

# CORPORATE GOVERNANCE STATEMENT

Our corporate governance arrangements are set by the Board of Caltex Australia Limited (Caltex) having regard to the particular circumstances of our business and operations and the best interests of our shareholders and other stakeholders.

We are committed to best practice in corporate governance where these practices are appropriate and add value to Caltex and our group of companies. We review our governance policies and practices each year to ensure that we comply with legal requirements, meet the expectations of our shareholders and other stakeholders, and best address the needs of our business.

This Corporate Governance Statement provides information about Caltex's corporate governance practices for 2010, including compliance with the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*. References to individual principles and recommendations are to those in effect during 2010.

We have also included additional information about our practices to address new recommendations and other changes to the *Corporate Governance Principles and Recommendations* that will take effect for Caltex in 2011. Additional information in relation to diversity is provided in a separate section at the end of this Corporate Governance Statement.

You can access the governance documents referred to in this statement from the Caltex website ([www.caltex.com.au](http://www.caltex.com.au)). You will also find this Corporate Governance Statement on our website, as part of the online annual report and in a section of the site dedicated to corporate governance. This statement is current as at 21 February 2011 and should be read together with the Directors' Report at pages 22 to 48 of this 2010 Annual Report.

If you would like to request a hard copy of the 2010 Annual Report or the 2010 Annual Review (free of charge), you can write to the Company Secretary at Caltex Australia Limited, Level 24, 2 Market Street, Sydney NSW 2000.

## SUMMARY OF COMPLIANCE FOR 2010

PRINCIPLES AND RECOMMENDATIONS	COMPLY
<b>1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT</b>	
1.1 Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions	✓
1.2 Companies should disclose the process for evaluating the performance of senior executives	✓
1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1	✓
<b>2. STRUCTURE THE BOARD TO ADD VALUE</b>	
2.1 A majority of the board should be independent directors	X
2.2 The chair should be an independent director	✓
2.3 The roles of chair and chief executive officer should not be exercised by the same individual	✓
2.4 The board should establish a nomination committee	✓
2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors	✓
2.6 Companies should provide the information indicated in the Guide to reporting on Principle 2	✓
<b>3. PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING</b>	
3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> <li>the practices necessary to maintain confidence in the company's integrity</li> <li>the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders</li> <li>the responsibility and accountability of individuals for reporting and investigating reports of unethical practices</li> </ul>	✓
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	✓
3.3 Companies should provide the information indicated in the Guide to reporting on Principle 3	✓
<b>4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING</b>	
4.1 The board should establish an audit committee	✓
4.2 The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>consists only of non-executive directors</li> <li>consists of a majority of independent directors</li> <li>is chaired by an independent chair, who is not chair of the board</li> <li>has at least three members</li> </ul>	✓

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

PRINCIPLES AND RECOMMENDATIONS (CONTINUED)		COMPLY
4.3	The audit committee should have a formal charter	✓
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4	✓
<b>5.</b>	<b>MAKE TIMELY AND BALANCED DISCLOSURE</b>	
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	✓
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5	✓
<b>6.</b>	<b>RESPECT THE RIGHTS OF SHAREHOLDERS</b>	
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	✓
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6	✓
<b>7.</b>	<b>RECOGNISE AND MANAGE RISK</b>	
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies	✓
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	✓
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 <i>Corporations Act</i> 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	✓
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7	✓
<b>8.</b>	<b>REMUNERATE FAIRLY AND RESPONSIBLY</b>	
8.1	The board should establish a remuneration committee	✓
8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives	✓
8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8	✓

### OUR PRACTICES IN DETAIL

#### 1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

At Caltex, our business and corporate operations are managed under the direction of the Board on behalf of shareholders. The Board oversees the performance of Caltex management in seeking to deliver superior business and operational performance and long term growth in shareholder value.

The Caltex Board recognises that providing strong leadership and strategic guidance to management is important to achieve our goals and objectives. The Managing Director & CEO is accountable to the Board for Caltex's day-to-day business performance and operations.

In this section, we discuss some of the key aspects of Caltex's approach to laying the foundations for managing our business and operations and how the Board reviews the performance of the senior executive team.

**1.1 Caltex has established the functions reserved to the board and those delegated to senior executives. We disclose the functions reserved to the board and committees in their charters, which are available from our website.**

#### Functions reserved to the Board and delegations to management

The Caltex Board has a number of important responsibilities and accountabilities under the *Corporations Act*, the ASX Listing Rules and Caltex's Constitution. These matters are required to be addressed directly by the Board.

The responsibilities and accountabilities of the Caltex Board and management are identified in the following ways:

- **Board charter**

The Board's charter seeks to achieve a balance that gives Caltex's Managing Director & CEO authority to oversee our day-to-day operations, while reserving important strategic, business, operational and governance matters to the Board.

The charter also sets out important governance matters relating to the Caltex Board, such as its composition, the skills and competencies of directors and the Board, and other aspects of the Board's operations.

The Board's charter is available from our website ([www.caltex.com.au](http://www.caltex.com.au)).

- **Committee charters**

The Board's standing committees (Audit Committee, Human Resources Committee, Nomination Committee and OHS & Environmental Risk Committee) serve as advisory committees to the Board. Additionally, the committees undertake a number of functions delegated by the Board, which are set out in the committee charters.

- **Delegations of authority**

The Managing Director & CEO oversees Caltex's day-to-day business and operations. Specific authorities for the CEO in relation to Caltex's day-to-day business and operations are set out in delegations of authority approved by the Board. The Managing Director & CEO has, in turn, approved sub-delegations of authority for Caltex management. Matters that are outside of the delegations of authority must be brought to the Board for approval.

In 2010, management conducted a detailed review of Caltex's delegations of authority, which included new authorities being approved by the Board for the CEO. The Managing Director & CEO has, in turn, approved new delegations of authority for the business. These changes should result in more efficient business decision making and strengthen the link between authority and accountability.

### Letter of appointment for new directors

When a new non-executive director is appointed, it is important that they clearly understand the Board's expectations of them. This includes the commitment expected of directors for Board matters, additional work that may be undertaken by Board committees, and other aspects of the role.

A new non-executive director is provided with a formal letter following their appointment, which covers the matters referred to in the guidance and commentary for Recommendation 1.1. The letter was reviewed by the Board's Nomination Committee in June 2010.

The Managing Director & CEO enters into an executive service agreement and receives a job description at the time of appointment.

## 1.2 Caltex discloses the process for evaluating the performance of senior executives. We publish the process on our website.

### Managing Director & CEO

The Board sets goals and objectives for the Managing Director & CEO each year, which are recorded in a performance agreement.

The Board's review process includes the following aspects:

- The Chairman carries out an initial assessment of the Managing Director & CEO's performance.
- The Board's Human Resources Committee discusses the initial assessment with the Chairman and the Managing Director & CEO. The committee agrees an assessment to recommend to the Board.
- The Board discusses the Managing Director & CEO's performance in detail and approves an assessment.

This process was followed in February 2011 in relation to the Managing Director & CEO's performance for 2010.

### Caltex Leadership Team

Performance objectives for members of the Caltex Leadership Team are agreed for the coming year with the Managing Director & CEO.

In addition, there is a job description for each member of the Caltex Leadership Team, which documents the core accountabilities and behavioural expectations for the role.

The performance objectives and job description form the basis for assessing the executive's performance. Performance against the objectives determines any short term incentive the executive will achieve, subject to overall company targets being met, while performance against the job description is used to assess base salary.

The Managing Director & CEO formally reviews the performance of Caltex Leadership Team members both mid-year and at the end of the year. The full year review is discussed with the Board's Human Resources Committee and then with the Board.

This process was followed in relation to performance in 2010.

## 1.3 Caltex provides 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 our website ([www.caltex.com.au](http://www.caltex.com.au)):

- *Board Charter*
- *Committee Charter* for each of the Audit Committee, Human Resources Committee, Nomination Committee and OHS & Environmental Risk Committee
- *Performance Evaluation Process* for the Board, the Managing Director & CEO and the Caltex Leadership Team
- *Board Composition, Appointment, Induction & Election*

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### 2. STRUCTURE THE BOARD TO ADD VALUE

The Caltex Board reviews its composition each year, including the number of independent directors and the mix of skills, experience, expertise and diversity of directors and the Board.

The Board recognises that it is in the best interests of shareholders to have a strong representation of independent directors. Caltex considers a director to be independent if they are free of any business or other relationship that could materially interfere with (or could reasonably be perceived to materially interfere with) the independent exercise of the director's judgement.

In this section, we discuss the composition of the Board, the criteria used to assess director independence, the separate roles of the Chairman and the Managing Director & CEO, the role of the Board's Nomination Committee, and the process followed by the Board to evaluate its own performance and that of its committees and individual non-executive directors.

#### 2.1 Caltex's board does not comprise a majority of independent directors.

##### Caltex Board

Caltex is an Australian company listed on the ASX. We have a major shareholder, Chevron, which holds 50% of our ordinary shares. We operate independently of Chevron, with all decisions made in Australia by the Caltex Board and management.

There are currently eight directors on the Caltex Board. The Board's policy on composition is to have at least four independent, non-executive directors and up to three directors who are Chevron executives. Chevron does not have a right to appoint a nominee as a director. All decisions to appoint a new director are made by the Caltex Board. Additionally, the CEO serves as the Managing Director.

The Board, at the date of this report (21 February 2011), comprises:

- Ms Elizabeth Bryan (Chairman; Non-Executive Director/Independent)  
Appointed: 18 July 2002/Appointed as Chairman: 1 October 2007
- Mr Julian Segal (Managing Director & CEO)  
Appointed: 1 July 2009
- 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
- Mr Timothy (Tim) Leveille (Non-Executive Director)  
Appointed: 1 December 2010
- Mr Walter (Walt) Szopiak (Non-Executive Director)  
Appointed: 1 September 2010 (previously an alternate director from 17 April 2009 to 31 August 2010)
- Mr John Thorn (Non-Executive Director/Independent)  
Appointed: 2 June 2004

(Ms Colleen Jones-Cervantes serves as an alternate director for each of Mr Fish (from 1 September 2010), Mr Szopiak (from 1 September 2010) and Mr Leveille (from 1 December 2010))

Directors' profiles are provided at pages 22 to 24 of this 2010 Annual Report.

##### Process for assessing independence

The Caltex Board assesses the independence of its directors in February each year. An initial assessment is made at the time of appointment.

