CALTEX AUSTRALIA LIMITED

ACN 004 201 307

2017 HALF YEAR REPORT

HALF YEAR INFORMATION GIVEN TO THE ASX
UNDER LISTING RULE 4.2A.3

THE 2017 HALF YEAR REPORT SHOULD BE READ IN
CONJUNCTION WITH THE 2016 FINANCIAL REPORT

CALTEX AUSTRALIA LIMITED
LEVEL 24, 2 MARKET STREET
SYDNEY NSW 2000 AUSTRALIA

Results for Announcement to the Market

Key Results (Millions of dollars)			Half year ended 30 June 2017	2016
Revenue from ordinary activities	↑	20%	10,160	8,452
Profit from ordinary activities after tax/net profit for the period attributable to members:				
Historical cost basis (including significant items)	↓	17%	265	318
Replacement cost basis[1] (excluding significant items)	↑	21%	307	254

Dividend	2017	2016
Dividends declared:		
Interim dividend:		
- Amount per security (fully franked) [2]	60c	50c
Final dividend		
- Amount per security (fully franked)	N/A	52c
Record date for determining entitlement to 2017 interim dividend		12 September 2017
Payment date for the 2017 interim dividend		6 October 2017

Comments update

- On an HCOP basis, Caltex's after tax profit was $265 million for the first half of 2017, including a net $2 million gain on significant items. Significant items represent the profit on sale of Caltex's fuel oil business, offset by the establishment of the previously announced $20 million Franchisee Employee Assistance Fund. The interim HCOP result of $265 million is down 16% on the $318 million after tax profit for the first half of 2016. The 2017 half year result includes crude and product inventory losses of $44 million after tax, compared with crude and product inventory gains of $64 million after tax for the half year to 30 June 2016.
- On an RCOP basis, Caltex's after tax profit was $307 million for the first half of 2017, up 21% on $254 million for the first half of 2016 and aligns with the 2017 half year profit guidance (announced 22 June 2017) of between $290 million and $310 million, excluding significant items.
- Net debt at 30 June 2017 was $730 million, which compares with $454 million at 31 December 2016 and $693 million at 30 June 2016. The increase in debt reflects the $95 million Milemaker acquisition and timing of tax payments. This equates to a gearing ratio of 20% (net debt / net debt plus equity) or 34% on a lease adjusted basis. Subsequent to 30 June 2017, Caltex completed the $325 million Gull NZ acquisition. Normalised for this transaction, gearing levels would approximate 27% (39% lease adjusted) based on a pro-forma net debt of approximately $1,055 million. Caltex remains committed to a BBB+ credit rating, which has been recently reaffirmed by Standard & Poors (S&P).
- The Board has declared an interim fully franked dividend of 60 cps for the first half of 2017, in line with the target dividend pay-out ratio of 40% to 60%. This compares with Caltex's 2016 interim dividend of 50 cps, fully franked. The record and payment dates for the interim dividend are 12 September 2017 and 6 October 2017, respectively.

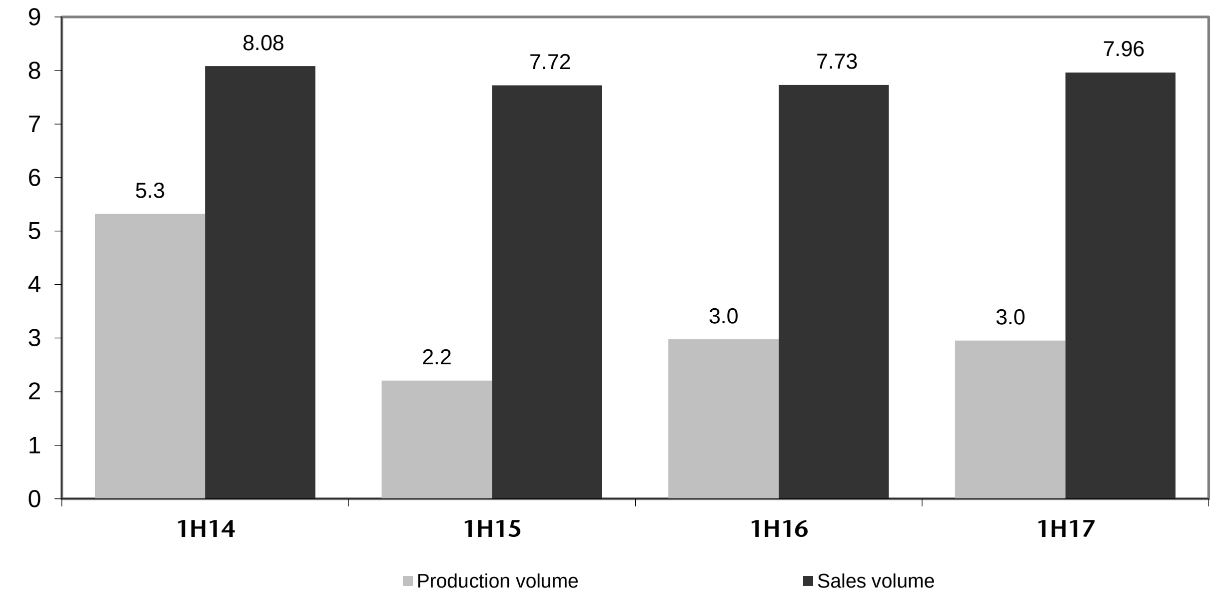
[1] Replacement Cost Operating Profit (RCOP) (on a pre and post tax basis) is a non-International Financial Reporting Standards (IFRS) measure. It is derived from the statutory profit adjusted for inventory (losses)/gains as management believes this presents a clearer picture of the company's underlying business performance as it is consistent with the basis of reporting commonly used within the global downstream oil industry. This is un-audited. RCOP excludes the unintended impact of the fall or rise in oil and product prices (key external factors). It is calculated by restating the cost of sales using the replacement cost of goods sold rather than the historical cost, including the effect of contract based revenue lags.

[2] There is no Conduit foreign income component distributed in relation to the dividend. There is no Dividend Reinvestment Plan in operation.

Key Performance Indicators

	Half year ended 30 June				
	2017	2016	2015	2014	2013
Profit before interest and tax ($m)					
- Historical cost basis (including significant items)	408	488	551	275	319
- Historical cost basis (excluding significant items)[1]	409	488	519	275	319
- Replacement cost basis (excluding significant items)	472	397	383	290	284
Profit after interest and tax ($m)					
- Historical cost basis (including significant items)	265	318	375	163	195
- Historical cost basis (excluding significant items)[1]	263	318	346	163	195
- Replacement cost basis (excluding significant items)	307	254	251	173	171
Inventory gains/(losses) before tax ($m)	(64)	91	136	(15)	34
Basic earnings per share (cents)					
- Historical cost basis (including significant items)	101.4	119.6	138.7	60.2	72.2
- Replacement cost basis (excluding significant items)	117.7	95.5	92.9	64.0	63.3
Return on equity attributable to members of the parent entity after tax, annualised (%)					
- Historical cost basis (including significant items)[2]	18	24	27	12	17
- Replacement cost basis (excluding significant items)[2]	21	19	18	13	15
Net tangible asset backing per share ($)[3]	10.14	9.13	9.47	9.31	8.06
Net debt ($m)	730	693	715	827	729
Gearing (net debt to net debt plus equity) (%)	20	21	21	23	24
Gearing (lease adjusted) (%)	34	34	31	33	34

Transport Fuels[4] Production and Sales (Billion litres)



[1] Historical cost basis excluding significant items (on a pre- and post-tax basis) is a non IFRS measure. It is derived from the statutory profit adjusted for significant items relating to the establishment of an assistance fund for franchise employees offset by the profit on sale of Caltex's fuel oil business. Significant items are events that Management and the Board consider to be outside the scope of usual business. These are excluded to give a clearer reflection of underlying financial performance from one period to the next. This is un-audited.

