CALTEX AUSTRALIA LIMITED

(ABN 40 004 201 307)

FINANCIAL RESULT DISCUSSION

For the Full Year ended 31 December 2001

FEBRUARY 2001

CALTEX AUSTRALIA LIMITED (CTX)

HIGHLIGHTS OF FULL YEAR

- Profit before abnormals, interest and tax on a replacement cost of sales basis of $200.9m which is an $85.2m increase on the figure of $115.7m from 2000 despite difficult trading conditions.

- Full year net loss after tax of $186.1m, down from a profit of $36.1 million in 2000.

- Result included a $147.5m write-off of goodwill relating to the company's purchase of Pioneer International Limited's 50% interest in Caltex Australia Petroleum Pty Ltd in 1997.

- Inventory losses totalled $186.1 million in 2001 (2000: $40.1 million gain).

- Marketing margins increased by 56% in 2001 over the 2000 level.

COMPARATIVE FINANCIAL INFORMATION

Comparative Financial Information	Caltex Australia Limited[1] Consolidated Results			
	2001	2000	1999	1998
Profit and Loss ($millions)				
Operating Profit before abnormals, extraordinaries, interest and income tax	14.8	155.8	216.7	198.2
Interest income	0.7	1.3	1.4	0.8
Interest (expense)	(91.1)	(97.7)	(72.8)	(70.2)
Income tax (expense) / benefit	29.2	(23.3)	(59.0)	(49.5)
Profit after tax and before Abnormal/extraordinary item	**(46.4)**	**36.1**	**86.3**	**79.3**
Abnormal/extraordinary item (net of tax)	(139.7)	-	16.3	-
Profit/(loss) after income tax	**(186.1)**	**36.1**	**102.6**	**79.3**
Dividends				
Amount paid and payable ($/share)	**0.0**	**0.16**	**0.22**	**0.22**
Times covered (excl abnormals)	**N/A**	**0.84**	**1.45**	**1.34**
Other data				
Shareholders' equity attributable to members of the company ($millions)	813.4	999.6	1,006.7	960.7
Total shareholders' equity ($millions)	821.2	1,009.1	1,016.2	969.4
Return on shareholders' equity after tax, excluding abnormals (%)	-22.7	3.6	8.6	8.3
Total assets ($millions)	2,747.1	3,167.4	2,974.1	2,721.8
Net tangible asset backing ($/share[(4)])	3.01	3.12	3.10	2.89
Borrowings ($millions)	1,256.5	1,282.9	1,118.6	1,168.0
Net borrowings ($millions)	1,264.7	1,241.2	1,106.9	1,152.4
Net debt to net debt plus equity (%)	56.6*	55.2	52.1	54.3

*before goodwill write-off (which added 4%)

MAJOR FEATURES

- Full year net loss after tax and including abnormals ($139.7 million) was $186.1million, down $222.2 million from $36.1 million ($nil abnormals) in the corresponding 2000 period.

- The Board is very conscious of its stated objective of paying consistent dividends. However, payment of a dividend is dependent on available cash flows and reportable earnings, and levels of franking depend on the Company's tax position. This year, whilst we have had an acceptable level of cashflow generated, reportable earnings are not available. In these circumstances, and given the need to reduce debt levels and improve gearing, the Directors have prudently determined that no final dividend will be paid. This compares with payment of a full year 2000 dividend of 16 cents.

- Trading profit was impacted by negative refiner margins in the middle of the year, instances of unreliability in the First Quarter at the refineries together with strong retail market competition.

- In 2001, the convenience store program contributed significantly to retail non-fuel earnings before tax of $41.2million up 10% on the 2000 result. Retail non-fuel earnings included the benefits from 174 Starmart convenience stores, and 231 of the smaller Starshop convenience stores. Average sales for Star Mart stores were 5.3% higher than in the corresponding period last year and 6.0% higher at the smaller Star Shop stores.

- The Supermarket at Bondi and Rose Bay in Sydney are well established and continue to provide excellent sales figures on both fuel and groceries. The South Yarra is showing steady improvement since 24 hour trading was introduced.

- The company's *Nice 'n Easy* brand positioning continued with further successful advertising campaign featuring a new TV commercial filmed at our new to industry site at Parklea NSW.

- The Company exited the liquor business with the sale of its three bottle shops completed in June. The sale prices of the businesses meant that this diversification strategy, although not ultimately successful and appropriate for Caltex, did deliver a positive return over the life of the project.

- Sales revenue net of product duties and taxes decreased by 4.2% to $4,695 million compared with $4,903 million for 2000. The decrease reflected a drop in the crude oil price flowing through as reduced prices to customers. Caltex collected $3,236 million in product taxes on behalf of Federal and State governments, which was 40.8% of gross sales revenue compared to 41.2% for the corresponding prior period.

