, long service leave, employee bonus and retirement benefits, represent the present value of the estimated future cash outflows to be made by the Group resulting from employees' services provided up to the balance date. Provisions for employee benefits which are not expected to be settled within 12 months are calculated using future expected increases in salary rates, including related oncosts, turnover rates, and expected settlement dates based on turnover history and are discounted using the rates attaching to the national government securities at balance date, which most closely match the terms of maturity of the related liabilities.

Restoration and remediation

Provision is made for the remediation of oil refining, distribution and marketing sites. The estimation of the cost of future remediation activities is subject to potentially significant uncertainties. These uncertainties include the legal and regulatory framework, the magnitude of possible contamination, and the timing and extent of remediation activities required.

15. PROVISIONS (CONTINUED)

OIL insurance

The Group is a shareholder of Oil Insurance Limited (OIL). OIL is a Bermuda company that was formed to insure catastrophic risk such as oil and gas fires and pollution control. The premium charged utilises loss information from the entire shareholder base as the pricing mechanism to determine a rate per $1,000 of insured assets.

If the Group was to leave OIL, a payment is required in respect of the unpaid portion of the allocated five year incurred loss. This amount is advised annually by OIL and is provided for in the accounts.

Other

Other includes the legal provision and other provisions.

	CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	**2008**	2007	**2008**	2007

16. ISSUED CAPITAL

Ordinary shares

Issued capital 270 million ordinary shares, fully paid	**543,415**	543,415	**543,415**	543,415

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

In the event of the winding up of Caltex Australia Limited, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

Caltex grants performance rights to senior executives, see Directors' Report pages 50 to 61. If these rights are realised, shares vested to the senior executives may be purchased on the open market or new share capital may be issued.

17. RECONCILIATION OF EQUITY

Consolidated

THOUSANDS OF DOLLARS	ISSUED CAPITAL	TREASURY STOCK	HEDGING RESERVE	EQUITY COMPEN-SATION RESERVE	RETAINED EARNINGS	TOTAL	MINORITY INTEREST	TOTAL EQUITY
Balance at 1 January 2007	543,415	(2,092)	322	3,024	1,887,156	2,431,825	10,685	2,442,510
Total recognised income for the year	–	–	311	–	643,224	643,535	2,466	646,001
Own shares acquired	–	(2,851)	–	–	–	(2,851)	–	(2,851)
Shares vested to employees	–	2,024	–	(2,024)	–	–	–	–
Expense on equity settled transactions	–	–	–	1,459	–	1,459	–	1,459
Dividends to shareholders	–	–	–	–	(256,500)	(256,500)	(1,997)	(258,497)
Balance at 31 December 2007	543,415	(2,919)	633	2,459	2,273,880	2,817,468	11,154	2,828,622
Balance at 1 January 2008	**543,415**	**(2,919)**	**633**	**2,459**	**2,273,880**	**2,817,468**	**11,154**	**2,828,622**
Total recognised income for the year	**–**	**–**	**(633)**	**–**	**(40,232)**	**(40,865)**	**(1,081)**	**(41,946)**
Own shares acquired	**–**	**(1,326)**	**–**	**–**	**–**	**(1,326)**	**–**	**(1,326)**
Shares vested to employees	**–**	**2,078**	**–**	**(2,078)**	**–**	**–**	**–**	**–**
Disposal of unvested shares	**–**	**208**	**–**	**–**	**–**	**208**	**–**	**208**
Expense on equity settled transactions	**–**	**–**	**–**	**2,705**	**–**	**2,705**	**–**	**2,705**
Dividends to shareholders	**–**	**–**	**–**	**–**	**(186,300)**	**(186,300)**	**–**	**(186,300)**
Balance at 31 December 2008	**543,415**	**(1,959)**	**–**	**3,086**	**2,047,348**	**2,591,890**	**10,073**	**2,601,963**

THOUSANDS OF DOLLARS	ISSUED CAPITAL	TREASURY STOCK	HEDGING RESERVE	EQUITY COMPEN-SATION RESERVE	RETAINED EARNINGS	TOTAL	MINORITY INTEREST	TOTAL EQUITY
17. RECONCILIATION OF EQUITY (CONTINUED)								
Parent entity								
Balance at 1 January 2007	543,415	(2,092)	–	3,024	268,213	812,560	–	812,560
Total recognised income for the year	–	–	–	–	230,885	230,885	–	230,885
Own shares acquired	–	(2,851)	–	–	–	(2,851)	–	(2,851)
Shares vested to employees	–	2,024	–	(2,024)	–	–	–	–
Expense on equity settled transactions	–	–	–	1,459	–	1,459	–	1,459
Dividends to shareholders	–	–	–	–	(256,500)	(256,500)	–	(256,500)
Balance at 31 December 2007	543,415	(2,919)	–	2,459	242,598	785,553	–	785,553
Balance at 1 January 2008	**543,415**	**(2,919)**	**–**	**2,459**	**242,598**	**785,553**	**–**	**785,553**
Total recognised income for the year	**–**	**–**	**–**	**–**	**185,286**	**185,286**	**–**	**185,286**
Own shares acquired	**–**	**(1,326)**	**–**	**–**	**–**	**(1,326)**	**–**	**(1,326)**
Shares vested to employees	**–**	**2,078**	**–**	**(2,078)**	**–**	**–**	**–**	**–**
Disposal of unvested shares	**–**	**208**	**–**	**–**	**–**	**208**	**–**	**208**
Expense on equity settled transactions	**–**	**–**	**–**	**2,705**	**–**	**2,705**	**–**	**2,705**
Dividends to shareholders	**–**	**–**	**–**	**–**	**(186,300)**	**(186,300)**	**–**	**(186,300)**
Balance at 31 December 2008	**543,415**	**(1,959)**	**–**	**3,086**	**241,584**	**786,126**	**–**	**786,126**

Reserves

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Equity compensation reserve

The equity compensation reserve represents the fair value of services received relating to share based payment plans for which shares have not yet vested.

18. FINANCIAL INSTRUMENTS

(Amounts in Australian dollars except where stated)

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses a range of derivative financial instruments to hedge these risk exposures. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risk, and ageing analysis for credit risk.

Risk management is carried out by Group Treasury for interest rate risk, foreign exchange exposures, liquidity risk and capital management. Risk management activities in respect of credit risk are carried out by the Group's Credit Risk department. Both Group Treasury and Credit Risk operate under policies approved by the Board of directors. Group Treasury and Credit Risk identify, evaluate and monitor the financial risks in close co-operation with the Group's operating units. The Group has written policies covering specific areas, such as foreign exchange risk (including hedging activities) interest rate risk, liquidity risk, and credit risk and they are summarised further below.

The Group's principal financial instruments, other than derivatives, comprise bank loans, US notes, finance leases, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The Group enters into derivative transactions, principally interest rate swaps, forward currency contracts, and commodity pricing swaps. The purpose is to manage the interest rate, currency risks, refiner margin risks and commodity pricing risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The Group's accounting policies in relation to derivatives are set out in note 1.

The magnitude of each type of financial risk that has arisen over the year is discussed below.

(a) Interest rate risk

Interest rate instruments

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

Each contract involves periodic payment or receipt of the net amount of interest. At 31 December 2008, the fixed rates varied from 5.8% p.a. to 6.3% p.a. (2007: 5.8% p.a. to 6.3% p.a.), a weighted average rate of 6.0% p.a. (2007: 6.0% p.a.). The floating rates were at bank bill rates.

18. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Interest rate risk (continued)

The net fair value of interest rate swap contracts at 31 December 2008 was $1,024,000 loss (2007: $1,892,000 profit). The Group classifies qualifying interest rate swap contracts as cash flow hedges.

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

The net fair value of cross currency swap contracts at 31 December 2008 was $24,390,000 (2007: $50,727,000). The Group classifies cross currency swap contracts as fair value hedges.

At 31 December 2008, if interest rates had changed by -/+1% from the year end rates, with all other variables held constant, net profit for the year for the Group would have been $4,000,000 higher/$5,000,000 lower (2007: $2,000,000 higher/$2,000,000 lower).

Equity would have been $4,000,000 higher/$5,000,000 lower (2007: $2,000,000 higher/$2,000,000 lower).

For the parent entity, if interest rates had changed by -/+1% from the year end rates, with all other variables held constant, net profit for the year for the Group would have been $5,000,000 higher/$6,000,000 lower (2007: $3,000,000 higher/$3,000,000 lower).

Equity would have been $5,000,000 higher/$6,000,000 lower (2007: $3,000,000 higher/$3,000,000 lower).

Interest rates sensitivity analysis

	CONSOLIDATED				PARENT ENTITY			
	2008		2007		**2008**		2007	
DOLLARS	**NET PROFIT**	**EQUITY**	NET PROFIT	EQUITY	**NET PROFIT**	**EQUITY**	NET PROFIT	EQUITY
Interest rates decrease 1%	**4,000,000**	**4,000,000**	2,000,000	2,000,000	**5,000,000**	**5,000,000**	3,000,000	3,000,000
Interest rates increase 1%	**(5,000,000)**	**(5,000,000)**	(2,000,000)	(2,000,000)	**(6,000,000)**	**(6,000,000)**	(3,000,000)	(3,000,000)

Interest rate risk exposure

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

			FIXED INTEREST MATURING IN:					
THOUSANDS OF DOLLARS	NOTE	FLOATING INTEREST RATE	LESS THAN ONE YEAR	BETWEEN ONE AND FIVE YEARS	GREATER THAN FIVE YEARS	NON-INTEREST BEARING	TOTAL	EFFECTIVE INTEREST RATE P.A.
31 December 2008								
Consolidated								
Financial assets								
Cash at bank and on hand		**31,703**	**–**	**–**	**–**	**–**	**31,703**	**4.0%**
		31,703	**–**	**–**	**–**	**–**	**31,703**	
Financial liabilities								
Bank loans	14	**600,000**	**–**	**–**	**–**	**–**	**600,000**	**4.9%**
US notes	14	**–**	**117,757**	**113,415**	**–**	**–**	**231,172**	**9.9%**
Hedge payable	14	**–**	**24,390**	**–**	**–**	**–**	**24,390**	**9.9%**
Lease liabilities	14	**–**	**1,781**	**6,391**	**–**	**–**	**8,172**	**14.0%**
		600,000	**143,928**	**119,806**	**–**	**–**	**863,734**	
31 December 2007								
Consolidated								
Financial assets								
Cash at bank and on hand		14,019	–	–	–	–	14,019	6.9%
		14,019	–	–	–	–	14,019	
Financial liabilities								
Bank and other loans	14	330,000	–	–	–	–	330,000	7.5%
US notes	14	–	–	205,315	–	–	205,315	8.7%
Hedge payable	14	–	–	50,727	–	–	50,727	8.7%
Lease liabilities	14	–	1,871	7,587	529	–	9,987	14.0%
		330,000	1,871	263,629	529	–	596,029	

THOUSANDS OF DOLLARS	NOTE	FLOATING INTEREST RATE	FIXED INTEREST MATURING IN: LESS THAN ONE YEAR	BETWEEN ONE AND FIVE YEARS	GREATER THAN FIVE YEARS	NON-INTEREST BEARING	TOTAL	EFFECTIVE INTEREST RATE P.A.

18. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Interest rate risk (continued)

31 December 2008								
Parent entity								
Financial liabilities								
Bank and other loans	14	**600,000**	**–**	**–**	**–**	**–**	**600,000**	**4.9%**
US notes	14	**–**	**117,757**	**113,415**	**–**	**–**	**231,172**	**9.9%**
Hedge payable	14	**–**	**24,390**	**–**	**–**	**–**	**24,390**	**9.9%**
		600,000	**142,147**	**113,415**	**–**	**–**	**855,562**	
31 December 2007								
Parent entity								
Financial assets								
Cash at bank and on hand		–	–	–	–	244	244	–
Financial liabilities								
Bank and other loans	14	330,000	–	–	–	–	330,000	7.5%
US notes	14	–	–	205,315	–	–	205,315	8.7%
Hedge payable	14	–	–	50,727	–	–	50,727	8.7%
		330,000	–	256,042	–	–	586,042	

Interest on financial instruments classified as floating rate is repriced at intervals of less than six months. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument.

(b) Foreign exchange risk

The Caltex Australia Group is exposed to the effect of changes in exchange rates on the operations of the Group. In particular, at least in the short term, the refiner margin is determined principally with reference to the US dollar Singapore spot product price. The Caltex Australia Group does not use financial instruments to hedge the foreign exchange exposure, except for forward foreign exchange contracts to cover major capital expenditure.

All trade transactions which require the sale or purchase of foreign currencies are covered on a spot basis. As at 31 December 2008, the total fair value of all outstanding forward contracts amounted to nil (2007: $716,000).

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

At 31 December 2008, had the Australian dollar strengthened/weakened by 10% against the US dollar with all other variables held constant, post tax profit for the year for the Group would have been $30,000,000 higher/$40,000,000 lower (2007: $40,000,000 higher/ $50,000,000 lower).

Equity would have been $30,000,000 higher/$40,000,000 lower (2007: $40,000,000 higher/$50,000,000 lower) had the Australian dollar strengthened/weakened by 10% against the US dollar.

For the parent entity, had the Australian dollar strengthened/weakened by 10% against the US dollar with all other variables held constant, both post tax profit for the year and equity would have been $90,000 lower/$130,000 higher (2007: $200,000 lower/$200,000 higher).

Foreign exchange rate sensitivity analysis

	CONSOLIDATED				**PARENT ENTITY**			
	2008		2007		**2008**		2007	
DOLLARS	**NET PROFIT**	**EQUITY**	NET PROFIT	EQUITY	**NET PROFIT**	**EQUITY**	NET PROFIT	EQUITY
AUD strengthens against USD 10%	**30,000,000**	**30,000,000**	40,000,000	40,000,000	**(90,000)**	**(90,000)**	(200,000)	(200,000)
AUD weakens against USD 10%	**(40,000,000)**	**(40,000,000)**	(50,000,000)	(50,000,000)	**130,000**	**130,000**	200,000	200,000

18. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Foreign exchange risk (continued)

Exposure to foreign exchange risk

The carrying amounts of the Group's and parent entity's financial instruments are denominated in the following currencies (Australian dollar equivalent amounts):

	2008				2007			
THOUSANDS OF DOLLARS	**US DOLLAR $'000**	**EURO $'000**	**AUSTRALIAN DOLLAR $'000**	**TOTAL $'000**	US DOLLAR $'000	EURO $'000	AUSTRALIAN DOLLAR $'000	TOTAL $'000
Consolidated								
Cash	**6,631**	**–**	**25,072**	**31,703**	5,500	–	8,519	14,019
Trade receivables	**46,444**	**–**	**787,247**	**833,691**	144,390	–	1,002,866	1,147,256
Trade payables	**(549,729)**	**–**	**(616,703)**	**(1,166,432)**	(888,661)	–	(741,316)	(1,629,977)
US notes	**(117,757)**	**–**	**(113,415)**	**(231,172)**	(91,900)	–	(113,415)	(205,315)
Forward exchange contracts	**–**	**–**	**–**	**–**	(657)	(59)	–	(716)
Parent entity								
Cash	**–**	**–**	**–**	**–**	–	–	244	244
Trade payables	**–**	**–**	**(434,461)**	**(434,461)**	–	–	(372,560)	(372,560)
US notes	**(117,757)**	**–**	**(113,415)**	**(231,172)**	(91,900)	–	(113,415)	(205,315)

(c) Commodity price risk

The Group utilises both crude and finished product swap contracts from time to time, on specific cargoes to manage the risk of price movements (Basis & Timing). The Board approved hedging policy precludes the use of refiner margin hedging.

The Board policy seeks to neutralise adverse basis and timing risk brought about by purchase and sales transactions that are materially outside the normal operating conditions of the Group. During the year, the Group did not employ any hedge instruments (Basis & Timing) in respect of any crude or finished product cargoes (2007: nil).

(d) Credit risk

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

The credit risk on financial assets of the Group which have been recognised on the balance sheet, is the carrying amount of trade debtors, net of allowances for impairment.

Caltex has a Board approved Credit Policy and manual which provides the guidelines for the management and diversification of the credit risk to Caltex. The guidelines provide for the manner in which the credit risk of customers is assessed and the use of credit rating and other information in order to set appropriate limits of trade with customers. The credit quality of customers is consistently monitored in order to identify any potential adverse changes in the credit risk of the customers. Sales to retail customers are settled in cash or using major credit cards, mitigating risk.

Caltex also minimises concentrations of credit risk by undertaking transactions with a large number of customers, across a variety of industries and networks. Accordingly, there are not any significant concentrations of credit risk.

Security is required to be supplied by certain groups of Caltex customers to minimise risk. The security is predominantly in the form of fixed and floating charges over the customer's business and mortgages over the business property. However, mortgages are also held over directors' property such as residential houses or rural properties. Bank guarantees or insurance bonds are also provided in some cases.

The estimated realisable value of the security takes into consideration that the sale of the assets under the security may be in a distressed situation. The estimated value of the security provided is approximately $195 million.

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

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

The maximum credit risk exposure on foreign currency contracts is the full amount of the foreign currency the Caltex Australia Group pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the Group. The full amount of the exposure is disclosed at note 18(b).

The credit risk on interest rate swaps is limited to the positive mark to market amount to be received from counterparties over the life of contracts that are favourable to the Caltex Australia Group. As at 31 December 2008, there is no expected credit risk on any financial instruments (2007: nil).

18. FINANCIAL INSTRUMENTS (CONTINUED)

(e) Liquidity risk management

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, management aims at maintaining flexibility in funding by keeping committed credit lines available.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

The table below analyses the Group's financial liabilities and net settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	WEIGHTED AVG EFFECTIVE INTEREST %	CARRYING AMOUNT $'000	CONTRACTUAL CASH FLOWS $'000	LESS THAN ONE YEAR $'000	BETWEEN ONE AND FIVE YEARS $'000	GREATER THAN FIVE YEARS $'000
31 December 2008						
Consolidated						
Interest bearing liabilities						
Bank loans	**4.9%**	**600,000**	**672,402**	**21,155**	**651,247**	**–**
US notes	**9.9%**	**231,172**	**276,110**	**133,163**	**142,947**	**–**
Hedge payable	**9.9%**	**24,390**	**28,600**	**28,600**	**–**	**–**
Lease liabilities	**14.0%**	**8,172**	**10,343**	**2,682**	**7,661**	**–**
Payables						
Interest rate swaps	**6.2%**	**1,024**	**953**	**953**	**–**	**–**
Forward FX contracts – inflow	**–**	**–**	**–**	**–**	**–**	**–**
– outflow	**–**	**–**	**–**	**–**	**–**	**–**
Payables	**–**	**1,165,407**	**1,165,407**	**1,157,877**	**7,530**	**–**
31 December 2007						
Consolidated						
Interest bearing liabilities						
Bank loans	7.5%	330,000	385,248	52,308	332,940	–
US notes	8.7%	205,315	265,857	15,814	250,043	–
Hedge payable	8.7%	50,727	64,793	6,816	57,977	–
Lease liabilities	14.0%	9,987	13,152	2,773	9,840	539
Payables						
Interest rate swaps	7.5%	(1,892)	(2,199)	(1,278)	(921)	–
Forward FX contracts – inflow	–	–	(10,758)	(10,758)	–	–
– outflow	–	716	11,747	11,747	–	–
Payables	–	1,631,153	1,631,153	1,621,499	8,478	–
31 December 2008						
Parent entity						
Interest bearing liabilities						
Bank loans	**4.9%**	**600,000**	**672,402**	**21,155**	**651,247**	**–**
US notes	**9.9%**	**231,172**	**276,110**	**133,163**	**142,947**	**–**
Hedge payable	**9.9%**	**24,390**	**28,600**	**28,600**	**–**	**–**
Payables	**–**	**434,461**	**434,461**	**434,461**	**–**	**–**
31 December 2007						
Parent entity						
Interest bearing liabilities						
Bank loans	7.5%	330,000	385,248	52,308	332,940	–
US notes	8.7%	205,315	265,857	15,814	250,043	–
Hedge payable	8.7%	50,727	64,793	6,816	57,977	–
Payables	–	372,560	372,560	372,560	–	–

18. FINANCIAL INSTRUMENTS (CONTINUED)

(f) Capital risk management

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistently with others in the industry, the Group and the parent entity monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total interest bearing liabilities less cash and cash equivalents. Total capital is calculated as equity as shown in the balance sheet plus net debt.

