Caltex Australia Limited

Annual Review 1999

The ultimate measure of a company is how it performs when faced with challenges. Refusing to be held back by difficulties facing the whole industry, Caltex is clearing the hurdles with smart new approaches to business. This report tells you about them and about other steps being taken to ensure our place at the winning line.

MALCOLM IRVING

Message from the Chairman

In 1999, Caltex Australia continued to strongly reposition itself for the coming years, despite a tough operating environment.

In an industry undergoing immense change, due to both global and domestic pressures, Caltex is firmly on course to ensure that we will continue to be the industry leader and operate from a position of strength in future years.

You are aware of the difficult economic environment in the Asia-Pacific region that has driven refining margins to all time lows. New refining capacity has continued to be added while demand for petroleum products is still recovering from the Asian economic crisis. These factors have come together to place extreme pressure on all refiners, not just Caltex. However, we realise that it is not sufficient to wait for a recovery. Caltex is changing its operations to ensure a sound future for its shareholders, employees, customers and business partners.

The Caltex operating profit for 1999 after income tax and including abnormals attributable to members of the company was $102.6 million. Before abnormals, net operating profit after income tax was $86.3 million, up $7.0 million from $79.3 million in 1998. Directors declared a final dividend of 14 cents per share fully franked, bringing dividends for the year to 22 cents per share, the same as last year.

The Directors stated their objective of maintaining a consistent pattern of dividend payments which rise steadily over the long term, subject always to meeting the financial needs of the business.

The Caltex result is satisfactory given its context and the industry repositioning taking place as we set up Caltex for what will effectively be a new operating environment.

Caltex's competitors are also faced with these difficult times and they too are moving to cut costs, rationalise assets and seek synergies as demonstrated by recent global industry mergers. This has reinforced the importance of Caltex moving early, moving aggressively and being determined in the pursuit of efficiency, productivity, cost savings and asset rationalisation.

Caltex welcomed the Federal Government's Downstream Petroleum Products Action Agenda policy released in November. The policy outlines the Government's vision that Australia will have a strong, efficient oil refining industry and contains a range of policy measures to help achieve this. It recognises the need for fundamental restructuring of Australian refining.

It was disappointing the Government had to withdraw its marketing reform legislation and the proposed new Oilcode as a result of opposition in the Senate and from the Motor Trades Association of Australia. However, Caltex will continue to work constructively to achieve repeal of unfair marketing regulation while developing alternative marketing strategies that maximise profitability within the confines of existing regulation.

Caltex is aggressively building new growth options including examination of substantial refinery investment to make new clean fuels by 2006.

The company launched the first two of its new supermarkets in the last 12 months – a new format combining fuel and groceries that is a unique offering to Australian consumers. The format builds on the success of Caltex's 138 convenience stores, including 50 branded Star Mart convenience stores. Our network is one of the country's largest chains of convenience stores. We will continue to grow the network to take advantage of our well-located retail sites as we develop to be a world class convenience retailer.

We are also growing our lubricants and specialties businesses such as bitumen, Autogas, motor oils and spray oils. Support for this growth will come from the strong new Caltex brand, backed by a new advertising campaign and our promise of an easy experience for all customers.

Getting priorities right for both our refining and marketing initiatives is our challenge for the next few years. At Caltex, we know that we can clear the hurdles. The industry has changed, our customers have changed and our competitors are changing. I am pleased to report that Caltex is running fast to implement change for the better and to stay out in front of the competition.

Ours is a complex industry and one that receives constant media coverage, much of which does little to clarify the issues involved. To help you better understand some of these issues, we have included a section in the Annual Review which addresses such questions as why petrol prices keep fluctuating so much, why service stations keep closing and why country prices are higher than those in the city. I hope you will find it instructive reading.

The Caltex vision is focused on 2006 and our objective is to ensure Caltex will be in a position of strength – the leader in a tough industry – the player with the most options, able to provide maximum value to our customers and shareholders and a great place to work for our employees. I want to say a special thanks to all Caltex employees and business partners for their unstinting efforts in 1999.

I wish to pay particular tribute to Dr Ian Blackburne who is to retire as Managing Director and CEO at the end of March. Ian has done an exceptional job in merging Ampol and Caltex, in positioning Caltex as the low cost operator, in developing the company's new retail directions and growth strategy and in pushing vigorously for deregulation and industry restructuring. We thank him for his strong and effective leadership. He will remain as a consultant to the company at least until 2004.

MG IRVING Chairman

The announcement was made on 3 February 2000 that Mr Tony Blevins, currently Chief Executive Officer of Texaco Brazil SA would succeed Dr Ian Blackburne who is to retire as Managing Director and Chief Executive Officer of Caltex Australia Limited.

Tony, 56, an American and a graduate in accounting, joined Texaco* in 1966 and held a variety of accounting positions before appointment as Finance Director for Texaco Ltd in the UK in 1991. He was named to his current position in 1994 and has responsibility for Texaco's businesses in Argentina, Bolivia, Brazil, Paraguay and Uruguay.

Caltex Australia Limited is most fortunate to have obtained the services of Tony to maintain the thrust of the company's activities. Tony's financial background, his broad international business experience, including his leadership of a large marketing company in Brazil in a challenging economic environment and his knowledge of the downstream business in general, will be valuable strengths. Caltex Australia Limited has set itself challenging growth targets and Tony is well qualified to lead our efforts as we strive to consolidate our position as the number one manufacturer, wholesaler and retailer of fuels in the country, and to increase shareholder value. He will take up his position on 31 March 2000.

* Texaco Inc and Chevron Corporation are joint owners of Caltex Corporation, which is a 50% shareholder in Caltex Australia Limited.

Annual General Meeting
The 2000 Annual General Meeting of Caltex Australia Limited will be held on:

Thursday, 27 April 2000 at 10.00am in the Ballroom
Sydney Hilton Hotel
259 Pitt Street
Sydney NSW 2000

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Advice to shareholders
This document is the Caltex Australia Limited Annual Review, with Concise Financial Report, designed to give you a summary of our financial results and an overview of our key activities for the year ended 31 December 1999.

Financial information in this review is derived from the Full Financial Report for the year ended 31 December 1999. The Concise Financial Report is designed to facilitate an understanding by shareholders of the financial performance, financial position and financing and investing activities of the group while omitting certain detailed financial data.

The Full Financial Report is available free of charge from Caltex's share registry on request on telephone 02 8234 5222. Both the Full Financial Report and this review can be accessed on the the company's web site at www.caltex.com.au

DR IAN BLACKBURNE

Managing Director's Review

Positioning Caltex to be the leader in a tough industry and the player with the most options to provide maximum value for our shareholders and customers underpinned the company's achievements in 1999.

In line with this strategic objective, during the year under review Caltex increased net profit, reduced operating costs, reduced debt, carefully invested capital in growth, expanded retailing activities and launched the new Caltex international brand.

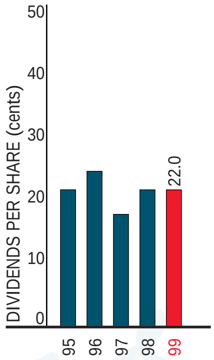
HIGHLIGHTS

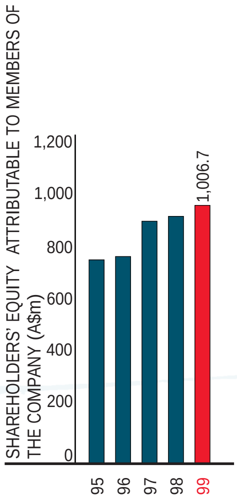
- Before abnormal items operating profit after income tax attributable to members of the company was $86.3 million (1998: $79.3 million) and $102.6 million after abnormal items (1998: $79.3 million). Abnormal items included an adjustment of $30.1 million on deferred tax liability arising from the reduction in corporate tax rate from 36% to 34%, then 30%, partially offset by redundancies and other related abnormal costs of restructuring amounting to $13.8 million.

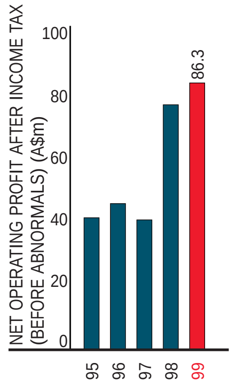
- Directors declared a final dividend payable of 14 cents per share, bringing dividend for the year to 22 cents per share fully franked, the same as last year.

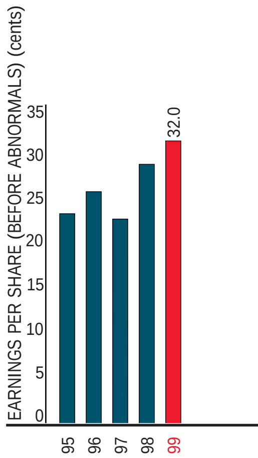
- The 1999 year was marked across the industry by a large deterioration in refining margins associated with a dramatic rise in crude oil prices, excess capacity and abundant product stocks in our region. The Organisation of Petroleum Exporting Countries (OPEC) achieved a high degree of compliance to production quotas and their actions resulted in the regional benchmark Malaysian Tapis crude oil price rising steeply through 1999 from an average US$11 per barrel in December 1998 to US$25 per barrel in December 1999.

- The weighted average refiner margin using Singapore prices on a replacement cost basis fell to US$1.69 per barrel, with refiner margins for petrol and diesel each moving down significantly.









REFINER MARGINS (US$/barrel)*	1999	1998	1997	1996	1995
Petrol	**2.41**	3.30	3.75	2.09	3.93
Diesel	**0.52**	1.61	3.44	5.58	3.47
Jet	**2.82**	2.49	4.14	6.89	4.62
Weighted average	**1.69**	2.42	3.30	3.31	3.49

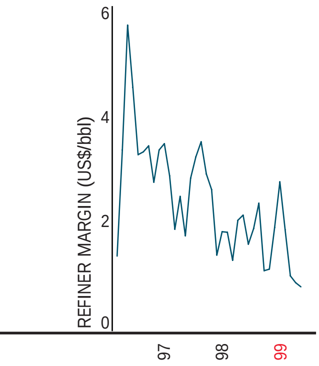
* Annual average Singapore spot refiner margins versus Tapis crude oil.

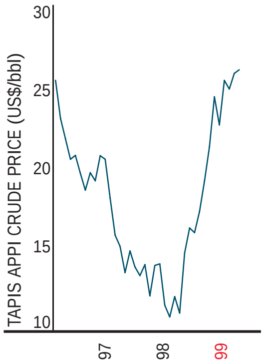
- As discussed in the replacement cost of sales basis of accounting section on page 8, the operating profit after income tax result incorporates $90.7 million net inventory gain (1998: loss of $63.1 million) from the rise in crude oil prices.
- Sales revenue net of product duties and taxes increased by 9.7% to $2,990 million, compared with $2,726 million for 1998. The rise reflected higher prices as a result of the increased cost of crude oil. Caltex collected $3,601 million in product duties and taxes on behalf of Federal and State governments, which was 55% of gross sales revenue compared to 57% for the corresponding prior period.

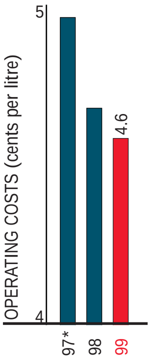
SALES REVENUE ($000)	1999	1998	1997*	1996*	1995*
Gross sales revenue	**6,591,405**	6,312,636	6,737,954	6,846,128	6,389,393
Less product duties and tax	**3,601,344**	3,586,638	3,497,096	3,577,909	3,397,392
Net sales revenue	**2,990,061**	2,725,998	3,240,858	3,268,219	2,992,001

* CAPPL

- Operating costs, excluding petroleum inputs, fell by $7.7 million compared to last year. One off branding and systems expenses were offset by an $11.8 million benefit from the change in accounting treatment for turnaround and inspection costs. In line with its forward strategy and to manage the poor refining margin environment, the company implemented a number of cost cutting measures, including:
  - reduction in the workforce by 200 staff over 18 months to the end of 2000
  - closure of regional offices and relocation of staff to terminals and home offices
  - centralisation of procurement functions and other productivity improvement measures.
- Sales of surplus assets, mainly inefficient and redundant service stations and depots, realised proceeds of $53.1 million.
- Capital expenditure for the year was $97.3 million with the focus on developing the company's retail network, yield and process improvements at the refineries, information technology, and environmental projects. A capital expenditure pause was implemented for a period during the year in response to poor refiner margins that delayed the roll out of convenience stores for several months. However, this program has now recommenced in full in line with the strategic plan.
- Income tax expense at $21.1 million for the period was an effective rate of 17%. Before abnormal items the effective income tax rate for the period was 40%.
- Gross debt as at 31 December 1999 stood at $1,119 million, down $49 million from 31 December 1998. As a result, gearing (net debt to net debt plus equity) of the Caltex group as at 31 December 1999 was 52.1%, down from 54.3% as at 31 December 1998. Working capital increased by $55 million, brought about by the significant increase in crude oil cost during the year.
- The company will pay a fully franked final dividend for the six months to 31 December 1999 of $37.8 million (14 cents per share) on 22 March 2000. This brings the total dividend for 1999 to $59.4 million (22 cents per share), the same as 1998.







