

Caltex was in the top tier of performers in the Australian share market for the third year in a row

We are pleased that the confidence of Caltex shareholders has been rewarded by another year of record earnings.

In 2005, we had an 18% increase in profit, higher dividends for shareholders and a 78% increase in the share price, which opened the year at \$10.86 and ended at \$19.38, resulting in a total shareholder return of 82%. Caltex was in the top tier of performers in the Australian share market for the third year in a row. It was also a year where Caltex's role in the Australian economy was highlighted as the largest refiner and marketer of petrol, diesel and jet fuel and the country's leading convenience store retailer.

Our higher earnings were the result of global market factors combined with a strong operating performance by Caltex's refining and marketing businesses. Our performance continues to be strengthened as we focus on the fundamentals, including lifting our safety performance, which was our best on record.

Margins for refiners were higher in 2005 because of continued strong demand for fuels in the Asia Pacific region. Improved throughput rates at both Caltex refineries enabled the company to capture the benefits of the higher margins.

The marketing business made a strong contribution to earnings with another successful year of record transport fuel sales, higher margins and gains in consumer preference for the Caltex brand.

The company recorded a full year profit after tax of \$414 million on a replacement cost of sales operating profit (RCOP) basis (excluding significant items) for the year ended 31 December 2005 (2004: \$350 million).

The RCOP result provides a clear picture of the company's underlying business performance as it excludes the impact of international oil price movements. When oil-price driven inventory gains are included, profit after tax for the year ended 31 December 2005 on an historical cost basis (excluding significant items) was \$574 million * (2004: \$457 million).

Dividend

The Board declared a final dividend for 2005 of \$84 million or 31 cents per share making a total year dividend of 46 cents per share fully franked including the interim dividend of 15 cents per share paid in September 2005 (2004 total dividends: 39 cents per share).

This payment reflects the company's stated dividend policy of declaring ordinary dividends of 20% to 30% of the RCOP (after tax excluding significant items) in 2005 while the company met the high capital commitments of the Clean Fuels Project.

From 2006, the company intends to increase the dividend payout ratio to a range of 40% to 60% of the RCOP after tax excluding significant items.

However, the declaration and the amount of any dividends are at the sole discretion of the Board and are dependent on the company's earnings, cash flow requirements, financial conditions at the time and available franking credits.