Directors are required to disclose relevant personal interests and conflicts of interest on an ongoing basis. A new interest or conflict of interest may trigger a review of the director's independent status. Each year, non-executive directors are required to provide a certificate to the Board in which they confirm their status as independent (or otherwise). Additionally, directors complete a questionnaire each year providing details of any transactions with Caltex.

The independence criteria approved by the Board take the following relationships with Caltex into account:

- service as an officer of a substantial shareholder
- previous service as a director or senior executive of Caltex in the last three years
- service as a partner, principal or director of a professional adviser or consultant that has had a material business relationship with Caltex in the last three years
- service as a director, officer or senior executive of, or employee significantly associated with the service provided by, a professional adviser or consultant that has had a material business relationship with Caltex in the last three years

- significant direct or indirect involvement in the external audit of Caltex in the last five years or service as a partner, principal or director of the external auditor in that period
- a relationship (substantial shareholder, director, officer or senior executive) with a supplier or customer that has had a material business relationship with Caltex, and
- a contractual relationship (directly or indirectly), interest or other relationship with Caltex that could, or could reasonably be perceived to, materially interfere with the director's ability to act in Caltex's best interests.

A professional adviser, consultant, supplier or customer will be considered to have a material business relationship with Caltex if:

- from the perspective of the Caltex director, the business relationship is significant (directly or indirectly) to their own circumstances, or
- from Caltex's perspective, the business relationship generates revenue or expenses (to Caltex) of 10% or more of Caltex's total revenues or expenses, as applicable.

Ms Elizabeth Bryan, Mr Trevor Bourne, Mr Greig Gailey and Mr John Thorn comply with Caltex's director independence criteria.

Mr Julian Segal (Managing Director & CEO) is not independent as he is an executive director.

Mr Brant Fish, Mr Tim Leveille and Mr Walt Szopiak, who are executives of Chevron, are not independent.

The Board believes, on balance, that the benefits to Caltex from having Chevron executives on the Board outweigh any disadvantages. The appointment of Chevron executives as non-executive directors of Caltex gives the Board direct access to current executives of a leading global energy company who have many years of industry experience.

In the case of the current directors, each of Brant, Tim and Walt 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 directors with industry experience who would be available to Caltex is relatively small because many candidates have current or recent associations with our competitors.

#### **Previous directors in 2010**

##### **Ms Colleen Jones-Cervantes**

As noted previously, Ms Colleen Jones-Cervantes serves as an alternate director for each of Mr Fish, Mr Leveille and Mr Szopiak. Ms Jones-Cervantes also served as alternate director for Mr Rob Otteson from 1 September 2010 until his resignation with effect from 30 November 2010. In 2010, Ms Jones-Cervantes also served as a non-executive director until 31 August 2010 (she was appointed from 1 June 2008). Ms Jones-Cervantes was not considered to be an independent director because of her executive position with Chevron.

##### **Mr Robert (Rob) Otteson**

Mr Rob Otteson served as a non-executive director until 30 November 2010 (he was appointed on 17 July 2009). Mr Otteson was not considered to be an independent director because of his executive position with Chevron.

#### **Conflicts of interest**

If the Board considers a matter that involves a conflict of interest for any director, the Board's practice is for the affected director to leave the meeting and not participate in the discussion or any decision on the matter.

#### **Preliminary meetings of directors**

In 2010, the Board held preliminary meetings in the absence of Caltex management at scheduled Board meetings throughout the year.

#### **Access to independent professional advice**

Caltex directors have access to independent professional advice at the company's expense. Where a director seeks professional advice (at our expense), our process requires prior approval by the Board Chairman. If the Board Chairman seeks advice, prior approval by the Audit Committee Chairman is required.

#### **Process for the selection and appointment of new non-executive directors**

When the Board has decided to appoint a new non-executive director, the selection and appointment process begins with the development of selection criteria by the Nomination Committee. The selection criteria will reflect the desired capabilities of the Board (including general corporate attributes, industry-specific attributes, diversity and personal attributes), the current and likely circumstances of the company, and whether the new director is being appointed to replace an outgoing director or as an addition to the Board.

The selection and appointment process for a new independent, non-executive director involves the following additional steps:

- The Nomination Committee engages an external executive firm to conduct the search. The committee provides a brief on the selection criteria and requests the firm to provide a list of candidates for consideration. This process may include directors referring possible candidates.
- Members of the Nomination Committee interview one or more of the candidates. The Board is updated on the selection process at appropriate times.
- The Nomination Committee agrees on a preferred candidate or candidates.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

When the Board is appointing a non-executive director who is a Chevron executive, the Chairman and Managing Director & CEO (typically with assistance from existing directors from Chevron) contact Chevron to discuss potential candidates who would best meet the selection criteria. This also includes consideration of:

- flexibility in the work schedule of a Chevron executive to meet the time commitments of being a Caltex director, and
- the networks of an executive within Chevron and their access to senior Chevron executives.

In all cases, the appointment of a new director is made by the Board.

In 2010, this process was followed when Mr Walt Szopiak and Mr Tim Leveille were appointed as non-executive directors (to fill casual vacancies on the Board).

### Election/re-election of directors

A newly appointed non-executive director holds office until the end of the next Annual General Meeting and is eligible for election by shareholders at the meeting. The Managing Director & CEO is appointed by the Board and is not subject to election.

Following election by shareholders, a director holds office for three years or until the third Annual General Meeting following the director's last election (whichever is longer).