[2] This is a non-IFRS un-audited measure that management and the Board consider key for users of the financial statements.

[3] Net tangible asset backing per share is derived by dividing net tangible assets by the number of shares issued. Net tangible assets are net assets attributable to members of Caltex less intangible assets. The weighted average number of ordinary shares used in the calculation of net tangible assets per share was 261 million (2016: 263 million).

[4] Transport fuels comprise unleaded petrol, diesel and jet.

2017 HALF YEAR FINANCIAL REPORT

FOR

CALTEX AUSTRALIA LIMITED

ACN 004 201 307

The 2017 Half Year Financial Report for Caltex Australia Limited includes the:

- Directors' Report
- Directors' Declaration
- Independent Review Report
- Half Year Financial Statements
- Notes to the Half Year Financial Statements

for the half year ended 30 June 2017.

Caltex Australia Group

For the purposes of this report, the Caltex Australia Group refers to:

- Caltex Australia Limited, the parent company of the Caltex Australia Group listed on the Australian Securities Exchange (ASX)
- major operating companies, including Caltex Australia Petroleum Pty Ltd
- wholly owned entities and other entities that are controlled by the Caltex Australia Group.

Please note that terms such as Caltex and Caltex Australia have the same meaning in this report as the Caltex Australia Group, unless the context requires otherwise.

THE 2017 HALF YEAR FINANCIAL REPORT SHOULD BE READ IN CONJUNCTION WITH THE 2016 FINANCIAL REPORT

Directors' Report

Introduction

The Board of Caltex Australia Limited presents the 2017 Half Year Directors' Report and the 2017 Half Year Financial Report for Caltex Australia Limited and its controlled entities (the Caltex Australia Group) for the half year ended 30 June 2017. An Independent Review Report from KPMG, Caltex's external auditor, is also provided.

Board of directors

The following persons were on the Board of Caltex Australia Limited during the half year and up to the date of this report unless stated otherwise:

Greig Gailey	-	Chairman (Independent, Non-executive Director appointed on 11 December 2007; Chairman from 10 December 2015 to 18 August 2017)
Steven Gregg	-	Independent, Non-executive Director (appointed on 9 October 2015, appointed Chairman on 18 August 2017)
Julian Segal	-	Managing Director & CEO (appointed 1 July 2009)
Trevor Bourne	-	Independent, Non-executive Director (appointed on 2 March 2006)
Bruce Morgan	-	Independent, Non-executive Director (appointed 29 June 2013)
Barbara Ward	-	Independent, Non-executive Director (appointed 1 April 2015)
Penny Winn	-	Independent, Non-executive Director (appointed 1 November 2015)
Melinda Conrad	-	Independent, Non-executive Director (appointed 1 March 2017)

The only change to the composition of the Caltex Board during the six month period ended 30 June 2017 was the appointment of Melinda Conrad on 1 March 2017.

A biography of each Director is available on the Caltex website at www.caltex.com.au.

Review of Operations

Company Overview

Caltex, including predecessor companies, has operated in Australia for more than 100 years, focusing on providing reliable, safe and efficient fuel supply to our customers.

Caltex is one of Australia's leading transport fuel suppliers and convenience retailers and is listed on the Australian Securities Exchange. The head office is based in Sydney, and Caltex has approximately 3,000 employees working across the country. Caltex currently operates its business as one integrated value chain and incorporates operational excellence principles throughout supply, refining, logistics and marketing.

The principal activities of Caltex during the year were the purchase, refining, distribution and marketing of petroleum products and the operation of convenience stores throughout Australia. There were no significant changes in the nature of Caltex's principal activities or in the state of affairs during the half year.

Caltex operates one oil refinery, the Lytton refinery in Brisbane. This refinery produces petrol, diesel and jet fuel, along with small amounts of fuel oil and specialty products, liquid petroleum gas (LPG) and other gases. Caltex also buys refined products on the open market both overseas and locally, and along with the products that Caltex refines, Caltex markets these products across retail and commercial channels. These products are supplied to customers via a network of pipelines, terminals, depots and company-owned and contracted transport fleets.

Group strategy

Over the past five years, Caltex has transformed from a refiner-marketer through to a leading integrated transport fuels player, with a largely franchised convenience retail business. In 2016 we launched our new vision, the "Freedom of Convenience", announcing our intention to continue our transformation from being the leading provider of transport fuels to a much more diverse organisation that operates across complex supply chains and the evolving retail convenience marketplace.

In the second quarter of 2017, Caltex commenced a review of the company operating model to reflect our strategic direction, with the focus on the delivery of top quartile total shareholder returns via earnings growth and improving returns on invested capital over the long term.

The company has made the decision to change its operating model by establishing two inter-dependent, but different businesses which require separate cultures, processes and systems, both with significant growth options. The company has merged Supply, B2B, Refining and Infrastructure into one business unit (Fuels & Infrastructure) to better optimise our value chain. Retail will focus on the company's petrol and convenience (P&C) business.

The first phase of this review has identified initial expected cost savings of approximately $60 million (before tax) per annum, with the full annual run rate expected to be achieved by the end of the first quarter 2018. Associated restructuring costs of approximately $20 million (including redundancy costs, other cash and non-cash costs) will be recognised in the second half of 2017. The cost savings include headcount reduction of approximately 120 roles across both operational and support functions and other identified cost savings. While the headcount reduction will be phased, the majority are expected to take place over the next six (6) months.

The operating model review is continuing with a focus on further enhancing our capabilities and competitiveness, including the delivery of further efficiencies through more fit for purpose operating models for each business.

Caltex will keep the market regularly updated as this review and other phases of our transformation progress.

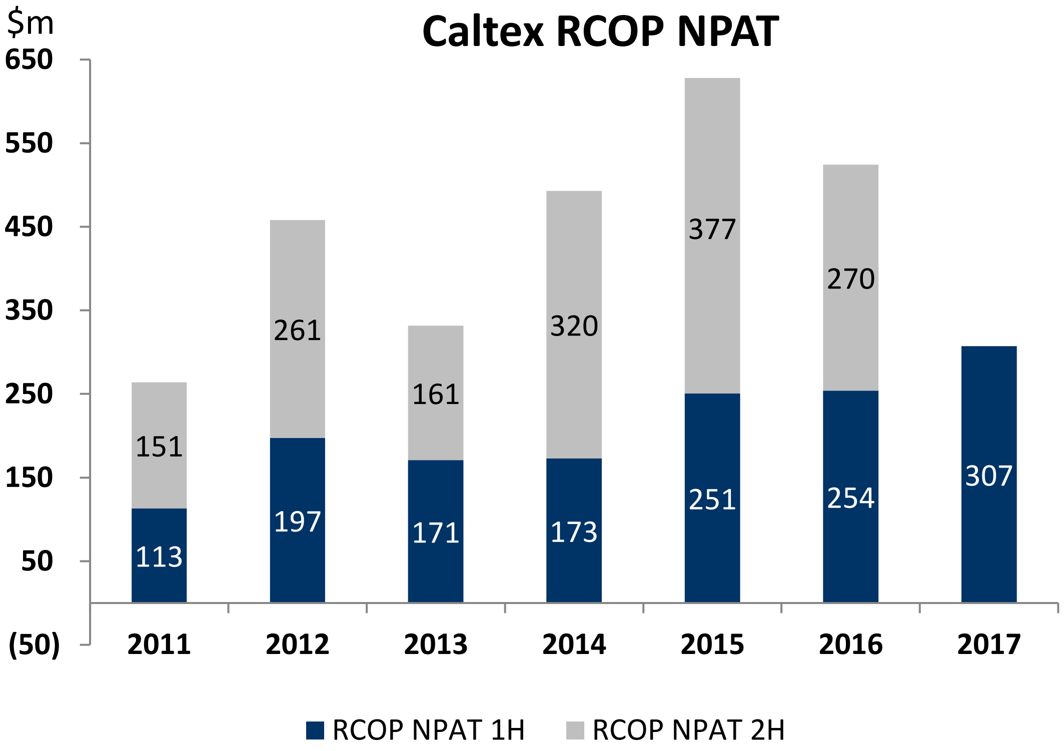
Caltex Group Results 30 June 2017

On an historic cost profit basis, Caltex's after tax profit was $265 million for the first half of 2017. This compares unfavourably to the $318 million after tax profit for the first half of 2016. The 2017 half year includes crude and product inventory losses of $45 million after tax, compared with crude and product inventory gains of $64 million after tax for the half year to 30 June 2016.