- Fuels production decreased by 1.3% compared to 1998. The reduction was due to the regional conditions in the industry that restricted profitable export opportunities from Australia.

PRODUCTION (ML)	1999	1998	1997*	1996*	1995*
Fuels	**10,908**	11,050	11,482	11,470	10,570
Lubes	**167**	161	198	175	164

- Reliability and operational availability at the refineries was up and work has been done at both Kurnell and Lytton to improve utilisation, the yield of middle distillates, and energy efficiency.
- Caltex sales volumes in the major domestic market were up 0.9%, although a dramatic fall in exports reduced total sales volumes to 11,881 million litres in 1999, down by 0.2% versus 1998. The company's transport fuels market share was around 28%.

TOTAL SALES VOLUMES (ML)	1999	1998	1997*	1996*	1995*
Total sales volumes	**11,881**	11,908	12,046	12,355	12,037

- The intensity of competition increased with independent importers and retailers expanding their operations. Petrol discounting was up versus 1998 and margins on diesel and jet business were also lower than the previous year. However, net prices to end consumers rose as a consequence of the crude oil and excise tax increases.
- The company continued to expand its retailing activities to provide customers with even greater convenience. The convenience store network had 138 stores in operation with plans progressed for a further 40 stores this year. All outlets are being converted to the new Star Mart brand. In addition, Caltex has opened three Star Mart convenience stores without fuel and two supermarkets with a third under construction.
- Caltex commenced an alcohol retailing initiative towards the end of 1999 with the acquisition of two liquor businesses in Sydney. These liquor licences are a "research and development" type initiative, aimed at understanding the key drivers, developing the systems, and testing the compatibility of skills. In the short term, we expect to find cross-merchandising potential with the other

* CAPPL

The company continued to expand its retailing activities to provide customers with even greater convenience

retail operations. Ultimately, the company can add synergy and profits to its core business. Trials of this new format are encouraging.

OUTLOOK

- It is more likely than not that crude oil prices will weaken during the coming year. The regional outlook for petroleum refining margins remains uncertain although to the end of February 2000 they had firmed. A sustained improvement in margins is unlikely until the current resurgent growth in Asia absorbs recent refinery capacity additions.
- The company's strategies continue to focus on both productivity and growth. Operating costs are expected to decrease in 2000 with the implementation of major cost savings initiatives. The company also remains focused on achieving world benchmark refinery and operating performance. Growth revolves around an array of initiatives to increase revenue, including retail activities driven by a very strong customer focus.
- A team has been set up to implement the GST across the business. The financial outcome of the introduction of the GST for Caltex is not yet known and will depend on resolution of details over the coming months. The price of fuels is not expected to alter materially as a consequence of the introduction of the GST. This is because the Federal Government has indicated Federal excise will be reduced by an amount to offset the GST increase. Caltex has undertaken to comply with pricing guidelines issued by the Australian Competition & Consumer Commission (ACCC).
- The company's new brand image will continue to be rolled out across the Caltex convenience store network in 2000. We expect it will add further value as we deliver on a consistent easy experience brand proposition. The major television commercial campaign and at least one major sponsorship signing during 2000 aim to elevate the Caltex brand in terms of awareness and positioning. The brand campaign has been designed to invite consumers to test a new experience and to achieve increased customer visits.

ID BLACKBURNE Managing Director and CEO

Comparative Financial Information

$million	1999	1998	[1]1997	[1]1996	[1]1995
	Caltex Australia Limited Consolidated Results				
Profit and Loss					
Operating profit before interest, income tax and abnormal/extraordinary items	**216.7**	198.2	42.0	49.9	46.5
Interest income	**1.4**	0.8	8.4	10.4	38.0
Interest expense	**72.8**	70.2	7.0	16.6	45.6
Income tax expense/(benefit)	**59.0**	49.5	1.5	(3.5)	(3.7)
Operating profit after income tax and before abnormal/extraordinary items	**86.3**	**79.3**	**41.9**	**47.2**	**42.6**
Abnormal/extraordinary items	**16.3**	–	(193.8)	10.5	–
Operating profit/(loss) after income tax attributable to members of the company	**102.6**	79.3	(151.9)	57.7	42.6
Dividends					
Amount paid and payable ($/share)	**0.22**	0.22	0.18	0.25	0.22
Times covered (excl abnormal items)	**1.45**	1.34	1.29	1.28	1.08
Other data					
Shareholders' equity attributable to members of the company($million)	**1,006.7**	960.7	[3]941.4	803.9	791.2
Total shareholders' equity ($million)	**1,016.2**	969.4	[3]950.9	803.9	791.4
Return on shareholders' equity after tax, excluding abnormal items (%)	**8.6**	8.3	[2]4.3	5.9	5.4
Total assets ($million)	**2,974.1**	2,721.8	[3]2,894.7	939.0	1,019.2
Net tangible asset backing ($/share[4])	**3.10**	2.89	[3]2.78	4.47	4.40
Borrowings ($million)	**1,118.6**	1,168.0	[3]972.6	99.9	158.2
Net borrowings ($million)	**1,106.9**	1,152.4	[3]929.0	99.7	158.2
Net debt to net debt plus equity (%)	**52.1**	54.3	49.4	11.0	16.7

1 Earnings included 50% interest in Caltex Australia Petroleum Pty Ltd (CAPPL) (formerly Australian Petroleum Pty Ltd).
2 Calculated on figures excluding the issue of shares to Pioneer International Limited in partial consideration of the purchase of its interest.
3 Consolidation of 100% ownership CAPPL on 31 December 1997.
4 For NTA/share calculation 1995-1996 180 million shares issued, 1997-1999 270 million shares issued.

Replacement Cost of Sales Basis of Accounting

- To assist in understanding the company's operating performance, the directors have provided additional disclosure of the company's results for the year on a replacement cost of sales basis[5], which excludes net inventory gains and losses adjusted for foreign exchange.
- On a replacement cost of sales basis, the Group's operating profit after income tax for the year was $11.9 million, compared to $142.4 million for 1998.
- Operating profit before interest, income tax and abnormal items on a replacement cost of sales basis was $75.0 million, a reduction of $221.8 million over 1998.

$million	Cumulative 5 Years	Full Year [6]1999	Full Year [6]1998	Full Year [7]1997	Full Year [7]1996	Full Year [7]1995
Historic cost operating profit before interest, income tax and abnormal items	1,151.8	**216.7**	198.2	200.6	272.6	263.7
Add/(deduct) inventory losses/(gains)[8]	(33.1)	**(141.7)**	98.6	53.4	(27.9)	(15.5)
Replacement cost operating profit before interest, income tax and abnormal items	1,118.7	**75.0**	296.8	254.0	244.7	248.2
Abnormal items	27.5	**(21.6)**	–	36.1	13.0	-
Net interest expense	(452.8)	**(71.4)**	(69.4)	(95.1)	(113.6)	(103.3)
Historical cost tax expense	(259.0)	**(21.1)**	(49.5)	(54.2)	(67.1)	(67.1)
Add/(deduct) tax effect of inventory (losses)/gains	11.9	**51.0**	(35.5)	(19.2)	10.0	5.6
Replacement cost profit after income tax	446.3	**11.9**	142.4	121.6	87.0	83.4

6 Caltex Australia Limited.
7 Caltex Australia Petroleum Pty Ltd (formerly Australian Petroleum Pty Ltd).
8 Historical cost results includes gross inventory gains or losses from the movement in crude prices, net of the related exchange impact. In 1999, historical cost result includes $141.7 million net inventory gain (1998: $98.6 million net inventory loss) from the fall in crude oil prices, made up of $144.9 million in inventory gains (1998: $124.7 million in inventory losses) net of a unfavourable exchange impact of $3.2 million (1998: $26.1 million gain).

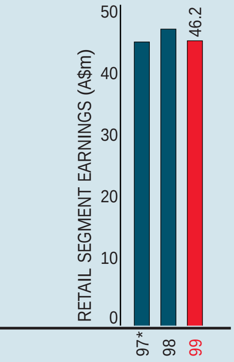
5 Caltex's results are significantly impacted by external factors such as crude oil price movements. Such price movements are outside the control of the company. As a general rule using the historic cost basis of accounting, rising crude prices will result in increased operating profit for Caltex, falling crude oil prices will result in decreased operating profit. This movement in operating profit, often referred to as an inventory gain or loss, can create large variations in Caltex's results as calculated by the historic cost method. Consequently, in order to provide a better insight into the operating performance of the company, Caltex's financial reporting now includes earnings on a replacement cost of sales basis. Replacement cost of sales earnings exclude inventory gains and losses and are calculated by restating cost of sales using the replacement cost of goods sold rather than the historic cost. Since crude oil is purchased in US dollars, inventory gains and losses are calculated after taking into account any foreign exchange impacts.

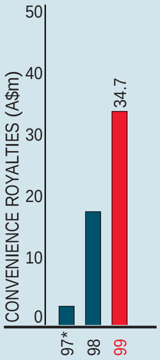
By 2006, the Australian petroleum sector will have undergone a fundamental change from which only the best will survive.

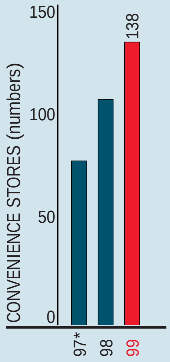
Within five years, Australian refining centres can be among the most efficient in the world. Cleaner fuels will be making a substantial contribution to lower pollution levels.

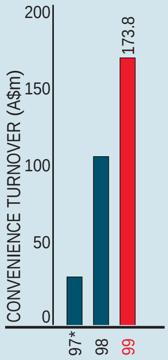
Retail outlets will no longer be solely fuel-focused service stations but world class convenience retailers giving customers an easy shopping experience in the most convenient locations.

Caltex aims to be in a position of strength – the leader in a tough industry – the player with the most options, able to provide maximum value to our customers and shareholders.









Marketing Review

The launch and roll out of Caltex's new brand identity and easy experience positioning at the company's service stations, convenience stores and supermarkets was the highlight of 1999 Marketing initiatives. The new brand image is part of a major repositioning of the Caltex offer to our retail, wholesale and commercial customers. It will involve the conversion to the new Caltex look of all company sites in major metropolitan areas and is being backed by our first major television advertising campaign in many years.

The new international Caltex logo and livery is the visual element that gives the cue that there is a new Caltex emerging in the marketplace. It will identify the brand in everything that Caltex does. The new logo represents the easy experience and creates in the minds of customers the new identity for Caltex that sets us apart from our competitors. The initiative positions Caltex as a global brand that provides the highest standards of service delivery that regularly get better as we meet the ever rising expectations of our customers.

At the service station, this might be something as simple as making sure they are designed so motorists can get in and out easily and safely, that the pumps are fast, products are always in stock and at the right price, the store is clean, light and neat and customers are greeted warmly and can pay and exit promptly.

For franchisees, distributors and commercial customers, we aim to ensure refinery production is reliable, deliveries are on time and in full, and invoice and delivery documentation is accurate.

The company's Ampol brand will be retained primarily in country areas where it has a decisive recognition factor and strong customer loyalty.

MARKETING HIGHLIGHTS

Retail

- Operating profit contribution from the Retail business unit was $46.2 million (compared to $48.1 million in 1998). Profit for the year was affected by reduced margins in a more competitive petrol market and the closure of 198 service stations. These effects were offset by increases in non-fuel income as the company expanded its retailing activities by reductions in operating costs and by inventory gains.
- In 1999, the performance of our convenience stores continued to improve with average shop sales up by 11.3% over 1998 to

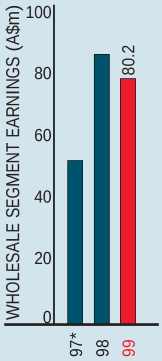
* CAPPL

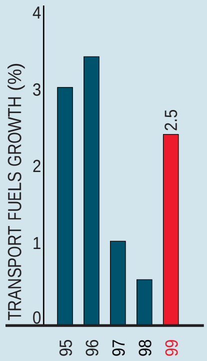
WAYNE KLAHS

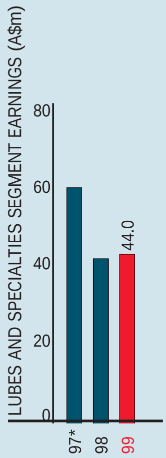
arketing

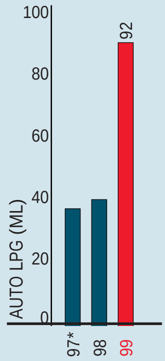
$28,000 per week and reached a seasonal average $32,400 per week for the month of December.

