



CALTEX
Caltex Australia

2016 ANNUAL
REPORT

**FREEDOM OF
CONVENIENCE**



About this Report

This 2016 Annual Report for Caltex Australia Limited (ACN 004 201 307) has been prepared as at 21 February 2017. Please note that terms such as Caltex and Caltex Australia have the same meaning as Caltex Group, unless the context requires otherwise. An interactive version of the Annual Report is available on our website. Visit www.caltex.com.au to download or view a copy.

Shareholders can request a printed copy of the Annual Report free of charge by emailing secretariat@caltex.com.au or writing to the Company Secretary, Caltex Australia Limited, Level 24, 2 Market Street, Sydney NSW 2000 Australia.

Contents

About Caltex	1
2016 Highlights	6
Message from our Chairman and Managing Director & CEO	8
Our strategy and Values	10
Operations Reports	
– Supply	12
– Supply Chain Operations	14
– Marketing	16
Sustainable Operations	
– People and Values	18
– Safety and environment	20
– Caltex in the community	25
2016 Financial Report	27

To view the company's most up-to-date financial calendar, please visit www.caltex.com.au





PROUDLY
AUSTRALIAN



A truly Australian fuel and convenience company **By Caltex Australia**

About Caltex

What sets Caltex apart from other fuel and convenience companies in Australia is that we are an Australian company which operates independently, with our strategy and direction set by the management and the Board in Australia. We are listed on the ASX and have more than 3,000 employees working across the country. Caltex delivers high-quality fuels, lubricants, services and convenience offerings to its diverse range of customers through an extensive Australian network of retail sites, depots and distribution centres.



Supporting Australian businesses

Caltex realises that the more we can help our 70,000+ Australian business customers to be prosperous, the better our business is.



Our history

Our company history traces back to the early 1900s. In the late 1940s, the ASX listed the all-Australian oil importer Ampol, which merged with Caltex in 1995. Caltex has a long record of adapting to change and investing in new growth opportunities.



Convenience is being redefined By Caltex Australia

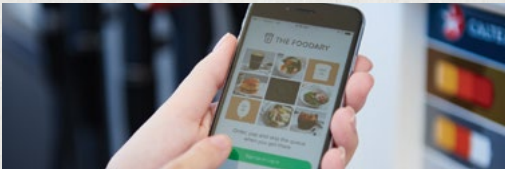
About Caltex

Our extensive convenience retail network – one of Australia's largest – and our proven track record of moving products across Australia's wide expanses provide Caltex with the competitive advantage needed to deliver new solutions to the convenience marketplace. We are listening to our customers and delivering the freedom of convenience which meets their needs.



Making customers happy

In 2016, Caltex delighted our customers with our new barista coffee offer, our great range of fresh food and the new convenient services provided through a growing number of our stores.



Embracing digital technology

Most motorists fill up their vehicles while on their way to another destination. One app which we are trialling lets customers pay from their car, meaning no lines, no waiting and more time for our customers.





One third of all Australia's transport fuel needs are supplied By Caltex Australia

About Caltex

Caltex has become Australia's outright leader in transport fuels by adapting to become an integrated transport fuels supply chain business. We source high quality, competitive fuels from around the world, and our network of infrastructure across Australia positions us to meet the needs of businesses, communities and families in even the most remote regions of Australia.



Kurnell import terminal

The transformation of Kurnell into Australia's largest transport fuels terminal has enabled the continued reliable supply of high quality fuels to Caltex customers.



Ampol Singapore

A wholly owned subsidiary, Ampol Singapore sources all crude oil, refined fuels and feedstocks as well as managing the associated shipping for Caltex.





Strong Supply &
Marketing
performance and
record Lytton
refinery production
underpinned the
2016 Results.

\$610M

Full year historic cost
profit after tax

6.5%

Increase in underlying Supply & Marketing earnings before interest and tax to \$709 million in 2016

6.2^B

Litres produced at the Lytton refinery, the highest ever production

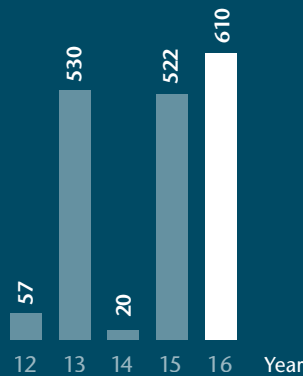
16^B

Litres of transport fuel sold

\$270^M

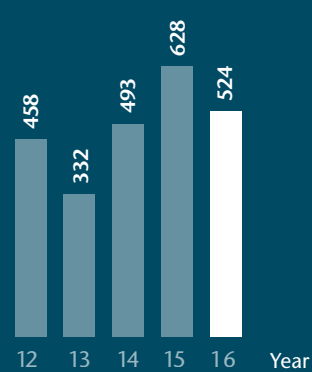
Off-market buy-back completed in April 2016

Historic cost of sales operating profit (HCOP) (\$million)



On a historic basis, Caltex recorded an after-tax profit of \$610 million for the 2016 full year. This includes a product and crude oil inventory gain of \$86 million after tax.

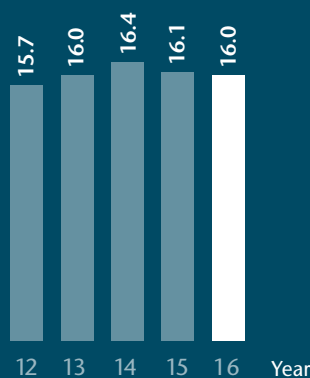
Replacement cost of sales operating profit (RCOP) (\$million)



Caltex recorded an after-tax profit for the 2016 full year of \$524 million, excluding significant items, on a RCOP basis. This is our preferred measure, as it excludes net inventory gains and losses and better represents the underlying performance of the business.

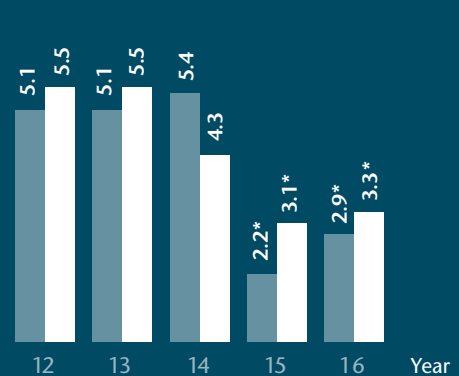
RCOP NPAT of \$524 million is down on previous year due to 17% lower refiner margin.

Transport fuel sales (Billion Litres)



Total sales volumes of transport fuels were 16.0 Billion Litres, broadly in line with prior year. Overall sales volumes were maintained in a challenging market, with all commercial contracts retained.

Refinery transport fuel production (Billion Litres)



Lytton refinery transport fuel production, with record production volumes, showed strong operational performance.

* Reflects production from the Lytton refinery only, following the conversion of the Kurnell refinery.

In 2016, Caltex Australia continued on our “Freedom of Convenience” journey.

Greig Gailey
Chairman



Julian Segal
Managing Director
& CEO



During the year, we continued to strengthen the capabilities which will best place us to capture the opportunities ahead in the fuels and convenience marketplace. Consistent with our history, Caltex Australia is adapting and improving our business so we can use our advantages to navigate our dynamic industry and embrace the future before us.

Caltex places the highest priority on the health and safety of our workforce and customers. All levels of the organisation – from entry level through to the Board – are evaluated on personal and process safety. While we have seen improvement – Lytton achieved an incident-free turnaround and inspection on one of our process units and our contractor workforce achieved its best safety performance in recent history – we will continue to strive for improved safety performance.

Our incident recording of 2.35 TTIFR still demonstrates room for improvement, and we will continue our relentless focus on injury prevention into 2017.

Supply & Marketing delivered strong earnings before tax of \$709 million, reflecting a resilient retail business, continued growth in premium fuels and Ampol Singapore sourcing and supply benefits.

Our Vortex premium fuels continued to impress, with a growth of 2% in retail premium petrol sales and 17% in total premium diesel sales.

Caltex’s historical resilience has bolstered our confidence in our ability to make the most of our growth and extension opportunities. As we create new solutions for our customers, we will leverage our existing consumer and mobility assets and supply chain expertise through prudent investment.



Off-market
Buy-back completed

\$270M

Premium diesel
Growth in sales

17%

In Victoria, Caltex will expand our reach with the purchase of Milemaker Petroleum's retail fuel operations, protecting volume and gaining operational control of 46 service stations. The strategic acquisition, expected to complete in the first half of 2017, will improve our position in the key regional Victoria market.

Late in the fourth quarter, we also announced our first overseas acquisition – the purchase of independent fuel retailer Gull New Zealand (Gull), including New Zealand's largest import terminal, 77 retail sites and four marinas in a market of some 7.7 billion litres. With Ampol Singapore having established strong supply and shipping capabilities, entry into the similar and geographically-advantaged New Zealand market is a logical growth step for us.

These acquisitions will deliver on our strategic plan by optimising Caltex's infrastructure position, building trading and shipping capability, growing the supply base and enhancing our retail fuel offerings.

On an historic cost profit basis, Caltex recorded an after tax profit of \$610 million for the 2016 full year. This compares with the 2015 full year profit of \$522 million, which included a gain relating to significant items of \$29 million after tax.

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

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

The overall result reflects a strong underlying Supply & Marketing EBIT of \$709 million within highly competitive wholesale, commercial and retail markets, offset by adverse foreign exchange and pricing lags of \$29 million. Excluding these net externalities, the underlying Supply and Marketing EBIT is up 9.3% on the 2015 result. Less favourable externalities than in 2015 have led to a lower Lytton refining EBIT, despite continued improvements to operating performance. Lytton refinery sales volumes increased 14% and production by 15% compared to 2015 full year total, noting that 2015 was impacted by the major planned outage which occurs at the refinery once every five years.

The benefits of optimising our business through our Protect and Grow strategy have already begun to surface. We reported record production from our Lytton refinery due to improved process unit reliability. We also gained significant supply chain efficiencies as 2016 marked the first full year of our subsidiary Ampol Singapore directly sourcing all of our crude, feedstocks and refined products. This has supported the competitive and reliable supply of transportation fuels to our customers across Australia.

As always, creating value for shareholders is at the heart of our decisions. We have established strong foundations in retailing, supply chain management, sourcing and infrastructure which will serve us well as we seek to maximise long term shareholder returns. The successful closure of the Kurnell refinery in 2014 and the company's ongoing quest to reduce costs and improve efficiency has resulted in significantly improved cash flows. This enabled us to conduct a successful \$270 million off-market share buy-back in April 2016 of approximately 9.2 million shares.

In late December, Woolworths announced that it had entered into an agreement to sell its fuels business to BP. While we are disappointed that our longstanding supply arrangement with Woolworths is likely to end, we are pleased that Caltex maintained strict financial discipline during the bidding process. We remain committed to the creation of top quartile shareholder returns but only through profitable, capital-efficient growth, and we will only spend our shareholders' money on opportunities which deliver sustainable value. We will continue to honour our 3.5 billion litre fuel supply arrangement with Woolworths until its transaction with BP is complete.

Caltex Australia's review of its franchise model has confirmed the model allows franchisees to make a profit, draw a wage, and pay employees in accordance with lawful wage rates. The review examined the profitability of the model for franchisees and included external legal advice supported by an assessment of franchise profitability conducted by a leading, independent advisory firm.

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

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

Finally, 2016 has been a year of change and challenges – and more of these are likely ahead of us. On behalf of Caltex's Board and management, thank you to Caltex's employees, franchisees, contractors, distributors, and suppliers for their continued support and hard work. Together, we have an exciting and promising future before us.

Caltex aspires to top quartile total shareholder returns through our Freedom of Convenience strategy, which is to be the market leader in complex supply chains and the evolving convenience marketplace by delivering the fuel and other everyday needs of our diverse customers through our networks.

Caltex’s strategic journey continues

We are now building on our position as Australia’s leader in transport fuels to deliver services and convenience offerings to our diverse range of customers. We are well positioned to use a “whole of business” mindset through our operations across our integrated supply chain – from source to customer.

We will continue to optimise all areas of our business to strengthen Caltex’s place in a highly competitive industry.

In 2016, we were excited to have the opportunity to invest in businesses which complement our existing model. We have also strengthened our capabilities as we extend our offerings in markets new to Caltex, such as the convenience marketplace.

As always, Caltex will strive to lead, not follow, others by redefining customer expectations and placing ourselves at the crossroads of what is needed today, and what is possible tomorrow.

Freedom of Convenience

To be the market leader in complex supply chains and the evolving convenience marketplace, by delivering the fuel and other everyday needs of our diverse customers through our networks.

Protect and Grow

Optimise, enhance and expand core integrated fuel value chains and fuel retail offer

Optimise infrastructure position

Build trading and shipping capability

Work with customers to protect and grow the supply base



Extend

Invest in capabilities and businesses that leverage our existing consumer and mobility assets

Enhance the fuel retail customer offering

Create new customer solutions in the convenience marketplace

Enhance capabilities and competitiveness

Safety

Efficiency

People

OUR VALUES



We hold safety and integrity as core personal commitments

We look after our own safety and the safety of others.

We are intolerant of personal injury.

We treat each other and the environment with respect.

We are upfront and do the right thing.



We think and act like business owners

We are results driven.

We treat the business as our own.

We never lose sight of tomorrow.



We play to win

We expect to achieve the extraordinary.

We are smart with money.

We make tough decisions to create shareholder value.



We deliver superb outcomes for our customers

We are one team, servicing our customers together.

We listen, understand and deliver.



We deliver with energy, conviction and tenacity

We act with a sense of urgency.

We are decisive and agile.



We boldly find new ways to succeed

We step out from the traditional to seize opportunities.

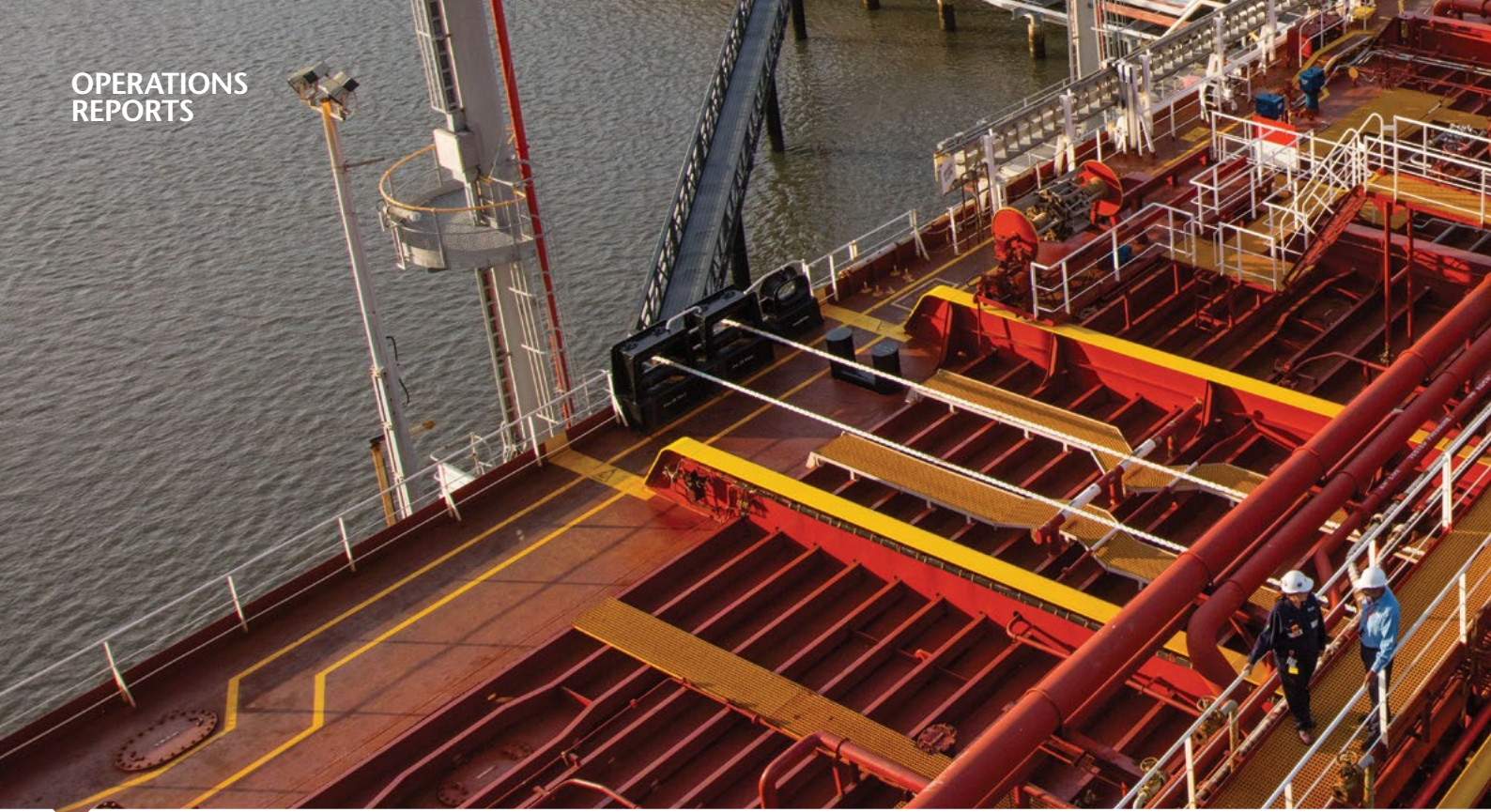
We are curious, adventurous and innovative.

We have the courage to change.



One
Caltex

Top
quartile
shareholder
returns
for investors



Supply

Our supply team continues to build its capabilities to competitively and reliably supply the transportation fuels, feedstocks, crude and other products which our Australia-wide customer base and refining system require. With Chevron's 2015 departure from Caltex's supply chain, 2016 marked the first full year of Caltex's standalone trading and shipping capability through Ampol Singapore.

Import locations

The number of locations Caltex typically imports products to

14

Singapore office

Number of employees at the end of 2016

53



Trading and shipping

Our Ampol Singapore team of experienced and capable industry professionals safely and reliably provides Caltex with high quality, competitive supply, as well as a better understanding of the dynamic global oil market. This is critical to our integrated fuels supply chain – one of our greatest strengths.

In 2016, Ampol Singapore continued to extend its value creation from sourcing crude oil, refined products and feedstocks for Australia from global markets by leveraging the strong relationships built during Ampol's three years of operations. The majority of refined products came from key regional supply locations across North Asia, Singapore and India/Middle East. Crude oil was sourced from a variety of global locations depending on pricing and quality, with a focus on regional grades. Our conservative approach to trading and shipping remains unchanged, with our activities focused on our strength of physical system supply and optimisation, with no speculation and prudent management of our commodity risks.

In July 2016, Ampol successfully transitioned to a standalone shipping organisation, which was completed incident free. This additional capability enables Caltex to maintain our high safety and environmental standards, while gaining control of this critical operational and commercial activity to meet the fuel supply needs of our geographically remote nation. To support this, Ampol has established relationships across the shipping industry, including achieving full membership in the world-renowned Oil Companies International Marine Forum (OCIMF).

Supply operations and optimisation

Caltex continues to improve the value created by our integrated supply chain, using the knowledge we have gained from our longstanding operations within the unique Australian market combined with our new capabilities. We rapidly adapt our operations to dynamic market conditions and identify new opportunities by understanding the factors which influence value and costs across our supply chain, and its complex and linked operations. The team is continuously optimising the complex system flow into and from our Lytton refinery and then through our distribution networks to customers from the major metropolitan markets such as Sydney, Brisbane and Melbourne to remote communities all around Australia.

By combining new knowledge from Ampol Singapore with our experienced team in Australia, we have found innovative and more efficient ways of operating our supply chain, while ensuring we always maintain our commitment to reliable supply to our customers.

This capability, coupled with significant planning and alignment across Supply, Supply Chain Operations and Marketing, is a unique competitive advantage for our business.

Future focus

In 2017, Caltex will focus on embedding the standalone trading and shipping capabilities established over the last three years. We will also look to improve our integrated decision making from source to customer, driving further value from our system-backed fuels supply chain. We are excited about the opportunity to integrate and optimise our new fuels supply chain to Gull NZ, the acquisition of which was announced in December 2016.

Supply Chain Operations

Caltex's Supply Chain Operations manages a complex, nation-wide network of facilities, including the Lytton refinery, 13 terminals, 64 depots, pipelines and freight logistics.

Lytton production
Record performance
(Billion Litres)

6.2

Lytton refinery
Met South East
Queensland's transport
fuel needs by

90%

Capable management of this infrastructure and logistics, always with safety as our top priority, underpins our integrated supply chain – the core of meeting our customers' needs.

Lytton refinery

Supplying approximately 90% of South East Queensland's transport fuel needs and with nearly 500 employees and contractors, Lytton refinery plays an important role for Queensland.

The refinery continued to make operational improvements in 2016, which resulted in a record production of 6.2 billion litres of the high value products petrol, diesel and jet fuel – the highest ever in its 50-plus year history. This compares with production of 5.3 billion litres in 2015 (during which we had a planned major shutdown) and 5.8 billion litres in 2014.

The Lytton refinery is a key element in Caltex's East Coast supply chain, including Ampol Singapore and the terminal network. This tight integration continued to drive value and helped the refinery achieve its record production of high value products.

Lytton refinery's focus on reliability and gross margin improvement resulted in an increase in the refinery's nameplate capacity by 3,000 barrels per day during the year. Mechanical availability in 2016 was 97.4%, up from 97% in 2015. Utilisation for 2016 increased to a record 90%, compared to 87% in 2015 (outside the major maintenance period) and 2014. The 2016 record results are an outstanding achievement, reflecting continued year-on-year improvement.



Operating two pipelines, the refinery maintained its position as the major supplier of ground fuels (petrol and diesel) to the broader Brisbane market, supplying more than 90% of the demand in 2016.

Infrastructure operations

At Kurnell Terminal, Australia's largest fuel import terminal, optimisation continued following the first full year of operation in 2015. The terminal both imports fuel to meet local Sydney basin demand, and is integrated into the broader supply chain to allow optimisation across Caltex's East Coast markets.

During the year, decommissioning and demolition work relating to the former refinery operation continued at the Kurnell site, on budget and on schedule to be completed in the first half of 2018.

Construction has commenced on a \$75 million investment upgrade at the Caltex Newport fuel terminal in Victoria, announced in August and due for completion by the end of 2017. The project includes the installation of two new tanks, providing an additional 40 million litres of storage capacity, new pipe and pumping infrastructure, increased truck loading capacity and upgrades to the terminal's safety systems. The upgrade will enable the company to meet the growing demand for petrol, diesel and jet fuel from across Victoria.

In Brisbane, the Caltex/Shell Aviation joint venture BAPFII pipeline was commissioned to supply jet fuel to Brisbane Airport from the Lytton refinery. The pipeline will underpin the continued rapid expansion of this international aviation hub over the next 20 years.

Following a review of the supply chain to best service the Eyre Peninsula in South Australia, the decision was made to convert the Port Lincoln terminal to a depot, eliminating the need for shipped product into Port Lincoln. Product to the area will be supplied via truck from the Caltex Pelican Point terminal in Adelaide, which is ship-supplied. These changes are expected to take place in 2017.

Lubricant manufacturing

2016 was the first full year of operational control of the Caltex assets of the former Australasian Lubricants Manufacturing Company (ALMC) joint venture. We continue to improve our lubricants customer offer and to deliver a more competitive supply chain in response to changes in the Australian lubricants market.

During the year, we drove improvements both in our Lytton blending, manufacturing and warehouse plant in Queensland and in our logistics, capturing operational efficiencies and better customer service.

Logistics

2016 was a year of consolidation for logistics, as we combined our two previously separate logistics functions into one national logistics business. The new leadership team is focused on providing safe, reliable and cost-competitive logistics solutions to our customers by leveraging our carrier and depot networks to protect and grow our business.

Significant progress was made in optimising our depot and carrier networks during the year. This work will result in more efficient coverage of our customer base and deliver improved customer outcomes and a more competitive business offer.

Future focus

Infrastructure is a key element of Caltex's integrated supply chain, and our focus remains on providing safe, reliable and competitive operation of these assets to underpin reliable supply to our customers.

Continuous improvement is embedded in our operations mindset. In 2017, we will continue to extract value from our integrated supply chain, build on the excellent performance of the Lytton refinery, and drive benefits from our reshaped logistics organisation.

Caltex will continue to invest in our assets with a long term view of what matters most to our customers and will create value for our shareholders. Keeping our Kurnell decommissioning and demolition program and our Newport terminal upgrade on plan – and incident free – will strengthen our ability to provide fuel reliably for our customers and drive cost/capital efficiency. As the successful operator of one of Australia's largest infrastructure networks, we will continually investigate new opportunities to leverage our expertise.



Marketing



As our business continues to grow, so does our commitment to serving our customers, who rely on us for approximately 16 billion litres of fuel each year and a range of lubricants and fresh and packaged retail offerings.

Vortex 98

Grew year on year

7%

Vortex diesel

Grew year on year

12%

Business-to-business

Number of commercial customers

70,000+

Our commitment to our broad range of customers, combined with our integrated approach to our value chain, enables us to leverage our supply base for both our business-to-business and our retail customers. This, together with our enviable infrastructure position across the country and our product and sourcing capabilities, positions us well in a competitive, dynamic market.

While our total sales volumes in 2016 were flat, reflecting the challenging market for both volumes and margins, our priority segments in premium fuels continued to achieve strong growth.

Consumer sales

Caltex has one of the nation's most extensive fuel and convenience networks. Consumers depend on our forecourt convenience sites, service centres, truck stops, service stations, diesel stops and depot fronts – many of them 24/7. Also one of Australia's largest franchisors, Caltex has independent franchisees operating more than 640 sites. In 2016, 1,900 sites accepted StarCard, making ours the largest fuel card network in Australia.

Caltex continued to drive Vortex premium fuels, recording excellent growth of 7.2% for the period. Higher sales in premium fuels continued to offset the long term decline in demand for regular unleaded petrol, including E10.

A continuation of the eight-hose, multi-product dispenser upgrade program saw a further \$6 million invested in 2016 improving the convenience of fuel selection for customers and increasing the availability of Vortex Premium fuels at our sites.

Our Convenience business continues to generate substantial sales \$1.17 billion for the year ending 2016 compared to \$1.15 billion in 2015.

Targeted investment in our retail network continued to underpin market opportunities and during the year included 22 new-to-Caltex sites plus four retail-owned retail-operated, 11 knock down rebuilds and two major upgrades. Continued implementation of improved procurement processes allowed us to deliver our build and refurbishment projects efficiently, without compromising stores' build-quality and functionality.

During the first half of the year, we completed a major study on "convenience" which suggested that the Australian convenience market is under-served. We undertook further work to identify ways to take hold of this opportunity, ensure the quality of our offer and differentiate Caltex from competitors. The results of this work will be rolled out in 2017 for pilot testing.

Subsequent to year end, Caltex introduced its new brand, The Foodary, into the retail convenience offering with the opening of a pilot store in Concord, NSW. Along with freshly made food and barista services, The Foodary features a range of services and digital offerings to improve the customer experience.

Our digital offerings are designed to simplify and streamline the retail environment for our digitally-connected and time-poor customers. We successfully trialled two new digital offers: "Price Bid", which allowed customers to bid on a fuel price and fuel type at a selected location; and secondly, an innovative fuel payment app, which allowed customers to pay quickly without leaving their vehicles. The response was strong, and in 2017 we anticipate rolling out the payment app and other new mobile digital applications to make shopping at Caltex simple, fast and convenient.

Caltex was honoured to be recognised in August 2016 by the Australasian Association of Convenience Stores (AACCS) as "Retailer of the Year" for the second consecutive year. This prestigious award, in particular, recognises innovation in convenience retailing.

Business-to-business sales

More than 70,000 businesses rely on the reliable supply of high quality Caltex products including petrol, diesel, jet fuel, lubricants, StarCard and specialty products. Our commercial customers include mining, oil and gas, marine, industrial, transport, aviation, distribution, automotive, government and agricultural segments across urban and rural Australia.

Caltex provides the jet fuel supplied to nearly all of the airports on the east coast of Australia. We also operate 64 depots in regional Australia, complementing our strong import terminal network and logistics capability and demonstrating our commitment to fuelling Australia.

In keeping with Caltex's overall priority of optimising our entire value chain from product sourcing through to our customer, we continued building our relationships with, while at the same time rationalising and creating greater efficiencies in,

our distributor supply network to better service our customers throughout regional Australia. This also involved working with and investing alongside our distributors to protect and grow our supply base, whilst enhancing our fuel retail customer offering to attract more customers to Caltex and our distribution partners.

In 2016, there was substantial growth in jet fuel, with volumes increasing by 5%. Caltex now enjoys a more diversified jet fuel customer mix, including the growing number of new airline carriers entering the Australian market. We will continue to build our capacity to service this sector.

In 2016, Caltex launched its telematics system to the Australian transport industry, giving our customers the power to manage their fleets more effectively. The telematics technology captures and collates data on vehicles, and uses this data to produce meaningful information on the vehicle and driver. This data then enables businesses to manage their fleets more effectively, and ultimately reduce costs, improve the safety of their employees and vehicle assets, and increase productivity.

Acquisitions

Caltex has expanded its reach in Victoria with the purchase of Milemaker Petroleum's retail fuel operations, securing volume and operational control of 46 service stations. This high quality business, with a history of being a Caltex-branded reseller and customer for more than 32 years, will transfer to a direct Caltex operation in 2017.

Our acquisition of Gull New Zealand, announced in December and scheduled for completion in Q2 2017, enhances our retail fuel offering further through a low-risk entry into a new market. Caltex looks forward to serving the customers of Gull's 77 retail-branded sites and four marinas.

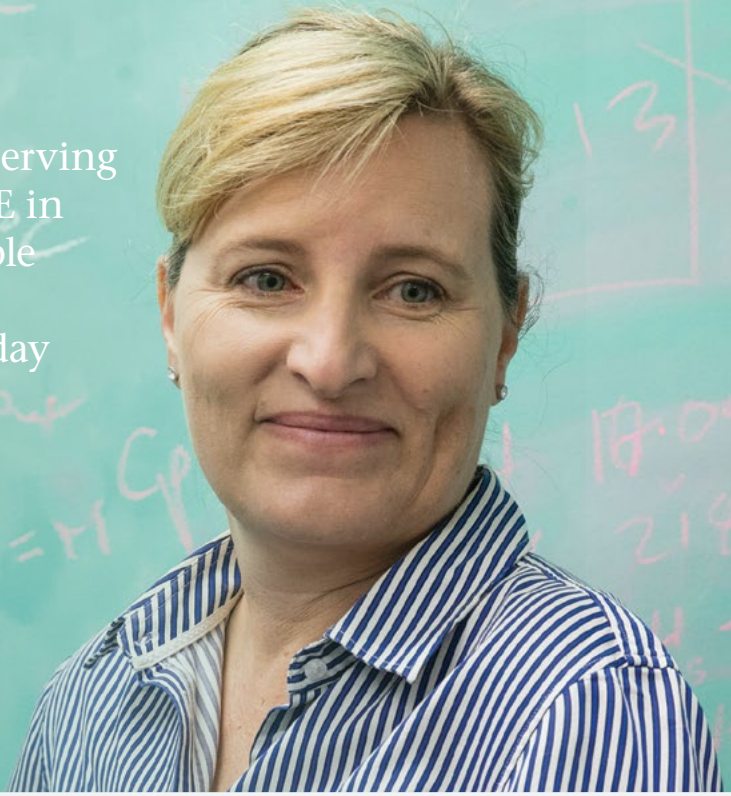
Building capability

To meet the challenges of a rapidly changing marketplace, and enhance the diversity of our customer offers, emphasis has been, and will continue to be, on securing staff with strong retail skills.

Future focus

In 2017, Caltex will continue to refine its Marketing business to ensure that it is customer-led and remains competitive in a highly contested market. We are committed to continuing to meet and exceed our customers' expectations with strong propositions, enhancing our product range and convenience offering, and delivering innovative solutions for our customers. Our focus is on building long term relationships.

From sourcing products through to serving our customers, Caltex exercises CARE in everything we do. We prioritise people and the environment, and have put Board-endorsed policies and day-to-day procedures in place so that all of our activities demonstrate this value.



People and Values

Even while our organisation is under transformation, our Values consistently guide our actions and strengthen the pursuit of our Vision.

Enhancing capabilities and competitiveness

Throughout 2016, we continued to build on our talent management practices to enhance key capabilities and build sustained competitiveness company-wide. These practices support our Vision and the delivery of our strategic commitments by building the skills that will underpin our growth, managing risk, building a deeper succession pipeline and better resourcing critical roles. Targeted efforts have also attracted key talent into retail operations, food development, supply chains, trading and shipping, and marketing.

In addition, the Caltex Academy was established in 2016. Run in partnership with a leading Australian university and an international business school, the Caltex Academy delivers a targeted and consistent approach to the development of our people at key stages in their career. Initially targeting business knowledge and commercial acumen for all non-finance leaders, and strategy, execution and leadership development for senior leaders, the Academy will expand over time to include on-demand programs for all employees.

Personal Best, Caltex's performance management system introduced in 2015, improved 2016 performance and employee/manager relationships through better feedback and coaching, career support and expectations, and goal setting. The approach has revolutionised performance management at Caltex.

Diversity and inclusion

For the second consecutive year, Caltex received an Employer of Choice for Gender Equality (EOCGE) citation from the Workplace Gender Equality Agency (WGEA). This award reflects Caltex's leadership in and commitment to diversity, as well as the best practice programs we have put in place to promote gender equality.

Since 2014, we have been focused on improving the female representation in our senior leadership, setting a target of 33% women in senior leadership roles by 31 December 2016. As a result of sustained focus, we have exceeded our desired diversity target. Female leaders now comprise 37% of our senior leaders, up from 32.4%, and 37.5% of the Caltex Leadership team, an increase from zero in 2015.

Our BabyCare package, now in its fourth year, continued to deliver practical support and flexibility for parents returning to the Caltex workforce. In 2016, 24 mothers and one father accessed parental leave, with 100% of parents returning to work in 2016.



The Caltex Indigenous Employment Strategy was launched in 2016, with a dedicated working group established. The strategy aims to make a meaningful difference to the lives of Indigenous Australians through employment and development.

The working group has raised the awareness of our Indigenous Employment Strategy throughout the year by introducing protocols for welcome and acknowledgement of country, developing a guideline for managers of Indigenous employees, supporting sponsorship events including The Ross Kelly Cup and developing an approach to school based trainees in partnership with the Endeavour School.

In 2016, seven Indigenous interns were engaged through CareerTracker, an increase from five in 2015.

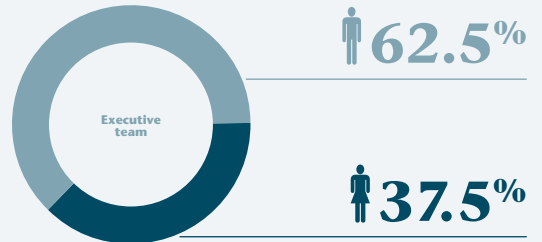
Initiatives like BabyCare, the WGEA EOCGE citation and our continued focus on diversity and inclusion support the attraction and retention of top talent at Caltex and help us build a great place to work.

Employee recognition

A highlight of the Caltex year is the annual Stellar Awards – the cornerstone of our Recognising Results program. The awards were specifically designed to celebrate and reward the Caltex values in action. 115 nominations were received for the 2016 Stellar Awards, recognising more than 633 Caltex people. Based on our values, finalists were chosen across six categories, and winners were rewarded at the annual event. During the year, we also recognised more than 740 employees and contractors for their stellar efforts and rewarded them with a variety of cash and non-cash awards.

Gender trend at Caltex

Proportion of males to females in senior leadership positions



Gender pay differential

Negligible on a like-for-like basis between men and women

1.1%



Safety and environment

Caltex strives for incident-free operations. We are vigilant about ensuring that our workforce goes home safe at the end of every day and protecting the environments in which we operate.

Personal safety

In 2016, Caltex's total treated injury frequency rate (TTIFR) was 2.35 per million hours worked. The result was equal to our performance in 2015, and we recognise this is an area on which we must improve.

There were 19 treated injuries during 2016. Of these, nine injuries resulted in lost time and 10 required medical treatment but did not result in lost time. Thirteen of the treated injuries involved employees and six involved our contractors. This is the best-ever safety performance achieved by our contractor workforce.

Of the 19 treated injuries, 11 injuries were associated with manual handling or trips, slips and falls, and four had the potential for more severe injuries. In response to the number of manual handling injuries, we have stepped up our manual handling training and implemented a "Nurse led, phone Triage" service to improve the quality of early injury advice provided to our people all around the country. We remain focused on prevention and management of low severity injuries, while also ensuring that different strategies are implemented to prevent incidents which have the potential for high severity outcomes.

In 2017, we will transition our reporting from TTIFR (total treated injury frequency rate) to TRIFR (total recorded injury frequency rate) to more effectively report injury cases which impact our employees and contractors. We will also improve our reporting on incidents and near misses with the potential to cause serious harm.

TTIFR
Per million hours worked

2.35

Injuries
Treated contractor injuries

6





The safe transportation of fuels is of utmost importance to us. We recorded three tanker incidents in 2016, which is an improvement on the five recorded in 2015. Distressingly, one of these incidents was serious involving a vehicle roll-over, diesel spill and a significant personal injury to our driver. No member of the public was involved and no harm to the environment occurred. We will continue to focus on tanker driver safety in 2017.

