

Corporate

governance report

The Board of Caltex Australia Limited is committed to best practice in corporate governance where these practices are appropriate and add value to Caltex. This report outlines Caltex's corporate governance practices against the recommendations contained in the Australian Stock Exchange (ASX) Corporate Governance Council's Principles of Good Corporate Governance.

Principle 1: Lay solid foundations for management and oversight

The Board has adopted a Charter setting out the functions and responsibilities of the Board in order to facilitate Board and management accountability for Caltex's performance and strategic direction. The Charter is reviewed annually and was last reviewed in October 2005. It is available from our web site (www.caltex.com.au).

The key responsibilities of the Board include:

- setting the overall direction, financial objectives and operational goals for Caltex;
- reviewing and approving the Caltex budget and business plan on an annual basis;
- reviewing and approving Caltex's strategies, as formulated by Caltex management with guidance from the Board, to implement the objectives and goals set by the Board;
- monitoring the performance of Caltex against the financial objectives and operational goals set by the Board and reviewing the implementation of Board approved strategies;

- ensuring that appropriate standards of corporate governance and ethics are in place across Caltex;
- approving Caltex's half year and full year reports to shareholders and the ASX;
- determining the amount, nature and timing of, and franking credits attaching to, half year and full year dividends;
- approving the capital structure and significant finance facility requirements for Caltex;
- overseeing the delegations of authority for management in relation to the day-to-day operations of Caltex;
- ensuring that risk management systems, internal controls, reporting systems and compliance processes are in place and operating efficiently and effectively;
- approving risk management policies in relation to oil hedging, interest rate management, liquidity risk management, foreign exchange risk management, treasury controls and credit risk management;
- ensuring adequate and suitably independent external audit arrangements are in place;
- approving the terms of employment (including remuneration) of the Managing Director & Chief Executive Officer;
- approving the terms of cessation of employment of the Managing Director & Chief Executive Officer;
- ensuring that recruitment, retention, termination, remuneration, performance assessment and succession policies and processes are in place for staff;
- ensuring that appointment, induction and continuing education, remuneration, performance assessment and succession policies and processes are in place for directors of Caltex Australia Limited; and
- reviewing the terms of proposed transactions with Chevron.

The Board Charter also outlines the responsibilities of the Board Chair:

Management of Caltex's day-to-day operations is undertaken by the Managing Director & Chief Executive Officer; subject to specified delegations of authority approved by the Board.

The Board also adopts the practice of formal letters of appointment for all new directors. The letter covers a wide range of matters relating to a director's appointment, including the director's duties to Caltex, the statutory contract between the director and company, and the Board's expectations of the time commitment of the

director. The letter advises that the Board expects non-executive directors to devote the necessary time and attention to assist the Board in carrying out its responsibilities. The letter is accompanied by an information pack on Caltex.

Principle 2: Structure the board to add value

The Board of Caltex Australia Limited comprises seven* directors with a variety of industry and professional backgrounds. As a team, the directors bring independent judgment and scrutiny of Caltex's business and management performance and knowledge of the petroleum business.

A majority of the Board are independent directors. The matters and thresholds considered by the Board in assessing the independence of directors are set out in the Board's Charter of Director Independence. The Charter of Director Independence is reviewed annually and was last reviewed in October 2005. It is available from our web site (www.caltex.com.au).

The definition of independent director adopted by the Board does not depart materially from that recommended by the ASX Corporate Governance Council. Materiality thresholds have been determined by the Board which are reasonable and consider the materiality to both the service provider or supplier/customer (5% of revenues or supplies) and to Caltex (20% of expenses or purchases).

The Board will make an assessment of the independence of each director upon appointment and in February of each year in accordance with the Board's Charter of Director Independence. The Board will also review its assessment of independence when a disclosure of a new interest or conflict has been made.

* Following completion of this report, an eighth director, Trevor Bourne, was appointed effective 2 March 2006.

The Board comprises:

RICHARD (DICK) WARBURTON AO
CHAIRMAN

Date of appointment

29 July 1999 / Chairman from 26 April 2001

Skills, experience and expertise

Dick brings considerable board and corporate governance experience to Caltex and the role of Chairman. Dick serves as Chairman of The Board of Taxation and Tandou Limited, and as a director of Nufarm Limited and Tabcorp Holdings Limited. He was previously the Chairman of David Jones Limited and AurionGold Limited and previously served as a member of the Reserve Bank of Australia board and as a director of Southcorp Limited.

Prior to becoming a professional director, Dick was the Chairman and Chief Executive Officer of DuPont Australia and New Zealand, where he was responsible for DuPont's petrochemical business operations in Australia and New Zealand.

Assessment of independence

The Board has determined that Dick is an independent director:

In assessing Dick's status as an independent director, the Board has noted that Citibank Pty Ltd (of which Dick is a director) is a member of the Citibank Group. Companies in the Citibank Group operate the Caltex Group account for receiving and remitting US dollars and have been parties to a bare boat charter with the Caltex Group. The relationship with the Citibank Group has been in place for many years and transactions are on normal commercial terms. The level of transactions with the Citibank Group is within the thresholds as set out in the Charter of Director Independence.

DAVE REEVES
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Date of appointment

11 August 2003

Skills, experience and expertise

Before joining Caltex, Dave was the President of North America Products at Chevron Corporation (Chevron) with responsibility for refining and product marketing activities, pipeline transportation operations and energy management solutions within North America, and Chevron's global aviation fuels marketing. He has previously held a number

of senior marketing and retail roles with companies in the Chevron Group. Dave is Chair of the Australian Institute of Petroleum Limited and a director of the American Chamber of Commerce in Australia.