During 2008, the Group's strategy was to maintain the gearing ratio within 20% to 30%, in order to secure access to finance at a reasonable cost by maintaining a minimum long-term credit rating of BBB+. The gearing ratios at 31 December 2008 and 31 December 2007 were as follows:

	CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	**2008**	2007	**2008**	2007
Total interest bearing liabilities	**863,734**	596,029	**855,562**	586,042
Less: cash and cash equivalents	**(31,703)**	(14,019)	**–**	(244)
Net debt	**832,031**	582,010	**855,562**	585,798
Total equity	**2,601,963**	2,828,622	**786,126**	747,753
Total capital	**3,433,994**	3,410,632	**1,641,688**	1,333,551
Gearing ratio	**24.2%**	17.1%	**52.1%**	43.9%

(g) Net fair values of financial assets and liabilities

Net fair values of recognised financial assets and liabilities with their carrying amounts shown in the balance sheet are as follows:

	ASSET/(LIABILITY)		ASSET/(LIABILITY)	
THOUSANDS OF DOLLARS	**CARRYING AMOUNT 2008**	**FAIR VALUE 2008**	CARRYING AMOUNT 2007	FAIR VALUE 2007
Consolidated				
Receivables	**833,691**	**833,691**	1,147,256	1,147,256
Cash and cash equivalents	**31,703**	**31,703**	14,019	14,019
Other investments	**15**	**15**	15	15
Interest bearing liabilities				
Bank loans	**(600,000)**	**(600,000)**	(330,000)	(330,000)
US notes	**(231,172)**	**(237,626)**	(205,315)	(203,903)
Cross currency swaps	**(24,390)**	**(24,390)**	(50,727)	(50,727)
Lease liabilities	**(8,172)**	**(8,812)**	(9,987)	(10,199)
Payables				
Interest rate swaps	**(1,024)**	**(1,024)**	1,892	1,892
Forward foreign exchange contracts	**–**	**–**	(716)	(716)
Payables	**(1,165,407)**	**(1,165,407)**	(1,631,153)	(1,631,153)
	(1,164,756)	**(1,171,850)**	(1,064,716)	(1,063,516)
Parent entity				
Receivables	**713,415**	**713,415**	556,042	556,042
Cash and cash equivalents	**–**	**–**	244	244
Other investments	**1,226,375**	**1,226,375**	1,226,375	1,226,375
Interest bearing liabilities				
Bank loans	**(600,000)**	**(600,000)**	(330,000)	(330,000)
US notes	**(231,172)**	**(237,626)**	(205,315)	(203,903)
Cross currency swaps	**(24,390)**	**(24,390)**	(50,727)	(50,727)
Payables	**(434,461)**	**(434,461)**	(372,560)	(372,560)
	649,767	**643,313**	824,059	825,471

18. FINANCIAL INSTRUMENTS (CONTINUED)

(g) Net fair values of financial assets and liabilities (continued)

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

Derivatives

Forward exchange contracts are marked to market using listed market prices. Interest rate swaps use the discounted cash flow technique. Estimated future cash flows used in the discounted cash flow technique are based on management's best estimates, and the discount rate is a market related rate for a similar instrument at the balance sheet date.

Interest bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at the rate implicit in the lease agreement.

Receivables/payables

For receivables/payables with a remaining life of less than six months, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value, if the effect of discounting is material.

Interest rates used for determining fair value

Caltex used the government bond rate as of 31 December 2008 plus an adequate constant credit spread to discount financial instruments. The annual interest rates used are as follows:

	2008	2007
Bank loans	**7%**	9%
Lease liabilities	**7%**	9%
Receivables	**4–5%**	7–8%
Payables	**2–4%**	7–8%

		CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	NOTE	**2008**	2007	**2008**	2007
19. EMPLOYEE BENEFITS					
(a) Liability for employee benefits					
Current					
Liability for annual leave		**22,908**	20,959	**–**	–
Liability for long service leave		**1,645**	1,150	**–**	–
Bonus accrued		**17,821**	18,531	**–**	–
Other		**893**	886	**–**	–
		43,267	41,526	**–**	–
Non-current					
Liability for long service leave		**60,533**	50,542	**–**	–
Defined benefit superannuation obligation		**92,733**	215	**–**	–
Other		**–**	243	**–**	243
		153,266	51,000	**–**	243
Total liability for employee benefits	15	**196,533**	92,526	**–**	243

(b) Superannuation commitments

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

19. EMPLOYEE BENEFITS (CONTINUED)

(b) Superannuation commitments (continued)

Caltex Australia Superannuation Plan – Defined Benefit Division

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

Information from the most recent actuarial valuation for the defined benefit plan at 31 December 2008 follows:

	CONSOLIDATED	
THOUSANDS OF DOLLARS	2008	2007
Movements in the net (asset)/liability for defined benefit obligation recognised in the balance sheet		
Net liability for defined benefit obligation at the beginning of the year	**(8,706)**	(10,461)
Expense recognised in the income statement	**2,913**	2,378
Actuarial losses recognised in retained earnings	**103,657**	4,548
Employer contributions	**(8,253)**	(5,171)
Net asset for defined benefit obligation at the end of the year	**89,611**	(8,706)
Reconciliation of the present value of the defined benefit obligation		
Present value of defined benefit obligation at the beginning of the year	**186,516**	179,287
Current service cost	**6,551**	6,514
Interest cost	**9,173**	8,325
Contributions by plan participants	**2,531**	2,338
Actuarial losses	**37,790**	6,129
Benefits paid	**(15,875)**	(16,077)
Present value of defined benefit obligation at the end of the year	**226,686**	186,516
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the year	**195,222**	189,748
Expected return on plan assets	**12,811**	12,461
Actuarial (losses)/gains	**(65,867)**	1,581
Employer contributions	**8,253**	5,171
Contributions by plan participants	**2,531**	2,338
Benefits paid	**(15,875)**	(16,077)
Fair value of plan assets at the end of the year	**137,075**	195,222
Reconciliation of the net liability recognised in the balance sheet		
Defined benefit obligation	**226,686**	186,516
Fair value of plan assets	**(137,075)**	(195,222)
Net liability/(asset)	**89,611**	(8,706)
Expense recognised in the income statement		
The expense is recognised in refining and supply expenses, marketing expenses, and other expenses in the income statement.		
Service cost	**6,551**	6,514
Interest cost	**9,173**	8,325
Expected return on assets	**(12,811)**	(12,461)
Superannuation expense	**2,913**	2,378
Amounts recognised in equity		
Actuarial losses	**(103,657)**	(4,548)
Cumulative actuarial losses/(gains)	**71,965**	(31,692)

PLAN ASSETS	2008	2007

19. EMPLOYEE BENEFITS (CONTINUED)
(b) Superannuation commitments (continued)

The percentage invested in each asset class at the balance sheet date was:

	2008	2007
Australian equity	**31%**	33%
International equity	**30%**	30%
Fixed income	**27%**	25%
Property	**7%**	8%
Cash	**5%**	5%

The fair value of plan assets includes no amounts relating to any of the company's own financial instruments, and any property occupied by, or other assets used by, the company.

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class. The returns used for each asset class are net of investment tax and investment fees.

	CONSOLIDATED	
THOUSANDS OF DOLLARS	2008	2007
Actual return on plan assets (loss)/gain	**(53,056)**	14,042
Principal actuarial assumptions at the balance sheet date (% p.a.)		
Discount rate (active members)	**3%**	5%
Discount rate (pensioners)	**4%**	6%
Expected rate of return on plan assets (active members)	**7%**	7%
Expected rate of return on plan assets (pensioners)	**8%**	8%
Expected salary increase rate	**4%**	4%

THOUSANDS OF DOLLARS	2008	2007	2006
Historical information			
Present value of defined benefit obligation	**226,686**	186,516	179,287
Fair value of plan assets	**137,075**	195,222	189,748
Deficit/(Surplus) in plan	**89,611**	(8,706)	(10,461)
Experience adjustments on plan assets – (loss)/gain	**(65,867)**	1,581	8,582
Experience adjustments on plan liabilities – loss	**(16,874)**	(5,376)	(4,205)

Expected employer contributions for the reporting year to 31 December 2009 is $33,300,000.

Caltex Australia Superannuation Plan – Accumulation Division

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

	CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	2008	2007	2008	2007
Employer contributions to the plan during the year	**12,653**	9,821	**–**	–

(c) Other benefits

The Caltex Australia Limited employee share plan is open to all full-time and permanent part-time employees of the Caltex Australia Group. The plan takes advantage of the concessions available under the income tax provisions and uses a salary sacrifice arrangement to acquire the shares on behalf of the employees. The incidental costs of the purchases met by Caltex Australia during the year were $2,000 (2007: $2,000).

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

THOUSANDS OF DOLLARS	CONSOLIDATED 2008	2007	PARENT ENTITY 2008	2007

20. COMMITMENTS

(a) Capital expenditure

Capital expenditure contracted but not provided for in the financial report and payable:				
Within one year	**57,130**	38,906	**–**	–
	57,130	38,906	**–**	–

(b) Leases

Finance leases

	31 DECEMBER 2008			31 DECEMBER 2007		
THOUSANDS OF DOLLARS	MINIMUM LEASE PAYMENTS	INTEREST	PRINCIPAL	MINIMUM LEASE PAYMENTS	INTEREST	PRINCIPAL
Consolidated						
Within one year	**2,681**	**900**	**1,781**	2,773	902	1,871
Between one and five years	**7,757**	**1,366**	**6,391**	9,839	2,252	7,587
After five years	**–**	**–**	**–**	539	10	529
	10,438	**2,266**	**8,172**	13,151	3,164	9,987

The Caltex Australia Group leases production plant and equipment under finance leases expiring from one to five years. At the end of the lease term, the Group has the option of extending the leases for a further five year period. Some leases involve lease payments comprising a base amount plus an incremental rental. Contingent rentals are based on operating performance criteria. The amount of contingent rentals paid during the year is disclosed in note 3.

Parent entity
The company has no finance leases.

Operating leases

	CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	**2008**	2007	**2008**	2007
Non-cancellable operating leases				
– Group as lessee				
Future minimum rentals payable:				
Within one year	**88,413**	78,571	**–**	–
Between one and five years	**240,573**	203,671	**–**	–
After five years	**60,235**	58,619	**–**	–
	389,221	340,861	**–**	–

The Group leases property under operating leases expiring from one to 20 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 (2007: nil).

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

There are no restrictions placed upon the Group by entering into these leases. Renewals are at the option of the specific entity that holds the lease.

Parent entity
The company has no operating leases as lessee.

THOUSANDS OF DOLLARS	CONSOLIDATED 2008	2007	PARENT ENTITY 2008	2007

20. COMMITMENTS (CONTINUED)

(b) Leases (continued)

Operating leases (continued)
Non-cancellable operating leases

– Group as lessor				
Future minimum rentals receivable:				
Within one year	**25,972**	18,492	**–**	–
Between one and five years	**79,527**	59,465	**–**	–
After five years	**61,746**	41,403	**–**	–
	167,245	119,360	**–**	–

The Group leases property under operating leases expiring from one to 14 years.

Some of the leased properties have been sublet by the Group. The lease and sublease expire between 2008 and 2021.

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

Parent entity
The company has no operating leases as lessor.

