

Freedom of Convenience

2017
Annual Report



CALTEX
Caltex Australia

Caltex Australia Limited 2017 Annual Report

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The **Caltex Freedom of Convenience** strategy gained momentum in 2017 as new ventures, improved practices, and a refined mindset embedded convenience thinking across the business.

Life just got easier for our customers, employees and partners.

Read more in our case studies

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New crudes to Lytton refinery	The Foodary	Nashi	A great start for Sofia	Powered by the sun	The sky's the limit for Darcey
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About this Report

This 2017 Annual Report for Caltex Australia Limited (ACN 004 201 307) has been prepared as at 27 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.



**Convenience
is our new
mindset**

About Caltex

A proud and iconic Australian company, Caltex has grown to become the nation's leading transport fuel supplier, with a network of approximately 1,900 company-owned or affiliated sites. Our complex supply chains safely and reliably deliver fuel and an evolving range of convenience products and services, to more than three million customers each week.



Our history

Caltex refines, imports and markets the fuels and lubricants which meet one third of all Australia's transport fuel needs. With a history that dates back to the early 1900s, we have come a long way – to around 4,700 employees and a convenience retail network that covers Australia.

Making life easier

Ease is the greatest benefit we can offer to anyone who engages with Caltex. Whether this is our fuel customers wanting to stay on the move, our retail customers who want to get more of what they love under one roof, our business customers who want the complex made simple, or our employees benefiting from working in an environment where delivering for our customers is easier than ever before, at Caltex we make life easier.

Embracing innovation

Our focus on convenience has resulted in new digital enablers, streamlined transactions and efficiency improvements that are truly world class. We are using the latest technologies to improve the experience of our customers, reconfigure our manufacturing operations and maximise the highest value products.

By embracing new technologies, we are taking convenience to a whole new level.

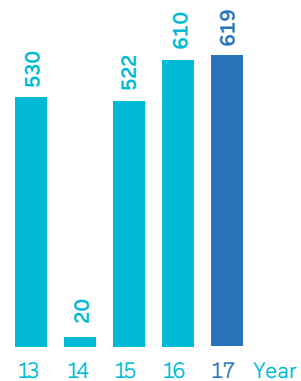
This is an exciting time for Caltex.

Lytton refinery's strong operational performance, resulting in higher refiner margins and continued growth of Caltex's businesses, supported the 2017 results.

\$619^M

Full year historic cost profit after tax

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



On an historic basis, Caltex recorded an after-tax profit of \$619 million for the 2017 full year. This includes crude and product inventory gains of \$12 million after tax.

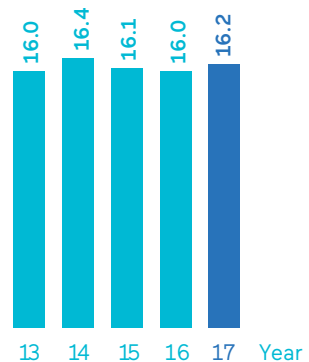
\$308^M

Lytton refinery earnings before interest and tax

6.2^{BL}

produced at the Lytton refinery

Transport fuel sales (Billion Litres)



Total sales volumes of transport fuels increased 3.4% to 16.2 Billion Litres (BL) from the previous year of 16.0 BL. By product, total diesel volumes increased 7.3% to 7.6 BL, while total petrols decreased 2.8% to 5.7 BL, broadly in line with industry trends.

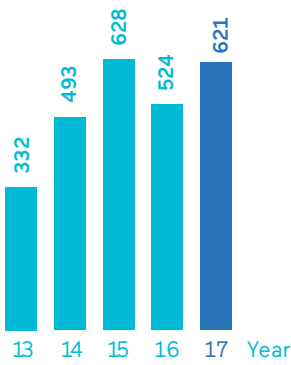
\$733^M

Supply & Marketing earnings before interest and tax

16.2^{BL}

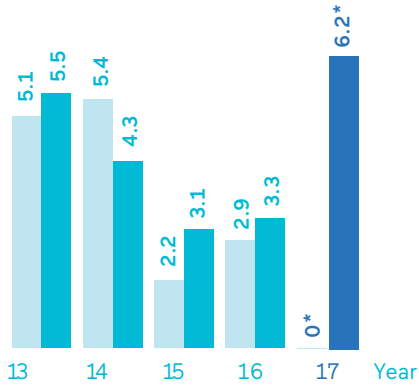
of total domestic transport fuel volume

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



Caltex recorded an after-tax profit for the 2017 full year of \$621 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 \$621 million is up 18% on the 2016 result of \$524 million.

**Refinery transport fuel production
(Billion Litres)**



Lytton refinery transport fuel production of 6.2 BL was in line with the record 2016 performance (6.2 BL).

*Reflects production from the Lytton refinery only, following the conversion of the Kurnell refinery into a fuels import terminal.

2017 Highlights

We continued to demonstrate our track record in sound decision making

Steven Gregg
Chairman

Julian Segal
Managing Director & CEO

Dear Shareholders,

2017 was a successful year for Caltex for many reasons. The result was the second highest RCOP NPAT we have ever delivered. We continued to demonstrate our track record in sound decision making in anticipation of the changing business environment, increased sales, launched new retail formats, and captured operating efficiencies, all aimed at improving our capability for ongoing, sustainable growth.

The year began with the potential loss of our 3.5 BL fuel supply to Woolworths, and the need to identify and secure new revenue. We acted to accelerate a growth agenda that included targeted acquisitions and new overseas market investments. At the same time, we improved the efficiency of our operations by identifying annualised operating cost savings of \$60 million.

We announced a significant change to the company's organisational structure in 2017, driven by our Freedom of Convenience strategy. The establishment of the two businesses within the company — Fuels & Infrastructure (Supply, B2B, Refining and Infrastructure), and Convenience Retail (petrol and convenience) — was a milestone in our evolution from the nation's leading provider of transport fuels to becoming a leader in complex supply chains and delivering the needs of our diverse customer base.

We have reported our 2017 results under Supply & Marketing and Refining. We will report under our new structure — Fuels & Infrastructure and Convenience Retail — at our Half Year results later in 2018. In 2017, we formalised and embedded the new structure, bringing into core focus our evolving Convenience Retail business and accelerating our growth strategy, informed by the millions of customers we see each week and a refreshed mindset of making life easier.

Replacement cost of sales
operating profit (RCOP) of

\$621^M

up 18% on 2016



The Fuels & Infrastructure business expanded into new geographic markets with the completion of our first international acquisition of Gull in New Zealand, and a new strategic partnership with SEAOIL in the Philippines.

These acquisitions leverage the trading and shipping capability of Ampol in Singapore and create a platform for further expansion.

Our refinery at Lytton had a very strong year — its second best year in production volumes — driven by B2B growth, and it continues to be a reliable source of revenue.

We know the capability of our people is at the heart of the company's success. The evolution of the business is supported by agile, committed people with the expertise required to deliver sustainable returns and growth for our shareholders. In addition, the core skills of our current leaders have been complemented by the targeted recruitment of external talent with experience in retail, digital and technology. As a result, the broader Caltex leadership team is poised to deliver on our strategic imperatives.

Safety

Our year was marked by tragedy. Each one of us at Caltex was saddened by the loss of a colleague who was fatally injured when he was struck by a third party vehicle during a routine delivery at a customer's site late in 2017.

The health and safety of our people is our primary focus and this fatality has deeply affected everyone at Caltex. Our thoughts are with our colleague's family, friends and all who knew him well. His memory is with us daily as we strive to continue improving our personal and process safety.

This tragic loss was against a backdrop of otherwise strong, continued improvement in personal safety measures. The measures for Total Recordable Injury Frequency Rate (TRIFR), and Days Away From Work Injury Frequency Rate (DAFWIFR), show a trend of solid improvement over the previous three years. Our measure for contractor days away from work was the best result we have had to date.

Our financial performance

For the full 2017 year, on an historic cost profit basis, Caltex's after-tax profit was \$619 million. This result was up 1.5% on the 2016 result of \$610 million after tax, with a net \$14 million loss in significant items.

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

On a replacement cost of sales operating profit (RCOP) basis, we delivered a RCOP of \$621 million, up 18% on the previous corresponding period, and marginally above the 2017 profit guidance.

Supply & Marketing delivered strong results with an EBIT result of \$733 million, up by 3.4% from the previous year. This result includes unfavourable externalities of \$43 million, comprising a realised loss on foreign exchange of \$26 million and a price timing lag loss of \$17 million, which are both improvements on the previous year.

The underlying Supply and Marketing EBIT increased 5.1% to \$776 million, excluding externalities.

Acquisitions added approximately \$22 million EBIT in the second half of the year.

Commercial diesel volumes grew 9.2% to 4.4 BL due to retention of core B2B customers, and increased resource and commercial activities. Jet volumes increased 6.25% to 2.8 BL, reflecting strong market activity, particularly across the East Coast, and increased volumes from new and growing carriers.

The Lytton refinery recorded an EBIT of \$308 million, up 50% on 2016. This reflects continued strong operational performance, the benefit of higher average refiner margins.

The refinery continues to operate well with sales from production of 6.1 BL.

New markets for fuel supply

We continued to grow our international trading and shipping capability and expertise with our first international acquisition, Gull New Zealand.

The acquisition of Gull New Zealand enables Ampol to extend the capability of Caltex's supply base.

We also announced that we have entered into a strategic partnership with SEAOL, a leading independent transportation fuels company in the Philippines, by acquiring a 20% equity interest in SEAOL and managing the supply of fuels via our Ampol capability in Singapore. This new relationship will deliver mutual benefit for both Caltex and SEAOL, allowing us to contribute to the future growth of this exciting business in one of the fastest growing import markets in Asia.

Freedom of Convenience

By the end of 2017, we had opened 23 new convenience retail stores, operating under The Foodary format. The early results are encouraging, with strong customer feedback and an average sales uplift of around 35%, in an average period of just four months.

We intend to launch between 50 and 60 The Foodary sites and 5-10 Nashi high street convenience sites in 2018 at a capital cost of up to \$100 million, ahead of a further rollout in later years.

On 27 February 2018, we announced the outcome of the two year review of our Convenience Retail operating model. This review determined that controlling our core Convenience Retail business is the best way to deliver our retail growth objectives. This will see Caltex transition our 433 franchise sites to company owned operations and we are aiming to complete this by mid 2020.

Throughout the year, we continued to audit our entire franchise network in response to the initial discovery of alleged wage underpayment of employees by certain Caltex franchisees. Additionally, we established an assistance fund for those franchisee employees impacted by underpayment or wage fraud and supported those franchisee employees by offering them employment with Caltex. During 2017, 875 employees have now been employed by Caltex.

Caltex will not tolerate illegal and unfair practice and we are committed to stamping it out anywhere in the franchise network. The Caltex audit program is ongoing and we will continue to take all necessary action to stop underpayment or mistreatment of franchisee employees.



Advances in diversity and inclusion

Caltex was recognised by the Workplace Gender Equality Agency (WGEA) as a 2017 Employer of Choice with a Gender Equality citation. This is the third consecutive year that we have received such recognition and reflects our commitment to gender equality.

To guide our progress toward gender equality, we have set a goal of 40% female representation in senior leadership positions by 31 December 2020.

Women currently represent 37% of all senior leadership positions and achieved 48% of all promotions to senior leadership positions in 2017. The gains in female representation on the Caltex Leadership Team have been maintained at 37.5% and there has been an increase on the Caltex Board at 42% female representation (up from 29% in 2016).

Our gender pay difference stands at a minimal rate of 0.93% in favour of males on a like-for-like job basis.

In 2017, we also formalised a flexible work structure, recognising the importance of flexibility to retaining key talent and making it easier to return to work following parental leave. 83% of employees surveyed last year agreed that they have the flexibility to manage their work with their caring responsibilities.

Acknowledgment

In August 2017, Greig Gailey retired as Chairman of the Caltex Board. We would like to acknowledge and thank Mr Gailey for his considerable contribution as Chairman since December 2015 and nearly 10 years of service as a Director. During his tenure, Caltex Australia was transformed from a fuel refiner-marketer to a leading integrated transport fuels player delivering significant value to shareholders.

The year ahead

Freedom of Convenience continues to be the right strategy to deliver top quartile shareholder returns by making life easier for our diverse customer base across Australia. Caltex will continue to protect, grow and extend our businesses, and expand further into the convenience market where we are already making great strides.

We continue to see the growth of new capabilities that make us agile and adaptable, capabilities we couple with our track record in good decision-making in order to set us up for future earnings. This is a great time to be a part of the Caltex story as we work towards reinventing the convenience retail offer in the Australian market, as well as growing our fuels business.

On behalf of Caltex's Board and management, we wish to thank our employees and business partners for all that they do to support our company in being a proud Australian employer, delivering results for our customers and the communities in which we operate.

We would also like to thank our shareholders for your continued support as we continue to deliver on our exciting plans for the future of Caltex.



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.

Strategy

Protect, Grow and Extend

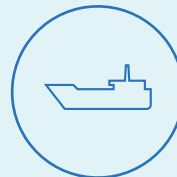
Fuels & Infrastructure



Regional expansion



Optimise infrastructure position



Grow trading and shipping



Serve business customers to protect and grow the supply base

Convenience Retail



Enhance the fuel retail customer offering



Create new customer solutions in the convenience marketplace

Enhance capabilities and competitiveness

Safety

Efficiency

People

Technology

Fit for Purpose

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

To reflect our Freedom of Convenience vision, in 2017, Caltex changed its operating model and established two different but inter-connected businesses which require separate cultures, processes and systems, both with significant growth options. The company merged Supply, B2B, Refining and Infrastructure into one business unit (Fuels & Infrastructure) to better optimise our value chain. Convenience Retail will focus on the company's consumer-facing petrol and convenience business.

