

Corporate Governance Statement

In July 2002, the Board of Caltex Australia Limited adopted the following set of values:

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

Consistent with these values, and with the goal of increasing shareholder value, the Board has set the governance arrangements for Caltex to achieve outcomes the Board believes are in the best interests of the company. The Board and management of Caltex maintain a constant interest in governance, including assessing the guidelines of investor bodies and considering other national and international practices. This leads to the governance arrangements being reviewed regularly to ensure compliance with legal requirements, to meet the expectations of shareholders and to best address the circumstances of Caltex. During 2006, all Board and Committee Charters, as well as the Caltex Charter of Director Independence, the Caltex Share Trading Policy, the Caltex Continuous Disclosure Policy and the Caltex Financial Market Disclosure Policy (which was combined with the Caltex Continuous Disclosure Policy with effect from 1 January 2007) were reviewed and revised.

The tabular information on the following pages shows compliance by Caltex Australia Limited against the recommendations of the ASX Corporate Governance Council in accordance with Listing Rule 4.10. This statement also provides information on additional governance practices adopted by Caltex Australia Limited to address its circumstances. This statement is current as at the date of the 2006 Directors' Report and, unless otherwise indicated, the information was true for the whole of the financial year commencing on 1 January 2006. The information provided below contains references to the Caltex web site (www.caltex.com.au/about_gov.asp). If a shareholder does not have access to the internet, they may contact the Caltex Secretariat to obtain copies of any of the documents. This statement should be read in conjunction with the Directors' Report.

Recommendation	Comply
<p>1.1 Formalise and disclose the functions reserved to the Board and those delegated to management</p>	☑
<p>The Board has adopted a Charter that details the functions and responsibilities of the Board, which is available on Caltex's web site. Management of Caltex's day-to-day operations is undertaken by the Managing Director and Chief Executive Officer, subject to specified delegations of authority approved by the Board.</p> <p>The Board has also adopted the practice of formal letters of appointment for all new directors. The letter sets out the key terms and conditions of the director's appointment.</p>	
<p>2.1 A majority of the Board should be independent directors</p>	☑
<p>A majority of the Board are independent directors. The matters and thresholds considered by the Board in assessing the independence of directors are set out in the Board's Charter of Director Independence, which is available on Caltex's web site. The definition of independent director does not depart materially from that recommended by the ASX Corporate Governance Council. Materiality thresholds have been determined by the Board which are reasonable and consider the materiality to both the service provider or supplier/customer and to Caltex.</p> <p>The Board will make an assessment of the independence of each director upon appointment and in February of each year. Directors are required on an ongoing basis to disclose to the Board any matter in which they have a personal interest or a potential conflict of interest. Upon any such disclosure, a director's independence is reassessed.</p> <p>Non-executive directors meet quarterly in the absence of management. In addition, all directors (including the Managing Director and Chief Executive Officer) meet before other members of management join each Board meeting.</p>	
<p>2.2 The Chairperson should be an independent director</p>	☑
<p>2.3 The roles of the Chairperson and Chief Executive Officer should not be exercised by the same individual</p>	☑
<p>2.4 The Board should establish a nomination committee</p>	☑
<p>The Board has established a Human Resources and Nomination Committee composed of three members, the majority of whom are independent directors. The Chair of the Human Resources and Nomination Committee is an independent director. The Committee complied with this composition except for a short period between William Hauschildt's resignation on 22 June 2006 and Brant Fish's appointment to the Committee on 1 August 2006, when there was only two members.</p> <p>The Board has adopted a Charter for the Committee which reflects the matters set out in the commentary and guidance to recommendation 2.4, a copy of which is available on Caltex's web site.</p> <p>Following recommendations from the Human Resources and Nomination Committee, the Board adopted a process and selection criteria for appointment to the Board of Caltex Australia Limited in October 2005. These were reviewed in July 2006. The selection criteria include generic corporate attributes, industry-specific attributes and personal attributes (including time availability) required in directors. Whenever a director is to be appointed, these desired attributes are considered. Further information on the selection process is outlined in the Director Appointment Policy and Process posted on Caltex's web site.</p> <p>A non-executive director is elected for a period of up to three years or until the third Annual General Meeting after the director's election (whichever is longer). As the ASX Listing Rules require Caltex to hold an election of directors each year, directors may be subject to re-election before the expiration of this term. Any director (other than the Managing Director) who is appointed to the Board as a casual vacancy or as an addition to the Board during a year holds office until the end of the next Annual General Meeting, but is eligible for election by shareholders at that meeting.</p>	
<p>2.5 Provide the information indicated in the Guide to reporting on Principle 2</p>	☑
<p>Included on pages 24 to 25 and in the Directors' Report is information on:</p> <ul style="list-style-type: none"> • the skills, experience and expertise of each director; • an assessment of independence of each director; • the term of office held by each director; and • the names of members of the Human Resources and Nomination Committee and their attendance at meetings of the Committee. <p>Directors may obtain independent professional advice at Caltex's expense, subject to making a request to, and obtaining the prior authorisation of, the Chairman. Where the Chairman wishes to obtain independent professional advice, the Chairman is required to make a request to, and obtain the prior authorisation of, the Chairman of the Audit Committee.</p>	