A reconciliation of the underlying result (replacement cost of sales operating profit (RCOP) basis) to the statutory result is set out in the following table:

Reconciliation of the underlying result to the statutory result	June 2017 $m (after tax)	June 2016 $m (after tax)
Net profit attributable to equity holders of the parent entity	**265**	318
Add: Inventory loss	**44**	(64)
Deduct: Significant items gain	**(2)**	-
RCOP NPAT (excluding significant items)	**307**	254

On a replacement cost of sales operating profit (RCOP)[1] basis, Caltex's after tax profit excluding significant items was $307 million for the first half of 2017. This compares with $254 million for the first half of 2016.



Dividend

The Board has declared an interim fully franked dividend of 60 cents per share for the first half of 2017, in line with the dividend policy pay-out ratio of 40%-60%. This compares to Caltex's 2016 interim dividend of 50 cents per share, fully franked. The record and payment dates for the interim dividend are referenced on page 2.

[1] Replacement cost of sales operating profit (RCOP) excluding significant items (on a pre- and post-tax basis) is a non-International Financial Reporting Standards (IFRS) measure. It is derived from the statutory profit adjusted for inventory (losses)/gains, as management believes this presents a clearer picture of the company's underlying business performance, as it is consistent with the basis of reporting commonly used within the global downstream oil industry. This is unaudited. RCOP excludes the unintended impact of the fall or rise in oil and product prices (key external factors) 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 historical cost, including the effect of contract based revenue lags.

Income statement

	For the half year ended 30 June 2017	2017 $m	2016 $m
1.	Total revenue[1]	10,160	8,452
2.	Total expenses	(9,688)	(8,055)
	Replacement cost earnings before interest, tax and significant items	**472**	**397**
	Finance income	2	3
	Finance expenses	(37)	(39)
3.	**Net finance costs**	**(35)**	**(36)**
	Income tax expense[2]	(130)	(107)
	Replacement cost of sales operating profit (RCOP) (excluding significant items)	**307**	**254**
4.	Significant items gain after tax	2	-
5.	Inventory (loss)/gain after tax	(44)	64
	Historical cost net profit after tax	**265**	**318**
	Interim dividend per share	60c	50c
	Final dividend per share	N/A	52c
	Basic earnings per share		
	- Replacement cost	117.7c	95.5c
	- Historical cost	101.4c	119.6c

Discussion and analysis – Income statement		
1.	**Total revenue** Total revenue increased primarily due to increases in world crude oil and product prices (Brent crude oil weighted average 1H2017: US$52/bbl; 1H2016: US$40/bbl).	↑ **20%**
2.	**Total expenses – replacement cost basis** Total expenses also increased primarily as a result of a higher weighted average replacement cost of goods sold due to the higher price of crude oil.	↑ **20%**

[1] 2017 includes other income of $18 million (2016: $3 million). 2017 includes significant items $1 million loss in 2017. The significant items are a result of the announced establishment of the Franchisee Employee Assistance Fund ($20 million), offset by the profit on sale of Caltex's fuel oil business (2016: nil).

[2] 2017 excludes tax cost on significant items gain and tax cost on inventory loss of $22 million (2016: $27 million tax gain).

Income statement (continued)

RCOP EBIT breakdown[1]

Caltex Refiner Margin (CRM) 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 basically represents: average Singapore refiner margin + product quality premium + crude discount / (premium) + product freight – crude freight – yield loss. The US dollar realised CRM was higher in the first half of 2017 at US$12.59/bbl compared with US$10.10/bbl for the first half of 2016 (+24.7%). In AUD terms, the realised CRM was 10.50 Australian cents per litre in 2017, compared with 8.68 Australian cents (+21.0%) per litre in 2016 driven by the higher USD margin, offset by a slightly higher AUD. CRM sales from production volumes were marginally higher in 1H17 (1H17: 3.0 billion litres vs. 1H16: 2.9 billion litres).	**$317m**
Transport fuels margin Transport fuels comprise petrol, diesel and jet. The transport fuels margin consists of the earnings on these products within the Supply and Marketing segment and represents the integrated sourcing, distribution and sales margin. Transport fuel sales volumes have increased over the prior period (1H17: 7.9 billion litres vs. 1H16: 7.7 billion litres). Transport fuel sales volumes have seen increases in premium petrol and diesel, as well as jet fuel sales, with a corresponding reduction in base grade petrol and diesel. Total premium fuel sales volumes have increased by approximately 5% (2.3 billion litres in 1H17 compared to 2.2 billion litres in 1H16). The ongoing decline in regular unleaded petrol sales is due primarily to the continued increase in sales of vehicles requiring diesel or premium grades of petrol.	**$591m**
Lubricants and specialties margin Lubricants and specialties products include finished lubricants, base oils, liquefied petroleum gas, petrochemicals, wax and marine fuels. Specialty products and Lubricants margin increased by $5 million in 1H17, driven by ongoing supply chain cost improvement initiatives and favourable product mix.	**$41m**
Non-fuel income Non fuel income includes convenience store income, franchise income, royalties, property, plant and equipment rentals, StarCard income and share of profits from distributor businesses. Non fuel income decreased by $12 million in 1H17, driven by lower initial franchise fee income as there are fewer new franchise agreements commenced this period, lower royalties due to increased franchisee assistance, lower Calstore result as new sites transitioned into company operated format and higher rental expense as there were more Calstores.	**$72m**
Operating expenses Operating expenses in this caption include Supply and Marketing, Lytton and Corporate operating expenditure. Operating expenses are in line with 1H2016 ($514 million).	**($515m)**
Other Other includes a number of miscellaneous items that typically include: foreign exchange impacts, gain/loss on disposal of assets and subsidiary earnings.	**($34m)**
RCOP EBIT excluding significant items	**$472m**

[1] The breakdown of RCOP shown here represents a management reporting view of the breakdown and, therefore, individual components may not reconcile to statutory accounts.

Income statement (continued)

Discussion and analysis – Income statement (continued)		
3.	**Net finance costs** Net finance costs decreased slightly compared with the first half 2016, reflecting a lower cost of funding and lower average net debt for the period.	**↓ 1%**
4.	**Significant items gain after tax** There were net significant items of $1 million loss ($2 million gain after tax) in the first half of 2017. The significant items are a result of the announced establishment of the Franchisee Employee Assistance Fund ($20 million), offset by the profit on sale of Caltex's fuel oil business. The tax gain in significant items is a result of the utilisation of prior period capital losses to partially offset tax expense on the profit on sale.	**$2m**
5.	**Inventory loss after tax** There was an inventory loss of $64 million ($44 million after tax) in the first half 2017. Caltex holds crude and product inventory. As these prices increase/decrease over time, there is a resulting inventory gain/loss impact to HCOP NPAT. Further, crude and product inventory holdings are denominated in US dollars and as the AUD exchange rate weakens compared to the US dollar, the result is that Caltex's inventory values increase from an Australian dollar perspective, and vice versa. Inventory losses in the first half of 2017 were driven by the decrease in crude oil and product prices over the course of the period, with the Dated Brent crude oil decreasing from US$54/bbl in December 2016 to US$46/bbl at June 2017. This was partly offset by increases in the Australian dollar in 1H17.	**$44m**

Business performance

Supply and Marketing continues to focus on optimising the entire value chain, from refining and product sourcing, to Ampol trading and shipping through to the customer.