Top quartile
shareholder
returns for
investors

The "Protect and Grow" aspect of the strategy is focused on capturing the many opportunities that exist to continue to enhance and expand across the businesses. "Extend" will build on our current assets, capabilities and customer base to develop the business in both existing and new adjacent markets.

We are confident our Freedom of Convenience strategy is the right one to deliver top quartile shareholder returns.

Values



Connect to win
Collaborate and unite diverse ideas to reach commercial goals



Find new ways
Test big and small ideas to learn and lead change



Own it
Be accountable, take considered risks and be courageous enough to call it



Make a difference for customers
Know your customers, personalise the experience and make life easy for them



Never stop caring
Act with integrity and respect, constantly challenge each other to be better and always be safe

Fuels & Infrastructure

For more than 117 years, Caltex has built a reputation across Australia as a safe, reliable provider of high quality fuels and lubricants to our many customers.

We know the world is ever-changing, and that we are equipped to take these challenges head on. That is why, in 2011, Caltex set a vision – to be the outright leader in transport fuels across Australia.

We continue to evolve our physical operations, skills and capabilities with our strength in creating value from our integrated, and complex supply chains. In 2017, we combined our Supply, Trading and Shipping, B2B Sales, Refining, Lubricants and other asset operations groups to become a single business – Fuels & Infrastructure. This integrated business supplies more than one third of all Australia's transport fuel needs through our network of distribution assets across the country including the Lytton refinery, 19 Caltex owned or part owned terminals, 89 depots, pipeline networks in Sydney and Brisbane, and freight logistics. Our strong base in Australia, combined with our Trading and Shipping team in Ampol Singapore, has also allowed us to expand our international operations into New Zealand with Gull NZ.

Our Lytton manufacturing team produces around 35% of the fuel products and 80% of the lubricants sold by Caltex, and we continue to make the right investments in our core business to improve the reliability and efficiency of our wide-reaching supply network.

We are proud to serve a broad range of customers throughout Australia and provide the fuels and other products and services needed to keep this nation, and our economy, moving. At Caltex we excel at this, using our unique combination of deep industry knowledge, strong customer relationships and an integrated supply chain.



Visit the link for rich online content.
[http://microsites.caltex.com.au/
AnnualReports/2017/](http://microsites.caltex.com.au/AnnualReports/2017/)

Lytton
production

6.2^{BL}

StarCard
Number of
StarCard
customers

900,000

Enabling our strategy

The “Protect and Grow” aspect of the Caltex strategy is focused on delivering value from our foundation operations in Australia and identifying and leveraging new opportunities within our Fuels & Infrastructure business.

Growing our trading and shipping capability

During 2017, our Trading and Shipping team in Ampol successfully delivered new value to Caltex through its role as a competitive and reliable supplier to our Australian business. This new capability for Caltex provides our external market understanding, critical for our operations amidst a global business, while also providing a platform for growth.

Ampol plays a critical role in our integrated value chain by leveraging our infrastructure positions such as the Kurnell terminal, optimising the supply chain around the Caltex Lytton refinery, including crude and feedstock, sourcing from a broader range of locations, and make-or-buy decisions around premium fuels. The international market knowledge provided by the experienced team and the strong shipping and operational capability allows Caltex to access new opportunities more rapidly as market conditions change. This includes



Supply ship at Caltex Fuel Terminal, Lytton

reoptimising the trade flow for Australia, and capturing sales into new markets such as New Zealand, the Philippines and other regional supply locations.

Our conservative approach to trading and shipping remains unchanged, with our activities focused on our strength of physical supply and optimisation. We continue to improve our risk management capability, by enhancing our prudent commodity risk management systems to enable opportunities in the international market, capture higher earnings and reduce cash flow volatility.



Case Study

New crudes to Lytton refinery



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[http://microsites.caltex.com.au/
AnnualReports/2017/](http://microsites.caltex.com.au/AnnualReports/2017/)

At our Lytton refinery we are constantly looking for ways to maximise value from market conditions. Our independent Trading and Shipping capability at Ampol in 2017 has enabled us to expand the list of crudes processed at Lytton.

Seven new crudes that have not been used at the Lytton refinery in recent history were sourced through a collaboration between the refinery and our Trading and Shipping teams in Singapore. Through a careful selection of new crudes these teams optimised value, created alternative shipping opportunities, forged new relationships and changed refinery operations to maximise the highest value products.

This delivered a higher than planned financial outcome, resulting from the optimisation of supply location selection, term vs spot decision making, parcel and shipping vessel size selection, co-load optimisation, and economic decisions to build and draw inventory to benefit from market sale opportunities.

Our offshore operations



Singapore



Philippines



Australia



New Zealand

Optimising our infrastructure position means we run our assets in a safe and cost efficient way. This means we can supply what our customers need, anywhere they need it, safely and reliably, ultimately making their lives easier.

Countries from where we bought and sold product and crude

18

Customers Number of commercial customers

13,900

Serving business customers to protect and grow our supply base

Through our deep understanding of our customers' needs and our strong infrastructure position across Australia, we are able to deliver flexible customer solutions for fuels, lubricants and related services, across a broad range of industries in both rural and metro locations.

Despite the ongoing competitive market, in 2017 we have experienced solid growth volumes in B2B for the first time in three years. This is a result of combining all of our knowledge into one team in Fuels & Infrastructure, adapting our offer to meet the changing needs of our customers, and Caltex's enduring commitment to always safely and reliably supply high quality products and a local experience.



Gull service station, New Zealand

Optimising our infrastructure position

We take pride in our expertise in managing complex supply chains and have demonstrated continued investment in distribution infrastructure across Australia throughout 2017, enabling us to better serve our customers and remain their supplier of choice.

In 2017, we completed \$75 million of upgrade works to our Newport Terminal in Melbourne. This allowed improved reliability and flexibility in our Jet Fuel supply to Melbourne Airport, and contributing to growth within Australia's South-East. It was also a demonstration of our ongoing commitment to safety through upgrades to terminal traffic management, improving operations within the terminal and as part of the Newport community.

Following the successful conversion of the Kurnell refinery in NSW into Australia's largest fuel terminal, we are well progressed on the refinery decommissioning and demolition program, with completion expected in mid 2018. The total Kurnell transformation project remains on plan, with ongoing remediation work progressing well and in consultation with the community.

Lytton refinery continues to deliver on its promise to be a safe, reliable and competitive part of our supply chain. We take pride in the maintenance and performance of

Lytton and view it as one of our most valuable assets. In combination with our Trading and Shipping team, the Lytton team was able to take advantage of favourable market conditions through its reliable operations and optimisation of feedstocks and product yields. This resulted in Lytton repeating its strong 2016 production performance, despite minor outages for planned maintenance and upgrades. These upgrades included the conversion of the benzene hydrogenation unit (BHU) to a new configuration, allowing Lytton to further increase its ability to produce high quality gasoline products with improved yield.

Growing our Fuels & Infrastructure business

The strong foundations of our Fuels & Infrastructure business and strategy have provided opportunities during 2017 to grow into adjacent areas. Our growth in Trading and Shipping has allowed us to strategically target international expansion and increase the scale, and scope, of our Singapore-based fuel sourcing and shipping operations.

During the year we acquired Gull New Zealand, a challenger brand in the north island of New Zealand. Gull New Zealand supplies our customers across 84 locations on the north island of New Zealand, including 33 technology-driven unmanned sites and New Zealand's largest independent fuels import terminal at Mount Maunganui. We are pleased to have the Gull New Zealand team join Caltex, and we can already see opportunities for both organisations to deliver new value together.

On 21 December, Caltex entered into a strategic partnership with SEA OIL, the leading independent fuel company in the Philippines. The 20% ownership and fuel supply arrangement will further support our targeted international expansion strategy and allows us the ability to increase the scale and scope of our Singapore-based fuel sourcing and shipping operations.

\$75M
INVESTMENT

Horizons terminal upgrade completed in 2017



Test and Learn at Caltex

At Caltex, we see the role of convenience in our customers' lives as being significantly wider than the traditional purchase of fuel and some items in store.

The Freedom of Convenience is also about exploring what our existing capabilities and technology can do to make our customers' lives easier, while at the same time exploring new capabilities and new technologies.

Our digital capability at Caltex allows us to continuously engage, listen to and co-create solutions with our customers with the aim of bringing everyday convenience retail value to them. Innovation sits within our overall strategy that starts with the customer in mind — taking an outside-in approach.

Caltex has a long history of adapting to changing consumer needs — our business started in 1900 and today is Australia's leading transport fuel supplier. From new types of fuel such as engine-cleaning Vortex, fresh food and barista-made coffee at The Foodary through to new ways to pay such as StarCard and FuelPay, Caltex is always looking for the next generation of innovative ideas.

We are investing in creativity, innovation and software engineering capabilities and focusing on delivering convenient solutions that respond to what our customers are thinking and desiring. Caltex's Telematics solution is delivering real time insights into vehicle performance in terms of mechanical aspects, safety and efficiency, which is translating into lower fleet operating and maintenance costs as well as improved safety outcomes.

We are working with strategic partners to deliver vendor-managed inventory solutions to the transport and mining sectors to provide them with supply reliability and less administration to allow our customers more time to focus on their core business priorities.

Our FuelPay app, due to launch in mid 2018 was developed off the back of an extensive test to create a frictionless, fast and simple pay experience without leaving your car. Customers can pre-order coffee and snacks at The Foodary using our app, and we are taking a close look at number plate recognition technology to provide another frictionless payment option for our customers.

Other areas of priority include replacing our core platforms and starting to use artificial intelligence bots and robotics automation to drive better customer experiences in our sites. This includes personalised offers using our new big data platform, self-checkout, electronic receipting options, and enhanced app and website customer interactions.

The customer is central to all decisions, and we are redesigning our corporate systems to ensure that we deliver on our customer promises accurately, simply and at speed.



Case Study

The Foodary

The Foodary has gone from strength to strength in 2017. January saw our first store open in Concord, Sydney which marked the start of our journey to reinvent the convenience retail offer in the Australian market.

From Granville to Gelorup, The Foodary has by the end of 2017 more than 23 stores, which includes Caltex's first non-fuel location at the Newcastle Interchange train station in New South Wales.

The Foodary is making a difference for customers by offering higher quality, fresh on-the-go food and barista-made coffee. We are partnering with leading quick service restaurant providers, with a common focus on freshness and convenience, a more inviting store experience and a seamless digital platform.



Visit the link for rich online content.
<http://microsites.caltex.com.au/Annualreports/2017/>

Convenience Retail

Each week, we serve more than three million customers and 70,000 business customers who are looking for ways to make life easier.

The opportunity to meet the needs of our customers is becoming significantly wider than the traditional purchase of fuel and the odd item in store. That is why our ambition is to become a world-class convenience retailer. It is about exploring what our existing capabilities, footprint and technology can do while at the same time discovering new capabilities and technologies which will add value to the lives of our customers.

2017 was a transformational year for the Convenience Retail business, and we are energised and encouraged by what we have achieved so far.

With new stores, new formats, a vastly improved offer and the launch of high street retailing, we are building an inviting shopping experience underpinned by digital enablers and convenient services for customers.

Our overall fuel sales volumes remained steady in a competitive market, with volume continuing to grow across total premium products, while, as expected, sales of base unleaded petrols continue to decline. We continue to transform our in-store offer and operating model with a focus on the customer experience, value-for-money deals and engaging marketing.



Visit the link for rich online content.
[http://microsites.caltex.com.au/
Annualreports/2017/](http://microsites.caltex.com.au/Annualreports/2017/)



The Foodary at Newcastle, NSW; one of Caltex's first non-petrol sites

The Foodary was named as one of the top three retailing concepts globally in 2017 by independent strategic market researcher Euromonitor International. The report *What's New in Retail: Emerging Global Concepts in 2017* highlights the evolution and reinvention of the retail environment around the world and recognises The Foodary for its stand-out convenience, quality and commitment to reinventing service station forecourts in Australia.

Our large-scale petrol and convenience retail network continues to be one of Australia's largest, and with more than three million weekly customer transactions, we are well placed for the future. In 2017, we added 38 stores to the network including 17 new to industry sites and 21 new to Caltex stores. In addition, we also completed 24 major property projects including five knock-down rebuilds, 12 major upgrades and seven Star Mart to The Foodary transitions. All this while, transitioning 46 additional retail sites through the acquisition of Milemaker Petroleum, which added key stores to our previously under-represented position in Melbourne, Victoria and its outer suburbs.

Reinvigorating our offer

As our customers' needs and wants evolve, we continually focus on making a difference for customers and building a shop offer that gives them a reason to come to our sites — whether that be to fill up their vehicle, enjoy a barista-made coffee or have a digitally enabled experience to enjoy both.

We are continuing the investment in our core Star Mart network by offering unique-to-market products such as Frozen Oak. With more than 550 Star Mart stores, we are attracting customers to return with seasonal campaigns showcasing the breadth of our offer while continuing to explore new ways of merchandising. A Voice of the Customer program is giving us insights straight from our customers, which helps improve our offer and find new ways to add value to our customers' lives and those of our team members. This program will be rolled out nationally in 2018.

We opened our first The Foodary in January 2017 which delivers barista-made coffee, fresh food, quality grocery products and services such as parcel pick-up for customers on the move.

