



CALTEX AUSTRALIA LIMITED
ACN 004 201 307

ANNUAL GENERAL MEETING – 27 APRIL 2005

CHAIRMAN'S ADDRESS

INCIDENT FREE OPERATIONS TOPIC

[SLIDE – WOOD SCALE MODEL]

One of Caltex's key strategic intents, listed in the charter that appears on the back cover of our Annual Report, is to achieve operational excellence and this includes safe operations.

For our incident free operations topic today I would like to give an example of the special effort and attention given to safety and operational excellence at Caltex's Lytton refinery in Brisbane.

This structure, which somewhat resembles the legendary Trojan horse of Greek mythology, is a seven-metre high timber model of the cyclones that sit inside one of the major gasoline producing units in the refinery. The cyclones, which separate catalyst from fuel gas, are currently being refurbished as part of the full-scale maintenance shutdown at Lytton.

Because this repair is very novel, very complicated and on the shutdown's critical path, a few months ahead of the shutdown the team at Lytton refinery had this life-sized wooden structure built along with a smaller steel model.

The models enabled them to practise and perfect their safety procedures and repair methods to the highest possible standard. Among other things, they created the best practice arrangement for the scaffolding, and the Queensland Fire and Rescue Service, responsible for all rescues at the refinery, held a number of training exercises working out the best ways to deal with the very small entrances and awkward angles if they had to evacuate people.

[SLIDE – PEOPLE WORKING ON CYCLONES]

They were also able to develop and test some improved technical methods for the job, saving time and money.

This level of attention to detail is critical in a refinery environment where such massive amounts of energy are processed and stored. There is no operation that demands a higher standard of care, safety awareness and preparation, and at no time is this more important than during maintenance shutdowns.

The model structures at Lytton are an example of how our Refining teams put more in. They follow the Caltex tenets of operational excellence – do it safely or not at all, there is always time to do it right and when in doubt, find out.



CHAIRMAN'S ADDRESS

[SLIDE – PHOTO OF CHAIRMAN & MANAGING DIRECTOR AND CEO]

Caltex had an excellent year in 2004 – and I am pleased to report that Caltex shareholders did too. Our share price closed yesterday at \$14.46 – compared with \$8.10 at the time of the last AGM. Caltex was one of the best performing shares on the Australian Stock Exchange in 2004, the second year in a row, and gained inclusion in Standard & Poor's ASX 100 Index.

[SLIDE – POSITIVE PROFIT TREND CONTINUED]

The company recorded a record profit in 2004. The full year profit after tax on a replacement cost basis in 2004 was \$353 million, 77% higher than the previous year. This result, which excludes the impact of international oil price movements, reflects higher refiner margins and production. Caltex also benefited from record transport fuels sales volumes, increased lubricants sales volumes and stable marketing margins.

If we include the external factor of oil-price driven inventory gains, profit after tax for the year ended 31 December 2004 on an historical cost basis (excluding significant items) was \$458.8 million, up from \$208.8 million in 2003.

[SLIDE – INTEGRATED TRANSPORT FUELS MARGIN]

The slide behind me shows the integrated transport fuel margin realised by Caltex in Australian cents per litre. 2004 saw a further improvement in the integrated margin to 7.8 cents per litre from 6.9 cents per litre in 2003.

The integrated margin increase was primarily driven by higher Singapore refiner margins. Marketing margins were consistent with 2003.

The higher average Australian dollar during 2004 compared to 2003 has compressed the US dollar denominated refiner margin. If we used the average 2003 exchange rate, EBIT would have been higher by approximately \$70 million.

[SLIDE – DEBT NOW WITHIN TARGET RANGE]

The company strengthened its financial position by reducing net debt by a further \$177 million down to \$447 million at 31 December 2004. This is now within our desired target range of \$400 to \$500 million and the company's gearing is now approximately 21% down from 34% at the end of 2003.

With this reduction in debt the company significantly strengthened its balance sheet, which will allow the company to take advantage of the ever-changing market dynamics and position itself competitively for future growth.

[SLIDE – CALTEX DELIVERS 77% EPS GROWTH]

There was also a significant increase in earnings per share.

As you can see in the chart behind me, the company has come a long way over the last 3 years. Later on Dave Reeves, Caltex's Managing Director will set out some of the key strategies the company will undertake that will underpin our future financial performance.



[SLIDE – CALTEX DECLARED DIVIDEND WAS UP 117% ON 2003]

Above all, the results enabled us to pay higher dividends. In 2004 we declared total dividends of 39 cents per share – more than double the previous year.

In 2004 we paid an interim dividend of 14 cents per share and declared a final dividend of 25 cents per share which was paid on 1 April 2005.

We are proud of the outstanding returns delivered to Caltex shareholders in 2004.

[SLIDE – SHARE PRICE GAINS]

Our excellent result, lower debt and improved outlook have been recognised by the market.