21. CONTINGENT ASSETS AND LIABILITIES

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

THOUSANDS OF DOLLARS	CONSOLIDATED 2008	2007	PARENT ENTITY 2008	2007
(a) Contingent assets – legal and other claims	**–**	–	**–**	–

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

(b) Contingent liabilities – legal and other claims	**315**	–	**–**	–

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

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

Taxation
The Australian Taxation Office (ATO) had served a statutory demand on Caltex to pay an amount of $48.7 million in excise duty. This sum would be tax deductible to Caltex. The ATO had formed the view that the excise duty should be paid in relation to certain liquid fuel by-products used in the refining process and that Caltex should have paid the excise duty on such fuel usage over the 2002 to 2006 years. Caltex was of the strong view that the excise duty legislation does not apply to the refineries' own use of such fuels in the refining process and instituted legal proceedings in the Federal Court against the ATO. The Federal Court has ruled in favour of Caltex and the ATO has not appealed the decision. Consequently, no liability has been recognised as at 31 December 2008.

(c) Bank guarantees

Caltex Australia Limited has granted indemnities to banks to cover bank guarantees given on behalf of controlled entities to a maximum exposure of $1,853,942 (2007: $1,816,000).

(d) Deed of Cross Guarantee and Class Order relief

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

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 subject to, and in accordance with, the terms set out in the deed.

No companies have been added to the Deed of Cross Guarantee during the year ended 31 December 2008 or since 1 January 2009.

The following companies entered into a Revocation Deed dated 8 November 2007 and were released from the Deed of Cross Guarantee with effect from 14 May 2008:

– Caltex Australia Finance Pty Ltd
– Caltex Australia Investments Pty Ltd
– Travelmate.com.au Pty Ltd

THOUSANDS OF DOLLARS	CONSOLIDATED 2008	2007	PARENT ENTITY 2008	2007
22. AUDITOR'S REMUNERATION				
Payment for audit services to KPMG	**1,048**	885	**–**	–
Payment for other services to KPMG:				
Transaction services	**–**	67	**–**	–
Other assurance services	**43**	19	**–**	–
Taxation services	**59**	35	**–**	–
	102	121	**–**	–

	NOTE	% INTEREST 2008	2007
23. PARTICULARS IN RELATION TO CONTROLLED ENTITIES			
(a) Name			
Companies			
Ampol Bendigo Pty Ltd	(iii)	**100**	100
Ampol Property (Holdings) Pty Ltd	(iii)	**100**	100
Ampol Refineries (Matraville) Pty Ltd		**100**	100
Ampol Road Pantry Pty Ltd		**100**	100
Australian Petroleum Marine Pty Ltd	(iii)	**100**	100
B&S Distributors Pty Ltd	(ii)	**50**	50
Bowen Petroleum Services Pty Ltd		**100**	100
Brisbane Airport Fuel Services Pty Ltd	(v)	**100**	100
Calstores Pty Ltd	(iii), (v)	**100**	100
Caltex Australia Custodians Pty Ltd		**100**	100
Caltex Australia Finance Pty Ltd	(iv)	**100**	100
Caltex Australia Investments Pty Ltd	(iv)	**100**	100
Caltex Australia Management Pty Ltd		**100**	100
Caltex Australia Nominees Pty Ltd		**100**	100
Caltex Australia Petroleum Pty Ltd	(iii), (v)	**100**	100
Caltex Fuel Services Pty Ltd	(iii)	**100**	100
Caltex Lubricating Oil Refinery Pty Ltd	(iii), (v)	**100**	100
Caltex Petroleum (Qld) Pty Ltd	(iii)	**100**	100
Caltex Petroleum (Victoria) Pty Ltd	(iii)	**100**	100
Caltex Petroleum Pty Ltd	(iii)	**100**	100
Caltex Petroleum Services Pty Ltd	(iii), (v)	**100**	100
Caltex Refineries (NSW) Pty Ltd	(iii), (v)	**100**	100
Caltex Refineries (Qld) Pty Ltd	(iii), (v)	**100**	100
Circle Petroleum (Q'land) Pty Ltd		**100**	100
Cocks Petroleum Pty Ltd	(vii)	**100**	–
Cooper & Dysart Pty Ltd	(v)	**100**	100
Hanietee 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
Kanegood Pty Ltd		**100**	100
Manworth Pty Ltd		**100**	100
Newcastle Pipe Line Company Pty Ltd	(iii)	**100**	100
Northern Marketing Management Pty Ltd	(v), (vi)	**100**	100
Northern Marketing Pty Ltd	(iii)	**100**	100
R&T Lubricants Pty Ltd	(iii)	**100**	100
Ruzack Nominees Pty Ltd		**100**	100
Solo Oil Australia Pty Ltd		**100**	100
Solo Oil Corporation Pty Ltd		**100**	100
Solo Oil Investments Pty Ltd	(iii)	**100**	100

23. PARTICULARS IN RELATION TO CONTROLLED ENTITIES (CONTINUED)

(a) Name (continued)

	NOTE	% INTEREST 2008	% INTEREST 2007
Solo Oil Pty Ltd	(iii)	**100**	100
South Coast Oils Pty Ltd		**100**	100
South East Queensland Fuels Pty Ltd	(v)	**100**	100
Sydney Metropolitan Pipeline Pty Ltd	(ii)	**60**	60
Teraco Pty Ltd	(ii)	**50**	50
Travelmate.com.au Pty Ltd	(iv)	**100**	100
Tulloch Petroleum Services Pty Ltd	(iii)	**100**	100
Western Fuel Distributors Pty Ltd	(ii)	**50**	50
Wildbank Pty Ltd		**100**	100
Unit trusts			
Eden Equity Unit Trust	(vii), (x)	**100**	–
Petroleum Leasing Unit Trust	(viii)	**100**	100
Petroleum Property Unit Trust	(viii)	**100**	100
South East Queensland Fuels Unit Trust	(ix)	**100**	100

(i) All companies were incorporated in Australia. The unit trusts were formed in Australia.
(ii) These entities have been included as controlled entities in accordance with AASB 127 Consolidated and Separate Financial Statements. In each case, control exists because a company within the Caltex Australia Group has the ability to dominate the composition of the entity's board of directors, or enjoys the majority of the benefits and is exposed to the majority of the risks of the entity.
(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 subject to, and in accordance with, the terms set out in the deed. No companies have been added to the Deed of Cross Guarantee during the year ended 31 December 2008 or since 1 January 2009.
(iv) These companies entered into a Revocation Deed dated 8 November 2007 and were released from the Deed of Cross Guarantee with effect from 14 May 2008.
(v) These companies were "employer" companies in the Caltex Australia Group during 2008. Employees of these companies were eligible to participate in the Caltex Australia Limited employee share plans in 2008. Refer to note 19(c) for further information on the plans.
(vi) Northern Marketing Management Pty Ltd became a wholly owned entity on 1 July 2007. Caltex previously held a 37.5% interest in this company.
(vii) These entities became wholly owned entities on 13 October 2008. Caltex did not previously have an interest in these entities.
(viii) Solo Oil Limited is the sole unitholder of these trusts.
(ix) Caltex Australia Petroleum Pty Ltd and Caltex Petroleum Services Pty Ltd each own half of the units in this trust.
(x) Caltex Petroleum Services Pty Ltd is the sole unitholder of this trust.

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

THOUSANDS OF DOLLARS	2008	2007
Profit before income tax expense	**38,937**	902,628
Income tax expense	**(10,533)**	(276,841)
Net profit	**28,404**	625,787
Retained earnings at the beginning of the year	**2,255,214**	1,898,849
Movement in reserves	**(74,494)**	(3,126)
Dividends provided for or paid	**(186,300)**	(256,500)
Retained earnings at the end of the year	**2,022,824**	2,265,010

THOUSANDS OF DOLLARS	2008	2007

23. PARTICULARS IN RELATION TO CONTROLLED ENTITIES (CONTINUED)

(c) Balance sheet for entities covered by the Deed of Cross Guarantee

Current assets		
Cash and cash equivalents	**14,037**	5,976
Receivables	**695,852**	1,006,046
Inventories	**1,035,143**	1,540,244
Current tax asset	**135,108**	–
Other	**19,146**	22,396
Total current assets	**1,899,286**	2,574,662
Non-current assets		
Receivables	**25,504**	17,512
Investments accounted for using the equity method	**24,828**	25,008
Other investments	**15**	15
Property, plant and equipment	**2,705,316**	2,437,093
Intangibles	**66,752**	70,301
Deferred tax assets	**–**	–
Other	**97,876**	104,575
Total non-current assets	**2,920,291**	2,654,504
Total assets	**4,819,577**	5,229,166
Current liabilities		
Payables	**1,103,451**	1,553,056
Interest bearing liabilities	**143,756**	31,871
Current tax liabilities	**–**	75,757
Provisions	**71,670**	85,585
Total current liabilities	**1,318,877**	1,746,269
Non-current liabilities		
Interest bearing liabilities	**717,998**	564,158
Deferred tax liabilities	**14,012**	30,104
Provisions	**201,324**	80,037
Total non-current liabilities	**933,334**	674,299
Total liabilities	**2,252,211**	2,420,568
Net assets	**2,567,366**	2,808,598
Equity		
Issued capital	**543,415**	543,415
Treasury stock	**(1,959)**	(2,919)
Reserves	**3,086**	3,092
Retained earnings	**2,022,824**	2,265,010
Total equity	**2,567,366**	2,808,598

24. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(a) Investments in associates and joint ventures

	% INTEREST 2008	% INTEREST 2007	BALANCE DATE
Airport Fuel Services Pty Ltd	**40**	40	31 December
Australasian Lubricants Manufacturing Company Pty Ltd	**50**	50	31 December
Cairns Airport Refuelling Services Pty Ltd	**25**	25	31 December
Geraldton Fuel Company Pty Ltd	**50**	50	31 December
Link Energy Pty Ltd	**50**	50	31 December
Jenessa Holdings Pty Ltd	**50**	50	31 December
South Coast Fuels Pty Ltd	**50**	50	31 December
Vitalgas Pty Ltd	**50**	50	31 December

All companies were incorporated in Australia.