Supply and Marketing delivered an EBIT result of $377 million. This result includes unfavourable externalities of $4 million, comprising a price timing lag gain of $13 million (2016 first half: a price timing lag loss of $8 million) less a realised loss on foreign exchange of $17 million (2016 first half: a realised loss of $2 million). Excluding these externalities, the underlying Supply and Marketing EBIT increased 6% to $381 million, comparing favourably to the first half 2016 EBIT of $359 million.

Growth continues across the basket of premium fuels with premium diesel growth more than offsetting a modest decline in premium petrol volumes. Total petrol volumes fell 2.4% to 2.85 billion litres (first half 2016: 2.92 billion litres), broadly in line with industry trends. Total diesel volumes of 3.7 billion litres were slightly above prior year (first half 2016: 3.5 billion litres). Strong growth in premium Vortex diesel product across Caltex's retail segment continues with sales volumes up 9%.

Jet volumes increased 4.8% on the previous corresponding half to 1.3 billion litres.

Caltex now has 10 new convenience retail stores operational and intends to open a further 10 by the end of the full year (including previously earmarked knock down rebuild (KDR), new to industry (NTI) and/or new to Caltex (NTC) sites). Although we are in the initial stages, we are encouraged by the market acceptance, the quality of the product offering and the favourable impact on fuel volumes, particularly premium fuels. We will continue to take a sensible, measured approach to the convenience retail implementation and the associated capital commitment required to grow.

Lytton Refinery delivered an EBIT of $149 million in the first half, compared with an EBIT of $92 million for the first half of 2016.

Sales from production from the Lytton refinery in the first half totalled 3.0 billion litres, broadly in line with the record first half 2016 performance (2.9 billion litres). This reflects a continued strong operational performance. Strong operational reliability was offset by a mini-turnaround at Lytton's Benzene Hydrogenation treater unit (BHU), resulting temporarily in a higher mix of base grade petrols.

Business performance (continued)

The average realised Caltex Refiner Margin (CRM)[1] for the six months to 30 June 2017 was US$12.59 per barrel. This compares favourably with the 2016 first half average of US$10.10 per barrel.

Corporate costs total $53 million, increased $9 million on the prior year. This reflects significant M&A and other major project costs (including Caltex's company operating model and retail franchise network audit reviews) as well as investing in capabilities that better position Caltex for the future. Full year corporate costs are expected to be within a range of $100 million to $110 million.

[1] 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.

Balance sheet

as at 30 June 2017		Jun 2017 $m	Dec 2016 $m	Change $m
1.	Working capital	680	396	284
2.	Property, plant and equipment	2,728	2,691	37
3.	Intangibles	254	195	59
4.	Net debt	(730)	(454)	(276)
5.	Other non-current assets and liabilities	(20)	(18)	(2)
	Total equity	**2,912**	**2,810**	**102**

Discussion and analysis – Balance sheet

1. Working capital — ↑ **$284m**

The increase in working capital represents:

- Higher product inventory held at terminals around the country and on water, partially offset by lower crude and product prices at period end
- Lower current tax liabilities due to timing of payments
- Lower employee benefits provision due to timing of annual incentive payments.

2. Property, plant and equipment — ↑ **$37m**

The increase in property, plant and equipment is due to capital expenditure and accruals, including major cyclical maintenance, of $167 million which is partly offset by depreciation of $99 million and disposals of $30 million.

3. Intangibles — ↑ **$59m**

Intangibles have increased due to goodwill arising on acquisitions.

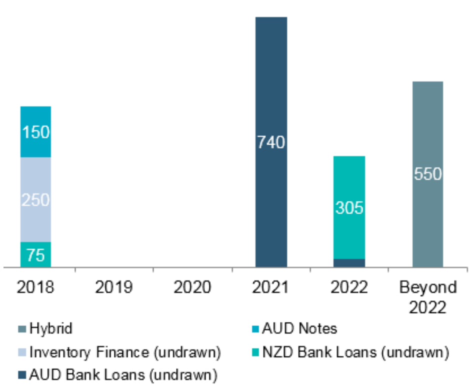
4 Net debt — ↑ **$276m**

Net debt increased by $276 million to $730 million at 30 June 2017, driven partly by the $95 million acquisition of Milemaker in May 2017, and an increase in working capital. Caltex's gearing at 30 June 2017 (net debt to net debt plus equity) was 20.1%, increasing from 13.9% at 31 December 2016. On a lease-adjusted basis, gearing at 30 June 2017 was 34.4% compared with 28.4% at 31 December 2016.

Committed Sources of Funding as at 30 June 2017

	A$m	NZ$m	Source
A$ notes	150		Australian and Asian institutional
Bank Facilities	765	380	Australian and global banks
Inventory Finance Facility	250		Australian bank
Hybrid	550		Australian and Asian retail and institutional investors
Total	**1,715**	**380**	

Debt Maturity Profile



5. Other non-current assets and liabilities — ↓ **$2m**

No material changes to other non-current assets and liabilities from prior period.

Cash flows

For the half year ended 30 June 2017		2017 $m	2016 $m	Change $m
1.	Net operating cash inflows	97	325	(228)
2.	Net investing cash outflows	(236)	(124)	(112)
3.	Net financing cash outflows	(36)	(446)	410
	Net decrease in cash held	**(175)**	**(245)**	**70**

Discussion and analysis – Cash flows		
1.	**Net operating cash inflows** The decrease in net cash inflows from operating activities reflects primarily timing differences in payments for crude and product and impact on working capital.	**↓ $228m**
2.	**Net investing cash outflows** Net investing cash outflows were higher in 1H17 primarily due to acquisitions completed during the first half of 2017.	**↑ $112m**
3.	**Net financing cash outflows** Net financing cash outflows in 2016 included the off-market buy-back undertaken to repurchase $270 million worth of its own shares. In addition dividends paid in 1H16 were $53 million higher than the comparative period.	**↓ $410m**

Business risks and management

There have been no material changes to the description of Caltex's business risks and management as included in the Operating and Financial Review included in the Annual Report as at 31 December 2016.

Events subsequent to the end of the period

Gull New Zealand

On 3 July 2017, Caltex purchased Gull New Zealand for NZ$340 million (approximately A$325 million). The transaction sees Caltex acquire Gull's Mount Maunganui import fuel terminal and retail operating assets.

The acquisition delivers on Caltex's strategic plan as it optimises Caltex's infrastructure position, builds trading and shipping capability, grows the supply base and enhances Caltex's retail fuel offering through low risk entry into a new market.

Woolworths

Late in 2016, Woolworths announced the sale of its fuel business to BP, subject to regulatory approval. Caltex's 3.5 billion litre fuel supply arrangement with Woolworths is linked to Woolworths' continued ownership of the business. This announcement did not impact the first half 2017 financial result for Caltex. However, this is expected to have an impact in future periods.

Quantum Leap

On 29 August 2017, Caltex announced the anticipated impact to date from the capability and competitiveness project, known as Quantum Leap. Initial cost savings of approximately $60 million have been identified which will favourably impact 2018, and future years. Estimated associated restructuring costs of approximately $15 million representing primarily redundancy costs, are expected to be incurred. Further cost benefits are expected to be identified during the remainder of 2017.

Intention to redeem Subordinated Notes

On 11 August 2017, Caltex announced the intention to redeem $550 million of Subordinated Notes on 15 September 2017.

