CALTEX AUSTRALIA LIMITED
ACN 004 201 307

LEVEL 24, 2 MARKET STREET
SYDNEY NSW 2000 AUSTRALIA

26 July 2012

Company Announcements Office
Australian Securities Exchange

CALTEX AUSTRALIA LIMITED
CALTEX ANNOUNCES SUPPLY CHAIN RESTRUCTURING

An *ASX Release* titled "Caltex announces supply chain restructuring" is attached for immediate release to the market.

Peter Lim
Company Secretary

Contact number: **(02) 9250 5562 / 0414 815 732**

Attach.

Caltex Australia

ASX/Media release
For immediate release
Thursday 26 July, 2012

Caltex announces supply chain restructuring

Caltex Managing Director and CEO, Julian Segal, today announced that the Board approved the restructuring of Caltex's supply chain following a major review of its operations with particular focus on the company's refineries.

The major components of the supply chain restructuring include:

- The **continued investment** in the development of Caltex's supply chain and Marketing operations to position Caltex as the outright leader in transport fuels across Australia;
- The proposed **closure in the second half of 2014 of the Kurnell Refinery** in Sydney New South Wales **and its conversion to a major import terminal** to enable the continued reliable supply of transport fuels to Caltex customers;
- Continued operation of **the company's Lytton Refinery** in Brisbane Queensland with a focus on necessary operational and financial performance improvements; and
- An **agreement with Chevron for the procurement and supply of transport fuels** (petrol, diesel and jet fuel) with associated shipping services to provide a reliable and efficient supply of imported product.

Commenting on the restructure, Caltex Managing Director and CEO, Julian Segal stated, "Caltex supplies around 30% of all transport fuels in Australia, and our commitment to maintaining reliable supply of high quality products to our customers is at the very core of what we do. Reliability has been, and will remain, the key to the proven success of our business.

"Embarking on this restructure will ensure the continued success of the company by building on our supply chain and Marketing operations, while at the same time stemming losses from the company's refineries. This decision has been made in the long-term interests of Caltex and its various stakeholders, following an extensive review of the business.

"The company announced in August last year that it was undertaking a refinery review with the purpose of determining the role our refineries play in the company's supply chain. Caltex's refineries are relatively small and, in their current configuration, are disadvantaged when compared to the modern, larger scale, more efficient refineries in the Asian region against which we compete.

"This, combined with the challenging business environment, including the ongoing strength of the Australian dollar, increased operating costs and a lower Caltex Refiner Margin, has meant that Caltex's refineries have been generating significant losses which, without intervention, are expected to continue into the future.

"At our recent AGM in May 2012, we announced that refining continued to lose money during the first quarter, with Kurnell contributing the majority of losses in 2011 and 2012 to date. Therefore, the review focused on Kurnell. We further announced that the company's Brisbane-based refinery at Lytton is better suited to the product mix demanded by our customers and consequently a pathway is being explored to improve its operations.

"We have now completed the review and it is proposed that the Kurnell Refinery will cease operation in the second half of 2014 with the existing storage and associated facilities then being converted to a major transport fuel import facility.

“Despite the exhaustive examination of a wide range of alternatives, we have been unable to develop a compelling case to maintain the Kurnell refining operation. Unfortunately the configuration and scale of the Kurnell refinery is such that without substantial investment, which would not be economic, it still could not become competitive with newer, larger scale plants in the region. The Federal Government’s carbon tax had no material impact on our Kurnell refinery closure decision.

“We anticipate the closure will take approximately two years and involve a reduction in employee positions from around 430 to less than 100 at Kurnell. Our employees at Kurnell are being informed of the proposal and we have entered a period of consultation with them and their representatives.

“I must stress that this has been a difficult decision for the company to make due to the impact on our Kurnell refinery employees. Our review process has been exhaustive and examined all possibilities. The decision is in no way a reflection on the calibre and dedication of the employees who work at Kurnell and we understand that this is a difficult time for them.

“We are committed to supporting our people with the highest level of care, attention and respect. We will be engaging further with our employees at the refinery to listen to their individual needs, and discuss retention, redeployment and retraining opportunities while also advising them of their redundancy entitlements.

“I would like to recognise and thank our people at the Kurnell Refinery, past and present, for their contribution over its 57 years of operation.

“With the closure of Kurnell, the company has identified a range of opportunities to improve the performance of the Lytton Refinery in Brisbane. Lytton has superior hardware compared to Kurnell, and a number of potential targeted incremental investments are currently under development. The company is continuing to work with key stakeholders to drive sustained improvement at this facility.

“To ensure we continue to reliably supply our customers’ growing fuel demands beyond the Kurnell transition period, we have recently entered into a long-term agreement with Chevron for the procurement and supply of imported transport fuels (petrol, diesel and jet fuel). Under the arm’s length arrangement, Chevron will procure and supply to Caltex imported product at market-based prices.

