



**CALTEX AUSTRALIA LIMITED**  
**ACN 004 201 307**

**BOARD APPROVED – 22 FEBRUARY 2012**

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**SUMMARY OF RISK OVERSIGHT & MANAGEMENT PRACTICES**

**INTRODUCTION**

1. This document summarises the practices of Caltex Australia Limited (CAL) and the Caltex Australia Group (Caltex) for risk oversight and the management of material business risks.
2. The oversight and management of material business risks plays an important part in ensuring that Caltex protects the health and wellbeing of its people, understands and complies with its obligations to the community, and continues to protect shareholder value.

**CULTURE OF RISK MANAGEMENT**

3. The CAL Board's role in relation to risk management includes:
  - 3.1 representing and protecting shareholder and stakeholder interests by understanding the material business risks facing Caltex and the strategies in place to manage them
  - 3.2 overseeing the status of material business risks facing the company and the adequacy and effectiveness of key controls in relation to those risks
  - 3.3 approving the delegations of authority in relation to Caltex's day to day operations
  - 3.4 reviewing risk management systems, internal controls, reporting systems and compliance processes and monitoring whether these systems, controls and processes are operating effectively
  - 3.5 periodically reviewing the Caltex Risk Management Policy and other specific risk management policies, and management's compliance with these policies
4. To assist the Board with these responsibilities, the Board operates (as standing committees) an Audit Committee, a Human Resources Committee and an OHS & Environmental Risk Committee.
5. To drive risk management across the whole of Caltex, the Caltex Leadership Team is responsible for approving (where applicable) compliance and risk policies, strategies and systems and overseeing their implementation. The Caltex Leadership Team comprises the Managing Director & CEO and direct reports.
6. Management at Caltex is responsible for cultivating an appropriate risk management culture within their teams.
7. All Caltex employees are required to comply with all risk management policies.



## **RISK MANAGEMENT FRAMEWORK**

8. Caltex has adopted a risk management framework to proactively and systematically identify, assess and address events that could potentially impact business objectives. This framework integrates the consideration of risk into activities so that the risks in relation to the efficient and effective delivery of Caltex's business strategy are identified, control measures are evaluated and, where potential improvements in controls are identified, improvement plans are scheduled and implemented.
9. Under Caltex's risk management policy, which supports the risk management framework, each department must identify and document key risks as part of the annual business planning process. In addition, a consistent project development and execution process is used to manage risks for Caltex's major initiatives and projects.
10. 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.
11. Regular reports are provided (as appropriate) to the Board, the Audit Committee, the Human Resources Committee, the OHS & Environmental Risk Committee, the Caltex Leadership Team and departmental leadership teams on key business risks, including the status and effectiveness of specific control measures in relation to each of those risks. The risk status reports to the Board and the OHS & Environmental Risk Committee include statements from management about the extent to which risks are being managed effectively.
12. Risks involving progressively lower impacts are reported to the Caltex Leadership Team and departmental leadership teams.

## **OVERSIGHT AND MANAGEMENT OF SPECIFIC MATERIAL BUSINESS RISKS**

### **Delegations of authority and Board charter**

13. The Board has approved delegations of authority to the Managing Director & CEO in relation to the management of Caltex's day to day business and operations. Any matters or transactions outside the delegations of authority must be referred to the CAL Board (and other Caltex company boards if applicable) for approval.
14. The Managing Director & CEO has approved delegations of authority (subject to limits imposed by the Board) that apply across the Caltex business.
15. The functions and responsibilities of the Board are also set out in a charter, which identifies clear responsibilities and accountabilities of the Board and management. A number of key matters are specifically reserved for the Board in the charter. The charter is available from the Caltex website ([www.caltex.com.au](http://www.caltex.com.au)).

### **Financial controls and reporting**

16. The Audit Committee addresses the appropriateness of Caltex's accounting policies, financial risk management practices and the integrity of financial reporting so that financial reports present a true and fair view of Caltex's financial performance and position. The responsibilities of the committee are set out in its charter, which is available from the Caltex website ([www.caltex.com.au](http://www.caltex.com.au)).
17. The full year financial report is audited by an external auditor; the half year financial report is reviewed by the external auditor.