Events subsequent to the end of the period (continued)

Retirement of Chairman

On 18 August 2017, Caltex announced its Chairman, Greig Gailey, has retired as Chairman of the Caltex Australia Board and resigned as a Non-Executive Director due to health reasons. Caltex also announced that the Board has appointed current Non-Executive Director, Steven Gregg, to succeed Mr Gailey as its new Chairman.

There were no other items, transactions or events of a material or unusual nature, that are likely to significantly affect the operations of Caltex, the results of those operations or the state of affairs of the Group that have arisen in the period from 30 June 2017 to the date of this report.

Rounding of Amounts

Caltex Australia Limited is an entity to which Australian Securities and Investments Commission Class Order 2016/191 (CO2016/191) applies. Amounts in the 2017 Half Year Directors' Report and the 2017 Half Year Financial Report have been rounded off to the nearest thousand dollars (unless otherwise stated) in accordance with CO2016/191.

The Directors' Report is made in accordance with a resolution of the Board of Caltex Australia Limited:

Steven Gregg
Chairman

Julian Segal
Managing Director & CEO

Sydney, 29 August 2017

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Caltex Australia Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 30 June 2017 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Greg Boydell
Partner

Sydney, 29 August 2017

Directors’ Declaration

The Board of Caltex Australia Limited has declared that:

(a) in the directors’ opinion, there are reasonable grounds to believe that Caltex Australia Limited will be able to pay its debts as and when they become due and payable; and

(b) in the directors’ opinion, the consolidated financial statements for the Caltex Australia Group for the half year ended 30 June 2017, and the notes to the financial statements, are in accordance with the Corporations Act, including:

  (i) section 304 (compliance with Accounting Standards); and

  (ii) section 305 (true and fair view).

The Directors’ Declaration is made in accordance with a resolution of the Board of Caltex Australia Limited.

Steven Gregg Chairman	Julian Segal Managing Director & CEO

Sydney, 29 August 2017

KPMG

Independent Auditor's Review Report

To the shareholders of Caltex Australia Limited

Report on the half-year Financial Report

Conclusion

We have reviewed the accompanying ***Half-year Financial Report*** of Caltex Australia Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of Caltex Australia Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2017 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Half-year Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2017;
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Half-year ended on that date;
- Notes including a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The ***Group*** comprises Caltex Australia Limited (the Company) and the entities it controlled at the half year's end or from time to time during the half year.

The ***Interim Period*** is the 6 months ended on 30 June 2017

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- for such internal control as the Directors determine is necessary to enable the preparation of the Half Year Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half Year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half Year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2017 and its performance for the half year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Caltex Australia Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Half Year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

KPMG

G Boydell

Greg Boydell

Partner

Sydney

29 August 2017

Financial statements

Contents

Consolidated income statement

for the half year ended 30 June 2017

Thousands of dollars	Note	30 June 2017	30 June 2016
Revenue	B1	**10,141,681**	8,449,069
Replacement cost of goods sold (excluding product duties and taxes and inventory gains)		**(6,573,297)**	(5,115,933)
Product duties and taxes		**(2,518,421)**	(2,420,030)
Inventory gains/(losses)		**(63,539)**	91,450
Cost of goods sold – historical cost		**(9,155,257)**	(7,444,513)
Gross profit		**986,424**	1,004,556
Other income	B1	**17,591**	2,520
Net foreign exchange losses		**(32,586)**	(2,052)
Selling and distribution expenses		**(480,419)**	(463,554)
General and administration expenses		**(83,162)**	(53,174)
Results from operating activities		**407,848**	488,296
Finance costs		**(37,568)**	(38,930)
Finance income		**2,266**	3,225
Net finance costs	B2	**(35,302)**	(35,705)
Share of net profit of entities accounted for using the equity method		**1,359**	679
Profit before income tax expense		**373,905**	453,270
Income tax expense		**(108,065)**	(134,558)
Net profit		**265,840**	318,712
Profit attributable to:			
Equity holders of the parent entity		**264,533**	318,148
Non-controlling interest		**1,307**	564
Net profit		**265,840**	318,712
Basic and diluted earnings per share:			
Historical cost – cents per share	B4	**101.4**	119.6

The consolidated income statement for the half year ended 30 June 2017 includes significant items totalling a net $1m loss before tax ($2m gain after tax) (2016: nil). Details of these items are disclosed in note B1.

The consolidated income statement is to be read in conjunction with the notes to the financial statements.

Consolidated statement of comprehensive income
for the half year ended 30 June 2017

Thousands of dollars	**30 June 2017**	30 June 2016
Profit for the period	**265,840**	318,712
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Actuarial (loss)/gain on defined benefit plans	**2,390**	(1,049)
Tax on items that will not be reclassified to profit or loss	**(717)**	315
Total items that will not be reclassified to profit or loss	**1,673**	(734)
Items that may be reclassified subsequently to profit or loss:		
Foreign operations – foreign currency translation differences	**(23,368)**	(5,704)
Effective portion of changes in fair value of cash flow hedges	**(39,107)**	(10,725)
Net change in fair value of cash flow hedges reclassified to profit or loss	**39,613**	7,257
Tax on items that may be reclassified subsequently to profit or loss	**(152)**	1,040
Total items that may be reclassified subsequently to profit or loss	**(23,014)**	(8,132)
Other comprehensive income for the period, net of income tax	**(21,341)**	(8,866)
Total comprehensive income for the period	**244,499**	309,846
Attributable to:		
Equity holders of the parent entity	**243,192**	309,282
Non-controlling interest	**1,307**	564
Total comprehensive income for the period	**244,499**	309,846

The consolidated statement of comprehensive income is to be read in conjunction with the notes to the financial statements.

Consolidated balance sheet
as at 30 June 2017

Thousands of dollars	Note	30 June 2017	31 December 2016
Current assets			
Cash and cash equivalents		**69,804**	244,857
Receivables		**831,354**	747,585
Inventories		**1,212,820**	1,080,920
Current tax assets		**-**	9,524
Other		**56,885**	60,769
Total current assets		**2,170,863**	2,143,655
Non-current assets			
Receivables		**11,127**	2,555
Investments accounted for using the equity method		**10,971**	10,394
Intangibles		**253,774**	195,335
Property, plant and equipment		**2,727,868**	2,690,865
Deferred tax assets		**246,664**	238,083
Employee benefits		**2,753**	432
Other		**22,789**	21,415
Total non-current assets		**3,275,946**	3,159,079
Total assets		**5,446,809**	5,302,734
Current liabilities			
Payables		**1,125,353**	1,079,389
Interest bearing liabilities	C1	**100,110**	134
Current tax liabilities		**97,650**	167,569
Employee benefits		**71,186**	96,379
Provisions		**126,856**	158,985
Total current liabilities		**1,521,155**	1,502,456
Non-current liabilities			
Payables		**9,550**	8,356
Interest bearing liabilities	C1	**699,933**	698,340
Employee benefits		**44,323**	38,637
Provisions		**260,270**	244,730
Total non-current liabilities		**1,014,076**	990,063
Total liabilities		**2,535,231**	2,492,519
Net assets		**2,911,578**	2,810,215
Equity			
Issued capital	C3	**524,944**	524,944
Treasury stock		**(616)**	(344)
Reserves		**(38,212)**	(7,955)
Retained earnings		**2,411,339**	2,280,754
Total parent entity interest		**2,897,455**	2,797,399
Non-controlling interest		**14,123**	12,816
Total equity		**2,911,578**	2,810,215

The consolidated balance sheet is to be read in conjunction with the notes to the financial statements.

