CALTEX
Caltex Australia

ASX RELEASE

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FULL YEAR 2016 RESULT: STRONG SUPPLY & MARKETING RESULT, RECORD LYTTON PRODUCTION

Key points:

- Full year historic cost profit after tax (HCOP) of $610 million
- Full year RCOP[1] NPAT of $524 million, modestly above guidance ($500 million to $520 million)
- Supply & Marketing EBIT $709 million, up 5.6% on 2015. Excluding unfavourable externalities ($29 million), underlying EBIT up 9% to $738 million
- Record Lytton production with refiner margins in line with 10 year average - EBIT of $205 million
- Net debt at 31 December 2016 of $454 million, including impact of the first half off-market buy-back. Excludes two proposed acquisitions already announced, with completion anticipated in first half of 2017 (Milemaker $95 million, Gull New Zealand approx. A$325 million)
- Final dividend of 52.0 cents per share (fully franked). Full year dividend 102.0 cps (fully franked), in addition to $270 million off-market buy-back (completed April 2016)

Results summary	**Full Year ended 31 December**	
	2016	**2015**
Historic Cost result after tax	**$M**	**$M**
Including significant items	$610	$522
RCOP result:		
After tax		
Excluding significant items	**$524**	**$628**
Before interest and tax		
Excluding significant items	$813	$977

Historic cost basis

On an historic cost profit basis, Caltex recorded an after tax profit of $610 million for the 2016 full year (no significant items). This compares with the 2015 full year profit of $522 million, which included a gain relating to significant items of $29 million after tax.

The 2016 result includes a product and crude oil inventory gain of $86 million after tax. This compares with the inventory loss of $135 million after tax in 2015.

[1] The replacement cost of sales operating profit (RCOP) excludes the unintended impact of the fall or rise in oil prices (a key external factor) and presents a clearer picture of the company's underlying business performance. It is calculated by restating the cost of sales using the replacement cost of goods sold rather than the historic cost, including the effect of contract based revenue lags.

Replacement cost operating profit

On an RCOP basis, Caltex recorded an after tax profit for the 2016 full year of $524 million, excluding significant items. This compares with an RCOP after tax profit of $628 million for the 2015 full year, excluding significant items.

The overall result reflects a strong underlying Supply & Marketing result, offset by adverse foreign exchange and pricing lags of $29 million. A lower refiner margin than in 2015 has led to a lower Lytton refining EBIT, despite a continued strong operating performance. Lytton refinery sales volumes increased 14% and production by 15% compared to 2015 full year total, which was impacted by the (once every five years) major planned turnaround and inspection (T&I) maintenance program.

Supply & Marketing delivered a headline EBIT of $709 million. This result includes a realised loss on US dollar denominated product payables of $4 million (2015 loss of $26 million) and a price timing lag loss of $25 million (versus a 2015 price timing lag gain of $23 million). Excluding these net externalities (net $29 million unfavourable), the underlying Supply & Marketing EBIT of $738 million is up 9.3% on the 2015 result.

The underlying result reflects a strong and resilient retail business, continued growth in premium fuels and Ampol Singapore sourcing and supply benefits. The company continued to focus on operational efficiencies via the Tabula Rasa program, helping to offset the impact of highly competitive commercial and wholesale markets.

Total sales volumes of transport fuels were 16.0 BL, broadly in line with prior year (2015:16.1 BL). From a product mix perspective, sales of premium fuels sales continue to grow, up 3% on 2015. Higher sales of premium grades of petrol (Vortex 98 in particular) and Vortex diesel continue to offset the long term decline in demand for unleaded petrol, including E10.

Total petrol volumes declined 2% to 5.9 BL. This is in line with general market decline and consistent with our drive for increased penetration of premium Vortex products that has been underpinned by targeted investment in growth, including new retail service stations and increased marketing spend.

Total diesel volumes are flat year on year at 7.2 BL. Double-digit volume growth in premium Vortex diesel product (sales up 16% to 2.5 BL) across Caltex's retail segment has largely offset lower commercial base grade diesel volumes (down 6.7%). This is a function of completed commodity sector infrastructure projects and subdued transport, industrial and small to medium-sized enterprises (SME) sectors. Pleasingly, Caltex is increasing sales volumes (albeit still small) of Caltex's differentiated diesel to mining and transport customers. Jet volumes grew by 5.0% to 2.6 BL.