Shareholders were rewarded by a share price that added a further \$6.24 during 2004. That represents a very healthy 135% share price increase for shareholders in 2004. If you add dividends paid and received by shareholders during 2004 to this share price escalation, then shareholders enjoyed Total Shareholder Returns of 141% in 2004. Even taking account of the recent share market softening, based on yesterday's closing price, shareholders have enjoyed over 30% share price growth so far this year.

This story has been remarkable, and Caltex has now outperformed the Australian Stock Exchange average by a very large margin over the last 3 years. To put this share price increase in perspective, in the 3 years to the end of 2004 the Caltex share price increased a massive 659%. In the same period, the All Ordinaries index only managed an increase of 21%. Clearly the changing international, Asian and Australian industry dynamics has provided us with a more positive environment to operate in.

This performance also reflects our proactive approach to investor relations. Two years ago Caltex had limited coverage from sell side broker analysts. Caltex now has over 12 analysts that offer formal coverage on Caltex and is better understood by investors.

Other highlights from 2004 that enabled our share price to flourish were:

- the lifting of our credit rating to BBB+ stable
- setting in place a clear dividend policy, and
- inclusion in the Standard & Poor's ASX index, meaning that Caltex has attracted the attention of some of the world's major investors.

It has been a very positive environment to focus on Caltex's future. We have made decisions in both refining and marketing that will shape our success and strengthen our market position in the coming years.

We have a strong commitment to shareholders to secure the future of Caltex and grow its value. Our current success is proof of the commitment of Caltex's employees, franchisees and resellers to achieving our vision of being the Australian oil marketing and refining company most admired for its people, partnership and performance.



KEY SHAREHOLDER ISSUES

[SLIDE – KEY SHAREHOLDER ISSUES]

In seeking to address some key issues that have been raised by shareholders before the AGM, I will respond on the following subjects:

- Caltex branding
- the role of marketing in Caltex, and
- Caltex's likely future direction on dividends

A full list of the issues raised by shareholders prior to the meeting, and Caltex's response, is available from the Shareholder Information table.

[SLIDE – BRAND POSITIONING : UPDATE & FOCUS]

One area of particular effort in 2005 will be the focus on our brands. A new brand essence was established in 2004 - *Great performance from people you like*. This essence is supported by our new advertising tagline that you may have already seen - *we put more in*. This is consistent with the vision, values and strategic intents of Caltex. It is demonstrated by Caltex's association with the Starlight Children's Foundation, our support of driver safety and our quality products and services.

Since the merger in 1995 with Ampol, we have been slow to consolidate around a coherent brand strategy through our retail channel. We have made the decision to singularly focus on our Caltex brand, including our jointly branded sites with Woolworths. To increase brand strength in the market, we have fast tracked conversions to the new Caltex image throughout the company's service stations. The aim is to complete the conversions in metropolitan areas and major routes by the end of 2006, and in rural and remote areas by the end of 2009.

Supporting the umbrella Caltex brand will be Vortex fuels, including our new Vortex 98 high octane petrol, as well as the Star Mart store offering.

[SLIDE – MARKETING : WE PUT MORE IN]

Recent investment community focus has been on the favourable shift in the Asian markets that have lifted refiner margins. I wanted to emphasise that although the refining outlook has much improved, you should not overlook the achievements of our Marketing business.

In 2004 Marketing delivered approximately 50% of the company's EBIT.

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



In 2004 Marketing completed an extensive review of its operations to produce strategies to extend its market leadership, strengthen its core business and ensure that it is positioned for long-term growth.

Marketing fulfils key roles in our strategy:

- to serve customers with excellence where we make a solid return
- to provide our refineries with rateable demand to allow stable operations and higher levels of production
- to provide a diversified and stable earnings stream that is not buffeted by the international energy markets
- to manage the company's infrastructure across Australia, and
- to underpin our reputation and brand with excellence in execution

[SLIDE – CALTEX LIKELY FUTURE DIRECTION ON DIVIDENDS]

Dave set out the company's desire to lift our overall refinery production over the next few years by investing in our refinery operations. We currently envisage that the short payback horizons on these projects will have no negative impact on our stated dividend policy.

I want to now take this time to go over the main points of our dividend policy. Please note the full version of our stated dividend policy can be viewed on www.caltex.com.au

The company intends to pay ordinary dividends of 20% to 30% of the Replacement Cost Profit After Tax (excluding significant items) in 2004 and 2005 while the company meets the high capital commitments of its Clean Fuels Project. Our dividend payout for 2004 has been at the upper limit of that range.

After 2005, Caltex intends to increase the pay-out ratio to a range of 40% to 60% of Replacement Cost Profit After Tax, also excluding any significant items.

If there is surplus cashflow above the target pay-out 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 cashflow requirements and financial conditions at that time.