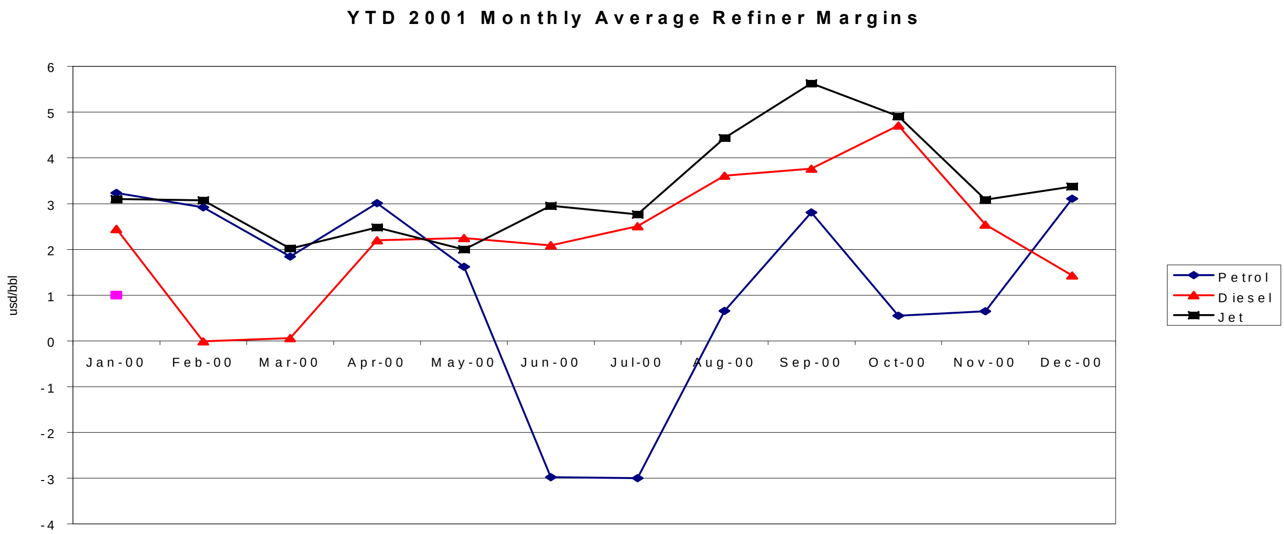
SALES REVENUE ($000)	2001	2000	1999	1998
Gross Sales Revenue	7,932,222	8,344,416	6,591,405	6,312,636
Less Duties and Tax	3,236,598	3,441,071	3,601,344	3,586,638
Net Sales Revenue	4,695,624	4,903,345	2,990,061	2,725,998

- Sales volume was 11,668 million litres for 2001, down 4.8% against last year.

- With greater discipline on supply shortages, a focus on margin over volume and an increase in sales of specialty and lubricant products that generally attract a higher margin, we have increased marketing margins by an enormous 56% in 2001 over the 2000 level.

- There was an abnormal item totalling $15.8 million after tax in respect of a transaction relating to a vessel chartered by Caltex. We also made an abnormal provision for a debt of $11.4million ($8.0 million after tax) owed by Ansett

- Refining margins over the year were poor. The average refining margin was US$1.61 per barrel compared with US$3.05 per barrel for corresponding period last year. The low diesel margins in the first quarter were replaced with stronger margins later in the year driven by increased demand in the mining and commercial areas. Petrol margins were extremely low in the middle of the year due to excess production in Asia due to anticipated US demand which failed to materialise. Some production cuts in July and August in Asia saw a modest recovery in margins through to the end of the year.



- Two power failures impacted production at the Lytton refinery during the First half of the year. In March the refinery suffered a total power failure after the short circuit in the on-site delivery unit activating the feeder breaker resulting in 5.1 days of lost production. In April there was an outage in the external supply of power to the refinery resulting in a further short shutdown of production.

- The Kurnell refinery in Sydney returned to full operating capacity at the end of the first quarter with the completion of a project to replace an exhaust stack that developed a structural fault in November 2000. After completion of that work it operated with no material incidents through to the end of the year.

- The $38.5m total steam shutdown of the Lytton refinery in October/November included maintenance and capital improvements to the refinery's electrical, steam, fuel gas and flare systems. These improvements make Lytton more robust in dealing with the consequences of any external power failure.

- Yield and process improvements has already achieved annualised sustainable benefits of over $25 million with a further benefit of $25m to be achieved by the end of 2003

- Net interest cost, at $90.3 million for the full year was $6.2 million below the cost for 2000 due to improved working capital management which led to lower average borrowings over 2001, and the flow through benefit of interest rate cuts.

- Total net debt at 31 December 2001 stood at $1,264 million, up by $23.5 million from 31 December 2000 due to holding higher inventory volumes required to accommodate the planned major maintenance shutdown at the company's Lytton refinery in Brisbane in the final quarter. Gearing (net debt to net debt plus equity) of the Caltex Australia Limited group at 31 December 2001 was 56.6%, up from the 55.2% ratio at 31 December 2000 (when measured on a comparative basis by excluding the effect of the goodwill write-off).