Higher earnings enable investment in the business

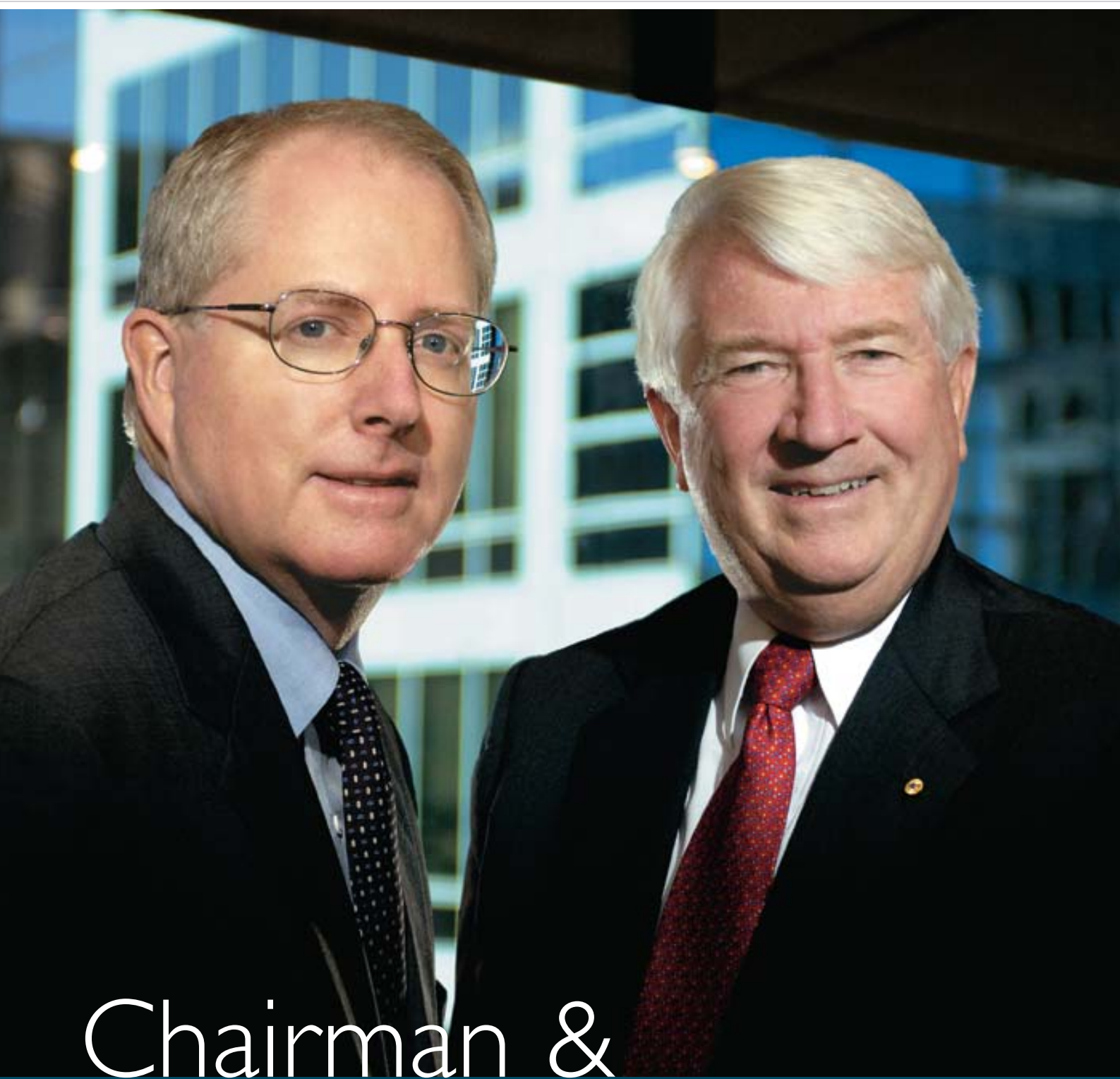
The international fuels market is changing as the gap widens between the expanding demand for transport fuels and global refining capacity. Two years ago, imports

RIGHT Managing Director and Chief Executive Officer Dave Reeves and Chairman Dick Warburton.

* This includes inventory gains of \$160 million (after tax) compared with inventory gains of \$106 million (after tax) in 2004.

Both the RCOP and historical cost profit exclude a one-off after tax gain of \$21 million as a result of tax consolidation legislation passed in 2005. The initial legislation passed in 2004 resulted in a one-off after tax gain of \$114 million in 2004.

2004 comparatives have been adjusted for the transition to Australian equivalents of International Financial Reporting Standards (A-IFRS).



Chairman &

Managing Director's
report



ABOVE Caltex is Australia's leading convenience store retailer with around 30% of national market share. Customer Service Attendant Jonathan Quantick maintains the display at flagship store Caltex Woolworths Neutral Bay in Sydney.

of fuel to Australia began to increase as a result of continued expansion of the economy and the closure of a competitor's refinery.

It is important that Caltex evolves and keeps pace with market changes to enable it to continue to be a reliable, cost-effective supplier meeting the needs of its customers. This is why Caltex is focusing on increasing production of diesel and high octane petrol, strengthening its supply chain and focusing on operational excellence throughout the business.

In 2005, Caltex more than doubled the capital expenditure on its core assets to \$530 million, investing in projects at the refineries and in other areas including terminal loading, storage facilities and the retail network to meet customer and community expectations. This exceeded our 2005 RCOP profit after tax and represented 86% of our operating cash flow.