Pleasingly, we recorded zero significant light motor vehicle accidents again in 2016. The last recorded light motor vehicle accident was in August 2014.

Process safety

In 2016, one Tier 1 process safety event, as assessed using the criteria defined in the American Petroleum Institute (API) standard, API 754, and three Tier 2 process safety events were recorded. Process safety focuses on the safe manufacture, distribution and transportation of products, and the safe operation of all Caltex facilities. None of the recorded process safety events had any material impact on the environment.

The Lytton refinery also achieved strong process safety results, with no Tier 1 process safety events for the second year in a row. In 2016, the refinery had three reportable spills, compared with one reportable spill in 2015 and eight reportable spills in 2014.

Health and wellbeing

Investing in the health and wellbeing of our employees increases their effectiveness and engagement. Caltex supports the emotional wellness of our employees with the Caltex Employee Assistance Program. This program provides employees and their immediate families with access to information and professional, totally confidential counsellors to assist with workplace and personal issues.

In 2016, Caltex supported a record 385 employees to participate in the Global Corporate Challenge, a 16 week, team based program aimed at promoting and increasing physical activity.

Lytton refinery conducted additional health initiatives focusing on personal lifestyle, healthy eating and giving up smoking.

Caltex's Drug and Alcohol Policy stipulates that employees must not use illegal drugs or misuse legal drugs, alcohol or other substances which adversely affect the health and safety of our work environment. Consistent with others in our industry, Caltex believes that testing is a deterrent. In 2016, more than 2,750 drug and 3,000 alcohol tests on employees and contractors were conducted at safety critical sites across the business. This included an extensive testing program during the Lytton refinery maintenance shutdown and the Newport Terminal Expansion Project.



Occupational health

In 2016, we continued to strengthen occupational health and hygiene programs across the business. This included implementation of comprehensive exposure risk assessments across all workgroups in the business covering key occupational risks such as fatigue, noise and chemical exposure.

Our Lytton refinery commenced an improvement program focusing on task assessments and exposure monitoring in the workplace.

Caltex has effectively transitioned to the Globally Harmonised System (GHS) for Classification and Labelling of Chemicals over the last five years. As a result, all of Caltex's product Safety Data Sheets and product labels were GHS-compliant prior to the mandatory 1 January 2017 deadline. Caltex has been a leader in this space, producing an online webinar to support small-to-medium sized businesses in making this transition.

Contractor safety

Contractors perform extensive work across our facilities. Ensuring that this work is undertaken safely is of utmost importance to Caltex. During 2016, further improvements were made to our contractor safety management processes. Improvement areas included our qualification and assessment processes and, even more importantly, how we work with and monitor our contractors.

In 2016, six contractors sustained treated injuries. While this is the best-ever safety performance achieved by our contractor workforce, three of these injuries had the potential for more severe consequences, and we remain focused on reducing these incidents. In 2017, we will step up our efforts to reduce incidents and near misses with the potential to cause serious harm.

During the year, 203 contract safety reviews were conducted.

Risk management

The Caltex Risk Management Framework provides a comprehensive, high-level view of the risks faced by Caltex, including strategic risks, business related risk and those risks which potentially may harm our employees or the environment. Workshops are conducted regularly with senior staff to assess risks and consider changes in Caltex's risk profile. The Caltex Board reviews quarterly governance reports. At an operational level, a comprehensive suite of risk management tools are used to identify, assess and address facility and workplace risks.

Environment

Caltex is committed to protecting the environments in which we work through full compliance with regulations and standards and robust operational management. We regularly conduct internal and external monitoring to ensure our organisation's compliance.

Caltex's businesses are subject to a range of environmental laws and regulations as well as project and site-specific environmental licences and approvals issued by both federal and state governments.

Our Lytton refinery, six licensed terminals across Australia (Kurnell, Banksmeadow, Mackay, Cairns, Gladstone and Port Hedland) and our Lytton lubricants manufacturing facility are operated in accordance with an ISO-14001 compliant Environment Management System.

In 2016, companies in the Caltex Group held 21 environmental protection licences relating to the Lytton refinery, 12 terminals, three marketing facilities, three aviation refuelling facilities, our lubricants manufacturing facility and a bulk shipping facility.

Any instances of non-compliance against these licences are reported to the environmental regulator. All significant spills and environmental incidents were recorded and reported as required to government authorities.

Regular internal audits are carried out to assess the efficacy of management systems to prevent environmental incidents, as well as to control other operational risks. The Board's Occupational Health, Safety & Environmental Risk Committee and senior management review improvement actions which the audit process identifies.

Caltex is committed to achieving 100% compliance with environmental regulations and to ensuring that all breaches have been investigated thoroughly, and corrective actions are taken to prevent recurrence.

The business had no environmental infringements in 2016.

The NSW Land and Environment Court handed down its judgment on 20 February 2017 convicting Caltex of an offence in relation to a fuel spill at its Banksmeadow Terminal on 12 July 2013. Further details of this incident and the decision are provided in the Directors Report forming part of this Annual Report.

Edison Award

In April, Caltex received international recognition with a Gold award for innovation at the prestigious Edison Awards in New York. The award, in the "Energy and Sustainability – Re-use and Reclamation" category was for the Caltex Soil Remediation Facility (CSRF) at the company's site. The facility is now operational and has the capacity to divert up to 80,000 tonnes of hydrocarbon contaminated soil per annum from New South Wales landfills.

Caltex Operational Excellence Management System

Caltex's Operational Excellence Management System (OEMS) supports the systematic management of process safety, personal safety and health, environment, reliability and efficiency to achieve world-class performance. Leadership accountability and effective monitoring and governance of the processes are the key to the success of Caltex's OEMS. A whole-of-system governance process, known as the Management System Process, is applied to ensure that the system's health is assessed and improved on a continuous cycle. This ensures that Caltex operates to the highest standards across our business.

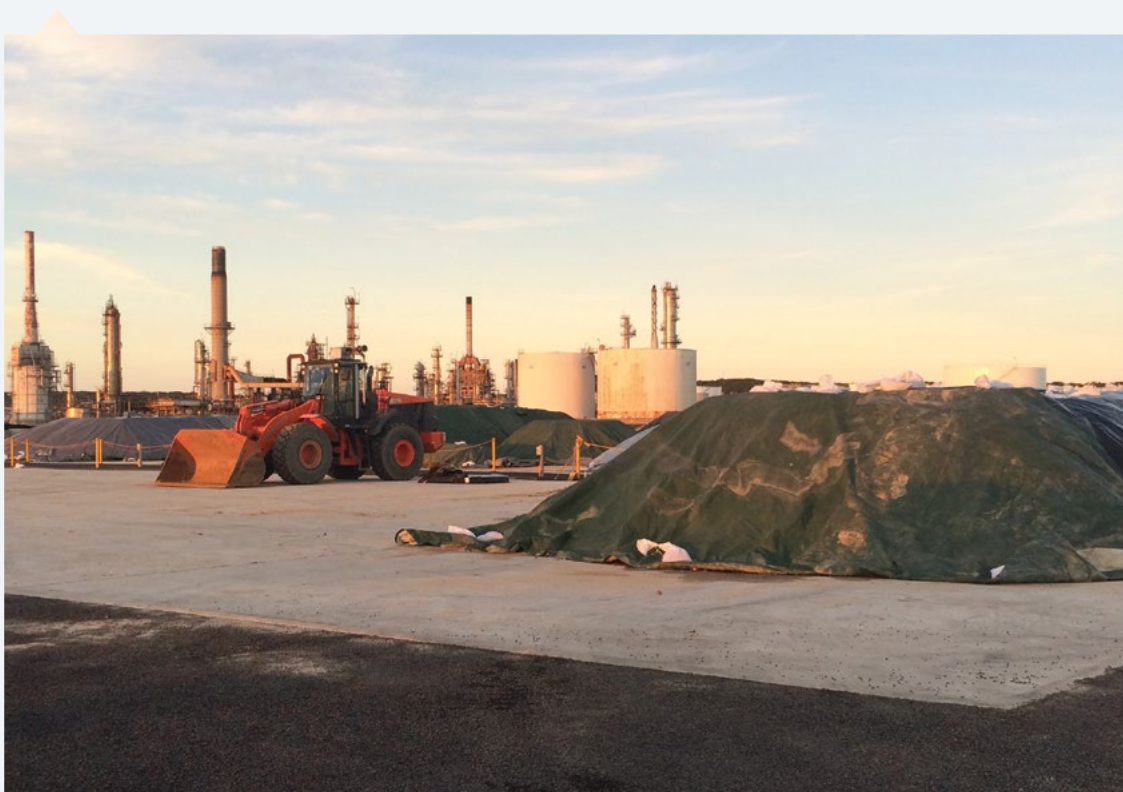
Climate change

The safeguard mechanism, implemented by the Clean Energy Regulator (CER) on 1 July 2016, encourages large businesses to not increase their emissions above historical levels.

On 23 May 2016, the CER issued Caltex Refineries (QLD) Pty Ltd with a reported-emissions baseline determination of 697,406 tonnes of CO₂. Future emissions performance will be measured against this reference point.

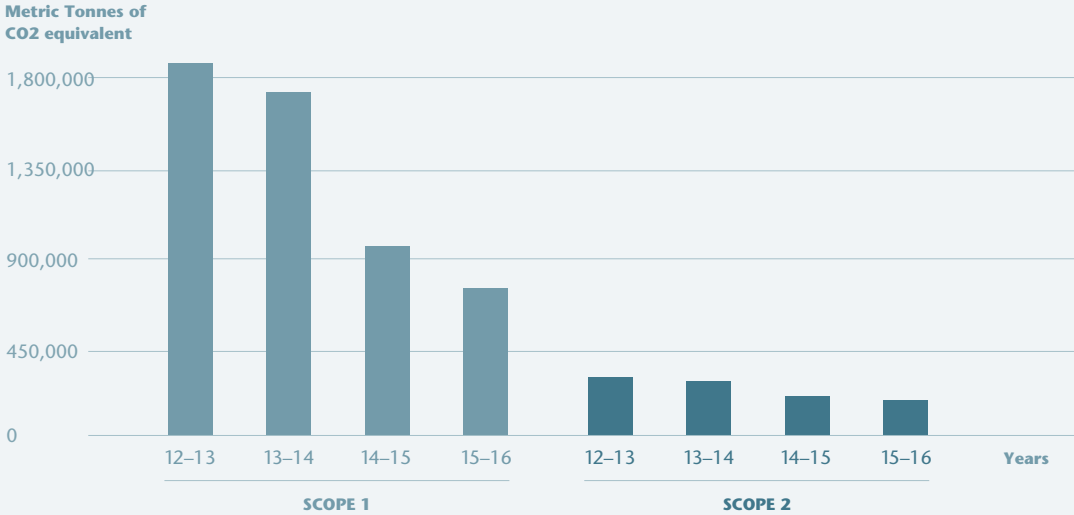
Caltex Refineries (QLD) Pty Ltd will take up the option to submit an initial calculated baseline for the Lytton refinery in 2017.

Caltex continues to support greenhouse gas reduction policies which maintain the international competitiveness of Australian industries such as petroleum refining.



Total Scope 1 and Scope 2 emissions

Historical greenhouse emissions data for Caltex Australia 2012–2013 to 2015–2016



Energy efficiency and greenhouse gas emissions

In 2016, Caltex continued to implement greenhouse gas emissions reduction activities to improve energy efficiency within our operations, including ongoing installation of lower energy usage light fittings in new service station canopy designs. These activities have reduced energy usage as well as operational and maintenance costs at current service station locations.

In 2016, Lytton refinery’s site Energy Intensity Index (EII) was 96.3, with average site flaring 47% lower than in 2015.

Reporting under the National Greenhouse and Energy Reporting Scheme continued in 2016. Scope 1 emissions are from energy sources owned and controlled by Caltex, and Scope 2 are purchased energy from electricity, heat or steam. Caltex’s Scope 1 and Scope 2 emissions reduced by approximately 20% in 2015–2016, the result of the first full year of reporting with Kurnell operations as a fuel import terminal.

Infrastructure, integrity and product responsibility

Keystones of Caltex’s ability to meet Australia’s transport fuels needs include reliable, quality supply and a strong infrastructure network.

Underground tank replacement and monitoring

Caltex reduces potential environmental risks through actively monitoring our Underground Petroleum Storage Systems (UPSS). Used at both service stations and depots, the 2016 program prioritised the replacement of underground tanks at 13 sites. Since the program’s inception in 2007, underground tanks at 134 sites have been replaced.

Product stewardship and waste management

The product stewardship team at Caltex oversees the integrity of our fuel storage and delivery systems and ensures that our customers receive high quality products, our legal and regulatory obligations are met and performance is consistently high. The team frequently trials improvements in how we manage products and waste throughout their lifecycles. In 2016, we made improvements to our waste water management at Lytton.

The Australian Packaging Covenant (APC) is a sustainable packaging initiative which aims to change the culture of business to design more sustainable packaging, increase recycling rates and reduce packaging litter. As a signatory to the APC, Caltex is pleased to report 100% compliance among our product suppliers.

Tank replacement

Number of sites where Caltex is responsible for the underground fuel system which underwent tank replacement in 2016 as part of our ongoing underground tank replacement and monitoring program

13

Australian packaging covenant

Compliance among Caltex product suppliers

100%

Caltex in the community

Our corporate sponsorship program partners with a select group of Australian organisations that share our values, providing financial support and leveraging our networks to make a real difference across Australia.



Social responsibility

Focusing on road safety

Caltex has been a proud sponsor of the Australian Road Safety Foundation and its Fatality Free Friday program since it was founded. 2016 marked the 10th year of the program, which is Australia's largest community-based road safety day to raise awareness of the human cost of careless driving by calling for extra vigilance behind the wheel.

Fatality Free Friday saw more than 300 events held across the country, with major events featuring Caltex senior staff and ambassadors, including popular drivers Craig Lowndes OAM and Renee Gracie.

In 2016, Caltex promoted the Fatality Free Friday message at various employee and public events, through Caltex sites nationwide with instore and onsite marketing assets and radio activity, as well as through social media channels.

Around 1,000 "Take the Pledge" Fatality Free Friday key rings were handed out to our employees to remind them to promise themselves, their family, friends and workmates to consciously exercise road safety and arrive home safe every day.

Caltex also sponsors the Australian Road Safety Foundation Awards, the only national road safety recognition program. The ongoing monitoring of speed, fatigue and harsh braking with on-board monitoring is a continuing requirement for both our company-owned and our contracted fleet nationally. This is a priority for Caltex, with investment also undertaken in tanker driver safety through in-house classroom sessions and expanding our in-cab driver training process.

In 2016, Caltex continued with Motorvation, an organisation which works with groups of young drivers aged 15 to 20 years to decrease risk taking and collision risk.

Fatality Free Friday

Fatality Free Friday online pledges

185,749

Make-A-Wish®

Amount raised by Caltex across Australia

\$166,188

Charity partners

Amount raised through Caltex's employee donation matching program

\$47,680

Closely aligned with Caltex's focus on safety and driver training, Motorvation is a unique method of changing young driver attitudes and behaviour. Motorvation helps young people understand their driving personality, leading them to change their behaviour to reduce overconfidence and risk taking. The program uses training modules, such as the Motorvation bus with in-built motion simulators, innovative online exercises, entertaining discussion sessions, and time driving real cars, to engage and equip young drivers.

Delivering our united best for sick children

Caltex is a diamond partner of the Make-A-Wish® Foundation. Make-A-Wish® grants the wishes of children with life-threatening medical conditions to enrich the human experience with hope, strength and joy.

In November and December, we ran a Wish Drive campaign to support Make-A-Wish® with in-store activities to help raise funds for seriously ill children. The month long campaign saw the majority of Star Mart stores get behind the charity with donation tins at the counter and supporting in-store advertising. Business development meetings across the country also supported the charity with videos, raffles, auctions and guest speakers at their events.

Investing in the future

The Clontarf Foundation aims to improve the education, discipline, life skills, self-esteem and employment prospects of young Aboriginal men.

In addition to financial support over the last six years, many Caltex employees also have hands-on involvement in the Foundation's effort through volunteering at football carnivals, participating in remote adventures to Jabiru, Kununurra, Broome and Yirrkala, supporting Academy students to visit Sydney and Perth and participating in career exhibitions.

A highlight of 2016 was the Ross Kelly Cup, a Junior Rugby League Carnival for all New South Wales Academies. At this event, 20 employees volunteered as water carriers, lines people and photographers to help make the event a great success. Staff also participated in the inaugural Fox Sport and Clontarf OzTag Challenge, with Clontarf students from across New South Wales teaming up with Caltex staff on the field.

Caltex staff worked closely with Clontarf to deliver the 2nd Annual Clontarf Cricket Carnival in Brisbane in November, a great success, with 90 students participating.

Recognising Australia's leaders of the future

In its 31st year, the Caltex Best All Rounder program is a fixture in more than 75% of high schools across Australia. Presented to thousands of final-year students around the country, the Caltex Best All Rounder program seeks to acknowledge the rounded contribution each student makes to their school and community, their leadership abilities and the good example they set for others.

Caltex representatives proudly presented these awards in schools all over Australia.

Fuelling Change

Caltex employees are passionate about Fuelling Change, our workplace giving program, which matches pre-tax dollars donated to Caltex's nominated community partners. These donations are then matched dollar for dollar by Caltex. In 2016, more than \$47,680 was raised for our community partners: the Cancer Council of Australia, the Heart Foundation, Oz GREEN, the RSPCA, the Starlight Children's Foundation, The Smith Family, the Clontarf Foundation, the Australian Road Safety Foundation and the Make A Wish® Foundation.

Supporting our communities

As a good corporate citizen, Caltex is pleased to support the communities in which we work and live. In 2016, financial and in-kind assistance was provided for a range of educational, environmental, sporting, cultural and local initiatives in the communities around our facilities.

In and around Lytton, the refinery supported local schools, Indigenous groups and kindergartens, environmental and science initiatives, mentoring programs at local high schools, local and national charities, and local sporting organisations through both monetary contributions and employee time. We have partnered with the Australian Red Cross to donate blood and plasma to help others across the country, and we have worked hard to assist local homeless organisations in their work to help those less fortunate.

We continue to focus on engaging with our communities to inform them about our operations through regular email and letter notifications and by attending various community activities and meetings to ensure open, two-way communication. The refinery encourages feedback from our community via our 24-hour, free call line and our formal process for reporting and addressing community concerns.

The Caltex Code of Conduct

A critically important document, Caltex's Code of Conduct guides how all Caltex employees and contractors must work. The Code provides our business with a framework for decision making and business behaviour which shapes and upholds our corporate values, reputation and achievements. The Code works in parallel with complementary policies and programs, including the Fraud and Corruption Control Policy, the Ethical Business Practices Policy, the Harassment and Bullying Prevention Policy and the Competition and Consumer Act Compliance Policy. A confidential hotline is available for all employees to report any perceived breaches of the Code or our workplace policies.

Caltex and public policy

During 2016, Caltex engaged with governments and stakeholders about a number of state and federal public policy issues affecting our industry. We regularly meet with government and industry stakeholders to share information about the benefits provided by the downstream petroleum industry and convenience retailing and the challenges confronting the industry.

2016 FINANCIAL REPORT FOR CALTEX AUSTRALIA LIMITED

ACN 004 201 307

Contents

Directors' Report	28
Financial Statements	75
Comparative financial information	119
Replacement cost of sales operating profit basis of accounting	120
Shareholder information	121
Statistical information	123
Directory	124

The 2016 Financial Report for Caltex Australia Limited includes:

- Directors' Report
- Lead Auditor's Independence Declaration
- Directors' Declaration
- Independent Auditor's Report to the Shareholders of Caltex Australia Limited
- Consolidated Income Statement
- Consolidated Statement of Comprehensive Income
- Consolidated Balance Sheet
- Consolidated Statement of Changes in Equity
- Consolidated Cash Flow Statement
- Notes to the Financial Statements for the year ended 31 December 2016

Caltex Group

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

- Caltex Australia Limited (Caltex), the parent company of the Caltex 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 Group

DIRECTORS' REPORT

The Board of Caltex Australia Limited presents the 2016 Directors' Report (including the Remuneration Report) and the 2016 Financial Report for Caltex Australia Limited (Caltex) and its controlled entities (Caltex Group) for the year ended 31 December 2016 to shareholders. An Independent Audit Report from KPMG, as external auditor, is also provided.

Board of directors

The Board of Caltex Australia Limited comprises Greig Gailey (Chairman), Julian Segal (Managing Director & CEO), Trevor Bourne, Steven Gregg, Bruce Morgan, Barbara Ward AM and Penny Winn.

Subsequent to year end, Ms Melinda Conrad was appointed to the Board as an Independent, Non-executive Director effective 1 March 2017. As a result, there have been changes to the committee composition.



Greig Gailey

Chairman and Independent, Non-executive Director

Date of appointment (Director):
11 December 2007

Date of appointment (Chairman):
10 December 2015

Board committees:

Nomination Committee (Chairman) and attends meetings of the Audit Committee, the Human Resources Committee and the OHS & Environmental Risk Committee in an ex-officio capacity.

Mr Gailey brings to the Board extensive Australian and international oil industry experience, and broad management expertise from industrial and capital-intensive industries.

From 1964 to 1998, he worked at British Petroleum Company (BP), where he held various positions throughout Australia and offshore, including management of refining, supply and distribution in Australia and Europe. Mr Gailey was subsequently appointed CEO of Fletcher Challenge Energy (New Zealand), a position Mr Gailey held from 1998 to 2001. In August 2001, he joined Pasmenco Limited as CEO. Pasmenco relisted on the ASX as Zinifex Limited in April 2004, and Mr Gailey became Managing Director & CEO of Zinifex Limited from that date until standing down in June 2007.

Mr Gailey is Chairman of ConnectEast and the Australian Advisory Board of Canada Steamships, and Deputy Chairman of the Victorian Opera. Mr Gailey was President of the Business Council of Australia from 2007 to 2009.

Mr Gailey holds a Bachelor of Economics from the University of Queensland.



Julian Segal

Managing Director & CEO

Date of appointment:
1 July 2009

Mr Segal joined Caltex from Incitec Pivot Limited, a leading global chemicals company, where he served as the Managing Director & CEO from June 2005 to May 2009. Prior to Incitec Pivot, Mr Segal spent six years at Orica in a number of senior management positions, including Manager of Strategic Market Planning, General Manager – Australia/Asia Mining Services, and Senior Vice President – Marketing for Orica Mining Services.

Mr Segal is a director of the Australian Institute of Petroleum Limited (appointed 1 July 2009).

Mr Segal holds a Bachelor of Science (Chemical Engineering) from the Israel Institute of Technology and a Master of Business Administration from the Macquarie Graduate School of Management.



Trevor Bourne

Independent, Non-executive Director

Date of appointment:
2 March 2006

Board committees:

OHS & Environmental Risk Committee (Chairman), Human Resources Committee and Nomination Committee

Mr Bourne brings to the Board broad management experience in industrial and capital-intensive industries, and a background in engineering and supply chain. From 1999 to 2003, he served as CEO of Tenix Investments. Prior to Tenix, Mr Bourne spent 15 years at Brambles Industries, including six years as Managing Director of Brambles Australasia. He has also previously worked for Incitec Pivot and BHP.

Mr Bourne is Chairman of Senex Energy Limited (appointed 10 March 2015) and a director of Sydney Water Corporation (appointed February 2014). He was previously a director of Origin Energy Limited (from February 2000 to November 2012).

Mr Bourne holds a Bachelor of Science (Mechanical Engineering) from the University of New South Wales, and a Master of Business Administration from the University of Newcastle, and is a Fellow of the Australian Institute of Company Directors.



Steven Gregg

Independent, Non-executive Director

Date of appointment:
9 October 2015

Board committees:

Audit Committee, OHS & Environmental Risk Committee and Nomination Committee

Mr Gregg has over 25 years of investment banking experience in Australia and internationally and brings to the Board extensive executive, corporate finance, strategy, and mergers and acquisitions experience.

Mr Gregg has held various roles with ABN AMRO, most recently as Global Head of Investment Banking and the CEO of the United Kingdom. Following this, Steven was a Partner in the Strategy and Financial Institutions practice at McKinsey & Company in Sydney and internationally.

Mr Gregg is a director of Challenger Limited, Challenger Life Company Limited, Lorna Hodgkinson Foundation, Tabcorp Holdings Limited and William Inglis & Son Limited. He is the Chairman of The Lorna Hodgkinson Sunshine Homes, a trustee of the Australian Museum and a member of the Grant Samuel non-executive advisory board. He has previously served as Chairman of Goodman Fielder Limited and Austock Group Limited.

Mr Gregg holds a Bachelor of Commerce from the University of New South Wales.



Bruce Morgan

Independent, Non-executive Director

Date of appointment:

29 June 2013

Board committees:

Audit Committee (Chairman),
Nomination Committee and OHS & Environmental
Risk Committee

Mr Morgan brings to the Board expertise in financial management, business advisory services, risk and general management. He is the Chairman of Sydney Water Corporation and Redkite, and a director of Origin Energy Limited (appointed November 2012), the University of New South Wales Foundation and the European Australian Business Council. Prior to this, Mr Morgan was a partner with professional services firm PricewaterhouseCoopers (PwC) for over 25 years, where he practised as an audit partner with a focus on the energy and mining sectors. Mr Morgan was previously Chairman of the PwC Board and a member of the PwC International Board. Prior to that, he was managing partner of PwC's Sydney and Brisbane offices.

He is a Fellow of the Australian Institute of Company Directors and Chartered Accountants Australia and New Zealand, and holds a Bachelor of Commerce (Accounting and Finance) from the University of New South Wales.



Barbara Ward AM

Independent, Non-executive Director

Date of appointment:

1 April 2015

Board committees:

Human Resources Committee (Chairman),
Audit Committee and Nomination Committee

Ms Ward brings to the Caltex Board strategic and financial expertise in senior management roles, including as Chief Executive Officer of Ansett Worldwide Aviation Services and General Manager Finance at TNT Limited. Ms Ward also served as a Senior Ministerial Adviser to the Honourable Paul Keating.

Ms Ward is a director of various Brookfield companies, Qantas Airways Limited and the Sydney Children's Hospital Foundation. An experienced director, she has previously served on the boards of various public companies including the Commonwealth Bank of Australia, Lion Nathan Limited and Multiplex Limited, and public sector entities, including as Chairman of Country Energy.

Ms Ward is a member of the Australian Institute of Company Directors and holds a Bachelor of Economics and a Master of Political Economy from the University of Queensland.



Penny Winn

Independent, Non-executive Director

Date of appointment:

1 November 2015

Board committees:

Human Resources Committee and
Nomination Committee

Ms Winn brings to the Board Australian and international strategic, major transformation and business integration, technology and retail marketing experience.

Prior to her appointment to the Caltex Board, Ms Winn was Director Group Retail Services with Woolworths Limited, and she has over 30 years of experience in retail with senior management roles in Australia and internationally.

Ms Winn is Chairman and Non-Executive Director of Port Waratah Coal Services Ltd, a director of CSR Limited and a member of the University of Technology, Sydney (UTS) Business School's Advisory Board and the Australian Institute of Company Directors. She has previously served as a director of a Woolworths business, Greengrocer.com, a Myer business, Sass & Bide, and Quantum Group, and was a member of the Australian Payments Clearing Association's CECS Advisory Council.

Ms Winn holds a Bachelor of Commerce from the Australian National University and a Master of Business Administration from the University of Technology, Sydney.

Leadership team



Andrew Brewer

Executive General Manager, Supply Chain Operations

Andrew was appointed to this position in April 2014. He is an experienced senior executive in the energy and resources sector. Commencing his career as a professional electrical engineer, Andrew has held leadership roles in engineering, project management, maintenance, reliability, operations, business strategy, planning and general management. This has spanned the minerals processing, resources and energy industries across Australia and in Canada, where he was Downstream Country Chair and General Manager of the Burnaby oil refinery for Chevron Canada. Andrew also previously managed the Kurnell refinery.



Viv Da Ros

Chief Information Officer

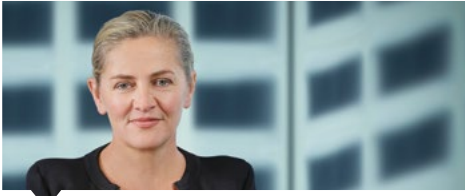
Viv was appointed to this position in December 2016 and is responsible for leading the technology transformation program at Caltex. He is a commercially-driven senior technology executive focused on customer-centric, innovative solutions which deliver operational efficiencies and engagement. His nearly 30 years of experience include senior leadership positions in Australia, Asia and Europe, predominantly in the retail sector with the ASW Group, Tesco, KPMG and Dairy Farm International. Viv holds a Master of Business Administration from Manchester Business School and a Master of Project Management from The University of Technology, Sydney.



Simon Hepworth

Chief Financial Officer

Simon was appointed to this position in 1999. He joined Ampol in 1996, after 10 years with Arthur Andersen. He is responsible for finance, accounting and decision support, treasury, taxation, investor relations, information technology and procurement. Simon holds a Bachelor of Arts and a Master of Applied Finance. He is a member of the Institute of Chartered Accountants in England and Wales. He is also a member of the Australian Institute of Company Directors.



Lyndall Stoyles

Executive General Manager, Legal and Corporate Affairs

Lyndall was appointed to this position in October 2016 when she joined Caltex. Lyndall manages Caltex's legal, secretariat, internal audit, compliance and corporate affairs teams. As General Counsel, she is responsible for providing legal advice to Caltex's Board, CEO and broader leadership team. She is also a Company Secretary to the Board. Prior to joining Caltex, Lyndall was Group General Counsel and Company Secretary for former logistics business Asciano and spent more than a decade with Clayton Utz advising on competition, commercial and corporate law issues in a broad range of industries. Lyndall holds a Diploma of Law/Masters of Law from the University of Sydney. Lyndall is also a member of the Australian Institute of Company Directors.



Louise Warner

Executive General Manager, Supply

Louise was appointed to this position in October 2016, and is responsible for ensuring competitive reliable fuel supply for our customers. Louise joined Caltex in 1999, and her career has spanned a range of roles within the company, starting with her role as a process engineer at the Kurnell refinery. She gained commercial and trading experience through her secondment to Chevron UK. Recently, she was responsible for successfully establishing Caltex Australia's first overseas operations, Ampol Singapore, which includes the company's global trading and shipping function. Louise holds a Bachelor of Engineering (Chemical) from the University of New South Wales.



Joanne Taylor

Executive General Manager, Human Resources

Joanne was appointed to this position in February 2016 when she joined Caltex. She is an accomplished Human Resources leader and has had an 11 year career with McDonald's Australia. Her last role at McDonald's was Senior Vice President Human Resources, Corporate Communications and Supply Chain. Prior to this, her roles included leading the franchise operations across New South Wales and the Australian Capital Territory for approximately 290 retail stores. Joanne holds a Bachelor of Commerce from the University of New South Wales.

Operating and financial review

The purpose of the operating and financial review (OFR) is to enhance the periodic financial reporting and provide shareholders with additional information regarding the Group's operations, financial position, business strategies and prospects. The review complements the Financial Report on pages 75 to 118.

The OFR may contain forward-looking statements. These statements are based solely on the information available at the time of this report, and there can be no certainty of outcome in relation to the matters to which the statements relate.

Company overview

Caltex, including predecessor companies, has operated in Australia for more than 100 years, focusing on providing ongoing, 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 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 financial 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.

Chevron previously held a 50% shareholding in Caltex, which was sold in March 2015.

Group strategy

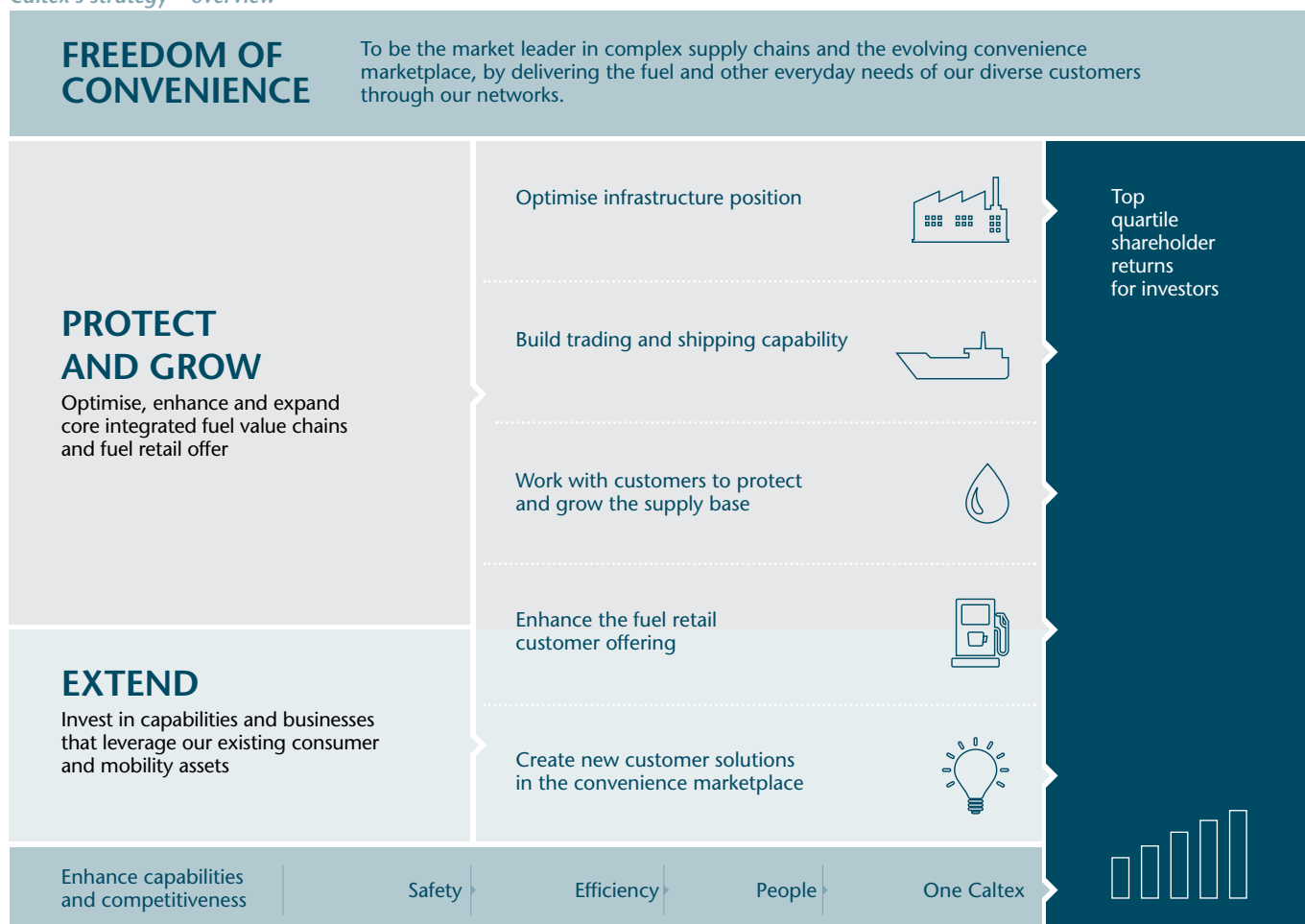
Over the past five years, Caltex has transformed key elements of its business to place the company on a stronger footing to navigate the evolving marketplace and successfully deliver top quartile total shareholder returns. Critical components of this transformation include:

- the closure of the Kurnell refinery and its conversion to a major import terminal
- the establishment of the Ampol Singapore business, to directly manage sourcing and associated shipping of petroleum products to Australia
- implementation of "Tabula Rasa", a company-wide cost and efficiency program
- a major maintenance program at Lytton refinery, to underpin cost and performance improvements
- investment in further building out our retail network.

To date, our strategy has delivered strong results for the business and continues to position us to retain leadership in transport fuels in Australia, with a stronger retail convenience platform.

Our 2016 review of strategy builds on Caltex's core competitive advantage provided by the strength of our integrated fuel value chain across supply, infrastructure, network and the retail and business-to-business channels. It also looks to continue to adapt the business to drive growth in a changing industry and consumer environment.

The "Protect and Grow" aspect of the strategy outlined below is focused on capturing the many opportunities that exist to continue to enhance and expand the core fuel business. In the "Extend" aspect of the strategy, Caltex will build on its current assets, capabilities and customer base to develop the business in both existing and new adjacent markets.



Assessing each element in turn

Optimise infrastructure position	Maintain a relentless focus on a cost-competitive supply chain through excellence in infrastructure and refinery management and being proactive in adapting to changing market dynamics and pursuing new infrastructure opportunities.
Build trading and shipping capability	Continue to develop and expand the capabilities and operations of Ampol to capture opportunities for value creation in sourcing and delivering product.
Protect and grow supply base	Execute organic and inorganic strategies to increase marketing volumes in target regions to support long term infrastructure investment and competitive supply.
Enhance the fuel retail customer offering	Continue to develop elements of the fuel site retail offer which will attract more customers to Caltex sites and increase their spend while there.
Create new customer solutions in the convenience marketplace	Leverage Caltex's existing strong consumer facing business, including our network of over 800 retail sites and over three million weekly customer visits, to build a new and differentiated convenience offer for customers across multiple formats, products, locations and channels.