REPLACEMENT COST OF SALES BASIS OF ACCOUNTING

- The directors have again provided additional disclosure of the Company's results for the half-year on a replacement cost of sales basis, which excludes net inventory gains and losses arising from movements in the price of crude oil.

- Since crude oil is purchased in US dollars, inventory gains and losses are calculated with reference to the underlying US dollar crude cost.

$m	1999	2000	**2001**
Historic cost operating profit before abnormal items, interest and tax	216.7	155.8	**14.8**
Inventory (gains)/losses	(144.9)	(40.1)	**186.1**
Replacement cost operating profit before abnormal items, interest and tax	71.8	115.7	**200.9**

OPERATIONS

Manufacturing and Supply

The Manufacturing and Supply division purchases crude oil from Australia and overseas for refining at Caltex's fuels refineries in Sydney and Brisbane and the associated lubricants refinery in Sydney. The refineries produce petrol, diesel, jet fuel and a range of lubricants that are then distributed via ship, road or pipeline to the company's finished product terminals and on to retail and wholesale customers. The refineries also produce a range of specialty products including petrochemical feedstocks, LPG, wax and bitumen.

Summary of key points
- Reliability and safety performance improved
- Refiner margins at record low levels
- Fall in crude prices generated significant losses on inventory
- Successful Lytton maintenance shutdown
- Ongoing benefits delivered from profit improvement and cost savings programs

<u>COSTS & MARGINS</u>
The operating profit from Manufacturing and Supply was significantly lower than the previous year mainly due to a $186.1 million loss on inventory in 2001 (2000: gain of $40.1 million).

Inventory losses were generated by a significant fall in crude oil prices, particularly in the second half of the year. The price of regional benchmark Tapis crude fell from US$27.38 a barrel in December 2000 to US$18.64 a barrel in December 2001, averaging US$24.99 for the year (2000: US$29.45). Falls in crude prices mean a gap between what the company paid for its crude inventory and the price that can be recouped in the market place. The impact is approximately A$20 million less profit before tax for every US$1 a barrel fall in crude price. The reverse situation applies in a rising crude market.

Regional oversupply of petrol led to sharp falls in refiners' margins[2] to negative levels between May and August, falling as low as -US$2.08 a barrel in July. Regional refineries had ramped up production in response to what proved to be erroneous reports of expected shortages of petrol supplies for the North American summer driving season. The oversupply situation resulted in Singapore margins averaging US$1.61 a barrel in 2001, down from US$3.05 a barrel the previous year.

Initiatives to improve refinery economics were implemented in accordance with the intensive profit improvement study conducted in 2000. Improved catalytic cracker production at Lytton resulted in an increase in liquid recovery.

[2] Refiners' margin is the difference between the price of the Tapis crude oil feedstock and the quoted Singapore ex-refinery price of petroleum products.

Total improvements implemented to date are delivering benefits at an annualised rate of $25 million, with the fully implemented program in 2003 estimated to deliver benefits of $50 million.

Overall operating costs were 11% higher than the previous year due to exchange rate impacts on shipping, higher insurance costs, increased provisions for major maintenance and increases in other costs due to wage increases and work done on improving refinery reliability.

Capital expenditure of $46.7 million in 2001 was more than double that of the previous year. Major expenditure in 2001 was related to improving plant reliability and integrity at both refineries (see below) including $11.5 million on capital projects during the planned maintenance shutdown and turnaround at Lytton refinery, in addition to the $27 million cost of the shutdown. Other funds were directed to enhancing LPG production and marketing facilities at both Kurnell and Lytton and preparing for new national fuel standards.

Cost efficiency remains an important focus of Manufacturing and Supply business unit, with further successful initiatives in 2001 in the area of purchasing and contract maintenance.

PRODUCTION & RELIABILITY

Caltex refinery production of petrol, diesel and jet fuels in 2001 was slightly higher than the previous year. Production of specialties increased by 4.5%, particularly LPG. The refineries operated at below rated capacity due to the impact of several unplanned events.

The Kurnell fuels refinery operated at only 90% of its finished product capacity for the first quarter of the year until the completion of a project to replace an exhaust stack that developed a structural fault in November 2000. At the Lytton refinery in Queensland, external power failures in March and April resulted in brief refinery shutdowns.

In the second half of the year operations were significantly more reliable with the major event affecting refinery production being the planned total plant shutdown at the Lytton refinery in October/November. The shutdown's inspection and maintenance program was completed successfully and it also enabled major capital improvements to be made to electrical, steam, fuel gas and flare systems to make Lytton more robust in dealing with the consequences of an external power failure.

The impact of the shutdown on supply was minimised by planning well in advance for inventories to be built up and Lytton supplies to be supplemented by products from Caltex's Kurnell refinery and imports.