Before each Annual General Meeting, the Board decides whether to support a director standing for election or re-election. This is not automatic, and is determined having regard to advice provided by the Nomination Committee.

The Board's recommendation is included in the notice of meeting sent to shareholders, together with biographical information on the director standing for election or re-election.

The matters considered by the Nomination Committee in forming its recommendation to the Board about the election or re-election of a director include:

- the director's performance
- the desired composition of the Board, including its size and desired capabilities
- the length of time the director has served on the Board, and
- the director's external commitments.

### 2.2 Caltex's chairman is an independent director.

Under the Board's charter, the Chairman must be an independent, non-executive director. The Chairman is elected by the directors on the basis of relevant experience, skills and leadership abilities. Ms Elizabeth Bryan, who is an independent director, has served as the Caltex Chairman since 1 October 2007.

Some of the special responsibilities of the Board Chairman at Caltex include:

- facilitating the work of the Board
- overseeing the provision of appropriate information to the Board
- approving the agenda for each meeting in consultation with the Managing Director & CEO and the Company Secretary
- managing Board activities to assist their efficient and effective conduct, and
- fostering a culture which encourages directors to contribute in an open and constructive manner.

### 2.3 At Caltex, the roles of chairman and chief executive officer are not exercised by the same person.

As noted previously, Ms Elizabeth Bryan is the Chairman of the Caltex Board and Mr Julian Segal is the Managing Director & CEO.

### 2.4 The board has established a nomination committee.

The Nomination Committee is a standing committee of the Caltex Board. The committee assists the Caltex Board with matters relating to Board composition, appointment and induction of new non-executive directors, director election and re-election, Board performance and Board succession planning.

All of the Caltex non-executive directors are members of the Nomination Committee. The Board Chairman, Ms Elizabeth Bryan, serves as the Chairman of the Nomination Committee. The committee comprises a majority of independent directors.

The responsibilities and composition of the Nomination Committee are set out in a charter. The charter was reviewed by the Board in June 2010 and reflects the matters set out in the commentary and guidance for Recommendation 2.4.

The Nomination Committee held three meetings in 2010. The number of meetings attended by each committee member is shown at page 45 of this 2010 Annual Report.

**2.5 Caltex discloses the process for evaluating the performance of the board, its committees and individual directors. This information is disclosed on our website.**

The review of the performance of the Board, its committees and individual directors typically occurs every two to three years and is facilitated by an external consultant. The consultant conducts one-on-one interviews with directors and key executives. Directors provide feedback on other Board members as part of the review.

The external consultant prepares a report relating to Board and committee performance, which is discussed by the Nomination Committee and then by the Board. Any actions to further enhance Board and committee performance are documented, so that progress against their implementation can be monitored. The external consultant also meets with the Chairman to discuss a peer assessment for each director.

In February 2011, the Board completed a performance review facilitated by an external consultant, which followed this process.

**2.6 Caltex provides the information indicated in the Guide to reporting on Principle 2.**

Caltex complies with Recommendations 2.2, 2.3, 2.4, 2.5 and 2.6. We do not currently comply with Recommendation 2.1 (as the Board does not have a majority of independent directors).

The following information is available from our website ([www.caltex.com.au](http://www.caltex.com.au)):

- *Board Charter*
- *Charter of Director Independence*
- *Board Composition, Appointment, Induction & Election*
- *Committee Charter for the Nomination Committee*
- *Performance Evaluation Process for the Board, the Managing Director & CEO and the Caltex Leadership Team*

**3. PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING**

Caltex is committed to conducting business in accordance with all applicable laws and meeting and promoting the highest ethical standards.

We have a code of conduct that provides a framework for decision making and guides business behaviour.

Our share trading policy reinforces our commitment to ethical behaviour. We expect that directors, senior executives and staff will not trade in Caltex securities in a way that breaches insider trading laws or compromises confidence in our investor practices.

In this section, we discuss aspects of our code of conduct and the share trading policy.

**3.1 Caltex has a code of conduct in place. We make the code available from our website.**

Caltex's code of conduct provides a framework for decision making and business behaviour, which builds and sustains our corporate integrity, reputation and success. The code of conduct identifies responsibilities for investigating breaches of the code and the reporting of breaches to the Board or senior management.

The Board reviewed the code of conduct in February 2011 and received a report from the General Manager – Human Resources in relation to the administration of, and compliance with, the code during 2010. The code of conduct reflects the matters set out in the commentary and guidance for Recommendation 3.1 and applies to Caltex directors, senior executives and staff.

**3.2 Caltex has a share trading policy in place, which deals with trading in our securities by directors, senior executives and employees. We make the policy available from our website.**

Caltex's share trading policy is designed to ensure that directors, senior executives and staff do not trade in our securities in a way that breaches the insider trading laws or compromises confidence in our investor practices.

The policy specifically prohibits trading in Caltex securities by directors and senior executives in the following "black-out" 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.

A director or senior executive may trade in Caltex securities outside these black-out periods only if they do not have inside information. All other Caltex staff may trade in Caltex securities at any time if they do not have inside information.

Under the policy, senior executives (including the Managing Director & CEO) must not hedge an exposure to unvested or vested Caltex securities held through any of our executive incentive plans. Additionally, the policy requires directors and senior executives to give prior notice to the Company Secretary of any proposed margin loan arrangements. If a demand for payment is made under a margin loan arrangement, the director or senior executive must immediately advise the Company Secretary.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Each year, directors and senior executives are required to provide a certificate to the Company Secretary in which they confirm compliance with the policy.