Dave has a degree in civil engineering from the University of Washington (USA).

Assessment of independence

As the Managing Director & Chief Executive Officer, Dave is an executive director of the Board and is not an independent director:

ELIZABETH BRYAN
DIRECTOR

Date of appointment

18 July 2002

Skills, experience and expertise

Elizabeth is a professional director and brings management, strategic and financial expertise to Caltex. In her most recent corporate role before joining the Board, Elizabeth served as the Chief Executive Officer of Deutsche Asset Management (Australia). She is currently a director of Ridley Corporation Limited, UniSuper Limited and Australasian Medical Insurance Limited. She is also the President of the NSW Council of the Australian Institute of Company Directors and on the National Board of the Institute of Company Directors.

Elizabeth holds a Bachelor of Arts from The Australian National University and a Master of Economics from the University of Hawaii (USA).

Assessment of independence

The Board has determined that Elizabeth is an independent director:

WILLIAM (BILL) HAUSCHILDT
DIRECTOR

Date of appointment

21 September 2004

Skills, experience and expertise

Bill has recently been appointed to a special assignment until June 2006 consulting on technology selection for major capital projects within Chevron. Bill was previously the Vice President – Refining Operations (Global Refining) with Chevron. In this role, Bill was responsible for the overall financial and operating performance of Chevron's refineries in Salt Lake City (Utah, USA), Honolulu (Hawaii, USA), Burnaby (British Columbia, Canada) and Cape Town (South Africa). He is based in San Ramon, California (USA).

Bill holds a Bachelor of Science (Chemical Engineering) from Ohio State University (USA) and a Master of Science (Chemical Engineering) from Illinois Institute of Technology.

Assessment of independence

Bill is a senior executive of Chevron and, as Chevron holds a 50% interest in Caltex Australia Limited, the Board has determined that Bill is not an independent director.

JOHN THORN
DIRECTOR

Date of appointment

2 June 2004

Skills, experience and expertise

John is a professional director and brings expertise to the Board in the areas of audit and accounting practice and standards, business advisory services and risk management. He is currently a director of Salmat Limited, National Australia Bank Limited and Amcor Limited.

Before embarking on a career as a company director, John was a partner of the accounting firm PricewaterhouseCoopers from 1982 to 2003, where he undertook work for major international and local companies. John served as the Managing Partner of the Assurance and Business Advisory Service practice from 1998 to 2001 and as the National Managing Partner from 2001 to 2003.

John is a Fellow of The Institute of Chartered Accountants in Australia.

Assessment of independence

The Board has determined that John is an independent director.

In assessing John's status as an independent director, the Board has noted that National Australia Bank Limited (of which John is a director) is one of a number of banks to Caltex. The banking relationship with National Australia Bank Limited has been in place for many years and facilities are on normal commercial terms. The level of transactions with National Australia Bank Limited is within the thresholds as set out in the Charter of Director Independence.

KEN WATSON
DIRECTOR

Date of appointment

9 February 1996

Skills, experience and expertise

Ken was appointed a consultant to the law firm Minter Ellison with effect from 1 January 2006. Prior to his appointment as a consultant, Ken had been a partner of Minter Ellison. Ken has over 30 years of commercial law knowledge and experience and advises large and medium size corporates in commercial law matters.

Ken is a member of the Australian Mining & Petroleum Association and the Australia & New Zealand Institute of Insurance and Finance.

Ken holds a Bachelor of Laws from The University of Sydney (Australia) and a Master of Laws from the University of Virginia (USA).

Assessment of independence

The Board has determined that Ken is an independent director.

In assessing Ken's status as an independent director, the Board has noted that Minter Ellison (of which Ken was a partner until 31 December 2005) provided legal advice and services to Caltex during 2005. The level of transactions with Minter Ellison is within the thresholds as set out in the Charter of Director Independence.

PETER WISSEL
DIRECTOR

Date of appointment

23 August 2005

Skills, experience and expertise

Peter is the Regional Finance Officer, Asia Pacific and Africa Pakistan for Chevron's downstream business. In this role, he is responsible for financial and management reporting, credit approval, local cash management, local tax matters and risk management in the 33 countries of Asia, Africa and the Middle East where Chevron conducts refining and marketing operations.

Peter hold a Bachelor of Arts (Economics) from Denison University (USA) and a Master of Business Administration in Finance from New York University Graduate School of Business Administration (USA).

Assessment of independence

Peter is a senior executive of Chevron and, as Chevron holds a 50% interest in Caltex Australia Limited, the Board has determined that Peter is not an independent director.

Brant Fish serves as an alternate director for Bill Hauschildt and Peter Wissel. Brant is the General Manager of Supply and Optimization, Asia Pacific for Chevron, based in Singapore. In this role, he has accountability for overall earnings and optimization across the Asia Pacific downstream supply chain – from refinery crude supply to marketing sales. Brant holds a Bachelor of Science (Mechanical Engineering) from the University of Florida (USA).

In 2005, Leo Lonergan and Mitch Rubinstein also served as directors. Leo resigned as a director on 23 February 2005, and Mitch served as a director from 24 February 2005 to 23 August 2005.

BENEFITS TO CALTEX FROM APPOINTMENT OF CHEVRON EXECUTIVES

Petroleum refining and marketing is a mature global business requiring specialist technical knowledge. The appointment of Chevron executives as non-executive directors allows Caltex to access industry experience that these directors have gained through involvement in the day-to-day operations of one of the world's leading global energy companies.