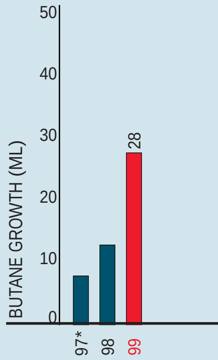
- Royalties were generated totalling $34.7 million.
- In February 1999 Caltex opened its first combined supermarket/fuel outlet at Bondi in Sydney under the IGA Everyday brand. It has been followed by a similar supermarket at Rose Bay in Sydney with another soon to open in South Yarra in Melbourne. These stores are approximately three times larger than a traditional convenience store and they stock a much wider range of groceries, fresh food and fast take-away offers. Another three supermarkets are currently in planning.
- Caltex's food product range grew. Both perishables and non-perishables categories experienced sales growth as a result of strong category management, improved merchandising and new store layouts. A fresh bakery offer was introduced using Delifrance products and the Pizza Haven format continued to be rolled out in all new convenience stores, expanding the company's fresh food offer. New food formats continue to be evaluated as extensions to the range.
- Caltex commenced a liquor retailing initiative towards the end of 1999 with the acquisition of two liquor businesses in Sydney. The initiative is a research and development step to acquire licences, to understand the key drivers, to develop the systems and to test the compatibility of skills in the expectation that ultimately the company can add synergy and profits to its core business. In the short term, we expect to find cross-merchandising potential with the other retail operations. The trials of this new format are encouraging.
- The company continued to expand its retailing activities to provide customers with even greater convenience. The convenience store network had 138 stores in operation with plans progressed for a further 40 stores this year. All outlets are being converted to the new Star Mart brand. In addition Caltex launched three Star Mart convenience stores without fuel, and two supermarkets with a third under construction.
- The balance of Caltex's traditional service stations are being converted into a network of smaller convenience stores, a large network of strong fuel-focused outlets that have profitable small convenience stores under new royalty-based franchises. It is expected this network will ultimately grow to around 450 sites.
- The Caltex Retail Degree, that is available to employees and franchisees in conjunction with Monash University in Victoria, continues to have a valuable role in enhancing the company's retailing skills.
- The Federal Government withdrew its marketing reform legislation and the proposed new Oilcode in September 1999 as a result of opposition by Labor, the Australian Democrats and the Motor Trades Association of Australia. However, Caltex will continue to work constructively to achieve repeal of unfair marketing regulation while developing alternative marketing strategies that maximise profitability within the confines of existing regulation.











Wholesale Fuels

- Operating profit in the Wholesale Fuels business unit was $80.2 million, down $7.9 million in a more competitive market. Prices to end consumers remained very competitive with independent importers and retailers expanding their operations (see page 19). Competition in the commercial area continued to be intense with lower sales volumes, particularly in the mining industry, leading to reduced margins.
- Following the completion of a major business re-engineering project, Caltex reorganised its marketing staff to reduce numbers and lower costs without adversely affecting service levels. Regional offices have been closed with some functions being transferred to terminals at a reduced cost and improved customer service levels.
- Caltex continued to consolidate its position at Melbourne Airport following entry into the market 18 months ago. The initiative will provide a more complete service to domestic and international airline customers that had been serviced from the company's traditional bases of Sydney, Brisbane, Coolangatta and Cairns airports.
- Joint venture fuel distribution terminals continue to be implemented with several more opportunities near completion. These operations are leading to cost savings, supplementing the efficiencies gained from distribution rationalisation and enterprise agreements with award staff.
- The company substantially increased its focus on electronic marketing, including new card offerings to customers. Gold Starcard was successfully launched in November allowing customers to purchase a wide range of goods and services from 2,000 outlets including fuel, tyres, windscreens and batteries. Caltex Roadside Assistance was launched during the year in conjunction with leading state motoring organisations to provide customers and their vehicles with roadside help.
- At the same time, business-to-business use of e-commerce is increasing rapidly with more customers seeking to share in the efficiencies, accuracy and timeliness which e-commerce brings.

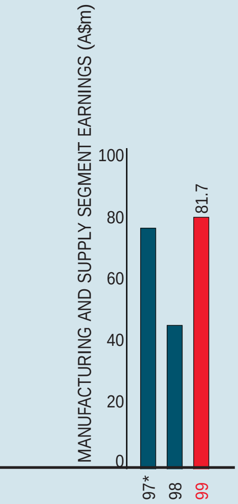
Lubricants and specialties

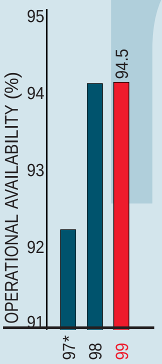
- Operating profit was $44.0 million, up on 1998 by $1.2 million on lower demand particularly in lubricant sales and those specialty products affected by the Asian economic crisis. However, strong sales growth was achieved in bitumen and LPG. A new Autogas facility at Lytton refinery was brought on stream in April, enabling the recovery of additional saleable LPG. This enhancement assisted 1999 sales growth in LPG of 56% over the previous year.
- Caltex established a joint venture with BP Amoco for the blending, packaging and warehousing of lubricants in Australia. The new company, Australian Lubricants Manufacturing Co. Pty Limited (ALMC), commenced operation on 1 January 2000 and will create synergies with a single management drawn from both companies, better utilisation of plant and lower labour costs.
- The company has reconfigured its lubricants product range to more closely reflect the products marketed by Caltex, Chevron and Texaco internationally. At the heart of the new range are the global brands of Delo and Havoline, including Delo 400 and Havoline Energy, which are leaders in their respective markets.
- Attractive sectors of the lubricants and specialties markets continue to be targeted with the successful launch of new products in the road transport and agriculture markets. These are growth areas of the market that fit well with the high performance products that Caltex has in its range. Significant growth opportunities have been identified in the areas of crop protection and detergents.

WL KLAHS General Manager, Marketing

* CAPPL

Left: A major advertising campaign during 2000 will aim to elevate the Caltex brand in terms of awareness and positioning.





Manufacturing and Supply Review

The Caltex Manufacturing and Supply business unit is acutely focused on maximising operating efficiency and profit. This means operating reliably, maximising refinery throughput, minimising costs, selectively targeting capital expenditure and optimising refinery yields.

Cost minimisation remains a central strategy for the refineries. Over the last seven years, Caltex has reduced total manufacturing costs by $85 million. However, we are still looking for ways to improve this performance with initiatives in procurement and shared services with Caltex Corporation. Refinery staff are undertaking best practice reviews with affiliate and major shareholder refineries.

All capital invested is spent judiciously to achieve improved profitability or to carry out essential maintenance or environmental projects. Future capital investments at the refineries in response to recent Federal Government requirements mandating new clean fuels specifications are currently being assessed (see page 21).

MANUFACTURING AND SUPPLY HIGHLIGHTS

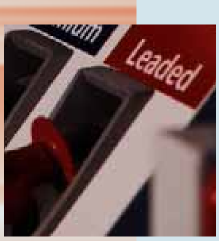
- Operating profit in the Manufacturing and Supply business unit was severely affected by refining margins at new lows, offset by significant inventory gains. The weighted average refiner margin was down to US$1.69 per barrel and average refiner margins for petrol, diesel and jet fell to new lows on reduced demand and high regional stocks. Operating profit, which benefited from inventory gains, was $81.7 million, up from $46.6 million in the prior year.

- Reliability at the refineries was up with operational availability averaging 94.5% for the year compared to 94.2% in 1998. The company installed a new, best practice SAP maintenance and material management system that is fully integrated with company business systems. This will be a major driver for sustained reliability performance and reduced maintenance costs in the future.

- Work has been done at Kurnell and Lytton refineries to improve utilisation, the yield of middle distillates and energy efficiency. For example at the Kurnell refinery processing rates increased 6,100 barrels per day on #1 Crude Distillation Unit, 7,000 barrels per day on Vacuum Distillation Unit and 1,000 barrels per day on #3 Crude Distillation Unit.

* CAPPL

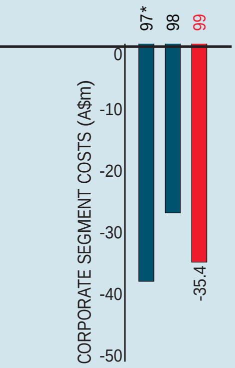
ALEX STRANG

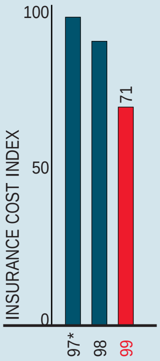


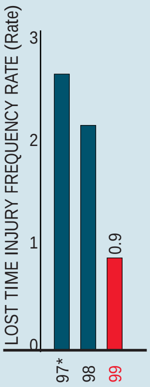
acturing and supply

- Improved operation of isomerisation and diesel hydrotreating plants improved refinery yield over the year. Yields improved 0.6% and 0.5% at the Kurnell and Lytton refineries respectively.
- Both refineries moved maintenance employees to annualised salaries, a change the company believes will improve productivity. Lytton refinery operators also moved to an annualised salary and manning reductions were agreed as part of ongoing efficiencies. Kurnell refinery operators have been on annualised salaries for a number of years.
- Both refineries participated in the international Solomon survey covering 1998 performance. Lytton and Kurnell were first quartile performers in terms of return on investment. The 1998 survey covered a total of 71 refineries in Asia, Australia and the Indian Ocean coast of Africa.
- Crude oil and shipping costs were reduced as a result of a substantial decrease in the shipping suppliers seafarers' rehabilitation and compensation payments and insurance costs. The four Australian manned vessels operated by Teekay Shipping Corporation to carry Caltex crude oil and petroleum products are now fully supplied with Caltex lube oils. Stores are now taken on board the vessels once every three months to reduce victualling costs.
- In November the Federal Government launched a new policy framework for Australia's petroleum products refining industry. The Downstream Petroleum Products Action Agenda supports the vision of a strong, efficient and environmentally responsible Australian oil refining industry. It recognises the need for industry restructuring and the significant investment required in coming years to produce cleaner fuels. The Government agreed it would support on a case-by-case basis any refinery merger submissions to the ACCC where a clear public benefit can be demonstrated. Caltex played a significant role in the development of the policy position.
- The June 1999 Federal Government policy announcement, Measures for a Better Environment, committed Australia to cleaner fuels, including ultra low sulfur diesel from 2006. Details of new clean fuels standards are being developed through the Fuel Quality Review, a Government consultancy that is examining the cost to refiners of various fuel specification scenarios. Caltex and other refiners have been closely involved in the review. The review report is expected to be finalised and released later this year.

AD STRANG General Manager, Manufacturing and Supply







Corporate Review

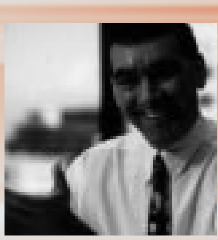
- Caltex again enjoyed a year free from major incidents. This is an important achievement and reflects an outstanding effort by all involved. Caltex recognises that no industry will ever be risk free and continued to implement its aggressive program of cost effective risk reduction. Caltex is committed strongly to this program which is subject to an independent audit of progress.
- Caltex's risk management system focused particular attention during 1999 on 17 key risks facing the company and as a result of targeted action plans the total quantum of this risk was reduced by 67%. Insurance costs are an indicator of the company's risk and 1999 was the third year in a row in which insurance costs were reduced. Total insurance premiums have now fallen by 29% over three years as a result of risk reduction initiatives.
- 1999 saw Caltex achieve its best ever safety record. The Lost Time Injury Frequency Rate (LTIFR, the number of injuries per million workhours) was less than 1.0, which puts Caltex in a class with the world's best performers on this key indicator of operational excellence.
- Another focus has been in improving the Environment, Health & Safety Management system to ensure environmental issues are addressed in all business operations and that Caltex keeps abreast of international trends for customer expectations. Considerable success was achieved in removing subsurface contamination from former and operating service station and depot sites. The work has been done in conjunction with surrounding communities ensuring local involvement in the projects.
- Caltex is taking part in national and state moves to introduce cleaner fuels into Australian markets. Over time, the sulfur content of Caltex's diesel fuel will be greatly reduced and our petrol will have no lead, less sulfur, lower vapour pressure and higher octane. These changes will cut air pollution and help reduce greenhouse gas emissions from vehicles.
- Government has mandated some changes already and other changes are being implemented. For example, Caltex has already cut the vapour pressure of petrol in the Sydney area, which will reduce smog. In Western Australia, we are marketing lead replacement petrol, which substitutes for leaded petrol in older cars. Further changes in fuel specifications will take place continually through to 2006 (see page 21).

