CALTEX
Caltex Australia

ASX/Media release

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2018 Half Year Results

Caltex (ASX:CTX) today announces its financial results for the six months ending 30 June 2018. Today's announcement is broadly in line with guidance and demonstrates the significant progress in Caltex's transformation, with the completion of the commercial separation of the Convenience Retail and Fuels & Infrastructure businesses, the continuing retail site transition, the new partnership with Woolworths, as well as the delivery of strong results from the regional businesses, all of which provide the foundation for further, sustainable growth.

Result highlights

- 1H 2018 Historic Cost Profit (HCOP) NPAT up 45% to $383 million, including inventory gains of $87 million after tax. There were no significant items.
- 1H 2018 Replacement Cost Profit (RCOP) NPAT up 1% to $296 million, which is within guidance and includes the combined negative impacts of a lower Caltex Refiner Margin (CRM), lower retail fuel margin impacted by rising crude and product prices, and the impact of the ongoing transition of franchise sites to company operations.
- Fuels & Infrastructure EBIT up 9% to $314 million, despite lower refining margins. Total volumes up 12% to 10.2BL in 1H 2018, including a 3.5% increase in domestic sales (Retail and Wholesale) to 8.4BL, and an 87% increase in international volume to 1.8BL.
- Convenience Retail EBIT of $161m, down 14% as a result of the impact of rising crude and product prices in 2018, versus falling prices in 2017 and ongoing store transitions.
- Interim dividend of 57.0 cents per share (fully franked) declared, representing a payout ratio of 50.3%.
- On 5 July, Caltex successfully extended and expanded its long term partnership with Woolworths. Convenience Retail will benefit from the wholesale grocery supply, loyalty and redemption arrangements, while the retention of the long term fuel supply to Woolworths will underpin future growth within Fuels & Infrastructure.

Results summary	Half year ended 30 June		
	2018 $M	2017 $M	% change
HCOP result after tax	**383**	**265**	**45**
Adjust for:			
Inventory loss / (gain)	(87)	31	
Significant items loss / (gain)	0	(2)	
RCOP result after tax	**296**	**294**	**1**
RCOP result before interest and tax	443	454	(2)
Fuels & Infrastructure EBIT	314	287	9
Convenience Retail EBIT	161	187	(14)
Lytton Refinery EBIT	105	149	(30)

Business performance

Fuels & Infrastructure delivered an EBIT result of $314 million, below the guidance range of $315 to $335 million given a weaker than anticipated CRM[1] in June. This result includes unfavourable externalities of $9 million, comprising a net realised loss (after hedging) on foreign exchange. The contribution from Gull and Seaoil totalled approximately $29 million EBIT during the half year.

Total Fuels & Infrastructure volumes increased by 12% to 10.2BL in 1H 2018. Domestic sales (Retail and Wholesale) grew by a net 3.5% (0.3BL) to 8.4BL, while International volumes (Gull, Ampol trading, Lytton exports) increased by 87% to 1.8BL, due to growth in Ampol activity and a full period of contribution from Gull. Wholesale volumes (B2B, Woolworths and other supply counterparties) have grown by 6%, underpinned by growth from B2B in both diesel and jet. Wholesale volumes excluding Woolworths have grown by 13%. Total sales volumes to Caltex Convenience Retail have fallen 2.6% to 2.5BL in 1H 2018.

Included in the Fuels & Infrastructure result is an EBIT contribution of $105 million from the Lytton Refinery for 1H 2018, down $44 million, largely due to a lower CRM. The average realised CRM for 1H 2018 was US$10.06 per barrel. This compares unfavourably with the 1H 2017 average of US$12.36/bbl. The refinery continues to operate reliably with total production of 3.22BL, the second highest half year total on record.

Convenience Retail delivered an EBIT result of $161 million, marginally above the 1H 2018 profit guidance of between $150 million and $160 million. Convenience Retail EBIT was down 14% on the same period last year due to the impact of rising crude and product prices on fuel margin, and impacts from the ongoing transition of franchise stores to company operations.

Convenience Retail fuel volumes fell 2.6% to 2.5BL in the period, with a 6.4% reduction in petrol volumes (to 1.24BL) partially offset by 2.1% retail diesel demand growth (to 1.17BL). The agreements with Woolworths which include expanded loyalty and fuel redemption arrangements, as well as the new fuel partnerships with NRMA and Toyota, are expected to have a positive impact on future volumes. Caltex has also recently launched a national “FuelPay” app to make filling up at Caltex faster and easier for customers.