Bill Hauschildt and Peter Wissel are senior executives of Chevron and bring a great depth of experience and knowledge of the oil and gas industry to Caltex. Bill's expertise in refinery operations, and Peter's background in finance and risk management, bring important knowledge and experience to bear on the Board's consideration of operational and business matters that would not be available from directors without industry involvement and which is not generally available in Australia.

Given the presence of Chevron executives on the Board, the Board has approved a protocol to govern all transactions with Chevron. Caltex also organises an education session, conducted by external legal counsel, for Chevron executives appointed as directors of Caltex Australia Limited. This session outlines their duties as directors under Australian law, including the management of any conflicts that may arise from their being executives of Chevron. Further information on the relationship between Caltex and Chevron is available on our web site (www.caltex.com.au).

MEETINGS OF DIRECTORS IN THE ABSENCE OF MANAGEMENT

Non-executive directors meet quarterly in the absence of management. These meetings are usually held at the commencement of a Board meeting.

In addition, at each Board meeting all directors (including the Managing Director and Chief Executive Officer) meet before other members of management join the meeting.

DISCLOSURE OF INTERESTS AND CONFLICTS

At each Board meeting, directors are required to disclose details of any interests or conflicts that have arisen since the previous Board meeting. Each year, a related party questionnaire is also sent to directors and to former directors who have left office during the previous year. Directors and former directors are asked to provide details of any related party transactions with Caltex during the year.

PERIOD OF OFFICE

A non-executive director is elected for a period of up to three years or until the third Annual General Meeting after the director's election (whichever is longer). As the ASX Listing Rules require Caltex to hold an election of directors each year, directors may be subject to re-election before the expiration of this term.

Any director (other than the Managing Director) who is appointed to the Board as a casual vacancy or as an addition to the Board during a year holds office until the end of the next Annual General Meeting, but is eligible for election by shareholders at that meeting.

INDEPENDENT PROFESSIONAL ADVICE

Directors may obtain independent professional legal advice at Caltex's expense, subject to making a request to, and obtaining the prior authorisation of, the Chairman. Where the Chairman wishes to obtain independent professional advice, the Chairman is required to make a request to, and obtain the prior authorisation of, the Chairman of the Audit Committee.

HUMAN RESOURCES & NOMINATION COMMITTEE – NOMINATION RESPONSIBILITIES

The Board's Human Resources and Nomination Committee is an advisory body to the Board in relation to:

- the composition of the Board and number of directors;
- the identification, development and maintenance of the required and desirable skills, expertise, experience and competencies of directors and the Board;
- succession planning for the Board and Board Committees; and
- the policy for the appointment of non-executive directors.

The Committee has delegated authority from the Board in relation to:

- induction processes for directors; and
- the identification of candidates for appointment as non-executive directors;

The Human Resources and Nomination Committee is comprised of Elizabeth Bryan (Chair), Dick Warburton and Bill Hauschildt. Senior management (including the Managing Director and Chief Executive Officer; Company Secretary and Group Manager – Human Resources) are also in attendance at Committee meetings.

The Human Resources and Nomination Committee met on seven occasions in 2005 and, with the exception of Dick Warburton who was absent for one meeting, all of the members of the Committee attended each of the meetings in 2005.

Minutes of meetings of the Human Resources and Nomination Committee are provided to all Board members and at the next Board meeting the Chair of the Human Resources and Nomination Committee gives a report to the Board.

The Board has adopted a Charter for the Human Resources and Nomination Committee which reflects the matters set out in the commentary and guidance to the ASX Corporate Governance Council's Recommendation 2.4. The Charter is reviewed annually and was last reviewed in August 2005. The Human Resources and Nomination Committee Charter is available from our web site (www.caltex.com.au).

The Committee's responsibilities in relation to remuneration matters are detailed under PRINCIPLE 9: REMUNERATE FAIRLY AND RESPONSIBLY.

SELECTION POLICY AND PROCESS FOR THE APPOINTMENT OF DIRECTORS

The Human Resources and Nomination Committee may, in performing its advisory role, identify the need to appoint an additional non-executive director to complement the skills of the existing directors or for succession planning purposes. Alternatively, there may, from time to time, be a need to fill a casual vacancy on the Board.

To assist in this function, in 2005 the Board adopted director selection criteria and a process for filling vacancies on the Board. The criteria and process are summarised in the Director Appointment Policy and Process available on our web site (www.caltex.com.au).

Principle 3: Promote ethical and responsible decision making

CODE OF CONDUCT FOR DIRECTORS AND SENIOR EXECUTIVES

In December 2005, the Board adopted a Code of Conduct to provide guidance to all Caltex directors and employees as to the standards of ethical behaviour expected in performance of their work for Caltex.

The Code has as its framework the following set of values endorsed by the Board in July 2002:

- We treat all people with fairness, respect and dignity.
- We meet the highest ethical standards and operate in a socially responsible manner.
- We respect and comply with the law.
- We conduct our business in a manner that respects the environment and benefits the communities where we work.
- We are committed to incident-free operations and are passionate about achieving results that exceed expectations.
- We are focused on providing products and services that meet or exceed the needs of our customers.

The Code of Conduct and Caltex's Vision, Values and Strategic Intents are available from our web site (www.caltex.com.au).

SHARE TRADING GUIDELINES

The Board has adopted a policy in relation to dealings in Caltex shares by directors, senior executives and employees. This policy is reviewed by the Board each year and was substantially revised in December 2005.

The revised Caltex Share Trading Policy is designed to:

- set out clear rules for directors, senior executives and other designated officers as to the expectations that Caltex has in relation to dealings in Caltex shares; and
- minimise the potential for insider trading under the law by directors, senior executives and other designated officers.