Through a new and refreshed format, we have achieved an in-store sales up-lift averaging 35%. Caltex has also seen a strong acceptance of fresh food and barista coffee. With an enticing offer, we are encouraging customers to shop with us more often.

By the end of 2017, we had opened 23 The Foodary stores, which included the opening of our first non-fuel standalone location in a transport hub in Newcastle, New South Wales.

The acquisition of Nashi in January 2017 brought seven stores across Melbourne to the Caltex network and marked our expansion into high street retailing and fresh food, with a commercial kitchen facility making fresh food, daily. In December 2017, we opened the doors to our first Nashi store in Sydney, with plans to continue to roll this offer out by utilising former ticket booths in several key locations across Sydney train stations.

The Foodary and Nashi are bold departures from what Caltex has done before and illustrate our proven track record of delivering new solutions for our customers.

January marked our expansion beyond the petrol and convenience space and into high street retailing via the acquisition of grab-and-go Nashi Sandwich and Coffee Bar and its seven stores in Melbourne. The purchase of Nashi provided Caltex with an immediate high street presence in the fresh food space and a commercial kitchen facility that makes fresh food daily.

Late in 2017, our first Nashi store in Sydney opened on Clarence Street at Wynyard station in the Sydney CBD. A partnership with Transport for NSW will deliver exciting new developments in train station locations during 2018 for both Nashi and The Foodary. By repurposing the ticketing booths at key locations including Bondi Junction, Chatswood, Parramatta and Kings Cross, we'll be reaching out to meet the changing needs of our consumers, wherever they travel.

Case Study

Nashi



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<http://microsites.caltex.com.au/Annualreports/2017/>



Finding new ways

Caltex's Freedom of Convenience vision means that many of the experiences our customers have with us need to be underpinned by technology. Our customers are becoming digitally savvy and, over 2017, we trialled a new FuelPay app across 13 locations. FuelPay allows customers to fill their vehicle and pay via the app. FuelPay will be rolled out across our sites nationally in the first half of 2018.

With more than 70,000 businesses relying on the reach of our network and the reliable supply of fuel and other products, the StarCard offer was reinvigorated. This included partnering with Australia's number one loyalty program Qantas Business Rewards and leading accountancy software provider Xero to deliver a differentiated proposition for Australian business. Against the backdrop of a declining card market, more than 9,000 new accounts were opened, which equates to a 125% increase year on year. This growth led to an additional 400,000 transactions and increased the proportion of our Vortex Premium fuel volume sales within the card base from 39% in 2016 to 55% in 2017.

To enhance the Caltex brand, we have continued key commercial sponsorships with the Football Federation Australia, including naming rights for the Caltex Socceroos, and also a broader partnership with the Westfield Matildas. Both teams had a successful 2017, with the Caltex Socceroos securing their spot at the 2018 World Cup, and the Westfield Matildas taking out the inaugural Tournament of Champions. We are proud to help develop the next generation of Australian football stars.

We also continued our partnership with the Red Bull Holden Racing team, including 2017 Virgin Australia Supercars Champion Jamie Whincup and Shane van Gisbergen, as well as AutoBarn Lowndes Racing with Craig Lowndes. The Red Bull Holden Racing Team achieved second place in the team championship at the Virgin Australia Supercars Championship.

Looking to the future

In 2018, Caltex will continue focusing on customer experience, reviewing our operating model and delivering technology to drive more value for our customers. We'll continue to improve The Foodary format while working with our suppliers and partners to achieve our ambition to become a world-class convenience retailer.



Our People, Purpose and Values

During 2017, Caltex embarked on a major cultural review that resulted in a newly defined purpose and refreshed organisational values.

Our employees helped to define the company's culture and refreshed values that would drive continued success for Caltex into the future, as well as provide a clear purpose to make Caltex a great place to work for our people.

In October 2017 Caltex announced that its purpose is to *make life easier*, whether this is for our wide range of customers who want the freedom of convenience, whether it's making the complex simple, or improving the way our employees work in an environment that will inspire them to work their best.

Five core values which represent an evolution from our earlier values have been launched, reflecting the strengths within our culture, while also propelling us to change and continually improve in important ways:

- Connect to win
- Find new ways
- Own it
- Make a difference for customers
- Never stop caring

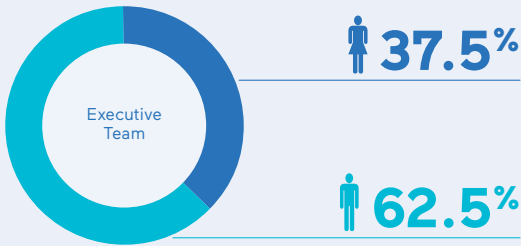
Our new values tell a story about what is important to us as a business and how we need to work to deliver outstanding business results and deliver on our promise to make life easier.

In 2017, we continued to focus on enhancing key capabilities across the business, to enable the growth within our interconnected Fuels & Infrastructure and Convenience Retail businesses. Through acquiring new talent and building internal pipelines of talent, this goal is supported by our own Caltex Academy. Started two years ago, the Caltex Academy, in partnership with leading institutions, fosters a culture of learning and innovation by having a targeted approach that delivers structured career development and leadership programs and self-directed learning content for our employees' key stages of their working careers.



Employees
Number of employees
4,724

Gender representation at Caltex



Caltex graduates and CareerTracker Interns

Diversity and inclusion

At Caltex, we know that a diverse and inclusive workplace makes us more effective, more resilient and more vibrant. That's why we take a proactive approach to developing our workforce.

Gender equality

Reflecting our commitment to diversity and inclusion and our best practice programs to promote gender equality, we were proud to be awarded a 2017 Employer of Choice for Gender Equality citation from the Workplace Gender Equality Agency, for the third consecutive year.

To guide our progress toward gender equality, we have set a goal of 40% female representation in senior leadership positions by 31 December 2020. Women currently represent 37% of all senior leadership positions, and achieved 48% of all promotions to senior leadership positions in 2017. The female representation on the Caltex Leadership Team has been maintained at 37.5% and there has been an increase on the Caltex Board to 42% female representation (up from 29% in 2016). The pipeline of female talent and the representation of women in senior positions will continue to grow and be supported by the Caltex Leadership Academy and Talent programs.

Our gender pay differential stands at a minimal rate of 0.93% in favour of males on a like-for-like job basis, which is a reduction of 0.1% since 2016.

Indigenous employment

An ongoing focus for Caltex is to make a real difference in the lives of Indigenous Australians by providing sustainable employment and development opportunities. In 2017, the number of Aboriginal and Torres Strait Islander employees doubled, and the first Indigenous graduate, a former participant in the CareerTrackers program, moved into a permanent role. We also employed our first Indigenous school based trainee and continued our support of the CareerTrackers program, employing an additional three interns. This brings the total number of interns to nine since the partnership began in 2014.

In 2017, Caltex formed a Reconciliation Action Plan (RAP) Working Group with Indigenous and non-Indigenous employees from across the business. This group is developing Caltex's first RAP, which will build on and formalise Caltex's commitment to support reconciliation in Australia and will be launched in 2018.

Flexibility and inclusion

In 2017, Caltex launched a Flexible Work Program which is designed to help employees manage their career and balance it with their personal interests and commitments outside work. This program is designed to further embed our flexible work culture. 83% of employees surveyed in 2017 agreed that they have the flexibility to balance their work with their caring responsibilities, and we look forward to improving this even further.

Our BabyCare package also continues to provide practical and financial support to parents in their transition back to work, with 58 parents accessing the package in 2017. This innovative package aims to provide flexible work arrangements and options for parents wanting to return to work at Caltex.

Flexibility continues to be essential to parents, with over 50% of employees returning to a flexible work arrangement on their return from parental leave in 2017.

Case Study

A great start for Sofia

Now in its fifth year, our BabyCare package gives meaningful support for parents returning to work — providing primary caregivers with confidence and support when transitioning back to work. Until their child turns two, Caltex employees (who are the primary caregiver) have access to a range of offerings including a 12% bonus on annual salary, emergency childcare sessions and a childcare finding service.

For Caltex Telematics Manager, Jacques Lepron, our BabyCare package gave him and his wife Caroline great peace of mind.

"When my wife and I were expecting our first child, Sofia, we were overjoyed! But we were also worried about practical things like taking time out of the workforce and finding childcare when returning to work. It was also a challenging time, as Caroline was in the process of launching her new start-up business, which required more of her time and commitment."

This prompted Jacques to access our primary carers leave and allowed him the opportunity to spend quality time with Sofia, as well as helping his wife concentrate on the growth of her new start-up.

"I've now returned to work and already utilised the childcare finding service. The bonus has been a wonderful benefit for my family, not only to offset our childcare costs but also because, as working parents, it's comforting to have your company's full support."



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[http://microsites.caltex.com.au/
Annualreports/2017/](http://microsites.caltex.com.au/Annualreports/2017/)



Safety and Environment

Caltex strives for incident-free operations. We are relentless in our commitment to ensuring that our workforce goes home safe every day and that we protect the environment in which we operate.

SAFETY

Personal safety

Safety culture is fundamental to who we are at Caltex. Tragically, in 2017, a Caltex tanker driver was fatally injured by a third party vehicle during a routine delivery at one of our customer's sites. The memory of our colleague inspires our continued commitment to personal safety — to ensure that our people go home safe every day. We will continue to strive to make sure that our people prioritise safety in their day-to-day activities.

This tragic loss was against a backdrop of otherwise strong, continuous improvement in personal safety measures. In 2017, Caltex transitioned one of its key personal safety metrics from Total Treated Injury Frequency Rate (TTIFR) to Total Recordable Injury Frequency Rate (TRIFR) to align more closely with the reporting classification used by comparable companies and industries. The Caltex TRIFR for 2017 was 5.20, which represents an 8.6% improvement on the personal safety performance of 2016, where the TRIFR was 5.69, and a 9.4% improvement when compared with the TRIFR average for the previous three years. Similar improvements were also seen in Days Away From Work Injury Frequency Rate (DAFWIFR), where 2017 performance at 1.36 represents a 21% improvement on 2016 (1.73), and a 56% improvement when compared with the average DAFWIFR of the previous three years.

There were 46 recordable injuries during 2017. Of these, 12 resulted in days away from work, 21 required temporary work restrictions but no days away, and 12 required medical treatment but no days away. Thirty-three of the recordable injuries involved employees, and 13 involved our contractors.

Caltex undertakes a Drug and Alcohol Program that aims to mitigate occupational risks associated with certain lifestyle factors. In 2017, 2,416 drug and 2,916 alcohol tests were conducted on employees and contractors at safety critical sites across the business. This involved an extensive testing program



during specific potential high-risk activities, such as during the Caltex Lytton refinery alky maintenance shutdown and the Newport Horizons Terminal Expansion Project, both of which involved large contractor labour forces.

While maintaining focus on improving performance by the prevention and management of low severity injuries, Caltex has introduced a new measure in 2017 to elevate focus on the prevention of incidents that have the potential for high severity consequences (HiPo incidents). A high-potential incident is an incident or near-miss that could have, under other circumstances, caused a high consequence injury or a fatality. Awareness of high-potential incidents is a key factor in preventing them from occurring. There were six HiPo incidents in 2017 and the majority of these incidents did not result in high consequence injuries.

Process safety

Process safety focuses on the safe manufacture, distribution and transportation of products, and the safe operation of all Caltex facilities. In 2017, there was one Tier 1 and two Tier 2 process safety events, both at the Lytton refinery. Neither had any material impact on the environment.

Health and wellbeing

Caltex undertakes targeted health and wellbeing programs every year, including the provision of the Caltex Employee Assistance Program. This program assists employees and their immediate families to improve their wellbeing and morale.

In 2017, Caltex supported 210 employees to participate in the Global Corporate Challenge, a 16 week team-based program aimed at promoting and increasing physical activity levels.

Caltex has a strong commitment to mitigating the health risks associated with physical exposure to hazards within the workplace by controlling exposures at their source.

In 2017, we continued to strengthen occupational health and hygiene programs across the business. Work undertaken included a detailed review of how Caltex manages the risk of noise-induced hearing loss across Caltex Aviation facilities. The outcome of this review will be used to develop a comprehensive Hearing Conservation Program for Aviation in 2018. Significant work has also been undertaken in developing fit for purpose online awareness training packages for Caltex employees involved in the management of asbestos and chemical hazards.

Contractor safety

Contractors perform extensive work across our facilities. Ensuring that this work is undertaken safely is of utmost importance to Caltex.

In 2017, the contractor DAFWIFR, representing more serious injuries, was the best on record at 0.37 per million man hours worked. This was a notable achievement considering the number of large scale projects over the year such as the Lytton refinery Turnaround and Inspection, the Newport Terminal expansion, and the Kurnell

decommissioning and demolition. These projects carry a higher risk due to the nature of the work involved, and the engagement of a more itinerant contract workforce.

In addition to a robust contractor engagement, vetting and on-boarding process, Caltex undertook 189 safety reviews as part of its contractor safety management process.

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 risks that are a threat to our employees or the environment. Workshops with senior staff regularly review the status of risks and determine further management needs. Quarterly governance reports are provided to the Caltex Board. At an operational level, a comprehensive suite of risk management tools are used to identify, assess and address facility and workplace risks.

ENVIRONMENT

Protecting the environment

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

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. The international operations of the businesses, including shipping activities, also work to comply with any additional international or applicable countries obligations.

