ASX/Media release

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2017 Full Year Results

Caltex Australia today announces its financial results for the twelve months ending 31 December 2017, with a Replacement Cost Operating Profit (RCOP) of $621 million, up 18% on the previous corresponding period, and marginally above the 2017 profit guidance of $600 million to $620 million. The improved result was driven by another strong operating performance from the Lytton Refinery, capitalising on strong refiner margins and the continued growth in its Supply and Marketing business. The acquisition of Milemaker and Gull NZ for a combined total of $424 million were completed during the period.

As part of the continued transformation of Caltex Australia, the Company commenced operating two separate but interconnected businesses on 1 January 2018: Fuels & Infrastructure (Supply, B2B, Refining and Infrastructure) and Convenience Retail (Petrol & Convenience). The 2017 results discussed in this release are based on the prior operating structure of Supply & Marketing, and Refining. Caltex will report its half year 2018 results on the basis of its Fuels & Infrastructure and Convenience Retail businesses in August 2018.

Caltex Australia has now rolled out 26 of the new format “The Foodary” pilot stores (23 as at 31 December 2017). The Company has also completed the review of the operating model for its Convenience Retail business and today announces that it will aim to move to company operation of all of its retail franchise sites by mid-2020.

Key points

- Full year historic cost operating profit (HCOP) NPAT of $619 million, up 1.5% (including $12 million after tax inventory gains and $14 million in significant item losses after tax)
- Full year RCOP NPAT of $621 million, up 18% (excluding significant items)
- Reported Supply & Marketing EBIT up 3.3% to $733 million. Underlying EBIT (excluding externalities) up 5.1% to $776 million (up 2.1% excluding the impact of acquisitions during the year)
- Lytton Refinery EBIT of $308 million, up 50% on a strong operational performance, capitalising on strong refiner margins
- Milemaker ($95 million) and Gull NZ ($329 million, Caltex’s first offshore fuels & infrastructure expansion) acquisitions completed
- Announced 20% equity investment in SeaOil Philippines (expected completion by end of first quarter 2018)
- Final dividend 61.0 cents per share (fully franked) declared, up 17%, taking FY 2017 dividends to $1.21/share (up 19%)

Results summary	Full year ended 31 December		
	2017 $M	**2016 $M**	**% change**
HCOP result after tax	**619**	**610**	**1.5**
Adjust for:			
Inventory loss / (gain)	(12)	(86)	
Significant items loss	14	0	
RCOP result			
Excluding significant items			
After tax	**621**	**524**	**18.4**
Before interest and tax	935	813	**15.0**
Supply and Marketing EBIT	**733**	709	**3.3**
Supply & Marketing Underlying EBIT (excl. externalities)	**776**	**738**	**5.1**
Lytton Refinery	**308**	**205**	**50.0**

Historic Cost Operating Profit

On an HCOP basis, Caltex's after tax profit was $619 million for 2017, after a (net) $14 million loss in 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 (before tax) Franchisee Employee Assistance Fund and $23 million (before tax) in one-off restructuring costs (Quantum Leap).

The full year HCOP result of $619 million is up 1.5% on the 2016 result of $610 million after tax.

The 2017 full year result includes crude and product inventory gains of $12 million after tax, compared with crude and product inventory gains of $86 million after tax in 2016.

Replacement Cost Operating Profit

On an RCOP basis, Caltex's after tax profit was $621 million for 2017, up 18% on the 2016 result of $524 million, marginally above the 2017 full year profit guidance (announced on 19 December 2017) of between $600 million and $620 million, excluding significant items.

Business performance

Supply and Marketing delivered an EBIT result of $733 million. This result includes unfavourable externalities of $43 million, comprising a net realised loss (after hedging) on foreign exchange of $26 million (2016: a realised loss of $4 million) and a price timing lag loss of $17 million (2016: a price timing lag loss of $25 million). The underlying Supply and Marketing EBIT increased 5.1% to $776 million, excluding externalities (+2.1% excluding the impact of acquisitions made during the year). Acquisitions added approximately $22 million EBIT during the year.