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

(b) Investments in associates

THOUSANDS OF DOLLARS	REVENUE (100%)	PROFIT (100%)	SHARE OF ASSOCIATES' NET PROFIT RECOGNISED	TOTAL ASSETS (100%)	TOTAL LIABILITIES (100%)	NET ASSETS AS REPORTED BY ASSOCIATES (100%)	SHARE OF ASSOCIATES' NET ASSETS EQUITY ACCOUNTED
2008	**311,113**	**4,993**	**1,564**	**47,193**	**31,721**	**15,473**	**8,518**
2007	337,201	7,418	2,938	43,556	27,812	15,744	7,636

THOUSANDS OF DOLLARS	CONSOLIDATED 2008	CONSOLIDATED 2007	PARENT ENTITY 2008	PARENT ENTITY 2007
Results of associates				
Share of associates' profit before income tax expense	**2,259**	4,212	**–**	–
Share of associates' income tax expense	**(678)**	(1,247)	**–**	–
Share of associates' net profit	**1,581**	2,965	**–**	–
Unrealised profit in inventories	**(17)**	(27)	**–**	–
Share of associates' net profit – equity accounted	**1,564**	2,938	**–**	–
Commitments				
Share of associates' capital expenditure contracted but not provided for in the financial report and payable:				
Within one year	**–**	–	**–**	–
Share of associates' operating lease commitments not provided for in the financial report and payable:				
Within one year	**11**	11	**–**	–
Between one and five years	**46**	57	**–**	–
	57	68	**–**	–
Share of associates' finance lease commitments not provided for in the financial report and payable:				
Within one year	**1,243**	541	**–**	–
Between one and five years	**7,469**	5,895	**–**	–
	8,712	6,436	**–**	–
Future finance charges	**(1,124)**	(818)	**–**	–
	7,588	5,618	**–**	–

24. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investments in associates (continued)

Results of joint ventures

	REVENUE (100%)	PROFIT/ (LOSS) (100%)	SHARE OF JOINT VENTURES' NET PROFIT/ (LOSS) RECOGNISED	TOTAL ASSETS (100%)	TOTAL LIABILITIES (100%)	NET ASSETS/ LIABILITIES AS REPORTED BY JOINT VENTURE (100%)	SHARE OF JOINT VENTURES' NET ASSETS EQUITY ACCOUNTED
2008	**568,573**	**2,669**	**(567)**	**877,449**	**870,842**	**6,607**	**16,310**
2007	554,379	1,102	375	685,899	610,629	34,812	17,372

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	**2008**	2007
Results of joint ventures				
Share of joint ventures' profit before income tax expense	**423**	932	**–**	–
Share of joint ventures' income tax expense	**(46)**	(73)	**–**	–
Share of joint ventures' net profit	**377**	859	**–**	–
Unrealised profit in inventories	**(944)**	(484)	**–**	–
Share of joint ventures' net profit – equity accounted	**(567)**	375	**–**	–
Commitments				
Share of joint ventures' capital expenditure contracted but not provided for in the financial report and payable:				
Within one year	**–**	–	**–**	–
Share of joint ventures' operating lease commitments not provided for in the financial report and payable:				
Within one year	**1,504**	1,353	**–**	–
Between one and five years	**1,073**	1,888	**–**	–
	2,577	3,241	**–**	–
Reconciliation to income statement				
Share of net profit/(loss) of associates accounted for using the equity method	**1,564**	2,938	**–**	–
Share of net profit/(loss) of joint ventures accounted for using the equity method	**(567)**	375	**–**	–
	997	3,313	**–**	–

Contingent liabilities

At balance sheet date, a Caltex joint venture has legal obligations relating to the dismantling and removal of LPG installations on some customer sites. The cost of this obligation has not been recognised in the financial statements because the settlement date for this obligation cannot be reliably estimated. In recent times, there has been a market for in-situ LPG equipment sold to the incoming LPG supplier. The current estimate of the legal obligation at today's cost is in the range of $2 million–$3 million. However, it is unlikely that this obligation would fully crystallise.

25. INTEREST IN JOINT VENTURE OPERATIONS

The Group has joint interests in multiple Joint User Hydrant Installations (JUHIs), which are based at airports across Australia. The principal activity of the JUHIs is refuelling aircraft at the airports. For the year ended 31 December 2008, the contribution of the JUHIs to the operating profit of the Group was nil (2007: nil), and of the parent entity was nil (2007: nil). Included in the assets and liabilities of the Group are the Group's interests in the assets and liabilities employed in the joint venture operation:

	CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	**2008**	2007	**2008**	2007
Non-current assets				
Plant and equipment expenditure	**34,373**	30,157	**–**	–
Less: accumulated amortisation	**(22,391)**	(21,150)	**–**	–
Total non-current assets	**11,982**	9,007	**–**	–
Total assets	**11,982**	9,007	**–**	–

THOUSANDS OF DOLLARS	CONSOLIDATED 2008	2007	PARENT ENTITY 2008	2007

26. NOTES TO THE CASH FLOW STATEMENTS

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statements, cash and cash equivalents includes:

Cash at bank	**31,703**	14,019	**–**	244
Total cash and cash equivalents	**31,703**	14,019	**–**	244

(b) Reconciliation of net profit to net operating cash flows

Net profit	**33,181**	648,816	**185,286**	230,885
Adjustments for:				
Divestment expenses of non-current assets	**27,798**	16,999	**–**	–
Finance charges on finance leases	**2,019**	796	**–**	–
Interest paid capitalised	**(19,541)**	(3,684)	**–**	–
Fair value adjustment on financial instruments	**479**	290	**479**	290
Depreciation of property, plant and equipment	**168,394**	160,163	**–**	–
Amortisation of intangibles	**8,575**	6,568	**–**	–
Write-down of inventory to net realisable value	**64,863**	–	**–**	–
Treasury stock movements net of expense	**1,586**	(1,392)	**1,586**	(1,392)
Share of associates' and joint ventures' net profit	**(726)**	(3,313)	**–**	–
Movements in assets and liabilities:				
(Increase)/decrease in receivables	**317,221**	(320,025)	**(156,894)**	(90,971)
(Increase)/decrease in inventories	**443,809**	(447,182)	**–**	–
(Increase)/decrease in other current assets	**18,826**	3,567	**(648)**	278
Increase/(decrease) in payables	**(476,459)**	398,452	**368,261**	581
Increase/(decrease) in current tax liabilities	**(211,859)**	116,350	**(211,991)**	116,742
Increase in deferred tax liability/asset	**15,812**	2,088	**217**	87
(Decrease)/increase in provisions	**(13,768)**	16,903	**(243)**	–
Net operating cash inflows	**380,210**	595,396	**186,053**	256,500

27. ACQUISITIONS

2008

(a) Cocks Petroleum Pty Limited

On 13 October 2008, the Group acquired 100% of Cocks Petroleum Pty Limited and the units in the Eden Equity Trust, of which Cocks Petroleum Pty Limited is the Trustee. Cocks Petroleum Pty Limited was purchased for an acquisition cost of $0, plus incidental acquisition costs of $33,000. The company distributes petroleum. In the two and a half months to 31 December 2008, the subsidiary contributed net profit of $nil to the consolidated net profit for the year. If the acquisition had occurred on 1 January 2008, the Group estimates that gross sales revenue would have been $41,071,000 and net profit would have been $564,000.

27. ACQUISITIONS (CONTINUED)

2008

(a) Cocks Petroleum Pty Limited (continued)

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

THOUSANDS OF DOLLARS	ORIGINAL VALUES	FAIR VALUE ADJUSTMENTS	RECOGNISED VALUES
Cash and cash equivalents	351	–	351
Receivables	3,319	–	3,319
Inventories	649	–	649
Other current assets	16	–	16
Land	2,965	–	2,965
Property, plant and equipment	484	–	484
Other non-current assets	148	–	148
Goodwill	514	(514)	–
Payables	(3,381)	–	(3,381)
Bank bills	(4,450)	–	(4,450)
Net identifiable assets and liabilities	615	(514)	101
Discount on acquisition			(68)
Consideration paid, satisfied in cash			33
Cash acquired			(351)
Net cash inflow			318

Goodwill within Cocks Petroleum Pty Limited was unable to be recognised as a separate intangible asset under AASB 3.

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

A discount on acquisition of the business of Cocks Petroleum Pty Limited has arisen as there is an excess in the net fair values of identifiable assets and liabilities.

(b) South Coast Retail Pty Limited

On 13 October 2008, Cocks Petroleum Pty Limited, a subsidiary of the Group, acquired the assets and liabilities of South Coast Retail Pty Limited for nil value, plus incidental acquisition costs of $39,000. The business operates retail service stations. In the two and a half months to 31 December 2008, the business contributed net profit of $31,958 to the subsidiary's (Cocks Petroleum Pty Limited) net profit for the year. If the acquisition had occurred on 1 January 2008, the Group estimates that gross sales revenue would have been $12,678,000 greater and net profit would have been $153,600 greater.

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

THOUSANDS OF DOLLARS	ORIGINAL VALUES	FAIR VALUE ADJUSTMENTS	RECOGNISED VALUES
Cash and cash equivalents	(35)	–	(35)
Receivables	337	–	337
Inventories	605	–	605
Other current assets	2	–	2
Property, plant and equipment	139	–	139
Goodwill	265	(265)	–
Payables	(1,464)	–	(1,464)
Other non-current liabilities	(110)	–	(110)
Net identifiable assets and liabilities	(261)	(265)	(526)
Goodwill on acquisition			565
Consideration paid, satisfied in cash			39
Cash acquired			35
Net cash outflow			(74)

27. ACQUISITIONS (CONTINUED)

(b) South Coast Retail Pty Limited (continued)

Goodwill within South Coast Retail Pty Limited was unable to be recognised as a separate intangible asset under AASB 3.

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

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

(c) Malcolm Slater Pty Limited

On 15 December 2008, the Group acquired the assets and hire purchase liabilities of Malcolm Slater Pty Limited for an acquisition cost of $1,300,000. The company distributes petroleum. In the half month to 31 December 2008, the subsidiary contributed net profit of $14,860 to the consolidated net profit for the year. If the acquisition had occurred on 1 January 2008, the Group estimates that gross sales revenue would have been $21,016,000 greater and net profit would have been $339,000 greater.

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

THOUSANDS OF DOLLARS	ORIGINAL VALUES	FAIR VALUE ADJUSTMENTS	RECOGNISED VALUES
Property, plant and equipment	1,281	–	1,281
Hire purchase liabilities	(529)	–	(529)
Net identifiable assets and liabilities	752	–	752
Goodwill on acquisition			548
Consideration paid, satisfied in cash			1,300
Net cash outflow			(1,300)

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

Goodwill has arisen on acquisition of the business assets and hire purchase liabilities of Malcolm Slater Pty Limited because of future business synergies that did not meet the criteria for recognition as a separately identifiable intangible asset at the date of acquisition.

(d) Wonfair Pty Limited

On 15 December 2008, the Group acquired the assets and hire purchase liabilities of Wonfair Pty Limited for an acquisition cost of $400,000. The company distributes petroleum. In the half month to 31 December 2008, the subsidiary contributed net profit of $1,607 to the consolidated net profit for the year. If the acquisition had occurred on 1 January 2008, the Group estimates that gross sales revenue would have been $21,674,000 greater and net profit would have been $33,660 greater.