All of these elements of strategy are underpinned by a strong focus on continually enhancing Caltex's capabilities and competitiveness through:

- Safety – systematically managing both personal and process safety across the business to drive towards zero injuries and environmental harm.
- Efficiency – continuing to drive down costs and utilise assets more efficiently to ensure an industry-leading cost structure.
- People – continuing to invest in our people to strengthen organisational capability and agility.
- One Caltex – embedding a culture of delivering the best outcome for Caltex, through active collaboration across the business and a focus on optimal organisational, rather than business unit, outcomes.

Operating and financial review continued

Group strategy continued

Through the strategies outlined above, Caltex is committed to growing earnings by capturing opportunities across all elements of its existing business, as well as through extending into adjacent areas.

In pursuing this clear growth agenda in both the "Protect and Grow" and "Extend" aspects of the business strategy, Caltex will continue to assess potential acquisitions. These will only be pursued, however, where the strategic rationale is compelling and they deliver appropriate risk adjusted returns for shareholders.

Caltex's measure of success continues to be to safely and reliably deliver top quartile total shareholder returns.

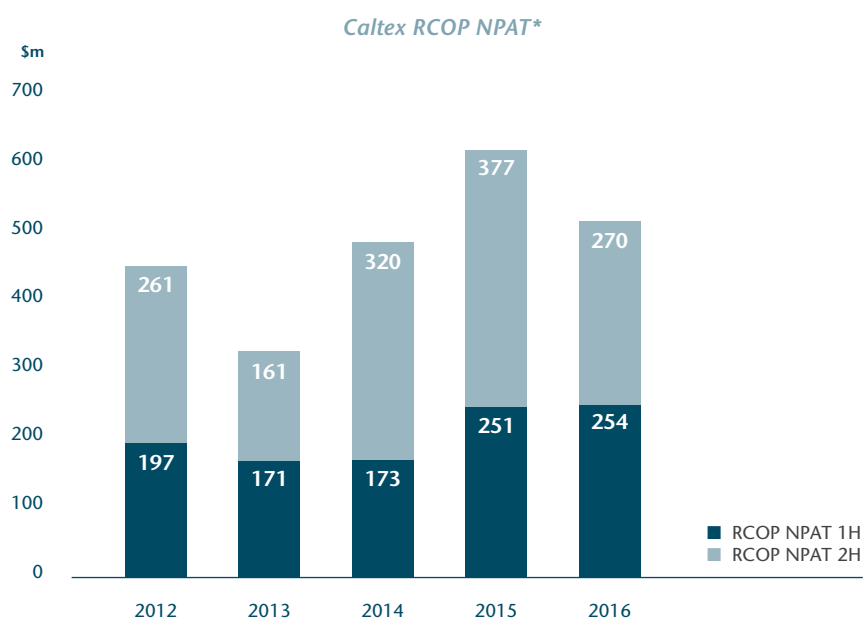
Caltex Group results 31 December 2016

On an historical cost profit basis, Caltex recorded an after-tax profit of \$610 million for the 2016 full year. This compares with the 2015 full year profit of \$522 million, which included a gain relating to significant items of \$29 million after tax. The 2016 result includes a product and crude oil inventory gain of \$86 million after tax. The 2016 total inventory gain of \$86 million compares with an inventory loss of \$135 million after tax in 2015.

A reconciliation of the underlying result to the statutory result is set out in the following table:

	2016 \$m (after tax)	2015 \$m (after tax)
Reconciliation of the underlying result to the statutory result		
Net profit attributable to equity holders of the parent entity	610	522
Deduct/add: Significant items (gain)/loss	–	(29)
Deduct/add: Inventory (gain)/loss	(86)	135
RCOP NPAT (excluding significant items)	524	628

On an RCOP¹ basis, Caltex recorded an after-tax profit for the 2016 full year of \$524 million. This compares with an RCOP after-tax profit of \$628 million for the 2015 full year, excluding significant items.



* RCOP Net profit after tax, excluding significant items.

The overall result reflects a strong Supply and Marketing profit, and excellent operational performance by the Lytton refinery. The strong operational performance at Lytton continued to deliver outstanding production results, despite refiner margins being down on 2015 (but in line with the 10 year average).

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 (gains)/losses, as management believes this presents a clearer picture of the company's underlying business performance, and is consistent with the basis of reporting commonly used within the global refineries industry. This is unaudited. RCOP excludes the unintended impact of the fall or rise in oil and product prices (a key external factor). 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.

Dividend

The Board has declared a final dividend of 52 cents per share (fully franked) for the second half of 2016. Combined with the interim dividend of 50 cents per share for the first half, paid in September 2016, this equates to a total dividend of 102 cents per share for 2016, fully franked. This compares with a total dividend payout of 117 cents per share (fully franked) for 2015. This is in line with a target dividend payout ratio of 40-60% of RCOP NPAT.

Income statement

For the year ended 31 December 2016	2016 \$m	2015 \$m
1. Total revenue ¹	17,935	19,918
2. Total expenses	(17,122)	(18,941)
Replacement cost earnings before interest and tax	813	977
Finance income	7	5
Finance expenses	(80)	(82)
3. Net finance costs	(73)	(77)
Income tax expense ²	(216)	(272)
Replacement cost of sales operating profit (RCOP)	524	628
4. Significant items gain/(loss) after tax	–	29
5. Inventory gain/(loss) after tax	86	(135)
Historical cost net profit after tax	610	522
Interim dividend per share	50c	47c
Final dividend per share	52c	70c
Basic earnings per share		
• Replacement cost (excluding significant items)	199c	233c
• Historical cost (including significant items)	232c	193c

1. Includes other income of \$2 million (2015: \$24 million) less the significant item gain of nil (2015: \$32 million gain).

2. Excludes tax payable on inventory gain of \$37 million (2015: \$58 million tax benefit) and excludes tax cost on significant items of nil million (2015: \$3 million tax cost).

DISCUSSION AND ANALYSIS – INCOME STATEMENT

<p>1. Total revenue ▼ 10%</p>	<p>Total revenue decreased primarily due to the impact of the significant fall in world petroleum product prices, which reflects the fall in world crude oil prices, and the impact of lower refiner margins (a component of refined product prices). Product prices are denominated in US dollars. This decline was partly offset by the fall in the Australian dollar.</p> <p>The weighted average Brent crude oil price in 2016 was US\$44/bbl, compared to US\$51/bbl in 2015.</p>
<p>2. Total expenses – replacement cost basis ▼ 10%</p>	<p>Total expenses also decreased primarily as a result of lower replacement cost of goods sold due to the lower price of refined product.</p>

Operating and financial review continued

DISCUSSION AND ANALYSIS – INCOME STATEMENT CONTINUED

RCOP EBIT BREAKDOWN¹

<p>Caltex Refiner Margin (CRM) \$543m</p>	<p>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.</p> <p>US dollar CRM was lower in 2016 at US\$10.50/bbl, compared with US\$16.46/bbl for 2015. In AUD terms, the CRM was 8.88 Australian cents per litre in 2016, compared with 13.85 Australian cents per litre in 2015.</p> <p>Total refinery production in 2016 of all products was 6.4 billion litres, compared with 5.6 billion litres in 2015, reflecting the closure for turnaround and inspection (T&I) maintenance work that occurred in May and June 2015.</p>
<p>Transport fuels margin \$1,066m</p>	<p>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.</p> <p>Premium fuel sales were 4.4 billion litres in 2016, compared with 4.3 billion litres in 2015. Caltex's overall transport fuel sales volumes are in line with the prior year. Total retail diesel margins have continued to grow strongly, driven by increased sales of the premium diesel product, Vortex Diesel, and as a result of growth in the diesel vehicle market.</p> <p>The steady transport fuel sales volumes reflected a decrease in base grade fuel sales and jet sales. However, premium petrol sales volumes continue to grow, with Vortex Premium Unleaded petrol sales volumes increasing 2%. The ongoing decline in regular unleaded petrol sales is due to the continued increase in sales of vehicles requiring diesel or premium grades of petrol.</p> <p>Jet volumes increased 5%, driven by increased domestic capacity and a high win rate of new business. This follows the shedding of unprofitable volume in 2015. Diesel fuel volumes are in line with prior period; the decline in base grade volumes has been offset by 16% volume growth on Vortex Premium diesel sales.</p>
<p>Lubricants and specialties margin \$70m</p>	<p>Lubricants and specialties products include finished lubricants, base oils, liquefied petroleum gas, petrochemicals, wax and marine fuels.</p>
<p>Non-fuel income \$177m</p>	<p>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 is \$6 million higher than prior year due to increased merchant service fees.</p>
<p>Operating expenses (\$1,013m)</p>	<p>Operating expenses in this category include Supply Chain, Marketing and Corporate operating expenditure.</p> <p>There has been an increase of \$35 million from 2015 due to:</p> <ul style="list-style-type: none"> • higher depreciation and amortisation of \$17 million • increased major project costs (including M&A and franchisee review), and • additional advertising with sponsorship of V8 Supercars and Socceroos, and • partly offset by good cost control and a low inflationary environment.
<p>Other (\$30m)</p>	<p>Other includes a number of miscellaneous items that typically include: foreign exchange impacts, other refining gross margin impacts, gain/loss on disposal of assets and subsidiary earnings. There was a net foreign exchange loss of \$4 million (after hedging) in 2016.</p>
<p>RCOP EBIT excluding significant items \$813m</p>	

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.

DISCUSSION AND ANALYSIS – INCOME STATEMENT CONTINUED

<p>3. Net finance costs ▼ 5%</p>	<p>Net finance costs decreased by \$4 million compared with 2015, reflecting the lower cost of funding as a result of the composition of borrowings and lower average net debt for the period (despite the \$270 million share buy-back undertaken in April 2016).</p>
<p>4. Significant items after tax ▼ \$29m</p>	<p>During 2016, the Group has recognised no significant items. During 2015, the Group recognised a significant item gain of \$32 million (\$29 million after tax) on the sale of a surplus property in Western Australia.</p>
<p>5. Inventory gains after tax ▲ \$221m</p>	<p>Inventory gains in 2016 were driven by the significant increase in crude oil prices in 2016, with crude oil rising from US\$38/bbl in December 2015 to US\$54/bbl in December 2016. This increase resulted in a net inventory gain of \$86 million after tax, compared to inventory losses of \$102 million after tax in 2015.</p> <p>Whilst the average crude oil price was lower during 2016 compared with 2015, the actual crude price rose during the period between 31 December 2015 and 31 December 2016.</p> <p>The inventory gain of \$122 million (\$86 million after tax) is driven by the increase in the crude price, partially offset by an increase in the Australian dollar, from the end of December 2015 to December 2016. This resulted in an increase in the cost of crude on an Australian dollar basis during the period.</p>

Business unit performance

Supply and Marketing

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

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

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

Total petrol volumes declined 2% to 5.9 BL. This is despite the increased penetration of premium Vortex products that has been underpinned by targeted investment in growth, including new retail service stations and increased marketing spend.

Total diesel volumes are flat year on year at 7.2 BL. Double-digit volume growth in premium Vortex diesel product (sales up 12% to 2.2 BL) across Caltex's retail segment has largely offset lower commercial base grade diesel volumes (down 6%). This is a function of completed LNG related infrastructure projects and subdued transport, industrial and SME sectors. Pleasingly, Caltex is increasing sales volumes (albeit still small) of Caltex's differentiated diesel to mining and transport customers. Jet volumes grew by 4.8% to 2.6 BL.

Lytton Refinery

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

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

Corporate

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

Balance sheet remains strong

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

Operating and financial review continued

Business unit performance continued

Capital Management – Off-Market Buy-Back

Caltex has previously indicated that it was focusing on the efficient allocation of capital. The successful closure of the Kurnell refinery in 2014 and the company's continued evolution into an integrated transport fuels value chain business, enhanced by the company's ongoing cost and efficiency program, has resulted in significantly improved cash flows. 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 company's overarching objective is to deliver top quartile Total Shareholder Returns. The company's capital management framework is therefore designed to provide a balanced approach to the allocation of capital between maintenance to ensure a safe and sustainable business, investing for growth and returning capital to shareholders. The size of the buy-back enabled the return of surplus capital relative to the company's target BBB+ credit rating, and maintenance of financial flexibility to take advantage of growth opportunities as they arise. Management continues to actively pursue options to grow the business based on the company's core capabilities including management of complex supply chains, infrastructure services and leveraging its convenience and mobility base. The company's priority remains growth, but over time, both investment in growth opportunities and capital management are expected to play a role in delivering top quartile shareholder returns.

Balance sheet

As at 31 December 2016	2016 \$m	2015 \$m	Change \$m
1. Working capital	396	524	(128)
2. Property, plant and equipment	2,691	2,603	88
3. Intangibles	195	183	12
4. Net debt	(454)	(432)	(22)
5. Other non-current assets and liabilities	(18)	(90)	72
Total equity	2,810	2,788	22

Merger and Acquisition Activity

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 final consideration will be adjusted for working capital and other ancillary items at completion.

The acquisition will secure Caltex's existing network in Victoria and provide a stronger platform from which to provide new and improved customer offerings in the convenience marketplace.

Completion of the transaction is scheduled for the first half of 2017, allowing time for regulatory review and execution of various operational agreements.

Gull New Zealand

On 22 December 2016, Caltex entered into an agreement to purchase Gull New Zealand for NZ\$340 million (approximately A\$325 million). The final consideration will be adjusted for working capital. The transaction will see Caltex acquire Gull's Mount Maunganui import fuel terminal and retail operating assets.

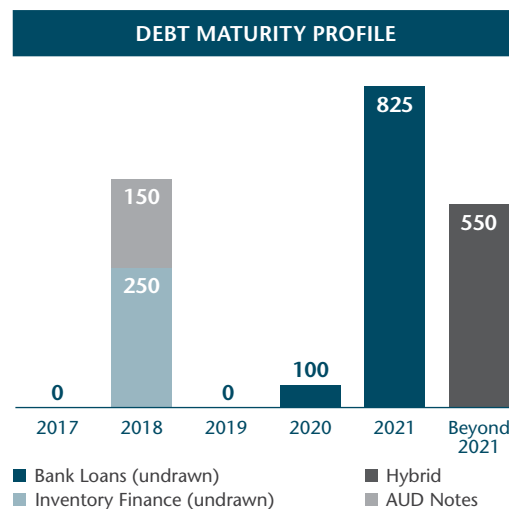
The acquisition delivers on Caltex's strategic plan as it optimises Caltex's infrastructure position, builds trading and shipping capability, grows the supply base and enhances Caltex's retail fuel offering through low risk entry into a new market.

Subject to New Zealand regulatory approval (New Zealand Overseas Investment Office), completion of the transaction is scheduled for the second quarter of 2017.

DISCUSSION AND ANALYSIS – BALANCE SHEET

<p>1. Working capital ▼ \$128m</p>	<p>The decrease in working capital is primarily due to timing of tax payments, with an increase to current tax liabilities driven by current year profits, and higher payables driven by rises in crude oil. The decrease is partially offset by:</p> <ul style="list-style-type: none"> • higher receivables also due to the rises in crude oil and product prices in 2016, net of the impact of the lower Australian dollar, and • a portion of non-current environmental liabilities becoming current as remediation works at Kurnell increase.
<p>2. Property, plant and equipment ▲ \$88m</p>	<p>The increase in property, plant and equipment is due to capital expenditure and accruals, including major cyclical maintenance, of \$323 million and capitalised interest of \$2 million. This is partly offset by depreciation of \$192 million and disposals of \$47 million.</p>
<p>3. Intangibles ▲ \$12m</p>	<p>The increase in intangibles is primarily due to investments in software of \$30 million, partially offset by depreciation of \$18 million and disposals of \$5 million.</p>
<p>4. Net debt ▲ \$22m</p>	<p>Net debt increased by \$22 million to \$454 million at 31 December 2016. Caltex's gearing at 31 December 2016 (net debt to net debt plus equity) was 13.9%, increasing from 13.4% at 31 December 2015. On a lease-adjusted basis, gearing at 31 December 2016 was 28.4%, compared with 27.8% at 31 December 2015.</p>

CURRENT SOURCES OF FUNDING		
	A\$m	Source
A\$ notes	150	Australian and Asian institutional
Bank facilities	850	Australian and global banks
Inventory finance facility	250	Australian bank
Hybrid	550	Australian and Asian retail and institutional investors
	\$1,800	



<p>5. Other non-current assets and liabilities ▼ \$72m</p>	<p>Other net non-current liabilities have decreased primarily due to a portion of non-current environmental liabilities becoming current as remediation works at Kurnell increase. Deferred tax assets have also been partially utilised, resulting from timing differences between the accounting and tax basis of inventory, provisions, and property, plant and equipment.</p>
---	---

Operating and financial review continued

Cash flows

For the year ended 31 December 2016	2016 \$m	2015 \$m	Change \$m
1. Net operating cash inflows	928	885	43
2. Net investing cash outflows	(357)	(411)	54
3. Net financing cash outflows	(590)	(263)	(327)
Net increase/(decrease) in cash held	(19)	211	(230)

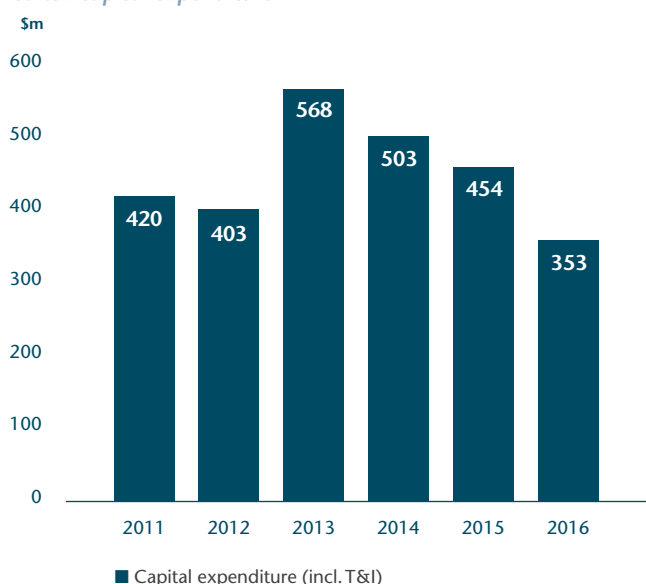
DISCUSSION AND ANALYSIS – CASH FLOWS

1. Net operating cash inflows ▲ \$43m	While receipts from customers are lower in 2016, this was largely offset by lower payments to employees, suppliers and governments as both are driven by current product prices.
2. Net investing cash outflows ▼ \$54m	The decrease in net investing cash outflows is due to lower T&I payments following the major T&I event at Lytton in 2015 and lower payments for property, plant and equipment.
3. Net financing cash outflows ▲ \$327m	The net financing outflow in 2016 arose from dividend payments and the execution of the \$270 million share buy-back. Net proceeds/repayment of borrowing was nil, as there were no drawdowns or repayment of fixed borrowings in the period. The net financing outflow in 2015 arose from dividend payments. Net proceeds/repayment of borrowing was nil, as there were also no drawdowns or repayment of fixed borrowings in 2015.

Capital expenditure

Capital expenditure in 2016 totalled \$353 million. Excluding major T&I spending at Lytton refinery of \$33 million, capital expenditure was \$320 million. Excluding the proposed acquisition of Gull New Zealand which is subject to New Zealand Overseas Investment Office approval, capital expenditure in 2017 is expected to range between \$395 million and \$895 million.

Caltex capital expenditure



Business outlook and likely developments

This section includes information on Caltex's prospects for future financial years. As Caltex's financial prospects are dependent to a significant extent on external factors, such as the exchange rate and refiner margins, it is difficult to provide an outlook on Caltex's financial prospects. Therefore, this section includes a general discussion of the key business drivers. To the extent that there are statements which contain forward-looking elements, they are based on Caltex's current expectations, estimates and projections. Such statements are not statements of fact, and there can be no certainty of outcome in relation to the matters to which the statements relate. Accordingly, Caltex does not make any representation, assurance or guarantee as to the accuracy or likelihood of fulfilment of any forward-looking statement.

Overview

Caltex's focus is to maintain a leading position within the transport fuels industry and convenience retailing regionally. In support of this, priorities include the optimisation of the entire value chain from product sourcing to customer, underpinned by the company's product sourcing requirements via Ampol Singapore.

The Lytton refinery will continue to focus on capturing further operational and margin improvements.

Supply and Marketing

The industry landscape remains highly competitive. This is expected to continue, with new industry players competing in the market.

Caltex remains committed to building a focused strategy for growth by targeting high growth products, geographies and channels, including continuing to build and leverage its supply chain across its national network.

This will involve the continuation of its retail network expansion and refurbishment and the increased emphasis on inorganic growth, leveraging core capabilities of convenience retailing, supply chain management and infrastructure services.

The company's infrastructure enables Caltex to supply product to customers safely and reliably. It is this sustained investment in infrastructure that has enabled Caltex to attain the outright leadership in transport fuels across Australia.

Caltex remains committed to ongoing investment to broaden and enhance its supply chain.

The closure of the Kurnell refinery (in the fourth quarter of 2014) has seen the amount of crude oil imported for Caltex refining reduce, while imports of refined fuel products are increasing. In adapting and evolving to the changing market conditions, Caltex established an office in Singapore to grow and strengthen its product sourcing supply via Ampol Singapore (a wholly owned subsidiary of Caltex Australia). Ampol Singapore's primary role is to manage the sourcing of transport fuels product supplies and related shipping to Australia.

Lytton

The Lytton refinery is now Caltex's sole refinery. Caltex will continue to maintain an ongoing focus on capturing further operational and margin improvements at Lytton.

Business risks and management

The key business risks that could have an impact on Caltex achieving its financial goals and business strategy are discussed below. In addition to the risk management procedures discussed below, Caltex has adopted a risk management framework to proactively and systematically identify, assess and address events that could potentially impact its business objectives. This framework integrates the consideration of risk into the company's activities so that:

- risks in relation to the effective delivery of the company's business strategy are identified
- control measures are evaluated, and
- where potential improvements in controls are identified, improvement plans are scheduled and implemented.

These risks are assessed on a regular basis by management, and material risks are regularly reported to the Board and its committees. These reports include the status and effectiveness of control measures relating to each material risk. The Board, the Audit Committee, the OHS & Environmental Risk Committee and the Human Resources Committee each receive reports on material risks relevant to their responsibilities. The Board and the OHS & Environmental Risk Committee also receive quarterly risk updates throughout the year.

Caltex Refiner Margin

The Caltex Refiner Margin (CRM) is a key metric which drives the profitability of Caltex's refinery. The 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. A low CRM will adversely impact Caltex's refining earnings and cash flows.

The CRM can be negatively impacted by a range of factors:

- a decline in global and regional economic activity, leading to a surplus in refining capacity
- increased regional refinery capacity ahead of demand growth
- a decrease in product freight rates relative to crude freight rates
- an increase in the premium paid for light/sweet (e.g. Brent) crudes used by Caltex compared with the heavy/sour crudes used by major refineries in the region (the light/heavy spread), and
- the strengthening of the AUD/USD exchange rate (as the CRM components are US\$ based, strengthening of the AUD/USD exchange rate reduces the A\$ revenue earned by Caltex).

Commodity price risk

Caltex is exposed to the risk of price movements in both crude and finished product through its purchase and sales transactions, as these impact Caltex's earnings and cash flows. Through its Group Treasury Policy, Caltex seeks to manage this exposure by utilising both crude and finished product swap contracts. Caltex's policy has been not to hedge refiner margins.

Foreign exchange risk

Caltex is exposed to the effect of changes in foreign exchange rates. Caltex purchases crude and products in USD and sells predominantly in AUD with pricing formulas reflecting changes in the AUD/USD exchange rate. Due to timing differences between payments for purchases and pricing of sales, a change in the foreign exchange rate may negatively impact Caltex's earnings and cash flow. Additionally, the CRM is determined principally with reference to the USD Singapore spot product price relative to the US dollar Brent crude price. An increase in the AUD/USD exchange rate will adversely impact Caltex's Australian dollar refiner margin, and therefore refining earnings and cash flows.

The Group implemented a foreign exchange risk management policy in August 2014 of hedging 80% of the Group's US dollar denominated crude and products payable. From December 2016, this policy was amended to increase the hedging percentage to 100% of the Group's net exposure to US dollar payables and receivables. The instruments used to manage foreign exchange risk expose Caltex to fair value foreign exchange rate risk and counterparty credit risks. Exposure limits are set for each counterparty to ensure that Caltex is not exposed to excess counterparty credit risk.

Operating and financial review continued

Business risks and management continued

Liquidity risk

Due to the nature of the underlying business, Caltex must maintain sufficient cash and adequate committed credit facilities to meet the forecast requirements of the business. From time to time, Caltex will be required to refinance its debt facilities. There is no certainty as to the availability of debt facilities or the terms on which such facilities may be provided to Caltex in the future. Caltex seeks to prudently manage liquidity risk by maintaining a capital structure that supports its activities and centrally monitoring cash flow forecasts and the degree of access to debt and equity markets. A key element of its funding strategy is the use of committed undrawn debt facilities, with an extended facility maturity profile.

Operational risk

The nature of many of Caltex's operations is inherently risky. Major hazards may cause injury or damage to people and/or property. Major incidents may cause a suspension of certain operations and/or financial loss.

Caltex's operations are heavily reliant on information technology. While these systems are subject to regular review and maintenance, and business continuity plans are in place, if these systems are disrupted due to external threat or system error, this may have an adverse effect on Caltex's operations and profitability.

Competitive risk

Caltex operates in a highly competitive market space, and could be adversely impacted by new entrants to the market or increased competition from existing competitors, changes in contractual terms and conditions with existing customers, and/or the loss of a major customer.

Environmental risks

Caltex imports, refines, stores, transports and sells petroleum products. Therefore, it is exposed to the risk of environmental spills and incidents. It is also responsible for contaminated sites which it operates or has previously operated.

Demand for Caltex's products

Caltex's operating and financial performance is influenced by a variety of general economic and business conditions, including economic growth and development, the level of inflation and government fiscal, monetary and regulatory policies. In a global or a local economic downturn, demand for Caltex's products and services may be reduced, which may negatively impact Caltex's financial performance.

Labour shortages and industrial disputes

There is a risk that Caltex may not be able to acquire or retain the necessary labour for operations and development projects. This may disrupt operations or lead to financial loss.

Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. Primary credit exposure relates to trade receivables.

Regulatory risk

Caltex operates in an extensively regulated industry and operates its facilities under various permits, licences, approvals and authorities from regulatory bodies. If those permits, licences, approvals and authorities are revoked or if Caltex breaches its permitted operating conditions, it may lose its right to operate those facilities, whether temporarily or permanently. This would adversely impact Caltex's operations and profitability.

Changes in laws and government policy in Australia or elsewhere, including regulations, licence conditions and fuel quality standards, could materially impact Caltex's operations, assets, contracts, profitability and prospects.

Events subsequent to the end of the year

Late in 2016, Caltex announced the proposed acquisition of Milemaker Petroleum and Gull New Zealand. Additionally, 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. These three separate announcements did not impact the 2016 financial result for Caltex. They are, however, expected to have an impact in future periods. 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 subsequent to 31 December 2016.

Environmental regulations

Caltex is committed to compliance with Australian laws, regulations and standards, as well as to minimising the impact of our operations on the environment. The Board's OHS & Environmental Risk Committee addresses the appropriateness of Caltex's OHS and environmental practices to manage material health, safety and environmental risks, so that these risks are managed in the best interests of Caltex and its stakeholders.

Caltex sets key performance indicators to measure environmental, health and safety performance and drive improvements against targets. In addition to review by the Board, progress against these performance measures is monitored regularly by the Managing Director & CEO and the Executive General Managers.

Risks are examined and communicated through the Caltex Risk Management Framework, an enterprise-wide risk management system which provides a consistent approach to identifying and assessing all risks, including environmental risks. Under the framework, risks and controls are assessed, improvements identified, and regular reports are made to management and the Board.

The Caltex Operational Excellence Management System is designed to ensure that operations are carried out in an environmentally sound, safe, secure, reliable and efficient manner. Its operating standards and procedures support the Caltex Environment Policy, and the Caltex Health and Safety Policy.

In 2016, Caltex made its eighth submission under the National Greenhouse and Energy Reporting Scheme, reporting energy consumption and production as well as greenhouse gas emissions from Group operations. Caltex also continued to disclose information on emissions under the National Pollutant Inventory. Caltex is a signatory to the Australian Packaging Covenant, with 100% compliance among Caltex product suppliers and 40% of current packing reviewed using the Sustainable Packaging Guidelines.

Compliance with environmental regulations

A total of 21 environmental protection licences were held by companies in the Caltex Group in 2016 in respect of a refinery, 12 terminals, three marketing facilities, three aviation refuelling facilities, a lubricants manufacturing facility and a bulk shipping facility.

Any instances of non-compliance against these licences were reported to the environmental regulator. All significant spills and environmental incidents were recorded and reported as required to government authorities.

Regular internal audits are carried out to assess the efficacy of management systems to prevent environmental incidents, as well as to control other operational risks. Improvement actions determined through the audit process are reviewed by the Board's OHS & Environmental Risk Committee and senior management.

Caltex is committed to achieving 100% compliance with environmental regulations and to ensuring that all breaches have been investigated thoroughly, and corrective actions are taken to prevent recurrence.

The business had no environmental infringements in 2016.

Caltex convicted of offence in relation to fuel spill at Banksmeadow in 2013

On 20 February 2017, Caltex Australia Petroleum Pty Limited (**Caltex**) was convicted in the Land and Environment Court of NSW of an offence under the Protection of the Environment Operations Act 1997 for negligently contributing to conditions that gave rise to a contractor causing a fuel spill.

On 12 July 2013, while carrying out new procedures put in place to manage a fuel quality issue at its terminal located at Penrhyn Road, Banksmeadow (**Terminal**), a contractor failed to correctly fit a temporary hose to a fuel storage tank. When Caltex began transferring fuel from the storage tank the temporary hose disconnected from the tank. As a result, fuel escaped from the tank into a purpose built containment bund. Two workers involved in the transfer were doused in fuel. The workers were taken to hospital and discharged shortly afterwards.

Emergency services were called to manage the risk of fire and local roads were closed. The leak continued for around 1 hour and 20 minutes until a NSW Fire and Rescue officer entered the bund containing the fuel and manually closed the valve on the storage tank. During this period, approximately 157,000 litres of petrol escaped into the bund which contained all of the fuel as designed. The petrol was later safely removed.

Caltex was found to be negligent, both in its assessment of the risks posed by new procedures put in place to deal with the fuel quality issue at its Terminal; and the way it carried out those procedures.

The prosecution was brought by the NSW Environment Protection Authority (**EPA**).

Caltex cooperated with the EPA in relation to all aspects of the investigation and entered a plea of guilty to the offence. As a responsible local employer and business, Caltex is sorry for the disturbance caused to the Botany community immediately following the incident.

Caltex has been fined a total of \$400,000, to be paid to the City of Botany Bay (or its successor) and the Department of Primary Industries to fund projects aimed at restoring and enhancing the environment for the benefit of neighbouring communities. Caltex also agreed to pay the EPA's legal costs of \$450,000.

This notice was placed by order of the Land and Environment Court of NSW and was paid for by Caltex.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 70 and forms part of the Directors' Report for the financial year ended 31 December 2016.

Remuneration Report

The directors of Caltex Australia Limited present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001 (Cth)* (*Corporations Act*) for the Caltex Group for the year ended 31 December 2016.

The information provided in this Remuneration Report has been audited as required by section 308(3C) of the *Corporations Act*, apart from where it is indicated that the information is unaudited.

1. Remuneration snapshot

1a. Key Management Personnel (KMP)

This Remuneration Report is focused on the KMP of Caltex, being those persons with authority and responsibility for planning, directing and controlling the activities of Caltex. KMP includes the Non-executive Directors and Senior Executives (including the Managing Director (MD) & CEO). Senior Executives are also referred to as the Caltex Leadership Team (CLT) in this report.

Unless otherwise indicated, the KMP were classified as KMP for the entire financial year.

Current Non-executive Directors

Greig Gailey	Chairman and Independent, Non-executive Director
Trevor Bourne	Independent, Non-executive Director
Steven Gregg	Independent, Non-executive Director
Bruce Morgan	Independent, Non-executive Director
Barbara Ward	Independent, Non-executive Director
Penny Winn	Independent, Non-executive Director

Current Senior Executives

Julian Segal	MD & CEO
Andrew Brewer	Executive General Manager, Supply Chain Operations
Viv Da Ros	Chief Information Officer (<i>appointed 12 December 2016</i>)
Simon Hepworth	Chief Financial Officer
Bruce Rosengarten	Executive General Manager, Commercial
Lyndall Stoyles	Executive General Manager, Legal & Corporate Affairs (<i>appointed 24 October 2016</i>)
Joanne Taylor	Executive General Manager, Human Resources (<i>appointed 5 February 2016</i>)
Louise Warner	Executive General Manager, Fuels (<i>appointed 3 October 2016</i>) ⁽ⁱ⁾

Former Senior Executives

Peter Lim	Executive General Manager, Legal & Corporate Affairs (<i>ceased to be a KMP on 7 December 2016</i>)
Adam Ritchie	Executive General Manager, Supply (<i>ceased employment 31 December 2016</i>)
Simon Willshire	Executive General Manager, Human Resources (<i>retired effective 30 April 2016</i>)

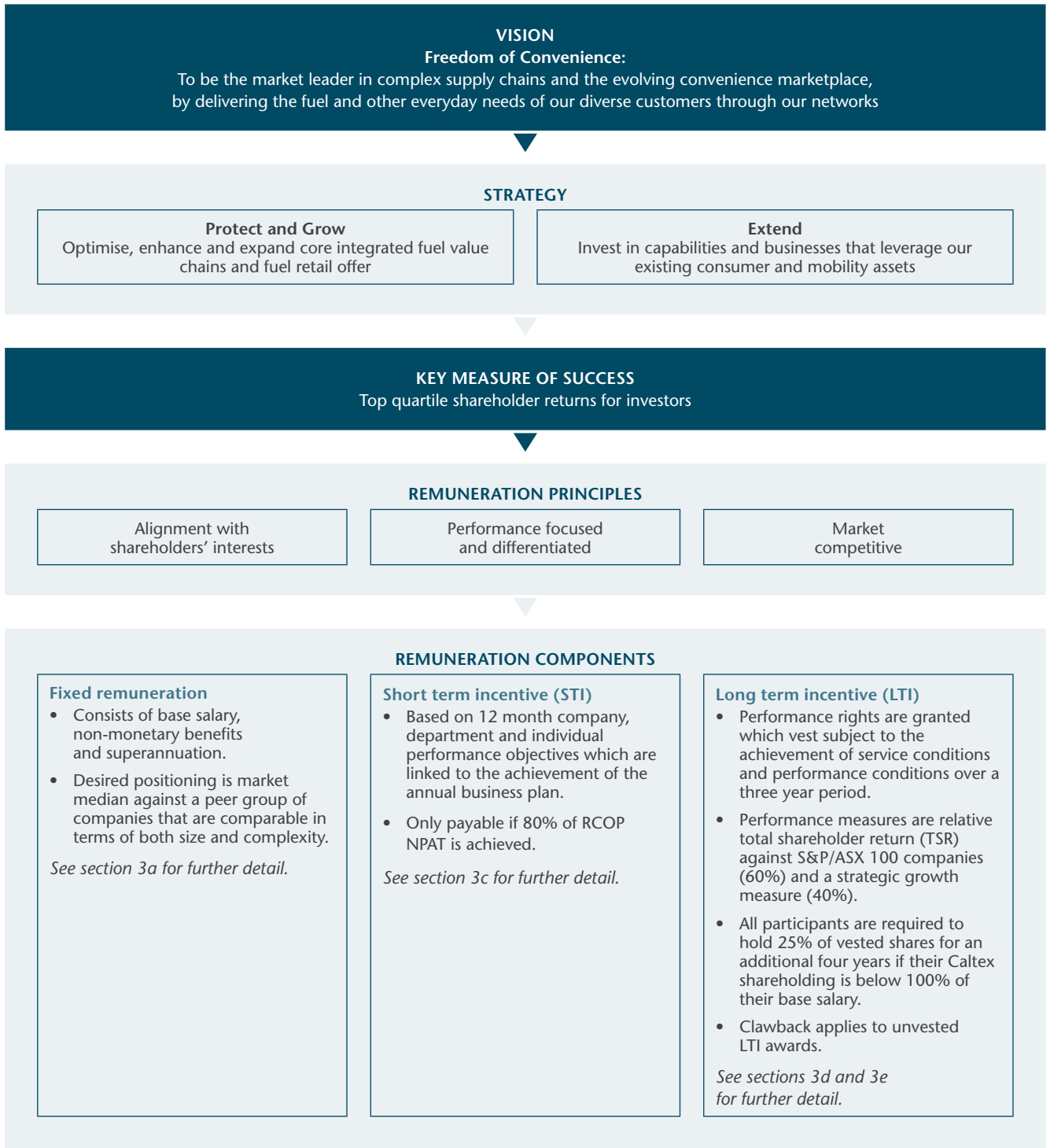
Note:

⁽ⁱ⁾ Ms Warner was previously President Ampol and General Manager, Trading and Shipping.