Consolidated statement of changes in equity

for the half year ended 30 June 2017

Thousands of dollars	Issued capital	Treasury stock	Foreign currency translation reserve	Hedging reserve	Equity compen-sation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2016	543,415	(644)	8,922	(1,476)	(16,669)	2,241,981	2,775,529	12,276	2,787,805
Total comprehensive income for the half year									
Profit for the period	-	-	-	-	-	318,148	318,148	564	318,712
Total other comprehensive income	-	-	(5,704)	(2,428)	-	(734)	(8,866)	-	(8,866)
Total comprehensive income for the half year	-	-	(5,704)	(2,428)	-	317,414	309,282	564	309,846
Own shares acquired	-	(10,952)	-	-	2,113	-	(8,839)	-	(8,839)
Shares vested to employees	-	10,920	-	-	(10,920)	-	-	-	-
Expense on equity settled transactions	-	-	-	-	675	-	675	-	675
Shares bought back[(i)]	(18,471)	-	-	-	-	(251,608)	(270,079)	-	(270,079)
Dividends to shareholders	-	-	-	-	-	(189,000)	(189,000)	-	(189,000)
Balance at 30 June 2016	524,944	(676)	3,218	(3,904)	(24,801)	2,118,787	2,617,568	12,840	2,630,408
Balance at 1 January 2017	**524,944**	**(344)**	**15,620**	**(1,267)**	**(22,308)**	**2,280,754**	**2,797,399**	**12,816**	**2,810,215**
Total comprehensive income for the half year									
Profit for the period	**-**	**-**	**-**	**-**	**-**	**264,533**	**264,533**	**1,307**	**265,840**
Total other comprehensive income	**-**	**-**	**(23,368)**	**354**	**-**	**1,673**	**(21,341)**	**-**	**(21,341)**
Total comprehensive income for the half year	**-**	**-**	**(23,368)**	**354**	**-**	**266,206**	**243,192**	**1,307**	**244,498**
Own shares acquired, net of tax	**-**	**(9,904)**	**-**	**-**	**1,715**	**-**	**(8,189)**	**-**	**(8,189)**
Shares vested to employees	**-**	**9,632**	**-**	**-**	**(9,632)**	**-**	**-**	**-**	**-**
Expense on equity settled transactions	**-**	**-**	**-**	**-**	**674**	**-**	**674**	**-**	**674**
Dividends to shareholders	**-**	**-**	**-**	**-**	**-**	**(135,621)**	**(135,621)**	**-**	**(135,621)**
Balance at 30 June 2017	**524,944**	**(616)**	**(7,748)**	**(913)**	**(29,551)**	**2,411,339**	**2,897,455**	**14,123**	**2,911,578**

The consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements.

(i) 9,189,481 shares were bought back and cancelled during the period ended 30 June 2016.

Consolidated cash flow statement
for the half year ended 30 June 2017

Thousands of dollars	Note	30 June 2017	30 June 2016
Cash flows from operating activities			
Receipts from customers		**10,985,372**	9,429,872
Payments to suppliers, employees and governments		**(10,696,278)**	(9,047,717)
Shares acquired for vesting employee benefits		**(9,904)**	(10,952)
Dividends and disbursements received		**200**	300
Interest received		**2,214**	3,177
Interest and other finance costs paid		**(29,988)**	(33,787)
Income taxes paid		**(154,506)**	(15,443)
Net operating cash inflows		**97,110**	325,450
Cash flows from investing activities			
Purchase of investment		**-**	(2,689)
Purchase of controlled entities	D1	**(97,992)**	-
Purchases of property, plant and equipment		**(142,699)**	(100,258)
Major cyclical maintenance		**(13,177)**	(15,044)
Purchases of intangibles		**(7,451)**	(9,304)
Net proceeds from sale of property, plant and equipment		**24,876**	2,834
Net investing cash outflows		**(236,443)**	(124,461)
Cash flows from financing activities			
Proceeds from borrowings		**1,560,000**	2,907,000
Repayments of borrowings		**(1,460,000)**	(2,893,460)
Payments for shares bought back		**-**	(270,079)
Repayment of finance lease principal		**(99)**	(109)
Dividends paid	B5	**(135,621)**	(189,000)
Net financing cash outflows		**(35,720)**	(445,648)
Net decrease in cash and cash equivalents		**(175,053)**	(244,659)
Cash and cash equivalents at the beginning of the period		**244,857**	263,764
Cash and cash equivalents at the end of the period		**69,804**	19,105

The consolidated cash flow statement is to be read in conjunction with the notes to the financial statements.

Notes to the financial statements
for the half year ended 30 June 2017

A Basis of preparation

Caltex Australia Limited (the Company) is a Company limited by shares, incorporated and domiciled in Australia. The shares of Caltex are publicly traded on the Australian Securities Exchange. The 2017 Half Year Financial Report for the six months ended 30 June 2017 comprises the Company and its controlled entities (together referred to as the "Caltex Group") and the Caltex Group's interest in associates and jointly controlled entities. The Caltex Group is a for-profit entity and is primarily involved in the purchase, refining, distribution and marketing of petroleum products and the operation of convenience stores.

The 2017 Half Year Financial Report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 and Accounting Standard AASB 134 "Interim Financial Reporting". This Half Year Financial Report is to be read in conjunction with the 2016 Financial Report and any public announcements by Caltex Australia Limited during the half year in accordance with continuous disclosure obligations under the Corporations Act 2001 and the Australian Securities Exchange (ASX) Listing Rules. The 2017 Half Year Financial Report was approved and authorised for issue by the Board of Directors.

The Company is of a kind referred to in ASIC Class Order 2016/191 dated 24 March 2016 and in accordance with that Class Order, amounts in the consolidated financial report and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

The 2017 Half Year Financial Report has been prepared on an historical cost basis except for derivative financial instruments that are stated at their fair value.

The preparation of a consolidated financial report in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the Caltex Group. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. These are consistent with those applied as part of the 31 December 2016 Annual Financial Report. The Half Year Financial Report does not include full note disclosures of the type required in an annual financial report

The Group has not elected to early adopt any new standards or amendments.

Notes to the financial statements
for the half year ended 30 June 2017 (continued)

B Results for the half year

This section highlights the performance of the Group for the half year, including revenue and other income, costs and expenses, results by operating segment, earnings per share and dividends.

B1 Revenue and other income

Revenue

Thousands of dollars	**30 June 2017**	30 June 2016
Revenue		
Sale of goods	**9,981,124**	8,293,347
Other revenue		
Rental income	**36,474**	35,095
Royalties and franchise income	**51,064**	55,996
Transaction and merchant fees	**51,711**	48,238
Other	**21,308**	16,394
Total other revenue	**160,557**	155,722
Total revenue	**10,141,681**	8,449,069
Other income		
Net gain on sale of property, plant and equipment	**17,591**	2,520

Significant items

There were net significant items of $1 million loss ($2 million gain after tax) in the first half of 2017. The significant items are a result of the announced establishment of the Franchisee Employee Assistance Fund ($20 million), offset by the profit on sale of Caltex's fuel oil business. The tax gain in significant items is a result of the utilisation of carried forward capital losses to partially offset taxes paid on the profit on sale.

No significant items were recognised in the half year ended 30 June 2016.

B2 Costs and expenses

Thousands of dollars	**30 June 2017**	30 June 2016
Finance costs		
Interest expense	**28,829**	30,615
Finance charges on capitalised leases	**32**	109
Unwinding of discount on provisions	**9,700**	8,733
Less: capitalised finance costs	**(993)**	(527)
Finance costs	**37,568**	38,930
Finance income	**(2,266)**	(3,225)
Net finance costs	**35,302**	35,705
Depreciation and amortisation:		
Amortisation of intangibles	**7,596**	7,081
Depreciation and amortisation (excluding intangibles)	**98,916**	92,101
Total amortisation and depreciation expense	**106,512**	99,182

B3 Segment reporting

B3.1 Segment disclosures

The accounting policies used by the Group in reporting segments are consistent with those applied as part of the 31 December 2016 Financial Report.