Under the policy, directors and identified senior executives cannot trade in Caltex shares in the following closed periods before Caltex has released its financial results for the half year and full year:

- 60 days prior to the announcement of Caltex's half year results (which is made in late August); and
- 60 days prior to the announcement of Caltex's full year results (which is made in late February).

A director intending to trade in Caltex shares is required to give prior notice to the Chairman and confirm details of the purchase or sale with the Chairman, with the Chairman to give prior notice and subsequent details to the Chairman of the Audit Committee. Directors must also give details of transactions in Caltex shares to the Company Secretary within three business days and the Company Secretary must advise the ASX within five business days of the transaction.

Senior executives are required to give prior notification to the Managing Director & Chief Executive Officer. For each share trade, the senior executive must subsequently advise the Company Secretary of the number of shares bought or sold and the date of the trade.

The policy also provides that directors and employees of Caltex must not trade at any time if they are in possession of information that would be likely to have a material effect on the price or value of Caltex shares if it was generally available.

The Caltex Share Trading Policy is available from our web site (www.caltex.com.au).

Principle 4: Safeguard integrity in financial reporting

SIGN-OFF BY CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

In August 2005 (for the statutory half year report) and in February 2006 (for the statutory full year report), the Managing Director & Chief Executive Officer and the Chief Financial Officer provided the Board with statements about Caltex's financial reports and compliance with the Corporations Act 2001 (Cth) and accounting standards. The statements reflected the declarations required to be made by directors for the half year and full year and in particular advised the Board that:

- the financial statements give a true and fair view of the financial position of Caltex; and
- the financial statements comply with the accounting standards.

AUDIT COMMITTEE

The Board's Audit Committee is an advisory body to the Board in relation to:

- Caltex's draft external financial reports, including the statutory half year and full year financial reports, and ASX half year and full year reports;
- assurance activities at Caltex Australia;
- external audit activities, the terms of engagement (including fees) for the external audit, the independence of Caltex's external auditor; and the appointment and removal of the external auditor; and
- the role of the Internal Audit function at Caltex and the appointment of the Internal Audit Manager.

The Audit Committee also has delegated authority from the Board in relation to:

- the scope of work for the external audit;
- the provision of non-audit services by the external auditor to Caltex; and
- the annual internal audit plan.

The Audit Committee currently comprises Ken Watson (Chairman), John Thorn and Peter Wissel. During 2005, Leo Lonergan and Mitch Rubinstein also served as members of the Audit Committee. The composition of the Committee is currently in accordance with the ASX Corporate Governance Council's Recommendation 4.3, but for some periods during 2005 the Committee only consisted of two members due to the resignation of directors. The Committee consisted of three members at the time when the full year and half year financial reports were being considered.

The Audit Committee met on four occasions in 2005. All meetings were attended by all persons who were members of the Audit Committee at the time of the meeting. The Audit Committee also held two meetings of a sub-committee, both of which were attended by the members appointed to the sub-committee, Ken Watson and John Thorn.

Representatives of KPMG (Caltex's external auditor), Dick Warburton (in an ex-officio capacity) and senior management (including the Managing Director and Chief Executive Officer, Chief Financial Officer, Company Secretary, Financial Controller and Internal Audit Manager) are also in attendance at Committee meetings.

Minutes of meetings of the Audit Committee are provided to all Board members and at the next Board meeting following an Audit Committee meeting the Chairman of the Audit Committee gives a report to the Board.

The Board has adopted a Charter for the Audit Committee to reflect the matters set out in the commentary and guidance to the ASX Corporate Governance Council's Recommendation 4.4. The Audit Committee reviews its Charter annually and it was last reviewed in August 2005. The Audit Committee Charter is available from our web site (www.caltex.com.au).

EXTERNAL AUDITOR

The Board has approved a policy for the provision of non-audit services by the external auditor. The external auditor is only permitted to provide other (non-audit) services that are not, and are not perceived to be, in conflict with the role of the external auditor. The engagement of the external auditor for non-audit services requires the prior approval of the Chief Executive Officer or the Chief Financial Officer or the Chairman of the Audit Committee (subject to the authority delegated to those persons) or the Audit Committee.

Details of the amounts paid or payable to the external auditor each year in relation to the provision of non-audit services to Caltex are disclosed in the Annual Report. The Audit Committee regularly reviews the non-audit services provided by, and fees paid to, the external auditor; and annually provides a written advice to the Board of Caltex Australia Limited stating that it is satisfied the provision of the non-audit services has not compromised the auditor independence requirements in the Corporations Act 2001 (Cth).

Further information on the process for the appointment and monitoring of the external auditor; the rotation of external audit partners and the independence of the external auditor is set out in the External Auditor Policy available on our web site (www.caltex.com.au).

Principle 5: Make timely and balanced disclosure

CALTEX CONTINUOUS DISCLOSURE POLICY

The Board is committed to ensuring that information that is expected to have a material effect on the price or value of Caltex shares is immediately notified to the ASX for dissemination to the market in accordance with the ASX Listing Rules.

The Board has adopted the Caltex Continuous Disclosure Policy, which sets out the key obligations of the Board and senior management to ensure that Caltex complies with its disclosure obligations under the ASX Listing Rules and the Corporations Act 2001 (Cth). The policy is reviewed annually and was last reviewed in October 2005.

The Caltex Continuous Disclosure Policy recognises that the continuous disclosure regime involves a high degree of judgment to determine when a disclosure is required and the information that must be disclosed. As a general rule, and in accordance with the ASX Listing Rules, Caltex will take a principles-based approach to disclosure to meet the letter and spirit of the continuous disclosure regime in a manner that is consistent with Caltex's Vision, Values and Strategic Intent.