The **Lytton Refinery** delivered a solid 2016 EBIT contribution of $205 million. This compares with an EBIT contribution of $406 million for 2015 and a 2016 first half EBIT of $92 million. The operating performance continued to deliver outstanding production results. Record full year sales from production increased 14% to 6.2 BL, including a record second half sales from production performance (3.3 BL). EBIT was primarily impacted by refiner margins being down on 2015 (but in line with the 10year average).

The realised Caltex Refiner Margin (CRM) [2] averaged US$10.29/bbl for the 2016 full year. This compares to the first half 2016 average of US$10.10/bbl and the 2015 full year (US$16.46/bbl). Improved yield loss and higher quality premium was more than offset by a lower Singapore Weighted Average Margin (US$10.94/bbl, down US$4.01/bbl), higher crude premium and lower net freight differential, year on year.

Corporate costs of $101 million are comparable to prior year ($102 million). Corporate costs include continued investment relating to on-going IT expenditures, major project costs (including M&A and franchisee review) and further building capabilities that will better position Caltex longer term.

Balance sheet remains strong

Net debt at 31 December 2016 was $454 million compared with $693 million at 30 June 2016 and $432 million at 31 December 2015. The net debt level includes the impact of the first half off-market buy-back, but does not include the cost of the two recently announced acquisitions (Milemaker $95 million and Gull New Zealand approx. A$325 million, which are to be debt funded). Both of these transactions are expected to complete in the first half of 2017 following regulatory approvals.

Dividend

The Board has declared a final fully franked dividend of 52.0 cents per share for the second half of 2016. Combined with the interim dividend of 50 cents per share for the first half, paid in October 2016, this equates to a total dividend of 102 cents per share for 2016, fully franked. This compares with a total dividend payout of 117 cents per share (fully franked) for 2015. Total dividends declared are in addition to the $270 million off-market share buy-back completed in April 2016.

This is consistent with Caltex's dividend payout policy of 40% to 60% of the full year RCOP after tax (excluding significant items), after taking into account Caltex's earnings for the period, future capital requirements and other relevant factors, such as the outlook for the business.

Woolworths fuel business

Caltex notes Woolworths' decision to sell its fuels business to BP, subject to regulatory approval. As regulatory approvals will be required for the sale, any transaction remains uncertain and will take time to complete. Until regulatory approval is received and the transaction is complete, Caltex will continue to provide reliable and high quality fuel supply to Woolworths and its customers. Caltex will update the market following notification of any change to the Woolworths wholesale supply arrangement.

Whilst disappointed with the likely end of a successful long-term fuel alliance with Woolworths, Caltex will maintain its financial discipline, deliver on supply chain efficiency improvements and pursue profitable growth. This includes securing new wholesale and retail volumes, such as the recent Milemaker and Gull acquisitions, and investing in our supply chain, including our retail network and core transport fuels infrastructure.

Caltex franchise model is attractive for franchisees

Caltex Australia's review of its franchise model has confirmed the model allows franchisees to make a profit, draw a wage, and pay employees in accordance with lawful wage rates. The review examined

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[2] The Caltex Refiner Margin (CRM) represents the difference between the cost of importing a standard Caltex basket of products to Eastern Australia and the cost of importing the crude oil required to make that product basket. The CRM calculation represents: average Singapore refiner margin + product quality premium + crude discount/(premium) + product freight - crude freight - yield loss.

the profitability of the model for franchisees and included external legal advice supported by an assessment of franchise profitability by a leading, independent advisory firm.

This work follows allegations of wage underpayment by some franchisees in the Caltex Australia network and speculation about the fairness of the company's franchise model. The company continues to enhance its governance system and procedures for franchised sites, including already-implemented changes to the process for accepting franchisees into its network.

Wage underpayment or mistreatment of staff is unacceptable to Caltex, and we will continue to remove franchisees who do the wrong thing.

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