During 1H 2018, Caltex continued to focus on the transition of franchise sites to company operations, which will enable its Convenience Retail strategy. In 1H 2018, 82 franchise sites transferred to company operations, with a total of 414 sites within the 790 Caltex retail network now company operated. Caltex expects to company operate >88% of its entire network by the end of 2020.

The Foodary stores performance continues to improve, with increases in sales per store, gross margin and fuel volumes on a same store comparison basis. The learnings from The Foodary will be utilised in the co-creation with Woolworths of the new Metro convenience offer to be rolled out at Caltex sites. The first new Metro convenience store is expected to be opened in early 2019. As at 30 June 2018, 37 The Foodary sites are operational (an increase of 14 in 1H 2018), with a reduced total of 35-40 new The Foodary sites expected to be rolled out in 2018.

Corporate costs total of $31 million increased by $10 million on 1H 2017, above guidance of $23 million, given increased M&A and major project activities (Woolworths strategic partnership, the asset optimisation review, commercial separation, and other business development opportunities).

[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.

Asset optimisation review

The **Convenience Retail real estate review** concluded that a passive real estate sale and leaseback transaction is not financially compelling in isolation as sales proceeds are largely offset by the assumption of the related lease liabilities. No material new debt capacity would be created.

Convenience Retail real estate is a critical asset that underpins the company's long term retail strategy, and the review highlighted the opportunity to manage this asset more proactively.

Caltex is now exploring with appropriately experienced partners, a potential strategic real estate partnership that leverages our retail real estate assets and the partner's ownership, management and development capabilities. These discussions include consideration of the sale of a material part (15-25%) of the existing freehold site portfolio - currently estimated to have a total value of approximately $2 billion - with Caltex retaining between 25-50% equity interest. This will enable Caltex to benefit from market value and development gains, and allows evaluation of the benefits of the partnership structure, with a view to further monetisation where value can be demonstrated.

The **Fuels & Infrastructure asset review** concluded that, despite strong investor appetite, a significant portion of the company's infrastructure portfolio comprises key strategic assets, with net proceeds likely to be largely offset by credit rating debt adjustments and tax leakage. At this point, it is in the best interests of the company's shareholders to retain ownership of infrastructure assets and continue to optimise the value of these assets within the company's integrated value chain.

Managing Director and CEO, Julian Segal, said "With the completion of the commercial separation of the Fuels & Infrastructure and Convenience Retail businesses, Caltex is primed for sustainable growth."

"In Convenience Retail, we have begun our work with Woolworths to co-create a market-leading convenience offering with compelling customer loyalty and redemption arrangements. The long-term wholesale grocery supply agreement allows us to concentrate on the store offering while completing the transition process."

"The Fuels & Infrastructure business has reported good domestic results, including the continuation of supply to Woolworths, and good regional growth in line with its strategy. Both Gull NZ and Seaoil are delivering strong financial performance, and the business continues to benefit from Ampol's expanding regional supply opportunities."

"These half-year results demonstrate not only Caltex's progress on transformation, but our un-wavering focus on business growth and our continued track record in good decision making to deliver value to our shareholders."

Strong balance sheet maintained

Net debt at 30 June 2018 was $1,041 million. This compares with $814 million at 31 December 2017 and $730 million at 30 June 2017. The increase in debt over the last 18 months reflects $526 million in acquisitions and investments (Seaoil $99 million in 1H 2018; Milemaker $95 million; and Gull NZ $330 million), and higher working capital. This equates to a gearing ratio of 24% (net debt / net debt plus equity) or 37% on a lease-adjusted basis.

Interim Dividend

The Board has declared a fully franked dividend of 57.0 cps for the first half of 2018, representing a pay-out ratio of 50.3%, in line with the target dividend pay-out ratio of 40% to 60%. The record and payment dates for the interim dividend are 11 September 2018 and 5 October 2018, respectively.

Caltex Australia

INVESTOR CONTACT
Dale Koenders
Head of Investor Relations
+61 2 9250 5626
+61 457 559 036
dale.koenders@caltex.com.au

MEDIA CONTACT
Elizabeth Rex
GM Corporate Affairs
+61 2 9250 5809
+61 429 171 350
erex@caltex.com.au

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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

** Note: comparisons in this report are made relative to 1H 2017 unless otherwise stated.*

** Note: Pricing lags on product sales has now been excluded from RCOP earnings, and now included in movement in inventory as a component of inventory gain/loss. All references to RCOP have been restated.*