Our Lytton refinery, six licensed terminals across Australia (Kurnell, Banksmeadow, Mackay, Cairns, Gladstone and Port Hedland) and the Lytton lubricants manufacturing facility are operated in accordance with an ISO-14001 compliant Environment Management System. These systems are subject to external surveillance audits to ensure continued compliance to the 14001 standard.

In 2017, companies in the Caltex Group held 21 environmental protection licences relating to the Lytton refinery, 11 terminals, six marketing facilities, one aviation refuelling facility, our 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.

Caltex maintains emergency response plans to respond to and minimise the potential severity of environmental incidents. We conduct thorough investigations when an actual or potential significant environmental incident occurs to understand the cause and identify corrective actions to prevent similar events.

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 Soil Remediation Facility

The Caltex Soil Remediation Facility located at the Caltex Kurnell Terminal continues to operate and to date has negated approximately 20,000 tonnes of soil from going to landfill. This equates to over 1,000 truckloads of soil otherwise destined for Sydney landfill.

Once remediated, the contaminated soil is re-used within the Kurnell Terminal as part of the ongoing demolition and remediation project of the former refinery site. This reduces the volume of quarried material Caltex would otherwise have to import to the site for levelling works.

Climate change

At Caltex, climate related risk is overseen by the Board's OHS & Environmental Risk Committee.

Caltex engages with federal government departments and regulators directly and indirectly via industry groups on climate change policy and legislation, to ensure material risks to our business are both understood and can be effectively managed. Prioritisation is based on the anticipated material impact of the mitigated risk and likelihood rating derived from a cross functional review of the Caltex risk management framework.

Caltex has undertaken a review on the following climate related risks to our business:

- Risks driven by changes in physical climate parameters.
- Risks driven by changes in other climate-related developments.
- Risks driven by changes in regulation.

The opportunities that we have identified while undertaking our risk review include:

- Implementation of relevant Task Force on Climate-related Financial Disclosures recommendations.

- Continued focus on energy efficiency projects at our Lytton refinery.
- Evaluation of solar installations across our company operated WA service station network.

We also recognise that climate related risks are just one part of our broader corporate ESG governance framework and to this end we considered that our historical climate related risk reporting via the Carbon Disclosure project (CDP) can be effectively reported in the future via an integrated annual report.

Our participation in the CDP for over the past five years has provided a valuable framework to enhance our management and internal communication on climate change. Over this time our Scope 1 and 2 combined emissions have reduced from 2.1m tonnes to 0.9m tonnes per annum. A focus on energy efficiency continues at our Lytton Refinery, which is responsible for 97% of our total annual Scope 1 emissions.

A safeguard mechanism was implemented by the Clean Energy Regulator (CER) to ensure that emissions reductions purchased by the Government are not offset by significant increases in emissions above business-as-usual levels elsewhere in the economy.

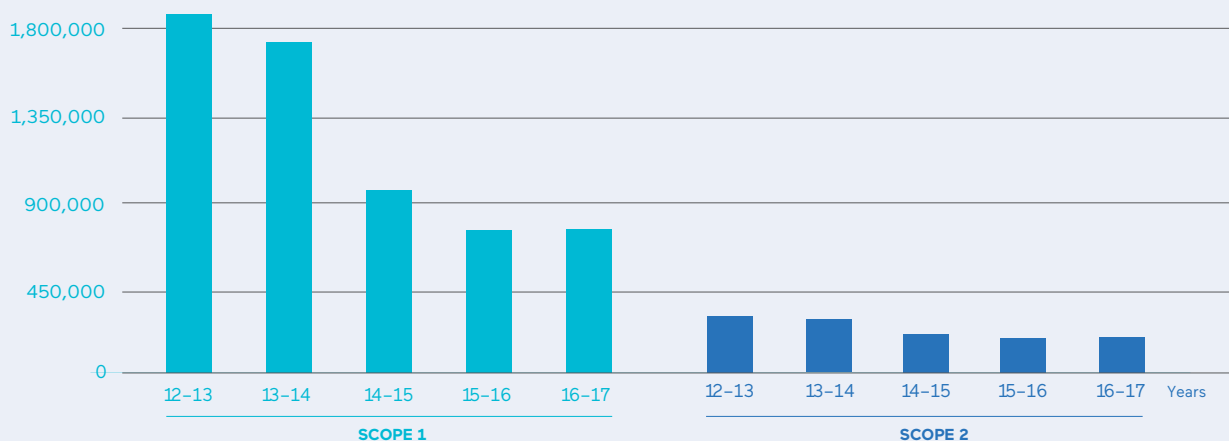
The safeguard mechanism commenced on July 2016 and in mid December 2017, the CER issued Caltex Australia Limited with a calculated emissions baseline determination for a baseline of 711,162 tonnes of CO₂. This determination has effect from July 2016 to June 2019.

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

	FY12 13	FY13 14	FY14 15	FY15 16	FY16 17
Scope 1, metric tonnes of CO ₂ - equivalent	1,849,610	1,704,466	938,680	733,537	737,663
Scope 2, metric tonnes of CO ₂ - equivalent	288,640	269,848	197,970	178,273	183,784

Metric tonnes of CO₂ equivalent



Case Study

Powered by the sun



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Caltex continues to look at ways to further improve its portfolio-wide energy efficiency and is reviewing ways to use smart metering, smart switchboards, demand management and whole-of-life asset efficiency assessments. The review will include continued LED upgrades and solar evaluations at our highest electricity consuming sites.



An energy review last winter at two sites in Western Australia compared a new site designed with our broader convenience offering in mind with a well-established service station focused on fuel sales. The comparison of the different sites helped Caltex understand the major areas of energy use and identify opportunities to improve energy efficiency and reduce costs. Refrigeration, air conditioning and lighting are major users of energy at both new and old sites which can be improved with insulation, new technology and LED lighting, alongside training for the employees in our stores.

Both reviews also identified that we could achieve more than 25% reduction in our electricity use by embracing solar energy while future-proofing sites for batteries. This would also give the potential to support the charging of electric vehicles from renewable sources in the future.

As a result of these findings, Caltex embarked on a solar photovoltaic (PV) panel pilot trial at the two sites in July 2017. This trial found that using solar PV panels improved energy efficiency by over 30%, reduced peak demand and delivered a greenhouse gas emissions reduction of over 20%. The initial pilot success resulted in broader trials which have now commenced at additional sites with a view to scale up, initially in Western Australia in 2018, and to explore further rollout potential on the eastern seaboard and in South Australia.

Energy efficiency and greenhouse gas emissions

During the year Caltex continued to implement greenhouse gas emissions related reduction activities to improve energy efficiency within our operations. This included the 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.

Furthermore, energy audits conducted at service station sites in 2017 have identified efficiency opportunities which will be tested in 2018, including smart switchboards and demand response/smart metering solutions.

In 2017, Lytton refinery's site Energy Intensity Index (EII) was 98.8, a slight increase on 2016 as a result of unit outages throughout the year.

Reporting under the National Greenhouse and Energy Reporting Scheme continued in 2017. Scope 1 emissions are from energy sources owned and controlled by Caltex, and Scope 2 emissions are purchased energy from electricity, heat or steam. Caltex's Scope 1 and Scope 2 emissions increased slightly from the previous year given Lytton refinery's increased throughput (Scope 1) and as a result of an increase in the Caltex operated service station network (Scope 2).

Infrastructure, integrity and product stewardship

Reliable, quality supply and a strong infrastructure

network are keystones of Caltex's ability to meet Australia's transport fuel needs. Product quality specialists at Caltex oversee the integrity of fuel through our supply chain, including shipping, manufacturing, storage and delivery systems, to ensure that our customers receive high quality products, our legal and regulatory obligations are met and performance is consistently high. Our quality specialists work with customers to improve performance and efficiency and develop new products to meet their needs.

Underground tank replacement and monitoring

Caltex reduces potential environmental risks by actively monitoring our Underground Petroleum Storage Systems (UPSS), which are used at both service stations and depots. The 2017 program prioritised the replacement of UPSS at 12 sites. Since the program's inception in 2007, underground tanks at 146 sites have been replaced.

Waste management

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 for our Star Mart brand. With the introduction of our fresh food offer branded under The Foodary, we are actively working with our suppliers on packaging design, and incorporating recycled content into primary private label packaging.

Caltex in the Community

At Caltex, we value our role in working with our operating communities to create meaningful and sustainable impacts.

Our approach

Whether providing high quality fuel or everyday convenience to our customers, we consider the environmental, social and governance (ESG) risks associated with all our business activities. We recognise that our stakeholders want companies to be more transparent about communicating their ESG frameworks, investments and any related risks.

Our people in the community

We know that our employees are also passionate about our communities and making a positive, sustainable impact.

Caltex employees regularly donate a percentage of their pre-tax salary to a range of community programs, with Caltex matching their contributions dollar-for-dollar. Together, we raised more than \$90,000 for nine charity partners in 2017.

A number of Caltex employees also volunteered at non-profit organisations including The Clontarf Foundation and The Smith Family, to help build capacity and deliver the critical work of these organisations.

Caltex Community Partnerships

Beyond our employee engagement initiatives, our strategic social investments focus on three core areas — road safety, youth education and children's health. Our aim is to contribute to the quality of life for our operating communities.

Our long-standing partnerships with various local and national charitable organisations are evidence of our shared deep commitment to improving our society's wellbeing through a diverse range of initiatives.



Make-A-Wish Australia

Since our partnership began in 2013, more than \$1.2 million has been raised for Make-A-Wish Australia by Caltex stores and our employees

\$1.2M

Caltex Best All Rounder Award

For 32 years, Caltex has recognised the best students in Australia's secondary schools last year, with 2,120 students receiving the Caltex Best All Rounder Award

2,120
students

Building the capability of our youth

We believe access to education can change life outcomes for individuals and so are keen supporters of educational initiatives that are having this impact. Since 2011 Caltex has supported The Clontarf Foundation which aims to improve the education, discipline, life skills, self-esteem and employment prospects of young Aboriginal and Torres Strait Islander men.

We are enormously proud to support Clontarf's work with our 2017 funding covering its staff costs to provide full-time mentoring to almost 6,000 young Aboriginal and Torres Strait Islander men across its nation-wide network of 87 academies. Further to this, 527 of these participants were Year 12 school leavers, enabling Clontarf to guide each of these leavers to successfully transition into employment, training or further study.

Caltex's support commenced in 2011, and since then we continue to further deepen our partnership by providing other valuable opportunities for Clontarf participants to further learn and grow. An example was in late 2017, when a group of Year 10 boys from Moree in New South Wales visited our Lytton refinery – from the control room to the chemical testing laboratory, the students came away with a better understanding of the complex environment of our oil production plant.

Driving home the road safety message

Safety is at the core of everything we do at Caltex, and we want to ensure that safety is top of mind for motorists whenever and wherever they travel.

This is why we value being a founding partner of the Australian Road Safety Foundation's Fatality Free Friday (FFF), Australia's only national community based road safety initiative. Held annually since 2007, the program promotes a Fatality Free Friday to reinforce safe driving messages, and aims to reduce the devastating impact of road trauma. Caltex reinforces driver safety messages at our various sites and stores.

Internally, we also foster higher awareness and understanding of driver safety by encouraging our employees to pledge their FFF support online, while our Operational Excellence and Risk team has prepared a range of support materials including toolbox talks.

Granting life-changing wishes

Since 2013, Caltex staff and customers have supported Make-A-Wish Australia by raising much needed funds to help make the wishes of seriously ill children and teenagers come true through the Star Mart Wish Drive.

In 2017, 134 Caltex stores across Australia participated in this month-long campaign, with over \$160,000 raised through gold coin collections and on-site activities. This takes our total funds raised for Make-A-Wish to more than \$1.2 million since partnering together in 2013.



Case Study

The sky's the limit for Darcey



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<http://microsites.caltex.com.au/Annualreports/2017/>

Two years ago, at the Clontarf Academy as part of the Endeavour Sports High School, Darcey Moran could not have imagined he would be working at Australia's largest liquid fuel import terminal as part of his two year traineeship at Caltex.

Combining paid work, training and school, Darcey is now working one day a week at our Kurnell terminal while completing his High School Certificate (HSC) and Business Studies course. Upon completion, Darcey will earn an industry recognised national qualification as well as credit towards his HSC.

Clontarf's CEO, Gerard Neesham, says, "That's a key goal for Clontarf – to prepare the boys in our program for life after school and build practical knowledge and skills that support their qualifications."

For Darcey, "The people I work with at Caltex are really welcoming, and I've already learnt so much from them. Also, Clontarf has helped me to be more disciplined and value teamwork. I now think the sky's the limit, anything is possible – just give it a go!"



The Kids' Cancer Project fuelled by Caltex raised over \$200,000 in August 2017

Motivated to change our young drivers' behaviour

Another safety initiative Caltex supports is Motorvation, a unique program designed to change young driver attitudes and behaviour. The program provides driver tuition to young people aged 15 to 20 years with an aim to decrease risk-taking and collision risk, and ultimately create safer drivers.

Our support of Motorvation began in 2013, when we initially supplied the fuel needed to deliver the 40–50 courses annually across the eastern states of Australia. Two years later, we increased our support to include financial sponsorship, aiding Motorvation to visit more secondary schools and youth organisations.

Recognising our best all rounders

The Caltex Best All Rounder Award has earned a reputation for being one of Australia's most respected secondary education recognition programs. It has been presented to thousands of final-year students, acknowledging their all-round contributions to their schools and communities.

Now in its 32nd year, the program has seen participation steadily growing, with last year around 75% of all secondary schools in Australia taking part, and 2,120 students receiving the award. Our employees also get involved by presenting the award to the worthy recipients. 31 of our people volunteered their work time to award the 2017 winners at their schools.