There was a general improvement in supply reliability in 2001 over 2000 both in the Caltex refinery supplied areas of NSW and Queensland and in states normally supplied from competitor refineries.

IMPROVEMENT PROGRAMS

Incident Free Operations

Elimination of unplanned incidents is the refineries' prime thrust to improve profitability, with an intensified focus on safety, environmental and reliability performance. In February 2001, a major independent review of operations and management at both Kurnell and Lytton refineries was concluded by a team of international and local experts. The team evaluated the root causes of the reliability incidents which caused unscheduled production interruptions at both refineries in 2000.

The team's report confirmed that while existing refinery risk reduction and safety initiatives were sound, a large number of improvements could be made covering technical actions, management systems and people systems.

A priority list of actions and improvements was made - some specific to one refinery, but many common to both refineries - and during 2001 significant progress was achieved, contributing to the improved reliability and safety performance in the second half of 2001.

The program to achieve incident-free operations implementing the report's recommendations will be continued over the next two years. Examples of key elements are:

Management of change - A new system called "Request for Change" has been developed, drawing on the best of ChevronTexaco's systems and existing systems at both refineries. It will form part of Caltex's new Process Safety Management System which is being implemented across both refineries.

The improved management of change process was launched at the Kurnell refinery in December 2001 and is currently being introduced at Lytton. Recommendations being put in place include ensuring all people involved are trained at the right level, detailed checklists and prompts, a process for ensuring that all changes have the appropriate level of technical evaluation, methodology for safety and design reviews and regular auditing.

Equipment upgrades - A number of the report's recommendations on specific equipment upgrade requirements for Kurnell refinery started being put into place in 2001. Planning also commenced for major projects including a new replacement furnace for No 3 crude unit and the replacement of three large solvent pumps on a key specialties' processing unit .

At Lytton, the largest reliability risk identified was the refinery utility systems. The refinery has a steam system reliability improvement program and has identified issues related to hardening the electricity system to better withstand short power dips. This includes the need for a back up source of energy for furnaces and boilers and an additional source of fuel to the refinery gas system was added with the installation of an emergency LPG vaporiser in October. This has substantially improved Lytton's reliability in emergency scenarios such as power upsets.

Human factors - Programs are under way to improve work practices and systems, redefine roles and responsibilities and implement leadership and supervisory training. Among them is the development of a behavioural safety program which works to provide clear direction, increase awareness of safety related issues and encourage employees to observe their workplace and draw attention to any hazards.

Preparation for Cleaner Fuels
The Commonwealth government has set national standards for petrol and diesel which came into force on 1 January 2002. Caltex participated actively in the development of those standards and was producing petrol and diesel meeting the standards prior to January 1.

To continue operating from 2006 onwards, Australian refineries will be required to make changes to diesel and petrol processing units to manufacture fuels to comply with the new fuel specifications. Commonwealth regulations require the level of sulfur in diesel sold in Australia to be reduced from current levels of around 1,000 parts per million (ppm) to no more than 500 ppm by the end of 2002 and 50 ppm by 2006.

Caltex has been conducting feasibility studies and reviewing process design and technical options for both refineries to produce fuels that meet these specifications. It is estimated that the company will need to invest to meet the new standards for benzene in petrol and sulfur in both petrol and diesel required in 2005 and 2006, but is able to meet the other requirements with no or minor investment. The bulk of any investment in clean fuels would be required in 2004 and 2005.

Caltex has asked the Commonwealth government to implement the excise incentive for ultra low sulfur diesel it proposed in 1999. This scheme if enacted would give a financial encouragement for suppliers to make 50 ppm sulfur diesel available before the mandated 2006 date. Such a scheme would benefit the environment and assist oil refiners to fund the large investments required to meet the new national standards.

Marketing Review

The Marketing division promotes and sells Caltex's diverse range of fuels, lubricants and specialty products through a national network of service stations and distributors, and directly to commercial accounts. The division also operates the Caltex/Ampol service station and convenience store network. It is also responsible for building brand awareness through advertising and the management of Caltex's motorsport sponsorships.

Summary of key points
- Earnings were up from the previous year due to a focus on marketing margins
- Caltex sales volumes and market share were lower, but still retained market leadership

- There was further growth in earnings from convenience stores and related non-fuel activities
- Customer preference and recognition for the Caltex brand grew in its largest markets

FUEL SALES

Caltex improved its returns from fuels sales despite intense market competition in 2001. This was achieved by targeting margin improvement rather than volume increase. Total Caltex transport fuel sales were 2% lower than the previous year but grew in the more profitable retail channel.

The Australian market for major transport fuels grew 1.2% in 2001 after contracting the previous year. Demand for petrol and diesel was up but jet fuel sales declined. Caltex's total transport fuels market share decreased slightly to 27.4% (2000: 28.2%) but retained market leadership.