Under the policy, Caltex Disclosure Officers have been appointed to also develop and maintain internal guidelines to ensure compliance by Caltex employees with the Continuous Disclosure Policy. The internal guidelines contain procedures for ensuring Caltex's continuous disclosure obligations are satisfied, such procedures being reviewed annually by the Caltex Disclosure Officers.

The Caltex Continuous Disclosure Policy is available from our web site (www.caltex.com.au).

CALTEX FINANCIAL MARKET DISCLOSURE POLICY

The Board has adopted the Caltex Financial Market Disclosure Policy, which sets out a code of practice for Caltex in relation to dealings with the financial market and other external stakeholders. Caltex seeks to ensure that:

- all investors have equal and timely access to material information;
- announcements are expressed in a clear and objective manner to allow investors to assess the impact of the information when making investment decisions; and
- commentary on the financial results includes information that is needed by an investor to make an informed assessment of Caltex's activities and performance.

The Caltex Financial Market Disclosure Policy is reviewed annually by the Board and was last reviewed in October 2005.

The Caltex Financial Market Disclosure Policy is available from our web site (www.caltex.com.au).

RESULTS ANNOUNCEMENTS

Caltex follows a calendar of regular disclosures to the market:

- in late February, Caltex issues its full year results announcement to the market;
- in late March, Caltex sends its annual report to shareholders;
- in late August, Caltex issues its half year results announcement to the market;
- in late September, Caltex sends its half year report to shareholders; and
- if required under the ASX Listing Rules, Caltex issues profit guidance in accordance with the Caltex Continuous Disclosure Policy.

Principle 6: Respect the rights of shareholders

COMMUNICATIONS STRATEGY

The Board has adopted the Caltex Shareholder Communications Strategy for communications with shareholders and potential investors and to encourage effective participation at shareholder meetings.

Caltex recognises that the Internet is an important communication tool for the dissemination of market information, with the following information made available from our web site (www.caltex.com.au) for access by all interested stakeholders:

- Caltex's annual reports and half year reports;
- full year and half year results announcements (as lodged with the ASX);
- ASX releases (including announcements on profit guidance);
- presentation material provided to investors and / or stockbroking analysts at briefings and sessions;
- notices of meeting and explanatory material for shareholder meetings; and
- corporate information about Caltex (including profiles of all directors).

Shareholders may also request annual and half year reports, a copy of Caltex Australia Limited's Constitution, minutes of shareholders' meetings and other corporate information by writing to the Company Secretary.

The Caltex Shareholder Communications Strategy is available from our web site (www.caltex.com.au).

PRIOR SUBMISSION OF QUESTIONS FOR THE 2006 ANNUAL GENERAL MEETING

Prior to each Annual General Meeting (AGM) of Caltex Australia Limited since 2004, shareholders have been invited to submit questions about, or make comments on, Caltex's performance and management.

Caltex prepares a list of the questions submitted (and responses to these questions), which is available to shareholders attending the AGM and on our web site (www.caltex.com.au).

ATTENDANCE BY EXTERNAL AUDITOR AT THE AGM

Representatives of KPMG, Caltex's external auditor, attend the AGM and are available to answer questions from shareholders about the conduct of KPMG's external audit of Caltex's financial statements for the relevant year and the preparation and content of its audit report. In 2005, shareholders were also invited to submit questions to Caltex's external auditor prior to the meeting.

Principle 7: Recognise and manage risk RISK MANAGEMENT

Caltex has implemented policies in relation to environmental compliance, occupational health and safety, interest rate risk management, foreign exchange risk management, credit risk management and oil hedging to minimise the risks that arise through its activities. Also, the Board has approved practices that are designed to ensure that capital expenditure and revenue commitments above approved levels are brought to the Board for decision and financial exposures are minimised.

During 2005, the Board reviewed its policies in relation to liquidity risk management, oil hedging, interest rate risk management, counterparty risk management, foreign exchange risk management, and treasury controls and procedures. In addition, a report on management of key risks was provided to the Board for the half year and full year. The Board has requested that a risk topic be presented to the Board at each meeting, and in 2005 papers relating to risk were presented at eight meetings.

During 2005, work continued on a project to review risk across Caltex. This project will deliver an enterprise-wide risk management process which will be progressively implemented from the start of the business planning cycle in 2006. The project deliverables include:

- an overall framework document incorporating the Caltex Risk Management Policy, roles and responsibilities and which takes into account the ASX Corporate Governance Council's Recommendation 7.1;
- detailed guidance documents which outline expectations around risk management; and
- risk reporting templates for management and the Board.

INTERNAL CONTROLS

The Caltex Internal Audit function operates under a Charter approved by the Audit Committee that sets out the purpose, authority and responsibility of the function. The objective of the Caltex Internal Audit function is to

provide independent and objective assurance to the Board and management regarding the effectiveness of Caltex's risk management and internal compliance and control systems.

In response to evolving corporate governance and assurance needs, Caltex Internal Audit is currently undertaking a strategic transformation to better align the direction and purpose, capabilities and equipment and tools of the function with the needs of the Board and management. This strategic transformation is currently in the implementation phase and will be completed by 30 June 2006. Resource increases have also been approved as part of the strategic transformation.

An internal audit plan, which is approved by the Audit Committee, is prepared each year to outline a program of internal audits to be conducted for the year. The results of internal audits are reported to senior management and to the Audit Committee on a regular basis. In addition, processes have been put in place to ensure that appropriate follow-up actions are taken in relation to significant audit findings and identified areas of risk.