* CAPPL

KEN BANIA

HELEN CONWAY

SIMON HEPWORTH



porate

- Caltex finalised a number of major information technology projects during the year including the decommissioning of its former mainframe, completion of the major Business Process Re-engineering project and adoption of an important $40 million outsourcing agreement for infrastructure services from EDS Australia Pty Ltd. Outsourcing of infrastructure services – from desktop to central server operations – constitutes a major strategic change in IT. In addition, the processing operations of card transactions were outsourced to EDS Australia Pty Ltd.

- In conjunction with Caltex Corporation, a shared services review is under way to investigate potential convergence of the IT (SAP) systems and the opportunity to move various components of Accounting/Finance, Information Technology Support and Human Resources functions into a shared services facility. These initiatives are expected to generate efficiency gains in business transaction processing.

- A team has been set up to implement GST across the business. The financial effect of the introduction of the GST for Caltex is not yet known and will depend on resolution of details over the coming months. The implementation team aims to develop a simple and effective compliance system with a transitional program to minimise the impact of GST on the business.

- The price of fuels is not expected to alter as a consequence of the introduction of the GST. This is because the Federal Government has indicated Federal excise will be reduced by an amount to offset the GST increase. In relation to lubricants and other specialty products where it applies, the existing 22% sales tax will be removed to be replaced by 10% GST. Caltex has undertaken to comply with pricing guidelines issued by the ACCC.

- Caltex participates actively in the communities in which it operates. The commitment to good corporate citizenship is an integral part of the company's operations and reflects the concern Caltex has for people, their well-being and their quality of life through the contribution of intellectual, human, financial and organisational capital. This involves building the skills of employees by providing training and career and leadership development through such programs as the Retailing Management program, Graduate Certificate in Corporate Management, Diversity program, Leadership Development program and competency audits.

- Caltex has an active communication program with shareholders and stakeholders' including its business partners. The company supports and works closely with distributor and franchisee associations. Employees commit considerable efforts to enhance relationships with local community members and their representatives, government and customers. These are particularly important for people living near to major Caltex facilities at Kurnell and Lytton.

- The Caltex contributions and sponsorship programs provide support to community welfare activities and several major arts organisations. The company's Caltex Best All Rounder Award and Essay Competition recognises outstanding all round performance by students at secondary schools throughout Australia.

K BANIA General Manager, Human Resources

H CONWAY Company Secretary, General Counsel

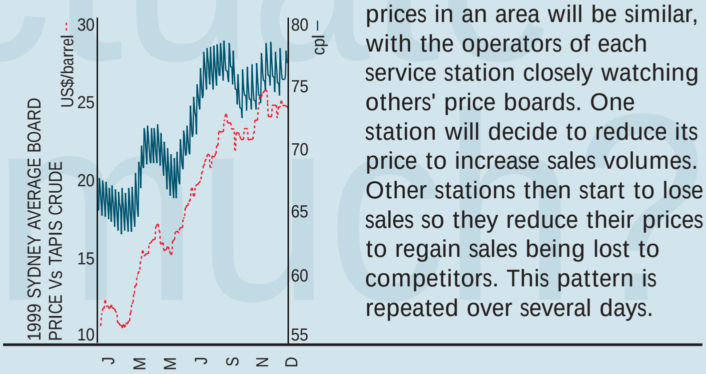
S HEPWORTH General Manager, Finance and Business Support

Why do petrol prices fluctuate so much?

Why do petrol prices fluctuate so much?

The fluctuation of petrol prices is a constant source of frustration for motorists. Prices can jump up or move down significantly within a day and are often quite varied across different suburbs. Pump prices often appear to go up together after they have been discounted heavily for several days. In fact, the prices do not move together but often closely chase each other as the dealer at one site watches competitors change prices and then quickly follows. Both the discounting and jumps are the result of a highly contested market where competitors' prices are readily visible on price boards.

The following market cycle is typical. At the high priced point in a discount cycle, pump prices in an area will be similar, with the operators of each service station closely watching others' price boards. One station will decide to reduce its price to increase sales volumes. Other stations then start to lose sales so they reduce their prices to regain sales being lost to competitors. This pattern is repeated over several days.



Not long into the cycle, oil companies need to provide discounts to their franchised dealers. The discounts are known as "rebates" or "price support". They effectively reduce the initial wholesale purchase price paid by franchisees in order to enable them to meet the competition. Without rebates, franchised dealers would soon lose money as pump prices fell. Over the course of a discount cycle, with company rebates available to them to meet competition, dealers' retail margins do not vary substantially. Rebates are available to all locations, both city and country.

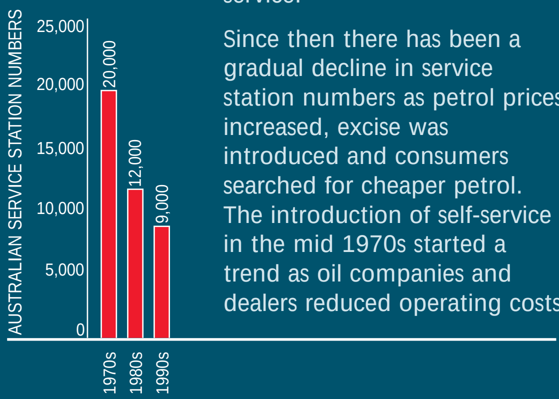
After several days of the discount cycle, with prices decreasing, one oil company wholesaler will no longer be able to sustain the low wholesale prices and will advise its franchised dealer that rebates will cease from a particular time. The dealer may set the pump price at any level but typically will increase it in line with the increase in wholesale price. Other wholesalers, observing the pump price increase, may also cease rebates, so that all pump prices may increase in rapid succession. This competitive behaviour is neither anti-competitive nor illegal and in fact results in lower prices on average over the cycle.

Recent rises in the overall level of prices have been driven by a sharp increase in the price of crude oil as a result of OPEC nations agreeing to restrict supplies. Tight OPEC production quotas have reduced supply and driven crude prices from around US$11 a barrel at the start of 1999 to around US$25 a barrel in December 1999 and as much as US$29 a barrel in early 2000. Every US$1 a barrel increase in the price of crude oil roughly translates to an A1 cent per litre increase in costs at the petrol pump (at an exchange rate of around US$0.63 an A$). There are 159 litres in a barrel of oil.

Why do service stations keep on closing?

Why do service stations keep on closing?

In the 1950s and 1960s there were no special fuel taxes, oil prices were low, new car sales were booming and Australia was on the move. There were nine oil companies (Amoco, Ampol, Atlantic/Esso, BP, Caltex, Golden Fleece [bought by Caltex], Plume/Mobil, Shell and Total [bought by Ampol]) competing aggressively for sales and trying to capture market share by building service stations on every corner. These locations usually offered only petrol, some car accessories and mechanical service. This expansion peaked in the early 1970s with around 20,000 service stations, all of which offered full driveway service.



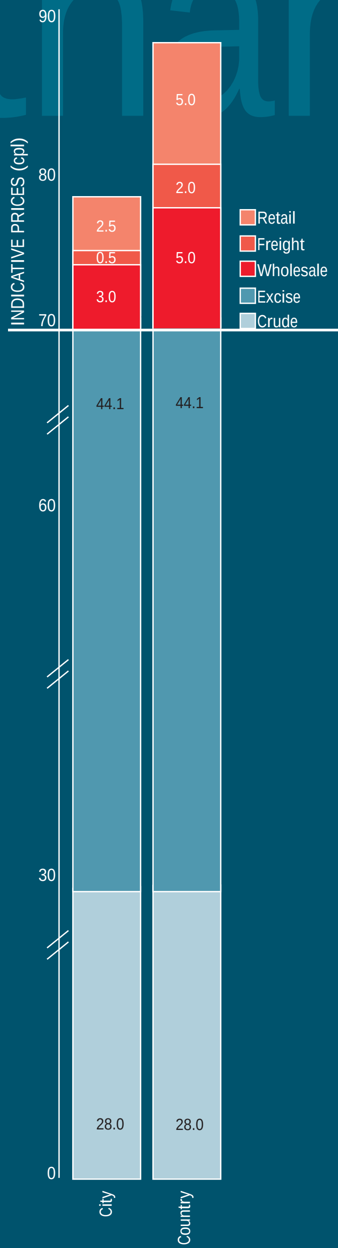
Since then there has been a gradual decline in service station numbers as petrol prices increased, excise was introduced and consumers searched for cheaper petrol. The introduction of self-service in the mid 1970s started a trend as oil companies and dealers reduced operating costs and drove their site volumes higher. The gradual withdrawal of competitors such as Amoco, Golden Fleece and Total also facilitated the rationalisation as the oil companies closed overlapping sites that were inherited as a result of buying out a competitor.

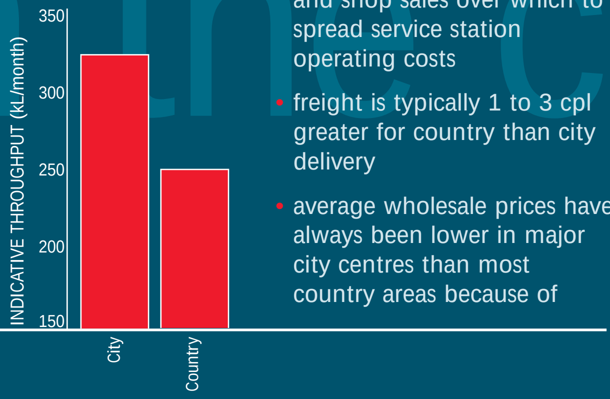
Compounding this rationalisation was a move to retailing of other products through service station shops. Both oil companies and consumers saw that service stations overseas were selling goods other than petrol. Consumers began to demand newspapers, soft drinks, bread and milk and more from a one-stop location. The companies saw the potential and began to develop convenience shopping stores.

The larger outlets, focused on retailing from their shops, were able to discount their petrol to attract more customers. This placed more and more pressure on the smaller, workshop style service stations. Workshop business declined at the same time that more and more customers were taking new fuel injected, computer controlled vehicles back to the car dealer for servicing. Economies of scale and new technology combined to squeeze out small service stations.

This is still the situation today with further pressure being applied by independent operators and new market entrants that are able to import petrol from international refining centres like Singapore. Supermarkets have now entered the competitive fray, as in Europe, and they offer cheaper petrol and additional shopper docket discounts on fuel to attract customers to their stores. All of these factors continue to place intense pressure on the ability of smaller service stations to survive. Caltex expects the number of stations in Australia will continue to fall, down from about 8,000 today to somewhere around 5,000-6,000, or less, over the next few years.

Why are country petrol prices higher than the city?





Why are country petrol prices higher than the city?

Country petrol prices are not always higher than city prices as prices in city areas often vary widely and some country markets are highly competitive. However, country prices are on average higher than city prices for the following reasons:

- retail margins (pump price less wholesale price) are typically 4 to 7 cpl in the country compared with 2.5 to 3 cpl in Sydney, mainly due to lower fuel volumes and shop sales over which to spread service station operating costs
- freight is typically 1 to 3 cpl greater for country than city delivery
- average wholesale prices have always been lower in major city centres than most country areas because of greater competition in denser urban markets, typically by 2 cpl but during 1999 by more than this amount
- competitive forces and costs also vary between country towns so that pump prices do not just reflect freight differences

Another factor often not recognised is that excise tax paid by motorists is lower in Queensland, northern NSW and country South Australia by up to 8.3 cpl. (The Queensland and South Australian Governments subsidise fuel prices. NSW subsidises areas close to the Queensland border to avoid loss of sales to lower-priced Queensland border areas.)

Petrol markets are competitive but the intensity of competition varies between locations. Some city areas are highly competitive, with deep discount cycles, and others are less competitive with higher prices on average. The same differences exist between country locations. Discounting is less common in the country than in the city, although it increased significantly in 1999. The level of competition affects both pump prices and wholesale prices.