Service stations Retail sales of petrol and diesel were 2% higher in volume than the previous year, with premium unleaded petrol (including Vortex and Ampol Gold) accounting for 7.4% of retail petrol sales in 2001. The average petrol throughput in company-operated, commissioned agent and franchised service station sites increased slightly to almost 300,000 litres per month in 2001 which compares well with international standards.

Commercial & Industrial Diesel and aviation fuel sales volumes were slightly down on last year but margins recovered from the previous year with diesel supply agreements renegotiated to cover increased sea freight costs and a reduction of credit terms. Despite a slowing of international demand for aviation fuel following the terrorist attacks in the US in September, Caltex sales recovered and were down only 0.8% on 2000 volume by the end of the year. Aviation profit was adversely impacted by provision for the $11.4 million bad debt (before tax) following the collapse of the Ansett group.

Specialty products recorded improved sales and margins with a strengthening of marine, bitumen and LPG sales.

Distributors and Independent resellers Regional supply disruptions and adverse weather conditions in harvest areas had a negative impact on fuel sales to distributors and independent resellers, with diesel and petrol sales in these channels down significantly from the previous year.

A full strategic review of the Caltex StarCard business was conducted in 2001 and a number of revenue enhancing and cost reduction initiatives introduced. Further initiatives will be rolled out during 2002 and 2003.

LUBRICANTS

Finished lubricants volumes suffered due to the downturn in some key industry sectors, but margins were stronger and there was sound growth in sales of some products.

Sales of the flagship diesel engine oil Delo 400 more than doubled from the previous year in response to successful promotion and sales strategies. Crop spray oils also recorded continued strong growth, up 30% from the previous year.

CONVENIENCE STORE NETWORK

The convenience store program has contributed significantly to non-fuel earnings income of $41.2 million in 2001, up from $37.5 million the previous year.

The national convenience store network continued to grow in size and average store turnover. At the end of 2001, there were 174 Star Mart convenience stores supported by a network of 231 smaller Star Shops.

Average Star Mart store sales grew 5% and Star Shop sales were 6% higher than the previous year. Growth continued in sales of both convenience items and core grocery lines, with store turnover boosted by fast-growing areas such as new age beverages, telephone cards, instore bakery and packaged bread sales that more than doubled during the year.

The focus on pizza was extended during the year with Caltex replacing an external supplier with its own Pizza Plus brand and adding pasta and other quick serve meals to the range. These will be further extended in 2002.

The retail network also benefited from increased sales of Caltex motor oil Havoline Formula 3 that followed a major promotional push in September/October.

The supply chain for Caltex's convenience store network is being transformed with the rollout of the company's new centralised distribution system. Under this system, store orders are collated for suppliers then delivered to a central cross dock warehouse in each state for delivery at set times to stores. This was successfully introduced for a number of sites in NSW and Queensland during the year and will be extended in 2002.

The year saw an increase in the number of independent operators that have chosen the Caltex Star Mart and Star Shop offers to complement their new site developments. This highlights a significant shift for Caltex in the role as franchisor. In the past the company has traditionally owned or leased property and facilities and then installed a franchisee. Franchises to Independent Operators has seen the company reduce investment significantly in new developments and has these franchisees paying Caltex a royalty for the significant value it is providing in the c-store and fuel forecourt offers. These stores look no different to the company operated or traditional franchised outlets; however, they provide Caltex with a lower risk income stream and confirmation that our Star Mart and Star Shop franchises are creating significant value.

ADDITIONAL ACTIVITIES

Caltex continued to develop activities to expand retail opportunities at its sites throughout Australia.

New initiatives during the year included the launch of a trial venture with Midas for car repair and maintenance workshops at Caltex service stations.

The company also launched a program to upgrade and expand its 38-site car wash network, buying the car wash equipment owned by Robo Wash HK at 13 sites and announcing plans to replace facilities at older sites and increase the number of sites carrying the service.

In May, Caltex launched a service known as *Caltex Pick Up Point* that enables Internet shoppers to collect their goods from a local Caltex service station. The service has initially been offered at 83 Caltex sites across Australia with extended trading hours.

Travelmate (travelmate.com.au), Caltex's one stop shop web site devoted to Australian road travel, has continued to experience strong growth in site traffic, accommodation bookings and revenue. In October, Caltex launched an associated web site (needitnow.com.au), an accommodation service for last minute travellers, which has exceeded expectations for revenue growth.

The program of installing National Australia Bank automatic teller machines at Caltex sites continued during the year, with ATMs now at 229 sites, including all Star Marts.

FRANCHISEE PROGRAMS

During the year, Caltex introduced some significant elements to its new retail operating model for Caltex franchisees with Star Marts and Star Shops.

In April, the company launched a national All Stars program to introduce and monitor standards, systems and brand image throughout the retail franchise network. The program enables sites to measure and compare their performance with others in the Caltex network, with participants offered rewards or penalties based on audit results.