Total Australian transport fuel volumes increased 3.4% to 16.2 BL, with commercial B2B volumes increasing 7.5% to 7.6 BL. Retail transport fuel volumes were flat at 8.6 BL. By product, total diesel volumes increased 7.3% to 7.7 BL, while total petrols decreased 2.8% to 5.7 BL, broadly in line with industry trends.

Commercial diesel volumes grew 9.2% to 4.4 BL due to retention of core B2B customers, increased resource and commercial activities. Jet volumes increased 6.2% to 2.8 BL, reflecting strong market activity particularly across the East Coast and Caltex securing increased volumes from new and growing carriers.

In Convenience Retail, growth across Caltex's premium Vortex diesel (+7.2% to 2.3 BL) more than offset modest declines across its premium petrol range (Vortex 95 down 2.1% and Vortex 98, down 1.3%). Total retail diesel volumes of 3.3 BL were 4.9% above prior year (2016: 3.1 BL).

Caltex now has 26 new convenience retail stores operational under "The Foodary" format. Whilst there is significant variation by site (driven by site location, timing of opening, nearby competitive offers), the early results are encouraging, with strong customer feedback and an average non-fuel sales uplift of 35%. There have been some significant learnings with on-going development work around our fresh supp chain and labour model. Caltex intends to launch between 50 and 60 "The Foodary" sites and 5-10 Nashi high street convenience sites in 2018 at a capital cost of approximately $100 million, ahead of a wider roll out in later years.

Lytton Refinery delivered an EBIT of $308 million in 2017, up $103 million or 50% on the prior year (2016 EBIT: $205 million).

The refinery continues to operate reliably well with sales from production of 6.1 billion litres. This was marginally below the record 2016 performance (6.2 billion litres), due to some mini-turnaround maintenance work throughout the year.

The average realised Caltex Refiner Margin (CRM)[1] for the twelve months to 31 December 2017 was US$12.87 per barrel. This compares favourably to the 2016 average of US$10.29/bbl, which approximates the longer term (10 year) average.

Caltex has decided to change from its historical position of 5 year whole refinery Turnaround & Inspection (T&I) maintenance, and from 2018 will move to an annual turnaround maintenance program. Lytton capital expenditure in 2018 is expected to approximate $60 million, including T&I of approximately $30 million.

Corporate costs total $106 million, up $5 million on the prior year (consistent with previous guidance). This reflects M&A and other major project costs (including Caltex's company operating model and retail franchise network audit reviews), as well as investing in IT and retail capabilities that better position Caltex for the future.

Company operating model review update (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 strategy, 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 market place.

[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.

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

In August 2017, the company announced its decision to change its operating model by establishing two interconnected businesses: Fuels & Infrastructure (which merges Supply, B2B, Refining and Infrastructure) and Convenience Retail. These businesses are different and require different structures, processes and systems to enable them to develop their own cultures and growth options. This new operating structure commenced from 1 January 2018 and Caltex will report on the basis of these two businesses from its HY 2018 results.

This review identified annualised operating cost savings of $60 million. Approximately $24 million of those savings were realised in 2017, with the full run rate to be realised in 2018. The savings will go towards offsetting inflationary cost pressures, the costs associated with the roll-out of the Company's new "The Foodary" format and the costs of transitioning the Company's franchised retail sites to company operations.

Review of Convenience Retail operating model

Caltex today announces the outcome of the 2-year review of its Convenience Retail operating model to determine which model will best deliver our retail growth objectives. The convenience retail operating model review commenced after the launch of our Freedom of Convenience strategy in 2015. This strategy has seen Caltex transform from a refiner-marketer to a company with a Fuels & Infrastructure business and a separate but interconnected Convenience Retail business.

The operating model review determined that controlling our core business is the best way to achieve our retail growth objectives.

Company operation of this core business is key to accelerating the changes required to:

- provide a more consistent customer experience;
- roll out new platforms;
- standardise services; and
- simplify supply arrangements.

