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Company Announcements Office

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CALTEX AUSTRALIA LIMITED

2015 HALF YEAR CHAIRMAN'S LETTER TO SHAREHOLDERS

A letter from the Chairman of Caltex Australia Limited ("Caltex") to shareholders is attached for release under ASX Listing Rule 3.17, following release of Caltex's 2015 half year results on 24 August 2015.

Peter Lim
Company Secretary

Chairman’s letter to shareholders

30 September 2015

Dear Shareholder

I am pleased to report that Caltex’s evolution towards an integrated transport fuels supply chain business is well underway. With the closure of the Kurnell refinery and the establishment of Ampol Singapore to source the company’s crude and refined product, Caltex is creating greater value for our business, and ultimately our shareholders, by optimising the entire value chain from product sourcing to the customer.

Safety

In terms of personal safety, which is our number one priority, our first half total treated injury frequency rate was up on the prior year at 2.74 per million hours worked, compared with 1.74 per million hours worked for the 2014 full year. This result was significantly impacted by six treated injuries during the Lytton refinery Turnaround and Inspection (T&I) maintenance period, which occurs every five years. Encouragingly, the performance of our business excluding this T&I is broadly on target. Caltex’s first half lost time injury frequency rate (LTIFR) was 0.24 per million hours worked compared with 0.76 per million hours worked for the 2014 full year. As a result, Caltex is on track to achieve its best ever LTIFR performance.

Financial results

On an historic cost profit basis, Caltex’s after tax profit was $375 million for the first half of 2015, including a significant gain of $29 million after tax. This gain relates to the sale of surplus property in Western Australia. This result compares favourably to the $163 million after tax profit for the first half of 2014. In addition, the 2015 half year includes crude and product inventory gains of $95 million after tax, compared with crude and product inventory losses of $10 million after tax for the previous half year to 30 June 2014.

On a replacement cost of sales operating profit basis, which is our preferred profit measure as it excludes net inventory gains and losses, Caltex’s after tax profit was $251 million for the first half of 2015. This compares favourably with $173 million for the first half of 2014.

Interim dividend

I am pleased to advise that the Board has declared an interim fully franked dividend of 47 cents per share for the first half of 2015, in line with Caltex’s dividend pay-out ratio of 40% to 60%. This compares to Caltex’s 2014 interim dividend of 20 cents per share, fully franked.

Business performance

Across the business, the competitive landscape continues to be challenging. However, the change in our business model to one integrated transport fuels value chain business, is enabling us to maintain our position as the outright leader in transport fuels across Australia.

Since the closure of the Kurnell refinery in October 2014, Ampol Singapore has taken on accountability for sourcing all crude, feedstock and product imports. This equates to more than 45 million barrels of crude, product and feedstocks for the first half of 2015.

Total sales volume of transport fuels for the first half of 2015 was 7.7 billion litres, 4.4% lower than the same period in 2014. This primarily reflects the loss of a major diesel supply contract and the lag before the full benefit of a new, larger, long term diesel supply contract was realised. Total petrol volumes fell 2.2% to 3.0 billion litres, broadly in line with industry trends. Higher sales of premium grades Vortex 95 and Vortex 98 partially offset the decline in demand for unleaded petrol, including E10. Total diesel volumes declined 5.2% to 3.5 billion litres, driven by the timing of the major supply contract loss, lower spot volume marine diesel sales in Western Australia, and reduced diesel requirements with a number of LNG projects near completion. However, the strong growth in premium Vortex diesel product across Caltex's retail segment continues with premium diesel representing 30% of total diesel sales. Jet volumes declined 8%, compared with an 11% growth in the prior corresponding period. Across our network, eight new to industry (including one diesel stop), seven new to Caltex and four knock down and rebuild retail sites were completed in the first half of 2015.

Focused improvement initiatives at Lytton refinery enabled a strong operational performance during the first four months of the year, taking advantage of favourable refiner margins. A consequence of the T&I maintenance program mentioned above, sales from production from the refinery totalled 2.4 billion litres for the first half of the year, down from 2.9 billion litres in the same period last year.

Strong balance sheet

As at 30 June 2015, Caltex's net debt was $715 million, compared with $639 million at the 2014 year end, and $827 million at 30 June 2014. This equates to a gearing ratio of 21% (net debt / net debt plus equity). On a lease adjusted basis, gearing was 30%. Caltex's strong balance sheet has provided the financial flexibility to enable Caltex to continue to invest in growth opportunities and increase its dividend over time.

Capital Management

I am pleased to report that Caltex management is actively considering options to grow the business, leveraging the core capabilities of retailing, franchising, supply chain management, infrastructure services and product sourcing. A formal process is underway to evaluate these options in a structured and diligent manner.

The successful closure of the Kurnell refinery and the company's continued evolution into an integrated transport fuels value chain business, enhanced by the company's ongoing cost and efficiency program, has resulted in significantly improved cash flows. Those improved cash flows will provide greater flexibility to invest in growth opportunities and/or to return additional capital to our shareholders while maintaining the company's BBB+ credit rating. In the absence of material growth opportunities, the preferred form of additional capital return is an off-market share buy-back.

Sound future

Caltex is an integrated transport fuels company, underpinned by comprehensive infrastructure with a diverse set of customers spanning the consumer, commercial and wholesale sectors. Caltex has a clear strategy to grow earnings, reduce volatility of earnings and cash flow and increase balance sheet flexibility to maximise longer term shareholder returns and the Board and management are optimistic and excited about the future of the Caltex business.

Yours sincerely

Elizabeth Bryan