An increasing number of franchisees are using Caltex's online services. These were expanded during the year with the upgrading of the company's online Business Centre, which provides franchisees and other business partners with a range of Internet-based facilities such as price information, electronic ordering, bill payment, account enquiry, online manuals, merchandising and contact data.

In August, an online operations manual was launched to provide an easy-to-access and frequently-updated guide to the basic requirements and procedures for managing a Star franchise.

It is planned to expand the Business Centre to provide the retail network with a forum, bulletin board, brand, local site marketing manual and links to order from external suppliers online.

CALTEX BRAND AND CUSTOMER PREFERENCE

This year the distinctive new Caltex livery was installed at a further 144 sites, including 28 Star Marts and 80 Star Shops, bringing the total number of re-branded sites to 375 - nearly half of the equity sites in the Caltex/Ampol retail network.

The year also marked the start of major activity in rebranding smaller, independent sites mainly in the distributor network, which is helping the new brand gain recognition in rural and regional areas. The rebranding project commenced in 1999 and is scheduled for substantial completion in 2003 with residual rebranding work continuing through to 2005/6.

Research showed that Caltex Nice'nEasy TV commercials during the year made a strong and positive impression on consumers. Consumer brand awareness and preference for Caltex service stations continued to increase. Particularly good results were achieved in the key Sydney market, where independent research in October revealed Caltex to be the preferred convenience store for Sydney shoppers.

Brand building for key Caltex oils Havoline and Delo continued with participation in motorsport activities, TV, radio and print media. Promotion of Havoline motor oil is based around proof of performance in motor sport, and the win by the Caltex Havoline Indy Car at the Gold Coast Indy in October generated widespread publicity.

CORPORATE REVIEW

ENVIRONMENT, HEALTH, SAFETY AND RISK MANAGEMENT

In 2001 Caltex recorded improved performance in a number of key EHS measures. There was a significant reduction in lost time injuries, fewer incidents directly relating to key risks and continued steady reduction in the number of spills at Caltex facilities.

This was a particularly sound achievement in a year where there were major construction, repair and maintenance activities at both Caltex refineries involving large numbers of outside contractors.

In 2001 Caltex continued to take corrective actions to improve control of significant risks, as outlined in its key risk management plans.

There was further work done on existing safety management systems and in developing new strategies. At the refineries, a major independent review of operations and management by a team of international and local experts provided recommendations which are being implemented in relation to process and safety management systems (PSM). A team with international expertise was established to ensure that common standards and procedures are put in place, knowledge and expertise is shared and effective training and communication takes place in every area of refinery operations.

Occupational Health and Safety Performance
Caltex made further progress towards its goal of achieving incident free operations throughout the business. The company continued to monitor closely and assess its performance against EHS targets to identify areas for improvement. EHS targets were part of Caltex's 2001 short term incentive bonus scheme for employees.

There was significant improvement in health and safety performance in 2001, as measured by the number of injuries that require medical treatment and the number of injuries that result in time lost time for each million hours worked. Compared with the previous year, the Lost Time Injury Frequency Rate (LTIFR) and the Total Injury Frequency Rate (TTIFR) have decreased by 30% for employees and contractors.

Table X: Health and Safety Performance 2000 vs 2001

	2000	2001
LTIFR-Contractors	11.2	2.1
LTIFR-Employees	2.6	1.8
TTIFR	15.9	11.0

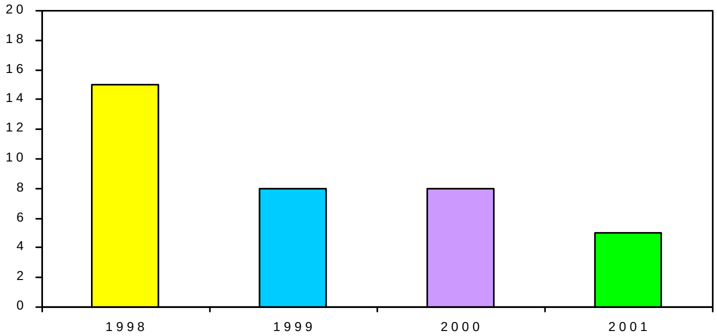
The reduction in injury rate was due to new and revised programs including random auditing, increased focus by management, more detailed planning and improved injury management.

Emergency and Crisis Management - Caltex's Crisis Management System was the subject of a company-wide audit in 2001. As a result, the company updated its overall crisis management system and 24-hour emergency response capabilities and developed a business continuity plan that ensures company operations at its head office can continue in the event of a major crisis.

Local emergency response plans at the refineries and fuels terminals were tested by both desktop and field exercises involving local and regional authorities.

Environmental Performance - Standards for environment protection continue to increase and Caltex continued to work on minimising environmental impact from activities as well as making more environmentally friendly products for its customers.