As at 31 December 2017, a total of 314 sites within the 810 Caltex retail consumer network were company operated. This compares with 152 sites at 31 December 2016, and 233 as at 30 June 2017. Caltex franchisees operate 433 sites. Caltex aims to transition all retail franchise sites to company operations by mid-2020.

Total costs of the transition to company operations is estimated to be around $100 million to $120 million, over the next three years. This covers:

- Anticipated transition costs covering dedicated transition team, direct labour costs (training; on boarding), implementation costs and anticipated downtime / store ramp up;
- Consideration paid to franchisees if they agree to the reduced tenure; and
- Acquisition of working capital and fixed assets in accordance with franchise agreements

Approximately $70 million to $80 million (before tax) of the total program costs is expected to be expensed over the next three years (depending on transitions timing and tax deductibility). The remainder relates to capital items.

Caltex is targeting (net) sustainable EBIT uplift between $120 million and $150 million within 5 years for its Convenience Retail business.

Franchising has been an integral part of growing the retail business. Caltex appreciates that this is a significant decision and it will affect many of our franchisees. Caltex will work with our franchisees to manage the impact of this change, including by offering franchisees transition support and offering employment to all franchisee employees.

Asset optimisation review

Caltex acknowledges that alternative ownership and operating models exist for its assets, including the real estate and infrastructure assets, and that there are different perspectives of how long term shareholder value is generated.

Caltex enjoys freehold ownership of 417 retail service station sites, including 288 metropolitan, 4 highway and 125 regional sites. Additionally, Caltex owns or part-owns 18 terminals, 65 fuel depots and 5 major pipelines. Caltex is well progressed in its review of the preferred ownership model, and is working through all options to determine which outcome will deliver the most long-term value for shareholders, as measured by total shareholder returns. The review is expected to be completed towards the end of the second quarter 2018. The Company will keep the market updated as this review and other phases of our broader transformation progress.

Strong balance sheet maintained

Net debt at 31 December 2017 was $814 million. This compares with $454 million at 31 December 2016 and $730 million at 30 June 2017. The increase in 2017 debt reflects $427 million in acquisitions (including Milemaker $95 million; and Gull NZ $329 million). This equates to a gearing ratio of 21% (net debt / net debt plus equity) or 36% on a lease adjusted basis. Average debt in 2017 was $701 million.

On 21 December 2017, Caltex announced a 20% equity investment in SeaOil Philippines, the leading independent Philippines fuel supplier for approximately $115 million. The deal is expected to complete by the end of the first quarter 2018. Normalised for this transaction, gearing levels would approximate 23% (38% lease adjusted) based on a pro-forma net debt of approximately $930 million.

Caltex remains committed to a BBB+ credit rating.

Final Dividend

The Board has declared a final fully franked dividend of 61.0 cps for the second half of 2017, in line with the target dividend pay-out ratio of 40% to 60%. Together with the first half dividend of 60 cps, this results in a full year dividend of 121.0 cps, fully franked. The record and payment dates for the interim dividend are 13 March 2018 and 6 April 2018, respectively.

Key Dates

Date	Description
13 March 2018	Full Year - Record Date for Dividend
6 April 2018	Full Year - Payment Date for Dividend
10 May 2018	Annual General Meeting
28 August 2018*	Half Year 2018 - Results & Interim dividend announced
11 September 2018*	Half Year - Record Date for Interim Dividend
5 October 2018*	Half Year - Payment Date for Interim Dividend
31 December 2018	Financial Year End

* Indicative dates

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Caltex Australia

A proud and iconic Australian company, Caltex [ASX:CTX] has grown to become the nation's leading transport fuel supplier, with a network of approximately 1,900 company-owned or affiliated sites. Caltex aims to be the market leader in complex supply chains and the evolving convenience market place by delivering the fuel and other everyday needs of its diverse customers through its networks. Caltex has safely and reliably fuelled the needs of Australian motorists and businesses since 1900. It operates as a refiner, importer and marketer of fuels and lubricants. Follow us on LinkedIN, Twitter and Facebook, and for more information visit www.caltex.com.au