Changes to KMP since the end of the financial year

The position of Executive General Manager, Commercial will be made redundant from 1 April 2017 and Mr Rosengarten will cease employment from this date.

1b. Summary of 2016 remuneration arrangements for Senior Executives



Remuneration Report continued

1. Remuneration snapshot continued

1c. Senior Executive remuneration outcomes in 2016

REMUNERATION ELEMENT	OUTCOME
MD & CEO remuneration increase	<p>The Board determined to freeze the fixed remuneration of the MD & CEO in 2016 and instead to direct his pay increase into the STI, which is subject to the achievement of rigorous performance conditions.</p> <p>The MD & CEO's target STI opportunity increased from 50% to 60% of base salary and his stretch STI opportunity increased from 100% to 120% of base salary. The Board determined that this was appropriate given:</p> <ul style="list-style-type: none"> • advice from Aon Hewitt, the Human Resources Committee's independent remuneration adviser, indicated that target STI opportunities for MD & CEOs in our peer group were typically around 90-100% of fixed remuneration and were typically higher (in percentage terms) than other members of the leadership team, and • the increase in the STI opportunity brought the MD & CEO's target STI and total target remuneration closer to the median of the customised peer group that is used for benchmarking purposes. See section 3a for further information on the peer groups used.
Other Senior Executive remuneration increase	<p>Base salaries for other Senior Executives (excluding the EGM Supply Chain Operations) increased by an average of 2.3%. This increase was below market movement and below the budgeted salary increase that applied to the majority of Caltex employees. The EGM Supply Chain Operations' fixed remuneration increased by 13.6%.</p> <p>This restrained level of average base salary increase was below forecast market movement and is below the budgeted salary increase which will apply to the majority of Caltex employees.</p> <p>The larger remuneration increase awarded to the EGM Supply Chain Operations was determined to be appropriate by the Board taking into account his below market positioning, his strong performance and strategic contribution, and internal relativities to his peers.</p>
STI	<p>While RCOP NPAT result was lower than 2015 (which was a record profit), the 2016 result is the second highest in the last 10 years and demonstrates a sound performance by the business, reflecting strong growth in the Supply and Marketing areas and a strong Lytton operating performance in the face of substantially lower refiner margins.</p> <p>RCOP NPAT performance in 2016 was 87% of target and the average 2016 STI award for Senior Executives was 95% of target. This outcome demonstrates the strong alignment between STI payments and profit outcomes.</p>
LTI	<p>2013: The 2013 LTI grant had a performance period from 1 January 2013 to 31 December 2015 and vested in April 2016. This grant was subject to the achievement of relative TSR against S&P/ASX 100 companies (60%), free cash flow (20%) and a mix of strategic measures (20%).</p> <p>Over the 2013-15 performance period, Caltex's share price increased from \$19.21 to \$37.70 and its TSR was 200%. This placed Caltex at the 82nd percentile against S&P/ASX 100 companies. We also achieved 97.9% of our free cash flow target and the Board determined that performance against the strategic measures was almost at stretch performance (allowing 95.75% of this tranche to vest). As a result, 80.49% of the 2013 grant vested on 1 April 2016 and the remaining 19.51% lapsed.</p> <p>2014: The 2014 LTI grant had a performance period from 1 January 2014 to 31 December 2016 and vests in April 2017. This grant was subject to the achievement of relative TSR against S&P/ASX 100 companies (60%), free cash flow (20%) and a mix of strategic measures (20%).</p> <p>Over the 2014-16 performance period, Caltex's share price increased from \$20.05 to \$30.46 and its TSR was 178%. This placed Caltex at the 82nd percentile against S&P/ASX 100 companies. The company also achieved 100% of the free cash flow target and the Board determined that performance against the strategic measures was just above target performance (allowing 74.42% of this tranche to vest). As a result, 84.78% of the 2014 grant will vest on 1 April 2017 and the remaining 15.22% will lapse. No clawback occurred in respect of the LTI in 2016.</p>

1d. Summary of 2016 Non-executive Director fees

Non-executive Director fees are fixed and do not have any variable components. The Chairman receives a fee for chairing the Caltex Board and is not paid any other fees. Other Non-executive Directors receive a base fee and additional fees for each additional Committee chairmanship and membership, other than the Nomination Committee where no additional fee is paid. In 2016, the Chairman's fee and Non-executive Director base fees increased by 2.8%.

For 2016, superannuation contributions were made at a rate of 9.5%. No additional retirement benefits are paid.

Fees paid to Non-executive Directors are subject to a maximum annual Non-executive Director fee pool of \$2.5 million (including superannuation). This fee pool was approved by shareholders at the 2016 AGM.

See sections 4a and 4b for further detail.

1e. Outlook for FY17 (unaudited)

Key changes to remuneration arrangements in FY17 are outlined below:

CHANGE	COMMENTARY
MD & CEO remuneration	The Board determined that it would again freeze the fixed remuneration of the MD & CEO for 2017.
Senior Executive remuneration	<p>Excluding the MD & CEO and the EGM Fuels, Senior Executive remuneration will increase on average by 2.77% in April 2017. As noted above, the MD & CEO's fixed remuneration was frozen for 2016 and, if he is included, the average increase for all Senior Executives for 2017 will be 1.66% (excluding EGM Fuels).</p> <p>The EGM Fuels will receive a fixed remuneration increase of 10%. This increase reflects a broadening of responsibilities for this role to include responsibility for a new business unit.</p> <p>This level of average base salary increase is below forecast market movement and broadly in line with the budgeted salary increase which will apply to the majority of Caltex employees.</p> <p>These increases were determined by the Board, upon the recommendation of the Human Resources Committee, taking into account the market data, forecast market movements, and the remuneration recommendations made by Aon Hewitt, and the Senior Executive's performance over the year.</p>
Non-executive Director fees	Non-executive Director base and committee fees will not increase in 2017.
Non-executive Director fee pool	There will be no change to the Non-executive Director fee pool for 2017.

2. Oversight and external advice

2a. Board and Human Resources Committee

The Board takes an active role in the governance and oversight of Caltex's remuneration policies and practices. Approval of certain key human resources and remuneration matters is reserved to the Board, including setting remuneration for directors and Senior Executives and any discretion applied in relation to the targets or funding pool for Caltex's incentive plans.

The Human Resources Committee assists the Board to fulfil its corporate governance and oversight responsibilities in relation to Caltex's remuneration framework, the performance of the MD & CEO, succession planning, and the remuneration, diversity and inclusion disclosures. The Committee also assists the Board in setting the measurable objectives for achieving diversity and inclusion and reviewing progress made toward those objectives.

The Human Resources Committee undertakes functions delegated by the Board, including approving Caltex's annual remuneration program and aspects of its incentive plans.

The Human Resources Committee seeks to put in place appropriate remuneration arrangements and practices that are clear and understandable, in the best interests of Caltex and support superior performance and long term growth in shareholder value.

Further information about the role of the Board and the Human Resources Committee is set out in their charters, which are available on the company's website (www.caltex.com.au).

2b. External advice

The Human Resources Committee is independent of management and is authorised to obtain external professional advice as necessary. The use of external specialists to provide advice and recommendations specifically in relation to the remuneration of Non-executive Directors, the MD & CEO and Senior Executives is either initiated directly, or approved by, the Human Resources Committee, and these specialists are directly engaged by the Human Resources Committee Chairman.

During 2016, Caltex received "remuneration recommendations" (as defined in the *Corporations Act*) from Aon Hewitt in relation to Non-executive Director fees and the remuneration for the MD & CEO and other Senior Executives.

Aon Hewitt has provided a formal declaration confirming that the recommendations provided were free from "undue influence" by the members of the KMP to whom the recommendations were related, and the Board is satisfied that the recommendations were made free from any undue influence. No KMP were involved in the selection and appointment of Aon Hewitt or in the development of any advice or recommendations in relation to their own roles.

The fee paid to Aon Hewitt for the above remuneration advice and recommendations was \$34,300 excluding GST. Aon Hewitt also provided additional services (Finance and HR related) to Caltex over 2016. The fee for these additional services was \$39,300 excluding GST.

Remuneration Report continued

3. Senior Executive remuneration

3a. Remuneration philosophy and structure

The overarching goal of the Caltex remuneration philosophy and structure is to support the delivery of top quartile shareholder returns. The guiding philosophy for how Caltex rewards Senior Executives and all other employees is outlined below:

GUIDING PHILOSOPHY	COMMENTARY
Alignment with shareholders' interests	The payment of variable incentives is dependent upon achieving financial and non-financial performance measures that are aligned with shareholders' interests. Share retention arrangements require all executives to build up and maintain shareholdings to encourage further alignment with Caltex shareholders.
Performance focused and differentiated	The company's reward and performance planning and review systems are closely integrated to maintain a strong emphasis and accountability for performance at the company, department and individual levels. Rewards are differentiated to incentivise and reward superior performance.
Market competitive	All elements of remuneration are set at competitive levels for comparable roles in Australia and allow Caltex to attract and retain quality candidates in the talent market.

Alignment with strategy

Both the short term and long term incentive plan are directly aligned to the company's strategy.

Short term incentives reward the delivery of stretching but potentially attainable financial and non-financial performance measures aligned to the annual business plan.

Long term incentives are directly aligned to the company's key measure of success, being to safely and reliably deliver top quartile shareholder returns. The company's secondary strategic growth measures focus the Senior Executives on the most important initiatives that need to be executed to support top quartile shareholder returns. Further detail on these measures is outlined in section 3d.

Market positioning and peer groups

In order to be able to attract and retain key talent, and drive strong performance, the company's remuneration philosophy is to position fixed remuneration at the median of a customised peer group of companies, with total remuneration able to reach the upper quartile for outstanding performance. For 2016, the customised peer group consisted of 19 companies that are broadly of comparable size and complexity and who the Board considers to be leading competitors for capital and people. The peer group was also adjusted to include several additional companies with a retail focus to align with Caltex's strategy.

The Board recognises that external stakeholders often assess pay reasonableness against a pure market capitalisation peer group. Due to this, in making pay decisions, the Board also considers pay positioning against a secondary peer group. This secondary peer group consists of 20 companies (10 with a market capitalisation directly above, and 10 with a market capitalisation directly below, that of Caltex). Externally managed trusts and overseas domiciled companies are excluded.

Remuneration structure

Our Senior Executive remuneration structure consists of:

- 1. Fixed remuneration** – this comprises base salary, non-monetary benefits and superannuation. Superannuation is generally payable at a rate of 9.5% of base salary plus any cash incentive payments. Where an employee's superannuation contributions are above the superannuation contributions limit, the employee may elect to receive the excess amount as cash in lieu of superannuation.
- 2. Variable remuneration** – this comprises a mix of cash and equity based incentives awarded upon the achievement of financial and non-financial performance measures. Superannuation is also paid on any short term incentive payments.

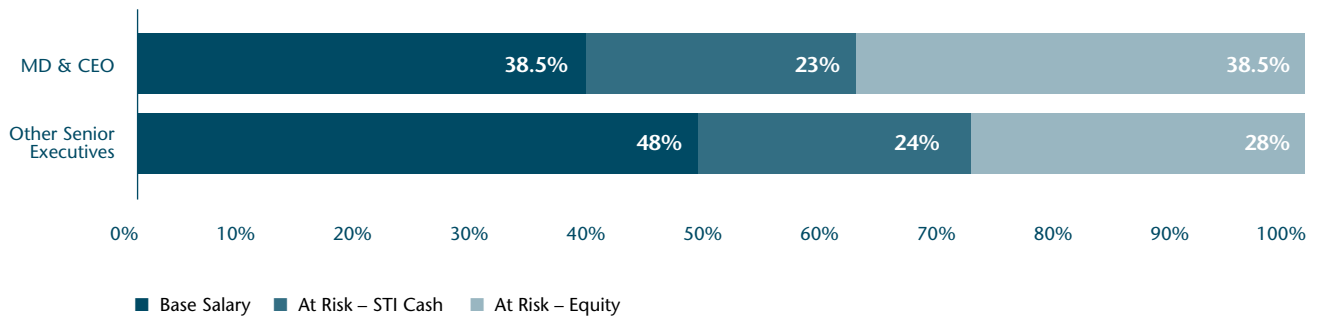
The remuneration structure (including the remuneration mix) is reviewed annually by the Board.

3b. Remuneration mix

The “at target” remuneration mix for Senior Executives is outlined below.

The remuneration mix is skewed towards variable pay to better align executive pay and performance, and within the variable pay components, the mix is skewed towards the long term incentive. Research undertaken by Caltex, and confirmed by external advisers, shows that Caltex has a more stretching relative TSR vesting schedule than most ASX 100 companies. See section 3d for further information on the relative TSR vesting schedule.

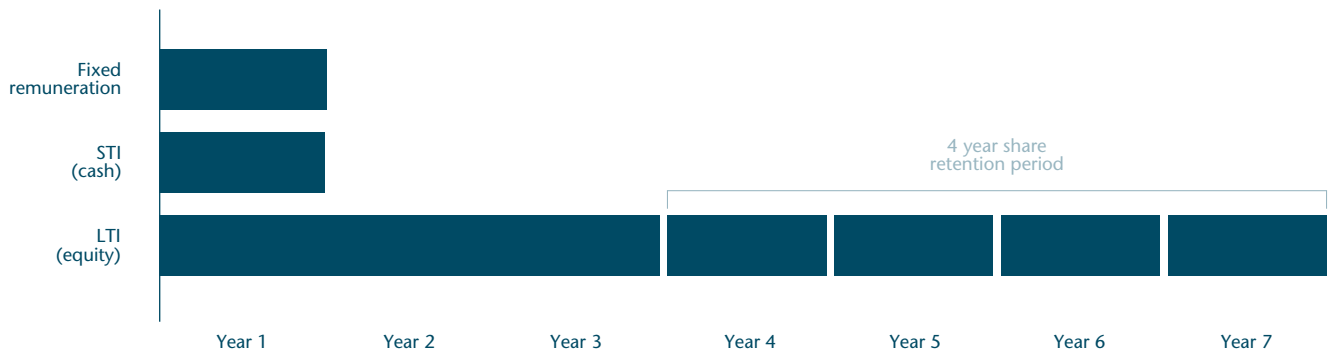
2016 Remuneration mix “at target”



Notes:

- ① “At target” performance in the remuneration mix for “Other Senior Executives” reflects a STI target of 50% of base salary for Mr Brewer, Mr Hepworth, Mr Rosengarten and Ms Warner. Ms Stoyles, Ms Taylor and Mr Da Ros have a STI target of 46% of base salary.
- ② LTI Equity comprises performance rights granted under the Caltex Equity Incentive Plan (CEIP). It assumes that the relative TSR measure is achieved at the 75th percentile, with the free cash flow and the strategic growth measure achieved at target. Grants of performance rights under the CEIP are made at the maximum stretch level of 150% of base salary for the MD & CEO and 90% of base salary for other Senior Executives. The proportion of the grant that vests is based on meeting service and performance conditions.

The below diagram shows the payout profile of the various remuneration elements:



Note:

- ① For LTI awards made in 2014 and 2015, 25% of vested equity needs to be held by the Senior Executive up until Year 7. For awards made from 2016 onwards, this requirement only applies if the Senior Executive does not hold at least 100% of their base salary in Caltex shares.

Remuneration Report continued

3. Senior Executive remuneration continued

3c. Performance based "at risk" remuneration – 2016 STI Plan

Plan	STI awards are made under the Rewarding Results Plan.
Plan rationale	The Plan rewards a combination of financial and non-financial performance measures that are aligned to the creation of shareholder value. Primary emphasis is placed on RCOP NPAT, and the non-financial measures focus our executives and employees on executing the most critical objectives aligned to the annual business plan.
Performance period	The performance period is for 12 months ending 31 December 2016.
2016 target and maximum stretch opportunity levels	MD & CEO – the target STI opportunity is 60% of base salary and the maximum stretch STI opportunity is 120% of base salary. Other Senior Executives – the target STI opportunity is between 46% and 50% of base salary and the maximum stretch STI opportunity is between 92% and 100% of base salary depending upon role.
Financial gateway	RCOP NPAT performance, including the cost of incentives, needs to be at least at 80% of target before any short term incentives are payable.
Use of discretion	The Human Resources Committee, in its advisory role, reviews proposed adjustments to Rewarding Results outcomes where there are exceptional unforeseen and uncontrollable impacts on the agreed performance measures and makes recommendations for any changes to performance measures, which may only be approved by the Board. During 2016, no discretion was exercised by the Board to include or exclude any significant items in respect of Rewarding Results outcomes.
Payment vehicle	STI awards are delivered in cash. STI deferral was removed for STI awards made to Senior Executives from payments made in 2016 onwards because the long term incentive share retention arrangements came into place at this time. See section 3d for further detail.
Payment frequency	STI awards are paid annually. Payments are made in April following the end of the performance period.

Setting and evaluating the performance of executives in 2016

Performance measures for 2016 were derived from the business plan in line with the company direction set by the Board. The Board approved the 2016 business plan and has regularly monitored and reviewed progress against plan milestones and targets.

The approved Caltex business plan was then translated into department objectives. The company objectives were approved by the Human Resources Committee at the start of the performance year.

Within each business unit, specific performance agreements were then developed for individual employees, thus completing the link between employees and the delivery of the business plan. Performance agreements must be agreed between the employee and his or her manager. Senior Executives set their performance agreements jointly with the MD & CEO, and the MD & CEO's performance objectives are approved by the Board.

Senior Executive performance objectives and outcomes

The table below outlines the common performance objectives that applied to the Senior Executives over 2016. These measures accounted for between 60% and 65% of the Senior Executive's scorecard depending upon their role. The remaining 35-40% of performance objectives were customised to the executive's remit. Such objectives include delivery of specific strategic growth projects, delivery of capability build in critical business areas, achievement of divisional EBIT targets, achievement of specific transport fuel market targets and achieving specific refinery production targets. Actual performance against the common objectives has been provided.

MEASURE	DESCRIPTOR OF MEASURE	WEIGHTING	ACTUAL PERFORMANCE RANGE					COMMENTARY ON PERFORMANCE
			Below Threshold	Threshold to Target	Target	Target to Stretch	Stretch	
Personal safety (assessed at company or business unit level)	Performance is measured based on the total treatable injury frequency rate (TTIFR)	5-7.5%	✓					Personal safety results were disappointing with 19 employees suffering injuries resulting in lost time or medical treatment during FY16.
Process safety (assessed at company or business unit level)	Performance is measured based on the number of spills	5-7.5%	✓					Process safety results were above threshold (11 spills > 1 bbl and marine) but as there were 3 Tier 2 process safety incidents the process safety gateway for payment was not met.
RCOP NPAT	See explanation of RCOP NPAT below	40%		✓				RCOP NPAT was below target at \$524m due to pressure on refiner margins, a tight competitive market and other external factors in 2016.
Tabula Rasa	Key business improvement program focusing on revenue generation and cost efficiency	10-15%				✓		This highly successful program has continued to exceed expectations and achieved above target results in terms of revenue generation and costs saved.

If business objectives are achieved at threshold level, 60% of the target STI opportunity would be payable. If 100% of the target is achieved, 100% of the STI target opportunity would be payable. If business objectives are achieved at the maximum level, 200% of the STI target opportunity would be payable. Payments are pro-rated between threshold and target, and between target and maximum. This payout schedule deliberately incentivises over-plan performance.

At Caltex, incentives are not designed as “profit sharing arrangements” and as such performance measures may factor in externalities which management cannot control (such as global refining margins). There will be occasions when incentives are paid when externalities such as the refiner margins and exchange rate fluctuations may have reduced overall shareholder returns. Equally, incentives may not be paid when externalities are favourable to shareholders but the company’s relative performance is poor.

RCOP NPAT (explanation of the relevance of this measure to the Caltex business and treatment of significant items)

The Board has selected replacement cost of sales operating profit (RCOP) NPAT as the primary STI measure because RCOP NPAT removes the impact of inventory gains and losses, giving a truer reflection of underlying financial performance.

Gains and losses in cost of goods sold due to fluctuations in the AUD price of crude and product prices (which are impacted by both the USD price and the foreign exchange rate) constitute a major external influence on Caltex’s profits. RCOP NPAT restates profit to remove these unintended impacts. The Caltex RCOP methodology is consistent with the methods used by other refining and marketing companies for restatement of their financial results.

As a general rule, an increase in crude prices on an AUD basis will create an earnings gain for Caltex (but working capital requirements will also increase). Conversely, a fall in crude prices on an AUD basis will create an earnings loss. This is a direct consequence of the first in first out (FIFO) costing process used by Caltex in adherence with accounting standards to produce the financial result on a historical cost basis.

With Caltex holding approximately 30 to 45 days of inventory, revenues reflect current prices in Singapore whereas FIFO costing reflects costs some 30 to 45 days earlier. The timing difference creates these inventory gains and losses.

Remuneration Report continued

3. Senior Executive remuneration continued

3c. Performance based "at risk" remuneration – 2016 STI Plan continued

To remove the impact of this factor on earnings and to better reflect the underlying performance of the business, the RCOP NPAT methodology calculates the cost of goods sold on the basis of theoretical new purchases instead of actual costs from inventory. The cost of these theoretical new purchases is calculated as the average monthly cost of cargoes received during the month of those sales.

Each year the Board reviews any significant items, positive and negative, and considers their relevance to the RCOP NPAT result. The Board may exclude any exceptional events from RCOP NPAT that management and the Board consider to be outside the scope of usual business. Exclusions may be made to give a clearer reflection of underlying financial performance from one period to the next.

3d. Performance based "at risk" remuneration – 2016 LTI Plan

Plan	LTI awards are granted under the CEIP.
Plan rationale	<p>The Plan aligns executive rewards with the shareholder experience. This is done through the use of relative TSR as the primary performance measure, and through the use of strategic growth measures which contribute towards the delivery of top quartile shareholder returns as the secondary measure.</p> <p>The Plan has also been designed to act as a retention mechanism and to encourage Senior Executives to build and retain Caltex shares over the long term.</p>
LTI instrument	<p>Performance rights are granted by the company for nil consideration. Each performance right is a right to receive a fully-paid ordinary share at no cost if service based and performance based vesting conditions are achieved. Performance rights do not carry voting or dividend rights.</p> <p>The Board may determine to pay executives the cash value of a share in satisfaction of a vested performance right, instead of providing a share or restricted share. It is expected such discretion will only be exercised in limited cases, typically where the executive is a "good leaver" from Caltex, i.e. where the employee ceases employment due to redundancy or retirement.</p>
Allocation methodology	The number of performance rights granted is determined by dividing the maximum opportunity level by the five day volume weighted average share price up to the first day of the performance period, discounted by the value of the annual dividend to which the performance rights are not entitled. No discount is applied for the probability of achieving the performance measures.
Performance period	The performance period is three years commencing on 1 January in the year the awards are made. For the 2016 awards, this is the three year period from 1 January 2016 to 31 December 2018.
2016 target and maximum stretch opportunity levels	<p>The MD & CEO received a grant of performance rights based on a maximum stretch LTI value of 150% of base salary. The target LTI value is 100% of base salary.</p> <p>Other Senior Executive grants were based on a maximum stretch LTI value of 90% of base salary. The target LTI value is 60% of base salary.</p>

Performance measures	<p>For 2016, the LTI performance measures were relative TSR (weighted at 60%) and a strategic growth measure (weighted at 40%).</p> <p><i>Relative TSR</i></p> <p>Relative TSR is assessed against a comparator group of S&P/ASX 100 companies. The vesting schedule is:</p> <table border="1"> <thead> <tr> <th>Performance scale</th> <th>Vesting %</th> </tr> </thead> <tbody> <tr> <td>Below Threshold</td> <td>Zero</td> </tr> <tr> <td>Threshold: 50th percentile</td> <td>33.3% of the rights will vest</td> </tr> <tr> <td>Between Threshold and Target</td> <td>Pro-rata vesting occurs between these relative performance levels</td> </tr> <tr> <td>Target: 75th percentile</td> <td>66.6% of the rights will vest</td> </tr> <tr> <td>Between Target and Stretch</td> <td>Pro-rata vesting occurs between these relative performance levels</td> </tr> <tr> <td>Stretch: 90th percentile</td> <td>100% of the rights will vest</td> </tr> </tbody> </table> <p><i>Strategic growth measure</i></p> <p>In 2016, a financial gateway applies to the strategic growth measure, being return on average funds employed (RoAFE). The RoAFE gateway is measured as Profit Before Interest and Tax/Average Funds Employed excluding refining over the prior 12 month period (including intangibles but excluding debt). The RoAFE gateway has been included in the strategic growth measure to ensure that executives are only rewarded when Caltex has invested in the right projects and created shareholder value.</p> <p>Once the RoAFE gateway has been met, the strategic growth measure that will apply is a three year earnings growth measure from mergers and acquisitions (core and non-core) and step-out ventures (new products/ services/geographies). This measure was chosen as it reflects the importance of growth in achieving our key success measure of top quartile shareholder returns.</p> <p><i>Disclosure of performance outcomes</i></p> <p>Specific details of the RoAFE gateway and the strategic measures have not been disclosed due to commercial sensitivity. However, in the 2018 Remuneration Report, the Board will set out how Caltex performed against these measures. See section 3h for the Board's rationale for the performance outcomes of the LTI awards that were granted in 2014 and that vest in April 2017.</p>	Performance scale	Vesting %	Below Threshold	Zero	Threshold: 50th percentile	33.3% of the rights will vest	Between Threshold and Target	Pro-rata vesting occurs between these relative performance levels	Target: 75th percentile	66.6% of the rights will vest	Between Target and Stretch	Pro-rata vesting occurs between these relative performance levels	Stretch: 90th percentile	100% of the rights will vest
Performance scale	Vesting %														
Below Threshold	Zero														
Threshold: 50th percentile	33.3% of the rights will vest														
Between Threshold and Target	Pro-rata vesting occurs between these relative performance levels														
Target: 75th percentile	66.6% of the rights will vest														
Between Target and Stretch	Pro-rata vesting occurs between these relative performance levels														
Stretch: 90th percentile	100% of the rights will vest														
Shares acquired upon vesting of the performance rights	<p>Shares to satisfy vested performance rights are usually purchased on market.</p> <p>Shares allocated upon vesting of performance rights will carry the same rights as other ordinary shares (including dividends and voting rights).</p>														
Share retention arrangements	<p>The share retention arrangements are designed to encourage all executives to build up and maintain more sizeable shareholdings in Caltex for a longer period of time and further align the interests of Caltex executives and shareholders.</p> <p>Under the share retention arrangements, 25% of the vested portion of performance rights will be converted into restricted shares. These shares are unable to be sold for a further period of four years (until 1 April 2023 for the 2016 LTI awards). This effectively extends the life of the LTI plan from three years to seven years. For the 2016 LTI awards and future awards, these retention arrangements will be waived if the executive can demonstrate he or she holds the equivalent of 100% of their base salary in shares prior to vesting.</p> <p>Based on this policy, if it is assumed that the LTI awards vest at target levels over a period of four years, the MD & CEO and Senior Executives would have theoretical shareholdings of 100% and 60% of their base salary respectively.</p> <p>On ceasing employment, all dealing restrictions on the restricted shares cease to apply, subject to the application of the Clawback Policy.</p>														
Clawback Policy	See section 3e for information on the Caltex Clawback Policy.														
Termination provisions	<p>If a participant ceases to be an employee due to resignation, all unvested equity awards held by the participant will lapse, except in exceptional circumstances as approved by the Board.</p> <p>The Board has the discretion to determine the extent to which equity awards granted to a participant under the LTI plan vest on a pro-rated basis where the participant ceases to be an employee of a Group company for reasons including retirement, death, total and permanent disablement, and bona fide redundancy. In these cases, the Board's usual practice is to pro-rate the award to reflect the portion of the period from the date of grant to the date the participant ceased to be employed. In addition, the portion of the award that ultimately vests is determined by testing against the relevant performance measures at the usual time.</p>														
Change of control provisions	Any unvested performance rights may vest at the Board's discretion, having regard to pro-rated performance.														

Remuneration Report continued

3. Senior Executive remuneration continued

3d. Performance based "at risk" remuneration – 2016 LTI Plan continued

Legacy LTI awards

The 2014 and 2015 LTI awards will vest in April 2017 and April 2018 respectively. The operation of these awards is consistent with the 2016 awards, except for the weighting and nature of the performance measures. The performance measures for the 2014 awards were relative TSR (weighted at 60%), free cash flow (weighted at 20%) and strategic measures (weighted at 20%). The performance measures for the 2015 awards were relative TSR (75%) and strategic measures (25%).

Performance measure	Commentary
---------------------	------------

Relative TSR – 2014 and 2015 grant	The operation of the relative TSR measure is the same as that outlined above under the 2016 awards.
------------------------------------	---

Free cash flow (FCF) – 2014 grant only	FCF measures performance against the cumulative FCF threshold, target and stretch levels set by the Board for the three year periods ending 31 December 2016 based on the respective three year business plan. The targets are achievable only if growth expectations in Marketing are achieved, a competitive supply chain is maintained, and key strategic projects are delivered.
--	--

FCF performance is measured before dividends and growth investment capital to ensure management is not discouraged from considering growth opportunities. The Board may modify the performance outcome to take into account material changes to the external environment and potentially those controllable items that may change to reflect appropriate Board decisions over the three year period.

The FCF targets have not been disclosed due to commercial sensitivity. See section 3h for Caltex's performance against the cumulative FCF target applicable for the 2014 awards.

Strategic measures	<p>Performance measures</p> <p>2014: The strategic measure is based on the Board's qualitative assessment of the outcomes achieved through key strategic projects, each designed to support top quartile shareholder returns, through the transformation of the company into a competitively efficient organisation with innovation and growth capabilities.</p> <p>The expected outcomes of the projects will be:</p> <ul style="list-style-type: none"> • a competitively efficient organisation • the development and demonstration of end to end value chain optimisation capability • the development and demonstration of competitive supply capability • the development and demonstration of innovation and growth capabilities. <p>2015: The strategic measure is based on a profit growth target at the end of 2017 (in reference to 2014) attributable to M&A (core and non-core) and step-out ventures (new products/services/geographies).</p> <p>Disclosure and performance assessment</p> <p>2014: See section 3h for Caltex's performance against the strategic measures applicable for the 2014 awards.</p> <p>2015: The Board will set out in the 2017 Remuneration Report how Caltex performed against the 2015 measures, including the Board's rationale for the relevant vesting percentage.</p>
--------------------	---

3e. Clawback Policy

Caltex has a Clawback Policy which allows the company to recoup incentives which may have been awarded and/or vested to Senior Executives in certain circumstances. The specific triggers which allow Caltex to recoup the incentives include Senior Executives acting fraudulently or dishonestly, acting in a manner which has brought a Group company into disrepute; where there has been a material misstatement or omission in the financial statements in relation to a Group company in any of the previous three financial years; or any other circumstances the Board determines in good faith to have resulted in an "unfair benefit" to the Senior Executive.

Upon the occurrence of any of the triggers, the Board may then take such actions it deems necessary or appropriate to address the events that gave rise to an "unfair benefit". Such actions may include:

1. requiring the Senior Executive to repay some or all of any cash or equity incentive remuneration paid in any of the previous three financial years
2. requiring the Senior Executive to repay any gains realised in any of the previous three financial years through the CEIP or on the open-market sale of vested shares
3. cancelling or requiring the forfeiture of some or all of the Senior Executive's unvested performance rights, restricted shares or shares
4. reissuing any number of performance rights or restricted shares to the participant subject to new vesting conditions in place of the forfeited performance rights, restricted shares or shares
5. adjusting the Senior Executive's future incentive remuneration, and/or
6. initiating legal action against the Senior Executive.

3f. Hedging and margin lending policies

The Caltex Securities Trading Policy prohibits Designated Caltex Personnel, which includes Senior Executives, from entering into any arrangements that would have the effect of limiting their exposure relating to Caltex securities, including vested Caltex securities or unvested entitlements to Caltex securities under a Caltex employee incentive scheme.

Designated Caltex Personnel, including Senior Executives, must not enter into any margin lending arrangements in respect of Caltex securities.

Designated Caltex Personnel, including Senior Executives are required to undertake online training periodically to ensure that they are aware of and understand their obligations and responsibilities under the Securities Trading Policy and are required to certify on an annual basis that they have complied with the Securities Trading Policy. A contravention is a serious matter and may lead to disciplinary action, including termination of employment.

3g. Senior Executive remuneration and service agreements

MD & CEO

The MD & CEO's remuneration is determined by the Board following receipt of a recommendation from the Human Resources Committee. In making its 2016 remuneration recommendation, the Human Resources Committee considered the performance of the MD & CEO and advice provided by Aon Hewitt, which took into account remuneration levels provided by companies of a similar size and complexity.

The split between the MD & CEO's 2016 total target and maximum stretch remuneration is outlined below.

TOTAL TARGET AND MAXIMUM STRETCH REMUNERATION		
Fixed remuneration including superannuation	"At risk" – performance based remuneration	
	STI	LTI ⁽ⁱⁱ⁾
\$2,248,500 ⁽ⁱ⁾	"At target"	"At target" – when TSR is at the 75th percentile of peer companies, and the strategic growth measure has been met at target.
	\$1,289,100 (60% of base salary)	\$2,148,500 (100% of base salary)
	"Stretch"	"Stretch" – when TSR is at the 90th percentile of peer companies and the strategic growth measure has been met at stretch.
	\$2,578,200 (120% of base salary)	\$3,222,750 (150% of base salary)

Notes:

⁽ⁱ⁾ The MD & CEO's remuneration was frozen during the 2016 remuneration review.

⁽ⁱⁱ⁾ Share retention arrangements have been implemented to encourage share retention and promote alignment with shareholders over the longer term. For the 2014 and 2015 LTI awards, all Senior Executives are required to hold 25% of the shares awarded when the performance rights vest for an additional four years. For 2016 LTI awards, this requirement will only apply if the Senior Executive does not hold at least 100% of their base salary in Caltex shares in the month prior to the vesting date.

Table 1. Summary of MD & CEO's Service Agreement

Term	Conditions
Duration	Ongoing until notice is given by either party
Termination by MD & CEO	Six months' notice Company may elect to make payment in lieu of notice
Termination by company for cause	No notice requirement or termination benefits (other than accrued entitlements)
Termination by company (other)	12 months' notice Termination payment of 12 months' base salary (reduced by any payment in lieu of notice) Treatment of unvested STI and LTI in accordance with plan terms
Post-employment restraints	Restraint applies for 12 months if employed in the same industry within Australia

Remuneration Report continued

3. Senior Executive remuneration continued

3g. Senior Executive remuneration and service agreements continued

Other Senior Executives

The remuneration and other terms of employment for the other Senior Executives are formalised in Service Agreements (contracts of employment). The material terms of the Service Agreements are set out below.

The other Senior Executives of Caltex are appointed as permanent Caltex employees. Their employment contracts require both Caltex and the executive to give a notice period within a range between three and six months as stipulated by their individual contracts should they resign or have their service terminated by Caltex. The terms and conditions of the executive contracts reflect market conditions at the time of the contract negotiation and appointment.

The details of the contracts of the current Senior Executives of Caltex are set out below. The durations of the contracts are open ended (i.e. ongoing until notice is given by either party).

Table 2. Summary of Service Agreements for other Senior Executives

	Termination on notice (by the company)	Resignation (by the Senior Executive)
Andrew Brewer	6 months	6 months
Viv Da Ros	6 months	6 months
Simon Hepworth	3 months	3 months
Bruce Rosengarten	6 months	6 months
Lyndall Stoyles	6 months	6 months
Joanne Taylor	6 months	6 months
Louise Warner	6 months	6 months

If a Senior Executive was to resign, their entitlement to unvested shares payable through the LTI would generally be forfeited and, if resignation was on or before 31 December of the year, generally their payment from the Rewarding Results Plan would also be forfeited, subject to the discretion of the Board. If a Senior Executive is made redundant, their redundancy payment is determined by the Caltex Redundancy Policy, with the payment calculated based on years of service and the applicable notice period.

Other than prescribed notice periods, there is no special termination benefit payable under the contracts of employment. Statutory benefits (such as long service leave) are paid in accordance with the legislative requirements at the time the Senior Executive ceases employment.

Executive General Manager, Human Resources

Mr Simon Willshire retired effective 30 April 2016. On retirement, his unvested long term incentive awards were pro-rated based on the portion of the vesting period he was employed. The portion of LTI awards he retains will remain subject to the applicable performance hurdles and will vest, if applicable, in accordance with original terms of offer in April 2017 and April 2018. In addition, as he had satisfied the service condition in relation to the STI Deferral shares awarded in April 2015 (awarded in respect of the deferred portion of his 2014 STI), his STI Deferral shares were released upon the cessation of employment (although the shares remain subject to clawback in the event of a material misstatement or omission in any Group Company's financial accounts prior to 1 April 2017).

Executive General Manager, Supply

Mr Adam Ritchie ceased employment with Caltex on 31 December 2016 after a very successful period in the EGM Supply role, which, among a number of accomplishments, has seen the establishment of our standalone trading and shipping capability through our Ampol subsidiary in Singapore. On ceasing employment, Mr Ritchie's unvested long term incentive awards were pro-rated based on the portion of the vesting period he was employed. The portion of LTI awards he retains will remain subject to the applicable performance hurdles and will vest, if applicable, in accordance with original terms of offer in April 2018 and April 2019. As notice was provided on 1 September 2016, the remaining two months' notice were paid on cessation of employment. He also received a payment for past service equivalent to six months' salary as compensation for an additional six month post-employment restraint until 30 September 2017.