Caltex's share trading policy was reviewed by the Board in October 2010. The policy reflects the matters set out in the commentary and guidance for Recommendation 3.2.

The policy was updated in 2010 to address amendments to the ASX Listing Rules, which came into operation on 1 January 2011. We have updated the policy to identify categories of exceptional circumstances when a director or senior executive may be permitted to trade during a black-out period and specify trading that is not subject to the policy (such as trading resulting from corporate actions or where there is no change in the underlying beneficial interest).

### 3.3 Caltex provides 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 our website ([www.caltex.com.au](http://www.caltex.com.au)):

- *Caltex Code of Conduct*
- *Caltex Share Trading Policy*

## 4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Caltex has structures in place to independently verify and safeguard the integrity of our financial reports. The ultimate responsibility for the integrity of financial reporting rests with the Board.

The Board's Audit Committee plays a significant role in Caltex's governance arrangements in relation to financial reporting matters. The committee receives reports from the external auditor (KPMG), from Caltex's Internal Audit Manager, and from Caltex management.

In this section, we discuss the role of the Audit Committee, including its structure and composition, and the responsibilities of the committee, as set out in its charter.

### 4.1 Caltex has established an audit committee.

The Audit Committee is a standing committee of the Caltex Board. The committee addresses the appropriateness of Caltex's accounting policies and our practices to manage material financial risks and the integrity of our financial reporting so that financial reports present a true and fair view of Caltex's financial performance and position.

### 4.2 Caltex's audit committee:

- **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, and**
- **has three members.**

The Audit Committee comprises only independent directors, which is a requirement of its charter. The committee members are Mr John Thorn (Committee Chairman), Mr Trevor Bourne and Mr Greig Gailey. As noted previously, Mr Thorn, Mr Bourne and Mr Gailey are all independent, non-executive directors.

Details of the skills, experience and expertise of each member of the Audit Committee are provided at pages 22 to 24 of this 2010 Annual Report.

The Audit Committee held four meetings in 2010. The number of meetings attended by each committee member is shown at page 45 of this 2010 Annual Report.

### 4.3 Caltex's audit committee has a formal charter.

The role and responsibilities of the Audit Committee are set out in its charter.

In its advisory role, the Audit Committee assists the Board to fulfil its responsibilities in relation to the integrity of our reporting to shareholders and the market on the financial performance and position of the Caltex Australia Group. Additionally, the committee oversees matters relating to the independence of Caltex's external auditor (KPMG).

The Audit Committee undertakes a number of functions delegated by the Board, including approving the scope of the external audit and the terms of engagement for the external auditor for the half year and the full year.

The charter was reviewed by the Board in December 2010 and reflects the matters set out in the commentary and guidance for Recommendation 4.3.

One of the Audit Committee's key roles is to assess the performance of the external auditor and, as appropriate, make recommendations to the Board on the appointment, re-appointment or replacement of the external auditor. The Audit Committee reviewed KPMG's performance as external auditor prior to KPMG being engaged for the 2010 full year audit and half year review.

The Board has approved a policy dealing with the provision of services by the external auditor, including non-audit services. The Audit Committee monitors services provided by KPMG during the year to confirm that KPMG continues to be independent and to confirm compliance with the policy. The committee also monitors the rotation requirements for the external auditor under the *Corporations Act* with KPMG each year.

#### 4.4 Caltex provides 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 our website ([www.caltex.com.au](http://www.caltex.com.au)):

- *Committee Charter* of the Audit Committee
- *Relationship with the External Auditor*

### 5. MAKE TIMELY AND BALANCED DISCLOSURE

Caltex is committed to promoting investor confidence by ensuring that trading in its securities takes place in an informed market.

Caltex has mechanisms in place to meet its continuous disclosure obligations under the ASX Listing Rules and the *Corporations Act*. We recognise that investors need equal and timely access to material information about Caltex and that company announcements should be factual, clear and balanced.

In this section, we discuss Caltex's disclosure practices, including some of the key aspects of our policy for continuous disclosure.

#### 5.1 Caltex has a continuous disclosure policy in place, which is designed to ensure compliance with the ASX Listing Rules and to ensure accountability at a senior executive level for that compliance. We make the policy available from our website.

Caltex's continuous disclosure policy sets out the key obligations of the Board, senior executives and staff to ensure that we comply with our continuous disclosure obligations.

At Caltex, the Board has ultimate responsibility for continuous disclosure. Under the policy, the Board is specifically responsible for disclosures in relation to the following matters:

- financial results
- interim and final dividends
- profit outlooks
- resignations and appointments of directors, and
- key strategic decisions.

The Board may, as required, delegate authority in relation to any of these matters to a committee or to nominated disclosure officers (the Managing Director & CEO, the Chief Financial Officer and the Company Secretary). The disclosure officers have specific authority to approve disclosures to the ASX in relation to all other matters.

Caltex's continuous disclosure policy was reviewed by the Board in December 2010. The policy reflects the matters set out in the commentary and guidance for Recommendation 5.1.

#### 5.2 Caltex provides 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 our website ([www.caltex.com.au](http://www.caltex.com.au)).

### 6. RESPECT THE RIGHTS OF SHAREHOLDERS

The Caltex Board recognises the special responsibilities of directors on behalf of our shareholders.