Working together with our local communities

At Caltex, we place great importance in continuously engaging key stakeholders and the surrounding communities around our sites and facilities. We do this through regular consultation with community groups, written information about our operations and a 24 hour free call line available for people with any concerns regarding our Lytton refinery.

Our financial and in-kind support in 2017 for various community groups remained strong, and included the following:

- Caltex Lytton refinery workers rolled up their sleeves to donate 155 blood and plasma collections to the Australian Red Cross Blood Service.
- We fuelled the Kids' Cancer Project's big yellow bus to travel nearly 10,000km across Australia's east coast to raise awareness of the importance of investing in scientific research to help children with cancer. This month-long drive in August 2017 raised over \$200,000 in pledged donations, equating to 1.4 scientists employed for a year.
- Lytton refinery staff volunteered at the Wynn Community "Meals for the Homeless" initiative.
- Caltex partnered with the Port of Brisbane to present a "Safety 1 Forum", which showcased the importance of safety and mental health across the business and at home.
- We launched a community art competition in December 2017 to celebrate the recent upgrade of our Newport Fuel Terminal in Victoria, with the winner's artwork to be recreated on the largest of our 19 tanks on site. We have engaged local government representatives to be part of the judging panel, and the winner will be announced in August 2018.
- Our Sydney corporate head office employees took part in The Smith Family's annual Christmas Toy and Book Appeal by donating new toys and books to be given to children in need.

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The 2017 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 2017**

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**

The Board

Introduction

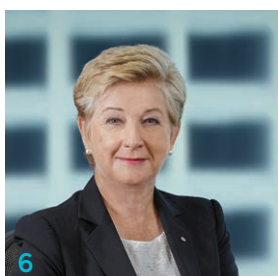
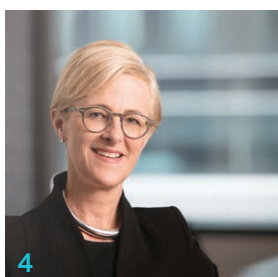
The Board of Caltex Australia Limited presents the 2017 Directors' Report (including the Remuneration Report) and the 2017 Financial Report for Caltex Australia Limited (Caltex) and its controlled entities (Caltex Group) for the year ended 31 December 2017 to shareholders. An Independent Audit Report from KPMG, as external auditor, is also provided.

Board of directors

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

The following changes to the composition of the Board have occurred since 1 January 2017:

- Mr Greig Gailey retired as Chairman of the Caltex Board from August 2017
- Mr Steven Gregg was appointed as Chairman of the Caltex Board from August 2017
- Ms Melinda Conrad was appointed to the Caltex Board as an Independent, Non-executive Director, effective 1 March 2017.



1 Steven Gregg

Chairman and Independent, Non-executive Director

Date of appointment: 9 October 2015

Appointed Chairman: 18 August 2017

Board committees:

Nomination Committee (Chairman)

Steven 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 Unisson Disability Limited and a trustee of the Australian Museum. He has previously served as Chairman of Goodman Fielder Limited and Austock Group Limited, and was a member of the Grant Samuel non-executive advisory board.

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

2 Julian Segal

Managing Director & CEO

Date of appointment: 1 July 2009

Julian 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.

3 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

Trevor 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), a director of Sydney Water Corporation (appointed February 2014) and was recently appointed as a director of Virgin Australia Holdings Limited (appointment 1 January 2018). 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.

4 Melinda Conrad

Independent, Non-executive Director

Date of appointment: 1 March 2017

Board committees:

Audit Committee, OHS & Environmental Risk Committee and Nomination Committee

Melinda Conrad brings to the Board expertise in strategy and governance and a background in retail and technology-led transformation.

Ms Conrad is currently a non-executive director of ASX Limited, OFX Group Limited and The George Institute for Global Health. She is also a member of the ASIC Director Advisory Panel and the Australian Institute of Company Directors Corporate Governance Committee.

Ms Conrad has previously served as a non-executive director of The Reject Shop Limited, David Jones Limited, APN News & Media Limited and the Garvan Medical Research Institute Foundation. Ms Conrad held executive roles at Harvard Business School, Colgate-Palmolive, several retail businesses as founder and CEO, and in strategy and marketing advisory.

Ms Conrad holds a Bachelor of Arts (Hons) from Wellesley College in Boston, and a Master of Business Administration from Harvard Business School, and is a Fellow of the Australian Institute of Company Directors.

5 Bruce Morgan

Independent, Non-executive Director

Date of appointment: 29 June 2013

Board committees:

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

Bruce 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. He 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.

Mr Morgan 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.

6 Barbara Ward AM

Independent, Non-executive Director

Date of appointment: 1 April 2015

Board committees:

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

Barbara 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 Qantas Airways Limited and various Brookfield companies. 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 and, most recently, the Sydney Children's Hospital Foundation.

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.

7 Penny Winn

Independent, Non-executive Director

Date of appointment: 1 November 2015

Board committees:

OHS & Environmental Risk Committee, Human Resources Committee and Nomination Committee

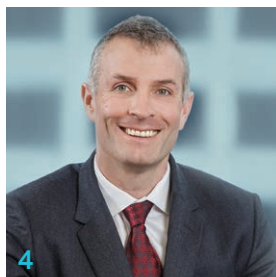
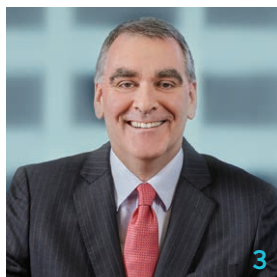
Penny Winn brings to the Board Australian and international strategic, major transformation and business integration, technology and retail marketing experience.

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

Ms Winn is Chairman of Port Waratah Coal Services Ltd, a director of CSR Limited and has been recently appointed a director of Goodman Limited and Goodman Funds Management Limited. Ms Winn is a member of the University of Technology, Sydney (UTS) Business School's Advisory Board and a graduate of 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



1 Andrew Brewer

Executive General Manager, Transformation

Andrew Brewer was appointed to this position in 2017. 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.

Andrew's career 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.

2 Viv Da Ros

Chief Information Officer

Viv Da Ros 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 includes 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.

3 Simon Hepworth

Chief Financial Officer

Simon Hepworth 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 Masters 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.

4 Richard Pearson

Executive General Manager, Convenience Retail

Appointed in August 2017, Richard Pearson is accountable for leading the transformation of Caltex's retail and consumer fuel business.

Richard has worked in retail and consumer goods for twenty years in Australia and the UK with a broad range of leadership experience across commercial functions.

Before joining Caltex, Richard was a member of the leadership team at Coles Supermarkets where he was most recently the Supply Chain & Strategy Director. Prior to this, Richard was the Merchandise Director and the Director responsible for Coles Express. Richard holds a Bachelor of Arts from Cambridge University.

5 Lyndall Stoyles

Executive General Manager, Legal and Corporate Affairs

Appointed as Executive General Manager Legal and Corporate Affairs in October 2016, Lyndall Stoyles manages Caltex's legal, secretariat, internal audit, compliance and corporate affairs teams. As Executive General Manager Legal and Corporate Affairs, she is responsible for providing legal advice to Caltex's Board, CEO and broader leadership team. She is also Company Secretary to the Board.

Lyndall has more than 20 years' experience in advising on competitor, commercial and corporate head office legal issues. 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/Master of Law from the University of Sydney and is a member of the Australian Institute of Company Directors.

6 Alan Stuart-Grant

Executive General Manager, Strategy and Corporate Development

Appointed as Executive General Manager, Strategy and Corporate Development in November 2017, Alan Stuart-Grant manages Caltex's strategy, corporate development and M&A activities.

Prior to joining Caltex, Alan held a senior position in the Oil and Gas department of Glencore plc, and prior to that spent more than a decade in private equity and investment banking, working in Sydney, London and Singapore.

Alan holds a Bachelor of Science (Business Administration) degree from the University of Bath, and is also a member of the Australian Institute of Company Directors.

7 Joanne Taylor

Executive General Manager, Human Resources

Joanne Taylor joined Caltex in 2016.

She is an accomplished human resources leader, having worked in human resources and operational roles for businesses such as McDonald's Australia, Westpac, The Star and The Australian Industry Group.

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 and company 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.

8 Louise Warner

Executive General Manager, Fuels & Infrastructure

Appointed as Caltex Australia's Executive General Manager, Fuels & Infrastructure in 2017, Louise Warner 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 as a process engineer at the Kurnell refinery. Louise gained commercial and trading experience through her secondment to Chevron UK. Recently, she was responsible for successfully establishing Caltex Australia's first overseas operation, 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.

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 77 to 119.

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 safely and reliably fuelled the needs of Australian motorists and businesses for more than a century.

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 in Sydney, and the company has approximately 4,700 employees. Caltex aims to be the market leader in complex supply chains and the evolving convenience marketplace, by delivering the fuel and other everyday needs of its diverse customers through its networks.

The principal activities of Caltex during the year were the purchase, refining, distribution and sale of petroleum products and the operation of convenience stores throughout Australia and the north island of New Zealand under Gull NZ. There were no significant changes in the nature of Caltex's principal activities or in the state of affairs during the financial year.

At Lytton in Brisbane, Caltex manufactures fuels including LPG, petrol, diesel and jet fuel, lubricants, greases and other small amounts of fuel oil and speciality products. Caltex also buys refined products on the open market both overseas and locally through our shipping and trading entity Ampol. The products that Caltex manufactures and imports are marketed and distributed to retail and commercial consumers and are supplied via a network of pipelines, terminals, depots, barges and company-owned and contracted transport fleets.

Group strategy

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

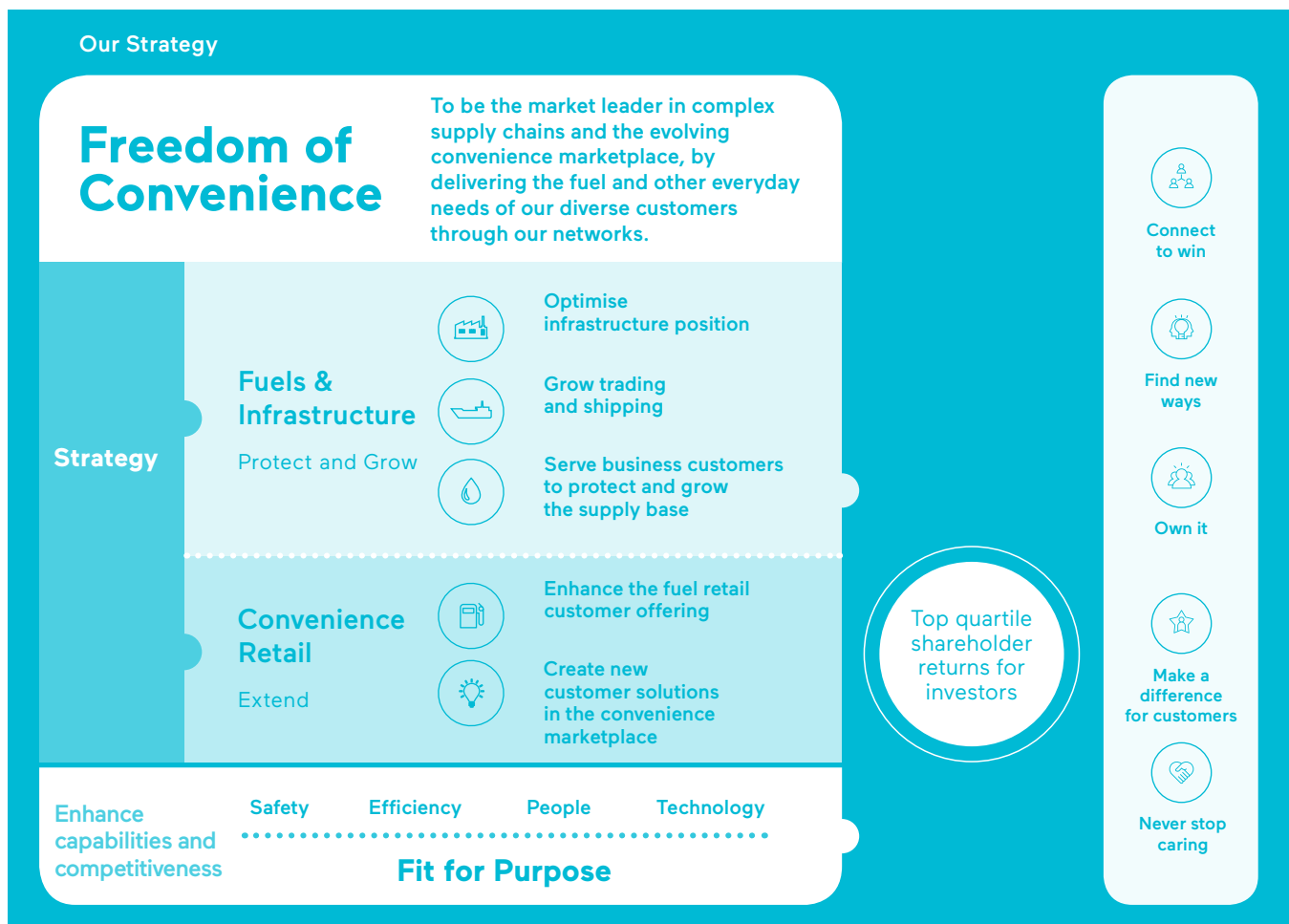
In 2017, Caltex made the decision to change its operating model by establishing two inter-dependent, but different businesses which require separate cultures, processes and systems, both with significant growth options. The company has merged Supply, B2B, Refining and Infrastructure into one business unit (Fuels & Infrastructure) to better optimise our value chain. Convenience Retail will focus on the company's consumer-facing petrol and convenience (P&C) business.