Mr Ritchie's unvested restricted shares (awarded in lieu of LTI awards forgone at his prior employer) will continue to vest on his second and third anniversary of his commencement date. Mr Ritchie retains these shares on ceasing employment as, under the terms of his contract, the shares only lapse on resignation, serious misconduct or negligence. The award of restricted shares is outlined in table 6.

Chief Information Officer

Mr Viv Da Ros was appointed on 12 December 2016 as Chief Information Officer. Mr Da Ros' contract included relocation and accommodation support to assist him to relocate from Hong Kong, where he was previously employed. If Mr Da Ros' employment ceases due to resignation, serious and wilful misconduct or negligent behaviour within 12 months of commencement, the entire cost of relocation assistance must be repaid, with a pro-rated portion repayable if employment ceases for these reasons between 12 and 24 months.

Mr Da Ros also received an award of restricted shares to compensate him for forgone STI and LTI at his prior employer. Thirty three and one-third percent (33.33%) of the restricted share grant will vest after six months' employment, with an additional 33% and 34% of the grant vesting on each of Mr Da Ros' second and third anniversary of his commencement date. Each unvested tranche will lapse if his employment ceases due to resignation, serious and wilful misconduct, negligent behaviour or unsatisfactory performance prior to each respective vesting date.

The award of restricted shares is outlined in table 6.

3h. Link between company performance and executive remuneration

The link between executive remuneration and company performance is outlined in various parts of this report. This includes section 1 where the 2016 remuneration outcomes are provided, and section 3 where the STI and LTI performance measures are explained, including why the measures have been chosen and how they relate to the performance of the company.

Table 3 below outlines Caltex's TSR, dividend, share price, earnings per share, RCOP NPAT results and safety performance each year from 2012 to 2016 together with the linkage to actual STI and LTI outcomes.

Table 3. Link between company performance and executive remuneration (unaudited)

Summary of performance over 2012-16	2016	2015	2014	2013	2012
12 month TSR % ⁽ⁱ⁾	-16.5	13.6	74.1	6.1	66.6
Dividends (cents per share)	102c	117c	70c	34c	40c
Share price ⁽ⁱⁱ⁾	\$30.46	\$37.70	\$34.21	\$20.05	\$19.21
RCOP excluding significant items earnings per share	\$2.01	\$2.33	\$1.83	\$1.23	\$1.70
RCOP NPAT excluding significant items (million) ⁽ⁱⁱⁱ⁾	\$524	\$628	\$493	\$332	\$458
Caltex Safety – TTIFR ^(iv)	2.35	2.35	1.76	1.36	2.86
Caltex Safety – LTIFR ^(v)	1.11	0.62	0.77	0.63	0.59
Link to remuneration					
STI – percentage of business plan RCOP NPAT target achieved	87%	134%	125%	76%	137%
STI – funding of STI pool (relative to target)	99%	141%	127%	0%	144%
LTI – percentage vesting three years after grant date					
Year of grant	2014	2013	2012	2011	2010
Percentage of grant vesting	84.78%	80.49%	88.9%	42.3%	77.8%

Notes:

⁽ⁱ⁾ TSR is calculated as the change in share price for the year, plus dividends announced for the year, divided by the opening share price. TSR is a measure of the return to shareholders in respect of each financial year.

⁽ⁱⁱ⁾ The price quoted is the trading price for the last day of trading (31 December) in each calendar year. The share price for the last day of trading in 2011 was \$11.77.

⁽ⁱⁱⁱ⁾ Measured using the RCOP method which excludes the impact of the rise or fall in oil and product prices (a key external factor) and excludes significant items as determined by the Board.

^(iv) TTIFR – Total Treatable Injury Frequency Rate.

^(v) LTIFR – Lost Time Injury Frequency Rate.

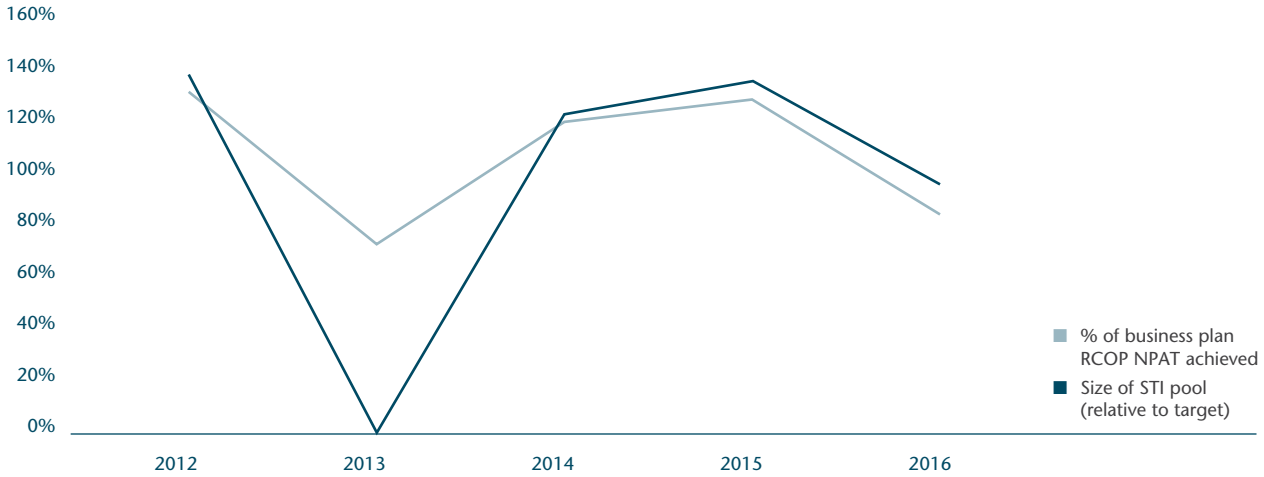
Remuneration Report continued

3. Senior Executive remuneration continued

3h. Link between company performance and executive remuneration continued

Alignment between STI outcomes and RCOP NPAT

The strong alignment between STI outcomes and company profitability as measured by RCOP NPAT is shown below.



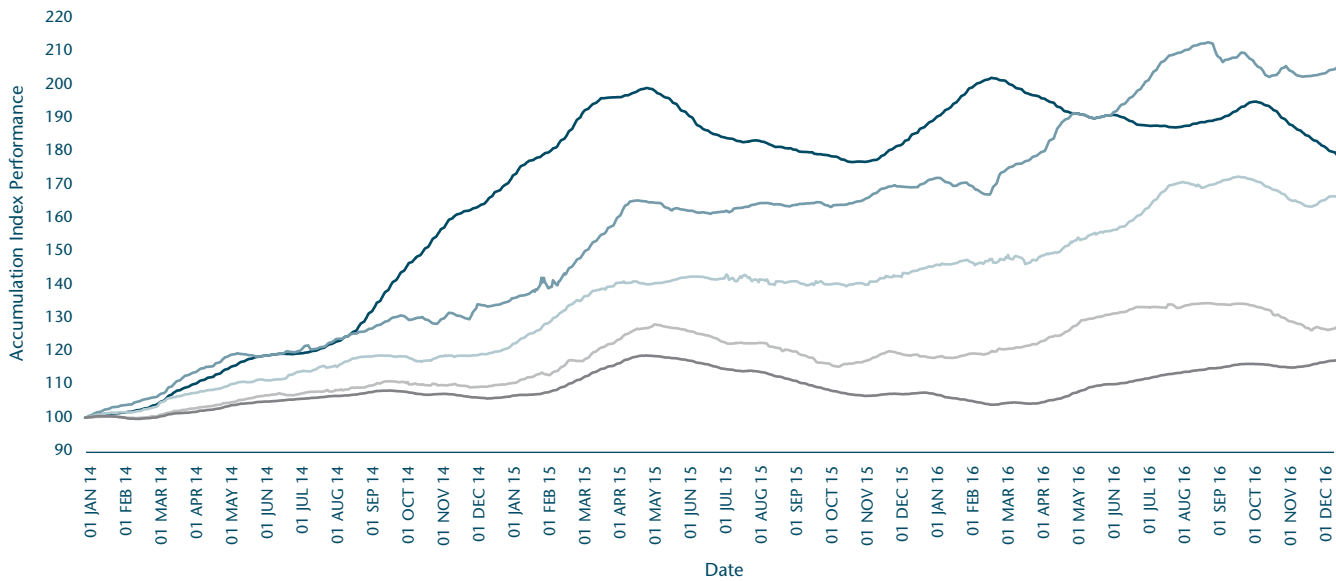
2014 LTI vesting outcomes and the link to company performance

Relative TSR (60%)

The chart below provides a comparison of Caltex's three year TSR performance compared to S&P/ASX 100 companies over the period from 1 January 2014 to 31 December 2016. This reflects the final status of the tranche of the 2014 LTI grant that is subject to the relative TSR performance measure. Caltex's TSR over this period was 178%, placing it at the 82nd percentile. This will lead to 83.16% of the performance rights subject to the relative TSR performance measure vesting on 1 April 2017.

Caltex Australia Limited and the Constituents of the S&P/ASX 100 Index
Total Shareholders Return Performance
1 January 2014 – 31 December 2016

■ Caltex ■ 90th Percentile ■ 75th Percentile ■ 50th Percentile ■ ASX 100



2016 Copyright. All Rights Reserved. Egan Associates. Indices based on a value of 100 at 1 January 2014. Three month smoothing applied.



1. Constituents based on the S&P/ASX 100 Index as at grant date (i.e. 1 January 2014). Caltex is included in the S&P/ASX 100 Index.
Source: S&P Capital IQ

Free cash flow (FCF) (20%)

The level of vesting against the FCF measure was determined by aggregating Caltex's actual FCF performance over the three year performance period and comparing this to the aggregate of the three year stretch targets determined in 2014.

Actual FCF performance over the 2014-16 period was extremely strong (140% of the aggregate target for this period), with the stretch vesting level achieved and 100% of the FCF hurdled performance rights vesting on 1 April 2017. No adjustments were made by the Board to the FCF figures when determining the level of vesting against the FCF performance measure.

Strategic measures (20%)

The table below provides an overview of performance against the applicable 2014 strategic measures, each designed to support top quartile shareholder returns through the transformation of the company into a competitively efficient organisation with innovation and growth capabilities.

Strategic measures	Actual vesting (%)	Performance commentary
<p>The Board's qualitative assessment of performance against:</p> <ul style="list-style-type: none"> • A competitively efficient organisation • The development and demonstration of end-to-end value chain optimisation (VCO) capability • The development and demonstration of competitive supply capability • The development and demonstration of innovation and growth capabilities. 	74.42%	<p>The Board determined that 74.42% of this tranche would vest, which is equivalent to an on target performance level. This was based on an overall assessment of management's achievements against each of the four nominated criteria. Key factors taken into account by the Board are as follows:</p> <ul style="list-style-type: none"> • Competitively efficient organisation: Significant progress has been made in embedding continuous business improvement processes throughout the company over the three year period, with key savings and efficiency targets via the company's Tabula Rasa program being met at a stretch or near stretch level (between target to stretch performance) • End-to-end value chain optimisation capability: This is an area which has seen significant improvements in understanding the end-to-end value chain in certain key Australian markets (e.g. to optimise shipping scheduling, thereby minimising demurrage and working capital costs). The Board however believes there is additional room for improvement across the organisation (between threshold to target performance) • Competitive supply capability: The establishment of our Ampol Singapore operations as the primary supply operation for the company has been an outstanding success for the company in terms of capability development and financial returns over the performance period. Our Singapore supply operations have significantly exceeded budget over this period and successfully established a standalone trading and shipping capability which has created significant value to the company. We have also expanded our crude sourcing and feedstock trading capabilities, east coast optimisation strategy (e.g. make or buy decisions around premium gasolines with our Lytton refinery) and embedded appropriate commodity risk management practices (stretch performance) • Innovation and growth: The last three years have seen significant development in innovation and growth. New businesses have been established in areas outside our core transport fuels business – in soil remediation and developing a sophisticated test area looking into the sale of software analytics to road-freight transport customers (i.e. telematics). We have created an ideas platform to capture innovative employee ideas, developing a pipeline of future opportunities to explore, together with the greater use of data analytics across our pricing optimisation and property decisions. The current innovation and growth focus of the organisation is now strongly on the Future of Convenience with the establishment of new convenience retail solutions which will continue to be rolled out in future years (target performance).

Remuneration Report continued

3. Senior Executive remuneration continued

3i. Remuneration tables

Table 4a. Total remuneration earned by Senior Executives in 2016 (unaudited, non-statutory disclosures)

The following table sets out the actual remuneration earned by Senior Executives in 2016. The value of remuneration includes the equity grants where the Senior Executive received control of the shares in 2016.

The purpose of this table is to provide a summary of the "past" and "present" remuneration outcomes received in either cash or equity. Due to this, the values in this table will not reconcile with those provided in the statutory disclosures in table 4b. For example, table 4b discloses the value of LTI grants which may or may not vest in future years, whereas this table discloses the value of LTI grants from previous years which vested in 2016.

Dollars	Salary and fees ⁽ⁱ⁾	Other remuneration ⁽ⁱⁱ⁾	Bonus (STI)	Deferred STI vested in the year	LTI vested during the year ⁽ⁱⁱⁱ⁾	Remuneration "earned" for 2016 ^(iv)
Julian Segal (Managing Director & CEO) ^(v)						
2016	2,223,500	134,205	1,063,792	–	4,384,357	7,805,854
Andrew Brewer (Executive General Manager, Supply Chain Operations) ^(v)						
2016	772,556	89,207	343,692	–	433,606	1,639,061
Viv Da Ros (Chief Information Officer) ^(vi)						
2016	32,386	3,638	–	–	–	36,024
Simon Hepworth (Chief Financial Officer)						
2016	827,429	242,807	470,506	–	964,276	2,505,018
Peter Lim (Executive General Manager, Legal & Corporate Affairs) ^{(v)(vii)}						
2016	593,199	62,472	196,603	–	622,660	1,474,934
Adam Ritchie (Executive General Manager, Supply) ^{(v)(viii)}						
2016	1,452,953	49,746	370,057	–	98,506	1,971,262
Bruce Rosengarten (Executive General Manager, Commercial) ^(v)						
2016	897,063	62,539	303,601	–	521,336	1,784,539
Lyndall Stoyles (Executive General Manager, Legal & Corporate Affairs) ^(ix)						
2016	104,762	16,037	–	–	–	120,799
Joanne Taylor (Executive General Manager, Human Resources) ^{(v)(x)}						
2016	464,339	45,092	242,963	–	–	752,394
Louise Warner (Executive General Manager, Fuels) ^{(v)(xi)}						
2016	167,559	55,138	80,656	–	–	303,353
Simon Willshire (Executive General Manager, Human Resources) ^{(v)(xii)}						
2016	201,310	16,414	–	–	635,343	853,067
Total remuneration: Senior Executives						
2016	7,737,056	777,295	3,071,870	–	7,660,084	19,246,305

Notes:

- ⁽ⁱ⁾ Salary and fees comprises base salary and cash payments in lieu of employer superannuation (on 2016 base salary and/or on STI payments made in respect of the 2015 performance year paid in 2016).
- ⁽ⁱⁱ⁾ Other remuneration includes the cash value of non-monetary benefits, superannuation, annual leave and long service leave entitlements, and any fringe benefits tax payable on non-monetary benefits.
- ⁽ⁱⁱⁱ⁾ This refers to equity based plans from prior years that have vested in the current year. The value is calculated using the closing share price of Company shares on the vesting date. The 2016 figures reflect the strong performance in respect of the LTI that was granted in 2013 and that operated over the performance period from 1 January 2013 to 31 December 2015. Over this period, Caltex's TSR was 200% and the Caltex share price increased from \$19.21 to \$37.70. At the time of vesting, the Caltex share price was \$33.82. For Mr Rosengarten, this is the value of the third tranche of sign-on restricted shares granted in 2013 which vested in November 2016. For Mr Ritchie, this is the value of the first tranche of sign-on restricted shares granted in 2015 which vested in April 2016.
- ^(iv) This refers to the total value of remuneration earned during 2016, being the sum of the prior columns.
- ^(v) These Senior Executives elect to receive an equivalent cash payment in lieu of employer superannuation that is in excess of the quarterly Superannuation Guarantee Maximum.
- ^(vi) Mr Da Ros commenced employment on 12 December 2016 and his remuneration is disclosed from this date.
- ^(vii) Mr Lim ceased to be a KMP on 7 December 2016, but remains an employee, utilising annual and long service leave.
- ^(viii) Mr Ritchie ceased employment on 31 December 2016. The 'salary and fees' figure includes the value of his notice paid in lieu, and a payment for past service made in respect of an additional six month employment restraint period.
- ^(ix) Ms Stoyles commenced employment on 24 October 2016 and her remuneration is disclosed from this date.
- ^(x) Ms Taylor commenced employment on 5 February 2016 and her remuneration is disclosed from this date.
- ^(xi) Ms Warner's remuneration relates to the period from 3 October 2016 when she was appointed Executive General Manager, Fuels and became a KMP.
- ^(xii) Mr Willshire ceased employment on 30 April 2016 and his remuneration is disclosed up to this date.

Table 4b. Total remuneration for Senior Executives in 2016 (statutory disclosures)

The following table sets out the audited total remuneration for Senior Executives in 2015 and 2016, calculated in accordance with statutory accounting requirements:

Dollars	PRIMARY		POST	OTHER	EQUITY	TOTAL		
	Salary and fees ⁽ⁱ⁾	Bonus (STI)	EMPLOYMENT	LONG TERM				
			Non-monetary benefits ⁽ⁱⁱ⁾	Super-annuation	Other ⁽ⁱⁱⁱ⁾	Share benefits ^(iv)	Rights benefits ^(v)	
Julian Segal (Managing Director & CEO) ^(vi)								
2016	2,267,804	1,063,792	13,695	25,000	51,206	–	2,193,138	5,614,635
2015	2,137,659	1,568,405	13,331	25,000	75,950	215,878	2,345,131	6,381,354
Andrew Brewer (Executive General Manager, Supply Chain Operations) ^(vi)								
2016	791,097	343,692	17,696	19,462	33,508	–	381,191	1,586,646
2015	715,473	491,330	23,308	24,354	38,771	58,770	325,401	1,677,407
Viv Da Ros (Chief Information Officer) ^(vii)								
2016	32,694	–	253	3,077	–	5,466	–	41,490
2015	–	–	–	–	–	–	–	–
Simon Hepworth (Chief Financial Officer)								
2016	852,336	470,506	21,642	139,294	56,964	–	518,398	2,059,140
2015	834,865	673,560	17,021	110,459	62,929	79,901	526,003	2,304,738
Peter Lim (Executive General Manager, Legal & Corporate Affairs) ^{(vi)(viii)}								
2016	599,020	196,603	21,079	24,808	10,764	–	326,084	1,178,358
2015	551,113	380,400	16,892	30,000	21,113	46,295	331,591	1,377,404
Adam Ritchie (Executive General Manager, Supply) ^{(vi)(ix)}								
2016	1,456,969	370,057	20,982	20,635	4,112	100,180	262,198	2,235,133
2015	625,900	667,890	143,037	30,858	–	74,998	107,306	1,649,989
Bruce Rosengarten (Executive General Manager, Commercial) ^(vi)								
2016	905,819	303,601	15,604	30,400	7,778	89,328	445,854	1,798,384
2015	838,952	574,241	13,899	30,400	25,486	309,814	290,461	2,083,253
Lyndall Stoyles (Executive General Manager, Legal & Corporate Affairs) ^(x)								
2016	105,787	–	4,725	9,952	334	–	–	120,799
2015	–	–	–	–	–	–	–	–
Joanne Taylor (Executive General Manager, Human Resources) ^{(vi)(xi)}								
2016	467,554	242,963	11,693	28,845	1,338	–	71,327	823,720
2015	–	–	–	–	–	–	–	–
Louise Warner (Executive General Manager, Fuels) ^{(vi)(xii)}								
2016	176,165	80,656	10,435	7,912	28,184	–	40,154	343,507
2015	–	–	–	–	–	–	–	–
Simon Willshire (Executive General Manager, Human Resources) ^{(vi)(xiii)}								
2016	201,310	–	1,914	14,500	–	–	151,019	368,743
2015	559,943	383,945	14,195	26,446	15,526	49,463	338,474	1,387,992
Total remuneration: Senior Executives								
2016	7,856,555	3,071,870	139,718	323,886	194,188	194,974	4,389,363	16,170,554
2015	6,263,905	4,739,771	241,683	277,517	239,775	835,119	4,264,367	16,862,137

Remuneration Report continued

3. Senior Executive remuneration continued

3i. Remuneration tables continued

Table 4b. Total remuneration for Senior Executives in 2016 (statutory disclosures) continued

Notes:

- ⁽ⁱ⁾ Salary and fees includes base salary and cash payments in lieu of employer superannuation. For 2016, the cash payments in lieu of employer superannuation are on 2016 base salary and/or on STI payments made in respect of the 2015 performance year paid in 2016.
- ⁽ⁱⁱ⁾ The non-monetary benefits received by Senior Executives include car parking benefits, employee StarCard benefits, the payment of the default premiums for death and total and permanent disability insurance cover and related fringe benefits tax payments made by Caltex. For Mr Ritchie, it also includes the value of relocation (including rental and tax) assistance associated with his relocation from the United States (2015 figures only).
- ⁽ⁱⁱⁱ⁾ Other long term remuneration represents the long service leave for all Senior Executives.
- ^(iv) For the 2015 values, Share benefits includes the deferred unrestricted component of the 2014 STI that vested in October 2015, but where the shares are still subject to clawback and a mandatory two year dealing restriction from grant date. For Messrs Da Ros, Ritchie and Rosengarten, this also includes the value of the restricted shares (calculated under the accounting standards) granted to each Senior Executive in 2016, 2015 and 2013.
- ^(v) These values have been calculated under accounting standards. The values may not represent the future value that the Senior Executive will receive, as the vesting of the performance rights is subject to Caltex achieving pre-defined performance measures.
- ^(vi) These Senior Executives elect to receive an equivalent cash payment in lieu of employer superannuation that is in excess of the quarterly Superannuation Guarantee Maximum.
- ^(vii) Mr Da Ros commenced employment on 12 December 2016 and his remuneration is disclosed from this date.
- ^(viii) Mr Lim ceased to be a KMP on 7 December 2016, but remains an employee, utilising annual and long service leave.
- ^(ix) Mr Ritchie ceased employment on 31 December 2016. This figure includes the value of his notice paid in lieu, and a payment for past service of \$403,500 made in respect of an additional six month employment restraint period.
- ^(x) Ms Stoyles commenced employment on 24 October 2016 and her remuneration is disclosed from this date.
- ^(xi) Ms Taylor commenced employment on 5 February 2016 and her remuneration is disclosed from this date.
- ^(xii) Ms Warner's remuneration relates to the period from 3 October 2016 when she was appointed Executive General Manager Fuels and became a KMP.
- ^(xiii) Mr Willshire ceased employment on 30 April 2016 and his remuneration is disclosed up to this date.

Table 5. Unvested shareholdings of Senior Executives during 2016

	Unvested shares at 31 Dec 2015	Restricted shares granted	Shares vested from prior performance years	Forfeited	Unvested shares at 31 Dec 2016
Adam Ritchie ⁽ⁱ⁾	8,741	–	(2,914)	–	5,827
Bruce Rosengarten ⁽ⁱⁱ⁾	16,932	–	(16,932)	–	–

Notes:

- ⁽ⁱ⁾ The restricted shares awarded to Mr Ritchie represent the grant received on commencement with Caltex in lieu of the LTI forgone with his previous employer (refer to section 3g for further detail). One third of this award vested in April 2016, one third will vest in April 2017 and the final third will vest in April 2018.
- ⁽ⁱⁱ⁾ For Mr Rosengarten, the unvested shares as at 31 December 2015 represent the unvested portion of the sign-on restricted shares awarded to Mr Rosengarten on commencement with Caltex in lieu of the LTI forgone with his previous employer. Fifty percent (50%) of this award vested in November 2015, and the remaining 50% of the award vested in November 2016.

Mr Da Ros will receive unvested shares in 2017 in lieu of STI and LTI forgone with his previous employer (refer to section 3g for further detail). These shares were to have been awarded on commencement of employment in December 2016, but share purchases were not permitted at this time under the Caltex Securities Trading Policy.

Table 6. Restricted share grants to Senior Executives – other awards

The following table provides an estimate of the future cost to Caltex of unvested restricted shares based on the progressive vesting of the restricted shares. One new award of restricted shares will be made in respect of the 2016 Financial Year to the Chief Information Officer on commencement of employment in lieu of the unvested STI and LTI which lapsed upon his resignation with his prior employer. One award was made previously to the Executive General Manager, Supply in 2015 also in respect of unvested LTI which lapsed upon his resignation with his prior employer. The estimated future cost of the unvested shares has been supplied below.

	Type of award	Year of award	Vested (% of shares vested)	Future years when shares will vest	Future cost to Caltex of unvested shares (\$)
Adam Ritchie	Sign on	2015	58%	2017 (33%) 2018 (9%)	124,814
Viv Da Ros ⁽ⁱ⁾	Sign on	2016	0%	2017 (33%) 2018 (33%) 2019 (34%)	315,000

Note:

- ⁽ⁱ⁾ Mr Da Ros will receive unvested sign-on restricted shares in 2017 in lieu of STI and LTI forgone with his previous employer (refer to section 3g for further detail).

Table 7. 2016 Senior Executive performance rights

Long term incentives for Senior Executives are awarded as performance rights under the CEIP as explained in section 3d. The following table sets out details of movements in performance rights held by Senior Executives during the year, including details of the performance rights that vested.

	Performance rights at 1 Jan 2016 ⁽ⁱ⁾	Granted in 2016 ⁽ⁱⁱ⁾	Vested in 2016 ⁽ⁱⁱⁱ⁾	Lapsed in 2016 ^(iv)	Balance at 31 Dec 2016
Julian Segal	424,187	101,505	(129,638)	(31,422)	364,632
Andrew Brewer	60,303	20,000	(12,821)	(3,109)	64,373
Simon Hepworth	95,329	24,295	(28,512)	(6,913)	84,199
Peter Lim	60,456	15,250	(18,411)	(4,494)	52,831
Adam Ritchie	22,208	22,875	–	(26,465)	18,618
Bruce Rosengarten	56,373	22,875	–	–	79,248
Joanne Taylor	–	14,175	–	–	14,175
Louise Warner	16,186	7,980	–	–	24,166
Simon Willshire	61,163	–	(18,786)	(20,936)	21,441

Notes:

⁽ⁱ⁾ This relates to the 2013, 2014 and 2015 performance rights. If the service based and performance based vesting conditions are achieved, the 2014 and 2015 performance rights will vest in 2017 and 2018 respectively.

⁽ⁱⁱ⁾ This relates to the 2016 performance rights. If the service based and performance based vesting conditions are achieved, these performance rights will vest in 2019.

⁽ⁱⁱⁱ⁾ This relates to the 2013 performance rights of which 80.49% vested. Senior Executives received one Caltex share for each right that vested.

^(iv) This relates to the 2013 performance rights of which 19.51% lapsed.

Table 8. Valuation assumptions of performance rights granted

The fair value of performance rights granted under the CEIP is determined independently by Ernst & Young using an appropriate numerical pricing model. The model takes into account a range of assumptions and the fair values for each year of grant have been calculated incorporating the assumptions below.

	2016 GRANT ⁽ⁱ⁾⁽ⁱⁱ⁾		2015 GRANT ⁽ⁱ⁾		2014 GRANT ⁽ⁱ⁾	
	Relative TSR against S&P/ASX 100	Strategic measure	Relative TSR against S&P/ASX 100	FCF and strategic measure	Relative TSR against S&P/ASX 100	FCF and strategic measures
Grant date	4 April 2016/ 13 May 2016	4 April 2016/ 13 May 2016	7 April 2015	7 April 2015	7 April 2014	7 April 2014
Vesting date	1 April 2019	1 April 2019	1 April 2018	1 April 2018	1 April 2017	1 April 2017
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil
Volatility	26%	26%	30%	30%	35%	35%
Risk free interest rate	1.88%/1.58%	1.88%/1.58%	1.75%	1.75%	3.02%	3.02%
Dividend yield	3.3%/2.8%	3.3%/2.8%	3.2%	3.2%	2.7%	2.7%
Expected life (years)	3.0/2.9 years	3.0/2.9 years	3.0	3.0	3.0	3.0
Share price at grant date	\$33.86/\$34.20	\$33.86/\$34.20	\$34.94	\$34.94	\$21.85	\$21.85
Valuation per right	\$13.34/\$12.43	\$30.68/\$31.55	\$15.69	\$31.76	\$12.57	\$20.16

Notes:

⁽ⁱ⁾ Market performance measures, such as relative TSR, must be incorporated into the option-pricing model valuation used for the CEIP performance rights, which is reflected in the valuation per performance right. Non-market vesting conditions such as free cash flow and strategic measures are not taken into account when determining the value of the performance right. This explains the higher valuation for these performance rights. However, the value of the free cash flow and strategic measures may be discounted during the performance period to reflect the Board's assessment of the probability of the number of equity instruments that will vest based on progress against the performance measures. These values will be reflected in table 4b.

⁽ⁱⁱ⁾ In 2016, two separate CEIP performance grants were made. All Senior Executive awards, excluding the MD & CEO, were made on 4 April 2016. The MD & CEO's award was made on 13 May 2016 after shareholder approval for the award was obtained at the 2016 AGM held on 5 May 2016. The terms of the awards, including all performance hurdles and vesting conditions are the same.

Remuneration Report continued

3. Senior Executive remuneration continued

3i. Remuneration tables continued

Table 9. Mix of fixed and variable remuneration based on 2016 statutory remuneration table

The proportion of each Senior Executive's remuneration for 2016 that was fixed, and the proportion that was subject to a performance measure, is outlined below. The percentages are based on the 2016 statutory remuneration disclosures in table 4b (including the LTI values which are determined in accordance with accounting standards), and do not correspond to the target remuneration percentages outlined earlier in this report in section 3b.

	Fixed	Variable (including short and long term incentive payments)
Julian Segal	42%	58%
Andrew Brewer	54%	46%
Viv Da Ros	87%	13%
Simon Hepworth	52%	48%
Peter Lim	56%	44%
Adam Ritchie	67%	33%
Bruce Rosengarten	53%	47%
Lyndall Stoyles	100%	0%
Joanne Taylor	62%	38%
Simon Wilshire	59%	41%
Louise Warner	65%	35%

Table 10. FY16 STI outcomes

The table below sets out the actual STI outcome for each Senior Executive as a percentage of their maximum STI opportunity.

Senior Executives ⁽ⁱ⁾	2016	2015
Julian Segal	41%	73%
Andrew Brewer	49%	72%
Simon Hepworth	55%	74%
Peter Lim	40%	72%
Adam Ritchie	46%	78%
Bruce Rosengarten	38%	67%
Joanne Taylor ⁽ⁱⁱ⁾	58%	–
Louise Warner ⁽ⁱⁱⁱ⁾	52%	n/a
Simon Willshire	n/a	76%
Average^(iv)	47%	73%

Notes:

⁽ⁱ⁾ Mr Da Ros and Ms Stoyles commenced in December and October 2016 respectively and were not eligible to receive an STI for the 2016 performance year.

⁽ⁱⁱ⁾ Ms Taylor commenced employment in February 2016.

⁽ⁱⁱⁱ⁾ Ms Warner was not a KMP during the 2015 financial year.

^(iv) This is the average for those KMP who were eligible to receive an STI payment in this year.

4. Non-executive Director fees

4a. Our approach to Non-executive Director fees

Caltex's business and corporate operations are managed under the direction of the Board on behalf of shareholders. The Board oversees the performance of Caltex management in seeking to deliver superior business and operational performance and long term growth in shareholder value. The Board recognises that providing strong leadership and strategic guidance to management is important to achieve our goals and objectives.

Under the Caltex Constitution and the ASX Listing Rules, the total annual fee pool for Non-executive Directors is determined by shareholders. Within this aggregate amount, Non-executive Director fees are reviewed by the Human Resources Committee, taking into account recommendations from an independent remuneration consultant, and set by the Board.

Fees for Non-executive Directors are set at a level to attract and retain directors with the necessary skills and experience to allow the Board to have a proper understanding of, and competence to deal with, current and emerging issues for Caltex's business. The Board seeks to attract directors with different skills, experience expertise and diversity. Additionally, when setting Non-executive Director fees, the Board takes into account factors such as external market data on fees and the size and complexity of Caltex's operations.

The Non-executive Directors' fees are fixed and the Non-executive Directors do not participate in any Caltex incentive plan. Caltex does not have a retirement plan for Non-executive Directors.

4b. Board and Committee fees for 2016

The current maximum annual fee pool for Non-executive Directors is \$2.5 million, including statutory entitlements. This amount was approved by shareholders at the 2016 Annual General Meeting.

Table 11. 2016 Non-executive Director fees

The table below outlines the 2016 Non-executive Director fees. As outlined in the 2015 Remuneration Report, the base fees for the Chairman and Non-executive Directors increased from 1 January 2016 by 2.8%. All other Committee fees remained unchanged from 2015.

	BOARD		COMMITTEES ⁽ⁱ⁾	
	Chairman	Member	Committee Chairman	Member
2016 fee ⁽ⁱⁱ⁾	\$492,360	\$164,120	\$36,000	\$18,000

Notes:

⁽ⁱ⁾ Comprising the Audit Committee, Human Resources Committee, and OHS & Environmental Risk Committee. No fees are paid to the Chairman or Members of the Nomination Committee.

⁽ⁱⁱ⁾ Caltex pays superannuation of 9.5% for Non-executive Directors in addition to the above fees.

Remuneration Report continued

4. Non-executive Director fees continued

4c. Remuneration table

Table 12. Non-executive Director fees in 2016 (statutory disclosures)

The following table sets out the audited Non-executive Director fees in 2015 and 2016 calculated in accordance with statutory accounting requirements and which reflects the actual remuneration received during the financial year. Non-executive Directors are not eligible to receive any cash based or equity based incentives.

	PRIMARY		POST EMPLOYMENT	OTHER LONG TERM	TOTAL
Dollars	Salary and fees	Non- monetary benefits	Super- annuation ⁽ⁱ⁾	Other	
Current Non-executive Directors					
Greig Gailey (Chairman)					
2016	507,017	430	48,167	–	555,614
2015	249,160	558	23,415	–	273,133
Trevor Bourne					
2016	220,551	761	20,952	–	242,264
2015	231,650	914	22,007	–	254,571
Steven Gregg					
2016	195,258	–	18,549	–	213,807
2015	36,284	–	3,447	–	39,731
Bruce Morgan					
2016	220,551	791	20,952	–	242,294
2015	231,650	1,082	22,007	–	254,739
Barbara Ward					
2016	218,120	197	20,721	–	239,038
2015	155,738	79	14,368	–	170,185
Penny Winn					
2016	179,689	–	17,070	–	196,759
2015	26,608	–	2,528	–	29,136
Former Non-executive Directors					
Elizabeth Bryan (Chairman)					
2016	–	–	–	–	–
2015	501,057	278	17,926	–	519,261
Richard Brown					
2016	–	–	–	–	–
2015	40,241	–	–	–	40,241
Barbara Burger					
2016	–	–	–	–	–
2015	44,778	–	–	–	44,778
Ryan Krogmeier					
2016	–	–	–	–	–
2015	44,778	–	–	–	44,778
Total: Non-executive Directors					
2016	1,541,186	2,179	146,411	–	1,689,776
2015	1,561,944	2,911	105,698	–	1,670,553

Note:

⁽ⁱ⁾ Superannuation contributions are made on behalf of Non-executive Directors to satisfy Caltex's obligations under the Superannuation Guarantee legislation. Fees paid to Non-executive Directors may be subject to fee sacrifice arrangements for superannuation. Non-executive Directors may direct Caltex to pay superannuation contributions referable to fees in excess of the maximum earnings base as cash.

5. Shareholdings of Key Management Personnel

Table 13: Shareholdings of Key Management Personnel

The movement during the reporting period in the number of shares of Caltex Australia Limited held directly or indirectly by each KMP, including their personally related entities, is below: The table does not include unvested shareholdings which are disclosed in Tables 5 and 6 in section 3(i).