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

THOUSANDS OF DOLLARS	ORIGINAL VALUES	FAIR VALUE ADJUSTMENTS	RECOGNISED VALUES
Property, plant and equipment	407	–	407
Hire purchase liabilities	(203)	–	(203)
Net identifiable assets and liabilities	204	–	204
Goodwill on acquisition			196
Consideration paid, satisfied in cash			400
Net cash outflow			(400)

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

Goodwill has arisen on acquisition of the business assets and hire purchase liabilities of Wonfair Pty Limited because of future business synergies that did not meet the criteria for recognition as a separately identifiable intangible asset at the date of acquisition.

27. ACQUISITIONS (CONTINUED)

2007

(e) Northern Marketing Management Pty Ltd and Northern Marketing Partnership

On 1 July 2007, the Group acquired the remaining 62.5% of Northern Marketing Management Pty Ltd and Northern Marketing Partnership for $14.7 million satisfied in cash. The company distributes petroleum. In the six months to 31 December 2007, the subsidiary contributed net profit of $1.3 million to the consolidated net profit for the year. If the acquisition had occurred on 1 January 2007, the Group estimates that gross sales revenue would have been $220 million greater and net profit would have been $2.4 million greater.

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

THOUSANDS OF DOLLARS	ORIGINAL VALUES	FAIR VALUE ADJUSTMENTS	RECOGNISED VALUES
Cash and cash equivalents	3,026	–	3,026
Receivables	8,842	–	8,842
Inventories	4,389	–	4,389
Other current assets	262	–	262
Property, plant and equipment	8,984	4,968	13,952
Other non-current assets	5,035	–	5,035
Goodwill	8,281	(8,281)	–
Payables	(28,535)	–	(28,535)
Net identifiable assets and liabilities	10,284	(3,313)	6,971
Net assets acquired – remaining interest			5,564
Goodwill on acquisition			9,209
Consideration paid, satisfied in cash			14,773
Cash acquired			3,026
Net cash outflow			(11,747)

Goodwill within Northern Marketing Pty Ltd was unable to be recognised as a separate intangible asset under AASB 138.

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

Goodwill has arisen on acquisition of the business of Northern Marketing Management Pty Ltd because of future business synergies that did not meet the criteria for recognition as a separately identifiable intangible asset at the date of acquisition.

28. FINANCING ARRANGEMENTS

	CONSOLIDATED		PARENT ENTITY	
THOUSANDS OF DOLLARS	**2008**	2007	**2008**	2007
The Caltex Australia Group has access to the following lines of credit:				
Total facilities available:				
Bank overdrafts	**30,000**	30,000	**–**	–
Bank loans and capital markets	**1,505,562**	1,156,042	**1,505,562**	1,156,042
	1,535,562	1,186,042	**1,505,562**	1,156,042
Facilities utilised at balance date:				
Bank overdrafts	**21,165**	43,000	**–**	–
Bank loans and capital markets	**855,562**	556,042	**855,562**	556,042
	876,727	599,042	**855,562**	556,042
Facilities not utilised at balance date:				
Bank overdrafts	**8,835**	(13,000)	**–**	–
Bank loans and capital markets	**650,000**	600,000	**650,000**	600,000
	658,835	587,000	**650,000**	600,000

These facilities are unsecured and have an average maturity of 2.7 years (2007: 2.1 years).

29. RELATED PARTY INFORMATION

(a) Key management personnel

The key management personnel (KMP) of the Caltex Australia Group during 2008 and 2007 were:

(i) Directors of Caltex Australia Limited during 2008 and 2007:

Current directors

Ms Elizabeth Bryan, Chairman

Mr Desmond King, Managing Director & CEO

Mr Trevor Bourne, Non-Executive Director

Mr Brant Fish, Non-Executive Director

Ms Colleen Jones-Cervantes, Non-Executive Director (appointed 1 June 2008; previously an Alternate Director until 31 May 2008)

Mr Greig Gailey, Non-Executive Director (appointed 11 December 2007)

Mr John Thorn, Non-Executive Director

Previous directors

Mr Richard (Dick) Warburton, Non-Executive Director (retired 24 April 2008)

Alternate directors

Mr Peter Wissel, Alternate Director (appointed 1 June 2008; previously a Non-Executive Director until 31 May 2008)

(ii) Business managers

Richard Beattie, Group Manager – Policy, Public and Government Affairs (resigned 4 July 2008)

Andrew Brewer, Acting Group Manager – Strategy and Planning (seconded to Chevron on 1 April 2008)

Mark Burrowes, General Manager – Marketing (resigned 13 April 2007)

Helen Conway, General Manager – Office of the CEO, Company Secretary and General Counsel (appointed 4 July 2008), formerly Company Secretary and General Counsel (to 3 July 2008)

Simon Hepworth, Chief Financial Officer

Kenneth James, Acting General Manager – Supply and Distribution (appointed 3 November 2008)

Mike McMenamin, Group Manager – Strategy, Planning & Development (appointed 1 April 2008), formerly Acting General Manager – Marketing (to 31 March 2008)

Alex Strang, General Manager – Supply and Distribution (passed away 17 December 2008)

Andy Walz, General Manager – Marketing (appointed 1 April 2008)

Brian Waywell, General Manager – Refining (resigned 30 November 2008)

Peter Wilkinson, Group Manager – Operational Excellence and Risk

Simon Willshire, Group Manager – Human Resources

(b) Key management personnel compensation

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	**2008**	2007
Short-term benefits	**8,628,906**	6,978,306	**8,628,906**	6,978,306
Other long-term benefits	**1,411,536**	170,922	**1,411,536**	170,922
Post-employment benefits	**668,177**	662,850	**668,177**	662,850
Termination benefits	**–**	317,833	**–**	317,833
Share based payments	**1,063,153**	1,376,263	**1,063,153**	1,376,263
	11,771,772	9,506,174	**11,771,772**	9,506,174

Information regarding individuals' and executives' compensation and some equity instruments disclosures is provided in the Remuneration Report section of the Directors' Report on pages 45 to 65.

29. RELATED PARTY INFORMATION (CONTINUED)

(c) Shareholdings of key management personnel

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

	HELD AT 31 DEC 2007	PURCHASED	VESTED	SOLD	HELD AT 31 DEC 2008
Directors					
Elizabeth Bryan	5,000	4,238	–	–	9,238
Richard Warburton (retired)	13,519	–	–	–	13,519
Desmond King	1,000	–	–	–	1,000
John Thorn	1,510	–	–	–	1,510
Peter Wissel	1,000	–	–	–	1,000
Trevor Bourne	4,407	988	–	–	5,395
Brant Fish	–	–	–	–	–
Greig Gailey	–	–	–	–	–
Colleen Jones-Cervantes	–	–	–	–	–
Senior executives					
Richard Beattie	9,441	–	15,105	–	24,546
Andrew Brewer	8,983	–	3,782	–	12,765
Helen Conway	40,176	–	10,697	–	50,873
Simon Hepworth	9,618	–	13,357	–	22,975
Kenneth James	2,526	–	2,200	(1,974)	2,752
Mike McMenamin	5,221	–	5,838	–	11,059
Alex Strang(i)	80,799	–	44,013	(51,732)	73,080
Andy Walz	–	–	–	–	–
Brian Waywell	–	–	–	–	–
Peter Wilkinson	2,371	–	3,682	–	6,053
Simon Willshire	914	1,233	2,691	–	4,838

(i) Mr Strang passed away on 17 December 2008. The above share balance was held by his estate at 31 December 2008.

(d) Other key management personnel transactions

No key management personnel had entered into a material contract, loan or other transaction with any entity in the Caltex Australia Group during the year ended 31 December 2008 (2007: nil).

During 2008, Mr Thorn was a director of Caltex Australia Limited and National Australia Bank Limited. The banking relationship with National Australia Bank Limited has been in place for many years and facilities are on normal commercial terms.

During 2008, Elizabeth Bryan was a director of Caltex Australia Limited and was a director of Westpac Banking Corporation. The banking relationship with Westpac Banking Corporation has been in place for many years and facilities are on normal commercial terms. She was previously a director of Ridley Corporation Limited (September 2001 to October 2007). Transactions with Ridley Corporation Limited and its subsidiaries were on normal commercial terms.

During 2008, Mr Bourne was a director of Caltex Australia Limited and a director of Hastie Group Limited and Origin Energy Limited. He was previously a director of Coates Hire Limited (February 2004 to January 2008). Transactions with these companies and their subsidiaries were on normal commercial terms. All services have been provided on arm's length terms.

(e) Controlled entities

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

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

29. RELATED PARTY INFORMATION (CONTINUED)

(f) Other related entities

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

The Caltex Australia Group paid $2,563,310 (2007: $2,561,044) to the Chevron Group for technical service fees. The Caltex Australia Group received $4,086,040 (2007: $5,315,214) for technical service fees from the Chevron Group. These fees are in the ordinary course of business and on normal commercial terms and conditions.

The Caltex Australia Group paid $2,408,368 (2007: $2,463,000) to the Chevron Group, including Heddington Insurance Limited, for insurance coverage. Dealings with Heddington Insurance Limited are in the ordinary course of business and on normal commercial terms and conditions.

The Caltex Australia Group purchased crude, other refinery feedstocks and petroleum products from the Chevron Group of $5,896,880,182 (2007: $5,371,060,806). The Caltex Australia Group sold crude, other refinery feedstocks and petroleum products to the Chevron Group of $780,669,510 (2007: $670,302,170). These purchases and sales are in the ordinary course of business and on normal commercial terms and conditions.

Certain payments are made to the Chevron Group in respect of the secondment of Desmond King, Andy Walz and Brian Waywell. Details of these payments are shown in the Directors' Report on pages 60 to 65.

In addition to the above, the Chevron Group seconded one executive (2007: one executive) primarily to provide specialist expertise in refineries. The cost borne by Caltex Australia was $801,978 (2007: $400,000). This cost includes salary and bonuses, allowances including relocation, and indirect payroll related expenses.

Caltex Australia seconded seven employees to various roles within the Chevron Group during 2008. The Chevron Group paid the salary and bonuses, allowances including relocation, and indirect payroll related expenses of these Caltex employees.

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

(g) Associates

The Caltex Australia Group sold petroleum products to associates totalling $267,207,908 (2007: $310,114,327). The Caltex Australia Group received income from associates for rental income of $631,432 (2007: $863,847).

Details of associates are set out in note 24. Amounts receivable from associates are set out in note 7. Dividend and disbursement income from associates is $755,000 (2007: $2,392,800).