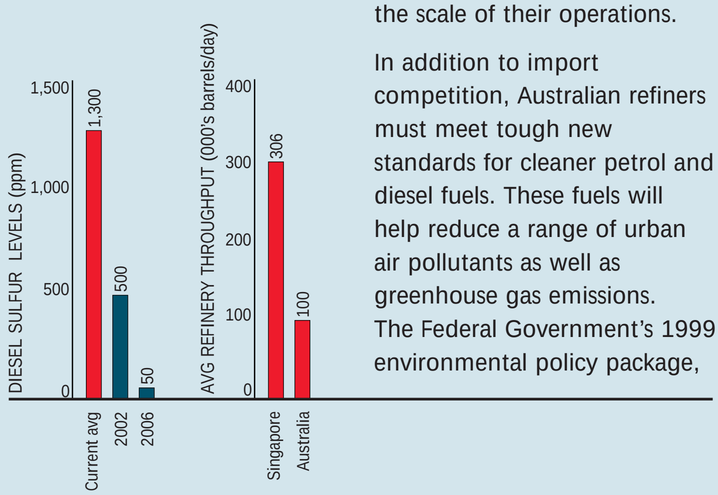
In metropolitan areas, intense competition means that retail and wholesale margins are generally insufficient to permit oil companies and their dealers to earn a reasonable rate of return on capital invested in the business. In country areas, returns are typically more reasonable for both service stations and wholesalers. Country consumers therefore do not subsidise city motorists – rather, city prices are less than they should be to give a fair return to oil companies and service station operators.

Refinery restructuring and cleaner fuels

Refinery restructuring and cleaner fuels

Australian oil refineries have been manufacturing petroleum products since 1928 and today are capable of providing most of Australia's product demands. Refineries generally are technologically advanced and compete against product imports without any government assistance. The local manufacture of petroleum products improves Australia's balance of payments, maintains security of supply and provides highly skilled manufacturing jobs. Caltex shares the Government/industry vision that Australia should have a strong, efficient oil refining industry that is environmentally responsible and supplies the majority of the nation's refined petroleum product needs.

However, petroleum refining is capital-intensive and driven by economies of scale. Australian refineries must compete with larger, lower cost refineries in Asia and other regions. In order to compete, both domestically and internationally, Australian refiners must become more efficient by further reducing operating costs and increasing the scale of their operations.

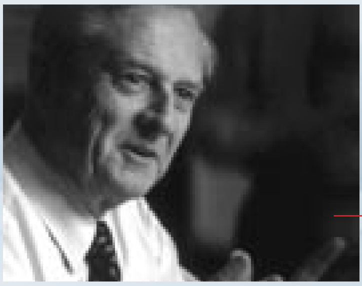


In addition to import competition, Australian refiners must meet tough new standards for cleaner petrol and diesel fuels. These fuels will help reduce a range of urban air pollutants as well as greenhouse gas emissions. The Federal Government's 1999 environmental policy package, Measures for a Better Environment, set mandatory new standards for cleaner fuels, in particular a limit of 50 parts per million (ppm) sulfur in all diesel fuel from 2006. Diesel used in road transport must be reduced from around an industry average of 2,000 to 500 ppm by the end of 2002 and tougher petrol standards will take effect from 2006. In addition, state governments are seeking, and in some cases mandating, earlier reduction in diesel sulfur and removal of lead from petrol.

The requirement for investment for cleaner fuels is likely to result in the closure of some refineries. This is because the smaller scale of Australian plants relative to their Asian competitors is likely to make it uneconomic to invest in all eight refineries. Effective industry restructuring will be essential and may necessitate joint ventures of various kinds between existing refining companies to achieve greater economies of scale, reduce investment requirements, reduce operating costs and attain maximum operational synergies. Formal government support for such restructuring will be of assistance when particular joint venture proposals are given regulatory consideration, and this support has been committed in the Government's Downstream Petroleum Products Action Agenda policy.

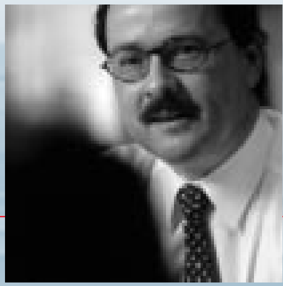
The ACCC will have a key role in assessing any future proposals to restructure refining through joint ventures. Caltex hopes the ACCC will assess the competition effects of proposals against what is likely to happen in the absence of the proposals and give due weight to the public benefit from maintaining a viable oil refining industry in Australia.

Your Board



MALCOLM IRVING AM BCOMM

ID BLACKBURNE PHD, MBA



JL BANNER BS

JW BERNITT BA

Chairman of Directors
Non-executive Director

Age 70. Appointed a non-executive Director in November 1990 and non-executive Chairman in September 1995. Chairman of the Human Resources Committee and member of the Audit and Risk Committee. He has had a long career in merchant banking in which he held senior positions including 12 years as Managing Director, CIBC Australia Limited. Chairman of the Australian Industry Development Corporation Group. Director of Telstra Corporation Limited and Member of Council Macquarie University.

Managing Director and CEO
Executive Director

Age 54. Appointed Managing Director and Chief Executive Officer in January 1998. Previously Managing Director of Australian Petroleum Pty Ltd (1995-1997) and Managing Director of Ampol Limited (1992-1995). Former Chairman of Australian Institute of Petroleum Limited. Director of CSR Limited; Adjunct Professor of University of Queensland; and Chairman of Royal Botanic Gardens and Domain Trust (NSW). Member of Advisory Council Australian Graduate School of Management.

Non-executive Director

Age 45. Appointed to the Board in July 1999. Member of the Human Resources Committee. Recently appointed Senior Caltex Resident Director of LG-Caltex, Korea. Previous positions include Chairman of Caltex China Limited and Caltex Ocean Gas and Energy Limited, PRC; Managing Director of India Management, India; Manager of Network Development, Caltex International Marketing Centre, Singapore; Deputy Managing Director of Emirates Petroleum Products Company, Dubai; and Assistant General Manager, Pakistan.

Non-executive Director

Age 56. Appointed to the Board in July 1999. Currently Corporate Vice President and President of Marketing Business Unit, Caltex Corporation. Since joining Caltex Petroleum Corporation in New York in 1960, he has held managerial marketing positions with Texaco in the USA and Europe, including Vice President of Marketing and Assistant General Manager, Europe.

RJ BOTHWELL

Non-executive Director
Age 61. Appointed to the Board in August 1998. He has held various senior management positions with KFC/PepsiCo Restaurants International and from 1996 to 1998 was Senior Vice President of Global Franchising based in the USA. His earlier career was with Esso Australia (1958-76) where he was Merchandising Manager. He is Chairman of Westmead Hospital Research Institute and a Director of Colorado Group Limited and The Australian Pork Corporation.

DC MACKNEY BE

Non-executive Director
Age 58. Appointed a non-executive Director in December 1997. Member of the Audit and Risk Committee. Previously a director of Australian Petroleum Pty Limited. Former Petroleum Investment Manager of Pioneer International Limited. Previous appointments include General Manager of Marketing and Refining, Esso Australia. He was previously a director of Cultus Petroleum NL.

RFE WARBURTON

Non-executive Director
Age 59. Appointed a non-executive Director in July 1999. Chairman of the Audit and Risk Committee and member of the Human Resources Committee. Chairman of David Jones Limited and Goldfields Limited. He is also a Director of the Reserve Bank of Australia, Note Printing Australia, Southcorp Limited, and Nufarm Limited. He is National President of the Australian Institute of Company Directors and Chairman of the NSW Olympics Business Roundtable. Formerly Chairman and CEO of Du Pont Australia and New Zealand.

KT WATSON LLB LLM

Non-executive Director
Age 56. Appointed a non-executive Director in February 1996. Member of the Audit and Risk Committee. A solicitor and partner of Minter Ellison, Sydney. Member of Australian Mining and Petroleum Law Association Limited. He is admitted to practise as a solicitor in New South Wales and Victoria.

Directors of Caltex Australia Limited as of 24 February 2000.

GJ Camarata retired on 24 February 2000.

Mr SS Yosufzai was appointed on 24 February 2000.

The Directors of Caltex Australia Limited are committed to a goal of achieving best practice in corporate governance.

ROLE OF THE BOARD OF DIRECTORS

The Board is accountable to and elected by the shareholders. It is responsible for the overall direction of the company, the setting of its major goals and its overall governance. The overall primary goal set by the Board is the enhancement of long term shareholder value.

Responsibilities for day to day activities of the company are delegated by the Board to the Managing Director and CEO Dr Ian Blackburne.

SIZE AND COMPOSITION OF THE BOARD

The number of Directors is determined by the Board from time to time. The Caltex constitution requires the number of Directors to be not less than three and no more than 12.

The age, relevant qualifications and attributes of Directors (as at 31 December 1999) are set out on pages 22 to 23. During the reporting period the following Board resignations and appointments occurred:

JL Banner (appointed 29 July 1999)
JW Bernitt (appointed 29 July 1999)
RFE Warburton (appointed 29 July1999)

BA Chafitz (resigned 29 July 1999)
LG Lonergan (resigned 29 July 1999)
DJ Mansour (resigned 20 August 1999)

Since the reporting period, Mr GJ Camarata resigned from the Board and committees and Mr SS Yosufzai has been appointed with effect from 24 February 2000.

TERMS OF APPOINTMENT

One-third of the Directors other than the Managing Director must retire every year and must submit themselves for re-election at least every third year. Directors appointed to a casual vacancy must retire at the next Annual General Meeting following their appointment and may submit themselves for election at that meeting, in accordance with the company's constitution.

MEETINGS

The number of Board meetings held and attendance are set out in the Directors' Report (page 27). The Board formally met on 11 occasions with one of these meetings being set aside for comprehensive review of strategy, whilst Board papers were circulated on two other occasions.

COMMITTEES OF THE BOARD

The Board has established charters for the operation of its Audit and Risk Committee and Human Resources Committee and established, as needed, a number of specific purpose sub-committees to assist Directors carry out their responsibilities.

The Audit and Risk Committee which comprises four non-executive Directors, currently Messrs RFE Warburton (Chairman), MG Irving, DC Mackney and KT Watson, met on three occasions during the year.

The Audit and Risk Committee assesses and reviews external and internal audits and any material issues arising from these audits, and is charged with assessing the adequacy of the company's financial and operating controls, including:

- risk management;
- environment, health and safety;
- compliance with legal requirements; and
- ethical guidelines affecting the company's corporate governance practices.

It also makes recommendations to the Board regarding the appointment of external auditors and the level of their fees and provides a facility, if necessary, to convey any concerns raised by the external and internal auditors independently of management influence.

The Human Resources Committee met on four occasions during the year. The Committee comprised Messrs MG Irving (Chairman), JL Banner, GJ Camarata and RFE Warburton.

The Human Resources Committee reviews the performance and remuneration of senior management including executive Directors. Remuneration is set by reference to independent data, external professional advice, the company's circumstances and the requirement to attract and retain high calibre management.

Apart from a number of specific purpose sub-committees which met on six occasions during the year, there is a Management Advisory Committee comprising the Chairman of the Board (or his nominee), a Director nominated by Caltex Corporation, and the Managing Director (or the General Manager Finance as his alternate), which is an advisory committee that exchanges regular information and opinion on matters that could affect Caltex and its shareholders.

INTERNAL CONTROLS

The company has established controls at the Board, executive and business unit level that are designed to safeguard the company's interests and ensure the integrity of its reporting. These include accounting, financial reporting, environment, health and safety and other internal control policies and procedures, which are directed at ensuring the company fully complies with all regulatory requirements and community standards.

Further details of the company's policies relating to interest rate management, foreign exchange risk management and credit risk management are included in Note 19 of the Full Financial Report of the company.

Through these and other policies, the company seeks to minimise the risk that arises through its activities. Comprehensive practices are in place for ensuring that:

- capital expenditure and revenue commitments above a certain amount obtain Board approval; and
- financial exposures are controlled, including the use of derivatives.

RISK MANAGEMENT SYSTEM

The company's intention is to be a high performance, low risk organisation, and in our industry a large proportion of this physical risk comes from exposures associated with the environment, health and safety. In order to manage these risks in a cost effective manner, the company has:

- identified and prioritised the key risks which face the company;
- developed risk management plans to reduce these risks; and
- developed an ongoing set of indicators which are used to measure and reduce risk in all aspects of Caltex's operations.

External review of the risk management system rates it as the leading edge of thinking in this area and the system has been instrumental in reducing the company's insurance premiums.

Details of the company's management of financial risk are set out in the relevant sections of the Full Financial Report.

ETHICAL STANDARDS

The company encourages all of its employees to maintain the highest standards of integrity and honesty in the day to day performance of their jobs and in any situation where their actions could influence the reputation of the company. In particular, the company requires employees to:

- be aware of and obey the law;
- be fair and honest in their actions;
- individually and as a team contribute to the well-being of shareholders, customers, dealers and distributors, the economy and the community;
- avoid behaviour which will reflect badly on the company; and
- exercise openness, co-operation and transparency in their actions.