	Held at 31 Dec 2015	Purchased	Vested	Sold	Held at 31 Dec 2016
Directors					
Greig Gailey	5,000	–	–	–	5,000
Trevor Bourne	5,395	–	–	–	5,395
Steven Gregg	–	–	–	–	–
Bruce Morgan	10,500	–	–	–	10,500
Barbara Ward	–	5,000	–	–	5,000
Penny Winn	1,261	3,650	–	–	4,911
Senior Executives					
Julian Segal	141,906	–	129,638	(48,614)	222,930
Andrew Brewer	25,073	–	12,821	(30,911)	6,983
Simon Hepworth	23,681	–	28,512	(35,000)	17,193
Peter Lim	8,332	–	18,411	(15,000)	11,743
Adam Ritchie	220	–	–	–	220
Bruce Rosengarten	4,389	–	16,932	–	21,321
Simon Willshire	3,179	–	18,786	(16,965)	5,000
Louise Warner	451	–	–	–	451
Joanne Taylor	–	–	–	–	–
Lyndall Stoyles	–	–	–	–	–
Viv Da Ros	–	–	–	–	–

	Held at 31 Dec 2014	Purchased	Vested	Sold	Held at 31 Dec 2015
Directors					
Greig Gailey	5,000	–	–	–	5,000
Trevor Bourne	5,395	–	–	–	5,395
Steven Gregg	–	–	–	–	–
Bruce Morgan	10,500	–	–	–	10,500
Barbara Ward	–	–	–	–	–
Penny Winn	–	1,261	–	–	1,261
Elizabeth Bryan	14,946	–	–	–	14,946
Ryan Krogmeier	–	–	–	–	–
Richard Brown	–	–	–	–	–
Barbara Burger	–	–	–	–	–
Senior Executives					
Julian Segal	148,550	–	269,356	(276,000)	141,906
Andrew Brewer	25,012	–	27,763	(27,702)	25,073
Simon Hepworth	11,839	–	61,342	(49,500)	23,681
Peter Lim	15,424	–	35,908	(43,000)	8,332
Adam Ritchie	–	220	2,913	(2,913)	220
Bruce Rosengarten	–	–	21,321	(16,932)	4,389
Simon Willshire	5,157	–	40,207	(42,185)	3,179

Remuneration Report continued

6. Other Key Management Personnel transactions

Apart from as disclosed in the indemnity section of the Directors' Report, no KMP have entered into a material contract, loan or other transaction with any entity in the Caltex Group during the year ended 31 December 2016 (2015: nil).

Directors' interests

The directors' relevant interests in the shares of Caltex Australia Limited at 31 December 2016 are set out in the following table.

Director	Shareholding	Nature of interest
Greig Gailey	5,000	Indirect interest
Julian Segal	222,930	Direct interest (176,695 shares) Indirect interest (46,235 shares) Mr Segal also has a direct interest in 364,632 performance rights
Trevor Bourne	5,395	Direct interest (2,395 shares) Indirect interest (3,000 shares)
Steven Gregg	Nil	N/A
Bruce Morgan	10,500	Indirect interest
Barbara Ward	5,000	Direct interest
Penny Winn	4,911	Direct interest

Note:

No director has acquired or disposed of any relevant interests in the company's shares in the period from 1 January 2017 to the date of this Annual Report.

Board and Committee meetings

The Caltex Board met 17 times during the year ended 31 December 2016. In addition, directors attended Board strategy sessions and workshops, site visits and special purpose committee meetings during the year.

In 2016, the Board convened the following standing committees:

- Audit Committee
- Human Resources Committee
- Nomination Committee
- OHS & Environmental Risk Committee.

Special purpose committees were convened on six occasions in 2016.

The number of Board and Committee meetings attended by each director during 2016 is set out in the following table:

DIRECTOR	BOARD ⁽ⁱ⁾		AUDIT COMMITTEE		HUMAN RESOURCES COMMITTEE		NOMINATION COMMITTEE		OHS & ENVIRONMENTAL RISK COMMITTEE		OTHER ⁽ⁱⁱⁱ⁾	
	A ⁽ⁱⁱ⁾	B	A	B	A	B	A	B	A	B	A	B
Current directors												
Greig Gailey	17	16	–	–	–	–	4	4	–	–	6	6
Julian Segal	17	17	–	–	–	–	–	–	–	–	6	6
Trevor Bourne	17	15	–	–	4	4	4	4	4	4	–	–
Steven Gregg	17	17	4	4	–	–	4	4	4	4	6	5
Bruce Morgan	17	16	4	4	–	–	4	4	4	4	6	5
Barbara Ward AM	17	17	4	4	4	4	4	4	–	–	–	–
Penny Winn	17	17	–	–	4	4	4	4	–	–	–	–

Notes:

A: Number of meetings required to attend.

B: Number of meetings attended.

⁽ⁱ⁾ Includes out of session meetings. Excludes strategy workshops and briefings.

⁽ⁱⁱ⁾ All directors are invited to and regularly attend Committee meetings; this table lists attendance only where a director is a member of the relevant Committee.

⁽ⁱⁱⁱ⁾ Includes special purpose Committee meetings.

Shares and interests

The total number of ordinary shares on issue at the date of this report and during 2016 is 261 million shares (2015: 270 million shares). The total number of performance rights on issue at the date of this report is 1,296,263 (2015: 1,482,001). 460,515 performance rights were issued during 2016 (2015: 434,972). 646,253 performance rights vested or lapsed during the year (2015: 971,082). On vesting, Caltex is required to allocate one ordinary share for each performance right. For each right that vests, Caltex intends to purchase a share on market following vesting. No new shares were issued as a result of the vesting of performance rights during 2016.

Non-audit services

KPMG is the external auditor of Caltex Australia Limited and the Caltex Australia Group.

In 2016, KPMG performed non-audit services for the Caltex Australia Group in addition to its statutory audit and review engagements for the full year and half year.

KPMG received or was due to receive the following amounts for services performed for the Caltex Australia Group during the year ended 31 December 2016:

- for non-audit services – total fees of \$247,300 (2015: \$299,000); these services included taxation services (\$173,200) and other assurance services (\$74,100), and
- for audit services – total fees of \$1,082,700 (2015: \$1,000,500).

The Board has received a written advice from the Audit Committee in relation to the independence of KPMG, as external auditor, for 2016. The advice was made in accordance with a resolution of the Audit Committee.

The directors are satisfied that:

- the provision of non-audit services to the Caltex Australia Group during the year ended 31 December 2016 by KPMG is compatible with the general standard of independence for auditors imposed by the *Corporations Act*, and
- the provision of non-audit services during the year ended 31 December 2016 by KPMG did not compromise the auditor independence requirements of the *Corporations Act* for the following reasons:
 - the provision of non-audit services in 2016 was consistent with the Board's policy on the provision of services by the external auditor
 - the non-audit services provided in 2016 are not considered to be in conflict with the role of external auditor, and
 - the directors are not aware of any matter relating to the provision of the non-audit services in 2016 that would impair the impartial and objective judgement of KPMG as external auditor.

Company secretaries

The following persons are current company secretaries of Caltex and the Caltex Group as at the date of this report.

Lyndall Stoyles

Ms Stoyles was appointed to this position in October 2016 when she joined Caltex. Ms Stoyles manages Caltex's legal, secretariat, internal audit, compliance and corporate affairs teams. As General Counsel, she is responsible for providing legal advice to Caltex's Board, CEO and broader leadership team. She is also a Company Secretary to the Board.

Prior to joining Caltex, Ms Stoyles was Group General Counsel and Company Secretary for former logistics business Asciano and spent more than a decade with Clayton Utz advising on competition, commercial and corporate law issues in a broad range of industries. Lyndall holds a Diploma of Law/Masters of Law from the University of Sydney.

Kara Nicholls

Ms Nicholls has nearly 20 years' experience across global equity capital markets including wide-ranging commercial and corporate compliance involvement. She brings extensive knowledge of the Australian Securities Exchange listing rules, corporate governance and company compliance and administration to the Board. Prior to joining Caltex, she has held roles with Woolworths Limited, Arrium Limited, Macquarie Group Limited and the Australian Securities Exchange Limited.

She is a Non-executive Director and Company Secretary of the Gidget Foundation Australia, member of the Advisory Board of Macquarie University's Department of Accounting and Corporate Governance (DAB) and Chair of the DAB's Nomination Committee.

She is a Chartered Secretary, JP, Fellow of the Governance Institute of Australia, Member of the Australian Institute of Company Directors and holds a Bachelor of Business and Master of Legal Studies from the University of Technology Sydney.

Indemnity and insurance

Caltex has paid insurance premiums for directors' and officers' liability for current and former directors and officers of the company, its subsidiaries and related entities.

The insurance policies prohibit disclosure of the nature of the liabilities insured against and the amount of the premiums.

The Constitution provides that each officer of the company and, if the Board considers it appropriate, any officer of a subsidiary of the company out of the assets of the company to the relevant extent against any liability incurred by the officer in or arising out of the conduct of the business of the company or the subsidiary (as the case may be) or in or arising out of the discharge of the duties of the officer, unless incurred in circumstances that the Board resolves do not justify indemnification. Where the Board considers it appropriate, the company may execute a documentary indemnity in any form in favour of any officer of the company or a subsidiary of the company, provided that such terms are not inconsistent with the Constitution. For more information, refer to the Constitution which is located on our website.


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 audit for the financial year ended 31 December 2016 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.



KPMG

Sydney, 21 February 2017

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.




Greg Boydell
Partner

Liability limited by a scheme approved under Professional Standards Legislation.

Rounding of amounts

Caltex is an entity to which Australian Securities and Investments Commission (ASIC) Class Order 98/100 (CO98/100) applies. Amounts in the 2016 Directors' Report and the 2016 Financial Report have been rounded off to the nearest thousand dollars (unless otherwise stated) in accordance with CO98/100.

The Directors' Report is made in accordance with a resolution of the Caltex Board.



G Gailey
Chairman



J Segal
Managing Director & CEO

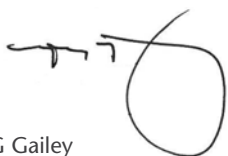
Sydney, 21 February 2017

DIRECTORS' DECLARATION

The Caltex Board has declared that:

- (a) the directors have received the declarations required by section 295A of the *Corporations Act* from the Managing Director & CEO and the Chief Financial Officer for the year ended 31 December 2016
- (b) in the directors' opinion, the financial statements and notes for the year ended 31 December 2016, and the Remuneration Report, are in accordance with the *Corporations Act*, including:
 - (i) section 296 (compliance with accounting standards), and
 - (ii) section 297 (true and fair view)
- (c) in the directors' opinion, there are reasonable grounds to believe that Caltex will be able to pay its debts as and when they become due and payable
- (d) a statement of compliance with International Financial Reporting Standards has been included in note A to the financial statements for the year ended 31 December 2016, and
- (e) at the date of this declaration, there are reasonable grounds to believe that the companies in the Caltex Australia Group that are parties to the Deed of Cross Guarantee dated 22 December 1992 with Caltex Australia Limited (including companies added by Assumption Deed), as identified in note F1 to the financial statements for the year ended 31 December 2016, will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee.

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



G Gailey
Chairman

Sydney, 21 February 2017



J Segal
Managing Director & CEO

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of the Group.

In our opinion, the accompanying **Financial Report** of Caltex Australia Limited is in accordance with the *Corporations Act 2001*, including

- giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the Corporations Regulations 2001.

The **Group** consists of Caltex Australia Limited (the Company) and the entities it controlled at the year end and from time to time during the financial year.

The **Financial Report** comprises the:

- consolidated statement of financial position as at 31 December 2016;
- consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended;
- notes, including a summary of significant accounting policies; and
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the relevant ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code). We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The **Key Audit Matters** we identified are:

- Site remediation and dismantling provisions, and
- Taxation of Singaporean entities.

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

SITE REMEDIATION AND DISMANTLING PROVISIONS (A\$385,519K)

Refer to Note C6 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>The determination of site remediation and dismantling provisions relating to oil refining, distribution and marketing sites, including the Kurnell refinery, following its conversion to an import terminal is considered a key audit matter. This is due to the inherent complexity in estimating future environmental remediation costs, particularly those that are forecast to be incurred several years in the future.</p> <p>This is influenced by:</p> <ul style="list-style-type: none">• Current environmental and regulatory requirements, and the impact to the completeness of environmental remediation activities incorporated into the provision estimate;• The expected environmental management strategy, and the nature of costs incorporated into the provision estimate;• Third party expert advice sought by management regarding their obligations and estimates of future costs;• Historical experience, and whether this is a reasonable predictor when evaluating forecast costs; and• The expected timing of the expenditure.	<p>Our audit procedures to critically appraise management's determination of site remediation and dismantling provisions included:</p> <ul style="list-style-type: none">• Comparing the basis for recognition and measurement of remediation provisions for consistency with environmental and regulatory requirements;• Obtaining third party expert reports as well as internal and external underlying documentation for management's determination of future required activities, their timing, and associated cost estimations and comparing them to the nature and quantum of costs contained in the provision balance;• Assessing the competence, capability and objectivity of the Group's internal and external experts used in the determination of the provision estimate;• Testing the accuracy of historical remediation provisions by comparing to actual expenditure. We used this knowledge to challenge management's current cost estimations; and• Evaluating the completeness of the provisions through examination of the Group's operating locations, regulatory correspondence and responses from our independent request of the Group's external lawyers for confirmation of relevant matters.

TAXATION OF SINGAPOREAN ENTITIES

Refer to Note E1 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>The determination as to whether the earnings from the Group's Singaporean entities are subject to income tax in Australia under the regime for the taxation of controlled foreign company income is considered a key audit matter. This is due to the judgment required in assessing management's current estimate of taxation, which required senior audit team member and tax specialist involvement. The critical elements of this were:</p> <ul style="list-style-type: none">• The significant uncertainty surrounding the timing of resolution of the matter with the Australian Taxation Office (ATO) and the final tax rate that will be levied in respect of the Group's Singaporean entities' earnings; and• The judgment in management's current estimate of taxation by applying the Australian income tax rate of 30% to the Singaporean entities' earnings, which may exceed the actual tax that applies if the income is deemed to be non-assessable or only partially assessable in Australia.	<p>Our audit procedures included:</p> <ul style="list-style-type: none">• Working with our tax specialists to evaluate documentation prepared by the Group's internal and external advisors based on our specialists' experience and our understanding of the issue, including the current status of discussions with the ATO, expected timing for resolution and the extent of any potential changes to the estimate; and• Evaluating the disclosures of the Group by comparing them to our understanding of the matter and potential adjustments to future period income tax expense.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Other Information

Other Information is financial and non-financial information in Caltex Australia Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
 - implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
 - assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.
-

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

REPORT ON THE REMUNERATION REPORT

Opinion

We have audited the Remuneration Report included in the Directors' report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of Caltex Australia Limited for the year ended 31 December 2016, complies with *Section 300A* of the *Corporations Act 2001*.

Director's responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

Our responsibility is to express an opinion on the Remuneration Report, based on our Audit conducted in accordance with *Australian Auditing Standards*.



KPMG

Sydney, 21 February 2017



Greg Boydell
Partner

FINANCIAL STATEMENTS

Contents

Primary statements

- Consolidated income statement
- Consolidated statement of comprehensive income
- Consolidated balance sheet
- Consolidated statement of changes in equity
- Consolidated cash flow statement

Notes to the financial statements

A Basis of preparation

B Results for the year

- B1 Revenue and other income
- B2 Costs and expenses
- B3 Segment reporting
- B4 Earnings per share
- B5 Dividends

C Operating assets and liabilities

- C1 Receivables
- C2 Inventories
- C3 Intangibles
- C4 Property, plant and equipment
- C5 Payables
- C6 Provisions
- C7 Employee benefits

D Capital, funding and risk management

- D1 Interest bearing liabilities
- D2 Risk management
- D3 Capital management
- D4 Fair value of financial assets and liabilities
- D5 Issued capital

E Taxation

- E1 Income tax expense
- E2 Deferred tax

F Group structure

- F1 Controlled entities
- F2 Business combinations
- F3 Equity accounted investees
- F4 Joint venture operations
- F5 Parent entity disclosures

G Other information

- G1 Commitments
- G2 Contingent liabilities
- G3 Related party disclosures
- G4 Key management personnel
- G5 Notes to the cash flow statement
- G6 Auditor remuneration
- G7 Net tangible assets per share
- G8 New standards and interpretations not yet adopted
- G9 Events subsequent to the end of the year

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

Thousands of dollars	Note	2016	2015
Revenue	B1	17,933,201	19,926,546
Replacement cost of goods sold (excluding product duties and taxes and inventory (losses)/gains)		(11,154,208)	(12,903,682)
Product duties and taxes		(4,908,353)	(4,941,311)
Inventory (losses)/gains		122,329	(193,418)
Cost of goods sold – historical cost		(15,940,232)	(18,038,411)
Gross profit		1,992,969	1,888,135
Other income	B1	1,805	23,641
Net foreign exchange losses		(3,955)	(26,616)
Selling and distribution expenses		(923,800)	(938,501)
General and administration expenses		(132,066)	(135,309)
Results from operating activities		934,953	811,350
Finance costs		(79,623)	(82,202)
Finance income		7,051	5,490
Net finance costs	B2	(72,572)	(76,712)
Share of net profit of entities accounted for using the equity method	F3.4	1,382	5,008
Profit before income tax expense		863,763	739,646
Income tax expense	E1	(253,283)	(217,025)
Net profit		610,480	522,621
Profit attributable to:			
Equity holders of the parent entity		609,940	521,507
Non-controlling interest		540	1,114
Net profit		610,480	522,621
Basic and diluted earnings per share:			
Historical cost – cents per share	B4	231.6	193.2

There are no significant items before tax included in the consolidated income statement for the year ended 31 December 2016.

Detail of the prior year gain (2015: \$31,924,000 gain before tax) is 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 YEAR ENDED 31 DECEMBER 2016

Thousands of dollars	2016	2015
Profit for the period	610,480	522,621
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Actuarial gain/(loss) on defined benefit plans	(220)	1,507
Tax on items that will not be reclassified to profit or loss	66	(452)
Total items that will not be reclassified to profit or loss	(154)	1,055
Items that may be reclassified subsequently to profit or loss:		
Foreign operations – foreign currency translation differences	6,698	7,716
Effective portion of changes in fair value of cash flow hedges	(595)	23,690
Net change in fair value of cash flow hedges reclassified to profit or loss	893	(22,905)
Tax on items that may be reclassified subsequently to profit or loss	(89)	(234)
Total items that may be reclassified subsequently to profit or loss	6,907	8,267
Other comprehensive income for the period, net of income tax	6,753	9,322
Total comprehensive income for the period	617,233	531,943
Attributable to:		
Equity holders of the parent entity	616,693	530,829
Non-controlling interest	540	1,114
Total comprehensive income for the period	617,233	531,943

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

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2016

Thousands of dollars	Note	2016	2015
Current assets			
Cash and cash equivalents		244,857	263,764
Receivables	C1	747,585	681,542
Inventories	C2	1,080,920	969,885
Current tax assets		9,524	51,167
Other		60,769	38,881
Total current assets		2,143,655	2,005,239
Non-current assets			
Receivables	C1	2,555	2,824
Investments accounted for using the equity method	F3	10,394	9,412
Intangibles	C3	195,335	182,626
Property, plant and equipment	C4	2,690,865	2,602,865
Deferred tax assets	E2	238,083	298,158
Employee benefits	C7	432	1,411
Other		21,415	2,206
Total non-current assets		3,159,079	3,099,502
Total assets		5,302,734	5,104,741
Current liabilities			
Payables	C5	1,079,389	966,806
Interest bearing liabilities	D1	134	122
Current tax liabilities		167,569	30,478
Employee benefits	C7	96,379	109,993
Provisions	C6	158,985	110,350
Total current liabilities		1,502,456	1,217,749
Non-current liabilities			
Payables	C5	8,356	9,743
Interest bearing liabilities	D1	698,340	695,238
Employee benefits	C7	38,637	50,669
Provisions	C6	244,730	343,537
Total non-current liabilities		990,063	1,099,187
Total liabilities		2,492,519	2,316,936
Net assets		2,810,215	2,787,805
Equity			
Issued capital	D5	524,944	543,415
Treasury stock		(344)	(644)
Reserves		(7,955)	(9,223)
Retained earnings		2,280,754	2,241,981
Total parent entity interest		2,797,399	2,775,529
Non-controlling interest		12,816	12,276
Total equity		2,810,215	2,787,805

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 YEAR ENDED 31 DECEMBER 2016

Thousands of dollars	Issued capital	Treasury stock	Foreign currency translation reserve	Hedging reserve	Equity compensation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2015	543,415	(607)	1,206	(2,027)	(2,677)	1,981,319	2,520,629	11,962	2,532,591
Total comprehensive income for the year									
Profit for the year	–	–	–	–	–	521,507	521,507	1,114	522,621
Total other comprehensive income	–	–	7,716	551	–	1,055	9,322	–	9,322
Total comprehensive income for the year	–	–	7,716	551	–	522,562	530,829	1,114	531,943
Own shares acquired, net of tax	–	(29,304)	–	–	5,999	–	(23,305)	–	(23,305)
Shares vested to employees	–	29,267	–	–	(29,267)	–	–	–	–
Expense on equity settled transactions	–	–	–	–	9,276	–	9,276	–	9,276
Dividends to shareholders	–	–	–	–	–	(261,900)	(261,900)	(800)	(262,700)
Balance at 31 December 2015	543,415	(644)	8,922	(1,476)	(16,669)	2,241,981	2,775,529	12,276	2,787,805
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 year									
Profit for the year	–	–	–	–	–	609,940	609,940	540	610,480
Total other comprehensive income	–	–	6,698	209	–	(154)	6,753	–	6,753
Total comprehensive income for the year	–	–	6,698	209	–	609,786	616,693	540	617,233
Own shares acquired, net of tax	–	(10,952)	–	–	902	–	(10,050)	–	(10,050)
Shares vested to employees	–	11,252	–	–	(11,252)	–	–	–	–
Expense on equity settled transactions	–	–	–	–	4,711	–	4,711	–	4,711
Shares bought back ⁽ⁱ⁾	(18,471)	–	–	–	–	(251,608)	(270,079)	–	(270,079)
Dividends to shareholders	–	–	–	–	–	(319,405)	(319,405)	–	(319,405)
Balance at 31 December 2016	524,944	(344)	15,620	(1,267)	(22,308)	2,280,754	2,797,399	12,816	2,810,215

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 year ended 31 December 2016.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

Thousands of dollars	Note	2016	2015
Cash flows from operating activities			
Receipts from customers		20,025,940	22,794,731
Payments to suppliers, employees and governments		(19,014,981)	(21,795,935)
Shares acquired for vesting employee benefits		(10,952)	(29,304)
Dividends and disbursements received		400	3,014
Interest received		7,077	5,561
Interest and other finance costs paid		(65,687)	(61,729)
Income taxes paid		(13,595)	(31,672)
Net operating cash inflows	G5.2	928,202	884,666
Cash flows from investing activities			
Purchase of investment		(17,686)	(7,268)
Purchases of property, plant and equipment		(290,288)	(340,096)
Major cyclical maintenance		(32,933)	(91,422)
Purchases of intangibles		(30,241)	(15,414)
Net proceeds from sale of property, plant and equipment		13,865	43,095
Net investing cash outflows		(357,283)	(411,105)
Cash flows from financing activities			
Proceeds from borrowings		6,630,000	7,676,000
Repayments of borrowings		(6,630,000)	(7,676,000)
Repayment of finance lease principal		(342)	(219)
Dividends paid to non-controlling interest		–	(800)
Payments for shares bought back		(270,079)	–
Dividends paid		(319,405)	(261,900)
Net financing cash outflows		(589,826)	(262,919)
Net (decrease)/increase in cash and cash equivalents		(18,907)	210,642
Cash and cash equivalents at the beginning of the year		263,764	53,122
Cash and cash equivalents at the end of the year	G5.1	244,857	263,764

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

NOTES TO THE FINANCIAL STATEMENTS

A BASIS OF PREPARATION

FOR THE YEAR ENDED 31 DECEMBER 2016

Caltex Australia Limited (Caltex or company) is a company limited by shares, incorporated and domiciled in Australia. The shares of Caltex are publicly traded on the Australian Securities Exchange (ASX: CTX). The consolidated financial statements for the year ended 31 December 2016 comprise 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 consolidated financial statements were approved by the Caltex Board on 21 February 2017.

The financial report has been prepared as a general purpose financial report and complies with the requirements of the *Corporations Act* and Australian Accounting Standards (AASBs). The consolidated financial report also complies with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The consolidated financial report is prepared on the historical cost basis, except for derivative financial instruments which are measured at fair value, and the defined benefit liability which is recognised as the net total of the plan assets, plus unrecognised past service cost less the present value of the defined benefit obligation.

The consolidated financial report is presented in Australian dollars, which is the Caltex Group's functional currency.

The company is of a kind referred to in ASIC Class Order 2016/191 dated 24 March 2016. 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 Caltex Group has adopted all the mandatory amended Accounting Standards issued that are relevant to its operations and effective for the current reporting period.

A number of new standards, amendments to standards and interpretations effective for annual periods beginning after 1 January 2017 have not been applied in preparing these consolidated financial statements. Refer to note G8.

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. 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. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the Caltex Group.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods if the revision affects both current and future periods.

Judgements made by management in the application of AASBs that have a significant effect on the consolidated financial report and estimates with a significant risk of material adjustment in the future financial years are found in the following notes:

- information about the assumptions and the risk factors relating to impairment is described in notes C1 (receivables), C3 (intangibles) and C4 (property, plant and equipment)
- note D2 provides an explanation of the foreign exchange, interest rate and commodity price exposures of the Group and the risk in relation to foreign exchange, interest rate and commodity price movements
- note C6 provides key sources of estimation, uncertainty and assumptions used in regard to estimation of provisions and
- note E1 provides information around the extent to which earnings from the Group's Singaporean entities would be subject to income tax in Australia.

NOTES TO THE FINANCIAL STATEMENTS

B RESULTS FOR THE YEAR

FOR THE YEAR ENDED 31 DECEMBER 2016

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

B1 Revenue and other income

Revenue

Sale of goods

Revenue from the sale of goods in the ordinary course of activities is measured at the fair value of consideration received or receivable, net of rebates, discounts and allowances.

Gross sales revenue excludes amounts collected on behalf of third parties such as goods and services tax (GST). Sales revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, which is the date products are delivered to the customer.

Other revenue

Rental income from leased sites is recognised in the consolidated income statement on a straight-line basis over the term of the lease. Franchise fee income is recognised in accordance with the substance of the agreement. Royalties are recognised as they accrue in accordance with the substance of the agreement.

Dividend income is recognised at the date the right to receive payment is established.

Other income

Net profit on disposal of property, plant and equipment

The profit on disposal of property, plant and equipment is brought to account at the date a contract of sale is settled, because it is at this time that:

- the costs incurred or to be incurred in respect of the sale can be measured reliably, and
- the significant risks and rewards of ownership of the property, plant and equipment have been transferred to the buyer.

Assets that are held for sale are carried at the lower of the net book value and fair value less cost to sell.

Thousands of dollars	2016	2015
Revenue		
Sale of goods	17,618,637	19,591,372
Other revenue		
Rental income	72,766	70,777
Royalties and franchise income	115,890	113,841
Transaction and merchant fees	96,280	100,886
Other	29,628	49,670
Total other revenue	314,564	335,174
Total revenue	17,933,201	19,926,546
Other income		
Net gain on sale of property, plant and equipment	1,805	23,641

During the current period, it was determined that \$113 million (2015: \$101 million) of selling and distribution expenses should be reclassified and presented net in Revenue to better reflect the substance of the underlying transactions, being rebates offered to customers.

Significant items

During 2016, the Group did not incur any significant item gains.

During 2015, the Group recognised a significant gain before tax totalling \$31,924,000 in the income statement. This related to the sale of surplus property in Western Australia and is included in net gain on sale of property, plant and equipment.

B2 Costs and expenses

Finance costs are recognised as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, finance costs are capitalised to the cost of the assets. Where borrowings are not specific to an asset, finance costs are capitalised using an average rate based on the general borrowings of the Group.

Thousands of dollars	2016	2015
Finance costs		
Interest expense	61,083	64,367
Finance charges on capitalised leases	220	109
Unwinding of discount on provisions	19,880	21,428
Less: capitalised finance costs	(1,560)	(3,702)
Finance costs	79,623	82,202
Finance income	(7,051)	(5,490)
Net finance costs	72,572	76,712
Depreciation and amortisation		
Depreciation of:		
Buildings	10,941	13,113
Plant and equipment	172,468	155,016
	183,409	168,129
Amortisation of:		
Leasehold property	8,279	10,237
Intangibles	17,608	14,183
	25,887	24,420
Total depreciation and amortisation	209,296	192,549
Selected expenses		
Total personnel expenses	344,381	313,478

Significant items

During 2015 and 2016, the Group did not incur any significant item losses.

B3 Segment reporting

B3.1 Segment disclosures

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Inter-entity sales are recognised based on an internally set transfer price. Sales between segments are based on arm's length principles appropriate to reflect prevailing market pricing structures at that time. Where possible, relevant import parity pricing is used to determine arm's length pricing between the two segments. Revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the consolidated income statement. For the purposes of reporting to the chief operating decision maker, non-fuel income is included on a net basis and is not presented in gross revenue.

Income taxes and net financial costs are dealt with at a Group level and not within the reportable segments.

The performance of each reportable segment is measured based on segment replacement cost of sales operating profit before interest and income tax excluding significant items. This measurement base excludes the impact of the rise or fall in oil or product prices (key external factors) and presents a clearer picture of the reportable segments' underlying business performance. Segment replacement cost of sales operating profit before interest and income tax excluding significant items is measured as management believes that such information is most useful in evaluating the performance of the differing internal business units relative to each other, and other like business units in the industry. Segment replacement cost operating profit excluding significant items, interest and income tax is also used to assess the performance of each business unit against internal performance measures.

NOTES TO THE FINANCIAL STATEMENTS

B RESULTS FOR THE YEAR

FOR THE YEAR ENDED 31 DECEMBER 2016

B3 Segment reporting continued

B3.1 Segment disclosures continued

Cost of goods sold measured on a replacement cost basis

Cost of goods sold measured on a replacement cost basis excludes the effect of inventory gains and losses, including the impact of exchange rate movements. Inventory gains or losses arise due to movements in the landed price of crude oil and product prices, and represent the difference between the actual historic cost of sales and the current replacement value of that inventory.

The net inventory gain or loss is adjusted to reflect the impact of contractual revenue lags.

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

Thousands of dollars	SUPPLY AND MARKETING		LYTTON		TOTAL OPERATING SEGMENTS	
	2016	2015	2016	2015	2016	2015
Gross segment revenue	17,142,594	19,029,324	48,542	88,870	17,191,136	19,118,194
Product duties and taxes	(4,908,353)	(4,941,309)	–	–	(4,908,353)	(4,941,309)
External segment revenue	12,234,241	14,088,015	48,542	88,870	12,282,783	14,176,885
Inter-segment revenue	–	–	3,561,988	3,723,888	3,561,988	3,723,888
Total segment revenue	12,234,241	14,088,015	3,610,530	3,812,758	15,844,771	17,900,773
Share of profit of associates and joint ventures	1,382	5,008	–	–	1,382	5,008
Depreciation and amortisation	(147,540)	(138,893)	(56,192)	(47,743)	(203,732)	(186,636)
Replacement Cost of Sales Operating Profit (RCOP) before interest and income tax	709,435	666,310	205,474	406,000	914,909	1,072,310
Other material items:						
Inventory gains/(losses)	122,329	(193,418)	–	–	122,329	(193,418)
Capital expenditure (including acquisitions)	(301,156)	(353,879)	(43,158)	(99,722)	(344,314)	(453,601)

B3.3 Reconciliation of reportable segment revenues, profit or loss and other material items

Thousands of dollars	2016	2015
Revenues		
Total revenue for reportable segments	15,844,771	17,900,773
Product duties and taxes	4,908,353	4,941,309
Elimination of inter-segment revenue	(3,561,988)	(3,723,888)
Total reportable segments gross revenue	17,191,136	19,118,194
Non-fuel income and rebates	427,501	473,178
Other revenue	314,564	335,174
Consolidated revenue	17,933,201	19,926,546
Profit or loss		
Segment RCOP before interest and income tax, excluding significant items	914,909	1,072,310
Other expenses	(101,443)	(95,572)
RCOP before interest and income tax, excluding significant items	813,466	976,738
<i>Significant items excluded from profit or loss reported to the chief operating decision maker:</i>		
Net gain on sale of property in WA	–	31,924
RCOP before interest and income tax	813,466	1,008,662
Inventory (losses)/gains	122,329	(193,418)
Consolidated historical cost profit before interest and income tax	935,795	815,244
Net financing costs	(72,572)	(76,712)
Net profit/(loss) attributable to non-controlling interest	540	1,114
Consolidated profit before income tax	863,763	739,646

Thousands of dollars	Reportable segment totals	Other	Consolidated totals
Other material items 2016			
Depreciation and amortisation	(203,732)	(5,564)	(209,296)
Inventory gains	122,329	–	122,329
Capital expenditure	(344,314)	(10,708)	(355,022)
Other material items 2015			
Depreciation and amortisation	(186,636)	(5,913)	(192,549)
Inventory losses	(193,418)	–	(193,418)
Capital expenditure	(453,601)	(4,033)	(457,634)

B3.4 Geographical segments

The Group operates in Australia and Singapore. Revenue is predominantly generated in Australia. All of the Group's non-financial non-current assets are located in the Group's country of domicile, Australia.

B3.5 Major customer

Revenues from one customer of the Group's Supply and Marketing segment represent approximately \$3,100,000,000 (2015: \$3,600,000,000) of the Group's total gross sales revenue (excluding product duties and taxes).

NOTES TO THE FINANCIAL STATEMENTS
B RESULTS FOR THE YEAR
 FOR THE YEAR ENDED 31 DECEMBER 2016

B3 Segment reporting continued

B3.6 Revenue from products and services

Thousands of dollars	2016	2015
Petrol	4,958,773	5,827,805
Diesel	5,155,048	6,187,424
Jet	1,367,969	1,622,921
Lubricants	201,133	225,019
Specialty and other products	193,681	246,209
Crude	406,179	67,507
Non-fuel income and rebates	427,501	473,178
Product duties and taxes	4,908,353	4,941,309
Other revenue	314,564	335,174
	17,933,201	19,926,546

B4 Earnings per share

Cents per share	2016	2015
Historical cost	231.6	193.2
RCOP excluding significant items	199.0	232.7

The calculation of historical cost basic earnings per share for the year ended 31 December 2016 was based on the net profit attributable to ordinary shareholders of the parent entity of \$609,940,000 (2015: \$521,507,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2016 of 263 million shares (2015: 270 million shares).

The calculation of RCOP excluding significant items basic earnings per share for the year ended 31 December 2016 was based on the net RCOP profit attributable to ordinary shareholders of the parent entity of \$524,310,000 (2015: \$628,400,000) and a weighted average number of ordinary shares outstanding as disclosed during the year ended 31 December 2016 of 263 million shares (2015: 270 million shares). RCOP is calculated by adjusting the statutory profit for significant items and inventory gains and losses as follows:

Thousands of dollars	2016	2015
Net profit after tax attributable to equity holders of the parent entity	609,940	521,507
Adjust: Significant items gains after tax	–	(28,500)
Adjust: Inventory (gains)/losses after tax	(85,630)	135,393
RCOP excluding significant items after tax	524,310	628,400

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

B5 Dividends

B5.1 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
2016				
Interim 2016	30 September 2016	Franked	50	130,405
Final 2015	4 April 2016	Franked	70	189,000
Total amount			120	319,405
2015				
Interim 2015	30 September 2015	Franked	47	126,900
Final 2014	2 April 2015	Franked	50	135,000
Total amount			97	261,900

Subsequent events

Since 31 December 2016, 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 2016.

Final 2016	31 March 2017	Franked	52	135,621
------------	---------------	---------	----	---------

B5.2 Dividend franking account

Thousands of dollars	2016	2015
30% franking credits available to shareholders of Caltex Australia Limited for subsequent financial years	820,375	1,102,168

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability, is to reduce the balance by \$58,123,487 (2015: \$81,000,000).

NOTES TO THE FINANCIAL STATEMENTS
C OPERATING ASSETS AND LIABILITIES
 FOR THE YEAR ENDED 31 DECEMBER 2016

This section provides information on the assets used to generate the Group's trading performance and the liabilities incurred as a result.

C1 Receivables

The following balances are amounts due from the Group's customers and others.

Thousands of dollars	2016	2015
Current		
Trade debtors	659,115	639,943
Allowance for impairment	(6,550)	(8,235)
	652,565	631,708
Associated entities	11,129	11,418
Other related entities	1,217	1,061
Other debtors	82,674	37,355
	747,585	681,542
Non-current		
Other loans	2,555	2,824

Receivables are initially recognised at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost less impairment losses.

Impairment testing is performed at reporting date. A provision for impairment losses is raised if there is a specific indicator that an impairment loss on receivables has been incurred.

An impairment loss is reversed when an event, occurring after the impairment loss was recognised, objectively indicates an increase in the recoverable amount.

Impaired receivables

As at 31 December 2016, current trade receivables of the Group with a nominal value of \$6,550,000 (2015: \$8,235,000) were impaired. The individually impaired receivables relate to a variety of customers who are in financial difficulties. No collateral is held over these impaired receivables.

As at 31 December 2016, trade receivables of \$34,457,000 (2015: \$27,997,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of receivables past due but not impaired is as follows:

Thousands of dollars	2016	2015
Past due 0 – 30 days	32,289	25,430
Past due 31 – 60 days	2,168	2,514
Past due greater than 60 days	–	53
	34,457	27,997

Movements in the allowance for impairment of receivables are as follows:

Thousands of dollars	2016	2015
At 1 January	8,235	5,951
Provision for impairment recognised during the year	2,266	7,984
Receivables written off during the year as uncollectible	(3,951)	(5,700)
At 31 December	6,550	8,235

The creation and release of the provision for impaired receivables has been included in general and administration expenses in the income statement. Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. Maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. Refer to note D2.4 for further details.

