CALTEX
Caltex Australia

ASX RELEASE

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2017 HALF YEAR RESULTS

Caltex Australia Limited today announces its financial results for the six months ending 30 June 2017, including strong underlying supply and marketing earnings, an uplift in refiner margin and a Replacement Cost Operating Profit (RCOP) of $307 million, up 21% on the previous corresponding period.

Caltex continues to make solid progress with its convenience retail program and with the company's operating model review which has identified an initial $60 million annual cost saving.

Key points

- First half HCOP NPAT of $265 million (including $44 million after tax inventory losses)
- First half RCOP[1] NPAT of $307 million up 21% (excluding significant items)
- Headline Supply & Marketing EBIT up 8% to $377 million. Underlying EBIT up 6% to $381 million (excluding externalities)
- Lytton Refinery EBIT of $149 million, up 62%, reflecting higher first half refiner margins compared with 1H 2016
- Initial $60 million annual cost savings identified from on-going operating model review, full year impact in 2018
- Interim dividend 60.0 cents per share (fully franked) declared, up 20%

Results summary	**Half year ended 30 June**		
	2017 $M	**2016 $M**	**% change**
HCOP result after tax	**265**	**318**	**(16)**
Adjust for:			
Inventory loss / (gain)	44	(64)	**21**
Significant items (gain)	(2)	0	
RCOP result			
Excluding significant items			
After tax	**307**	**254**	**21**
Before interest and tax	472	397	**19**
Supply and Marketing EBIT	**377**	349	**8**
Underlying (excl. externalities)	**381**	**359**	**6**
Lytton Refinery	**149**	**92**	**62**

[1] Excludes the impact of the fall or rise in oil and product 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.

Historic Cost Profit (HCOP)

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.

Replacement Cost of Sales Operating Profit

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.

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.

The average realised Caltex Refiner Margin (CRM)[2] 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.

Company operating model review (Project Quantum Leap)

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.

Strong balance sheet maintained

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

[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.

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).

Interim Dividend

The Board has declared an interim fully franked dividend of 60.0 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.

Caltex Australia [ASX:CTX]

A proud and iconic Australian company, Caltex is the nation's leading transport fuel supplier with end-to-end operations in refining, importing and marketing our premium fuels and lubricants. With a history tracing back to 1900, Caltex has safely and reliably fuelled the needs of Australian motorists and businesses for more than a century. Caltex aspires to be the market leader in complex supply chains and to execute our 'Freedom of Convenience' strategy for customers through our network of around 1,900 company-owned, franchised or affiliated sites. Follow us on LinkedIN, Facebook and Twitter @CaltexAustalia.

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