As part of this decision to optimise the existing operating model, Caltex identified initial expected cost savings of approximately \$60 million (before tax) per annum, with the full annual run rate expected to be achieved by the end of the first quarter of 2018. Associated restructuring costs of \$23 million (including redundancy costs, other cash and non-cash costs) were recognised in 2017. The cost savings include headcount reduction of approximately 120 roles across both operational and support functions and other identified cost savings.

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

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

The strategy outlined below has been updated to reflect the decision to establish two inter-dependent operating businesses. The "Protect and Grow" aspect of the strategy is focused on capturing the many opportunities that exist to continue to enhance and expand the Fuels & Infrastructure business. In the "Extend" aspect of the strategy, Caltex will build on its current assets, capabilities and customer base to develop the Convenience Retail 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.
Grow trading and shipping	Continue to develop and expand the capabilities and operations of Ampol. This allows Caltex to capture opportunities for value creation in sourcing and delivering product, and enables international expansion into the Asia Pacific region.
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 customers' spend while there.
Create new customer solutions in the convenience marketplace	Leverage Caltex's existing strong consumer-facing business, including our network of over 900 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.
- Technology – continuing to invest in new technologies in order to drive operational efficiencies.
- Fit for Purpose – culture, metrics and measurement will vary between the two businesses.

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.

Operating and financial review continued

Group strategy continued

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.

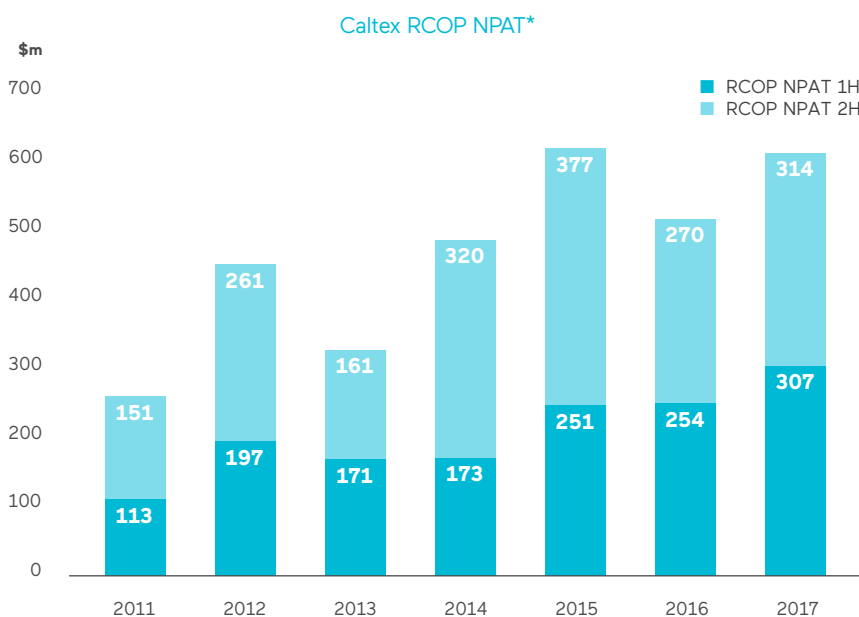
Caltex Group results 31 December 2017

On an historical cost profit basis, Caltex recorded an after-tax profit of \$619 million for the 2017 full year, including significant items of \$14 million loss. This compares with the 2016 full year profit of \$610 million, which included no significant items. The 2017 result includes a product and crude oil inventory gain of \$12 million after tax. The 2017 total inventory gain of \$12 million compares with an inventory gain of \$86 million after tax in 2016.

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

	2017 \$m (after tax)	2016 \$m (after tax)
Reconciliation of the underlying result to the statutory result		
Net profit attributable to equity holders of the parent entity	619	610
Deduct/add: Significant items (gain)/loss	14	-
Deduct/add: Inventory (gain)/loss	(12)	(86)
RCOP NPAT (excluding significant items)	621	524

On an RCOP¹ basis, Caltex recorded an after-tax profit for the 2017 full year of \$621 million. This compares with an RCOP after-tax profit of \$524 million for the 2016 full year, excluding significant items.



* RCOP Net profit after tax, excluding significant items

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.

Caltex Group Results 31 December 2017 continued

Dividend

The Board has declared a final dividend of 61 cents per share (fully franked) for the second half of 2017. Combined with the interim dividend of 60 cents per share for the first half, this equates to a total dividend of 121 cents per share for 2017, fully franked. This equates to a total dividend of 121 cents per share for 2017, fully franked. This compares with a total dividend payout of 102 cents per share (fully franked) for 2016. This is in line with a target dividend payout ratio of 40-60% of RCOP NPAT.

Income statement

For the year ended 31 December 2017	2017 \$m	2016 \$m
1. Total revenue ¹	21,424	17,935
2. Total expenses	(20,489)	(17,122)
Replacement cost earnings before interest and tax	935	813
Finance income	3	7
Finance expenses	(70)	(80)
3. Net finance costs	(67)	(73)
Income tax expense ²	(247)	(216)
Replacement cost of sales operating profit (RCOP)	621	524
4. Significant items gain/(loss) after tax	(14)	-
5. Inventory gain/(loss) after tax	12	86
Historical cost net profit after tax	619	610
Interim dividend per share	60c	50c
Final dividend per share	61c	52c
Basic earnings per share		
Replacement cost (excluding significant items)	238c	199c
Historical cost (including significant items)	237c	232c

Discussion and analysis – Income statement

<p>1. Total revenue ▲ 19%</p>	<p>Total revenue increased primarily due to the increase in world petroleum product prices, which reflects the rise in world crude oil prices, and the impact of higher refiner margins (a component of refined product prices). Product prices are denominated in US dollars. This increase was partly offset by the rise of the Australian dollar.</p> <p>The weighted average Brent crude oil price in 2017 was US\$54/bbl, compared to US\$44/bbl in 2016.</p>
<p>2. Total expenses – replacement cost basis ▲ 20%</p>	<p>Total expenses also increased primarily as a result of higher replacement cost of goods sold due to the higher price of refined product.</p>

1. Includes other income of \$2 million (2016: \$2 million) less the significant item loss of \$14 million (2016: nil).

2. Excludes tax payable on inventory gain of \$6 million (2016: \$37 million tax benefit) and excludes tax cost on significant items of \$10 million (2016: nil).

Operating and financial review continued
Income statement continued

RCOP EBIT breakdown¹

<p>Caltex Refiner Margin (CRM) \$641m</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 higher in 2017 at US\$13.02/bbl, compared with US\$10.50/bbl for 2016. In AUD terms, the CRM was 10.67 Australian cents per litre in 2017, compared with 8.88 Australian cents per litre in 2016.</p> <p>Total refinery production in 2017 of all products was 6.2 billion litres, compared with 6.4 billion litres in 2016, reflecting the closure for turnaround and inspection (T&I) maintenance work that occurred in 2017.</p>
<p>Transport fuels margin \$1,188m</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. 2017 margins benefited from the contributions of the Gull NZ and Milemaker acquisitions.</p> <p>Premium domestic fuel sales were 4.8 billion litres in 2017, compared with 4.4 billion litres in 2016. Caltex's overall domestic transport fuel sales volumes have increased 3% in 2017. 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 higher transport fuel sales volumes reflected an increase in Jet and Vortex Diesel sales partly offset by declining petrol sales. The decline in unleaded petrol sales is driven by the substitution to vehicles requiring diesel fuels and efficiencies to internal combustion.</p> <p>Jet volumes increased 6%, driven by increased domestic capacity and a high win rate of new business.</p>
<p>Lubricants and specialties margin \$83m</p>	<p>Lubricants and specialties products include finished lubricants, base oils, liquefied petroleum gas, petrochemicals, wax and marine fuels.</p>
<p>Non-fuel income \$150m</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 \$27 million lower than in the prior year, driven by the short term impact of transition of around 175 franchised sites to company operations (lower royalties and other franchise fees as well as incurring costs to convert sites).</p>
<p>Operating expenses (\$1,052m)</p>	<p>Operating expenses include Supply Chain, Marketing and Corporate operating expenditure. There has been an increase of \$39 million from 2016 due to:</p> <ul style="list-style-type: none"> • higher depreciation and amortisation of \$20 million • incremental operating expenses in relation to the Milemaker and Gull NZ acquisitions, • increased major project costs (including M&A and franchisee review), • partly offset by good cost control and a low inflationary environment.
<p>Other (\$75m)</p>	<p>Other includes a number of miscellaneous items that 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 \$26 million (after hedging) in 2017.</p>
<p>RCOP EBIT excluding significant items \$935m</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

3. Net finance costs ▼ 8%	Net finance costs decreased by \$6 million compared with 2016. The key driver of the reduction in interest cost is a lower average interest rate on borrowings, driven by savings of \$5 million on repayment of subordinated notes in September 2017, partially offset by the impact of higher average daily borrowings in 2017 relative to 2016.
4. Significant items after tax ▲ \$24m	During 2017, there were net significant items of \$24 million loss (\$14 million loss after tax). The significant items are a result of the announced establishment of the Franchisee Employee Assistance Fund (\$20 million), restructuring and redundancy costs associated with the capability and competitiveness project Quantum Leap (\$23 million), offset by the profit on sale of Caltex's fuel oil business and the utilisation of prior period capital losses to partially offset tax expense on the profit on sale. During 2016, the Group has recognised no significant items.
5. Inventory gains after tax ▼ \$74m	Inventory gains were driven by the increase in crude oil prices in 2017, with crude oil rising from US\$54/bbl in December 2016 to US\$64/bbl in December 2017. The crude price movement, partly offset by an increase in the Australian dollar over the period, combined with the result of hedging activity and variability in timing of purchases compared to sales, resulted in a net inventory gain of \$12 million after tax, compared to inventory gains of \$86 million after tax in 2016.

Business unit performance

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

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

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

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

Caltex now has 27 new convenience retail stores operational under "The Foodary" format. Whilst there is significant variation by site (driven by site location, timing of opening, nearby competitive offers), the early results are encouraging, with strong customer feedback and an average non-fuel sales uplift of 35%. There have been some significant learnings with on-going development work around our fresh supply chain and labour model. Caltex intends to launch between 50 and 60 "The Foodary" sites and 5-10 Nashi high street convenience sites in 2018 at a capital cost of approximately \$100 million, ahead of a wider roll out in later years.

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

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

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

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

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

1. The Caltex Refiner Margin (CRM) represents the difference between the cost of importing a standard Caltex basket of products to Eastern Australia and the cost of importing the crude oil required to make that product basket. The CRM calculation represents: average Singapore refiner margin + product quality premium + crude discount/(premium) + product freight – crude freight – yield loss.

Operating and financial review continued

Balance sheet

as at 31 December 2017	2017 \$m	2016 \$m	Change \$m
1. Working capital	595	396	199
2. Property, plant and equipment	2,818	2,691	127
3. Intangibles	517	195	322
4. Net debt	(814)	(454)	(360)
5. Other non-current assets and liabilities	(8)	(18)	10
Total equity	3,108	2,810	298

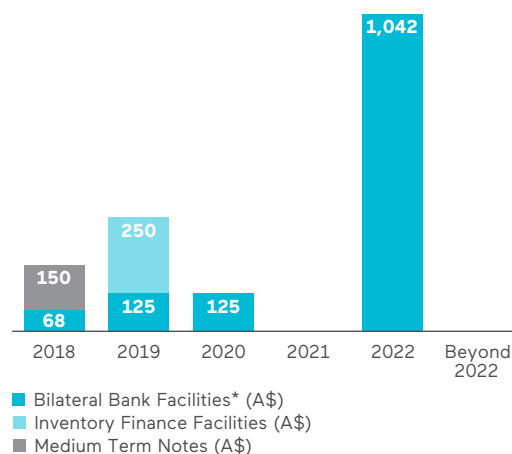
Discussion and analysis – Balance sheet

- Working capital**
▲ \$199m
The increase in working capital is primarily driven by higher volume of trade sales outstanding at 31 December 2017.
- Property, plant and equipment**
▲ \$127m
The increase in property, plant and equipment is primarily due to capital expenditure and accruals, including major cyclical maintenance, of \$440 million and capitalised interest of \$2 million. This is partly offset by depreciation of \$205 million and disposals of \$112 million.
- Intangibles**
▲ \$322m
The increase in intangibles is primarily due to goodwill arising on acquisitions of \$322 million.
- Net debt**
▲ \$360m
Net debt increased by \$360 million to \$814 million at 31 December 2017. Caltex's gearing at 31 December 2017 (net debt to net debt plus equity) was 20.8%, increasing from 13.9% at 31 December 2016. On a lease-adjusted basis, gearing at 31 December 2017 was 36.1%, compared with 28.4% at 31 December 2016.

Current Sources of Funding

	A\$m	Source
Medium Term Notes	150	Australian and Asian Institutional
Bilateral Bank Facilities*	1,360	Global Banks
Inventory Finance Facilities	250	Global Banks
	\$1,760m	

Debt Maturity Profile



* AUD equivalent. Contains an 'evergreen provision' to facilitate extensions.

- Other non-current assets and liabilities**
▼ \$10m
Other net non-current liabilities have decreased primarily due to a portion of non-current environmental liabilities becoming current as remediation works at Kurnell continue. 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.

