CHAIRMAN'S LETTER TO SHAREHOLDERS

CALTEX
Caltex Australia

30 September 2016

Dear Shareholder

Over the past five to six years, Caltex has transformed its business and built new capabilities to create a market leading transport fuels supply chain, while successfully delivering top quartile shareholder returns.

As a proud Australian company, our strategy has delivered strong results and continues to position us as the leader in transport fuels in the nation, with a strong retail convenience presence. We aim to be the market leader in complex supply chains and the evolving convenience market place, by delivering the fuel and everyday needs of our diverse customers through our networks. This is captured in our vision – Freedom of Convenience.

In the first half of 2016, Caltex has continued to further optimise its integrated value chain, from product sourcing to customer. This optimisation includes the leveraging of our import infrastructure, enhancing the supply chain around our Lytton refinery and strengthening our operational performance within Australia, driving down our cost of goods sold.

A significant milestone in the first half of 2016, was the transition to a standalone shipping capability, with former shareholder, Chevron, now totally exited from Caltex's supply chain.

Safety and environment

The most significant improvement in safety in the first half was in the area of hydrocarbon spills. No spills are acceptable to us and a concerted effort by management to improve our spills performance resulted in three spills in the first half of 2016, down from nine spills for the 2015 full year. Conversely, our personal injury performance, as measured through total treated injury frequency rate (TTIFR), has plateaued. While this performance remains at best in class levels within Australia, the trend is not in the direction we seek. Over the remainder of 2016, management will continue to relentlessly pursue improvement in this area.

Financial results

On an historic cost profit basis, Caltex's after tax profit was $318 million for the first half of 2016. This compares unfavourably to the $375 million after tax profit for the first half of 2015. The 2016 half year result includes crude and product inventory gains of $64 million after tax, compared with crude and product inventory gains of $95 million after tax for the half year to 30 June 2015. This reflects the larger increase in the Australian dollar cost of crude oil in 2016 compared to 2015.

On a replacement cost of sales operating profit (RCOP) basis, which is our preferred measure, as it excludes net inventory gains and losses related to movements in the price of crude and product, Caltex's after tax profit was $254 million for the first half of 2016. This compares with $251 million for the first half of 2015.

Interim dividend

I am pleased to advise that the Board has declared an interim fully franked dividend of 50 cents per share for the first half of 2016, in line with Caltex's target dividend pay-out ratio of 40% to 60%. This compares to Caltex's 2015 interim dividend of 47 cents per share, fully franked.

Business performance

Caltex continues to focus on optimising the entire value chain, from product sourcing to the customer. Continued growth in sales of premium grades Vortex 95 and Vortex 98 partially offset the long term decline in demand for unleaded petrol, including E10. Total petrol volumes fell 2.2% to 2.9 billion litres, compared with 3.0 billion litres in the first half of 2015, broadly in line with industry trends.

Total diesel volumes were in line with the prior first half at 3.5 billion litres. Strong growth in premium Vortex diesel product across Caltex's retail segment continues with sales volumes up 14%. Lower commercial diesel volumes reflect completion of a number of LNG related infrastructure projects, with the transport, industrial and SME sectors remaining subdued.

Pleasingly, jet fuel volumes increased 7.0% year on year, to 1.3 billion litres.

In line with our strategy, we continue to invest in our retail site and terminal network, with eight new retail sites and four retail sites which were demolished and rebuilt in the first half of 2016.

Sales from production at our Lytton refinery in the first half totalled 2.9 billion litres. This is up approximately 20% from the same period last year, which was 2.4 billion litres. This increase reflects both a continued strong operational performance and the 2015 impact of the major maintenance program, which occurs once every five years.

The average realised Caltex Refiner Margin for the 2016 half year was US$10.10 per barrel. This compares unfavourably to the 2015 first half average of US$16.00 per barrel.

Strong balance sheet maintained post buy-back

As at 30 June 2016, Caltex's net debt was $693 million, which compares with $432 million at 31 December 2015 and $715 million at 30 June 2015. The increase in debt reflects the $270 million off-market buy back completed in April of this year, as well as the payment of the increased final 2015 dividend. This equates to a gearing ratio of 21% (net debt/net debt plus equity). On a lease adjusted basis, gearing was 34%. Caltex's strong balance sheet provides continued financial flexibility to enable investment in growth opportunities and/or return surplus funds to investors.

Future growth

As the pace of change in the industry continues to accelerate, the Board and management will continue to implement the refreshed strategy to position Caltex for the next phase of growth.

Investment will continue in our supply chain, including our retail network and infrastructure within our core transport fuels business. We will also continue to explore low-risk adjacent business opportunities, based around our core capabilities of retailing, supply chain management, infrastructure services and product sourcing.

Our focus remains on pursuing earnings growth, reducing volatility of earnings and cash flow and increasing our balance sheet flexibility to maximise longer term total shareholder returns.

Yours sincerely

Greig Gailey