18. Financial statement control questionnaires are completed by all relevant management and members of the Caltex Leadership Team. The questionnaires support the certifications made to the Board by the Managing Director & CEO and Chief Financial Officer in relation to the half year and full year financial reports.
19. An internal audit function performs audits across Caltex's business in relation to financial risk areas in accordance with an internal audit plan approved each year by the Audit Committee. Regular reports are provided to the Audit Committee on the results of financial audits undertaken during the year.
20. The Board has approved policies in relation to the following key financial exposures:
  - 20.1 As a result of the need to roll over or reprice its borrowings on a short term basis, Caltex is exposed to changes in interest rates and the interest rate risk management policy aims to minimise the level and the volatility of Caltex's average cost of funds in the medium term.
  - 20.2 The counterparty risk management policy defines the maximum counterparty risk that Caltex is prepared to accept for each financial institution that it deals with and sets out a mechanism for measuring and monitoring the actual exposures.
  - 20.3 The liquidity risk management policy stipulates the level of available funding Caltex wishes to maintain in order to meet its liquidity requirements.
  - 20.4 The treasury controls policy aims to minimise Caltex's operational risk in its treasury operations by setting out the minimum requirements in terms of controls and procedures for conducting Caltex's treasury activities.
  - 20.5 The foreign exchange risk management policy stipulates the manner in which cash flows and earnings should be protected from movements in exchange rates after taking into consideration Caltex's assessment of its underlying exposures.
  - 20.6 The credit risk policy sets out the credit risk assessment process, including the security requirements, for Caltex customers so as to achieve an appropriate balance between the amount of credit risk being assumed and the profitability of the business being obtained.
  - 20.7 The crude, product and freight hedging policy identifies those oil price risks which may be hedged, or responded to with a physical transaction the financial limits on these activities and the governance to apply, including regular reporting to the Board.
21. The Board reviews these policies regularly to ensure that they remain current and appropriate.
22. Annually, the Board reviews and approves Caltex's insurance program which mitigates the financial impacts of insurable events.

### **Environmental and occupational health and safety**

23. The OHS & Environmental Risk 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. The responsibilities of the OHS & Environmental Risk Committee are set out in its charter, which is available from the Caltex website ([www.caltex.com.au](http://www.caltex.com.au)).
24. Refining, Supply & Distribution and Marketing report regularly to the OHS & Environmental Risk Committee on the status of OHS and environmental risk management and compliance in their areas.



25. Caltex's environment policy, which is approved by the OHS & Environmental Risk Committee, requires Caltex to operate in such a way as to minimise adverse impacts on the environment and the communities in which Caltex operates.
26. Caltex's health and safety policy, which is approved by the OHS & Environmental Risk Committee, requires Caltex to provide a safe and healthy workplace for all its employees and contractors and operate in a way that will not adversely affect the health and safety of Caltex's neighbours, customers or the public.
27. An internal audit function performs audits across Caltex's business in relation to occupational health, safety and environmental risk areas in accordance with internal audit plans approved each year by the OHS & Environmental Risk Committee. Regular reports are provided to the OHS & Environmental Risk Committee on the results of audits undertaken during the year.
28. On a monthly basis, the Caltex Leadership Team discusses, on a rotational basis, one specific significant OHS or environmental risk, its control effectiveness and control improvement initiatives in detail.

### **Human resources**

29. The Human Resources Committee seeks 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. The responsibilities of the Human Resources Committee are set out in its charter, which is available from the Caltex website ([www.caltex.com.au](http://www.caltex.com.au)).
30. During the year, the Human Resources Committee reviews forecast and final outcomes for incentive plans, reviews and approves remuneration budgets and reviews senior executive remuneration. The Committee also reviews succession planning documentation for senior roles and discusses risk mitigation strategies in relation to talent shortfalls with management. The Committee also reviews proposed changes to key remuneration systems and reviews and approves senior executive employment contracts. The Board receives annually a report on the *Caltex Code of Conduct* (including details of breaches if any).

### **Competition and consumer law**

31. Caltex has a rigorous competition and consumer law compliance program. A key element of the program is Caltex's competition and consumer compliance policy.
32. The competition and consumer compliance policy must be complied with by all Caltex employees as a condition of employment. The policy requires all Caltex employees to comply with the *Competition and Consumer Act* and not engage in any conduct or activity that is compromising from a competition and consumer law point of view.
33. A further key element of the program is the provision of online and face to face education for relevant employees.

### **Climate change**

34. Caltex recognises that climate change and measures to deal with the impact of climate change presents risks to Caltex's business.
35. Caltex has undertaken considerable work to assess and determine how it may manage these impacts. The Board receives updates from management in relation to Caltex's approach to climate change.