Caltex supports governance practices designed to promote effective engagement with both our retail and our institutional shareholders. We actively look at ways of making it easier for shareholders to participate at general meetings.

In the course of our day-to-day business, we have transactions with Chevron. The Board has a policy governing transactions with Chevron which requires transactions to be at arm's length, which means Chevron is not favoured over our other shareholders.

In this section, we discuss the steps Caltex takes to empower shareholders through online and other, more traditional ways of communication, our commitment to giving shareholders balanced and understandable information about Caltex, and how the Annual General Meeting enables shareholders to interact with the Board. We also discuss the Board's policy for transactions with Chevron.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

**6.1 Caltex has a communications policy in place for promoting effective communication with our shareholders and encouraging participation at general meetings. We make the policy available from our website.**

### Shareholder communications policy

Caltex's shareholder communications policy is designed to promote effective communication with shareholders and encourage participation at general meetings.

We support the use of electronic communications and other ways of communicating with investors. Our website ([www.caltex.com.au](http://www.caltex.com.au)) enables shareholders to access Board and committee charters, corporate governance policies, ASX announcements, annual and half year reports, information for shareholder meetings, investor presentations and other corporate information. The following web address will take you directly to the corporate governance section of the website:

[www.caltex.com.au/AboutUs/Pages/CorporateGovernance.aspx](http://www.caltex.com.au/AboutUs/Pages/CorporateGovernance.aspx)

In 2010, Caltex launched an updated company website, which aims to make it easier for users to locate and access information. Caltex webcasts our shareholder meeting and briefings following the release of our financial results for the half year and full year. We provide advance notice of the date and time of these webcasts.

Shareholders can write to the Caltex Secretariat (at Level 24, 2 Market Street, Sydney NSW 2000) to request a copy of corporate governance documents.

Caltex's shareholder communications policy was reviewed by the Board in December 2010. The policy reflects the matters set out in the commentary and guidance for Recommendation 6.1.

### Information release practices

At Caltex, we seek to ensure that all investors have equal and timely access to price sensitive information. We are committed to ensuring that information released to the ASX is factual, objective and clear.

When we make a presentation to investors or analysts, we lodge the presentation material with the ASX before the briefing, so that all shareholders can access the information. We will not expressly or implicitly provide investors, analysts or the media with forecast profit guidance before that information has been disclosed to the ASX.

### Shareholder participation at Annual General Meetings

Caltex's Annual General Meeting is an important forum for our shareholders.

We recognise that some shareholders may want to raise issues for discussion by the Chairman at the meeting, so we invite shareholders to send questions to us before the meeting. The Chairman responds to the key issues raised before the meeting in her formal address and opens the meeting to questions from shareholders on these and any other matters.

We structure our meeting so that any director seeking election by shareholders speaks to the meeting about why they should be elected. Shareholders may question any director seeking election at the meeting.

All directors and members of the Caltex Leadership Team attend the Annual General Meeting. Representatives of KPMG, our external auditor, also attend and are available to respond to questions from shareholders.

Shareholders who are unable to attend the Annual General Meeting may watch and listen to the business of the meeting via a webcast that can be accessed from our website ([www.caltex.com.au](http://www.caltex.com.au)).

### Policy for transactions with Chevron

As noted previously, Chevron holds 50% of the ordinary shares in Caltex. During the course of a year, Caltex companies enter into a number of business and commercial arrangements with Chevron companies.

Caltex benefits greatly from the relationship with Chevron. At the same time, the Board is mindful of ensuring that Chevron is not favoured over other shareholders and that all arrangements with Chevron are at arm's length.

The Caltex Board has adopted a policy for transactions with Chevron. The policy was reviewed by the Board in February 2011. Details of the policy, and other information concerning the relationship with Chevron, are available from our website ([www.caltex.com.au](http://www.caltex.com.au)).

**6.2 Caltex provides the information indicated in the Guide to reporting on Principle 6.**

Caltex complies with Recommendations 6.1 and 6.2.

The following information is available from our website ([www.caltex.com.au](http://www.caltex.com.au)):

- *Caltex Shareholder Communications Policy*
- *Relationship with Chevron*

## 7. RECOGNISE AND MANAGE RISK

At Caltex, recognising and managing risk are critical to our business and operations.

The Board and its standing committees have an important role in overseeing the management of material business risks. The Managing Director & CEO and the Caltex Leadership Team are responsible for the design and implementation of risk management systems and managing our material business risks.

Our risk management practices are aimed at protecting the health and wellbeing of our people, ensuring that we comply with our responsibilities at law and to the community, and protecting shareholder value. We recognise that risk management can also include identifying opportunities that create value for our business and shareholders.

In this section, we discuss our risk management policy and practices, the roles and responsibilities of the Board and management, our internal reporting on material business risks, and the statutory certification to the Board on the financial reports.

### 7.1 Caltex has established policies for the oversight and management of material business risks. We make a summary of our risk management practices available from our website.

Caltex's risk management policy provides details of the proactive and systematic approach that we take to managing risks. The policy identifies the roles and responsibilities of the Board (including Board committees), senior executives and staff across the organisation in the oversight and management of our risks. The Managing Director & CEO is responsible for implementing the policy across the Caltex Australia Group.