“Chevron, which is a 50% shareholder in Caltex, is a global integrated energy company with significant presence globally and in the region. They bring deep and long-standing expertise and experience in the supply and trading of petroleum products. Through this agreement Caltex will be able to leverage Chevron’s capability to provide reliable supply at market-based prices.

“Caltex intends to maintain its BBB+ credit rating from Standard & Poor's, including during the period of conversion at Kurnell, by further strengthening the company's already strong balance sheet. This is consistent with Caltex’s prudent capital management strategy which has allowed Caltex to consistently maintain an investment grade rating for the past 17 years. This will provide Caltex with further balance sheet support during the transition period as we close the Kurnell refinery and convert it to a major import terminal.

“The company has appointed Citi and UBS to assist in evaluating a number of capital management initiatives including the potential issuance of hybrid securities.

“In the short term, Caltex’s dividend policy will change from a current payout ratio of 40% to 60% to a lower payout ratio of 20% to 40%. The intention is to revert to a 40% to 60% payout ratio following the successful closure of the Kurnell refinery in the second half of 2014.

“Importantly, this conservative approach to capital management will provide the flexibility to allow Caltex to continue to invest in growing our supply chain and Marketing operations to maintain growth momentum.

"I would like to thank our people for their efforts over the review period, and for their diligence for the task ahead. Our priority is to focus on safe and reliable operations," Mr Segal said.

Continued investment in Caltex value chain and Marketing operations

Currently, approximately 55% of Caltex's Marketing transport fuels sales is sourced from its own refineries. Upon the conversion of the Kurnell Refinery to a major import terminal, Caltex's remaining refinery at Lytton in Brisbane will supply approximately 25% of the company's fuel requirements, with the remainder sourced from other domestic suppliers and imports.

Caltex currently has leading positions (number 1 or 2) across most of its key products, channels and geographies. Its superior supply chain allows the company to source products and optimise distribution of a comprehensive product offering through multiple channels and geographies.

Caltex's Marketing operation has delivered 13% per annum EBIT growth over the last five years, and provided consistent above cost-of-capital returns.

Caltex will continue to grow this business with significant growth capital expenditure planned.

Kurnell transition from refinery to major import terminal

Caltex expects to incur significant costs associated with closure of the Kurnell refinery, including employment benefits, refinery dismantling and clean up costs. Caltex will raise provisions in 2012 of approximately $430 million (on a discounted basis), reflecting the expected costs of closure and remediation costs in the years post the closure. Caltex will also invest approximately $250 million of capital associated with conversion and expansion of current import facilities at Kurnell.

Conversion activity includes upgrading tank and line systems from their current crude oil and refinery intermediate product storage to finished product storage. This will be complemented by a separate project to upgrade the marine facilities.

In the period 2012-2016, based on current estimates, it is expected that a significant proportion of the cash outflows relating to closure and conversion including employee entitlements, remediation costs, and conversion to a major import terminal will be offset by cash inflows from the closure due to expected tax benefits and working capital release.

While there may be individually significant cash inflows and outflows relating to closure and conversion, Caltex does not expect the cumulative net cashflows relating to closure and conversion over this period to have a significant impact on its net debt balance. The actual amount of working capital to be released will depend on a number of factors existing at the date of closure, including the price and source of crude oil and refined products, and the US dollar exchange rate.

In addition, the proposed closure will result in medium and long term benefits to Caltex, including cessation of Kurnell refinery operating losses, a reduction in Kurnell maintenance capital expenditure and lower earnings volatility due to reduced exposure to refining margins.

Background information

2010/11 Crude Oil statistics (approximate)

- Australia imported 84% (40 billion litres) of its crude oil requirements

2010/11 Australian fuel statistics (petrol, diesel, jet fuel)

- Australians consumed approximately 52 billion litres
- Australian refineries produced approximately 38 billion litres
- Net imports accounted for approximately 14 billion litres (27%)

2011 Caltex fuel statistics (petrol, diesel, jet fuel)

- Caltex sold 15.7 billion litres
- Refineries produced 9.8 billion litres
- 6.5 billion litres (net) was sourced from other domestic suppliers and imports.

Caltex in New South Wales (approximate)

Employees	
• Current	1650
• Post restructure	1320
Current annual contribution per annum	
• Wages, taxes and investment	$400 million
Number of Caltex branded service stations.	400

Caltex in Queensland (approximate)

Employees	
• Current	921
Current annual contribution per annum	
• Wages, taxes and investment	$260 million
Number of Caltex branded service stations.	219

Refining Jobs (approximate)

Kurnell

• Employees	430
• Contractors	300

Lytton

• Employees	310
• Contractors	350

Ends

Media contact:
Sam Collyer
Senior Media Adviser
02 9250 5094
sam.collyer@caltex.com.au

Investor contact:
Simon Hepworth
Chief Financial Officer
02 9250 5566
shepworth@caltex.com.au