SIGN-OFF BY CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

In August 2005 (for the statutory half year report) and in February 2006 (for the statutory full year report), the Managing Director & Chief Executive Officer and the Chief Financial Officer advised the Board that:

- Caltex's financial reporting was founded on a sound system of risk management and internal compliance and control that implemented in material respects the policies adopted by the Board; and
- Caltex's risk management and internal compliance and control system to the extent it relates to financial reporting was operating efficiently and effectively in all material respects.

Principle 8: Encourage enhanced performance

PERFORMANCE EVALUATION

Board

Directors and key executives participate in a review of Board performance every two to three years which is facilitated by an external consultant. As part of the process, one-on-one structured interviews are conducted by the external consultant with each director covering a broad range of areas of Board effectiveness and focus. This discussion includes a consideration of the effectiveness and structure of Board Committees. Interviews are also held with those senior executives who interact most frequently with the Board.

The external consultant prepares a report that is discussed by the Board. The actions agreed by the Board in response to the recommendations made in the consultant's report are documented and the completion of these items is monitored by the Board.

A review was last completed in March 2005, with the Board's response to recommendations made in the consultant's report adopted over the course of 2005.

The Caltex Performance Evaluation Process is available from our web site (www.caltex.com.au).

Key executives

The Board is committed to effective performance management of key Caltex executives and staff. By setting clear goals, defining accountabilities and authorities, and providing objective feedback, all members of the organisation are able to focus on achieving personal, team and organisational objectives that underpin business performance. Caltex's Performance Management Process (PMP) is applied consistently across the organisation and creates tight links between performance management, business planning, personal development and reward.

As the initial step in the PMP, the key executives agree quantifiable objectives with the Managing Director & Chief Executive Officer at the beginning of each year. The objectives of the key executives are based on Caltex's annual business plan and Caltex's Vision, Values and Strategic Intent. These objectives are documented in the key executive's performance agreement. Where applicable, a balanced scorecard that shows the performance targets, success measures and weightings for each individual, is also agreed. The performance agreement, balanced scorecard

and senior leadership behavioural expectations all form part of the executive's performance objectives for the year.

As the sponsors of the PMP, the key executives are then accountable for ensuring performance agreements throughout Caltex are consistent with Caltex's annual business plan and organisational values. This is achieved by cascading the objectives of the key executives through to the performance agreements of their staff.

All staff, including key executives, receive regular feedback on progress against these targets and the key executives must have formal documented mid year performance reviews with the Managing Director & Chief Executive Officer. At the end of each year, performance is assessed against the agreed objectives and scorecard targets. The performance outcomes and the behaviours demonstrated in achieving those outcomes are used to determine an annual performance rating, which in turn is an input into determining performance incentive payments.

FACILITATION OF BOARD AND COMMITTEE PERFORMANCE

Caltex management provides detailed papers for each Board and Committee meeting and attends meetings to answer any questions that directors may have. Directors are free to liaise with management to obtain any further information they may require.

An off-site strategy session over two days is also held during each year for the Board and management to review Caltex's financial, strategic and operational goals and to discuss key business developments. The Board also visits at least two Caltex facilities during the year. In 2005 the Board visited the Kurnell Refinery, the Lytton Refinery, the Newport Terminal and the South-East Queensland Retail network.

NEW DIRECTORS

New directors receive an information pack including Caltex's most recent annual and half year reports, the current year business plan, the Constitution, Board approved policies and charters, and background reading on directors' duties, rights and responsibilities. New directors also meet with key senior executives to gain further background on Caltex's business operations and group structure. In addition, training on directors' duties is offered to new directors as part of their induction process.

The Human Resources & Nomination Committee reviews the induction process on a regular basis to ensure that appropriate induction is provided for new directors.

DIRECTOR EDUCATION

Directors are encouraged to attend director training and professional development courses, as required, at Caltex's expense. The Board may from time to time hold educational seminars conducted by internal or external presenters.

Principle 9: Remunerate fairly and responsibly

REMUNERATION

The directors' report in the 2005 Annual Report contains a remuneration report providing details of Caltex's remuneration policy for its directors and executives, and the remuneration paid to directors and executives in 2005. A summary of the information contained in the remuneration report is provided below.

BOARD REMUNERATION

Remuneration of directors in 2005

DIRECTOR	BASE EMOLUMENT (\$)	SUPER CONTRIBUTIONS (\$)	2005 TOTAL (\$)	2004 TOTAL (\$)
Current directors:				
Dick Warburton	275,000	24,750	299,750	252,880
Dave Reeves	1,200,000		1,200,000	1,200,000
Elizabeth Bryan	133,284		133,284	90,337
Bill Hauschildt	110,000		110,000	22,636
John Thorn	110,000	9,900	119,900	54,443
Ken Watson	120,000	10,800	130,800	101,370
Peter Wissel	39,086		39,086	–
Former directors:				
Leo Lonergan	16,274		16,274	93,000
Mitch Rubinstein	52,497		52,497	–

Notes:

- Dick Warburton served as the Chairman for the whole of 2005. He was the Chair of the Human Resources & Nomination Committee until 30 April 2005, after which time he was a member of the Human Resources & Nomination Committee.
- Elizabeth Bryan served as a director throughout 2005. She was a member of the Human Resources & Nomination Committee until 30 April 2005, after which time she was the Chair of that Committee. Elizabeth is also paid an additional 9% in director fees, following her election not to receive superannuation guarantee contributions. The payment of these additional fees was backdated to the date that Caltex ceased making superannuation guarantee contributions to her.
- Peter Wissel was appointed as a director on 23 August 2005 and as a member of the Audit Committee on 1 September 2005. His director's fee in 2005 is a pro-rata amount.
- Leo Lonergan resigned as a director on 23 February 2005. His director's fee in 2005 is a pro-rata amount.
- Mitch Rubinstein served as a director between 24 February 2005 and 23 August 2005, and as a member of the Audit Committee from 1 May 2005 to 23 August 2005. His director's fee in 2005 is a pro-rata amount.
- Directors are eligible to receive a discount on private fuel purchases in line with that available to eligible Caltex employees.
- Mitch Rubinstein and Brant Fish, who served as alternate directors during 2005, did not receive any remuneration from Caltex in 2005 in that capacity.