Policies adopted by the company to guide employees include:

- Trade Practices Compliance;
- Code of Ethics;
- Environment, Health and Safety;
- Equal Opportunity and Harassment; and
- Gifts and Benefits.

Existing policies and promulgation of appropriate new policies are the subject of ongoing review and consideration by the Board.

FOR THE YEAR ENDED 31 DECEMBER 1999

DIRECTORS' REPORT TO THE MEMBERS

The Directors present their report together with the financial report of the consolidated entity being Caltex Australia Limited (company) and its controlled entities, for the year ended 31 December 1999.

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the year were the purchase, refining, distribution, and marketing of petroleum products and the operation of convenience stores. There were no significant changes in the nature of the consolidated entity's activities during the year.

CONSOLIDATED RESULTS

The consolidated operating profit after income tax attributable to members of the company for the financial year amounted to $102,628,000 (1998: $79,318,000).

DIVIDENDS PAID AND RECOMMENDED

The following dividends have been paid or declared by the company since the end of the previous financial year:

As proposed and provided for in last year's report:

Final dividend (fully franked) of 12 cents per share paid on 17 March 1999	$32,400,000

In respect of the current financial year:

Interim dividend (fully franked) of 8 cents per share paid on 17 September 1999	$21,600,000
Final dividend (fully franked) of 14 cents per share declared on 25 February 2000 to be paid on 22 March 2000	$37,800,000

REVIEW OF OPERATIONS

For a detailed review of operations during the year, members are referred to the Message from the Chairman (pages 2 to 3), the Managing Director's Review (pages 4 to 7), Marketing Review (pages 10 to 13), Manufacturing and Supply Review (pages 14 to 15), Corporate Review (pages 16 to 17), and Corporate Governance (pages 24 to 25), which form part of the Annual Review.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review.

SIGNIFICANT EVENTS AFTER BALANCE DATE

There has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material or unusual nature likely, in the opinion of the Directors of the company, to affect significantly the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity, in subsequent financial years.

LIKELY DEVELOPMENTS

The consolidated entity will continue to purchase, refine, distribute, and market petroleum products and operate convenience stores throughout Australia. The Directors make no further reference to other likely developments in the operations of the consolidated entity (or expected results of those operations) other than disclosed elsewhere in the Annual Review as such inclusions would, in the opinion of the Directors, unreasonably prejudice the interests of the consolidated entity.

ENVIRONMENTAL REGULATIONS

EHS and risk management

The consolidated entity has site and business focused environment, health, safety (EHS) and risk management systems. These have been developed to be compatible with Australian Standards. The consolidated entity has not sought certification of the environmental management systems.

Each month, management reports to the Board on the consolidated entity's performance against the EHS targets. The Managing Director also meets monthly with all General Managers to critically review the consolidated entity's EHS and risk performance.

In 1999, the consolidated entity's refineries, service stations and other facilities were subject to EHS audits as were the EHS management systems of the consolidated entity's distributor, retail and lubricant oil businesses. The audits found only minor issues of EHS non-compliance and identified areas for improvement. Management has responded with action plans to address all audit findings which were followed up quarterly and reported to the Audit and Risk Committee of the Board.

Compliance
During 1999, the consolidated entity held a total of 14 pollution control licences covering two refineries, eight terminals and three depots. On 15 occasions, licence conditions required specific exceedances to be reported to the regulator, with no financial impact on the consolidated entity. Management's target is to achieve 100% compliance (zero environmental exceedances). As required, performance against all licence conditions was reported to state regulators.

Infringements and prosecutions
In 1999, no Environment Protection Authority penalty notices were received by the consolidated entity in any state.

Further information regarding the consolidated entity's EHS systems and performance can be found in the Corporate Review on pages 16 to 17 of the Annual Review.

DIRECTORS
The Directors of the company at any time during or since the financial year are:

MG Irving
JL Banner (appointed 29 July 1999)
JW Bernitt (appointed 29 July 1999)
ID Blackburne
RJ Bothwell
GJ Camarata (resigned 24 February 2000)
BA Chafitz (resigned 29 July 1999)
LG Lonergan (resigned 29 July 1999)
DC Mackney
DJ Mansour (resigned 20 August 1999)
RFE Warburton (appointed 29 July 1999)
KT Watson
SS Yosufzai (appointed 24 February 2000)

Particulars of Directors' qualifications and experience are detailed on pages 22 to 23 of the Annual Review.

On 3 February 2000, the Chairman announced that Mr Tony Blevins, currently Chief Executive Officer of Texaco Brazil SA, would succeed Dr Ian Blackburne who is to retire as Managing Director and CEO of Caltex at the end of March 2000. He indicated that Dr Blackburne had agreed to act in advisory capacity with the company after his departure.

MEETINGS OF DIRECTORS
The number of Directors' meetings (including meetings of committees of Directors) and the number of meetings attended by each of the Directors of the Company during the financial year are as follows:

DIRECTOR	Board Meetings		Audit and Risk Committee Meetings		Committee of Directors Meetings		Human Resources Committee Meetings	
	A	B	A	B	A	B	A	B
MG Irving	10	10	3	3	1	1	4	4
JL Banner	6	5	–	–	–	–	1	1
JW Bernitt	6	5	–	–	–	–	–	–
ID Blackburne	10	10	–	–	1	1	–	–
RJ Bothwell	10	10	–	–	–	–	–	–
GJ Camarata	10	9	–	–	–	–	4	3
BA Chafitz	5	3	1	1	–	–	–	–
LG Lonergan	5	5	–	–	–	–	–	–
DC Mackney	10	9	3	3	–	–	–	–
DJ Mansour	5	5	–	–	1	–	–	–
RFE Warburton	6	6	2	2	–	–	1	1
KT Watson	10	10	3	3	1	1	–	–

A – Number of meetings held during the time the Director held office during the year.
B – Number of meetings attended.

FOR THE YEAR ENDED 31 DECEMBER 1999

DIRECTORS' INTERESTS

The relevant interest of each Director in the share capital of the companies within the consolidated entity, as notified by the Directors to the Australian Stock Exchange in accordance with Section 235(1) of the Corporations Law, at the date of this report, is as follows:

DIRECTOR	Caltex Australia Limited Ordinary Shares
MG Irving	15,000
JL Banner	–
JW Bernitt	–
ID Blackburne	40,000
RJ Bothwell	10,000
DC Mackney	5,000
RFE Warburton	–
KT Watson	5,000
SS Yosufzai	–

INDEMNITY AND INSURANCE OF OFFICERS

During the financial year, the company indemnified JL Banner, JW Bernitt, ID Blackburne, RJ Bothwell, GJ Camarata, BA Chafitz, MG Irving, LG Lonergan, DC Mackney, DJ Mansour, RFE Warburton, KT Watson and JH Hunter, Directors and officers of the company, against all liabilities to another person (other than the company or a related body corporate) that may arise from their position as Directors or officers of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. Such indemnification is limited to the net asset value of the company.

Since the end of the previous financial year, the company paid insurance premiums of $357,000 in respect of Directors' and Officers' Liability insurance, for all current officers, including executive officers of the company and Directors, executive officers and secretaries of its controlled entities. The insurance relates to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

The Human Resources Committee is responsible for decisions on remuneration policies and packages applicable to the Board members and senior executives of the company. The broad remuneration policy is to ensure the remuneration package properly reflects the relevant person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality. To assist in achieving the objectives of this policy, the Human Resources Committee links the nature and amount of executive Directors' and officers' emoluments to the consolidated entity's financial and operational performance. All executive Directors and officers may receive bonuses based on the achievement of specific goals related to the performance of the consolidated entity (including operational results and cash flows).

Non-executive Directors' fees are determined by the Board within the aggregate annual amount of $650,000 which was approved by shareholders at the 1998 Annual General Meeting. From 1 April 1998, the Chairman is paid at the annual rate of $135,000, plus superannuation guarantee charge, irrespective of the number of Board meetings, committees or sub-committees. Non-executive Directors are each paid at the annual rate of $45,000, plus superannuation guarantee charge, where applicable, with $5,000 for each committee membership, increased to $10,000 for the chairman of each committee.

In addition, Australian resident non-executive Directors are entitled to a maximum of the last three years' emoluments on retirement after nine years service. The benefit accrues on a pro-rata basis between years three and nine.

Details of the nature and amount of each major element of the emoluments of each Director of the company and each of the five most highly paid executive officers of the company and the consolidated entity receiving the highest emoluments are:

	Directors' Fees $	Salary $	Bonus $	Super Contributions $	Non-Cash Benefits $	Termination and Similar Payments $	Total $
FOR THE YEAR ENDED 31 DECEMBER 1999							
DIRECTOR							
MG Irving	135,000	–	–	9,450	–	–	144,450
JL Banner	19,479	–	–	–	–	–	19,479
JW Bernitt	19,076	–	–	–	–	–	19,076
ID Blackburne	–	633,811	32,500	40,506	2,819	–	709,636
RJ Bothwell	45,000	–	–	3,150	–	–	48,150
GJ Camarata	50,000	–	–	–	–	–	50,000
BA Chafitz	28,804	–	–	–	–	–	28,804
LG Lonergan	25,924	–	–	–	–	–	25,924
DC Mackney	50,000	–	–	3,500	–	–	53,500
DJ Mansour	–	275,292	18,950	15,219	2,678	543,079	855,218
RFE Warburton	21,214	–	–	1,336	–	–	22,550
KT Watson	50,000	–	–	–	–	–	50,000
OFFICER							
K Bania	–	338,900	16,480	20,921	–	–	376,301
WL Klahs	–	242,054	–	–	125,446	–	367,500
RE Shepherd	–	197,260	12,500	12,172	7,359	66,685	295,976
AD Strang	–	292,500	16,200	17,808	2,371	–	328,879
BM Woods	–	332,500	15,500	23,285	6,672	–	377,957

In addition to the emoluments disclosed above, certain Directors and officers are eligible to receive a discount on private fuel purchases in line with that available to all employees of the consolidated entity.

ROUNDING OF ACCOUNTS

The parent entity is a company of the kind referred to in Australian Securities and Investment Commission Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in this report and the accompanying financial report have been rounded to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Board of Directors:

MG IRVING Director

ID BLACKBURNE Director
Sydney
25 February 2000

Profit and Loss Statement

FOR THE YEAR ENDED 31 DECEMBER 1999

	Note	Consolidated 1999 $000	1998 $000
Gross sales revenue		**6,591,405**	6,312,636
Product duties and taxes		**(3,601,344)**	(3,586,638)
Net sales revenue		**2,990,061**	2,725,998
Other revenue from operating activities	3	**109,738**	112,795
Other revenue from outside operating activities	3	**53,137**	51,853
Net revenue		**3,152,936**	2,890,646
Costs and expenses		**(3,006,876)**	(2,760,896)
Operating profit before abnormal items and income tax		**146,060**	129,750
Abnormal items before income tax		**(21,543)**	–
Operating profit after abnormal items before income tax		**124,517**	129,750
Income tax (expense) attributable to operating profit before abnormal items		**(59,019)**	(49,545)
Abnormal items income tax benefit		**37,892**	–
Income tax (expense) attributable to operating profit after abnormal items		**(21,127)**	(49,545)
Operating profit after abnormal items and income tax		**103,390**	80,205
Outside equity interests in operating profit		**(762)**	(887)
Operating profit after income tax attributable to members of the Company		**102,628**	79,318
Retained earnings at the beginning of the financial year		**97,383**	78,156
Adjustment to retained earnings at the beginning of the financial year on adoption of Urgent Issues Abstract No 26 – "Major Cyclical Maintenance"	2	**2,848**	–
Adjustment to retained earnings at the beginning of the financial year on initial adoption of revised AASB 1016 – "Accounting for Investments in Associates"		**–**	(691)
Dividends provided for or paid	4	**(59,400)**	(59,400)
Retained earnings at the end of the financial year		**143,459**	97,383

The profit and loss statement is to be read in conjunction with the discussion and analysis on page 31 and the notes to the financial statements set out on pages 36 to 39.