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

(h) Joint ventures

The Caltex Australia Group sold petroleum products to joint ventures totalling $81,785,624 (2007: $53,466,522). The Caltex Australia Group received income from joint ventures for service fees, site fees, operating leases and licence fees of $12,796,755 (2007: $7,824,144).

The Caltex Australia Group purchased petroleum products from joint ventures of $140,945,420 (2007: $122,490,196). The Caltex Australia Group paid service fee income to joint ventures of $130,000 (2007: $130,000). Dividend and disbursement income from joint ventures is $269,110 (2007: $1,221,830).

Caltex has interests in joint ventures primarily for the marketing, sale and distribution of fuel products. Details of Caltex's interest are in note 25.

(i) Executive share plan

Up to 1 January 2007, senior executives may receive shares under Caltex Australia Limited's Long-Term Incentive Plan, based on the achievement of specific targets related to the performance of the Caltex Australia Group (including return on capital employed and total shareholder return). The terms and conditions of this plan were approved by shareholders at the Annual General Meeting held in April 1999.

Executives in the Long-Term Incentive Plan for 2006 are entitled to receive shares in three equal instalments as their shares vest, although dividend and voting entitlements vest immediately. Shares are included as part of bonuses upon vesting. Details of the Long-Term Incentive Plan are included in the Remuneration Report on pages 53 to 61.

The fair value of services received in return for shares granted are measured by reference to the market price of shares on the grant date.

29. RELATED PARTY INFORMATION (CONTINUED)

(i) Executive share plan (continued)

Summary of share movements in the plan:

OPENING BALANCE	ISSUED TO PLAN			DISTRIBUTION DURING THE YEAR			CLOSING BALANCE	
NUMBER OF SHARES	GRANT DATE	NUMBER OF SHARES	WEIGHTED AVERAGE FAIR VALUE PER SHARE ($)	DISTRIBUTION DATE	NUMBER OF SHARES	WEIGHTED AVERAGE FAIR VALUE PER SHARE ($)	NUMBER OF SHARES	WEIGHTED AVERAGE FAIR VALUE AGGREGATE ($)
2008								
154,566		–	–	2 January 2008	(61,361)	17.99	84,854	610,100
				4 July 2008	(2,679)			
				18 December 2008	(5,672)			
154,566		–			(69,712)		84,854	610,100
2007								
239,590	26 February–2 March 2006	79,138	22.57	2 January 2007	(149,566)	23.02	154,566	2,993,943
				26 February 2007	(2,263)			
				17 April 2007	(5,479)			
				23 April 2007	(6,854)			
239,590		79,138			(164,162)		154,566	2,993,943

Since 1 January 2007, senior executives may receive shares under Caltex Australia Limited's Equity Incentive Plan, based on the achievement of specific targets related to the performance of the Caltex Australia Group (including return on capital employed and total shareholder return).

Executives in the Caltex Equity Incentive Plan for 2008 are entitled to receive shares in three equal instalments as their shares vest, although dividend and voting entitlements vest immediately. Shares are included as part of bonuses upon vesting. Details of the Caltex Equity Incentive Plan are included in the Remuneration Report on pages 50 to 61.

The fair value of services received in return for shares granted are measured by reference to the market price of shares on the grant date.

Summary of share movements in the plan:

OPENING BALANCE	ISSUED TO PLAN			DISTRIBUTION DURING THE YEAR			CLOSING BALANCE	
NUMBER OF SHARES	GRANT DATE	NUMBER OF SHARES	WEIGHTED AVERAGE FAIR VALUE PER SHARE ($)	DISTRIBUTION DATE	NUMBER OF SHARES	WEIGHTED AVERAGE FAIR VALUE PER SHARE ($)	NUMBER OF SHARES	WEIGHTED AVERAGE FAIR VALUE AGGREGATE ($)
2008								
28,431	7 April 2008	78,040	13.81	7 April 2008	(26,012)	12.48	53,410	384,018
				23 April 2008	(2,231)			
				27 April 2008	(14,214)			
				4 July 2008	(3,014)			
				18 December 2008	(7,590)			
28,431		78,040			(53,061)		53,410	384,018
2007								
–	27 April 2007	42,645	24.29	27 April 2007	(14,214)	24.29	28,431	550,708
–		42,645			(14,214)		28,431	550,708

29. RELATED PARTY INFORMATION (CONTINUED)

(i) Executive share plan (continued)

Since 1 January 2007, senior executives may receive performance rights under Caltex Australia Limited's Equity Incentive Plan, based on the achievement of specific targets related to the performance of the Caltex Australia Group (including return on capital employed and total shareholder return).

Details of the Caltex Equity Incentive Plan are included in the Remuneration Report on pages 50 to 61.

Summary of performance rights in the plan:

OPENING BALANCE	ISSUED TO PLAN			DISTRIBUTION DURING THE YEAR			LAPSED DURING THE YEAR			CLOSING BALANCE	
NUMBER OF PERFORMANCE RIGHTS	START DATE	NUMBER OF PERFORMANCE RIGHTS	FAIR VALUE OF PERFORMANCE RIGHTS ($)	DISTRIBUTION DATE	NUMBER OF PERFORMANCE RIGHTS	WEIGHTED AVERAGE FAIR VALUE PER SHARE ($)	LAPSED DATE	NUMBER OF PERFORMANCE RIGHTS	WEIGHTED AVERAGE FAIR VALUE PER SHARE ($)	NUMBER OF PERFORMANCE RIGHTS	FAIR VALUE AGGREGATE ($)
2008											
37,120	1 Jan 2008	55,475	10.41	23 April 2008	(2,530)	9.30	28 Oct 2008	(6,820)	0.00	76,850	800,008
35,890	1 Jan 2008	55,475	10.76	4 July 2008	(3,400)		18 Dec 2008	(7,514)		75,910	816,792
				18 Dec 2008	(10,936)						
73,010		110,950			(16,866)			(14,334)		152,760	1,616,800
2007											
–	1 Jan 2007	37,120	12.49	–	–	–	–	–	–	37,120	463,629
–	1 Jan 2007	35,890	12.91	–	–	–	–	–	–	35,890	463,340
–		73,010			–			–		73,010	926,969

The performance criteria for the performance rights start on 1 January of each of the relevant years, while the issue date follows shortly thereafter. All performance rights may be exercised three years after the grant date and expire 10 years after the grant date.

	CONSOLIDATED	
THOUSANDS OF DOLLARS	**2008**	2007
Executive share plan expense	**2,705**	1,459

	2008	2007

30. NET TANGIBLE ASSETS PER SHARE

Net tangible assets per share (dollars)	**9.29**	10.14

Net tangible assets are net assets attributable to members of Caltex less intangible assets. The weighted average number of ordinary shares used in the calculation of net tangible assets per share was 270 million (2007: 270 million).

31. SEGMENT REPORTING

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

The Caltex Australia Group operates within one geographic region – Australia.

COMPARATIVE FINANCIAL INFORMATION

The additional information on pages 119 and 120 is provided for the information of shareholders. The information is based on, but does not form part of, the 2008 Financial Report.

CALTEX AUSTRALIA LIMITED CONSOLIDATED RESULTS	**2008**	2007	2006	2005	2004
Profit and loss ($ million)					
Historical cost operating profit before significant items, interest and income tax expense	**104**	965	707	811	687
Interest income	**4**	7	3	4	1
Borrowing costs	**(60)**	(46)	(49)	(27)	(41)
Historical cost income tax expense before significant items	**(13)**	(280)	(195)	(214)(i)	(190)(i)
Historical cost operating profit after tax and before significant items	**34**	646	466	574	457
Significant items (net of tax)	**–**	–	–	2(i)	113(i)
Historical cost operating profit/(loss) after income tax	**34**	646	466	595	570
Dividends					
Amount paid and payable ($/share)	**0.36**	0.80	0.80	0.46	0.39
Times covered (excl. significant items)	**0.35**	2.99	2.16	4.62	4.34
Dividend payout ratio – replacement cost basis(ii)	**52%**	49%	50%	30%	30%
Dividend franking percentage	**100%**	100%	100%	100%	100%
Other data					
Total revenue	**23,891**	19,342	18,665	15,895	13,624
Earnings per share – historical cost ($m)	**12.7**	239.4	172.6	220.2	211.1
Earnings per share – replacement cost ($m)	**68.9**	164.3	159.2	153.4	129.7
Earnings before interest and tax – historical cost basis ($m) (excl. individually material tax items)	**104**	965	707	811	687
Earnings before interest and tax – replacement cost basis ($m)	**321**	675	655	583	536
Operating cash flow per share ($/share)	**1.4**	2.2	1.7	2.3	1.7
Interest cover – historical cost basis	**1.8**	24.7	15.5	34.8	17.2
Interest cover – replacement cost basis	**6.7**	18.3	15.4	26.0	14.4
Return on capital employed – historical cost basis (%)(iii)	**1**	19	16	23	27
Return on capital employed – replacement cost basis (%)(iii)	**5**	13	14	16	17
Equity attributable to members of the company ($m)	**2,592**	2,817	2,432	2,129	1,635
Total equity ($m)	**2,602**	2,829	2,443	2,138	1,645
Return on equity attributable to members of the parent entity after tax, excluding significant items (%)	**1**	23	19	27	28
Total assets ($m)	**4,922**	5,330	4,417	4,079	3,245
Net tangible asset backing ($/share)	**9.29**	10.14	8.80	7.73	5.98
Debt ($m)	**864**	596	595	458	461
Net debt ($m)	**832**	582	539	429	447
Net debt to net debt plus equity (%)	**24**	17	18	17	21

(i) Includes a significant item of $21 million in 2005 ($113 million in 2004) relating to an income tax benefit upon entry into the tax consolidation regime.

(ii) Dividend payout ratio – replacement cost basis calculated as follows: $\frac{\text{Dividends paid and payable in respect of financial year}}{\text{Replacement cost profit after income tax}}$

(iii) Return of capital employed is calculated as follows: $\frac{\text{Net profit after tax}}{\text{Net debt + equity}}$

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 $186 million, compared to a profit of $444 million in 2007.
- 2008 net profit before interest, income tax and significant items on a replacement cost of sales basis was $321 million, a decrease of $354 million over 2007.