Directors' fees

Non-executive directors' fees are determined annually by the Board, based on a recommendation from the Human Resources & Nomination Committee. The fees are set within the aggregate remuneration pool approved by shareholders.

In 2005, fees paid to non-executive directors were subject to a maximum Board remuneration pool of \$900,000 per annum, exclusive of statutory entitlements. The remuneration pool for non-executive directors applicable to 2005 was approved by shareholders of Caltex Australia Limited at the Annual General Meeting held in April 2004. This amount was increased to \$1,150,000 per annum, inclusive of statutory entitlements, at the 2005 Annual General Meeting with effect from 1 January 2006. This increase was sought to allow fee increases in line with the market and to accommodate director succession plans.

The level of non-executive directors' fees is based on the scope of director responsibility and the size and complexity of Caltex. In making recommendations to the Board, the Human Resources & Nomination Committee takes into account survey data on the level of directors' fees being paid to directors of companies of comparative size and complexity.

In 2005, the Chairman received a base fee of \$275,000 per annum, inclusive of all Committee fees. Other non-executive directors received a base fee of \$100,000 per annum and a fee for their committee duties. Members of the Human Resources & Nomination Committee and the Audit Committee received an annual fee of \$10,000, increasing to \$15,000 for the Chair of the Human Resources & Nomination Committee and to \$20,000 for the Chair of the Audit Committee. Statutory superannuation is paid in addition to any fees.

From 2005, non-executive directors could elect to forgo part of their fees, with the amount foregone to be contributed to fund the acquisition, on market, of Caltex Australia Limited shares via a non-executive directors' share acquisition plan. Participation in the share acquisition plan is not open to directors who are employed in the Chevron Corporation Group.

Fees were reviewed again in December 2005. As part of its review, the Committee engaged an independent external consultant to benchmark the remuneration practice for non-executive directors at Caltex Australia Limited against market practice.

With effect from 1 January 2006, the Chairman is to receive a base fee of \$310,000 per annum, inclusive of all committee fees, and other non-executive directors a base fee of \$115,000 per annum. Members of the Human Resources & Nomination Committee are to receive an annual fee of \$10,000, increasing to \$20,000 for the Chair of the Human Resources & Nomination Committee. Members of the Audit Committee are to receive an annual fee of \$15,000, increasing to \$30,000 for the Chair of the Audit Committee.

As Elizabeth Bryan has elected not to receive any superannuation guarantee contributions, the fees which are paid to her are increased by 9 percent, being the current rate of the superannuation guarantee contribution.

Retirement payments to directors

Following the decision to discontinue the Caltex retirement scheme for non-executive directors with effect from 1 January 2004, non-executive directors resident in Australia are entitled only to statutory superannuation. Directors not resident in Australia are not entitled to any superannuation.

REMUNERATION OF THE MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Managing Director & Chief Executive Officer Dave Reeves is on secondment from Chevron to Caltex.

Under the terms of the secondment arrangements, Caltex pays service fees to Chevron and Caltex has no obligation to pay any amount to Dave. Chevron considers Caltex's performance when determining payments to be made to Dave under his remuneration arrangements with Chevron. The secondment is for a period of three years ending on 28 July 2006 and Caltex and Chevron may agree to vary the contract term by early termination or extension. The secondment agreement may also be terminated by Caltex if Dave:

- commits a wilful breach or wilfully neglects to perform or observe any of his statutory or contractual duties;
- fails to perform or observe any of his statutory or contractual duties and does not correct or rectify the failure within seven days of being requested to do so; or
- ceases to hold the office of a director of Caltex Australia Limited.

On termination, Dave has no rights against Caltex for payment of any amounts or claims.

The terms of these arrangements are considered by Caltex to be no less favourable than arm's length terms.

EXECUTIVE REMUNERATION

Remuneration of Senior Executives in 2005

EXECUTIVE	SALARY & FEES (\$)	BONUS (\$)	NON MONETARY BENEFITS (\$)	SUPER- ANNUATION (\$)	SHARE BENEFITS	2005 TOTAL (\$)	2004 TOTAL (\$)
Richard Beattie (Group Manager – Corporate Affairs)	252,383	47,707	9,258	28,362	156,042	493,752	509,410
Mark Burrowes (General Manager –Marketing)	460,623	125,580	14,944	52,163	340,108	993,418	890,369
Helen Conway (Company Secretary & General Counsel)	322,917	88,754	28,979	36,208	262,246	739,104	714,179
Simon Hepworth (Chief Financial Officer)	445,234	111,386	14,944	45,814	321,111	938,489	880,449
Lisbeth Long (Group Manager – Human Resources)	225,556	59,044	–	24,218	154,683	463,501	437,544
Mike McMenamin (Group Manager – Strategy & Planning)	240,034	24,221	–	22,735	72,929	359,919	201,265
Alex Strang (General Manager –Supply & Corporate Services)	402,807	105,796	47,707	39,000	305,085	900,395	824,240
Eion Turnbull (General Manager – Refining)	359,945	83,283	54,056	37,757	267,771	802,812	734,333
Peter Wilkinson (Group Manager – Operational Excellence & Risk)	118,901	21,156	5,130	10,286	32,994	188,467	–

Notes:

- Lisbeth Long was on unpaid maternity leave from 26 July 2005 to 11 October 2005.
- Mike McMenamin commenced on 3 May 2004 and was appointed to his current position on 1 December 2004.
- Peter Wilkinson was appointed on 11 July 2005.
- Senior executives are eligible to receive a discount on private fuel purchases in line with that available to eligible Caltex employees.