Discussion and Analysis

- The consolidated entity's operating profit after tax attributable to members of the company for the year increased to $102.6 million, up from $79.3 million in 1998. Abnormal items contributed $16.3 million after tax (1998: nil).
- 1999 was a year marked across the industry by a large deterioration in refining margins associated with a dramatic rise in crude oil prices, excess capacity and abundant product stocks. Tapis crude oil prices rose steeply through 1999 from an average US$11 per barrel in December 1998 to US$25 per barrel in December 1999.
- Continuing efforts to drive down operating costs, further expansion of the consolidated entity's retail program and other operational improvements contributed to the current result. For further information on the consolidated entity's operational performance during the year refer also to pages 2 to 17.
- Total dividend for the year remained stable at 22 cents per share (cps) in 1999 and 1998. Earnings per share increased to 38.0cps from 29.4cps in 1998, an increase of 29.3%. The effective tax rate for the 1999 year was 17.0%. However, before abnormals the effective tax rate for 1999 was 40.4%, this compares to 38.2% in 1998.
- The return on equity (operating profit after tax attributable to members of the company on shareholders' equity attributable to the members of the company) increased from 8.3% in 1998 to 10.2% in the current year including abnormals.
- The abnormal items after tax included in the current year profit and loss statement comprise the following:

(a) During the year the consolidated entity committed to undertake a significant restructuring initiative, known as Project Nova. This project involves redundancies, regional office closures, asset write-offs and office and personnel relocations. The total charge for this project is $21,543,000 (after tax $13,788,000).

(b) The deferred tax balances were restated to reflect the future tax rate changes (34%/30% in 2000/2001 respectively) resulting in an income tax benefit of $30,137,000.

Balance Sheet

AS AT 31 DECEMBER 1999	Consolidated 1999 $000	1998 $000
Current assets		
Cash	**11,628**	15,609
Receivables	**549,745**	432,893
Inventories	**462,851**	267,442
Other	**48,768**	45,209
Total current assets	**1,072,992**	761,153
Non–current assets		
Receivables	**9,959**	15,454
Investments	**10,688**	9,985
Property, plant and equipment	**1,703,633**	1,748,271
Intangibles	**168,916**	179,916
Other	**7,960**	7,000
Total non-current assets	**1,901,156**	1,960,626
Total assets	**2,974,148**	2,721,779
Current liabilities		
Accounts payable	**530,049**	295,624
Borrowings	**371,040**	324,520
Provisions	**126,844**	99,067
Total current liabilities	**1,027,933**	719,211
Non-current liabilities		
Borrowings	**747,529**	843,523
Provisions	**182,461**	189,658
Total non-current liabilities	**929,990**	1,033,181
Total liabilities	**1,957,923**	1,752,392
Net assets	**1,016,225**	969,387
Shareholders' equity		
Share capital	**543,415**	543,415
Reserves	**319,865**	319,865
Retained earnings	**143,459**	97,383
Shareholders' equity attributable to members of the Company	**1,006,739**	960,663
Outside equity interests in controlled entities	**9,486**	8,724
Total shareholders' equity	**1,016,225**	969,387

The balance sheet is to be read in conjunction with the discussion and analysis on page 33 and the notes to the Concise Financial Statements set out on pages 36 to 39.

- The consolidated entity's net assets increased by 4.8% during the year to $1,016.2 million.
- The consolidated entity's total assets increased by 9.3% during the year to $2,974.1 million. This growth in total assets principally comprises:
  - an increase in receivables and in inventories reflecting the dramatic rise in crude oil prices; and
  - this is partially offset by a reduction in property, plant and equipment mainly attributable to the ongoing divestment of surplus assets, service stations and depots, as the consolidated entity continues to rationalise its network.
- Gross debt as at 31 December 1999 stood at $1,118.6 million, down $49.5 million from 31 December 1998. As a result, the consolidated entity's gearing (net debt to net debt plus equity) was 52.1%, down from 54.3% at the end of the prior year.
- Net tangible asset backing per share (net assets attributable to members of the company less intangible assets, on number of shares in issue) increased from $2.89 to $3.10.

Statement of Cash Flows

	Consolidated 1999 $000	1998 $000
FOR THE YEAR ENDED 31 DECEMBER 1999		
Cash flows related to operating activities		
Receipts from customers	**6,612,453**	6,423,912
Payments to suppliers, employees and governments	**(6,388,013)**	(6,126,830)
Dividends received	**1,585**	1,142
Interest received	**1,362**	849
Interest and other borrowing costs paid	**(86,868)**	(93,771)
Income taxes refunded/(paid)	**5,765**	(29,149)
Net cash provided by operating activities	**146,284**	176,153
Cash flows related to investing activities		
Purchase of controlled entities, net of cash acquired	**(615)**	(285,000)
Purchases of property, plant and equipment	**(97,290)**	(117,248)
Proceeds from sale of property, plant and equipment	**53,137**	51,853
Loans to associated company	**–**	5,000
Net cash (used in) investing activities	**(44,768)**	(345,395)
Cash flows related to financing activities		
Proceeds from borrowings	**3,770,000**	2,702,453
Repayments of borrowings	**(3,819,062)**	(2,505,951)
Finance Lease payments	**(2,435)**	(3,077)
Dividends paid	**(54,000)**	(52,200)
Net cash provided by/(used in) financing activities	**(105,497)**	141,225
Net (decrease) in cash held	**(3,981)**	(28,017)
Cash at the beginning of the financial year	**15,609**	43,626
Cash at the end of the financial year	**11,628**	15,609

The statement of cash flows is to be read in conjunction with the discussion and analysis on page 35 and the notes to the financial statements set out on pages 36 to 39.

- The decrease in cash flows provided by operating activities is a result of an increase in working capital.
- Capital expenditure for the year was $97.3 million with the focus on developing the consolidated entity's retail network, yield and process improvements at the refineries, information technology, and environmental projects. A capital expenditure pause was implemented for a period during the year in response to poor refiner margins that delayed the roll out of convenience stores for several months. However, this program has now recommenced in full in line with the strategic plan.
- Sales of surplus assets, mainly inefficient and redundant service stations and depots, realised proceeds of $53.1 million.

FOR THE YEAR ENDED 31 DECEMBER 1999

1. BASIS OF PREPARATION OF CONCISE FINANCIAL REPORT

The Concise Financial Report has been prepared in accordance with the Corporations Law, Accounting Standard AASB 1039 "Concise Financial Reports" and applicable Urgent Issues Group Consensus Views. The financial statements and specific disclosures have been derived from the consolidated entity's Full Financial Report for the financial year. Other information included in the Concise Financial Report is consistent with the consolidated entity's Full Financial Report for the financial year. The Concise Financial Report does not and cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the Full Financial Report.

It has been prepared on a basis of historical cost and except where stated, does not take into account changing money values or current valuations of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and except where there is a change in accounting policy, are consistent with those of the previous year.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

2. CHANGES IN ACCOUNTING POLICIES

Major Cyclical Maintenance

The consolidated entity has adopted Urgent Issues Abstract No 26 – "Major Cyclical Maintenance" from 1 January 1999. This abstract prohibits the recognition of provisions for future maintenance as a liability or as accumulated depreciation, or as the reduction in the carrying amount of an asset. It requires that major maintenance expenditure is expensed as incurred, or where it will increase the service potential of a particular asset, is capitalised and depreciated.

In line with the requirements of the abstract, $4,449,000 of provisions for future maintenance that existed on the balance sheet of the consolidated entity as at 31 December 1998, net of related tax balances of $1,601,000, have been adjusted against retained earnings as at 1 January 1999. The profit and loss statement has been charged with a pre-tax depreciation expense of $1,504,000 for major cyclical maintenance for the year. Had the new accounting policy been implemented in 1998, the profit after tax would have increased by $5,888,000. Under the old accounting policy, the charge for turnaround and inspection expenditure would have been $13,733,000 (1998: $11,524,000). Under the new accounting policy, earnings per share for the year is 38.0 cents per share (1998: 31.6 cents per share). Under the old accounting policy, earnings per share for the year would have been 35.1 cents per share (1998: 29.4 cents per share).

Notes

FOR THE YEAR ENDED 31 DECEMBER 1999

	Consolidated 1999 $000	1998 $000
3. OTHER REVENUE		
From operating activities		
Share of associates' net profit	**1,673**	1,619
Interest received or due and receivable from:		
Other corporations	**1,362**	849
Rental income	**53,167**	71,047
Royalties	**464**	328
Other income	**53,072**	38,952
	109,738	112,795
From outside operating activities		
Proceeds from the sale of non-current assets	**53,137**	51,853
4. DIVIDENDS		
Dividends paid and proposed		
Dividends provided for or paid by the Company are:		
A final dividend declared (fully franked) of 14 cents per share (1998: 12 cents per share)	**37,800**	32,400
An interim dividend paid (fully franked) of 8 cents per share (1998: 10 cents per share)	**21,600**	27,000
	59,400	59,400
5. EARNINGS PER SHARE		
Basic earnings per share	**38.0cps**	29.4cps

Ordinary shares used in the calculation of earnings per share were 270 million (1998: 270 million).
Basic earnings per share based on operating profit after income tax attributable to members of the company is 38.0 cents per share (1998: 29.4 cents per share). Earnings per share before the effect of abnormal items, would be 32.0 cents per share (1998: 29.4 cents per share). The diluted earnings per share has not been disclosed as in both this financial year and the previous financial year it is the same as basic earnings per share.

	Consolidated	
	1999 $000	1998 $000

FOR THE YEAR ENDED 31 DECEMBER 1999

6. CONTINGENT LIABILITIES

The details and estimated maximum amounts of contingent liabilities (for which no provisions are included in the financial report) are set out below. The Directors are not aware of any circumstance or information which would lead them to believe that these liabilities will crystallise and consequently no provisions are included in the financial report in respect of these matters.

	1999 $000	1998 $000
(i) Legal and other claims	**2,000**	2,000

(ii) The company has granted indemnities to banks to cover bank guarantees given on behalf of controlled entities to a maximum exposure of $3,397,000 (1998: $3,387,000). As at 31 December 1999, the total outstanding was $2,806,695 (1998: $3,331,000).

(iii) Pursuant to ASIC Class Order 98/1418, relief has been granted to certain of the company's wholly owned controlled entities from specific accounting and financial reporting requirements.

(iv) Environmental matters
In addition to the environmental exposures already provided for in the Full Financial Report in accordance with the consolidated entity's accounting policy, the consolidated entity may be subject to contingent liabilities as a result of environmental laws that at some time in the future may require the consolidated entity to take action to correct the environmental effect of past disposal or release of petroleum substances by the consolidated entity or by others. The amount of future cost is indeterminable due to such factors as the unknown nature of new laws, the unknown magnitude of possible contamination, the unknown timing and extent of corrective factors that may be required, the determination of the consolidated entity's possible liability in proportion to other possible responsible parties and to the extent to which such costs are recoverable from insurers.

(v) Merger warranties
In connection with the merger of its former petroleum and marketing business with that of Ampol Limited in 1995, the company gave certain warranties regarding the financial position of its refining and marketing subsidiaries and entered into a tax indemnity deed and an environmental indemnity deed. The tax indemnity deed between Pioneer International Limited (Pioneer), the company and Caltex Australia Petroleum Pty Ltd entered into at the time of the merger continues in force and other merger agreements have been either terminated or varied as appropriate.

There are no existing claims under these warranties and the Directors are not aware of any potential claims likely to emerge in the future.

Pioneer entered into a deed with the company on 31 December 1997 under which Pioneer undertakes to be liable for one-half of any tax, environmental and third party liability of any company in the Caltex Australia Petroleum Pty Ltd consolidated entity arising out of the conduct of its business in the period from 1 January 1995 to the date of completion (31 December 1997) which has not been paid or adequately provided for in the Caltex Australia Petroleum Pty Ltd consolidated entity accounts to the extent that the amount of such liabilities (after recoveries) exceeds $2.5 million. Pioneer's obligation will apply for seven years for tax liabilities, eight years for environmental liabilities and two years in respect of third party liabilities as from 31 December 1997. Pioneer's maximum potential liability under this deed is one-half of the net assets of the Caltex Australia Petroleum Pty Ltd consolidated entity as at 31 December 1997.

(vi) Contingent consideration amounts

Part of the consideration for the acquisition by the company of the remaining 50% interest in Caltex Australia Petroleum Pty Ltd as at 31 December 1997 comprised a contingent consideration amount in respect of each of the five years ending 31 December 1998 to 2002. This amount is calculated on the following basis:

- a maximum payment in each of the five years of $12 million will be payable if the Caltex Australia Petroleum Pty Ltd consolidated earnings before interest and tax after certain adjustments (EBIT) equals or exceeds the high benchmark set for that relevant year;
- no payment will be made in any year if EBIT equals or is below the relevant low benchmark in that year; or
- if the EBIT in any of the five years is between the relevant high and low benchmarks, the contingent consideration amount will be calculated on a straight line pro-rata basis.

No amount has been provided for future years in respect of this contingent consideration in the financial report.