$ MILLION	FIVE YEARS	**2008**	2007	2006	2005	2004
Historical cost net profit before interest, income tax and significant items	3,274	**104**	965	707	811	687
(Deduct)/add inventory (gains)/losses(ii)	(504)	**217**	(290)	(52)	(228)	(151)
Replacement cost net profit before interest, income tax and significant items	2,770	**321**	675	655	583	536
Net borrowing costs	(204)	**(56)**	(39)	(46)	(23)	(40)
Historical cost tax expense	(892)	**(13)**	(280)	(195)	(214)	(190)
Add/(deduct) tax effect of inventory (losses)/gains	150	**(66)**	88	16	68	44
Replacement cost profit after income tax(iii)	1,824	**186**	444	430	414	350

(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 2008, the historical cost result includes $217 million inventory loss (2007: $290 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:

2004: $113 million gain before and after tax
2005: $21 million gain before and after tax
2006: nil
2007: nil
2008: nil

SHAREHOLDER INFORMATION

SHAREHOLDER ENQUIRIES

Shareholders with queries about their shares or dividend payments should contact the company's share registry on telephone 1300 850 505 or facsimile 03 9473 2555, or through its website (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 2975
Melbourne Vic 3001
Australia

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 wish to receive a hard copy of the annual report or half year report should notify the company's share registry in writing.

Voting rights

The share capital of Caltex Australia Limited is comprised of 270 million fully paid ordinary shares. Shareholders in Caltex Australia Limited have a right to attend and vote at all general meetings, in accordance with the company's Constitution, the *Corporations Act 2001* and the ASX Listing Rules.

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

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

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

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

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

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

Securities exchange listing

The company's shares are listed on the Australian Securities Exchange (ticker: CTX).

General enquiries

Investor Relations
Mr Nathan Gately 02 9250 5856

Company Secretaries
Ms Helen Conway, Mr John Willey

The address and telephone of the registered office is:

Level 24
2 Market Street
Sydney NSW 2000

Telephone: 02 9250 5000
Facsimile: 02 9250 5742

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

Website: www.caltex.com.au

The address at which the register of shares is kept is:

Computershare Investor Services Pty Limited
Level 2, 60 Carrington Street
Sydney NSW 2000 Australia

Tollfree: 1300 850 505
(enquiries within Australia)

Telephone: +61 3 9415 4000
(enquiries outside Australia)

Facsimile: 03 9473 2555
Website: www.computershare.com.au

with the postal address being:
GPO Box 2975
Melbourne Vic 3001 Australia

GENERAL INFORMATION

The following additional information is provided under ASX Listing Rule 4.10:

1. As at 28 February 2009

1.1 Substantial shareholders:

Chevron Global Energy Inc holding 135,000,000 ordinary shares.

Barclays Group holding 13,551,809 ordinary shares.

1.2 There is only one class of equity securities (namely ordinary shares) and the number of holders is 33,528.

1.3 The shareholding is distributed as follows:

CATEGORY	NUMBER OF HOLDERS	NUMBER OF SHARES	%
A.			
1–1,000	23,472	11,208,798	4.15
1,001–5,000	8,873	20,128,423	7.45
5,001–10,000	832	6,284,768	2.33
10,001–100,000	399	9,598,869	3.56
100,001 and over	42	222,779,142	82.51
Rounding			0.00
	33,528	270,000,000	100.00
B.			
Holders of less than a marketable parcel	1,314		

1.4 The 20 largest shareholders held 81.38% of the ordinary shares in the company.

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

	CATEGORY	NUMBER OF SHARES	%
1	Chevron Global Energy Inc	135,000,000	50.00
2	HSBC Custody Nominees (Australia) Limited	25,785,850	9.55
3	J P Morgan Nominees Aust Ltd	21,212,369	7.86
4	National Nominees Limited	13,734,413	5.09
5	ANZ Nominees Limited <Cash Income A/C>	8,269,415	3.06
6	Citicorp Nominees Pty Limited	4,960,234	1.84
7	HSBC Custody Nominees (Australia) Limited – A/C 2	1,799,370	0.67
8	UBS Nominees Pty Ltd	1,792,976	0.66
9	Cogent Nominees Pty Limited	1,493,021	0.55
10	AMP Life Limited	871,014	0.32
11	Neweconomy Com Au Nominees Pty Limited <900 Account>	623,845	0.23
12	Queensland Investment Corporation	616,836	0.23
13	HSBC Custody Nominees (Australia) Limited – A/C 3	556,459	0.21
14	Australian Reward Investment Alliance	551,599	0.20
15	UBS Wealth Management Australia Nominees Pty Ltd	508,284	0.19
16	UCA Growth Fund Ltd	450,000	0.17
17	Perpetual Trustee Company Limited	439,128	0.16
18	HSBC Custody Nominees (Australia) Limited – GSCO ECA	410,077	0.15
19	Citicorp Nominees Pty Ltd <Cwlth Bank OFF Super A/C>	363,376	0.13
20	RBC Dexia Investor Services Australia Nominees Pty Limited <MLCI A/C>	299,356	0.11
	Total	219,737,622	81.38

STATISTICAL INFORMATION

YEAR ENDED 31 DECEMBER	2008	2007	2006	2005
People				
Employees[i]	**4,158**	3,252	3,164	3,046
Assets				
Fuel refineries	**2**	2	2	2
Lube oil refinery	**1**	1	1	1
Road tankers	**18**	18	18	18
Rail cars (operational)	**62**	62	62	62
Storage terminals operated by Caltex[ii]	**12**	12	12	12
Star convenience stores (Star Mart, Star Supermarket and Star Shop)	**476**	478	488	496
Service stations (owned or leased)	**748**	492	511	546
Depots	**83**	88	99	108
Operations				
Nameplate refining capacity (barrels per day)				
Caltex Refineries (NSW) Pty Ltd	**135,000**	135,000	124,500	124,500
Caltex Refineries (Qld) Pty Ltd	**109,000**	109,000	105,500	105,500
Caltex Lubricating Oil Refinery Pty Ltd	**3,750**	3,750	3,750	3,750
Fuel production (ML)	**10,834**	11,951	11,703	11,436
Lubricants production (ML)	**137**	129	166	158
Total sales volume (ML)[iii]	**16,493**	16,088	15,492	15,249
Lost time injury frequency rate (LTIFR)[iv]	**3.1**	3.8	4.3	4.1

(i) Includes employees of Calstores Pty Ltd and Caltex 100% owned resellers.
(ii) Caltex has access to product supply at a further 10 terminals.
(iii) 2007, 2006 and 2005 sales volumes exclude sales made to domestic refiners.
(iv) Employee and contractor lost time injury frequency rate per million work hours.

GLOSSARY OF TERMS

A-IFRS Australian equivalents to International Financial Reporting Standards.

Barrel (per barrel) A measure used for oil production and sales. One barrel equals approximately 160 litres.

Caltex Refiner Margin (CRM) 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.

Capital expenditure Investment in acquisition or improvement of long-term assets, such as property, plant or equipment.

EBITDA Earnings before interest, tax, depreciation and amortisation.

EPA Environment Protection Authority or equivalent state authority.

Hedge A financial instrument to manage the risk created by price volatility for a commodity (such as crude oil) on a spot market. Buyers and sellers of the commodity may enter into long or short-term contracts at an agreed price.

Lost Time Injury Frequency Rate (LTIFR) The number of injuries causing lost time for employees and contractors per million hours worked.

Major spills An accidental or unplanned spill or release to land, air or water that is of a volume sufficient to cause actual or likely harm to human health and/or damage to the environment; or has caused community outrage, e.g. numerous complaints (>10) and involvement of regulatory authorities; or a spill of hydrocarbon of a volume of 50 bbls/8000ltr (1 barrel = 160L) or greater to land; or any spill of hydrocarbon to a body of water (e.g. river, lake, marine). A spill includes any accidental or unplanned release that:

- Escapes from primary containment (intended container) onto a surface, or to air, water or land.
- Escapes from primary containment (intended container) into secondary containment not associated with routine operating practices, scheduled maintenance or authorised discharge.
- Results from company owned and/or operated transport of oil products.

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

DIRECTORY

Corporate offices

Caltex Australia Limited
ACN 004 201 307

Caltex Australia Petroleum Pty Ltd
ACN 000 032 128

Level 24
2 Market Street
Sydney NSW 2000
Australia

Mail: GPO Box 3916
Sydney NSW 2001
Australia

Telephone: 02 9250 5000
Facsimile: 02 9250 5742
Website: www.caltex.com.au

Share registry

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne Vic 3001
Australia

Tollfree: 1300 855 080
(enquiries within Australia)

Telephone: 61 2 8234 4000
(enquiries outside Australia)

Facsimile: 03 9473 2500
Website: www.computershare.com.au

Refineries

Caltex Refineries (NSW) Pty Ltd
ACN 000 108 725

2 Solander Street
Kurnell NSW 2231

Telephone: 02 9668 1111
Facsimile: 02 9668 1188
Community hotline: 1800 802 385

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 7555
Facsimile: 07 3362 7111
Environmental hotline: 1800 675 487

Marketing offices

New South Wales
Caltex Banksmeadow terminal
Penhryn Road
Banksmeadow NSW 2019

Telephone: 02 9695 3600
Facsimile: 02 9666 5737

Queensland/Northern Territory
Caltex Lytton terminal
Tanker Street, off Port Drive
Lytton Qld 4178

Telephone: 07 3877 7333
Facsimile: 07 3877 7464

Victoria/Tasmania
Caltex Newport terminal
411 Douglas Parade
Newport Vic 3015

Telephone: 03 9287 9555
Facsimile: 03 9287 9572

South Australia
Caltex Birkenhead terminal
2 Elder Road
Birkenhead SA 5015

Telephone: 08 8385 2311
Facsimile: 08 8242 8334

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)
Telephone: 1800 240 398

Card Support Centre
Card enquiries 24 hours/seven days
Telephone: 1300 365 096

Lubelink
Mon–Fri 8.00 am to 6.00 pm (EST)
Telephone: 1300 364 169

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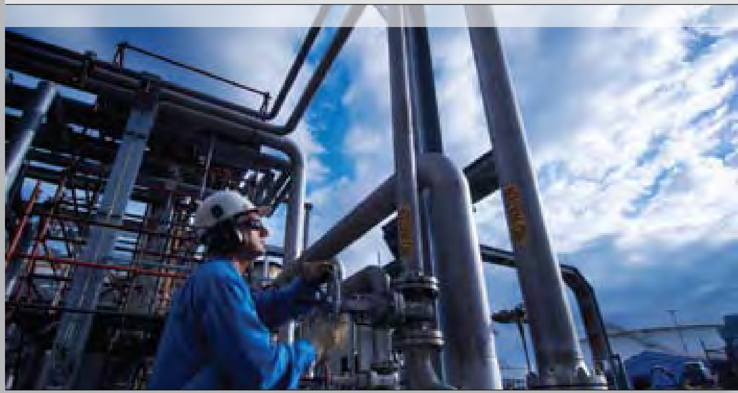

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