C2 Inventories

Thousands of dollars	2016	2015
Crude oil and raw materials	172,997	177,954
Inventory in process	36,225	65,137
Finished goods	856,253	709,426
Materials and supplies	15,445	17,368
At 31 December	1,080,920	969,885

Inventories are measured at the lower of cost and net realisable value. Cost is based on the first in first out (FIFO) principle and includes direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure incurred in acquiring the inventories and bringing them into the existing location and condition.

The amount of any write-down or loss of inventory is recognised as an expense in the period it is incurred. Inventory write-downs may be reversed when net realisable value increases subsequent to initial write-down. The reversal is limited to the original write-down amount.

There was no inventory written down to net realisable value at 31 December 2016. Inventories held at 31 December 2015 were written down to their net realisable value. The amount of the write-down at 31 December 2015 was \$48,100,000 and is included in inventory losses in the income statement.

C3 Intangibles

Thousands of dollars	Note	Goodwill	Rights and licences	Software	Total
Cost					
At 1 January 2016		147,638	32,100	103,007	282,745
Additions		–	778	29,463	30,241
Impairment		–	–	–	–
Disposals		(1,178)	–	(4,491)	(5,669)
Reclassification		–	–	36,498	36,498
Balance at 31 December 2016		146,460	32,878	164,477	343,815
Cost					
At 1 January 2015		143,126	31,321	99,925	274,372
Acquisitions through business combinations	F2	4,512	779	–	5,291
Additions		–	–	15,414	15,414
Impairment		–	–	(12,000)	(12,000)
Disposals		–	–	(332)	(332)
Balance at 31 December 2015		147,638	32,100	103,007	282,745
Amortisation					
At 1 January 2016		(16,391)	(14,895)	(68,833)	(100,119)
Amortisation for the year		–	(4,606)	(13,002)	(17,608)
Disposals		–	–	1,058	1,058
Reclassification		–	–	(31,811)	(31,811)
Balance at 31 December 2016		(16,391)	(19,501)	(112,588)	(148,480)
Amortisation					
At 1 January 2015		(16,391)	(10,186)	(59,607)	(86,184)
Amortisation for the year		–	(4,709)	(9,474)	(14,183)
Disposals		–	–	248	248
Balance at 31 December 2015		(16,391)	(14,895)	(68,833)	(100,119)

NOTES TO THE FINANCIAL STATEMENTS
C OPERATING ASSETS AND LIABILITIES
 FOR THE YEAR ENDED 31 DECEMBER 2016

C3 Intangibles continued

Thousands of dollars	Goodwill	Rights and licences	Software	Total
Carrying amount				
At 1 January 2016	131,247	17,205	34,174	182,626
Balance at 31 December 2016	130,069	13,377	51,889	195,335
Carrying amount				
At 1 January 2015	126,735	21,135	40,318	188,188
Balance at 31 December 2015	131,247	17,205	34,174	182,626

The amortisation charge of \$17,608,000 (2015: \$14,183,000) is recognised in selling and distribution expenses and general and administration expenses in the income statement.

Goodwill

Goodwill arising on the acquisition of subsidiaries is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised directly in the consolidated income statement.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Amortisation

Amortisation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of intangible assets. Other intangible assets are amortised from the date they are available for use. The estimated useful lives in the current and comparative periods are reflected by the following amortisation percentages:

Software development	7 – 17%
Software not integrated with hardware	7 – 18%
Rights and licences	4 – 33%

Impairment

The carrying amounts of intangible assets are reviewed to determine if there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated and, if required, an impairment is recognised in the income statement.

Impairment tests for cash-generating units containing goodwill

Goodwill has historically been attached to distributor businesses. Following the reorganisation of Caltex's business model in 2015, the distributor businesses have been integrated within Caltex's Supply and Marketing business. Goodwill has been reallocated to a cash-generating unit containing all the assets in the integrated value chain (inclusive of retail sites, depots, pipelines and terminals) on a state by state basis.

The recoverable amount of goodwill has been determined based on a value in use calculation. This calculation uses pre-tax cash flow projections based on an extrapolation of the year end cash flows and available budget information. The cash flows have been discounted using a pre-tax discount rate of 14.6% p.a. The cash flows have been extrapolated using a constant growth rate of 2.5%. The growth rates used do not exceed the long term growth rate for the industry.

There were no goodwill impairment losses recognised during the year ended 31 December 2016 (2015: nil).

Key assumptions used in value in use calculations

Key assumption	Basis for determining value in use assigned to key assumption
Cash flow	Earnings before interest, tax, depreciation and amortisation
Estimated long term average growth rate	2.5%
Discount period	Represents the longest remaining life of assets acquired
Discount rate	The risk specific to the asset

The values assigned to the key assumptions represent management's assessment of future trends in the petroleum industry and are based on both external sources and internal sources (historic data).

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of goodwill recorded to exceed its recoverable amount.

C4 Property, plant and equipment

Thousands of dollars	2016	2015
Freehold land		
At cost	376,079	405,908
Accumulated impairment losses	(37,284)	(37,284)
Net carrying amount	338,795	368,624
Buildings		
At cost	661,591	596,410
Accumulated depreciation and impairment losses	(253,591)	(242,650)
Net carrying amount	408,000	353,760
Leasehold property		
At cost	186,977	169,347
Accumulated amortisation	(101,228)	(92,924)
Net carrying amount	85,749	76,423
Plant and equipment		
At cost	5,464,093	5,227,943
Accumulated depreciation and impairment losses	(3,918,669)	(3,785,157)
Net carrying amount	1,545,424	1,442,786
Capital projects in progress		
At cost	319,127	377,392
Accumulated impairment losses	(6,230)	(16,120)
Net carrying amount	312,897	361,272
Total net carrying amount	2,690,865	2,602,865

Owned assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

The cost of property, plant and equipment includes the cost of decommissioning and restoration costs at the end of their economic lives if a present legal or constructive obligation exists. More details of how this cost is estimated and recognised is contained in note C6.

Assessment of impairment is made in accordance with the impairment policy noted below.

Leased assets

Leases of property, plant and equipment under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including cyclical maintenance, is capitalised. Other subsequent expenditure is capitalised only when it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be reliably measured. All other expenditure is recognised in the consolidated income statement as an expense as incurred.

Major cyclical maintenance

Major cyclical maintenance expenditure is separately capitalised as an asset component to the extent that it is probable that future economic benefits, in excess of the originally assessed standard of performance, will eventuate. All other such costs are expensed as incurred. Capitalised cyclical maintenance expenditure is depreciated over the lesser of the additional useful life of the asset or the period until the next major cyclical maintenance is scheduled to occur.

NOTES TO THE FINANCIAL STATEMENTS
C OPERATING ASSETS AND LIABILITIES
 FOR THE YEAR ENDED 31 DECEMBER 2016

C4 Property, plant and equipment continued

Depreciation

Items of property, plant and equipment, including buildings and leasehold property but excluding freehold land, are depreciated using the straight-line method over their expected useful lives. Leasehold improvements are amortised over the shorter of the lease term or useful life.

The depreciation rates used, in the current and prior year, for each class of asset are as follows:

Freehold buildings	2%
Leasehold property	2 – 10%
Plant and equipment	3 – 25%
Leased plant and equipment	3 – 25%

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Impairment

The carrying amounts of assets are reviewed to determine if there is any indication of impairment. If any such indication exists, these assets' recoverable amounts are estimated and, if required, an impairment is recognised in the income statement. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

In assessing the carrying value of property, plant and equipment, management considers long term assumptions relating to key external factors including Singapore refiner margins, foreign exchange rates and crude oil prices; any changes in these assumptions can have a material impact on the carrying value.

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

Thousands of dollars	2016	2015
Freehold land		
Carrying amount at the beginning of the year	368,624	346,992
Additions	29,362	22,537
Acquisition through business combination	–	380
Disposals	(4,913)	(1,285)
Reclassification	(54,278)	–
Carrying amount at the end of the year	338,795	368,624
Buildings		
Carrying amount at the beginning of the year	353,760	326,480
Additions	3,392	2,654
Acquisition through business combination	–	–
Disposals	(6,160)	(2,340)
Transfers from capital projects in progress	67,949	40,079
Depreciation	(10,941)	(13,113)
Carrying amount at the end of the year	408,000	353,760
Leasehold property		
Carrying amount at the beginning of the year	76,423	74,762
Additions	3,704	2,604
Disposals	(4,057)	(605)
Transfers from capital projects in progress	17,958	9,899
Amortisation	(8,279)	(10,237)
Carrying amount at the end of the year	85,749	76,423

Thousands of dollars	2016	2015
Plant and equipment		
Carrying amount at the beginning of the year	1,442,786	1,060,470
Additions	75,254	349,971
Acquisition through business combination	–	1,329
Disposals	(31,595)	(15,140)
Transfers from capital projects in progress	175,537	201,172
Depreciation	(172,468)	(155,016)
Reclassification	55,910	–
Carrying amount at the end of the year	1,545,424	1,442,786
Capital projects in progress		
Carrying amount at the beginning of the year	361,272	554,968
Additions	211,509	53,752
Borrowing costs capitalised	1,560	3,702
Transfers to buildings, leased property, plant and equipment	(261,444)	(251,150)
Carrying amount at the end of the year	312,897	361,272

C5 Payables

Thousands of dollars	2016	2015
Current		
Trade creditors – unsecured		
– Related entities	–	–
– Other corporations and persons	774,633	673,072
Other creditors and accrued expenses	304,756	293,734
	1,079,389	966,806
Non-current		
Other creditors and accrued expenses	8,356	9,743

Payables are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Group. Trade accounts payable are normally settled on between 30 and 60 day terms.

Payables are initially recognised at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost.

C6 Provisions

Thousands of dollars	Site remediation and dismantling	Other	Total
Balance at 1 January 2016	428,772	25,115	453,887
Provisions made during the year	11,689	8,080	19,769
Provisions used during the year	(71,140)	(14,999)	(86,139)
Discounting movement	16,198	–	16,198
Balance at 31 December 2016	385,519	18,196	403,715
Current	144,110	14,875	158,985
Non-current	241,409	3,321	244,730
	385,519	18,196	403,715

A provision is recognised when there is a present legal or constructive obligation as a result of a past event that can be measured reliably and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

A provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Subsequent accretion to the amount of a provision due to unwinding of the discount is recognised as a financing cost.

NOTES TO THE FINANCIAL STATEMENTS

C OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 31 DECEMBER 2016

C6 Provisions continued

Estimates of the amount of an obligation are based on current legal and constructive obligations, technology and price levels. Actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions and can take place many years in the future. The carrying amounts of provisions and liabilities are regularly reviewed and adjusted to take account of such change.

In general, the further in the future that a cash outflow for a liability is expected to occur, the greater the degree of uncertainty around the amount and timing of that cash outflow. Examples of cash outflows that are expected to occur a number of years in the future and, as a result, about which there is uncertainty of the amounts involved, include asset decommissioning and restoration obligations and employee pension obligations.

A change in the estimate of a recognised provision or liability would impact the consolidated income statement, with the exception of decommissioning and certain restoration costs that relate to the initial construction of an asset, which would be accounted for on a prospective basis.

Site remediation and dismantling

Provisions relating to current and future remediation activities are recognised as liabilities when a legal or constructive obligation arises.

The provision is the best estimate of the present value of the expenditure to settle the obligation at the reporting date. These costs are reviewed annually and any changes are reflected in the provision at the end of the reporting period through the consolidated income statement.

The ultimate cost of remediation is uncertain and cost estimates can vary in response to many factors, including changes to the relevant legal and environmental requirements, the emergence of new techniques or experience at other sites and uncertainty as to the remaining life of existing sites.

Costs for the future dismantling and removal of assets, and restoration of the site on which the assets are located, are provided for and capitalised upon initial construction of the asset, where an obligation to incur such costs arises. The present value of the expected future cash flows required to settle these obligations is capitalised and depreciated over the useful life of the asset.

Subsequent accretion to the amount of a provision due to unwinding of the discount is recognised as a finance cost. A change in estimate of the provision is added to or deducted from the cost of the related asset in the period of the change, to the extent that any amount of deduction does not exceed the carrying amount of the asset. Any deduction in excess of the carrying amount is recognised in the consolidated income statement immediately. If an adjustment results in an addition to the cost of the related asset, consideration will be given to whether an indication of impairment exists and the impairment policy will be applied.

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount.

Other

Other includes legal, insurance and other provisions.

C7 Employee benefits

Thousands of dollars	2016	2015
Non-current assets		
Defined benefit superannuation asset	432	1,411
Total asset for employee benefits	432	1,411
Current liabilities		
Liability for annual leave	32,091	32,743
Liability for long service leave	9,219	8,028
Liability for termination benefits	16,114	16,503
Bonus accrued	38,955	52,719
Total current liability for employee benefits	96,379	109,993
Non-current liabilities		
Liability for long service leave	35,479	37,781
Liability for termination benefits	–	9,898
Defined benefit superannuation obligation	3,158	2,990
Total non-current liability for employee benefits	38,637	50,669
Total liability for employee benefits	134,584	159,251

NOTES TO THE FINANCIAL STATEMENTS

D CAPITAL, FUNDING AND RISK MANAGEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

This section focuses on the Group's capital structure and related financing costs. This section also describes how the Group manages the capital and the financial risks it is exposed to as a result of its operating and financing activities.

D1 Interest bearing liabilities

Thousands of dollars		2016	2015
Current			
Lease liabilities	G1	134	122
		134	122
Non-current			
Domestic medium term notes		149,836	149,750
Subordinated note		547,728	544,578
Lease liabilities	G1	776	910
		698,340	695,238

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.

D2 Risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange, interest rate and commodity price), as well as credit and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses a range of derivative financial instruments to hedge market exposures.

The Group enters into derivative transactions, principally interest rate swaps, foreign currency exchange contracts (forwards, swaps and options), and crude and finished product swap contracts. The purpose is to manage the market risks arising from the Group's operations and its sources of finance.

Derivative financial instruments are recognised at fair value. The gain or loss on subsequent remeasurement is recognised immediately in the consolidated income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

It is the Group's policy that no speculative trading in financial instruments shall be undertaken.

Group Treasury centrally manages market risk, liquidity risk, financial institutional credit risk, funding and capital management. Risk management activities in respect to customer credit risk are carried out by the Group's Credit Risk department. Both Group Treasury and Credit Risk operate under policies approved by the Board of directors. Group Treasury and Credit Risk identify, evaluate and monitor the financial risks in close co-operation with the Group's operating units.

The Group finances its operations through a variety of financial instruments including bank loans, domestic medium term notes, subordinated notes and finance leases. Surplus funds are invested in cash and short term deposits.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The magnitude of each type of financial risk that has arisen over the year is discussed in notes D2.1 to D2.5 below.

Cash flow hedges

Interest rate swaps and foreign currency exchange contracts (forwards, swaps and options) are classified as cash flow hedges. The effective portion of changes in fair value of these derivative financial instruments is recognised directly in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are transferred to the income statement in the period when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

NOTES TO THE FINANCIAL STATEMENTS
D CAPITAL, FUNDING AND RISK MANAGEMENT
 FOR THE YEAR ENDED 31 DECEMBER 2016

D2 Risk management continued

D2.1 Interest rate risk

Interest rate instruments

The Group enters into fixed interest rate instruments to manage cash flow risks associated with the interest rate volatility on borrowings that are floating. Interest rate instruments allow the Group to swap floating rate borrowings into fixed rates. Maturities of swap contracts are principally between one and four years.

At 31 December 2016, the fixed rates under these swap contracts varied from 2.5% p.a. to 3.4% p.a. (2015: 3.4% p.a. to 5.3% p.a.), a weighted average rate of 2.7% p.a. (2015: 4.6% p.a.).

The net fair value of interest rate swap contracts at 31 December 2016 was a \$556,000 loss (2015: \$1,640,000 loss).

Interest rate sensitivity analysis

At 31 December 2016, if interest rates had changed by +/-1% from the year end rates, with all other variables held constant, the impact on post-tax profit for the year for the Group and equity would have been:

Thousands of dollars	2016		2015	
	Post-tax profit	Hedge reserve	Post-tax profit	Hedge reserve
Interest rates decrease by 1%	2,100	(4,400)	2,000	(700)
Interest rates increase by 1%	(2,100)	4,200	(2,000)	600

Interest rate risk exposure

The Group's exposure to interest rate risk (after hedging) for classes of financial assets and liabilities are set out as follows:

Thousands of dollars		2016	2015
Financial assets			
Cash at bank and on hand		244,857	263,764
		244,857	263,764
Financial liabilities			
<i>Variable rate borrowings</i>			
Subordinated note	D1	417,728	394,578
<i>Fixed interest rate – repricing dates:</i>			
Twelve months or less	D1	50,134	100,122
One to five years	D1	230,612	200,660
		698,474	695,360

D2.2 Foreign exchange risk

Foreign currency transactions are recorded, on initial recognition, in Australian dollars by applying the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate applicable for that date. Foreign exchange differences arising on translation are recognised in the consolidated income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates at the dates the fair value was determined.

The Group is exposed to the effect of changes in exchange rates on its operations.

Forward foreign exchange contracts (forwards, swaps and options) are used to hedge foreign currency payables in accordance with Group Treasury Policy. The Group implemented a foreign exchange risk management policy in August 2014 of hedging 80% of the Group's US dollar denominated crude and products payable. From December 2016, this policy was amended to increase the hedging percentage to 100% of the Group's US dollar denominated crude and products payable. The Group also enters into forward foreign exchange contracts to cover major capital expenditure items. As at 31 December 2016, the total fair value of all outstanding foreign currency exchange contracts (forwards, swaps and options) amounted to a \$9,415,000 gain (2015: \$476,000 gain).

Foreign exchange rate sensitivity analysis

At 31 December 2016, had the Australian dollar strengthened/weakened by 10% against the US dollar with all other variables held constant, the impact on post-tax profit for the year for the Group and equity would have been:

Thousands of dollars	2016		2015	
	Post-tax profit	Hedge reserve	Post-tax profit	Hedge reserve
AUD strengthens against USD 10%	(20,500)	(300)	8,000	(20)
AUD weakens against USD 10%	30,400	300	5,700	30

Exposure to foreign exchange risk

Thousands of dollars (Australian dollar equivalent amounts)	2016			2015		
	US dollar	Australian dollar	Total	US dollar	Australian dollar	Total
Cash and cash equivalents	154,975	89,882	244,857	43,266	220,498	263,764
Trade receivables	141,762	608,378	750,140	92,398	591,968	684,366
Trade payables	(668,847)	(428,313)	(1,097,160)	(556,484)	(429,370)	(985,854)
Forward exchange contracts	7,424	–	7,424	(475)	–	(475)
Foreign currency option contracts	1,991	–	1,991	951	–	951
Crude and finished product swap contracts	7,800	–	7,800	8,829	–	8,829

NOTES TO THE FINANCIAL STATEMENTS
D CAPITAL, FUNDING AND RISK MANAGEMENT
 FOR THE YEAR ENDED 31 DECEMBER 2016

D2 Risk management continued

D2.3 Commodity price risk

The Group is exposed to the effect of changes in commodity price on its operations.

The Group utilises both crude and finished product swap contracts to manage the risk of price movements. The enterprise commodity risk management policy seeks to minimise adverse price timing risks and basis exposures brought about by purchase and sales transactions.

In 2016, Caltex's policy has been not to hedge refiner margins. As at 31 December 2016, the total fair value of all outstanding crude and finished product swap contracts amounted to a \$7,800,000 gain (2015: \$8,829,000 gain).

Commodity price sensitivity analysis

At 31 December 2016, if commodity prices had changed by +/-10% from the year end prices, with all other variables held constant, the impact on post-tax profit for the year for the Group and equity would have been:

Thousands of dollars	2016		2015	
	Post-tax profit	Hedge reserve	Post-tax profit	Hedge reserve
Commodity prices increase 10%	(9,500)	–	(930)	–
Commodity prices decrease 10%	9,500	–	930	–

D2.4 Credit risk

Customer credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The credit risk on financial assets of the Group which have been recognised on the consolidated balance sheet is the carrying amount of trade debtors, net of allowances for impairment (see note C1).

Caltex has a Board approved Credit Policy and manual which provide the guidelines for the management and diversification of the credit risk to Caltex. The guidelines provide for the manner in which the credit risk of customers is assessed and the use of credit rating and other information in order to set appropriate limits of trade with customers. The credit quality of customers is consistently monitored in order to identify any potential adverse changes in the credit risk of the customers.

Caltex also minimises concentrations of credit risk by undertaking transactions with a large number of customers across a variety of industries and networks.

Security is required to be supplied by certain groups of Caltex customers to minimise risk. The security could be in the form of a registered personal property security interest over the customer's business and mortgages over the business property. Bank guarantees or insurance bonds are also provided in some cases, as are mortgages taken over directors' property such as residential houses or rural properties.

Financial institution credit risk

Credit risk on cash, short term deposits and derivative contracts is minimised by transacting with relationship banks which have acceptable credit ratings determined by a recognised ratings agency.

Interest rate swaps, foreign currency exchange contracts (forwards, swaps and options) and crude and finished products swap contracts are subject to credit risk in relation to the relevant counterparties, which are principally large relationship banks.

The maximum credit risk exposure on foreign currency exchange contracts and crude and finished products swap contracts is the fair value amount of the foreign currency that Caltex receives when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the Group.

The credit risk on interest rate swaps is limited to the positive mark to market amount to be received from counterparties over the life of contracts that are favourable to the Group.

As at 31 December 2016, the total fair value of outstanding foreign exchange contracts (forwards, swaps and options), crude and finished product swap contracts and positive mark to market value of interest rate swaps is \$17,265,000 (2015: \$9,305,000).

D2.5 Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Due to the dynamic nature of the underlying business, the liquidity risk policy requires maintaining sufficient cash and an adequate amount of committed credit facilities to be held above the forecast requirements of the business.

The Group manages liquidity risk centrally by monitoring cash flow forecasts, maintaining adequate cash reserves and debt facilities. The debt portfolio is periodically reviewed to ensure there is funding flexibility across an appropriate maturity profile.

The tables below set out the contractual timing of cash flows on derivative and non-derivative financial assets and liabilities at the reporting date, including drawn borrowings and interest.

Thousands of dollars	2016			2015		
	Derivative financial liabilities	Derivative financial assets	Net derivative financial (liabilities)/ assets	Derivative financial liabilities	Derivative financial assets	Net derivative financial (liabilities)/ assets
Derivative financial instruments						
Less than one year	(796,050)	804,215	8,165	(515,388)	512,064	(3,324)
One to five years	(1,788)	2,291	503	(1,287)	797	(490)
			8,668			(3,814)

Thousands of dollars	2016		2015	
	Other financial liabilities	Net other financial (liabilities)/ assets	Other financial liabilities	Net other financial (liabilities)/ assets
Non-derivative financial instruments				
Less than one year	(1,132,218)	(1,132,218)	(1,022,385)	(1,022,385)
One to five years	(329,119)	(329,119)	(342,439)	(342,439)
Over five years	(1,234,616)	(1,234,616)	(1,348,210)	(1,348,210)
		(2,695,953)		(2,713,034)

The Group has the following committed undrawn floating rate borrowing facilities:

Thousands of dollars	2016	2015
Financing arrangements		
Expiring beyond one year	1,100,000	850,000
	1,100,000	850,000

D3 Capital management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

During 2016, the Group's strategy was to maintain a minimum long term credit rating of BBB+, in order to secure access to finance at a reasonable cost. The credit rating is impacted by two key ratios: Funds from Operations/Debt and Debt/Earnings Before Interest, Tax, Depreciation and Amortisation.

The Group's gearing ratio is calculated as net debt/total capital. Net debt is calculated as total interest bearing liabilities less cash and cash equivalents. Total capital is calculated as equity as shown in the balance sheet plus net debt.

The gearing ratios at 31 December 2016 and 31 December 2015 were as follows:

Thousands of dollars	2016	2015
Total interest bearing liabilities	698,474	695,360
Less: cash and cash equivalents	(244,857)	(263,764)
Net debt	453,617	431,596
Total equity	2,810,215	2,787,805
Total capital	3,263,832	3,219,401
Gearing ratio	13.9%	13.4%

NOTES TO THE FINANCIAL STATEMENTS
D CAPITAL, FUNDING AND RISK MANAGEMENT
 FOR THE YEAR ENDED 31 DECEMBER 2016

D4 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)			
	Carrying amount	Fair value total	Quoted market price (Level 1)	Observable inputs (Level 2)	Non-market observable inputs (Level 3)
31 December 2016					
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)	–

THOUSANDS OF DOLLARS		ASSET/(LIABILITY)			
	Carrying amount	Fair value total	Quoted market price (Level 1)	Observable inputs (Level 2)	Non-market observable inputs (Level 3)
31 December 2015					
Interest bearing liabilities					
Domestic medium term notes ⁽ⁱ⁾	(149,750)	(200,400)	–	(200,400)	–
Subordinated note	(544,578)	(564,438)	(564,438)	–	–
Lease liabilities ⁽ⁱⁱ⁾	(1,032)	(1,242)	–	(1,242)	–
Payables					
Interest rate swaps ⁽ⁱⁱⁱ⁾	(1,640)	(1,640)	–	(1,640)	–
Forward foreign exchange contracts ⁽ⁱⁱⁱ⁾	(460)	(460)	–	(460)	–
Foreign currency options ⁽ⁱⁱⁱ⁾	952	952	–	952	–
Crude and finished product swap contracts ⁽ⁱⁱⁱ⁾	6,422	6,422	–	6,422	–
Total	(690,086)	(760,806)	(564,438)	(196,368)	–

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 (forwards, swaps and options)

The fair value of forward exchange contracts (forwards, swaps) 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.

D5 Issued capital

Thousands of dollars	2016	2015
Ordinary shares		
Shares on issue at beginning of period – fully paid	543,415	543,415
Shares repurchased for cash	(18,471)	–
Shares on issue at end of period – fully paid	524,944	543,415

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.

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 (refer to the Remuneration Report on pages 44 to 68 for further detail).

For each right that vests, Caltex purchases a share on-market following vesting.

NOTES TO THE FINANCIAL STATEMENTS

E TAXATION

FOR THE YEAR ENDED 31 DECEMBER 2016

This section provides details of the Group's income tax expense, current tax provision and deferred tax balances and the Group's tax accounting policies.

E1 Income tax expense

E1.1 Recognised in the income statement

Thousands of dollars	2016	2015
Current tax expense:		
Current year	192,753	74,938
Adjustments for prior years	432	(1,252)
	193,185	73,686
Deferred tax benefit:		
Origination and reversal of temporary differences	62,192	143,339
Benefit of tax losses recognised	(6)	–
Adjustments for prior years	(2,088)	–
	60,098	143,339
Total income tax expense in the income statement	253,283	217,025

E1.2 Reconciliation between income tax expense and profit before income tax expense

Thousands of dollars	2016	2015
Profit before income tax expense	863,763	739,646
Income tax using the domestic corporate tax rate of 30% (2015: 30%)	259,129	221,894
Effect of tax rates in foreign jurisdictions	–	–
(Decrease) in income tax expense due to:		
Share of net profit of associated entities	(415)	(838)
Capital tax losses utilised for which no deferred tax asset was recognised	(3,218)	(546)
Research and development allowances	(1,000)	(1,000)
Deferred tax against equity	(23)	–
Other	(263)	(1,233)
Income tax over provided in prior years	(927)	(1,252)
Total income tax expense in the income statement	253,283	217,025

Income tax expense comprises current tax expense and deferred tax expense. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years. Deferred tax expense represents the changes in temporary differences between the carrying amount of an asset or liability in the statement of financial position and its tax base.

Taxation of Singaporean Entities

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 2015 and 2016, 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.

E2 Deferred tax

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

E2.1 Movement in deferred tax

Thousands of dollars Asset/(Liability)	Balance at 1 Jan 16	Recognised in income	Recognised in equity	Acquired in business combination	Balance at 31 Dec 16
Cash/Receivables	1,922	(1,809)	–	–	113
Inventories	14,574	(15,855)	–	–	(1,281)
Property, plant and equipment and intangibles	87,058	(21,824)	–	–	65,234
Payables	12,007	477	–	–	12,484
Interest bearing liabilities	2,568	837	89	–	3,494
Provisions	182,342	(21,351)	(66)	–	160,925
Tax value of recognised tax losses	–	6	–	–	6
Other	(2,313)	(579)	–	–	(2,892)
Net deferred tax asset	298,158	(60,098)	23	–	238,083

Thousands of dollars Asset/(Liability)	Balance at 1 Jan 15	Recognised in income	Recognised in equity	Acquired in business combination	Balance at 31 Dec 15
Cash/Receivables	1,853	69	–	–	1,922
Inventories	(1,507)	16,081	–	–	14,574
Property, plant and equipment and intangibles	124,882	(37,824)	–	–	87,058
Payables	13,539	(1,532)	–	–	12,007
Interest bearing liabilities	8,257	(5,455)	(234)	–	2,568
Provisions	221,032	(38,238)	(452)	–	182,342
Tax value of recognised tax losses	76,438	(76,438)	–	–	–
Other	(2,311)	(2)	–	–	(2,313)
Net deferred tax asset	442,183	(143,339)	(686)	–	298,158

E2.2 Deferred tax recognised directly in equity

Thousands of dollars	2016	2015
Related to actuarial gains	(66)	(452)
Related to derivatives	89	(234)
	23	(686)

E2.3 Unrecognised deferred tax assets

Thousands of dollars	2016	2015
Capital tax losses	118,683	129,411

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which these benefits can be utilised by the Group. These have not been tax effected.

E2.4 Tax consolidation

Caltex Australia Limited, as the head company, recognises all current tax balances relating to its wholly owned Australian resident entities included in the tax-consolidated group (TCG). The head entity, in conjunction with the other members of the TCG, has entered into a tax funding arrangement which sets out the funding obligations of members of the TCG in respect of tax amounts.

NOTES TO THE FINANCIAL STATEMENTS

F GROUP STRUCTURE

FOR THE YEAR ENDED 31 DECEMBER 2016

This section provides information on the Group's structure and how this impacts the results of the Group as a whole, including details of joint arrangements, controlled entities, transactions with non-controlling interests and changes made to the Group structure during the year.

F1 Controlled entities

Controlled entities are those entities controlled by the Caltex Group. Control exists when the Caltex Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns from its involvement with the entity and through its power over the entity.

The following entities were controlled during 2016:

Name	Note	% INTEREST	
		2016	2015
Companies			
Ampol Bendigo Pty Ltd	(iii)	100	100
Ampol International Holdings Pte Ltd.	(ii)	100	100
Ampol Management Services Pte Ltd.	(ii)	100	100
Ampol Procurement Services Pte. Ltd.	(ii)	100	100
Ampol Property (Holdings) Pty Ltd	(iii)	100	100
Ampol Refineries (Matrville) Pty Ltd		100	100
Ampol Road Pantry Pty. Limited		100	100
Ampol Singapore Trading Pte. Ltd.	(ii)	100	100
Australian Petroleum Marine Pty Ltd	(iii)	100	100
B & S Distributors Pty Ltd	(iv)	50	50
Bowen Petroleum Services Pty. Limited		100	100
Brisbane Airport Fuel Services Pty Limited		100	100
Calgas Pty Ltd		100	100
Calstores Pty Ltd	(iii)	100	100
Caltex Australia Custodians Pty Limited		100	100
Caltex Australia Management Pty Ltd		100	100
Caltex Australia Nominees Pty Ltd		100	100
Caltex Australia Petroleum Pty Ltd	(iii)	100	100
Caltex Fuel Services Pty Ltd	(iii)	100	100
Caltex Lubricating Oil Refinery Pty Ltd	(iii)	100	100
Caltex Petroleum (Qld) Pty Ltd	(iii)	100	100
Caltex Petroleum (Victoria) Pty Ltd	(iii)	100	100
Caltex Petroleum Pty Ltd	(iii)	100	100
Caltex Petroleum Services Pty Ltd	(iii)	100	100
Caltex Refineries (NSW) Pty Ltd	(iii)	100	100
Caltex Refineries (Qld) Pty Ltd	(iii)	100	100
Circle Petroleum (Q'land) Pty. Limited		100	100
Cocks Petroleum Pty Ltd		100	100
Cooper & Dysart Pty Ltd		100	100
Graham Bailey Pty Ltd	(iii)	100	100
Hanietee Pty. Limited	(iii)	100	100
Hunter Pipe Line Company Pty Limited	(iii)	100	100
Jayvee Petroleum Pty Ltd		100	100
Jet Fuels Petroleum Distributors Pty. Ltd.	(iii)	100	100
Link Energy Pty Ltd		100	100
Manworth Pty Ltd		100	100
Newcastle Pipe Line Company Limited	(iii)	100	100
Northern Marketing Management Pty Ltd		100	100
Northern Marketing Pty Ltd	(iii)	100	100
Octane Insurance Pte Ltd	(ii)	100	100
Pilbara Fuels Pty Ltd		100	100
R & T Lubricants Pty Ltd	(iii)	100	100

Name	Note	% INTEREST	
		2016	2015
Real FF Pty Ltd	(v)	100	–
Ruzack Nominees Pty. Ltd.		100	100
Solo Oil Australia Proprietary Limited		100	100
Solo Oil Corporation Pty. Ltd.		100	100
Solo Oil Investments Pty. Ltd.	(iii)	100	100
Solo Oil Pty Ltd	(iii)	100	100
South Coast Oils Pty. Limited		100	100
South East Queensland Fuels Pty. Ltd.		100	100
Sydney Metropolitan Pipeline Pty Ltd	(iv)	60	60
Teraco Pty Ltd	(iv)	50	50
Tulloch Petroleum Services Pty. Ltd.	(iii)	100	100
Western Fuel Distributors Pty Ltd	(iv)	50	50
Unit trusts			
Eden Equity Unit Trust	(vi)	100	100
Petroleum Leasing Unit Trust	(vii)	100	100
Petroleum Properties Unit Trust	(vii)	100	100
South East Queensland Fuels Unit Trust	(viii)	100	100

⁽ⁱ⁾ All companies are incorporated in Australia except those noted in (ii) and all unit trusts were formed in Australia.

⁽ⁱⁱ⁾ These companies are incorporated in Singapore.

⁽ⁱⁱⁱ⁾ These companies are parties to a Deed of Cross Guarantee dated 22 December 1992 with Caltex and each other. No companies have been added to or removed from the Deed of Cross Guarantee during the year ended 31 December 2016 or from 1 January 2017 to the date of signing of this financial report.

^(iv) These entities have been included as controlled entities in accordance with AASB 10 Consolidated Financial Statements. In each case, control exists because a company within the Caltex Group has the ability to dominate the composition of the entity's board of directors, or enjoys the majority of the benefits and is exposed to the majority of the risks of the entity.

^(v) This company was incorporated on 20 December 2016.

^(vi) Caltex Petroleum Services Pty Ltd is the sole unit holder.

^(vii) Solo Oil Pty Ltd is the sole unit holder.

^(viii) Caltex Australia Petroleum Pty Ltd and Caltex Petroleum Services Pty Ltd each own half of the units in this trust.

F1.1 Deed of cross guarantee

Income statement for entities covered by the Deed of Cross Guarantee

Thousands of dollars	2016	2015
Revenue	17,330,238	19,814,461
Cost of goods sold – historical cost	(15,542,862)	(18,022,628)
Gross profit	1,787,376	1,791,833
Other income	(3,955)	(26,616)
Operating expenses	(1,020,018)	(1,120,756)
Finance costs	(72,572)	(76,712)
Share of profit of equity-accounted investees	1,382	5,008
Profit before income tax expense	692,213	572,757
Income tax expense	(201,291)	(166,802)
Net profit	490,922	405,955
Other comprehensive income for the period, net of income tax	55	1,606
Total comprehensive income for the period	490,977	407,561
Retained earnings at the beginning of the year	2,102,843	1,957,733
Movement in reserves	(154)	1,055
Shares bought back	(251,608)	–
Dividends provided for or paid	(319,405)	(261,900)
Retained earnings at the end of the year	2,022,598	2,102,843

NOTES TO THE FINANCIAL STATEMENTS
F GROUP STRUCTURE
 FOR THE YEAR ENDED 31 DECEMBER 2016

F1 Controlled entities continued

Balance sheet for entities covered by the Deed of Cross Guarantee

Thousands of dollars	2016	2015
Current assets		
Cash and cash equivalents	116,606	232,784
Receivables	554,769	532,124
Inventories	787,912	680,410
Current tax asset	9,524	81,645
Other	98,126	38,032
Total current assets	1,566,937	1,564,995
Non-current assets		
Receivables	2,555	2,824
Investments accounted for using the equity method	10,394	9,412
Property, plant and equipment	2,598,726	2,549,831
Intangibles	170,182	157,473
Deferred tax assets	241,457	298,426
Employee benefits	432	1,411
Other	20,856	1,760
Total non-current assets	3,044,602	3,021,137
Total assets	4,611,539	4,586,132
Current liabilities		
Payables	707,515	632,539
Interest bearing liabilities	143	19
Current tax liabilities	138,111	9,383
Employee benefits	96,379	109,993
Provisions	156,086	107,911
Total current liabilities	1,098,234	859,845
Non-current liabilities		
Payables	8,356	9,743
Interest bearing liabilities	698,340	695,238
Employee benefits	38,637	50,669
Provisions	244,352	343,168
Total non-current liabilities	989,685	1,098,818
Total liabilities	2,087,919	1,958,663
Net assets	2,523,620	2,627,469
Equity		
Issued capital	524,944	543,415
Treasury stock	(344)	(644)
Reserves	(23,578)	(18,145)
Retained earnings	2,022,598	2,102,843
Total equity	2,523,620	2,627,469

F2 Business combinations

2017 – Proposed

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 final consideration will be adjusted for working capital and other ancillary items at completion.