Recommendation	Comply
<p>3.1 Establish a code of conduct to guide the directors, the Chief Executive Officer, the Chief Financial Officer and any other key executives as to:</p> <p>3.1.1 the practices necessary to maintain confidence in the company's integrity</p> <p>3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices</p> <p>Caltex has adopted a Code of Conduct to guide the standards of ethical behaviour expected of Caltex directors and employees in the performance of work for Caltex. The code is founded on the values discussed in the introduction to this statement and connects the many policies and guidelines adopted at Caltex to these values. A copy of the Caltex Code of Conduct is available on Caltex's web site.</p>	<input checked="" type="checkbox"/>
<p>3.2 Disclose the policy concerning trading in company securities by directors, officers and employees</p> <p>The Caltex Share Trading Policy is available on the Caltex web site. In particular, the Caltex Share Trading Policy prohibits directors and employees who hold unvested Caltex shares pursuant to any share scheme offered by Caltex to enter into any transaction that is designed or intended to hedge that person's exposure to those unvested shares.</p>	<input checked="" type="checkbox"/>
<p>3.3 Provide any information indicated in the Guide to reporting on Principle 3</p>	<input checked="" type="checkbox"/>
<p>4.1 Require the Chief Executive Officer and the Chief Financial Officer to state in writing to the Board that the company's financial reports present a true and fair view, in all material respects of the company's financial condition and operational results and are in accordance with relevant accounting standards</p> <p>When the Board considers the half-year and full-year financial statements, the Chief Executive Officer and Chief Financial Officer provide the requisite written statement. The statement is considered by the Audit Committee prior to being provided to the Board.</p>	<input checked="" type="checkbox"/>
<p>4.2 The Board should establish an Audit Committee</p>	<input checked="" type="checkbox"/>
<p>4.3 Structure the Audit Committee so that it consists of:</p> <ul style="list-style-type: none"> • only non-executive directors • a majority of independent directors • an independent chairperson, who is not chairperson of the board; • at least three members <p>The Audit Committee complied with the composition recommended by the ASX Corporate Governance Council except for a short period between Ken Watson's resignation on 27 April 2006 and Trevor Bourne's appointment to the Committee on 1 May 2006 when there were only two members.</p>	<input checked="" type="checkbox"/>
<p>4.4 The Audit Committee should have a formal charter</p> <p>A copy of the Charter of the Audit Committee is available on the Caltex web site. The Charter reflects the matters set out in the commentary and guidance to recommendation 4.4.</p>	<input checked="" type="checkbox"/>
<p>4.5 Provide the information indicated in the Guide to reporting on Principle 4</p> <p>Information on the names and qualifications of the members of the Audit Committee, as well as the number of meetings in 2006 of the Audit Committee and who attended those meetings, is included on pages 24 to 25 and in the Directors' Report.</p> <p>Information on the process for the appointment and monitoring of the external auditor and oversight of the rotation of external audit partners and the independence of the external auditor is set out in the External Auditor Policy available on Caltex's web site.</p>	<input checked="" type="checkbox"/>
<p>5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance</p> <p>The Board has adopted the Caltex Continuous Disclosure Policy, which sets out the key obligations of the Board and senior management to ensure that Caltex complies with its disclosure obligations under the ASX Listing Rules and the Corporations Act 2001 (Cth). A copy of the Caltex Continuous Disclosure Policy is available on the Caltex web site.</p>	<input checked="" type="checkbox"/>
<p>5.2 Provide the information indicated in the Guide to reporting on Principle 5</p>	<input checked="" type="checkbox"/>