We have risk management policies in place in relation to the following key business risks:

- crude, product and freight hedging
- interest rate management
- liquidity risk management
- foreign exchange risk management
- counterparty risk management
- treasury controls
- credit risk management
- occupational health and safety and the environment, and
- trade practices.

Caltex's risk management policy was reviewed by the Board in December 2010.

We recognise that climate change and measures to deal with its impact present risks to Caltex's business and management has undertaken work to assess and determine how we manage these impacts. The Board receives updates from management in relation to Caltex's approach to climate change.

### 7.2 Caltex's board has required management to design and implement a 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 receives reports from management in relation to the effectiveness of Caltex's management of its material business risks.

#### Risk management and internal control systems

Caltex has adopted a risk management framework to proactively and systematically identify, assess and address events that could potentially impact our business objectives. This framework integrates the consideration of risk into our activities so that:

- risks in relation to the efficient and effective delivery of our business strategy are identified
- control measures are evaluated, and
- where potential improvements in controls are identified, improvement plans are scheduled and implemented.

As part of the annual business planning process at Caltex, risks are identified and documented, together with the controls in relation to those risks. Additionally, a consistent project development and implementation process is utilised to manage risks for all of our major initiatives and projects.

The Board and its committees receive regular reports on material business risks, including the status and effectiveness of control measures regarding each of those risks, as part of our standing program for reporting. The material business risks described in the reports are those identified as having a potential material impact on business objectives, including safety of personnel, protection of the environment, business reputation and financial loss. For 2010, risk status reports addressing Caltex's material risks were provided to the Board and to the OHS & Environmental Risk Committee for the 2010 half year (in August) and full year (in February), including statements from management about the extent to which risks were being managed effectively.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The OHS & Environmental Risk Committee is a standing committee of the Caltex Board. The committee seeks to address the appropriateness of Caltex's practices to manage material occupational health, safety and environmental risks, so that these risks are managed in the best interests of Caltex and its stakeholders.

Internal audit reports were provided to the Audit Committee and the OHS & Environmental Risk Committee during the year. The Human Resources Committee received reports on succession planning and risk mitigation strategies in relation to talent management. The Audit Committee receives reports on financial risk areas and related internal controls.

Risks involving progressively lower impacts are reported to the Caltex Leadership Team and departmental leadership teams.

### Internal audit

Caltex has a dedicated internal audit function, which provides an independent and objective assessment to directors and management regarding the adequacy and effectiveness of Caltex's risk management, internal compliance and control systems.

Internal audit performs audits across our business in accordance with internal audit plans approved by the Audit Committee (for financial risk areas) and the OHS & Environmental Risk Committee (for occupational health, safety and environmental risk areas). Internal audit provides regular reports to the Audit Committee, the OHS & Environmental Risk Committee and senior management.

**7.3 Caltex's board has received assurances from the chief executive officer and the chief financial officer that the declaration provided under 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 2011, the Board received a statement in relation to the 2010 full year report and results from the Managing Director & CEO and the Chief Financial Officer covering the matters set out in section 295A of the *Corporations Act* and in accordance with Recommendation 7.3.

The Board received a similar statement from the Managing Director & CEO and the Chief Financial Officer in August 2010 for the 2010 half year results.

**7.4 Caltex provides 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 Board and its standing committees have received reports from management in accordance with Recommendations 7.2 and 7.3.

The *Summary of Risk Oversight & Management Practices* is available from our website ([www.caltex.com.au](http://www.caltex.com.au)).

## 8. REMUNERATE FAIRLY AND RESPONSIBLY

The Board recognises that executive remuneration is a key area of focus for shareholders.

At Caltex, we seek to put in place remuneration arrangements and practices that are appropriate, clear and understandable, are in the best interests of Caltex, and support superior performance and long term growth in shareholder value.

In this section, we discuss the role and responsibilities of the Board's Human Resources Committee, the remuneration of non-executive directors, and our remuneration practices for senior executives, including the Managing Director & CEO.

**8.1 Caltex's board has established a remuneration committee.**

The Human Resources Committee is a standing committee of the Caltex Board. The committee assists the Board in relation to remuneration arrangements and practices at Caltex.

In its advisory role, the Human Resources Committee assists the Board in relation to Caltex's remuneration framework, the performance and remuneration of the Managing Director & CEO, the remuneration of members of the Caltex Leadership Team, and the remuneration disclosures to be made in the annual report to shareholders.

The Human Resources Committee also undertakes functions delegated by the Board, including the approval of Caltex's annual remuneration program and aspects of our incentive schemes.

The Human Resources Committee has a majority of independent directors, which is a requirement of its charter. The Committee members are Mr Greig Gailey (Committee Chairman), Mr Brant Fish and Mr John Thorn. As noted previously, Mr Gailey and Mr Thorn are independent directors. An executive director cannot be appointed as a member of the Committee.

The responsibilities and composition of the Human Resources Committee are set out in its charter. The charter was reviewed by the Board in June and December 2010 and reflects the matters set out in the commentary and guidance for Recommendation 8.1.

The Human Resources Committee held five meetings in 2010. The number of meetings attended by each committee member is shown at page 45 of this 2010 Annual Report. Members of management, including the Managing Director & CEO, are not present during discussions or decisions in relation to their own remuneration.