Cash flows

For the year ended 31 December 2017		2017 \$m	2016 \$m	Change \$m
1.	Net operating cash inflows	735	928	(193)
2.	Net investing cash outflows	(800)	(357)	443
3.	Net financing cash outflows	(135)	(590)	(455)
	Net increase/(decrease) in cash held	(200)	(19)	(181)

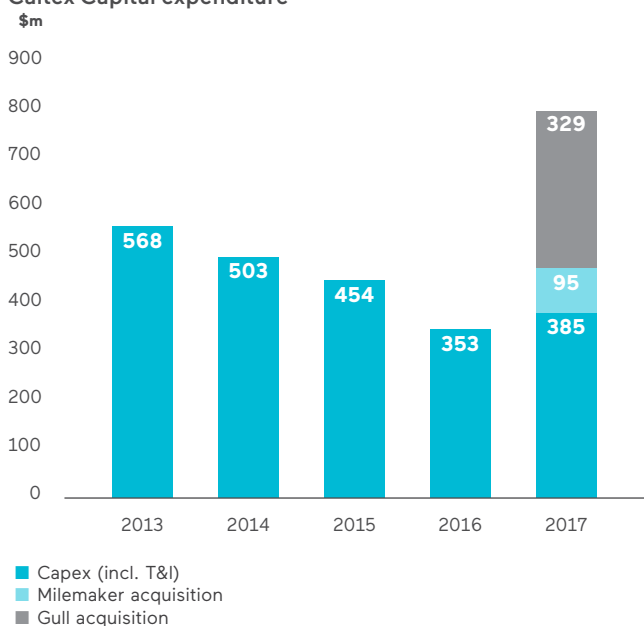
Discussion and analysis – Cash flows

1. Net operating cash inflows ▼ \$193m	While receipts from customers are higher in 2017, this was largely offset by higher payments to suppliers, employees and governments, as both are driven by current product prices.
2. Net investing cash outflows ▲ \$443m	The increase in net investing cash outflows is primarily due to business acquisitions including Gull NZ, Milemaker and Nashi.
3. Net financing cash outflows ▼ \$455m	<p>The net financing outflow in 2017 arose from dividend payments. Net proceeds/repayment of borrowings was \$159 million, due to refinancing of bank facilities and repayment of the subordinated notes.</p> <p>The net financing outflow in 2016 arose from dividend payments and the execution of the \$270 million share buy-back. Net proceeds/repayment of borrowings was nil, as there were no drawdowns or repayment of fixed borrowings in the period.</p>

Capital expenditure

Capital expenditure in 2017 totalled \$809 million. Excluding major T&I spending at Lytton refinery of \$39 million, capital expenditure was \$770 million, inclusive of the Gull NZ and Milemaker acquisitions of \$424 million. Capital expenditure in 2018 is expected to range between \$470 million and \$540 million, including the intended acquisition of a 20% share in SEOIL Inc. in 1H2018.

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 market competitiveness, exchange rates 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 regionally and growing convenience retailing. 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.

Operating and financial review continued

Business outlook and likely developments continued

Supply and Marketing

Optimising our infrastructure position means we run our assets in a safe and cost efficient way. This means we can supply what our customers need, anywhere they need it, safely and reliably, ultimately making their lives easier.

During 2017 our Trading and Shipping team in Ampol successfully delivered new value to Caltex through its role as a competitive and reliable supplier to our Australian business. This new capability for Caltex provides our external market understanding, critical for our operations amidst a global business, while also providing a platform for growth.

Ampol plays a critical role in our integrated value chain by leveraging our infrastructure positions such as the Kurnell terminal, optimising the supply chain around the Caltex Lytton refinery, including crude and feedstock, sourcing from a broader range of locations, and make-or-buy decisions around premium fuels. The international market knowledge provided by the experienced team and the strong shipping and operational capability allows Caltex to access new opportunities more rapidly as market conditions change. This includes re-optimising the trade flow for Australia, and capturing sales into new markets such as New Zealand, the Philippines and other regional supply locations.

Our conservative approach to trading and shipping remains unchanged, with our activities focused on our strength of physical supply and optimisation. We continue to improve our risk management capability, by enhancing our prudent commodity risk management systems to enable opportunities in the international market, capture higher earnings and reduce cash flow volatility.

We take pride in our expertise in managing complex supply chains and have demonstrated continued investment in distribution infrastructure into every corner of Australia throughout 2017, enabling us to better serve our customers and remain their supplier of choice.

As our customers' needs and wants evolve, we continually focus on making a difference for customers and building a convenience retail offer that gives them a reason to come to our sites whether that be to fill up their vehicle, enjoy a barista made coffee or have a digitally enabled experience to enjoy both.

2017 was a transformational year for the Convenience Retail team as the first The Foodary store opened in January. The Foodary delivers barista-made coffee, fresh food, quality grocery products and services such as parcel pick-up for customers on the move. By the end of 2017, we had opened 23 The Foodary stores which included a landmark first for Caltex with the opening of our first non-fuel stand alone location in a transport hub in Newcastle, New South Wales.

Caltex have announced the outcome of the 2 year review into the retail operating model to determine which operating model will best deliver the company's retail growth objectives. This review has determined that controlling our core business is essential to achieving our retail growth objectives. The company will achieve this by seeking to move all franchise sites to company operation by end 2020.

Lytton

The Lytton refinery is Caltex's sole refinery. Lytton Refinery continues to deliver on its promise to be a safe, reliable and competitive part of our supply chain.

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 risk updates throughout the year.

We have not included information where it would be likely to result in unreasonable prejudice to Caltex. This includes information that is confidential or commercially sensitive or could give a third party a commercial advantage (for example, details of our internal budgets and forecasts), except where disclosure is required pursuant to our continuous disclosure obligations.

Caltex Refiner Margin

The 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.

Foreign exchange contracts (forwards, swaps and options) are used to hedge foreign currency exposure in accordance with Group Treasury Policy. 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.

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.

To mitigate against potential losses from such risk, Caltex has in place an integrated management system for managing safety, health, environment and product quality, as well as a comprehensive risk management framework which actively manages and mitigates these risks from the corporate Group level through to the local site operating level and involves active engagement at the senior management level. Caltex also manages certain major risk exposures through its comprehensive corporate insurance program, which provides cover for damage to facilities and associated business interruption as well as product liability.

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. In this regard, Caltex actively monitors and responds to potential local and global security threats.

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. Caltex has in place various strategies to manage these risks which are designed to sustain and improve margins by reducing costs, improving operating efficiencies and encouraging sustainable performance. These strategies include the implementation of organisational restructuring, geographic diversification, and the allocation of capital expenditure to those businesses with the potential to deliver strong earnings growth.

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. As part of its approach to managing these risks, Caltex applies strict operating standards, policies, procedures and training to ensure compliance with all applicable environmental laws, and Caltex's spills performance is a key performance metric. Caltex is focused upon achieving better environmental outcomes across its business as part of its strategy to deliver solid and sustained performance. Further details on how Caltex manages its environmental regulations and performance are outlined below in "Environmental regulations".

Demand for Caltex's products

Caltex's operating and financial performance is influenced by a variety of general economic and business conditions beyond Caltex's control, including:

- economic growth and development, the level of inflation, and government fiscal, monetary and regulatory policies
- in the event of a global or a local economic downturn, demand for Caltex's products and services may be reduced, and
- advances in automotive technologies including fuel efficiency improvements as well as technology substitution to hybrids, electric vehicles and fuel cell electric vehicles

all of which may operate to impact Caltex's financial performance.

To manage these risks, Caltex has implemented key initiatives to reduce costs, improve operating efficiencies and encourage sustainable performance within Caltex. These initiatives include the implementation of organisational restructuring, geographic diversification, and the allocation of capital expenditure to those businesses with the potential to deliver strong earnings growth.

Operating and financial review continued

Business risks and management continued

Labour shortages and industrial disputes

There is a risk that Caltex may not be able to acquire, deploy or retain the necessary labour for operations and development projects. This may disrupt operations or lead to financial loss. In this regard, Caltex aims to be an employer of choice; it has in place and actively manages its employee agreements and monitors the external labour markets as well as its internal employee retention data.

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. Caltex has a Board approved credit policy and a process for the management and diversification of the credit risk to Caltex. The credit quality of Caltex's 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. Additionally security is required to be supplied by certain groups of Caltex customers to minimise risk.

Climate change

At Caltex, climate related risk governance is managed by the Board's OHS & Environmental Risk Committee.

Caltex engages with Federal Government departments and regulators directly or indirectly via industry groups on climate change policy and legislation to ensure that material risks to our business are both understood and can be effectively managed. Prioritisation is carried out based on the anticipated material impact of the mitigated risk and likelihood rating derived from a cross functional review of the Caltex risk management framework. Further details on how Caltex manages climate related risks are outlined in the Annual Report under the heading "Sustainable operations".

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. As part of its approach to managing these risks, Caltex applies strict operating standards, policies, procedures and training to ensure that it remains in compliance with its various permits, licences, approvals and authorities. Additionally, it proactively manages these risks through a combination of vigilance regarding current regulations, contact with relevant bodies/agencies and working in partnership with various stakeholders to reduce the likelihood of significant incidents that could impact either Caltex and/or the communities in which we operate.

Changes in laws and government policy in Australia or elsewhere, including regulations and licence conditions could materially impact Caltex's operations, assets, contracts, profitability and prospects. Some examples of potentially impactful legislative changes include amendments to the *Fair Work Act* (Cth), specifically the protecting vulnerable workers amendments; and the proposed modern slavery laws. Caltex engages with regulatory bodies and industry associations to keep abreast of these changes. Caltex has in place a stakeholder engagement plan that is actively managed to mitigate the impact from major policy changes.

Events subsequent to the end of the year

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

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

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

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

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

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

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

There were no other items, transactions or events of a material or unusual nature that are likely to significantly affect the operations of Caltex, the results of those operations or the state of affairs of the Group subsequent to 31 December 2017.

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 2017, Caltex made its ninth 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 continues to remain a signatory to the Australian Packaging Covenant, with 100% of packing used reviewed using the Sustainable Packaging Guidelines (SPG).

Compliance with environmental regulations

In 2017, companies in the Caltex Group held 21 environmental protection licences relating to the Lytton refinery, 11 terminals, six marketing facilities, one aviation refuelling facility, our 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 two environmental infringements in 2017. One related to an operational issue at our licensed sewage treatment plant associated with our service station in Blacksoil Qld; and the other was associated with a spill by one of Caltex's licensed contractors at our Newport Terminal Facility.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 72 and forms part of the Directors' Report for the financial year ended 31 December 2017.

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 2017.

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). The KMP disclosed in the 2017 Remuneration Report differ from those identified as KMP in the 2016 Remuneration Report due to the change in Caltex's operating model.

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

Current Non-executive Directors

Steven Gregg ⁽ⁱ⁾	Chairman and Independent, Non-executive Director
Trevor Bourne	Independent, Non-executive Director
Melinda Conrad	Independent, Non-executive Director (appointed 1 March 2017)
Bruce Morgan	Independent, Non-executive Director
Barbara Ward AM	Independent, Non-executive Director
Penny Winn	Independent, Non-executive Director

Former Non-executive Directors

Greig Gailey ⁽ⁱⁱ⁾	Chairman and Independent, Non-executive Director
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Current Senior Executives

Julian Segal	MD & CEO
Simon Hepworth	Chief Financial Officer
Richard Pearson	Executive General Manager, Convenience Retail (appointed 1 August 2017)
Louise Warner	Executive General Manager, Fuels & Infrastructure

Former Senior Executives

Bruce Rosengarten	Executive General Manager, Commercial (ceased employment 1 April 2017)
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Note:

(i) Mr Gregg was appointed Chairman effective from 18 August 2017.

(ii) Mr Gailey retired from the Board on 18 August 2017.

1b. Summary of 2017 remuneration arrangements for Senior Executives

VISION

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

STRATEGY

Fuels & Infrastructure – Protect and Grow

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

Convenience Retail – Extend

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

KEY MEASURE OF SUCCESS

Top quartile shareholder returns for investors

REMUNERATION PRINCIPLES

Alignment with shareholders' interests

Performance focused and differentiated

Market competitive

REMUNERATION COMPONENTS

Fixed remuneration

- Consists of base salary, non-monetary benefits and superannuation.
- Desired positioning is market median against a peer group of companies that are comparable in terms of both size and complexity.

See section 3a for further detail.

Short term incentive (STI)

- Based on 12 month company, department and individual performance objectives which are linked to the achievement of the annual business plan.
- Only payable if 80% of RCOP NPAT is achieved.

See section 3c for further detail.

Long term incentive (LTI)

- Performance rights are granted which vest subject to the achievement of both service conditions and performance conditions over a three year period.
- Performance measures are relative total shareholder return (TSR) against S&P/ASX 100 companies (60%), a strategic fuels and infrastructure growth measure (20%) and a strategic convenience retail measure (20%).
- All participants are required to hold 25% of vested shares for an additional four years if their Caltex shareholding is below 100% of their base salary.
- Clawback applies to unvested LTI awards.