Recommendation	Comply
<p>6.1 Design and disclose a communication strategy to promote effective communication with shareholders and encourage effective participation at general meetings</p>	☑
<p>The Board has adopted a Caltex Shareholder Communications Strategy, a copy of which is posted on the Caltex web site. It is Caltex's practice to invite shareholders to submit written questions about, or make comments on, Caltex's performance and management prior to each Annual General Meeting. Key issues raised by shareholders are addressed in the Chairman's speech to the Annual General Meeting. In addition, responses to the questions received are then made available to shareholders attending the Annual General Meeting and on the Caltex web site.</p>	
<p>6.2 Request the external auditor to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.</p>	☑
<p>7.1 The Board or appropriate board committee should establish policies on risk oversight and management</p>	☑
<p>Caltex has introduced a new enterprise-wide risk management process. The policy underpinning this new framework was approved by the Board in August 2006. Reporting to the Board under the new framework commenced in October 2006.</p> <p>Caltex has an internal audit function which reports to both the Audit Committee and the Company Secretary. The Audit Committee oversees the internal audit function and the appointment of the Internal Audit Manager. The Internal Audit Manager meets with both the Chairman of the Audit Committee and the Audit Committee as a whole in the absence of management. This function has full access to personnel and information and is independent of the external auditor.</p>	
<p>7.2 The chief executive officer and the chief financial officer should state to the Board in writing that:</p>	☑
<p>7.2.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board</p>	
<p>7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects</p>	
<p>When the Board considers the half-year and full-year financial statements, the Chief Executive Officer and Chief Financial Officer provide the requisite written statement in terms consistent with the guidance from the Group of 100. The statement is considered by the Audit Committee prior to being provided to the Board.</p>	
<p>7.3 Provide the information indicated in the Guide to reporting on Principle 7</p>	☑
<p>A description of Caltex's risk management policy and internal compliance and control system was made available on the web site in January 2007.</p>	
<p>8.1 Disclose the process for performance evaluation of the Board, its committees and individual directors, and key executives</p>	☑
<p>The Caltex Performance Evaluation Process sets out the processes by which the performance of the Board and all Caltex employees is evaluated, and is available on Caltex's web site. Information on performance evaluation of key executives is also included in the Remuneration Report in the Directors' Report as Caltex strongly believes in the link between performance and remuneration.</p> <p>Directors are encouraged to attend director training and professional development courses, as required, at Caltex's expense. New directors also receive an information pack, meet with senior executives to gain further background on Caltex's business operations and visit facilities as appropriate. The Human Resources and Nomination Committee reviews this induction process on a regular basis to ensure that appropriate induction is provided for new directors.</p> <p>Caltex management provides detailed papers for each Board and Committee meeting and attends meetings to answer any questions that directors may have. Directors are free to liaise with management to obtain any further information they may require. Directors visit at least two Caltex facilities during the year and an off-site strategy session over two days is also held annually to review Caltex's financial, strategic and operational goals and to discuss key business developments.</p>	

Recommendation	Comply
<p>9.1 Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance</p> <p>A Remuneration Report can be found in the Directors' Report commencing at page 38.</p>	☑
<p>9.2 The Board should establish a remuneration committee</p> <p>The Board has established a Human Resources and Nomination Committee composed of three members, the majority of whom are independent directors. The Chair of the Human Resources and Nomination Committee is an independent director. The Committee complied with this composition except for a short period between Mr Hauschildt's resignation on 22 June 2006 and Mr Fish's appointment to the Committee on 1 August 2006 when there were only two members.</p> <p>The Board has adopted a Charter for the Human Resources and Nomination Committee which reflects the matters set out in the commentary and guidance to recommendation 9.2, a copy of which is available on Caltex's web site.</p>	☑
<p>9.3 Clearly distinguish the structure of the non-executive directors' remuneration from that of executives</p> <p>As discussed in the Remuneration Report contained in the Directors' Report, 100% of the remuneration of non-executive directors is fixed and non-executive directors do not participate in any incentive plan. Also, fees paid to non-executive directors must be within the aggregate remuneration pool approved by shareholders. Remuneration paid to executives in 2006 included fixed and variable components, with variable remuneration comprising a cash based short-term performance incentive plan and the long-term incentive plan under which shares in Caltex Australia Limited may be granted to executives.</p>	☑
<p>9.4 Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders</p> <p>Senior executives of Caltex may receive shares under Caltex's long-term incentive plan. The terms and conditions of the long-term incentive plan were approved by shareholders at the Annual General Meeting held in April 1999.</p>	☑
<p>9.5 Provide the information indicated in the Guide to reporting on Principle 9</p> <p>Information on the members of the Human Resources and Nomination Committee, as well as the number of meetings in 2006 of the Human Resources and Nomination Committee and who attended those meetings, is included on pages 24 to 25 and in the Directors' Report.</p> <p>Following the decision to discontinue the Caltex retirement scheme for non-executive directors with effect from 1 January 2004, non-executive directors residing in Australia are entitled only to statutory superannuation. Directors not residing in Australia are not entitled to any superannuation.</p>	☑
<p>10.1 Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders</p> <p>A copy of the Code of Conduct is available on Caltex's web site.</p>	☑

Caltex Australia Limited is committed to best practice in corporate governance where these practices are appropriate and add value to Caltex. The Board recognises that one size does not fit all and, although Caltex complies with all of the recommendations of the ASX Corporate Governance Council, the Board has adopted additional governance practices which address particular circumstances relevant to Caltex Australia Limited. These include the management of the relationship with Chevron, the largest shareholder in Caltex Australia Limited, the appointment of senior executives from Chevron as directors, including the Managing Director and Chief Executive Officer from time to time, the limitation on non-audit services provided by the external auditor and compliance with the Trade Practices Act 1974 (Cth).

Relationship with Chevron and appointment of senior executives from Chevron as directors

Chevron Corporation, through one of its subsidiaries, holds 50% of the issued shares in Caltex Australia Limited. Various Chevron Corporation subsidiaries also enter into commercial arrangements with Caltex from time to time. Caltex benefits greatly from its relationship with the Chevron Group (Chevron) by being able to access Chevron's global scale and extensive research and development activities. Without these benefits Caltex may be at a competitive disadvantage to other oil refiners and marketers in the Australian market which are subsidiaries of international oil companies. Caltex is not a subsidiary of an international oil company and the Board recognises that this means that Caltex must be diligent in ensuring that Chevron is not favoured over other shareholders.

The Board has adopted a protocol to govern all transactions with Chevron. Under that protocol all transactions between Caltex and Chevron, regardless of dollar value, must be approved by the Board of Caltex Australia Limited prior to the transaction being entered into. A transaction will only be approved if the terms of the proposed transaction are arm's length terms or no less favourable to Caltex Australia than arm's length terms.

In particular, agreements are negotiated between Caltex and Chevron in relation to spot and term crude and product sales and purchases and the chartering of shipping for the transportation of crude and petroleum products purchased and sold by Caltex. Crudes purchased from all parties, including Chevron, are assessed using the same mathematical model and published market pricing data to determine the crude creating the greatest value for Caltex having regard to such factors as crude quality, purchase price, freight costs and processing suitability and value. If Chevron acts as an agent of Caltex in a crude transaction, it receives a commission fee which has been assessed to be less than the cost to Caltex of operating a Singapore trading office or of using an independent agent and Chevron only acts on instructions from Caltex. In relation to product purchases and sales, a program is considered annually by the

Board. As part of that consideration, the Board receives information on the current year's transactions showing that they occurred on an arm's length basis and approves the independent criteria to be used to assess that the following year's arrangements will be on no worse terms than on an arm's length basis.

The Board of Caltex Australia Limited has three directors who are executives of Chevron, one of whom is currently seconded from Chevron to act as the Managing Director and Chief Executive Officer. The appointment of Chevron executives as directors allows Caltex to access industry experience that these directors have gained through involvement in the day-to-day operations of one of the world's leading global energy companies. They bring important knowledge and experience to bear on the Board's consideration of operational and business matters which is not available from directors without industry involvement and which is not generally available in Australia.

Once appointed to the Board of Caltex Australia Limited, these directors are required under corporate law to act in the best interests of Caltex Australia Limited. It is a term of the letter of appointment for the Managing Director and Chief Executive Officer (to which the Managing Director and Chief Executive Officer agrees) that the scope, nature and performance of his duties are subject to, and must be undertaken in accordance with, the lawful directions of the Board of Caltex Australia Limited. Directors who are employees of Chevron must also participate in an education session conducted by external Australian legal counsel shortly after their appointment which emphasises their duties to Caltex and how to manage any conflicts of interest that might arise.

The performance of the Managing Director and Chief Executive Officer is assessed annually by the Chairman against Caltex performance benchmarks. The results of this assessment are reported to Chevron which Chevron takes into account in the remuneration it pays to the secondees.

Further information on the relationship with Chevron is available on Caltex's web site.

Provision of non-audit services

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

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

Compliance with Trade Practices Act

Caltex is committed to complying with the Trade Practices Act 1974 (Cth) and, to this end, has a rigorous Trade Practices Compliance Program in place.

A key element of the program is the Caltex Trade Practices Compliance Policy. It is a condition of employment that all Caltex employees comply with this policy. The policy requires all Caltex employees to comply with the Trade Practices Act and not engage in any conduct or activity which is compromising from a trade practices point of view.

A further key element of the program is the provision of annual tailored education for relevant employees and contractors.