Types of products and services

The following summary describes the operations in each of the Group's reportable segments:

Supply and Marketing

The Supply and Marketing function is an integrated transport fuel supply chain which sources crude oil and refined products on the international market and sells Caltex fuels, lubricants, specialty products and convenience store goods through a national network of Caltex, Caltex Woolworths and Ampol branded service stations, as well as through company owned and non-equity resellers and direct sales to corporate customers. The Group’s broad distribution capabilities encompass pipelines, terminals, depots and both an owned and contracted transportation fleet.

Lytton

Lytton refinery in Brisbane refines crude oil into petrol, diesel, jet fuel and many specialty products such as liquid petroleum gas.

B3.2 Information about reportable segments

	Supply and Marketing		Lytton		Total operating segments	
Thousands of dollars	**30 June 2017**	30 June 2016	**30 June 2017**	30 June 2016	**30 June 2017**	30 June 2016
Gross segment revenue	**9,724,897**	8,037,359	**31,331**	59,577	**9,756,228**	8,096,936
Product duties and taxes	**(2,518,421)**	(2,416,876)	**-**	-	**(2,518,421)**	(2,416,876)
External segment revenue	**7,206,476**	5,620,483	**31,331**	59,577	**7,237,807**	5,680,060
Inter-segment revenue	**-**	-	**2,129,844**	1,606,376	**2,129,844**	1,606,376
Total segment revenue	**7,206,476**	5,620,483	**2,161,175**	1,665,953	**9,367,651**	7,286,436
Replacement Cost of Sales Operating Profit (RCOP) before interest and income tax	**377,142**	348,827	**148,951**	92,004	**526,093**	440,831

B3.3 Reconciliation of reportable segment profit or loss

Thousands of dollars	**30 June 2017**	30 June 2016
Profit or loss		
Segment RCOP before interest and income tax, excluding significant items	**526,093**	440,831
Other expenses	**(53,704)**	(43,870)
RCOP before interest and income tax, excluding significant items	**472,389**	396,961
Significant items	**(950)**	-
Inventory gains	**(63,539)**	91,450
Consolidated historical cost profit before interest and income tax	**407,900**	488,411
Net financing costs	**(35,302)**	(35,705)
Net profit attributable to non-controlling interest	**1,307**	564
Consolidated profit before income tax	**373,905**	453,270

Notes to the financial statements
for the half year ended 30 June 2017 (continued)

B4 Earnings per share

Cents per share	**30 June 2017**	30 June 2016
Historical cost	**101.4**	119.6
RCOP excluding significant items	**117.7**	95.5

Weighted average number of shares (thousands)	**30 June 2017**	30 June 2016
Issued shares as at 1 January	**260,811**	270,000
Shares bought back and cancelled	**-**	(9,189)
Issued shares as at 30 June	**260,811**	260,811
Weighted average number of shares as at 30 June	**260,811**	265,989

The calculation of historical cost basic earnings per share for the period ended 30 June 2017 was based on the net profit attributable to ordinary shareholders of the parent entity of $264,533,000 (2016: $318,148,000) and a weighted average number of ordinary shares outstanding during the period ended 30 June 2017 of 261 million shares (2016: 266 million shares). In April 2016, there was a share buyback of 9.2 million shares at a total cost of $270 million. Refer to note C3.

The calculation of RCOP excluding significant items basic earnings per share for the half year ended 30 June 2017 was based on the net RCOP profit attributable to ordinary shareholders of the parent entity of $307,036,000 (2016: $254,133,000) and a weighted average number of ordinary shares outstanding as disclosed during the period ended 30 June 2017 of 261 million shares (2016: 266 million shares). RCOP is calculated by adjusting the statutory profit for significant items and inventory gains and losses as follows:

Thousands of dollars	**30 June 2017**	30 June 2016
Net profit after tax attributable to equity holders of the parent entity	**264,533**	318,148
Adjust: Significant items gains after tax	**(1,974)**	-
Adjust: Inventory losses/(gains) after tax	**44,477**	(64,015)
RCOP excluding significant items after tax	**307,036**	254,133

There are no dilutive potential ordinary shares, and therefore diluted earnings per share equals basic earnings per share.

Notes to the financial statements
for the half year ended 30 June 2017 (continued)

B5 Dividends declared or paid

Dividends recognised in the current year by the Company are:

	Date of payment	Franked/ unfranked	Cents per share	Total amount $'000
2017				
Final 2016	31 March 2017	Franked	52	135,621
Total amount				135,621
2016				
Interim 2016	30 September 2016	Franked	50	130,405
Final 2015	4 April 2016	Franked	70	189,000
Total amount			120	319,405

Subsequent events

Since 30 June 2017, the directors declared the following dividend. The dividend has not been provided for and there are no income tax consequences for the Group in relation to first half 2017.

Interim 2017	6 October 2017	Franked	**60**	**156,486**

C Capital, funding and risk management

C1 Interest bearing liabilities

Thousands of dollars	30 June 2017	31 December 2016
Current		
Bank loans	**100,000**	-
Lease liabilities	**110**	134
	100,110	134
Non-current		
Domestic medium term notes	**149,878**	149,836
Subordinated note	**549,322**	547,728
Lease liabilities	**733**	776
	699,933	698,340

Domestic medium term and subordinated notes

These notes are initially recognised when issued at fair value, less transaction costs. These costs are subsequently accounted for using the amortised cost method. Any difference between the fair value and the principal value is recognised in the consolidated income statement over the period of the interest bearing liability on an effective interest basis.

Notes to the financial statements
for the half year ended 30 June 2017 (continued)

C Capital, funding and risk management (continued)

C2 Fair value of financial assets and liabilities

The Group's accounting policies and disclosures may require the measurement of fair values for both financial and non-financial assets and liabilities. The Group has an established framework for fair value measurement. When measuring the fair value of an asset or a liability, the Group uses market observable data where available.

Fair values are categorised into different levels in a fair value hierarchy based on the following valuation techniques:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability are categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Fair values of recognised financial assets and liabilities with their carrying amounts shown in the balance sheet are as follows:

Thousands of dollars		Asset/(Liability)			
30 June 2017	**Carrying amount**	**Fair value total**	**Quoted market price (Level 1)**	**Observable inputs (Level 2)**	**Non-market observable inputs (Level 3)**
Interest bearing liabilities					
Domestic medium term notes (i)	**(149,878)**	**(159,143)**	**-**	**(159,143)**	**-**
Subordinated note	**(549,322)**	**(556,820)**	**(556,820)**	**-**	**-**
Lease liabilities (ii)	**(843)**	**(966)**	**-**	**(966)**	**-**
Payables					
Interest rate swaps (iii)	**(1,269)**	**(1,269)**	**-**	**(1,269)**	**-**
Forward foreign exchange contracts (forwards, swaps) (iii)	**(6,199)**	**(6,199)**	**-**	**(6,199)**	**-**
Foreign currency options (iii)	**-**	**-**	**-**	**-**	**-**
Crude and finished product swap contracts (iii)	**13,385**	**13,385**	**-**	**13,385**	**-**
Total	**(694,126)**	**(711,012)**	**(556,820)**	**(154,192)**	**-**

Thousands of dollars		Asset/(Liability)			
31 December 2016	**Carrying amount**	**Fair value total**	**Quoted market price (Level 1)**	**Observable inputs (Level 2)**	**Non-market observable inputs (Level 3)**
Interest bearing liabilities					
Domestic medium term notes (i)	(149,836)	(175,950)	-	(175,950)	-
Subordinated note	(547,728)	(562,408)	(562,408)	-	-
Lease liabilities (ii)	(910)	(1,058)	-	(1,058)	-
Payables					
Interest rate swaps (iii)	(556)	(556)	-	(556)	-
Forward foreign exchange contracts (forwards, swaps) (iii)	7,424	7,424	-	7,424	-
Foreign currency options (iii)	1,991	1,991	-	1,991	-
Crude and finished product swap contracts (iii)	7,800	7,800	-	7,800	-
Total	(681,815)	(722,757)	(562,408)	(160,349)	-

Notes to the financial statements
for the half year ended 30 June 2017 (continued)

C Capital, funding and risk management (continued)

C2 Fair value of financial assets and liabilities (continued)

Estimation of fair values

(i) Domestic medium term notes

The fair value of domestic medium term notes is determined by using an independent broker quotation.