The acquisition will secure Caltex's existing network in Victoria and provide a stronger platform from which to provide new and improved customer offerings in the convenience marketplace.

Completion of the transaction is scheduled for the first half of 2017, allowing time for regulatory review and execution of various operational agreements.

Gull New Zealand

On 22 December 2016, Caltex entered into an agreement to purchase Gull New Zealand for NZ\$340 million (approximately A\$325 million). The final consideration will be adjusted for working capital. The transaction will see 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.

Subject to New Zealand regulatory approval (New Zealand Overseas Investment Office), completion of the transaction is scheduled for the second quarter of 2017.

2016

There were no material business combinations during the year ended 31 December 2016.

2015

Hawkins Fuels

On 23 July 2015, Caltex acquired two Caltex branded truck stops from Hawkins Fuels (Hawkins) for a consideration of \$7,268,000 plus incidental acquisition costs.

Hawkins is an independent fuel reseller business that operates in Queensland. The acquisition complements Caltex's existing national network and is consistent with Caltex's strategy of being Australia's leading transport fuels provider. In the five months up to 31 December 2015, Hawkins contributed a gross sales revenue of \$1,178,000 and a net profit of \$160,000 (including acquisition costs) to the consolidated gross sales revenue and net profit for the year. If the acquisition had occurred on 1 January 2015, the Group estimates that gross sales revenue would have been \$1,476,000 greater and net profit would have been \$804,000 greater.

The acquisition had the following effect on the Group's assets and liabilities:

Thousands of dollars	Recognised values
Intangibles	779
Property, plant and equipment	1,709
Inventories	268
Net identifiable assets and liabilities	2,756
Goodwill on acquisition	4,512
Consideration paid, satisfied in cash	7,268
Net cash outflow	(7,268)

The recognised values represent the fair value of assets recorded on acquisition.

Intangible assets acquired of \$779,000 represents the amount paid to Hawkins for customer relationships and trade restraint, which meets the criteria for recognition as a separately identifiable intangible asset at the date of acquisition. These intangible assets are to be amortised over the remainder of the agreement term.

Goodwill acquired of \$4,512,000 represents other intangible assets that did not meet the criteria for recognition as separately identifiable assets at the date of acquisition. None of the goodwill recognised is expected to be deductible for tax purposes.

There were no other material business combinations during the year ended 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS

F GROUP STRUCTURE

FOR THE YEAR ENDED 31 DECEMBER 2016

F3 Equity accounted investees

Associates are those entities over whose financial and operating policies the Group has significant influence, but not control. Joint ventures are those entities whose financial and operating policies the Group has joint control over, and where the Group has rights to the net assets of the entity.

The consolidated financial statements include the Group's share of the total recognised gains and losses of associates and joint ventures on an equity accounted basis, from the date that significant influence or joint control commences until the date that it ceases. When the Group's share of losses exceeds the carrying amount of the associate or joint venture, the carrying amount is reduced to nil and recognition of future losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Other movements in reserves are recognised directly in the consolidated reserves.

Unrealised gains arising from transactions with associates and joint ventures are eliminated to the extent of the Group's interest in the entity. Unrealised losses arising from transactions with associates and joint ventures are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

F3.1 Investments accounted for using the equity method

Name	% INTEREST	
	2016	2015
Investments in associates and joint ventures		
Airport Fuel Services Pty. Limited	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, have a 31 December balance date and are principally concerned with the sale, marketing and/or distribution of fuel products.

F3.2 Investments in associates

Thousands of dollars	Revenue (100%)	Profit (100%)	Share of associates' net profit recognised	Total assets (100%)	Total liabilities (100%)	Net assets as reported by associates (100%)	Share of associates' net assets equity accounted
2016	115,287	3,790	1,382	30,167	11,038	19,129	9,625
2015	134,716	5,104	1,781	26,296	8,340	17,956	8,642

Thousands of dollars	2016	2015
Results of associates		
Share of associates' profit before income tax expense	1,967	2,552
Share of associates' income tax expense	(590)	(766)
Share of associates' net profit	1,377	1,786
Unrealised profit in inventories	5	(5)
Share of associates' net profit – equity accounted	1,382	1,781
Commitments		
Share of associates' operating lease commitments not provided for in the financial report and payable:		
Within one year	355	188
Between one and five years	1,773	939
	2,128	1,127
Share of associates' finance lease commitments not provided for in the financial report and payable:		
Within one year	958	955
Between one and five years	1,132	1,037
	2,090	1,992
Future finance charges	(127)	(106)
	1,963	1,886

NOTES TO THE FINANCIAL STATEMENTS
F GROUP STRUCTURE
 FOR THE YEAR ENDED 31 DECEMBER 2016

F3 Equity accounted investees continued

F3.3 Investments in joint ventures

Thousands of dollars	Revenue (100%)	Profit (100%)	Share of joint ventures' net profit recognised	Total assets (100%)	Total liabilities (100%)	Net assets as reported by joint venture (100%)	Share of joint ventures' net assets equity accounted
2016	9,366	–	–	3,483	1,560	1,923	769
2015	325,477	6,863	3,227	3,501	1,578	1,923	770

Thousands of dollars	2016	2015
Results of joint ventures		
Share of joint ventures' profit/(loss) before income tax expense	–	3,162
Share of joint ventures' income tax (expense)/benefit	–	(948)
Share of joint ventures' net loss	–	2,214
Unrealised profit/(loss) in inventories	–	1,013
Share of joint ventures' net profit/(loss) – equity accounted	–	3,227
Joint ventures' assets and liabilities		
Current assets	1,759	2,725
Non-current assets	1,724	776
Total assets	3,483	3,501
Current liabilities	1,560	1,578
Non-current liabilities	–	–
Total liabilities	1,560	1,578
Commitments		
Share of joint ventures' operating lease commitments not provided for in the financial report and payable:		
Within one year	1,100	1,100
Between one and five years	456	1,559
	1,556	2,659

F3.4 Reconciliation to income statement

Thousands of dollars	2016	2015
Share of net profit of associates accounted for using the equity method	1,382	1,781
Share of net profit of joint ventures accounted for using the equity method	–	3,227
	1,382	5,008

F3.5 Reconciliation to balance sheet

Thousands of dollars	2016	2015
Investment in associates accounted for using the equity method	9,625	8,642
Investment in joint ventures accounted for using the equity method	769	770
	10,394	9,412

F4 Joint venture operations

Joint venture operations are those entities whose financial and operating policies the Group has joint control over, and where the Group has rights to the assets and obligations for the liabilities of the entity.

The interests of the Group in unincorporated joint operations are brought to account by recognising in its financial statements the assets it controls and the liabilities that it incurs, and the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint operation.

The Group has joint interests in multiple Joint User Hydrant Installations (JUHIs), which are based at airports across Australia. The Group's interest in the JUHIs ranges from 20% – 50%. The principal activity of the JUHIs is refuelling aircraft at the airports. For the year ended 31 December 2016, the contribution of the JUHIs to the operating profit of the Group was nil (2015: nil). Included in the assets and liabilities of the Group are the Group's interests in the assets and liabilities employed in the joint venture operation:

Thousands of dollars	2016	2015
Non-current assets		
Plant and equipment expenditure	62,085	59,318
Less: accumulated depreciation	(36,649)	(34,769)
Total non-current assets	25,436	24,549
Total assets	25,436	24,549

F5 Parent entity disclosures

As at, and throughout, the financial year ended 31 December 2016, the parent entity of the Group was Caltex Australia Limited.

Thousands of dollars	2016	2015
Result of the parent entity		
Profit for the period	719,277	234,857
Other comprehensive income	(213)	2,437
Total comprehensive income for the period	719,064	237,294
Financial position of parent entity at year end		
Current assets	35,162	81,394
Total assets	1,964,100	2,009,036
Current liabilities	128,952	–
Total liabilities	1,322,507	1,491,363
Total equity of the parent entity comprising:		
Issued capital	524,944	543,415
Treasury stock	(344)	5,355
Reserves	(23,490)	(23,822)
Retained earnings	140,483	(7,275)
Total equity	641,593	517,673

Parent entity guarantees in respect of the debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that each company agrees to guarantee all of the debts (in full) of all companies that are parties to the deed subject to, and in accordance with, the terms set out in the deed.

Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed are disclosed in note F1.

NOTES TO THE FINANCIAL STATEMENTS
G OTHER INFORMATION
 FOR THE YEAR ENDED 31 DECEMBER 2016

This section includes other information to assist in understanding the financial performance and position of the Group, or items to be disclosed to comply with accounting standards and other pronouncements.

G1 Commitments

G1.1 Capital expenditure

Thousands of dollars	2016	2015
Capital expenditure contracted but not provided for in the financial report and payable	35,624	25,564

G1.2 Leases

Finance leases

Assets of the Group acquired under finance leases are capitalised and included in property, plant and equipment at the lesser of fair value or present value of the minimum lease payments with a corresponding finance lease liability. Contingent rentals are written off as an expense of the period in which they are incurred. Capitalised lease assets are depreciated over the shorter of the lease term and their useful life.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge components of lease payments are charged to the consolidated income statement to reflect a constant finance rate on the remaining balance of the liability for each accounting period.

Thousands of dollars	2016			2015		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Within one year	219	85	134	219	97	122
Between one and five years	889	113	776	1,109	199	910
	1,108	198	910	1,328	296	1,032

The Group leases plant and equipment under finance leases expiring from one to four years. No contingent rentals were paid during the year (2015: nil).

Operating leases

Payments made under operating leases are charged against net profit or loss in equal instalments over the accounting period covered by the lease term, except where an alternative basis is more representative of the benefits to be derived from the leased property. Contingent rentals are recognised as an expense in the period in which they are incurred. Lease incentives received are recognised in the consolidated income statement as an integral part of the total lease expense on a straight-line basis over the lease term.

Thousands of dollars	2016	2015
Non-cancellable operating leases – Group as lessee		
Future minimum rentals payable:		
Within one year	127,466	130,117
Between one and five years	430,119	412,000
After five years	344,887	350,560
	902,472	892,677

The Group holds operating leases expiring from one to 36 years. Leases generally provide the Group with a right of renewal at which time all terms are renegotiated. Lease payments comprise mainly a base amount; however, in a few cases, they include a base amount and incremental contingent rental. Contingent rentals are based on operating performance criteria. Contingent rentals of \$478,760 were paid during the year (2015: \$466,497).

The expense recognised in the income statement during the year in respect of operating leases is \$167,980,000 (2015: \$161,583,000).

There are no restrictions placed upon the Group by entering into these leases. Renewals are at the option of the specific entity that holds the lease.

G1 Commitments continued

G1.2 Leases continued

Thousands of dollars	2016	2015
Non-cancellable operating leases – Group as lessor		
Future minimum rentals receivable:		
Within one year	6,557	68,870
Between one and five years	178,233	128,296
After five years	5,396	39,052
	190,186	236,218

The Group has granted operating leases expiring from one to 15 years. Some of the leased properties have been sublet by the Group. The leases and subleases expire between 2017 and 2032.

Note B1 shows the rental income recognised in the income statement in respect of operating leases.

G2 Contingent liabilities

Discussed below are items where either it is not probable that the Group will have to make future payments or the amounts of the future payments are not able to be measured.

Legal and other claims

In the ordinary course of business, the Group is involved as a plaintiff or defendant in legal proceedings. Where appropriate, Caltex takes legal advice. The Group does not consider that the outcome of any current proceedings is likely to have a material effect on its operations or financial position.

A liability has been recognised for any known losses expected to be incurred where such losses are capable of reliable measurement.

Bank guarantees

The Group has granted indemnities to banks to cover bank guarantees given on behalf of controlled entities to a maximum exposure of \$5,385,000 (2015: \$4,671,000).

Deed of Cross Guarantee and class order relief

Various companies in the Caltex Group are party to a Deed of Cross Guarantee dated 22 December 1992 with Caltex Australia Limited and each other pursuant to ASIC Class Order CO 98/1418 ("Deed") (see note F1).

Under the Deed, each participating company agrees to guarantee in full all of the debts of all of the companies that are party to the Deed subject to, and in accordance with, the terms set out in the Deed.

G3 Related party disclosures

2016

Since Chevron Global Energy Inc. held a 50% interest in Caltex until 30 March 2015, there have been no related party transactions in the year ended 31 December 2016.

2015

Until 30 March 2015, Chevron Global Energy Inc. held a 50% interest in Caltex. Transactions with the Chevron Group up until that point are summarised below.

The Caltex Group paid \$1,019,000 to the Chevron Group for technical service fees. The Group received \$1,250,000 for technical service fees from the Chevron Group. These fees are in the ordinary course of business and on normal commercial terms and conditions.

The Caltex Group paid \$282,000 to the Chevron Group, including Iron Horse Insurance Company for insurance coverage. Dealings with Iron Horse Insurance Company are in the ordinary course of business and on normal commercial terms and conditions.

The Caltex Group purchased crude, other refinery feedstocks and petroleum products from the Chevron Group of \$913,068,000.

The Caltex Group sold crude, other refinery feedstocks and petroleum products to the Chevron Group of \$73,791,000.

These purchases and sales are in the ordinary course of business and on normal commercial terms and conditions.

The Chevron Group seconded one employee primarily to provide specialist expertise at Lytton refinery. The total cost borne by Caltex in respect of this secondee was \$90,000 for one secondee. This cost includes salary and bonuses, allowances including relocation, and indirect payroll related expenses.

Caltex seconded three employees to various roles within the Chevron Group during 2015. The Chevron Group paid the salary and bonuses, allowances including relocation, and indirect payroll related expenses of these Caltex employees.

Associates

The Group sold petroleum products to associates totalling \$98,320,000 (2015: \$106,498,000). The Group received income from associates for rental income of \$477,000 (2015: \$155,000).

Details of associates are set out in note F3. Amounts receivable from associates are set out in note C1. Dividend and disbursement income from associates is \$400,000 (2015: \$800,000).

Caltex has interests in associates primarily for the marketing, sale and distribution of fuel products. Details of Caltex's interests are set out in note F3.

Joint ventures

Caltex has interests in joint ventures primarily for the marketing, sale and distribution of fuel products. There were no related party transactions with Caltex's joint venture entities during 2016 (2015: nil). Details of Caltex's interests are set out in notes F3 and F4.

G4 Key management personnel

The key management personnel of the Caltex Group during 2016 and 2015 were:

Current directors

- Greig Gailey, Chairman and Independent, Non-executive Director
- Julian Segal, Managing Director & CEO
- Trevor Bourne, Independent, Non-executive Director
- Steven Gregg, Independent, Non-executive Director (from 9 October 2015)
- Bruce Morgan, Independent, Non-executive Director
- Barbara Ward AM, Independent, Non-executive Director (from 1 April 2015)
- Penny Winn, Independent, Non-executive Director (from 1 November 2015)

Former directors

- Elizabeth Bryan, Chairman and Independent, Non-executive Director (to 9 December 2015)
- Richard Brown, Non-executive Director (to 2 April 2015)
- Barbara Burger, Non-executive Director (to 2 April 2015)
- Ryan Krogmeier, Non-executive Director (to 2 April 2015)

Senior executives

- Julian Segal, Managing Director & CEO
- Andrew Brewer, Executive General Manager, Supply Chain Operations
- Viv Da Ros, Chief Information Officer (from 12 December 2016)
- Simon Hepworth, Chief Financial Officer
- Bruce Rosengarten, Executive General Manager, Commercial
- Lyndall Stoyles, Executive General Manager, Legal & Corporate Affairs (from 24 October 2016)
- Joanne Taylor, Executive General Manager, Human Resources (from 5 February 2016)
- Louise Warner, Executive General Manager, Fuels (from 3 October 2016)

Former executives

- Peter Lim, Executive General Manager, Legal & Corporate Affairs (to 7 December 2016)
- Adam Ritchie, Executive General Manager, Supply (from 1 April 2015 to 31 December 2016)
- Simon Willshire, Executive General Manager, Human Resources (to 30 April 2016)

Key management personnel compensation

Dollars	2016	2015
Short term benefits	12,611,508	12,807,344
Other long term benefits	194,188	239,775
Post-employment benefits	470,297	383,215
Share based payments	4,584,337	5,099,486
	17,860,330	18,529,820

Information regarding directors' and executives' compensation and some equity instruments disclosures is provided in the Remuneration Report section of the Directors' Report on pages 44 to 68.

NOTES TO THE FINANCIAL STATEMENTS
G OTHER INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2016

G4 Key management personnel continued

Performance rights

Since 1 January 2007, Senior Executives may receive performance rights under Caltex's Equity Incentive Plan, based on the achievement of specific targets related to the performance of the Group. The measure of performance is Total Shareholder Returns (TSR) over a three year period relative to a comparator group.

OPENING BALANCE		GRANTED		VESTED DURING THE YEAR			LAPSED DURING THE YEAR			CLOSING BALANCE	
Number of performance rights	Start date	Number of performance rights	Fair value of performance rights (\$)	Distribution date	Number of performance rights	Weighted average fair value per share (\$)	Lapsed date	Number of performance rights	Weighted average fair value per share (\$)	Number of performance rights	Fair value aggregate (\$)
2016											
951,454	4 Apr 16	276,309	13.34	1 Apr 16	(333,821)	33.82	Q1 2016	(3,680)	–	583,894	8,193,885
426,798	4 Apr 16	184,206	30.68				Q2 2016	(132,914)	–	206,708	4,375,595
103,749							Q3 2016	(112,290)	–	505,661	11,300,979
							Q4 2016	(63,548)	–		
1,482,001		460,515			(333,821)			(312,432)		1,296,263	23,870,459
2015											
1,340,033	8 Apr 15	326,229	15.69	9 Jan 15	(16,859)	35.35	Q1 2015	(24,350)	–	951,454	12,420,390
215,272	8 Apr 15	108,743	31.76	1 Apr 15	(746,052)	35.13	Q2 2015	(116,239)	–	426,798	8,660,332
462,806							Q3 2015	(45,909)	–	103,749	3,295,068
							Q4 2015	(21,673)	–		
2,018,111		434,972			(762,911)			(208,171)		1,482,001	24,375,790

For information regarding the inputs used in the measurement of the fair values at each grant date, please refer to table 8 of the Remuneration Report on page 63 of the Directors' Report.

G5 Notes to the cash flow statement

G5.1 Reconciliation of cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

For the purposes of the cash flow statement, cash and cash equivalents includes:

Thousands of dollars	2016	2015
Cash at bank	244,857	263,764
Total cash and cash equivalents	244,857	263,764

G5.2 Reconciliation of net profit to net operating cash flows

Thousands of dollars	2016	2015
Net profit	610,480	522,621
Adjustments for:		
Net gain on sale of property, plant and equipment	(1,805)	(23,641)
Finance charges on finance leases	220	–
Interest paid capitalised	(1,560)	(3,702)
Amortisation of finance costs	3,235	3,191
Depreciation/amortisation of property, plant and equipment	191,688	178,366
Amortisation and impairment of intangibles	17,608	26,183
Treasury stock movements net of expense	(6,241)	(14,029)
Share of associates' and joint ventures' net (loss)/profit	(982)	(1,994)
Movements in assets and liabilities:		
(Increase)/decrease in receivables	(65,774)	117,281
(Increase)/decrease in inventories	(111,035)	151,053
(Increase) in other assets	(25,118)	(6,328)
Increase/(decrease) in payables	152,857	(144,655)
Increase in current tax balances	179,636	36,015
Increase in deferred tax assets	60,052	143,339
(Decrease) in provisions	(75,059)	(99,034)
Net operating cash inflows	928,202	884,666

G6 Auditor remuneration

Dollars	2016	2015
Audit services – KPMG Australia	1,082,700	1,000,500
Non-audit services – KPMG Australia:		
Other assurance services	74,100	103,400
Taxation services and Advisory	173,200	195,600
	1,330,000	1,299,500

G7 Net tangible assets per share

Dollars	2016	2015
Net tangible assets per share	9.88	9.60

Net tangible assets are net assets attributable to members of Caltex Australia Limited less intangible assets. The weighted average number of ordinary shares used in the calculation of net tangible assets per share was 263 million (2015: 270 million).

G8 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except for:

- AASB 9 *Financial Instruments*, which becomes mandatory for the Group's 2018 consolidated financial statements and could change the classification and measurement of financial assets and liabilities. The Group does not plan to adopt this standard early and the extent of the impact has not been determined. The actual impact of adopting AASB9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at the time as well as accounting elections and judgments that it will make in the future. However, the Group has performed a preliminary assessment of the potential impact of adoption of AASB9 based on its positions as at 31 December 2016 and hedging relationships designated during 2016 under AASB139 and does not expect a significant impact on the financial statements as a result of adoption of this standard.
- AASB 15 *Revenue from Contracts with Customers*, which becomes mandatory for the Group's 2018 consolidated financial statements and could change the basis for the recognition of revenue. The Group does not plan to adopt this standard early and the extent of the impact has not been determined. The Group has performed an initial assessment of the potential impact of the adoption of AASB15 on its consolidated financial statements. Based on this assessment, the Group does not expect significant differences in the timing or amount of revenue recognition. The Group plans to adopt AASB15 in its consolidated financial statements for the year ending 31 December 2018; however, the specific approach and practical expedients to be adopted have not yet been determined. The Group is currently in the process of finalising its detailed assessment of the impact resulting from the application of AASB15.
- IFRS 16 *Leases*, which becomes mandatory for the Group's 2019 consolidated financial statements and requires that operating leases be recognised on the balance sheet. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

G9 Events subsequent to the end of the year

Late in 2016 Caltex announced the proposed acquisition of Milemaker Petroleum and Gull New Zealand. Additionally 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. These three separate announcements did not impact the 2016 financial result for Caltex. They are however expected to have an impact in future periods. 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 subsequent to 31 December 2016.

COMPARATIVE FINANCIAL INFORMATION

The additional information on pages 119 to 120 is provided for the information of shareholders. The information is based on, but does not form part of, the 2016 Financial Report.

Caltex Australia Limited Consolidated Results	2016	2015	2014	2013	2012
Profit and loss (\$million)					
Historical cost operating profit before significant items, interest and income tax expense	936	783	279	798	624
Interest income	7	5	8	9	2
Borrowing costs before significant items	(80)	(82)	(120)	(98)	(99)
Historical cost income tax expense before significant items	(253)	(214)	(56)	(205)	(161)
Historical cost operating profit after tax and before significant items	610	493	132	504	366
Significant items (net of tax)	–	29 ⁽ⁱ⁾	(112) ⁽ⁱⁱ⁾	26 ⁽ⁱⁱⁱ⁾	(309) ^(iv)
Historical cost operating profit/(loss) after income tax	610	522	20	530	57
Dividends					
Amount paid and payable (\$/share)	1.02	1.17	0.70	0.34	0.40
Times covered (excl. significant items)	2.29	1.56	0.70	5.49	3.39
Dividend payout ratio – RCOP basis (excl. significant items)	51%	50%	38%	28%	24%
Dividend franking percentage	100%	100%	100%	100%	100%
Other data					
Total revenue (\$m)	17,933	20,027	24,231	24,676	23,565
Earnings per share – HCOP (cents per share)	232	193	7	196	21
Earnings per share – RCOP (cents per share) (excl. significant items) ^(v)	199	233	183	123	170
Earnings before interest and tax – historical cost basis (\$m) (excl. sig items)	936	783	279	798	624
Earnings before interest and tax – replacement cost basis (\$m) (excl. sig items)	813	977	795	551	756
Operating cash flow per share (\$/share)	3.6	3.3	2.5	2.3	1.5
Interest cover – historical cost basis	12.9	10.6	1.3	9.3	1.9
Interest cover – replacement cost basis (excl. significant items)	11.2	12.7	7.1	6.2	7.8
Return on capital employed – historical cost basis (%) ^(vi)	18.7	16.2	0.6	15.9	2.0
Return on capital employed – RCOP basis (excl. significant items) ^(vi)	16.1	19.5	15.5	9.9	15.8
Equity attributable to members of the company (\$m)	2,797	2,776	2,521	2,588	2,148
Total equity (\$m)	2,810	2,788	2,533	2,597	2,160
Total assets (\$m)	5,303	5,105	5,129	6,021	5,386
Net tangible asset backing (\$/share)	9.88	9.60	8.64	9.05	7.55
Debt (\$m)	698	695	1,176	942	950
Net debt (\$m)	454	432	639	742	740
Net debt to net debt plus equity (%)	14	13	20	22	26

⁽ⁱ⁾ Includes significant items before tax totalling a gain of \$31,924,000, that have been recognised in the income statement. This gain relates to the sale of surplus property in Western Australia

⁽ⁱⁱ⁾ Includes significant items before tax totalling a loss of \$160,163,000, that have been recognised in the income statement. These items relate to the Group cost and efficiency review project and include consulting fees (\$25,065,000), redundancy costs (\$53,814,000), contract cancellation costs (\$12,000,000), interest expense (\$20,311,000), foreign exchange gains (\$4,755,000) and accelerated depreciation (\$22,773,000) and environmental liabilities (\$30,955,000).

⁽ⁱⁱⁱ⁾ Includes significant items totalling a gain of \$27,763,000 before tax, that have been recognised in the income statement. These items relate to a gain on the sale of the bitumen business, net of costs relating to acquisitions and disposals (\$38,766,000) and the net adjustment to provisions (\$11,003,000) relating to the closure of the Kurnell refinery.

^(iv) Includes significant items relating to employment benefit and remediation provisions (\$430,000,000) arising from the announcement on 26 July 2012 of the planned 2014 closure of the Kurnell refinery in New South Wales, Australia and its proposed conversion to an import terminal. The remaining expenses of \$11,355,000 relate to cancelled capital projects associated with the Kurnell refinery.

^(v) Dividend payout ratio – replacement cost of sales operating profit basis calculated as follows:

$$\frac{\text{Dividends paid and payable in respect of financial year}}{\text{Replacement cost of sales operating profit after income tax (excl. significant items)}}$$

^(vi) Return on capital employed is calculated as follows:

$$\frac{\text{Net Profit After Tax}}{\text{Net Debt + Equity}}$$

REPLACEMENT COST OF SALES OPERATING PROFIT BASIS OF ACCOUNTING

- To assist in understanding the Group's operating performance, the directors have provided additional disclosure of the Group's results for the year on a replacement cost of sales operating profit basis⁽ⁱ⁾, which excludes net inventory gains and losses.
- On a replacement cost of sales operating profit basis excluding significant items, the Group's net profit after income tax for the year was \$524 million, compared to a profit of \$628 million in 2015.
- 2016 net profit before interest, income tax and significant items on a replacement cost of sales operating profit basis was \$813 million, a decrease of \$164 million over 2015.

\$ Million	Five years*	2016	2015	2014	2013	2012
Historical cost operating profit before significant items, interest and income tax expense	3,420	936	783	279	798	624
Add/(deduct) inventory losses/(gains) ⁽ⁱⁱ⁾	473	(122)	193	516	(246)	132
Replacement cost of sales operating net profit before significant items, interest and income tax expense	3,893	813	977	795	551	756
Net borrowing costs	(426)	(73)	(77)	(91)	(89)	(97)
Historical cost income tax expense before significant items	(889)	(253)	(214)	(56)	(205)	(161)
Add/(deduct) tax effect of inventory gains/(losses)	(142)	37	(58)	(155)	74	(40)
Replacement cost of sales operating profit after income tax ⁽ⁱⁱⁱ⁾	2,436	524	628	493	332	458

* Note: Totals may not sum due to rounding.

⁽ⁱ⁾ The replacement cost of sales operating profit basis (RCOP) removes the unintended impact of inventory gains and losses, giving a truer reflection of underlying financial performance. Gains and losses in the value of inventory due to fluctuations in the USD price of crude oil and foreign exchange impacts constitute a major external influence on company profits. RCOP restates profit to remove these impacts. The Caltex RCOP methodology is consistent with the methods used by other refining and marketing companies for restatement of their financials.

As a general rule, an increase in crude prices on an Australian dollar basis will create an earnings gain for Caltex (but working capital requirements will also increase). Conversely, a drop in crude prices on an Australian dollar basis will create an earnings loss. This is a direct consequence of the first in first out (FIFO) costing process used by Caltex in adherence with accounting standards to produce the financial result on a historical cost basis. With Caltex holding approximately 45 to 60 days of inventory, revenues reflect current prices in Singapore whereas FIFO costings reflect costs some 45 to 60 days earlier. The timing differences creates these inventory gains and losses. To remove the unintended impact of this factor on earnings and to better reflect the underlying performance of the business, the RCOP NPAT methodology calculates the cost of goods sold on the basis of theoretical new purchases instead of actual costs from inventory. The cost of these theoretical new purchases is calculated as the average monthly cost of cargoes received during the month of those sales.

⁽ⁱⁱ⁾ Historical cost results include gross inventory gains or losses from the movement in crude oil prices. In 2016, the historical cost result includes \$122 million inventory gain (2015: \$193 million inventory loss). Net inventory loss is adjusted to reflect impact of revenue lags.

⁽ⁱⁱⁱ⁾ Replacement cost profit after income tax is calculated before taking into account any significant items over the five years. The total effect of these significant items in each year was: 2012: \$441 million expenses before tax (\$309 million after tax); 2013: \$28 million gain before tax (\$26 million after tax); 2014: \$160 million expenses before tax (\$112 million after tax); 2015: \$32 million gain before tax (\$29 million after tax); and 2016: no significant items were recognised.

SHAREHOLDER INFORMATION

AS AT 28 FEBRUARY 2017

Share capital

There are 260,810,519 ordinary fully paid shares on issue held by 32,296 holders.

Holders with less than a marketable parcel

376 shareholders hold less than a marketable parcel of \$500 based on a share price of \$28.14 per share.

Buy-back

There is no on-market buy-back in operation.

Shares purchased on-market

From 1 January 2016, 350,276 fully paid ordinary shares were purchased on-market at an average cost of \$32.30 per share for the purposes of the Caltex Australia Limited Equity Incentive Plan.

From 1 January 2016, 29,496 fully paid ordinary shares were purchased on-market at an average cost of \$32.55 per share for the purposes of the Caltex Australia Limited Employee Share Plan.

Substantial shareholders

The following shareholders are substantial shareholders of Caltex Australia Limited.

Substantial shareholders	Number of shares held	% of Issued shares
1. Westpac Banking Corporation	13,902,131	5.33%
2. Lazard Asset Management Pacific Co	18,810,624	7.21%
3. BlackRock Group	16,465,153	6.09%

Shareholder distribution

Range	Number of Shareholders	Number of shares held	% of issued shares
1 – 1,000	25,103	9,980,213	3.83
1,001 – 5,000	6,325	13,562,346	5.20
5,001 – 10,000	542	3,923,392	1.50
10,001 – 100,000	286	7,022,511	2.69
100,001 and over	40	226,322,057	86.78
Total	32,296	260,810,519	100.00

SHAREHOLDER INFORMATION CONTINUED

Top 20 shareholders

Details of the 20 largest shareholders of Caltex Australia Limited shares are listed in the table below.

Shareholder	Number of shares held	% of issued shares
1. HSBC Custody Nominees (Australia) Limited	104,368,086	40.02
2. J P Morgan Nominees Australia Limited	55,053,555	21.11
3. Citicorp Nominees Pty Limited	18,629,639	7.14
4. National Nominees Limited	17,120,212	6.56
5. BNP Paribas Noms Pty Ltd <DRP>	5,726,891	2.20
6. BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	5,269,477	2.02
7. Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	3,983,155	1.53
8. HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	3,978,757	1.53
9. RBC Investor Services Australia Nominees Pty Limited <BKCUST A/C>	2,980,625	1.14
10. AMP Life Limited	679,435	0.26
11. Bainpro Nominees Pty Limited	677,358	0.26
12. UBS Nominees Pty Ltd	551,000	0.21
13. HSBC Custody Nominees (Australia) Limited	508,764	0.20
14. HSBC Custody Nominees (Australia) Limited-Gsco Eca	486,521	0.19
15. Merrill Lynch (Australia) Nominees Pty Limited	485,958	0.19
16. UBS Nominees Pty Ltd	449,703	0.17
17. BNP Paribas Nominees Pty Ltd <Agency Lending Collateral>	433,000	0.17
18. Australian Foundation Investment Company Limited	421,681	0.16
19. HSBC Custody Nominees (Australia) Limited – A/C 2	365,551	0.14
20. National Nominees Limited <DB A/C>	346,626	0.13
Total	222,515,994	85.32

Voting Rights

Shareholders in Caltex Australia Limited have a right to attend and vote at all general meetings in accordance with the company's Constitution, the *Corporations Act 2001* (Cth) and the ASX Listing Rules.

Corporate Governance Statement

A copy of the Corporate Governance Statement can be found on our website.

Visit <https://www.caltex.com.au/our-company/investor-centre/corporate-governance>.

Australian Securities Exchange

The company's fully paid ordinary shares (ASX:CTX) and Caltex Subordinated Notes (ASX:CTXHA) are listed on the Australian Securities Exchange.

Company Secretaries

Lyndall Stoyles and Kara Nicholls have been appointed as a Company Secretary of Caltex Australia Limited.

STATISTICAL INFORMATION

Year Ended 31 December	2016	2015	2014	2013	2012
People					
Employees ⁽ⁱ⁾	3,045	3,078	3,067	3,638	3,610
Assets					
Fuel refineries	1	1	1	2	2
Road tankers ⁽ⁱⁱⁱ⁾	176	199	252	216	168
Rail cars (operational)	38	36	42	66	66
Storage terminals operated by Caltex ^(iv)	13	13	13	12	12
Star convenience stores (Star Mart, Star Supermarket and Star Shop)	533	514	496	491	480
Service stations (owned or leased)	842	797	795	765	738
Depots	64	76	81	76	76
Operations					
Nameplate refining capacity (barrels per day)					
– Caltex Refineries (NSW) Pty Ltd ^(v)	–	–	–	135,000	135,000
– Caltex Refineries (Qld) Pty Ltd	116,000	112,000	109,000	109,000	109,000
Fuel production (ML)	6,374 ⁽ⁱⁱ⁾	5,979 ⁽ⁱⁱ⁾	10,245	11,398	11,648
Total sales volume (ML)	15,993	16,109	16,991	16,957	16,628
Lost time injury frequency rate (LTIFR) ^(vi)	1.1	0.62	0.77	0.63	0.59

i. Includes employees of Calstores Pty Ltd and Caltex 100% owned resellers.

ii. 2015 and 2016 reflect fuel production from the Lytton refinery only, following the conversion of the Kurnell refinery.

iii. Road tanker numbers include Caltex 100% owned reseller fleet.

iv. Caltex has equity in an additional three terminals, along with product supply agreements at a number of other terminals across Australia.

v. Caltex Refineries (NSW) Pty Ltd (Kurnell refinery) ceased production in October 2014.

vi. Employee and contractor lost time injury frequency rate per million work hours.

DIRECTORY

Head office

Caltex Australia Limited
ACN 004 201 307

Level 24
2 Market Street
Sydney NSW 2000
Australia

GPO Box 3916
Sydney NSW 2001
Australia

T: +61 2 9250 5000
F: +61 2 9250 5742

www.caltex.com.au
secretariat@caltex.com.au

Share registry

**Computershare Investor Services
Pty Limited**

GPO Box 2975
Melbourne VIC 3001
Australia

T: 1300 850 505
(enquiries within Australia)

T: +61 3 9415 4000
(enquiries outside Australia)

F: +61 3 9473 2500
www.computershare.com.au
caltex.queries@computershare.com.au

New South Wales

Caltex Banksmeadow terminal
Penrhyn Road
Banksmeadow NSW 2019
Australia

T: +61 2 9695 3600
F: +61 2 9666 5737

**Queensland/Northern Territory
Caltex Refineries (Qld) Pty Ltd**
ACN 008 425 581

South Street
Lytton QLD 4178
Australia

T: +61 7 3362 7555
F: +61 7 3362 7111

Caltex Lytton terminal
Tanker Street, off Port Drive
Lytton QLD 4178
Australia

T: +61 7 3877 7333
F: +61 7 3877 7464

Victoria/Tasmania

Caltex Newport terminal
411 Douglas Parade
Newport VIC 3015
Australia

T: +61 3 9287 9555
F: +61 3 9287 9572

Western Australia

Level 1
2 Sabre Crescent
Jandakot WA 6164
Australia

T: +61 8 6595 2888
F: +61 8 9335 3062

Customer support feedback line

Environmental hotline

T: 1800 675 487

Complaints, compliments and suggestions

T: 1800 240 398

Card support centre

T: 1300 365 096

Lubelink

T: 1300 364 169