7. SEGMENT REPORT

The consolidated entity operates within one geographic region – Australia. The consolidated entity's activity is in the oil industry through the purchase, refining, distribution and sale of petroleum products, and the operation of convenience stores.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF CALTEX AUSTRALIA LIMITED

SCOPE

We have audited the Concise Financial Report of Caltex Australia Limited and its controlled entities for the financial year ended 31 December 1999, consisting of the profit and loss statement, balance sheet, statement of cash flows, accompanying notes and the accompanying discussion and analysis on the profit and loss statement, balance sheet and statement of cash flows, set out on pages 30 to 40, in order to express an opinion on it to the members of the company. The company's Directors are responsible for the Concise Financial Report.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the Concise Financial Report is free of material misstatement. We have also performed an independent audit of the Full Financial Report of Caltex Australia Limited and its controlled entities for the year ended 31 December 1999. Our audit report on the Full Financial Report was signed on 25 February 2000, and was not subject to any qualification.

Our procedures in respect of the audit of the Concise Financial Report included testing that the information in the Concise Financial Report is consistent with the Full Financial Report and examination, on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the Full Financial Report. These procedures have been undertaken to form an opinion whether, in all material respects, the Concise Financial Report is presented fairly in accordance with Accounting Standard AASB 1039 "Concise Financial Reports" issued in Australia.

The audit opinion expressed in this report has been formed on the above basis.

AUDIT OPINION

In our opinion, the Concise Financial Report of Caltex Australia Limited and its controlled entities for the year ended 31 December 1999 complies with Accounting Standard AASB 1039 "Concise Financial Reports".

KPMG

KPMG

LJ GULSON Partner
Sydney
25 February 2000

Directors' Declaration

In the opinion of the Directors of Caltex Australia Limited, the accompanying Concise Financial Report of the consolidated entity, comprising Caltex Australia Limited and its controlled entities for the year ended 31 December 1999, set out on pages 30 to 39:

(a) has been derived from the Full Financial Report for the financial year; and

(b) complies with Accounting Standard AASB 1039 "Concise Financial Reports".

Signed in accordance with a resolution of the Board of Directors:

MG IRVING Director

ID BLACKBURNE Director
Sydney
25 February 2000

SHAREHOLDER ENQUIRIES

Shareholders with queries about their shares or dividend payments should contact the company's share registry on Telephone 02 8234 5222 or Facsimile 02 8234 5050, or through its web site www.cshare.com.au using their holder identification number or shareholder reference number to access their shareholder specific information, or write to:

Computershare Registry Services Pty Limited
GPO Box 7045
Sydney NSW 1115

All enquiries should include a shareholder reference number which is recorded on the holding statement.

DIVIDEND POLICY

The Board aims to maintain a consistent pattern of dividend payments which rise steadily over the long term in line with the sustainable earnings of Caltex Australia Limited, subject to taking into account debt servicing costs and cash requirements for future capital expenditure and investments. The 1999 fully franked dividends (8 cents interim and 14 cents final) of 22 cents per share represents a 68.8% payout on a pre-abnormal basis (57.9% post-abnormals).

PAYMENT OF DIVIDENDS

Australian shareholders are encouraged to have dividends paid directly into a bank, building society or credit union account in Australia to facilitate receipt on payment date. A form for this purpose, or for advising a change of account details, is included with this mailout, or is available from the company's share registry.

CHANGE OF ADDRESS

Shareholders on the issuer sponsored sub-register who have changed their address should notify the company's share registrar in writing. CHESS holders should notify their controlling sponsor.

CALTEX AUSTRALIA PUBLICATIONS

The company's Annual Review (including Concise Financial Report) which is published in March each year is the main source of information for shareholders. Shareholders who do not wish to receive an Annual Review or half yearly report should notify the company's share registry in writing. Alternatively, shareholders who have previously requested not to receive an Annual Report may now wish to change their election and receive an Annual Review by notifying the company's share registry in writing.

Shareholders can also receive the Full Financial Report by notifying the company's share registry.

STOCK EXCHANGE LISTING

The company's shares are listed on the Australian Stock Exchange.

GENERAL ENQUIRIES

The Manager, Investor Relations 02 9250 5732 or the Company Secretary's office 02 9250 5481 are always available to deal with other enquiries during business hours.

Shareholder Information

GENERAL INFORMATION

The following additional information is furnished as required by Listing Rule 4.10 of the Australian Stock Exchange Limited:

1. As at 31 January 2000.

1.1 Substantial shareholders:
Caltex Corporation holding 135,000,000 ordinary shares

1.2 There is only one class of equity securities (namely ordinary shares) and the number of holders is 29,391.

1.3 The voting rights in respect of the ordinary shares are established by Article 76 of the company's constitution which reads as follows:

76 Entitlement to Vote

(a) Subject to these Articles and to any special terms as to voting which may attach to any shares, on a show of hands every Member who is the holder of ordinary shares present in person or by representative, attorney or proxy and entitled to vote shall have one vote and upon a poll every Member present in person or by representative, attorney or proxy and entitled to vote shall have one vote for every ordinary share held by him PROVIDED THAT if at any time there is on issue any share which has not been fully paid as to the issue price, such share shall upon a poll, confer only that fraction of one vote which bears the same proportion as the amount paid up, but not credited as paid up, bears to the total issue price for that share.

(b) A Member shall be entitled to be present and to vote on any question either personally or by attorney or proxy or as attorney or proxy for another Member at any general meeting or upon a poll and to be reckoned in a quorum in respect of any fully paid-up share or shares and any share or shares upon which all calls due and payable to the company have been paid.

1.4 The shareholding is distributed as follows:

	No of Holders	No of Shares	%
a)			
1-1,000	16,948	9,983,246	3.70
1,001-5,000	10,680	27,346,436	10.13
5,001-10,000	1,177	9,242,428	3.42
10,001-100,000	534	12,462,887	4.61
100,001 and over	52	210,965,003	78.14
	29,391	270,000,000	100.00
b) Holders of less than a marketable parcel	3,607	651,778	

1.5 The 20 largest shareholders held 76.31% of the ordinary shares in the company.

1.6 The 20 largest holders of ordinary shares and the number of ordinary shares and the percentage of capital held by each are as follows:

		No of Shares	%
1	Caltex Corporation	135,000,000	50.00
2	Chase Manhattan Nominees Limited	11,614,599	4.30
3	PTA Nominees Limited	10,823,478	4.01
4	National Nominees Limited	9,155,521	3.39
5	Westpac Custodian Nominees Limited	7,146,431	2.65
6	Guardian Trust Australia Limited	5,806,319	2.15
7	Tyndall Life Insurance Company Limited	5,090,269	1.89
8	AMP Life Limited	3,566,926	1.32
9	Mercantile Mutual Life Insurance Co Limited	3,437,731	1.27
10	Citicorp Nominees Pty Limited	2,448,054	0.91
11	Commonwealth Custodial Services Limited	2,334,622	0.86
12	AMP Nominees Pty Limited	1,787,521	0.66
13	Queensland Investment Corporation	1,419,653	0.53
14	Norwich Union Life Australia Limited	1,402,535	0.52
15	BT Custodial Services Pty Limited	1,310,899	0.49
16	Suncorp General Insurance Limited	1,000,000	0.37
17	Questor Financial Services Limited	848,631	0.31
18	Transport Accident Commission	627,343	0.23
19	CSS Board	611,645	0.23
20	Commonwealth Life Limited	594,091	0.22

2. The name of the Company Secretary is Helen Conway.

3. The address and telephone of the registered office is:
Level 12, MLC Centre, 19-29 Martin Place Sydney NSW 2000
Telephone 02 9250 5000 Facsimile 02 9250 5742
with the postal address being GPO Box 3916, Sydney NSW 2001
Web site www.caltex.com.au

4. The address at which a register of shares (being the only securities on issue) is kept is:
Computershare Registry Services Pty Limited
Level 3, 60 Carrington Street, Sydney NSW 2000
Telephone 02 8234 5222 Facsimile 02 8234 5050
with the postal address being GPO Box 7045, Sydney NSW 1115
Web site www.cshare.com.au

Financial Calendar (may be subject to alteration)

1999 results **and dividend announced** 25 February 2000
Record date – dividend entitlement 17 March 2000
Final dividend payable 22 March 2000
Notice of Annual General Meeting and Annual Review mailed 22 March 2000
Annual General Meeting 27 April 2000

Half year 2000 results **and dividend announced** 25 August 2000
Record date – dividend entitlement 8 September 2000
Interim dividend payable 15 September2000

2000 results **and dividend announced** 23 February 2001
Record date – dividend entitlement 14 March 2001
Final dividend payable 21 March 2001
Notice of Annual General Meeting and Annual Review mailed 21 March 2001
Annual General Meeting 26 April 2001

Statistical Information

FOR THE YEAR ENDED 31 DECEMBER	1999	1998	1997[1]	1996[1]
People				
Employees	**1,610**[2]	1,680[2]	1,694	1,935
Assets				
Fuel refineries	**2**	2	2	2
Lube oil refinery	**1**	1	1	1
Lube blending plant(s)	–	1	3	3
Tankers (ships)	–	–	–	4
Road tankers	**34**	36	40	41
Rail cars (operational)	**68**	68	64	85
Storage terminals (owned or leased, and operational)	**11**	13	14	15
Star Mart convenience stores	**138**	110	80	14
Service stations (owned or leased)	**777**	915	1,078	1,232
Depots	**130**	140	149	194
Operations				
Nameplate refining capacity (barrels per day):				
Caltex Refineries (NSW)	**124,500**	116,700	115,000	115,000
Caltex Refineries (Qld)	**105,500**	104,000	100,000	100,000
Caltex Lubricating Oil Refinery	**3,750**	3,750	3,750	3,750
Fuel production (ML)	**10,908**	11,050	11,482	11,470
Lubes production (ML)	**167**	161	198	175
Total sales volumes (ML)	**11,881**	11,908	12,046	12,355
(LTIFR) (lost time injury frequency rate)	**0.9**	2.2	2.7	7.1

1 Caltex Australia Petroleum Pty Ltd (formerly Australian Petroleum Pty Ltd) and its controlled entities.
2 Excludes employees of Caltex Stores Pty Ltd (727) and Caltex 100% owned distributors (48).

REGISTERED AND CORPORATE OFFICES
Caltex Australia Limited
ACN 004 201 307
Level 12, MLC Centre
19–29 Martin Place
Sydney NSW 2000
Australia
Mail GPO Box 3916
Sydney NSW 2001
Australia
Telephone 02 9250 5000
Facsimile 02 9250 5742
Web site www.caltex.com.au

REFINERIES
Caltex Refineries (Qld) Pty Ltd
South Street
Lytton Qld 4178
Telephone 07 3362 7555
(environmental hotline)
1800 675 487
Facsimile 07 3362 7111

Caltex Refineries (NSW) Pty Ltd
Solander Street
Kurnell NSW 2231
Telephone 02 9668 1111
(community hotline)
02 9668 1244
Facsimile 02 9668 1188

Caltex Lubricating Oil Refinery Pty Ltd
Sir Joseph Banks Drive
Kurnell NSW 2231
Telephone 02 9668 1111
Facsimile 02 9668 1188

MARKETING OFFICES
New South Wales
Caltex Banksmeadow Terminal
Penrhyn Road
Banksmeadow NSW 2019
Telephone 02 9695 3612
Facsimile 02 9666 5737

Queensland/Northern Territory
Caltex Lytton Terminal
Tanker Street, off Port Drive
Lytton Qld 4178
Telephone 07 3362 7666
Facsimile 07 3362 7682

Victoria/South Australia/Tasmania
Caltex Newport Terminal
Douglas Parade
Newport Vic 3015
Telephone 03 9287 9604
Facsimile 03 9287 9605

Western Australia
Caltex Fremantle Terminal
85 Bracks Street
North Freemantle WA 6159
Telephone 08 9430 2839
Facsimile 08 9335 3062

Customer Support
Feedback Line (complaints, compliments and suggestions)
1800 240 398
Card Support Centre
1800 226 021
Lubelink
1800 815 823
Mon-Fri 8.00 am to 6.00 pm (EST)

Corporate Ownership

Public Shareholders
(around 29,000)

50%

Caltex Corporation
(jointly owned by Texaco Inc and Chevron Corporation)

50%

Caltex Australia Limited

100%

Caltex Australia Petroleum Pty Ltd

Principal Operating Subsidiaries:
Caltex Petroleum Pty Ltd
Caltex Refineries (NSW) Pty Ltd
Caltex Refineries (Qld) Ltd
Caltex Lubricating Oil Refinery Pty Ltd
Caltex Petroleum (Qld) Pty Ltd
Caltex Petroleum (Victoria) Pty Ltd

DESIGN Ross Barr & Associates **PRODUCTION** Caltex Corporate Affairs