GRAPH: Over the past 4 years there has been a steady reduction in the number of major spills, that is a crude oil or petroleum product spill of more than 150 litres or of significant environmental impact.



Caltex provided information on emissions from its refineries and fuels terminals to each state environment protection agency for the National Pollutant Inventory (NPI) in 2001. This information is available to the public and provides information on emissions for NPI listed substances. NPI data submitted for Caltex sites is available at www.npi.ea.gov.au. Caltex has submitted the 2001 data to the state environmental protection agencies and it is scheduled for release on the NPI website in 2002.

HUMAN RESOURCES

All major enterprise bargaining agreements at Caltex refineries, terminals and Sydney airport were renewed during the year. Most are not scheduled to be re-negotiated until 2003, although the Kurnell operators' enterprise bargaining agreement will be renegotiated in 2002.

At the Kurnell refineries in Sydney, the long-running EBA negotiation with refinery operators was eventually concluded by an arbitration by the Full Bench of the Australian Industrial Relations Commission in July 2001. The result of this arbitration was favourable for the company and clearly reinforced management’s right to direct training and conduct regular competency assessments of employees, appoint supervisors and ensure that employees appointed to leadership roles are able to be held accountable for their performance in these roles.

At the Lytton Refinery in Queensland, EBA negotiations with both maintenance and operator employees were concluded without disruption. Similar agreements were reached with maintenance groups at Kurnell.

In training programs for 2001, a priority was to continue to build leadership skills for team leaders and potential first line managers. A further 51 people from across the company attended a Leadership for Team Leaders program.

During the year, 55 people attended a company negotiation skills workshop, which aims to develop skills in business/commercial negotiations. The program was introduced in 2001 to support current procurement initiatives to get the best value for the company’s significant purchases of goods and services.

A revised induction program for new employees was launched in August. The two-day program provides a detailed overview of all areas of the business and an opportunity to meet with senior managers and visit the Kurnell refineries, Banksmeadow Customer Service Centre and a Star Mart convenience store.

Despite a lower share price, there was continued high level of employee participation in the Caltex Australia Limited Employee Share Plan, which was in its second year of operation.

A number of appointments to senior positions across the company during the year helped to improved the company's overall "benchstrength".

PROCUREMENT

Throughout 2001 the Strategic Procurement Initiative has continued to gain support from all areas of the Company, resulting in significant benefits to the business and shareholders. With a small central team working cooperatively with each of the business units, a further $10 million in savings and cost avoidance has been achieved. The key strategy adopted has been the use of a formalised commercial process using specialised procurement tools, ongoing training of business owners in the application of these tools, and motivating suppliers to search for innovative and cost effective solutions to the issues facing Caltex.

The success of this process within Caltex has been recognised externally. Two major suppliers who were unsuccessful in their bid for Caltex's business have approached Caltex to gain a better understanding of the Strategic Procurement process so that they can become 'more innovative and cost effective providers'.

It is intended to further capitalise on this continued success during 2002 providing additional benefit and support to company profitability.

CORPORATE AFFAIRS

Caltex continued to lobby strongly for an appropriate regulatory environment for refining and marketing. A major policy thrust was for development of a long term Commonwealth industry policy to support investment in Australian refining. Caltex’s submission to the fuel taxation inquiry advocated excise incentives for cleaner petrol and diesel, a level playing field for conventional and alternative fuels, and simplification of the administration of fuel taxation. Lobbying continued on new national fuel standards, including a ban on MTBE and appropriate regulation of ethanol.

Caltex took a strong stance against excessive marketing regulation, particularly in Western Australia where rigorous price control legislation has been passed. Lobbying was undertaken on fuel pricing inquiries by the ACCC and in South Australia and the ACT, and on national temperature correction regulation.

A new colour magazine for Caltex employees, distributors and franchisees was launched in June 2001. *The Star* will be published six times a year and focuses on Caltex business activities.

Caltex provides contributions and ongoing sponsorships for a range of community, arts, welfare and education activities. In addition to contributions to a wide range of local community organisations close to key company facilities and service stations, some of the major activities in 2001 included:

Education

- **Best All Rounder -** Caltex each year invites all secondary schools around Australia to select a student who is a good all rounder excelling in many fields. In 2001, 97% of Australia's secondary schools participated and the winner from each was presented with a medallion and certificate from Caltex at the schools' presentation night. Winners are also eligible to enter an essay competition run in conjunction with *The Bulletin* magazine where the best entries are published and $500 is awarded to the school and the student.

- **Innovation in Teaching -** To encourage innovations in primary and secondary school education Caltex and the Rotary Club of Sydney jointly recognise up to three teachers each year who develop creative programs at their schools. In 2001, three award-winning teachers from NSW received a return airfare to visit an agreed school or institution overseas or in Australia with accommodation and travelling expenses paid.

