BY ELECTRONIC LODGEMENT **ASX ANNOUNCEMENT**

CALTEX AUSTRALIA LIMITED
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Company Announcements Office

Australian Securities Exchange

CALTEX AUSTRALIA LIMITED

2014 HALF YEAR – CHAIRMAN'S LETTER TO SHAREHOLDERS

A letter from the Caltex Chairman to shareholders is attached for release under ASX Listing Rule 3.17 and follows the release of Caltex's 2014 half year results to the ASX on 25 August 2014.

The letter is being mailed to shareholders who have elected to receive a printed copy of annual reports. The letter is also available from our website (www.caltex.com.au).

Peter Lim

Company Secretary

Phone: **(02) 9250 5562 / 0414 815 732**

Attach.

Chairman's letter to shareholders

1 October 2014

Dear Shareholder

Caltex has continued to transform and adapt its strategy and business model over the past 114 years to meet the evolving needs of our customers and to adjust to the competitive environment. In 2011, management and the Board established a vision to be the outright leader in transportation fuels across Australia and to measure this success by delivering top quartile total shareholder returns.

In 2012 we announced a major supply chain restructure which included the conversion of our Kurnell refinery into the largest fuels import terminal in Australia and to replace Kurnell production with imports. The goal of that restructure was to build our supply chain while stemming losses from our Kurnell refinery, which will enable us to more effectively compete in the market. I am pleased to report that the project to transform our Kurnell refinery remains on time and on budget and we will cease refinery operations and commence terminal operations this month.

Company-wide cost and efficiency review

The supply chain restructure was the first step in a well planned strategy to transform our business into an integrated transport fuels company, optimising the whole value chain. This value chain encompasses crude and product sourcing through to the end customer. As part of this transition, in February this year we flagged to the market the commencement of a company-wide cost and efficiency review. The initiatives developed during the review will provide Caltex with the financial strength to maintain and enhance its market leadership position and to enable the business to capture future growth opportunities.

As a result of the review, 350 roles will be reduced across operational and support functions. This is in addition to the previously announced reductions relating to the closure of the Kurnell refinery. The reduction will take place over time with the majority expected to occur within the next 12 months.

The review will result in restructuring costs of between $130 million to $155 million before tax (including redundancy costs, other cash and non-cash costs), being recognised in the second half of 2014. The restructuring is expected to deliver associated benefits of approximately $100 million (before tax) per annum, with the full annual run rate expected to be achieved in 2016.

Another element of the review is a focus on the efficiency of capital expenditure and working capital management in the new supply chain. This includes a planned reduction in working capital, with the company expecting to realise an inventory reduction of approximately one million barrels in the second half of 2015 following the Lytton major turnaround and inspection maintenance program. This is in addition to the previously announced two million barrel reduction targeted following the Kurnell refinery closure.

Furthermore, given the advanced stage of the supply chain restructure, management has now commenced a capital management strategy review.

Safety

In terms of personal safety, our first half total treated injury frequency rate was up on the prior year at 1.76 per million hours worked, compared with 1.36 per million hours worked for the 2013 full year. Pleasingly, while our first half lost time injury frequency rate marginally increased to 0.66 per million hours worked compared to 0.63 per million hours worked for the 2013 full year, it remains less than one-fifth the level of five years ago.

During the conversion of the Kurnell refinery to a leading import terminal, nearly 700,000 man hours have been worked with only one medically treated injury. This result is even more impressive when you consider the complexity of completing this work while the refinery continues to operate.

Historic Cost Profit

On an historic cost profit basis, Caltex's after tax profit was $163 million for the first half of 2014. This compares unfavourably to the $195 million after tax profit for the first half of 2013. The 2014 half year result includes crude and product inventory losses of $10 million after tax, compared with a crude and product inventory gain of $24 million after tax for the half year to 30 June 2013.

Replacement Cost Operating Profit

On a replacement cost of sales operating profit (RCOP) basis, which is our preferred profit measure as it excludes net inventory gains and losses, Caltex's after tax profit was $173 million for the first half of 2014. This compares with $171 million for the first half of 2013.

Interim dividend

I am pleased to advise that the Board has declared an interim fully franked dividend of 20 cents per share for the first half of 2014. This is in line with the revised dividend pay-out ratio of 20% to 40% and compares favourably with the 2013 interim dividend of 17 cents per share, fully franked.

Operational highlights

For the first half of 2014, Marketing & Distribution continued to deliver strong underlying annualised earnings growth of approximately 5%.

Total sales volume of high value transport fuels for the first half was 8.1 billion litres. This is an increase of 4% on the prior corresponding period, which totalled 7.8 billion litres. Higher sales of premium grades of petrol and diesel, and jet fuel offset the long term decline in demand for unleaded petrol, including E10, with total petrol volumes falling 2.2% to 3.1 billion litres, in line with industry trends.

For the first half of 2014, total diesel sales volumes increased 7.5% to 3.7 billion litres. This was driven by strong commercial diesel volumes, led by the mining and marine sectors, and retail diesel sales. The strong growth in premium Vortex diesel sales occurred across both commercial and retail segments. Jet fuel volumes grew strongly and were up 11% compared with the prior corresponding period.

Operationally, production volumes of high value transport fuels increased 4% to 5.4 billion litres, compared with 5.1 billion litres in the first half of 2013. A strong Lytton refinery operational performance delivered record transport fuel production, mechanical availability and yield recovery rates. However, lower production from the Kurnell refinery due to the conversion process offset the improved Lytton refinery production. The overall result for Refining & Supply was also affected by a lower Caltex Refiner Margin during the first half of 2014.

Strong balance sheet

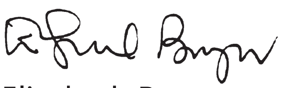
As at 30 June 2014, Caltex's net debt was $827 million, compared with $742 million at 31 December 2013. This equates to a gearing ratio of 23% (net debt / net debt plus equity). On a lease adjusted basis, gearing was 33%. Caltex's strong balance sheet has provided the financial flexibility to enable this business to successfully convert Kurnell refinery to a leading import terminal and continue to invest in growth opportunities, including the recent Scott's Fuel Divisions acquisition.

Outlook for the second half of 2014

The Australian fuels industry is going through a significant period of change, particularly with new competitors entering the market. However, I am confident that Caltex is well prepared for the pace and intensity of this industry change.

Caltex's strategy remains sound and this is supported through the projects underway to optimise the entire supply chain, such as the supply chain restructure and the company-wide cost and efficiency review. Caltex is focused on remaining the outright transport fuels leader in Australia and the Board and management are optimistic and excited about the future of the Caltex business.

Yours sincerely



Elizabeth Bryan
Chairman