The most significant investment in 2005 was in the Clean Fuels Project to meet the new fuel quality standards to improve emissions from vehicles. We have built facilities at our refineries in New South Wales and Queensland that will enable them to reduce benzene in petrol and sulfur in diesel in 2006 to standards required by the Australian Government. The refineries are also equipped to produce fuels to the tougher standards

regulated for 2008 and 2009, and will be producing premium petrol in 2006 to the 2008 sulfur standards.

There has been a start-up delay and significant overrun of our original planned investment in the Clean Fuels Project, primarily due to late delivery of materials and equipment and a shortage of skilled labour.

This is disappointing, but the company has a highly competent and dedicated workforce which has worked to overcome these obstacles. The lessons we learned from the review of this project are being applied in our future capital development activities.

Improvement projects paying off

Major improvement initiatives in our refining, supply and marketing operations began to produce significant benefits in 2005. These projects have strong momentum and will continue to contribute to Caltex's growth and profitability in the coming years.

In the refining business, a wide-ranging refining performance improvement program lifted productivity and improved yields at both refineries during the year. This enabled near-record production of 11.6 billion litres to be achieved despite a schedule of significant planned shutdowns for routine maintenance and preparation for clean fuels production.

In our marketing business, we strengthened our leadership in transport fuels sales, with a further 4% increase in sales volumes in a market that grew around 1% nationally.

The marketing business increased growth in sales and margins across all channels, with new strategies producing impressive growth in key markets for lubricants, premium fuels and StarCash. Non-fuel income increased by 11% and a further growth in store sales consolidated Caltex's position as Australia's leading convenience store retailer with around 30% of national market share.

Our venture with Woolworths has supported our growth in transport fuels sales with the jointly branded network of over 470 sites now accounting for almost 50% of our petrol sales volume. The venture is also providing benefits from improved buying arrangements for goods sold in our convenience store network.

Outlook

Refining capacity additions across the Asia Pacific region are expected to lag behind demand growth for transportation fuels. Caltex's investment in cleaner fuels production and refinery upgrades is expected to be supported by a continued tight supply/demand balance helping sustain refiner margins.

Acknowledgments

The Board acknowledges the contribution of Mitch Rubenstein who stepped down from the Board in August after taking up a new position with Chevron Corporation in Houston, USA. We welcome Peter Wissel from Chevron who joined the Board on 23 August 2005.

The Board expresses its sincere appreciation to employees, franchisees, resellers, contractors and suppliers for their contribution to Caltex's achievements in 2005.



RFE (Dick) Warburton AO
CHAIRMAN



Dave Reeves
MANAGING DIRECTOR AND CEO

Lower refinery production and increased imports of 2006-standard products and exports of non-2006-standard products due to the Clean Fuels Project delay will negatively affect earnings in the first half of 2006. This will have a one-off impact on profit.

Caltex's focus on its people, assets, systems and customers is building the long term strength of the company. We are seeing good results from our strategies to increase the productivity of the refineries, lift efficiencies of our supply chain and achieve sustainable growth in expanding markets. Most importantly, the company is also improving safety performance, engaging our workforce, partnering with stakeholders and meeting the needs of customers.

Fuelling Australians' way of life

Caltex is proud to be part of a great industry that is vital to the standard of living of every Australian. Our products keep industry, commerce and motorists on the move and make possible the lifestyle Australians enjoy.

In 2006, we are celebrating our 50th anniversary of refining fuel for Australia and our contribution over the decades to one of the most successful postwar economies in the world. We hope you enjoy sharing the journey with us in this annual report.

Our anniversary celebrations have three themes for Caltex people: honouring the past, celebrating the present and welcoming the future. Caltex employees, franchisees and resellers are stewards of the present and future. The company relies on the talents and effort of everyone in the Caltex family to make us the Australian oil company most admired for its people, partnership and performance.

RIGHT Caltex more than doubled its capital expenditure on core assets in 2005. Refining performance improvement program major projects leader Gary Edgar inspects construction of a new bitumen storage tank at the Kurnell refinery which will increase bitumen storage capacity by 50%.



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