Environment

Caltex sponsors a number of ongoing environmental projects. Among these is support for National Parks and Wildlife Service projects in areas surrounding the Kurnell refinery in Sydney. In Queensland, the Lytton refinery assists the Australian Trust for Conservation Volunteers, and refinery staff are helping in the work of revegetating the buffer zone between the refinery and the adjacent Fort Lytton National Park.

The Arts

Caltex supports the Australian Chamber Orchestra and in 2001 sponsored a national tour of Mezzo soprano Bernada Fink.

Starlight Foundation

Caltex is a major sponsor of the Starlight Children's Foundation of Australia, a non-profit organisation dedicated to brightening the lives of seriously ill children between the ages of four and 18. In 2001, in addition to a major contribution from the company, Caltex staff volunteers raised record funds through selling Starlight merchandise to the public on Star Day in May and a special "Teams for Dreams" fundraising competition at the end of the year. A safety incentive program to raise funds during the planned maintenance shutdown of the Lytton refinery in October/November also attracted substantial sponsorship from the company and contractors.

OUTLOOK

Caltex is well positioned for continuing to operate in a low margin environment with improved refinery productivity and efficiency, substantial cost savings and more effective and better-targeted marketing strategies.

The focus of the Company continues to be achieving operational excellence in the core business of refining and marketing petrol where we have sound fundamentals. We will continue to maximise returns from investment in real estate and our retail network, and build up non-fuel revenue streams to improve the consistency of earnings.

In 2001 Chevron Corporation and Texaco Inc. merged and the new entity ChevronTexaco, via a wholly owned subsidiary, continues to hold a 50% interest in the Company. The new global focus in their organisation has begun to generate a number of benefits for Caltex Australia and this will increase in the future. These benefits will be in the areas of strategic alignment and the sharing of best practices in both manufacturing and marketing.

Prior to 2006, Caltex and other Australian refiners will be required to make changes to diesel and petrol processing units to manufacture fuels to comply with new Commonwealth fuel specifications. Caltex has been conducting feasibility studies and reviewing process design and technical options for both refineries to produce fuels to meet the new standards for benzene in petrol and sulfur in both petrol and diesel required in 2005 and 2006.

The company's key objective is to maximise profit and cash flow to improve gearing. We are assuming that the external factors governing our returns will continue to be tough but Caltex's primary focus will be on reducing its debt while maintaining capital expenditure.

Earnings in 2002 continue to be dependent upon stability in crude prices and the continuation of the healthier refiner margins seen in the later months of 2001. Excess refining capacity in Asia in likely to continue for the foreseeable future and domestic competition continues to be vigorous. A rise in crude prices would generate inventory gains creating a benefit to 2002 earnings, whilst a further fall in the price would adversely impact the results.

The company continues to be impacted by factors outside our control but we are working hard on those areas under our control. Refinery reliability and margin improvement programs will continue in the refineries and benefits we are already seeing in these areas will only increase.

Caltex remains committed to strengthening its position as the number one manufacturer and retailer of fuels in Australia at the same time as it continues to aggressively develop its non-fuel convenience store network and other non-fuels businesses.

Further logistical efficiencies are being implemented which are driving down the cost of moving fuel and shop merchandise to end users. There are also potential incremental earnings to be obtained from a new franchise model which is bringing world's best practice in retail operations to the Caltex network.

The focus on expanding finished lubricant sales to the industrial, transport, mining and crop protection markets will continue as will Caltex's move to capture more of the value chain from secondary or specialty products from the refineries including bitumen, LPG and wax.

The new company brand image will continue to be rolled out across the Caltex convenience store network in 2002 with the expectation that in our key markets the majority of our stores will carry the new livery by the end of this year.

The company will continue to set very high targets for its safety performance in line with the expectations of the community and key stakeholders and increased social accountability.

KEY STATISTICS

	DEC 2001	JUNE 2001	DEC 2000	JUNE 2000
Employees**	**1558**	1520	1,469	1,437
Fuels refineries	**2**	2	2	2
Lube oil refinery	**1**	1	1	1
Nameplate refining capacity:				
Caltex Ref (NSW) (b/d)	**124,500**	124,500	124,500	124,500
Caltex Ref (Qld) (b/d)	**105,500**	105,500	105,500	105,500
Caltex Lube Oil Ref (b/d)	**3,750**	3,750	3,750	3,750
Road tankers (company fleet)	**27**	27	27	27
Rail cars (operational)	**68**	68	68	68
Storage terminals	**11**	11	11	12
Depots	**126**	126	127	129
Distributors	**74**	77	78	82
Service stations – CAL operated / franchised*	**651**	657	658	678
No. service stns sold	**6**	11	48	41
No. depots sold	**3**	4	9	7
Convenience stores	**174**	171	166	142

Notes:
* operating sites owned or leased in the Retail channel
** excludes employees of Calstores Pty Ltd and Caltex 100% owned distributors