



CALTEX AUSTRALIA LIMITED
ACN 004 201 307

ANNUAL GENERAL MEETING – 27 APRIL 2005

SHAREHOLDER ISSUES & RESPONSES

KEY SHAREHOLDER ISSUES

Issue: *Caltex Branding*

Response:

From the Chairman's speech to shareholders at the AGM

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.

Issue: *The Role of Marketing*

Response:

From the Chairman's speech to shareholders at the AGM

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

Issue: *Likely Future Direction on Dividend*

Response: **From the Chairman's speech to shareholders at the AGM**

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.

OTHER SHAREHOLDER ISSUES

Issue: *Non Executive Director Remuneration Pool*

Response: Shareholders are being asked to approve an increase in the non executive director remuneration pool. If approved, the remuneration pool will be \$1,150,000, inclusive of statutory entitlements, with effect from 1 January 2006. Under superannuation legislation, directors resident in Australia are entitled to superannuation guarantee contributions of 9% of their director fees (including any committee fees). Superannuation contributions paid are currently in the order of \$45,450 per annum.

An increase in the non executive director remuneration pool does not necessarily mean that fees paid to directors will increase next year and in particular, no increases in directors' fees for 2006 or subsequent years have at this time been considered.

It is the Board's policy to review directors' fees in December of each year. The review of directors' fees takes into account external data on fee levels, the time commitment of directors, the size and scale of Caltex's operations, market capitalisation of Caltex, and other relevant factors. The review is undertaken



to ensure that non executive director fees are set at market rates for comparable companies for the time commitment required and the responsibilities involved. This will ensure that Caltex can attract and retain the highest quality non executive directors.

The increase in the Board remuneration pool is being sought this year because at current fee rates the aggregate of non executive directors' fees is close to the maximum of the existing remuneration pool. Also, additional capacity in the Board remuneration pool is necessary to enable effective and appropriate succession planning for the Board, in line with good corporate governance. This may require a director being appointed, and inducted, prior to the departure of another director.

Issue: *Refining Production*

Response: The refineries in 2004 launched an intensive improvement program to lift utilisation and production, capturing the benefits of strong refiner margins at a time when Australian domestic demand exceeds production. Improved refining reliability resulted in record production volumes of 11.8 billion litres of all products (2003: 11.1 billion litres) and average utilisation of 74.4% (2003: 71.4%).

A review of our crude to supply planning systems and refinery configuration has shown that we should increase diesel production after the introduction of cleaner fuels, upgrade lower value product to higher octane petrol, debottleneck refinery operations to remove production constraints and invest in tools and people to lift our supply chain capability. These initiatives will enable Caltex to lift production of high value transport fuels in excess of 13 billion litres per annum.

Issue: *Alternative Fuels*

Response: Caltex has been conducting a marketing trial of E10 Unleaded, a petrol blend containing 10 per cent ethanol, for several years in North Queensland.

E10 Unleaded is made using ethanol supplied by CSR produced from Queensland-grown sugar cane.

The trial offers Caltex E10 Unleaded at Caltex and Ampol branded sites in Cairns, Mareeba, Townsville and Ingham to assess consumer acceptance of the 10 per cent ethanol blend. Customers at the trial sites have a choice between E10 Unleaded and regular or premium unleaded petrol without ethanol.

The trial was extended from an initial one year period because measures to increase consumer confidence in ethanol/petrol blends had only been implemented recently at that time.

We are looking to even more consumers to get behind the trials. Vehicle makers have published a list showing most new vehicles and many older vehicles can run satisfactorily on a 10 percent ethanol blend. For most consumers, there is every reason to give E10 Unleaded a go.



Caltex recognises the Commonwealth Government’s target of 350 megalitres of annual biofuels production, including ethanol and biodiesel, by 2010. We are working with other stakeholders to achieve this objective.

Issue: *Share Buy-Back of Small Shareholdings*

Response: The Board of Caltex has not considered conducting a share buy-back of holdings of 100 shares or less in Caltex Australia Limited shares.

Given the current share price, a holding of 100 shares in Caltex Australia would not satisfy the conditions for a minimum holding buy-back, as specified in the Corporations Act 2001. Accordingly, shareholder approval would be required for a share buy-back of holdings of 100 shares.

The Australian Securities & Investments Commission (ASIC) in December 2004 released a policy proposal paper examining the requirements under the Corporations Act for a share buy-back and whether those requirements should be relaxed in relation to share buy-backs of small holdings. If ASIC does relax those requirements, it may make a share buy-back of small holdings more cost-effective for a company.

Any decision on whether to conduct a buy-back will also have to be consistent with Caltex’s dividend policy. Caltex intends to pay ordinary dividends of 20% to 30% of the Replacement Cost Profit After Tax (excluding significant items) (RCOP) in 2004 and 2005 while the company meets the high capital commitments of its Clean Fuels Project. After 2005, Caltex intends to increase the pay-out ratio to a range of 40% to 60% of RCOP. 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 initiative.

Issue: *Reply Paid Envelope for Proxy Forms*

Response: Caltex will next year investigate with Computershare whether it is possible, and at what cost, to include a reference to Caltex Australia Limited on the reply paid envelope included in the material sent to shareholders in relation to the Annual General Meeting.