(ii) Lease liabilities

The fair value is estimated as the present value of future cash flows using the Group's risk free rate.

(iii) Derivatives

Interest rate instruments
The fair value of interest rate swap contracts is the estimated amount that the Group would receive or pay to terminate the swap at balance date taking into account current interest rates and credit adjustments.

Foreign exchange contracts
The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles as at reporting date. The fair value of foreign currency option contracts is determined using standard valuation techniques. Spot foreign exchange contracts are recorded at fair value, being the quoted market price at balance date.

Crude and finished product swap contracts
The fair value of crude and product swap contracts is calculated by reference to market prices for contracts with similar maturity profiles at reporting date.

C3 Issued capital

Thousands of dollars	**30 June 2017**	31 December 2016
Ordinary shares		
Shares on issue at beginning of period – fully paid	**524,944**	543,415
Shares repurchased for cash	**-**	(18,471)
Shares on issue at end of period – fully paid	**524,944**	524,944

In April 2016, the Group repurchased 9,189,481 shares at a total cost of $270 million as part of the Group's capital management program. The capital component of the shares repurchased was $18.5 million and is recognised in Issued Capital (refer to E6).

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of the winding up of Caltex, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

Caltex grants performance rights to senior executives, see the 2016 Financial Report for further detail. For each right that vests, Caltex intends to purchase shares on-market following vesting.

D Group structure

D1 Business combinations

2017

Milemaker Petroleum

On 4 November 2016, Caltex entered into an agreement to purchase Milemaker Petroleum's retail fuel business assets in Victoria for $95 million. The acquisition secured Caltex's existing network in Victoria and provided a stronger platform from which to provide new and improved customer offerings in the convenience marketplace.

The acquisition was completed on 8 May 2017 and had the following provisional effect on the Group's assets and liabilities:

Thousands of dollars	Recognised values
Intangibles	-
Property, plant and equipment	10,220
Inventories	3,888
Deferred tax assets	25,434
Liabilities	(3,543)
Net identifiable assets and liabilities	35,999
Goodwill on acquisition	59,346
Consideration paid, satisfied in cash	(95,345)
Cash acquired	-
Net cash outflow	(95,345)

Nashi Sandwich and Coffee Bar

Caltex acquired Nashi Sandwich and Coffee Bar, a Melbourne based high street retailer with nine outlets. The acquisition was completed on 9 March 2017 and had the following provisional effect on the Group's assets and liabilities:

Thousands of dollars	Recognised values
Intangibles	-
Property, plant and equipment	781
Inventories	162
Deferred tax assets	-
Liabilities	(534)
Net identifiable assets and liabilities	409
Goodwill on acquisition	2,238
Consideration paid, satisfied in cash	(2,658)
Cash acquired	11
Net cash outflow	(2,647)

2016

There were no material business combinations during the half year ended 30 June 2016.

Notes to the financial statements
for the half year ended 30 June 2017 (continued)

D1 Business combinations (continued)

Details of entities over which control has been gained or lost during the period

2017

On 24 January 2017, Caltex registered CAL Group Holdings NZ Limited and Terminals NZ Limited. Gull New Zealand Limited was acquired on 3 July 2017, please refer to E4 for further information.

There were no other entities over which control was gained or lost during the half year ended 30 June 2017.

2016

On 20 December 2016, Caltex registered Real FF Pty Ltd.

There were no other entities over which control was gained or lost during the year ended 31 December 2016.

D2 Investments accounted for using the equity method

Name	% interest	
	30 June 2017	31 December 2016
Investments in associates and joint ventures		
Airport Fuel Services Pty Ltd	**40**	40
Australasian Lubricants Manufacturing Company Pty Ltd (i)	**50**	50
Cairns Airport Refuelling Service Pty Ltd	**25**	25
Geraldton Fuel Company Pty Ltd	**50**	50

(i) Australasian Lubricants Manufacturing Company Pty Ltd ceased joint venture operations on 17 April 2015.

The companies listed in the above table were all incorporated in Australia and are principally concerned with the sale, marketing and/or distribution of fuel products.

E Other information

E1 Commitments

Thousands of dollars	**30 June 2017**	31 December 2016
Capital expenditure contracted but not provided for in the financial report and payable	**47,373**	35,624

E2 Related party disclosures

There were no material related party disclosures during the half year ended 30 June 2017.

Other arrangements with related parties continue to be in place. For details on these arrangements refer to the 2016 Financial Report.

E3 Net tangible assets per share

Dollars	**30 June 2017**	31 December 2016
Net tangible assets per share	**10.14**	9.88

Net tangible assets are net assets attributable to members of Caltex less intangible assets. The weighted average number of ordinary shares used in the calculation of net tangible assets per share was 261 million (2016: 263 million).

E4 Events after the reporting date

Gull New Zealand

On 3 July 2017, Caltex purchased Gull New Zealand for NZ$340 million (approximately A$325 million). The transaction sees Caltex acquire Gull's Mount Maunganui import fuel terminal and retail operating assets.

The acquisition delivers on Caltex's strategic plan as it optimises Caltex's infrastructure position, builds trading and shipping capability, grows the supply base and enhances Caltex's retail fuel offering through low risk entry into a new market.

Woolworths

Late in 2016, Woolworths announced the sale of its fuel business to BP, subject to regulatory approval. Caltex's 3.5 billion litre fuel supply arrangement with Woolworths is linked to Woolworths' continued ownership of the business. This announcement did not impact the first half 2017 financial result for Caltex. However, this is expected to have an impact in future periods.

Quantum Leap

On 29th August 2017, Caltex announced the anticipated impact to date from the capability and competitiveness project, known as Quantum Leap. Initial cost savings of approximately $60 million have been identified which will favourably impact 2018 and future years, estimate associated restructuring costs of approximately $15 million, representing primarily redundancy costs are expected to be incurred. Further cost and efficiency benefits are expected to be identified during the remainder of 2017.

Intention to redeem Subordinated Notes

On 11 August 2017, Caltex announced the intention to redeem $550 million of Subordinated Notes on 15 September 2017.

Retirement of Chairman

On 18 August 2017, Caltex announced its Chairman, Greig Gailey, has retired as Chairman of the Caltex Australia Board and resigned as a Non-Executive Director due to health reasons. Caltex also announced that the Board has appointed current Non-Executive Director, Steven Gregg, to succeed Mr Gailey as its new Chairman.

There were no other items, transactions or events of a material or unusual nature, that, in the opinion of the Board, are likely to significantly affect the operations of Caltex, the results of those operations or the state of affairs of the Group that have arisen in the period from 30 June 2017 to the date of this report.

E5 Taxation

At the date of this report, the Australian Taxation Office (ATO) had not determined the extent to which earnings from the Group's Singaporean entities would be subject to income tax in Australia under the regime for the taxation of controlled foreign company income. Due to the uncertainty of the ATO's determination, the Group has estimated the income tax rate of 30% for the period ended 30 June 2017, being the Australian corporate income tax rate. The Singaporean corporate income tax rate is 17%; however due to some of the Group's Singaporean entities' status as a Global Trader Company, specified income of those entities is subject to a lower tax rate. If the outcome of the ATO's decision is in Caltex's favour, an amount of income tax expense recognised to date could be written back in future periods.