CALTEX AUSTRALIA LIMITED
ACN 004 201 307

2007 AGM – MANAGING DIRECTOR & CEO'S ADDRESS

WELCOME & OPENING

[SLIDE – CHAIRMAN & CEO]

Thank you Dick. Dick has explained some of the financial and operating highlights from 2006, which was another strong year for Caltex. I will now take you though some of the operational highlights from 2006, and our plans and strategies for the coming few years.

[SLIDE – MARKETING & REFINING]

2006 was another sound year for Caltex, with significant contributions from both our Marketing and Refining operations. It was however a year with two distinct halves – in the first six months increasing crude oil prices drove petrol pump prices to record highs, creating a difficult marketing environment. In Refining, production was constrained by the completion of our Clean Fuels Project. However, from July as crude prices eased and our refineries operated largely shutdown-free, we achieved some remarkable results.

[SLIDE – INTEGRATED TRANSPORT FUEL MARGIN]

This slide shows our available integrated fuel gross margin, before expenses. In 2006 this margin was 10.9 cents per litre, an increase of 1.6 cents per litre from 2005. As you can see, the growth over the past 3 years has primarily occurred in the refiner margin, with the marketing margin remaining relatively steady.

For both 2005 and 2006, this available margin does not account for the negative impact of the delays in commissioning our Clean Fuels Project. We have estimated that the delays in commissioning reduced Net Profit after tax by around $80 – 100 million in 2006.

[SLIDE – TRANSPORT FUEL VOLUMES]

The rapid expansion in sales volumes that we have achieved over the previous two years has moderated, largely due to the maturing of our Woolworths alliance.

The rate of growth in petrol volume in particular has reduced. However, when the growth of 0.8% is placed in the context of a 1.2% fall in the total market, this is a strong result in a competitive sector. The increase in pump prices on the back of high crude oil prices in the first half was the main contributor to the market decline, with volumes recovering in the second half as prices eased.

In 2006, our diesel sales grew by 3.6%, while jet fuel volumes fell by 3.5% - in both cases this was less than market growth. However as we are able to place all our refinery production in a short Australian market, and incremental sales are sourced from imports, our focus remain on profitable volume growth.

[SLIDE – NON-FUEL INCOME & STORE SALES]

We continue to experience excellent growth in our non-fuel income. Total non-fuel income grew by 16% in 2006 to $147 million. This growth was strongest in our retail channel, driven by increases in convenience store royalties and fee income.

The second chart emphasises the strong convenience retailing performance with a 5.9% increase in shop sales over 2005.

[SLIDE – CALTEX IS AUSTRALIA'S LEADING PETROL & CONVENIENCE STORE RETAILER]

This slide shows our clear leadership in two key metrics in the Australian market. We have strengthened our position as the leading convenience store operator, with our market share increasing from 29.5% to 32.5% over 2006.

The second chart shows the response from our regular market survey to the question "Where did you last purchase your fuel?" As you can see Caltex, with Caltex-Woolworths, continues to be the leading supplier for fuel in the retail market.

[SLIDE – PREMIUM FUEL SALES]

Our premium fuel sales volumes fell by 5.9% compared to 2005. The overall volume in this sector fell by 3.8% across 2006 – the impact of higher pump prices was particularly keenly felt in this segment. As we continued the roll out of our Vortex Fuels along the East Coast in 2006, we maintained a premium price for our product, relative to our competitors. As a consequence, we were more heavily impacted by the higher pump prices.

Through the second half, volumes recovered as prices eased and we increased our penetration of premium fuels into the market. Our marketing team has maintained the rollout of our Vortex fuels through 2007, and we are continuing to fine tune our strategy on premium pricing versus volume to maximise our profitability in this category.

[SLIDE – BIOFUELS]

2006 saw Caltex continue to ramp up our biofuels expansion, meeting our commitments under the Australian Government Biofuels Action Plan. By the end of 2006, biofuels were available at over 250 Caltex sites, including over 130 sites selling ethanol-blended petrol, E10 – this has now grown to 150 E10 sites.

As you can see from the slide, our reach in biofuels is based on the East Coast, centred on the supply points for ethanol or biodiesel. We also believe in maintaining choice for consumers, and so where practical we will continue to offer regular unleaded petrol along side E10.

We remain committed to achieving our future targets under the Biofuels Action Plan, with plans to convert more retail sites in 2007 along the East Coast.

[SLIDE – TRANSPORT FUELS PRODUCTION AND SALES]

The contrast in performance of our refineries in 2006 is clearly evident in this chart. In the first six months, production was constrained by the construction and commissioning of our Clean Fuels plants. From July, both refineries were free of major planned turnarounds and ran at high rates, setting a new record production of transport fuels of 5.6 billion litres for the half.

I discussed the Marketing performance earlier, with total sales of petrol, diesel and jet fuel growing to 13.4 billion litres.

[SLIDE – REFINING UTILISATION]

The record refinery production in the second half resulted from record utilisation of over 85% for the refineries. For periods of time, our total refineries utilisation ran in excess of 90%, with Lytton having completed four consecutive months with over 90% utilisation.