Remuneration policy

Caltex's remuneration policy – its Reward Policy – is structured to appropriately reward performance from motivated, highly skilled and results-orientated people. The key principles of the Reward Policy are:

- financial and non-financial performance criteria are applied to deliver long-term creation of value to shareholders, consistent with Caltex's strategic objectives and values;
- company, department and individual performance determines reward outcomes;
- market competitive rewards are delivered commensurate with employee duties, responsibilities, accountabilities, competencies and behaviours; and
- to attract, motivate and retain highly skilled people who are aligned with Caltex's vision and values.

Remuneration components

Senior executive remuneration consists of fixed remuneration and variable remuneration.

Fixed remuneration is targeted at 80% to 120% of the median remuneration for a person with the executive's role and responsibilities from a subset of companies in the S&P / ASX 200 index (excluding the Financials Sector). Regard is also had to the scale of business.

Variable remuneration consists of a performance incentive scheme and a long-term share incentive scheme.

Performance incentive scheme

The performance incentive scheme is a short-term cash scheme comprising:

- a department performance incentive, based on achievement of the department scorecard, company scorecard and a minimum level of earnings; and
- an individual performance incentive, based on performance ratings determined as part of the Performance Management Process discussed under PRINCIPLE 8: ENCOURAGE ENHANCED PERFORMANCE.

If company performance, as measured by the Caltex Balanced Scorecard, is below plan and is also below the earnings minimum, no department performance incentive is paid. The Caltex Balanced Scorecard comprises a combination of financial, operational and non-financial measures consistent with Caltex's Vision, Value and Strategic Intent and the Caltex business plan.

Long-Term Incentive Scheme

Senior executives may receive shares under Caltex's long-term incentive scheme. The Human Resources and Nomination Committee approves the participants in the scheme and the performance targets. The terms and conditions of the scheme were approved by shareholders at the AGM held in April 1999.

Performance targets are set each year in relation to the return on capital employed and Caltex's total shareholder return relative to a peer group of companies. Based on the performance against these targets over the year, shares are allocated to senior executives, based on a combination of base salary earned, bonuses received and level of responsibility.

Shares earned by executives are bought on market and vest over a three year period, although dividend and voting entitlements vest immediately. Further details of the long-term incentive scheme are available in the remuneration report, including details of the revised plan to take effect from 1 January 2006.

Termination payments

Senior executives are appointed as permanent Caltex employees. The employment contracts stipulate a range of notice periods from one to three months. Upon resignation, any entitlement to unvested shares awarded through the long-term incentive scheme is forfeited. No termination benefit has been agreed with executives but payment of a benefit may be made if required in accordance with legislative requirements at the time of termination.

Secondments from Chevron

Senior executives may, from time to time, be seconded to Caltex from Chevron. The terms of secondment arrangements for senior executives are subject to Board approval and are considered by Caltex to be no less favourable than arm's length terms.

HUMAN RESOURCES & NOMINATION COMMITTEE – REMUNERATION RESPONSIBILITIES

The Board's Human Resources & Nomination Committee is an advisory body to the Board in relation to:

- the remuneration of non-executive directors, including remuneration for Board Committee memberships;
- the remuneration of the Managing Director & Chief Executive Officer; and
- remuneration generally, including superannuation.

The Human Resources & Nomination Committee also has delegated authority from the Board in relation to:

- the annual Caltex employee salary program;
- remuneration of the members of the Caltex Leadership Team;
- the short-term and long-term incentive schemes; and
- the Caltex Australia employee tax exempt and tax deferred share plans.

Details of the Committee's membership, the number of meetings held during the year and the Committee's Charter have been discussed under PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE.

Principle 10: Recognise the legitimate interests of stakeholders

In December 2005, the Board adopted a Code of Conduct to provide guidance to all Caltex directors and employees as to the standards of ethical behaviour expected in performance of their work for Caltex. A copy of the Code of Conduct is published on our web site (www.caltex.com.au).

Events subsequent to the signing of the 2005 financial report

The 2005 Financial Report was signed on 24 February 2006. Subsequent to that date, Trevor Bourne was appointed to the Board of Caltex Australia Limited. Information on Trevor is provided below.

TREVOR BOURNE DIRECTOR

Date of appointment

2 March 2006

Skills, experience and expertise

Trevor brings to the Board broad management experience acquired in industrial and capital intensive industries and engineering and supply chain skills and experience. From 1999 to 2003, Trevor served as CEO of Tenix Industries. Prior to Tenix Industries, he spent 15 years at Brambles Industries Limited, six as Managing Director of Brambles Australasia. Before that he worked for Incitec Ltd and BHP Limited.

Trevor serves as Chairman of Hastie Group Limited and as a director of Origin Energy Limited, Coates Hire Limited and Lighting Corporation Limited

Trevor holds a Bachelor of Mechanical Engineering from the University of New South Wales (Australia) and a Master of Business Administration from the University of Newcastle (Australia).

Assessment of independence

The Board has determined that Trevor is an independent director.

In assessing Trevor's status as an independent director, the Board has noted that Origin Energy Limited and Coates Hire Limited provide services and equipment to Caltex. The levels of transactions with Origin Energy Limited and Coates Hire Limited are within the thresholds as set out in the Charter of Director Independence.