## 8.2 Caltex clearly distinguishes 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. Board and committee fee rates are reviewed by the Human Resources Committee and approved by the Board (subject to the remuneration pool) for each coming year. Remuneration does not include any performance-based components and non-executive directors do not participate in any incentive plans or bonus schemes. Our non-executive directors receive statutory superannuation (and may salary sacrifice fees to superannuation). We do not have a retirement benefits scheme for non-executive directors.

Shareholders approved a maximum annual Board remuneration pool of \$2 million, including statutory entitlements, at the Annual General Meeting on 22 April 2010, with effect from 1 May 2010. The maximum Board remuneration pool was previously set at \$1.6 million, including statutory entitlements (as approved by shareholders in 2008).

For further information about Caltex's remuneration practices for non-executive directors, including fee rates, please refer to the remuneration report at pages 27 to 44 of this 2010 Annual Report.

### Managing Director & CEO

Mr Julian Segal joined Caltex on 1 June 2009 and was appointed as Managing Director & CEO with effect from 1 July 2009.

Mr Segal's remuneration has the following components:

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

For information about Caltex's remuneration arrangements for Mr Segal, please refer to the remuneration report at pages 27 to 44 of this 2010 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.

Mr Andy Walz (General Manager – Marketing) is seconded to Caltex from Chevron. Caltex does not pay a salary to Mr Walz, but pays a secondment fee to Chevron for his services.

For information about Caltex's remuneration arrangements for members of the Caltex Leadership Team, please refer to the remuneration report at pages 27 to 44 of this 2010 Annual Report.

### Hedging of securities under Caltex share plans by senior executives

As noted previously in relation to Recommendation 3.2, Caltex's share trading policy prohibits senior executives from hedging an exposure to unvested or vested Caltex securities held through any of our executive incentive plans.

## 8.3 Caltex provides 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 our website ([www.caltex.com.au](http://www.caltex.com.au)):

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

### CHANGES TO CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS FOR 2011

Caltex has taken steps to make an early transition to the 2010 amendments to the *Corporate Governance Principles and Recommendations*, in relation to diversity, which take effect for our disclosures in relation to 2011.

Caltex is committed to achieving diversity across all levels of our organisation. We believe that a diverse workplace maximises opportunities to achieve our business goals by attracting, retaining and developing the best talent, seizing opportunities for creative problem solving and growing our business through an informed understanding of the diverse markets in which we operate.

In this section, we discuss our progress towards implementing the corporate governance amendments in relation to diversity.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

**3.2 Caltex has a diversity policy in place. We make the policy available from our website. The policy includes requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and our progress in achieving them.**

Caltex has developed a policy on diversity which sets out the overall aims of our diversity strategies and the responsibilities of the Board, its committees and individuals across the company in relation to diversity. Caltex is committed to growing leadership capabilities that result in more consistent and active sponsorship and stewardship of gender diversity.

The Board is responsible for approving measurable gender objectives set in accordance with the diversity policy and, with the assistance of the Human Resources Committee, for annually assessing those objectives and the progress against them, and monitoring the proportion of women across the group.

The Board approved the diversity policy in December 2010. The Board will receive a report from the General Manager – Human Resources in relation to Caltex's performance under the policy each year. The diversity policy reflects the matters set out in the commentary and guidance for Recommendation 3.2.

The diversity policy is available from our website ([www.caltex.com.au](http://www.caltex.com.au)).

**3.3 The Caltex board has set measurable objectives for achieving gender diversity in accordance with the diversity policy and will be monitoring progress towards achieving them.**

In conjunction with the development of Caltex's diversity policy, a set of measurable objectives to achieve gender diversity has been approved by the Board. The Human Resources Committee, in its advisory role, reviewed the objectives proposed by management and the Board approved Caltex's gender diversity objectives in December 2010.

The following objectives have been set by the Board for 2011:

- Caltex will establish a Diversity Council, chaired by the Managing Director & CEO, to meet quarterly to proactively monitor gender diversity initiatives and outcomes.
- Caltex will provide high potential women senior managers with developmental experiences to prepare them for promotion to critical leadership roles.
- Caltex will ensure that 90% of women senior managers (grades 58 and above) have completed a women's career success program, including a coaching component.
- Caltex will ensure that 90% of women middle managers (grades 56 and 57) have completed women's career success programs.
- Caltex will introduce networking programs targeted at women managers.
- Caltex will increase sponsorship and connection to external women's networks, including sponsorship of a significant national event.

Progress towards achieving our gender diversity objectives will be reviewed by the Board during 2011 and disclosed in the Corporate Governance Statement included in Caltex's 2011 Annual Report.

**3.4 Caltex has, in this statement, set out the proportion of women employees across the whole organisation, women in senior executive positions and women on the board.**

The following information is provided about the proportion of women across the Caltex Australia Group at 31 December 2010:

- **Board**  
One of the eight directors (12.5%): Ms Elizabeth Bryan, who is the Chairman of the Caltex Board.  
In addition, Ms Colleen Jones-Cervantes serves as an alternate director.
- **Senior executives**  
One member of the Caltex Leadership Team (11%): Ms Helen Conway, who is the General Manager – Office of the CEO, General Counsel and Company Secretary.
- **Senior managers**  
Women comprise 18% of Caltex's senior managers (salary grades 58 and above, not including members of the Caltex Leadership Team).
- **Middle managers**  
Women comprise 17% of Caltex's middle managers (salary grades 56 and 57).
- **Across the Caltex group**  
Women comprise 31% of all Caltex employees.