The results of the second half of 2006 illustrate the capability of our refineries to operate at high utilisation rates for significant periods of time. But this result needs to be viewed in light of the minimal shutdown activity that occurred in this period. The challenge that remains for the team is to maintain these high utilization levels, when including the impact of the regular planned maintenance shutdowns. Our goal is to reach this standard following the completion of our Refining Performance Improvement Program, or RPIP.

[SLIDE – CLEAN FUELS PROJECT COMPLETED]

2006 saw fuel specifications in Australia changed to now be amongst the highest standards in Asia. We completed our $500 million Clean Fuels Project in 2006, to enable our refinery production to meet these new higher standards. This project involved the construction of a new benzene reduction plant at each of our two refineries and significant modifications to our two diesel hydrotreating units, to reduce the sulfur levels in diesel. All four plants were successfully commissioned in 2006, and are providing motorists in NSW and Queensland with a reliable supply of high quality fuel.

[SLIDE – REFINING PERFORMANCE IMPROVEMENT PROGRAM]

We continued our progress on our Refining Performance Improvement Program, or RPIP. RPIP is a suite of projects targeted at increasing our refinery production of petrol, diesel and jet fuel. After the first quarter of 2009, we are targeting production of 1 billion liters per month of these transport fuels.

The majority of the costs and benefits flow from the small number of major RPIP projects. In 2006 we completed two projects – the installation of a new bitumen tank at our Kurnell refinery and the upgrade of our Isomerisation plant at Lytton. Two tankage projects at Kurnell – for additional diesel and crude storage – received planning approval in 2006, and are on track for completion in 2008.

The largest project in the program is the Lytton diesel hydrotreater. The benefits from this project flow primarily from increased production of 10 ppm sulfur diesel. This facility will increase Caltex's capacity to produce Australian grade diesel by about 40%. Front end engineering on this project is nearing completion, and orders for long lead items have been placed. The plant is currently scheduled for commissioning in early 2009. Our early cost estimate of $200 million +/- 25% remains appropriate, although we anticipate final costs to be near the upper end of that range.

[SLIDE – GROSS MARGIN CONTRIBUTION]

This slide shows the relative margin contribution from our two major operating groups, and illustrates the balanced contribution to our earnings. In 2006, our Refining operations contributed 55% up from 53% in 2005. This increase reflects the increased production and stronger refiner margins.

Our Refining and Marketing businesses have different profitability drivers – a key difference is the small impact Asian refiner margins have on our Marketing performance. Consequently our Marketing arm reduces Caltex's earnings volatility to variations in refiner margins.

[SLIDE – OPEX]

During 2006, total costs on a cents-per-litre basis increased by 4.5%, although we were able to hold cash cost increases to just 2.3%, again on a cents-per-litre basis. Of the total $52 million increase in operating expense, depreciation and amortisation accounted for $26 million, reflecting the capital investment Caltex has made over the past 2 – 3 years, particularly in our refineries to meet the new clean fuel standards. In addition we have increased our provisions for site remediation by $11.3 million in 2006.

In common with all industries, we are experiencing increasing cost pressures, particularly for labour and materials. Whilst 2007 is likely to see more pressures on costs, our target for the two years to 2008 is to hold average cents-per-litre cost increases to no more than inflation.

[SLIDE – 2007 OUTLOOK]

In 2007, we are building on the significant progress that we have made in 2006. Both our Refining and Marketing groups have well established plans to grow the business.

In Refining we are looking to maintain, and build on, the high utilisation achieved in the second half, through incident-free operation and the delivery of the RPIP projects on time and on budget. In the first quarter of this year we have successfully completed a major planned shutdown at Kurnell, and remain on track to meet our targeted 2007 production of 11 billion litres of transport fuel. Refiner margins have remained robust in 2007, and have strengthened moving towards summer in the northern hemisphere.

Our Marketing team will continue to work on profitably growing volumes, as well as progressing the many initiatives across all facets of our operations. To date in 2007, our marketing volumes have remained good, while we continue to make good progress on improving our convenience store network.

In addition we will continue with the work to build a good long term future for Caltex. The team we formed in mid-2006 to develop our longer term strategy has identified some emerging themes, including crude processing flexibility, product sourcing, refining capability and growing our marketing businesses. We do not yet have any firm outcomes to share, as there is still a considerable amount of analysis to be completed.

[SLIDE – 0 : 1 : 85 : 100]

In the second half of 2006, our people demonstrated their capability, after a tough first six months. In 2007, we plan to build on our performance in the second half of 2006 to continue to grow Caltex and maintain our position as the market leader. There are a number of challenges, but these are being addressed by the strategy and direction we have been following for the past 3 years:

- Zero safety incidents, and incident-free operations

- Number 1 in the hearts and minds of our customers
- 85% Utilisation of our refineries, and
- 100% Engagement of all of our staff

In following this strategy and striving to execute our operations with excellence, we will achieve our vision to be the Australian oil refining and marketing company most admired for its people, partnership and performance.

End of speech: