

QUENCH YOUR THIRST FOR ORIGIN



Exclusive to Caltex
**LIMITED EDITION STATE
OF ORIGIN COCA-COLA.**

Available only while stocks last.

© 2008 THE COCA-COLA COMPANY. 'COCA-COLA', 'THE COCA-COLA SIDE OF LIFE' AND THE CONTOUR BOTTLE ARE REGISTERED TRADE MARKS OF THE COCA-COLA COMPANY.

THE STAR

CALTEX'S MAGAZINE FOR EMPLOYEES, FRANCHISEES,
RESELLERS AND THE WIDER WORLD
ISSUE 43 / JUN - JUL 08

How Asia
drives Australia's
fuels destiny



CALTEX
Caltex Australia



From the Managing Director

As the rapid rise in oil prices has a deeper impact on the lives of people across the world it is clear there can be no quick fix. Today's record fuel prices are a signal of how much things have changed.

Australian motorists' anxiety about local petrol prices might at first seem far removed from current social, economic and industrial developments in China and India. But as we discuss in this issue of *The Star*, today's global economy means these issues are now directly linked.

The surge in demand in Asia's two largest economies will not ease soon, and with crude oil at over US\$130 a barrel – almost double the prices of early last year – it's clear the age of cheap oil is over.

The current boom in India and China presents a challenge on both the demand and supply sides of the equation. While these countries' rapidly expanding demand for fuels is increasing regional prices, India's new low-cost export refineries also have the potential in future to put competitive pressure on Australian refiners which operate in a higher cost environment.

Caltex Chairman Elizabeth Bryan acknowledged the challenge for our company in her address to shareholders at our annual general meeting in April. She said oil refining and marketing is a very high volume, very low margin business and that we operate in a very competitive market. She pointed out that Caltex is not a producer of crude oil, our main input, and has to pay world prices for it on the open market – putting a lot of pressure on our working capital requirements.

The Australian community, government and industry must work together to ensure the country has a reliable and secure petroleum fuel supply. This will mean the policy debate needs to focus on how Australians can best adjust to the emerging era of higher petroleum and energy costs generally.

Des

Des King

COVER: A Beijing street choked with cars, an inevitable result of Asia's rapidly growing demand for transport fuels that's sent prices soaring with no short-term relief in sight



LPS at work

The reach of the Loss Prevention System (LPS) extends into the furthest corners of Caltex, and can apply to our charity efforts just as well as any other area of work.

As part of a Safe Performance Self Assessment (SPSA), the 32 volunteers from Fremantle Terminal and WA Calstores who sold merchandise for the Starlight Children's Foundation in May began planning their Starlight Day strategy early. They met in February to identify what they could do to make their fund raising at Perth railway stations a success and, most importantly, incident free.

Armed with information gained from discussions with stakeholders, they decided on where volunteers should stand and how the cash they collect and merchandise could be stored securely. They were grouped in pairs for safety reasons, and a group of three acted as cash collectors and provided more merchandise as needed on the day.

A bank agreed to count the money after hours so it was out of public view and volunteers were reminded of the dangers of walking in groups and holding cash.

The team's efforts were a stunning success, says WA Starlight Champion and Retail Support Coordinator Jo Cutts, raising \$10,110 in two-and-a-half hours.

Adds Jo: "Can we do this better? Each year we can refine it to make the day more successful."

Meanwhile on Starlight Day in Sydney the SPSA tool made sure the 15 volunteers cooking at the Starlight outdoor barbecue in Martin Place were also safe. Large drip trays, non-slip mats, fire proof marquees, instructions to wear aprons, closed shoes and trousers as well as gloves for handling food and a safety briefing all helped protect the 15 tireless chefs, who included CEO Des King (pictured below).

"Because our people were outdoors in the middle of the day we also supplied them with Caltex caps and factor-30 sunscreen," says Sydney Starlight champion Suzanne Cohen.

Many service station people who run fundraisers could consider similar SPSAs to keep their employees safe, Suzanne suggests.

The Sydney cooks raised \$2,180. As it did with their colleagues in Perth, LPS helped ensure they all went home without incident.



Asia is fuels de

Australian pump prices are being largely determined by what is happening in China and India.

Everyone who uses vehicles and machinery laments the rising cost of fuel. Many blame the oil companies or the government, the most visible identities of their hip-pocket pain.

The real source of the escalation in prices lies to our north, where Asia is playing a lead role in driving our fuels destiny.

China's and India's explosion in economic activity over the past five years is having a major impact on what happens to fuels refining and pricing in Australia, for a very simple reason, says Managing Director Des King.

“

With oil demand of 6.7 million barrels per day, China is the world's second largest oil consumer behind the US”

A scene from a highway in Shanghai, where increased personal incomes are driving consumer demand

Driving our destiny

These countries have a voracious appetite for petroleum products, and in our regional marketplace that means prices are going up – and up.

The Asian development boom is affecting everything from the price and availability of crude oil and shipping costs to the supply/demand situation for petrol, diesel and jet fuel, and ultimately prices at the bowser.

As regional refineries struggle to feed the demand driven by the expansion of industry, urbanisation and vehicle ownership in Asia's two giants, the price of fuel has rocketed.

This has a direct impact on Australians because fuel from Australian refineries is priced in competition with imports. Australia relied on imports from the region to provide around 24 per cent of our transport fuels in 2007, mostly from Singapore.

Demand for fuel has also pushed up the cost of crude oil to make it, with China importing crude from all around the world. World prices

for crude oil and fuels are set in US dollars – if it wasn't for the strong Australian dollar our pump prices would be even higher.

While crude oil prices soar past the US\$130 a barrel mark and fuel prices follow the same trajectory, it does not translate into higher profits at the bowser. As a refiner and marketer Caltex makes, on average, a profit of about two cents per litre of fuel sold. The Government makes around 50 cents per litre on petrol through excise and GST so there is very little chance that prices can be lowered unless the federal government reduces the amount of tax it takes from fuel sales.

However, there is an active debate in Australia on whether we would be better off adapting to higher fuel prices despite the pain so we are all better prepared to help fight climate change and a carbon-constrained future when prices could be much higher. Such adaptation would have to provide more public transport options and consider disadvantaged consumers.

Rise of the dragon

China's economy has grown at about 10 per cent per year for the past 20 years and with a population of 1.3 billion is drawing in mineral resources and other raw materials from all around the globe. China is now the world's top consumer of aluminium, copper, lead, nickel, tin, zinc, iron ore, coal, wheat, rice, palm oil, cotton and rubber. Its consumption of metals as a share of world usage has jumped in the past decade from 10 to 25 per cent to feed its massive industrial expansion and construction boom.

China's population is greater than all of the developed countries of the OECD combined, and increased personal incomes are driving consumer demand. China's vehicle fleet is growing at an average rate of 25 per cent a year. The car fleet totals 43 million, almost four times that of Australia, and there are 80 million motorcycles. To service these vehicles there are 94,000 service stations compared with about 6,000 in Australia.

China has 3.3 cars per 100 head of population compared with 55 in Australia, which is one measure of China's enormous unlocked demand for vehicles and fuels.

With oil demand of 6.7 million barrels per day, China is the world's second largest oil consumer behind the US and the largest in the Asia-Pacific, importing about 4 million barrels per day of crude oil to supplement its own production. In comparison, Australia consumes about 0.9 million barrels per day. Of total Chinese petroleum product demand, 2.3 million barrels per day is diesel, with road transport having the largest share and the remainder split evenly between the rail/shipping, residential/commercial, industry and agriculture sectors. China imports diesel to make up the shortfall in refinery production.

The Indian tiger

Though India's need for commodities is not as big as China's many analysts predict the gap will narrow quickly as the middle class in this nation of 1.1 billion continues to develop. India's economic growth has averaged about 6 per cent per year since 1990 and over 8 per cent last year. India has been contributing largely to soaring Asian demand for hard commodities such as crude oil and metals.

At 2.6 million barrels per day, India's oil demand is triple that of Australia's. Diesel is over a third of demand and is used mainly for road transport and industry. Of India's 88 million vehicles, there are 11 million cars, reflecting the low level of car ownership at only 1 per 100 head of population.

Postcard from India

Dr Eion Turnbull, a former Caltex refining executive, is head of the big Essar refinery in Gujarat. He offers The Star an intriguing glimpse into the booming life of the subcontinent.

Growth in India is very evident. I recently got back from a trip to Mumbai where I saw the world's largest slum being demolished to make way for a new suburb. The squatters are being given new homes. There are new shopping complexes and housing estates popping up all over the place.

Virtually everywhere you look you can see the struggle between new and old playing out. One of the most striking images was the sight of a nomad and his family with two camels and a tent making their traditional trek against the backdrop of the Reliance refinery, arguably the largest in the world.

I'm in a place where during the day the temperature gets up to forty degrees. My Essar refinery is capable of processing up to 280,000 barrels of crude oil a day currently and we will soon expand that to 680,000 barrels a day with an associated petrochemical complex. I've been living in a guesthouse nearby.

The number of cars on the road in Mumbai, Delhi and other cities is staggering. To go from the office to the airport here might take two and a half to three hours. As a result, there's a huge and growing demand for petrol and diesel in India.

One of the most impressive things about the Indian response to this and other challenges is that their strategic objective is very clear: they have to be world-scale or it's not worth being involved in. They show no fear when it comes to investment.

These are not simple refineries built to make the products of yesteryear. They're built for the products of tomorrow, equivalent to Australia's new clean fuels and better.

The other thing that's fascinating is the get up and go of people. When you become rich you tend to take what you've got for granted. But here the enthusiasm, energy and contribution you get from everyone is just amazing. If anything you have to hold them back.

The other thing is they're very focused on building the capability to process poorer-quality crudes. Good quality crudes are becoming scarcer and capability to handle the lesser quality ones is going to be crucial to long term success.

Eion Turnbull, Essar Oil



Eion Turnbull breaks a coconut in a religious ceremony to bless a new crude unit

Fast facts on car ownership

If the Chinese adopted the same rate of car ownership as Australians they would have 700 million cars

| | CHINA | INDIA | AUSTRALIA |
|----------------------------------|-------|-------|-----------|
| Population (million) | 1300 | 1100 | 21 |
| Economic output (\$ billion) | 6100 | 2700 | 740 |
| Oil demand (million barrels/day) | 6.6 | 2.6 | 0.9 |
| Cars/100 head of population | 3 | 1 | 55 |

But demand for cars is growing fast with affordable Indian-built small cars supplying the market at one end and Indian-owned Jaguar at the other. India also has 64 million motor cycles compared to 500,000 in Australia. These vehicles are supplied by 35,000 service stations.

To meet the soaring demand for fuels, refinery capacity in Asia is growing strongly. This is well illustrated by what's happening at the city of Jamnagar in the north-west province of Gujarat. A giant new Reliance Petroleum export refinery there will come on stream later this year making petrol, diesel and jet fuel for the export market. It will process 580,000 barrels of crude oil a day.

In India, financial incentives encourage refiners to manufacture fuel for export so many of its new refineries are seeking to sell to Australia. India is a major exporter of both petrol and diesel.

Changing regional competition

New regional state-of-the-art refineries will add competitive pressure on the Australian refining industry. A key question is whether the landed cost of crude oil in Australia plus refining costs will eventually be less than the landed cost of imported petroleum products. "That means Australian refineries' viability and very existence could be at stake," explains Des King. "And that is why at Caltex we are constantly looking at ways to keep our refineries competitive. As the only Australian-listed refining and marketing company, we are committed to maintaining a viable refining industry for Australia.

"The cost of permits for refinery emissions under the Australian Emission Trading Scheme from 2010 could be the tipping point for many Australian refineries. This makes it essential for Australian refineries to receive a free allocation of permits as an import-competing, trade-exposed industry under the Scheme until competitor refineries in Asia bear the same carbon costs."

While it seeks neither tariff protection nor preferential treatment, Caltex believes oil refining should not be viewed by governments as another manufacturing industry that could exit the country in the face of global change. Australia's refineries have too much strategic importance.

"Relying entirely on overseas refineries for our petroleum products would expose all industries and private consumers to unnecessary risk," Des says. "Policies and attitudes need to recognise the industry's vital strategic role in the Australian economy."

Asia up, US down

Though demand for oil can't keep growing indefinitely at the current rate it will almost certainly remain high for the medium term as China's and India's growth continues fuelling demand for raw materials.

This may be good news for Caltex because it could continue to translate into demand in Australia for fuels, especially diesel, to feed the

Postcard from China

Chelsea Li grew up in Beijing. She moved to Australia to study law and work. Recently she returned to China to become a partner in law firm Gray & Perkins in the city of her birth.

China has changed so much! Being here permanently I can appreciate how amazing the Chinese achievements are in the 30 years since the country opened up to the world.

When I grew up, among the apartment blocks and alleyways where I lived every Chinese rode a bicycle. These days the space bicycles take up on the roads is small. On the other hand the number of cars on the roads is extraordinary. It causes congestion which can be a frustration in peak hours, but it's a sign of our progress; at least most Chinese see it that way.

Another sign of progress is the buildings. The high rises, office towers, state opera house, Olympic site and CCTV tower are like nothing I've seen anywhere in the world. I'd never believed the country could become so effective, efficient and advanced in so many ways.

People from disadvantaged backgrounds are making it here today. They're proud of what they're doing. I've just hired a new graduate from a really poor area in the Inner Mongolia. He's 26. He came to university in Beijing and graduated top of the class. People like him are working really, really hard.

Commercial aviation has made a huge difference to the country and so has infrastructure development. Demand for flights and transportation is now so great it's become a problem. A couple of years ago I went to a remote coal mining area, Peixian Xuzhou in Jiangsu Province, where the new airport was in the middle of nowhere and the highway to the mine was the newest I'd ever seen. The work being done around transportation is very impressive.

I'm happy living here. I surprised myself that my attitude to China had changed. About 30 years ago the Chinese who had suffered much wanted to run away. Now they want to travel outside the country and see the world and so do their kids. But they want to come back. That's the fundamental difference between the Chinese of 30 years ago and the people now.

Chelsea Li, Beijing



Former Australian resident Chelsea Li, now based in Beijing

mining boom. Demand growth will assist the marketing component of the Caltex business, which in 2007 accounted for around 50 per cent of the company's earnings.

This doesn't mean the refining part of the Caltex business will enjoy ever increasing

margins. The current slowdown being experienced by the US economy, for example, will likely have a moderating impact on refining margins as global demand softens, says Des. And the large new Asian refineries will boost regional supply. ●

THE MYSTERY OF MOPS – EXPLAINED

Movements in wholesale fuel prices in Australia follow regional benchmarks because fuel is an internationally traded commodity. If prices in Australia were lower than international prices, domestic producers would either not produce fuel or have an incentive to export it overseas, which could lead to shortages here.

The benchmark for regular unleaded petrol in Asia is known as MOPS95 – the Mean of Platts Singapore (MOPS) price quoted for 95 octane petrol in US dollars per barrel (159 litres). Similar prices are quoted for diesel, jet fuel and all other refined products. Platts is a commodity information and trading company owned by giant US publishers McGraw-Hill, which every day collates information from around the Asian region on prices for fuel trades. These prices are all quoted as if they were for fuel produced from Singapore refineries so there is a common basis for comparison. Actual prices are adjusted for factors such as quality difference relative to the quoted Singapore basis.



Reliance Petroleum's Jamnagar refinery, which will process 580,000 barrels of crude oil a day



Chairman Elizabeth Bryan welcomes shareholders

The ebbs and flows of the AGM

It's five minutes to ten on Thursday, 24 April. Around 250 people are filing into the auditorium of the Wesley Conference Centre in Pitt Street, Sydney for an important event on the Caltex calendar, the company's annual general meeting.

It's five minutes to ten on Thursday, 24 April. Around 250 people are filing into the auditorium of the Wesley Conference Centre in Pitt Street, Sydney for an important event on the Caltex calendar, the company's annual general meeting.

Over the next two hours, the Chairman Elizabeth Bryan and Managing Director and CEO Des King will review the past financial year's performance (2007). Shareholders or their proxies (representatives) will get an opportunity to be involved in some company decisions. They will vote on the election and remuneration of directors, for example, and get to ask the chairman some tough questions.

Members of the press are here too. What they write can impact how the marketplace views Caltex, and as a result, its share price. Naturally, all personnel involved take it seriously. Some are a little nervous.

Today the AGM will run smoothly and to time, but this apparent ease is deceptive. The meeting is actually the end result of much hard work and behind-the-scenes preparation.

For weeks, members of Caltex's Secretariat, Investor Relations, Policy, Public & Government Affairs and Brand teams have been managing the compliance work for the event and helping the Chairman and CEO fine-tune key messages and prepare presentations.

They have also sent out letters to shareholders, made sure the equipment is working so proceedings can be webcast and recorded and that the autocue and PowerPoint presentations will function well.

Safety first

To a swirl of music, images on a screen above the stage depict vignettes from a typical day in the life of Caltex. As the audience settles, Elizabeth Bryan stands at the lectern and welcomes guests. "I declare the meeting open," she says, and starts by introducing fellow members of the Board and the Caltex Leadership Team.

Elizabeth introduces herself as the company's new chairman, elected last October in preparation for the retirement of Dick Warburton, who was in the role for six years and who's making his final appearance as a director of the board today. The company made significant advances during his tenure, she adds.

At Caltex, meetings of five or more people always open with an incident-free operations topic and this one is no exception. Elizabeth discusses a \$22 million pipeline replacement project at the Lytton refinery to improve safety.

Then she moves on to Caltex's financial performance. Higher earnings in 2007 were the result of record production by the refineries and a strong contribution by the marketing business. Full year profit after tax increased to \$444 million.

Refiner margins squeezed

Now CEO Des King takes the podium to talk about operational highlights. The Caltex refiner margin fell, mainly as a result of external factors, Des says. "The main impacts were a decline in underlying Singapore margins, the strengthening of the Australian dollar and rising crude prices."

But there were pluses. Marketing transport fuel sales volumes increased by 3.6 per cent to 13.8 billion litres while non-fuel income increased by 3.5 per cent to \$152 million. The refineries produced a record volume of transport fuels: 10.9 billion litres.

Big issues

Next, Elizabeth flags four issues shareholders have written to say they're most concerned about. These are the recent performance of the share price, the level of dividends paid for

2007, a proposed increase in non-executive directors' fee pool and the impact of a carbon trading system on Caltex.

She addresses each one. The market has judged that Caltex is facing tougher times, while dividends were in line with policy to pay out between 40 and 60 per cent of the replacement cost of operating profit after tax.

The proposed increase in the board's fees was considered appropriate in the interests of continuity and succession. Meanwhile Caltex is suggesting to government that because higher fuel prices have little effect on the fuel needed to be used by motorists, Australia could decide not to impose a carbon cost on motorists, the same as in Europe.

'Let's vote'

It's time to vote on resolutions. "If you hold a yellow card you are entitled to vote and you should raise your card to indicate your vote," Elizabeth says.

One of the first resolutions is to increase the fee pool for non-executive directors from \$1.4 million to \$1.6 million. A shareholder stands up to object. "Why should you be getting more when we're getting less?" he asks.

To keep good talent you have to remunerate people accordingly, is the essence of Elizabeth's answer. Like all resolutions today, this one passes on a show of hands, though it gets more hands raised in opposition than any other.

Another resolution is to elect Greig Gailey to the Caltex board. Greig, sitting on stage with the other directors, introduces himself and summarises his career. "I am currently president of the Business Council of Australia. I was previously chief executive of Zinifex and before that chief executive of Fletcher Challenge New Zealand," he says. "Before that I was with BP for 34 years, so I hope you'll agree I have considerable experience that I can bring to the company."

Question time

Shareholders' questions from the floor are plentiful. They span water usage, refinery maintenance turnaround costs, liquidity, safety, high crude oil prices, biofuels and how genetically engineered canola in Brazil is killing bees. Elizabeth and Des answer them all thoughtfully or tell questioners their comments are welcomed and noted.

Plans to use recycled water at refineries are far advanced, turnaround costs are inevitable because refinery equipment is sophisticated and complex and Caltex had the best year in its history for safety in 2007, Des says.

Elizabeth makes clear why high oil prices do not mean high profits for Caltex. "High crude prices are a cost to the company so they're a problem, not a pleasure for Caltex," she explains.

Women's business

A shareholder asks the chairman an unusual question: "How does your thinking as a woman contribute to Caltex?"

"I sincerely hope it is contributing," Elizabeth replies, smiling. "I'm a strong supporter of woman's progress in industry. Do I interpret things differently as a woman? I don't know, I'll leave it to you to judge."

With all resolutions passed, the meeting closes and everyone moves to an adjacent room for tea and snacks. Each gets a small Caltex "show bag" with samples of items sold in Caltex's convenience stores.

Shareholder Des Chapman of Miranda, Sydney, is having tea with his seven-year-old grandson Cooper Ellison, who sat with him through the meeting.

Cooper watched the proceedings patiently but admits he didn't find it very exciting.

His granddad doesn't regret bringing him though. "Maybe one day he'll be chairman of a company like Caltex," he says proudly. ●

THE INEVITABLE TOPIC ADDRESSED

Petrol pricing was an inevitable topic at the Caltex AGM. In her address to shareholders Chairman Elizabeth Bryan said petrol prices are rising and are expected to continue to rise, but not because of collusion or price gouging as our critics suggest.

She said Caltex has continued to make every effort to get a consistent, factual message out about petrol prices and stimulate well-informed discussion. "Oil refining and marketing is a very high volume, very low margin business and we operate in a very competitive market," she said.

Crude oil prices had rocketed, Elizabeth said, and Caltex, which does not produce any crude oil but uses it as a main input had to pay world prices for it on the open market. She explained that in addition to the strong global demand for oil, other factors contributing to long-term upward pressure on petrol prices included increasing oil exploration and production costs and environmental regulation to minimise emissions.

This was why Australians, like other motorists around the world, can expect to pay more, but these underlying reasons are rarely acknowledged by regulators and commentators.

"We wish crude oil prices were not so high," she said. "We wish motorists did not have to pay high prices. It would be better for Caltex if there was a lower crude oil price – working capital for our inventories of crude and products would be lower. Debt requirements would be lower. Interest costs would be less."

Shareholder Des Chapman with grandson Cooper Ellison at the meeting



What's happening to our service stations?

Bill Dircks remembers when the main aim in fuel retailing was to get a petrol pump on every corner and service station sales rooms had an office desk and displayed a few fan belts and batteries.

Things sure have changed in the 30-odd years that Bill, Caltex's National Project Services Manager, has been in the business. The humble shop has morphed into a fully fledged convenience store selling everything from ladies' stockings to fresh coffee, gifts and groceries. Forecourts bristle with high-tech pumps, and site equipment has the latest in safety and environmental features.

At the same time service stations are becoming fewer. While Caltex has been opening new sites, ongoing divestment of many others has seen the retail network shrink by over 180 outlets in the past five years.

Trends shaping the network

Plain economics and a changing world are behind this phenomenon. The main driver is that no service station can survive on fuel alone these days, says Caltex National Manager Retail Leo Pucar. The margins are just too small, which is why shop sales have become so important. Non-fuel income, what we refer to as income resulting from things other than fuels, now contributes almost 40 per cent to the annual revenue of Caltex's Retail channel. A big part of the non-fuel income is convenience store sales, which grew by over seven per cent last year.

Demographics – people density – and the cost of land have had an equally big influence. Soaring land values in cities means that where Caltex once had three sites in an area, it can now often justify only one because of the return on capital the locations represent. In 2007, for example, Caltex divested 16 properties to the value of around \$14.4 million.

This is particularly true closer to the CBD, says Leo Pucar. "In addition to the value of land, we look at where people are moving to. New, large sites in growth areas have economies of scale and are easier to justify. They often make more sense than investing in existing sites where you

don't expect much growth in customer numbers and revenue."

The value of this thinking is evident in sales figures. Across the Caltex retail network as old sites close and new ones open average fuel throughput and shop sales have steadily increased. From 2004 to 2007, both average weekly fuel volumes and shop sales have increased by 25 per cent.

The number of Caltex-operated Calstores in the network is growing fast in the meantime, expanding from 63 at the beginning of 2007 to 79 today. This has allowed Caltex to set up the "benchmark standards" for its franchise network which it was unable to do prior to the introduction of the industry Oilcode in 2007 which replaced legislation limiting the number of oil company operated sites within a network.

New sites going up

Several brand new Caltex-owned sites have recently opened or soon will. Locations that recently opened are Nicholls in the ACT and Secret Harbour in southern suburb of Perth. Others to come later this year are Sydenham in Melbourne, Taree on the Pacific Highway in regional New South Wales and Brookwater, a new city 28 kilometres southwest of Brisbane.

"They're all in growth areas or highway locations where we have little or no representation," says Caltex National Marketing Assets Manager Stephen Keniry.

Major rebuilds

This year Caltex Project Services has around \$77 million worth of capital works to invest across the network, with work under way at dozens of sites around the country at any given time.

This includes some big knockdown and rebuild retail projects on Caltex owned or leased land, such as in Tempe, Sydney, Abbotsford in Melbourne and East Perth.



"The humble shop has morphed into a fully fledged convenience store" Bill Dircks



At the Tempe site which opened in April, adjoining properties were bought by the lessor to develop an expanded operation. The Abbotsford redevelopment is on a busy inner city site and will open later this year as an integrated Caltex Star Mart and McDonalds operation.

All of these developments are presenting Bill Dircks' team with a number of fresh challenges. Caltex's underground fuel storage systems and service stations pumps are being upgraded. There's also a pump meter calibration and automatic tank gauging program being rolled out to sites to ensure Caltex's 27,000 pump hoses and 3,000 underground tanks dispense and store product accurately and safely.

Red tape gets worse

In developing new to industry sites, one of the biggest hurdles for Caltex is negotiating the approvals minefield. It takes around 18 months on average but can take three years, says Steve Keniry.

First there are internal approvals including getting the site concept right. Then Caltex must get plans approved by the relevant local councils, and this is becoming harder and harder.

Councils have generally become slower in giving approvals, says Steve, but the to-ing and fro-ing resulting from council discussions is taking much longer as well. "A lot of it has to do with the public becoming better informed of their rights and more astute about objecting to developments," he explains.

Naturally the whole procedure is becoming more expensive too, and not only as a result of delays. Stricter environmental regulations requiring additions like water containment structures at sites and underground storage tanks with double linings have added hugely to costs.

In the past the underground tanks' price tag was between \$300,000 and \$400,000 per site. Nowadays it can cost more than double that,

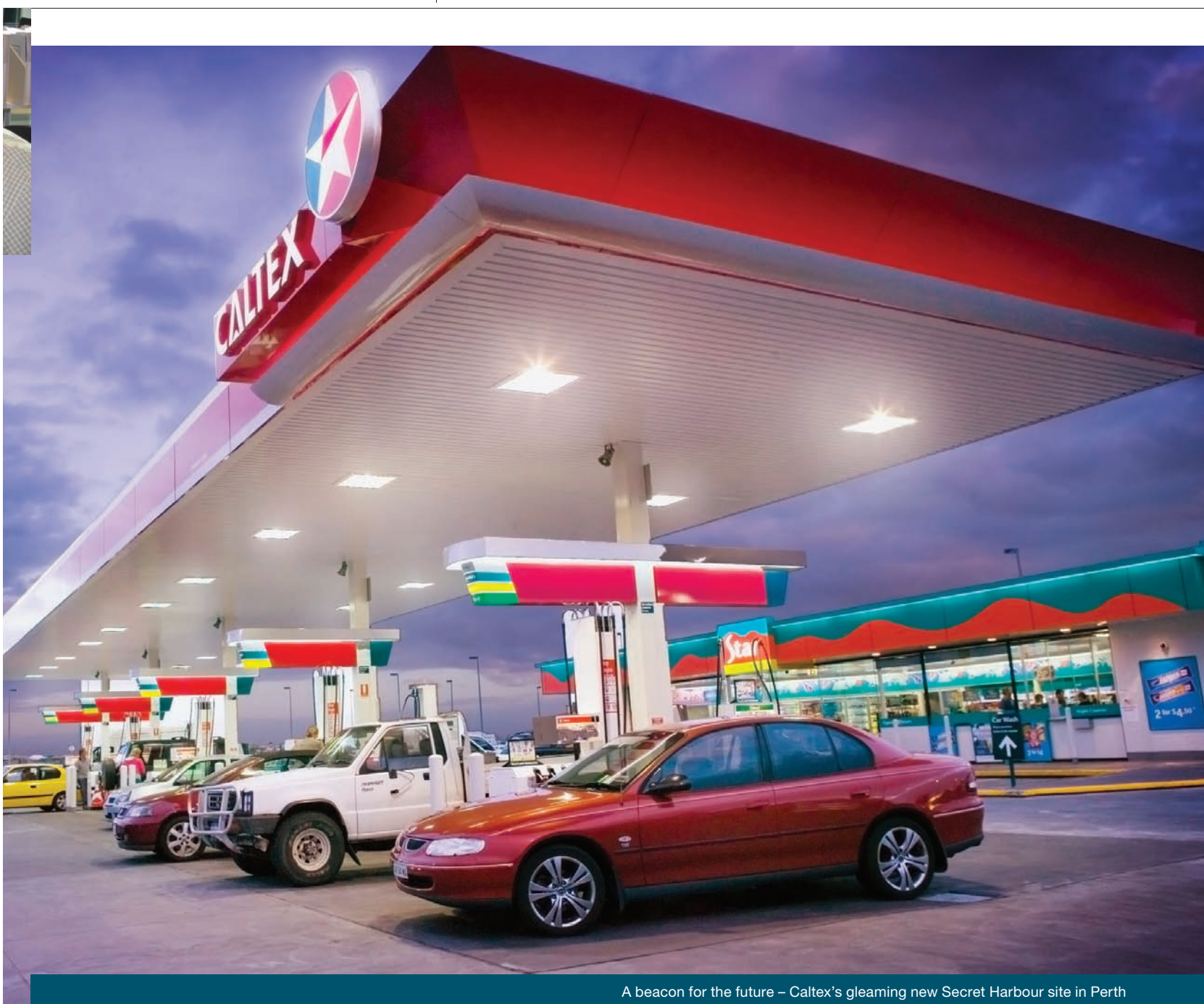
says Leo Pucar. This makes the cost of building a new site from scratch over \$3 million.

Future focus

While all this work is taking place Caltex is maintaining its focus on revamping the retail offer itself. "Common practice among the most successful retailers around the world is to refurbish and rejuvenate every seven years," Leo Pucar points out. Caltex's current Star Mart offer was designed in 1995, so the Twenty-first Century Caltex (21CC) project to upgrade the convenience store fit outs and product ranges is long overdue. It will eventually be implemented in all the Star Marts around the country, says Leo.

The current trial of the concept at selected sites in New South Wales will finish at the end of this year. Caltex then expects to complete the roll out to the network over the next three years.

"It's all about keeping us ahead of the competition," says Leo. "We can never become complacent." ●



A beacon for the future – Caltex's gleaming new Secret Harbour site in Perth

CALTEX EFFORTS BRING BIG BOOST FOR STARLIGHT

Once again physical and financial support from Caltex and its people has delivered a windfall for the Starlight Children's Foundation. Our efforts this year helped us to increase our Starlight Day contribution to around \$250,000 – nearly \$30,000 more than last year.

In a thank you letter Starlight CEO Jill Weekes said how much Starlight values Caltex's support. "As our premier partner you have helped us to make an enormous difference in the lives of thousands of seriously ill children and their families," she wrote.

The biggest boost in sales of Starlight merchandise was in the reseller and retail network which this year raised around \$179,500 compared with \$154,700 in 2007.

Some of the strongest sales occurred in convenience stores in the weeks leading up to Starlight Day on 2 May, with a stockout at the end of April and a rush to resupply in early May.

At Caltex operations employees selling Starlight merchandise raised over \$67,000. Volunteers at 2Market, Kurnell refinery and Fremantle terminal sold more this year and increased their sites' contributions.

Starlight will be shining again at Caltex in August with fundraising dinners planned for Sydney and Melbourne and a special event in Brisbane.

Putting the fun into fundraising - Selling in downtown Sydney, Tony Nguyen and Heidi Ponder (top left) and Naomi Jackson, while Geoff Kyle at Lytton refinery counts the cash raised by volunteers in Brisbane and Dave Kohler and Warren Hood offer Starlight merchandise at Caltex's 21CC store in Heathcote in Southern Sydney.



Lytton refinery operator Mark Robinson turns on the recycled water tap with John Jardine (left) and Peter Campbell



RECYCLED WATER FLOWS INTO LYTTON REFINERY

Recycled water has begun flowing into Lytton refinery at the rate of three million litres a day with the commissioning of a microfiltration reverse osmosis plant at the nearby Wynnum waste water treatment facility.

Lytton's switch to recycled water follows years of planning and cooperation between Caltex, the Brisbane City Council and Queensland Government. The \$35 million project was funded by an \$11.7 million grant from Queensland's Business Water Efficiency Program (BWEP) and by Brisbane City Council with the investment to be amortised over the life of a 15-year supply contract with Caltex.

The plant, completed on time and on budget, was officially opened on 28 May by the Lord Mayor of Brisbane Campbell Newman. The mayor thanked Jim Reeves, the Divisional Manager of Brisbane Water (a division of the council) for establishing the reclamation facilities, and CEO Des King for Caltex's support and participation.

Des expressed delight that Caltex was able to work with Brisbane Water to help save up to 4.5 million litres of fresh drinking water a day for the local community. The refinery's daily water needs are 5.2 million litres but at present local household restrictions mean only three million litres a day of treated water are available from the new facility.

It's mainly used in the refinery's cooling towers where it circulates to remove

excess heat from process units, and in the demineralised water plant which feeds boilers to make steam for turbines.

The refinery still requires drinking water for 15 per cent of its overall supply because the recycled water is demineralised and not suitable for uses connected to human consumption. Salts must be restored to it before it can be used for some industrial processes.

The refinery spent \$5.1 million on infrastructure to carry the recycled water, with half funded by a grant from BWEP. Lytton is also providing a scholarship to refinery chemist Colette King who will do a PhD on the environmental effect of the use of recycled water on the refinery.

THESE WINNERS HAVE THE WRITE STUFF

"The Caltex writing award is a fabulous prize because it supports kids throughout Australia," says Melbourne musician Claire Chisholm. "It's let me pay something back to an organisation that's affected my own life in a very positive way."

Eighteen year old Claire, a talented French horn player, was one of five winners in the latest Caltex Best All Rounder national writing contest where they nominate a charity to receive a donation from Caltex. The winners' work this year was a celebration of life, music, generosity and triumphing over adversity.

Claire Chisholm's essay was inspired by her passion for music and her admiration for Melbourne Youth Music (MYM), an institution that nurtures young talent. It put forward a strong case for the program that faces financial difficulties.

Like the other winners the former schoolgirl at Melbourne's Strathcona Baptist Girls Grammar was motivated by philanthropy.

"It's exciting," she told *The Star*. "I'm so glad to be giving something back to an organisation that desperately needs more funding. Hopefully it'll reduce the risk of losing such a valuable institution. It was also a nice encouragement for me personally."

The writing competition is open to recipients of the Caltex Best All Rounder Award which is offered to secondary schools across Australia and is conferred on final-year students who have given of their best in the classroom, on the sportsfield and in their community.

Entrants were asked to write about why Caltex should donate \$1,000 to a charity or community organisation of their choice. They could also win \$500 each for their former schools and themselves.



Winners clockwise from top left: Tim Bell, Ashley Leal, Perri Burns, Claire Chisholm

The other winners are Tim Bell of Erina Heights and Ashley Leal of Cowra, both in New South Wales, Perri Burns of Melbourne and Georgina Clutterbuck of Mooloolah, Queensland.

Autism no barrier to success

Tim Bell's is an especially interesting story. His essay describes his life journey since being diagnosed with autism at age five, and the part a NSW Central Coast organisation, Autism and Asperger's Family Support Group, played in helping him on his way.

The group proved invaluable for his parents when they were told their son would never achieve a mainstream education or live a normal life, Tim says, providing information and emotional support. And thankfully all the predictions were wrong. "My mother and father refused to accept the limits."

Tim became a peer support leader at school, had artworks displayed and regularly delivered speeches at ceremonies. His plans now include studying design at TAFE.

"I was gobsmacked to win the Caltex prize, especially considering the competition I was up against," he says. "It's great that Caltex should have a program that helps people like this. More companies should do the same."

Preserving life

Perri Burns, who's studying Arts-Law on a scholarship at Deakin University this year, described the work commitment of the Point Lonsdale Surf Life Saving Club to preserving life at the potentially dangerous Back Beach.

Georgina Clutterbuck, currently studying physiotherapy at the University of Queensland, promoted the work of the Australian Red Cross Blood Bank, which "relies on the passion and generosity of Australians to provide others with a chance to live".

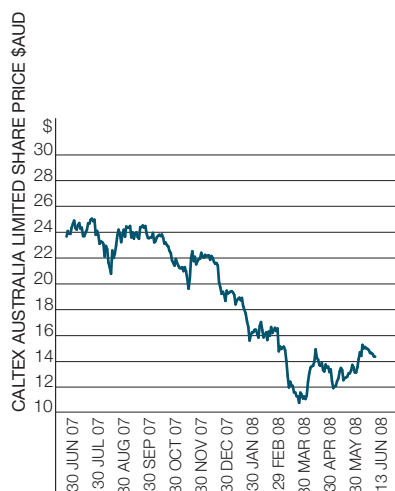
Ashley Leal wrote of the dire need for a new CTG machine in the maternity unit of Cowra's hospital. Without the machine that assesses foetal heartbeats, mothers in her region would have to travel hundreds of kilometres to deliver their babies. "The Caltex writing competition . . . may hopefully encourage more support in areas where it's needed most," she says.

Ashley is working at her local pharmacy full time and plans to attend university next year.

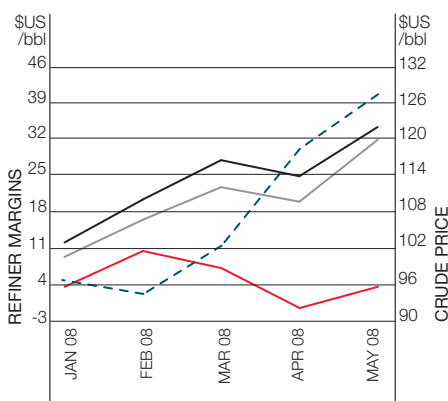
Managing Director Des King was impressed by the quality and content of the entries, and thanked everyone who took part.

"Whether they were speaking up for their local footy team or an international charity, they displayed a desire to help others," Des says. "Many drew on personal experiences. Together their submissions testified to the generosity of the future leaders of our community."

SHARE PRICE



CRUDE OIL PRICE & SINGAPORE REFINER MARGINS



The Star is a bimonthly magazine written and produced by Businesswriters & Design for Caltex employees, franchisees and resellers. Story ideas, letters, photographs and other contributions are welcome. For more information or for extra copies of the magazine, please email editors@businesswriters.com.au or contact *The Star*, c/o Caltex Policy, Public & Government Affairs, Level 24, 2 Market Street, Sydney 2000. Tel: (02) 9250 5000 Fax: (02) 9250 5664. Published by Caltex Australia Petroleum Pty Ltd ABN 17 000 032 128.

MARGINS

- Petrol (95 ULP) (left axis)
- Jet (left axis)
- Diesel (0.005%) (left axis)
- - - Tapis - crude oil price (right axis)

Tapis is the crude oil produced in Malaysia. The Tapis price is the benchmark for crudes in the region. The refiner margins for petrol, diesel and jet fuel are the differences between the Tapis crude oil price and the ex-refinery price in Singapore for the products.