Remuneration Report continued

1. Remuneration snapshot continued

1c. Senior Executive remuneration outcomes in 2017

Remuneration element	Outcome
MD & CEO remuneration	There were no changes to the fixed remuneration or structure of the MD & CEO remuneration package in 2017.
Other Senior Executive remuneration increase	Base salaries for other Senior Executives (excluding the EGM Fuels & Infrastructure) increased by an average of 2.5%. This increase was in line with market movement and broadly consistent with the budgeted salary increase that applied to the majority of Caltex employees. The EGM Fuels & Infrastructure's fixed remuneration increased by 10% in April 2017, and then by a further 5% from 1 July 2017. The increases awarded to the EGM Fuels & Infrastructure was determined to be appropriate by the Board, taking into account the responsibilities for her significantly broader role, her positioning relative to market, her strong performance and strategic contribution, and internal relativities to her peers.
STI	The 2017 RCOP NPAT result was significantly stronger than in 2016, and only just below our 2015 result, which was a record profit result. This reflects strong retail results, exceptional operational reliability which enabled the company to take full advantage of positive refiner margins, as well as a strong performance from our trading and shipping business. RCOP NPAT performance in 2017 was 119% of target, and the average 2017 STI award for Senior Executives was 120.6% of target. This outcome continues to demonstrate the strong alignment between STI payments and profit achieved.
LTI	<p>The 2014 LTI grant had a performance period from 1 January 2014 to 31 December 2016 and vested 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 vested on 1 April 2017 and the remaining 15.22% lapsed. There was no clawback during 2017.</p>

1d. Summary of 2017 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, except for the Nomination Committee, where no additional fee is paid. There was no increase to any Non-executive Director fees in 2017.

Superannuation contributions were made at a rate of 9.5%. No additional retirement benefits were 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 and was not increased at the 2017 AGM.

See sections 4a and 4b for further detail.

1e. Outlook for FY18 (unaudited)

Key issues and changes to remuneration arrangements in FY18 are outlined below:

Change	Commentary
MD & CEO remuneration	<p>The Board determined that it would again freeze the fixed remuneration of the MD & CEO for 2018. The MD & CEO last received a fixed remuneration increase in April 2015.</p> <p>In 2018, the MD & CEO's target STI opportunity will increase from 60% to 70% of base salary, with stretch STI opportunity increasing proportionally from 100% to 140%. 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 for other members of the leadership team, and the increase in the STI opportunity brings the MD & CEO's target STI and total target remuneration closer to (but still below) the median of the customised peer group that is used for benchmarking purposes. See section 3a for further information on the peer groups used.
Senior Executive remuneration	<p>No Senior Executive, aside from the EGM Fuels & Infrastructure, will receive a salary increase in 2018. The EGM Fuels & Infrastructure will receive a fixed remuneration increase of 13.8% in 2018. This increase reflects enhanced capability within the role, ensures that scope and responsibilities between roles are appropriately rewarded and seeks to address relativities between Senior Executives.</p> <p>Overall, the Board's approach to Senior Executive base salary increases reflects the restrained approach Caltex will take to fixed remuneration within the company in 2018.</p> <p>The Board has determined that it is appropriate to increase the target STI opportunity for its Senior Executives from 50% to 60% of base salary from 2018 (with a stretch increasing proportionately from 100% to 120%). Benchmarking by external consultants has consistently shown that the target STI of our Senior Executives is well below the median of our benchmarked peer groups (which, at median, is typically 60-65% of total fixed remuneration). These increases in STI opportunity will bring the Senior Executive's target STI and total target remuneration closer to the median of the company's peer groups, and maintain relativities to the MD & CEO. This change also ensures that Senior Executives will only benefit from these changes if they are able to deliver on the key financial and operational metrics which determine STI payouts.</p> <p>These increases were determined by the Board, upon the recommendation of the Human Resources Committee, taking into account the Senior Executives' performance over the year, market data, forecast market movements and the remuneration recommendations made by Aon Hewitt.</p>
LTI	<p>The 2015 LTI grant had a performance period from 1 January 2015 to 31 December 2017 and vests in April 2018. This grant was subject to the achievement of relative TSR against S&P/ASX 100 companies (75%), and a profit growth measure (25%).</p> <p>Over the 2015-17 performance period, when averaged for TSR purposes, Caltex's share price increased from \$31.08 to \$34.00 and TSR was 121%. Despite a good TSR result, and the significant growth in share price from 2014 to 2016 immediately prior to the commencement of the performance period, this result only placed Caltex at the 32nd percentile against S&P/ASX 100 companies. This means that no portion of this tranche will vest. Against the profit growth measure, the Board also determined that the company had performed well against this hurdle due to very strong profit growth in its step out ventures. As a result, 22.38% of the 2015 grant will vest on 1 April 2018, and the remaining 77.62% will lapse.</p>
Non-executive Director fees	<p>Non-executive Director base fees will increase by 2% in 2018. Audit and Human Resources Committee Chairs will receive a \$10,000 increase in Chair fees, with the OHS & Environmental Risk Chair receiving a \$4,000 increase. All Committee members will receive a Committee fee increase of \$2,000, aside from the Nomination Committee, for which no fees are paid.</p> <p>These fee increases reflect advice from Aon Hewitt that the Committee fees were below market and better aligns the fees with those of our peer companies.</p>
Non-executive Director fee pool	<p>There will be no change to the Non-executive Director fee pool for 2018.</p>

Remuneration Report continued

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 are reserved for 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, incentive plans, succession planning, remuneration and diversity and inclusion disclosures, including setting the measurable objectives for achieving diversity and inclusion. It also reviews, on an annual basis, progress made towards achieving these 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, that attract and retain talent and capability, 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 2017, 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 \$35,000 excluding GST. Aon Hewitt also provided additional services (Finance and HR related) to Caltex over 2017. The fee for these additional services was \$26,850 excluding GST.

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, 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.
Ensure gender equity in remuneration outcomes	Remuneration is reviewed to remove gender based pay differences on a like-for-like job level basis.

Alignment with strategy

Both the short term and long term incentive plans 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 2017, the customised peer group consisted of 20 companies that are broadly of comparable size and complexity and which the Board considers to be leading competitors for capital and people. The peer group was adjusted to include 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.

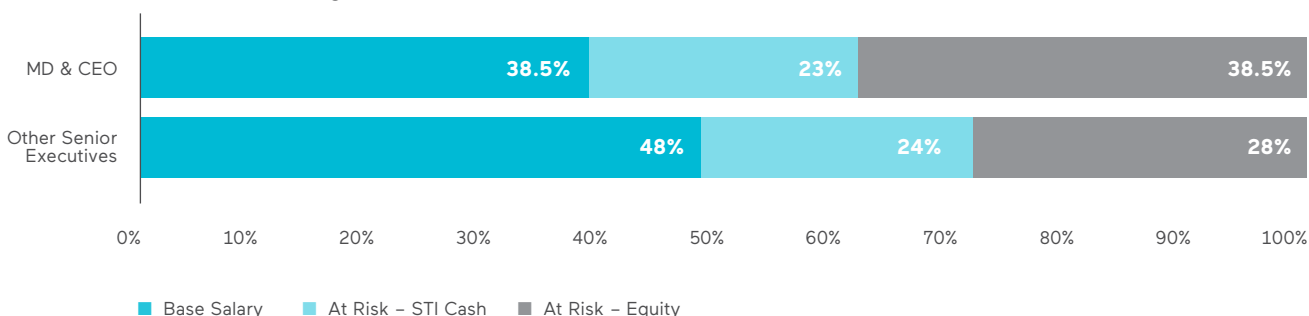
The remuneration structure (including the remuneration mix) is reviewed annually by the Board.

3b. Remuneration mix

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

The "at target" remuneration mix in 2017 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. External advisers have confirmed 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.

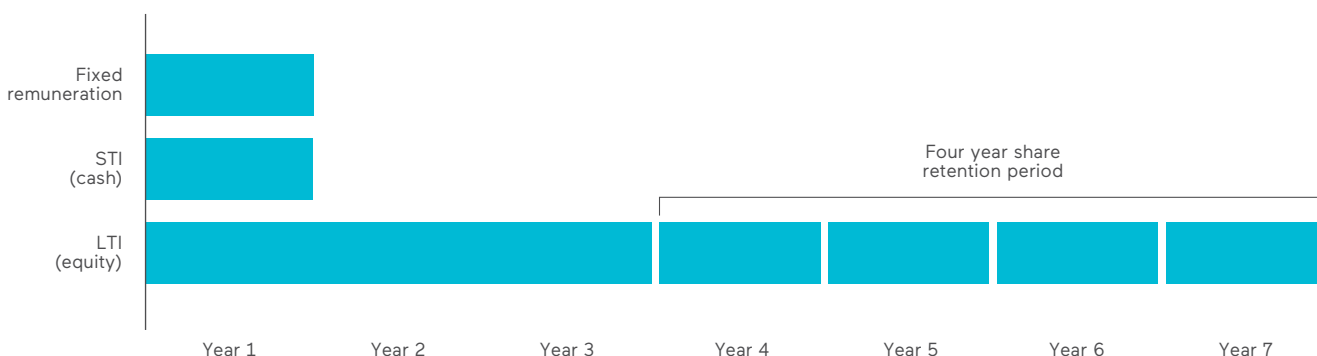
2017 Remuneration mix "at target"



Notes:

- "At target" performance in the remuneration mix for "Other Senior Executives" reflects an STI target of 50% of base salary for Mr Hepworth, Mr Pearson and Ms Warner.
- 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 profit growth and strategic convenience retail 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 diagram below shows the payout profile of the various remuneration elements:



Note:

- For LTI awards made in 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 applies if the Senior Executive does not hold at least 100% of their base salary in Caltex shares prior to the vesting of the applicable awards.

Remuneration Report continued

3. Senior Executive remuneration continued

3c. Performance based "at risk" remuneration – 2017 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 ended 31 December 2017.
2017 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 50% of base salary and the maximum stretch STI opportunity is 100% of base salary.
Financial gateway	RCOP NPAT performance, including the cost of incentives, needs to be at least 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 2017, discretion was exercised by the Board to exclude three items from the RCOP NPAT result (net \$14m) for both statutory disclosure and incentive purposes. These items were determined by the Board to be outside the control of employees and/or not part of normal trading operations. Items excluded were profits on the sale of the fuel oil business, and expenses associated with Franchisee Employee Assistance Fund and restructuring costs associated with the Quantum Leap Project cost reduction program. All of these items have been previously disclosed to shareholders and analysts and are recognised as significant or non-recurring items and outside the underlying RCOP NPAT result.
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 2017

Performance measures for 2017 were derived from the business plan in line with the company direction set by the Board. The Board approved the 2017 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 2017. These measures accounted for between 50% and 55% of the Senior Executive's scorecard, depending upon their role. The remaining 45-50% of performance objectives were customised to the executive's remit. Such objectives include delivery of specific strategic growth projects, achievement of specific free cash flow targets, achievement of divisional EBIT targets, and achievement of key retail development targets. Actual performance against the common objectives has been provided.

Measure	Description 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%	✓					While Caltex delivered significant improvements in personal safety performance in 2017 with a total recordable injury frequency rate (TRIFR) of 5.2, and a “days away from work injury frequency rate (DAFWIFR)” of 1.36 (a significant improvement vs last year and the prior three-year average), this metric is below threshold due to the company’s first fatality in 20 years.
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 strong in 2017, with Caltex equalling its best ever spill performance of nine (with no marine spills). However, due to the challenging targets set by the Company this was above our target of eight spills.
RCOP NPAT	See explanation of RCOP NPAT below	40%				✓		RCOP NPAT was between target and stretch at \$621m due to above budget retail results, strong refiner margins and strong trading and shipping results.

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 therefore 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

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 the 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.

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.

Remuneration Report continued

3. Senior Executive remuneration continued

3d. Performance based "at risk" remuneration – 2017 LTI Plan

Plan	LTI awards are granted under the CEIP.														
Plan rationale	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. 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.														
LTI instrument	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. 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 a restricted share. It is expected that 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.														
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 2017 awards, this is the three year period from 1 January 2017 to 31 December 2019.														
2017 target and maximum stretch opportunity levels	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. 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.														
Performance measures	For 2017, the LTI performance measures were relative TSR (weighted at 60%) a strategic growth measure (weighted at 20%), and a strategic convenience retail measure (weighted at 20%). Relative TSR Relative TSR is assessed against a comparator group of S&P/ASX 100 companies. The vesting schedule is: <table border="1" data-bbox="399 1254 1458 1523"> <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> Strategic growth measure In 2017, 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. 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 profit growth in achieving our key success measure of top quartile shareholder returns.	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														

Performance measures continued	<p>Convenience retail measure</p> <p>This hurdle measures the implementation of Caltex’s convenience retail strategy. The Board will measure this through both quantitative and qualitative metrics including:</p> <ul style="list-style-type: none"> • the rollout of new format across existing and new Calstores network; • the average percentage sales uplift per store; and • a customer metric, based on improvement in customer feedback using net promoter score methodology. <p>Each measure in this hurdle is assessed separately and then aggregated to determine the final vesting percentage. This is to be overlaid with the Board’s qualitative assessment of how the company has performed in implementing the company’s convenience retail strategy, including an assessment that a threshold return on investment has been maintained.</p> <p>Disclosure of performance outcomes</p> <p>Specific details of the RoAFE gateway and the strategic measures have not been disclosed due to commercial sensitivity. However, in the 2019 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 2015 and that vest in April 2018.</p>
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 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 2024 for the 2017 LTI awards). This effectively extends the life of the LTI plan from three years to seven years. For LTI awards from 2016, retention arrangements will be waived if the executive can demonstrate that 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	<p>See section 3e for information on the Caltex Clawback Policy.</p>
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	<p>Any unvested performance rights may vest at the Board’s discretion, having regard to pro-rated performance.</p>

Legacy LTI awards

The 2015 and 2016 LTI awards will vest in April 2018 and April 2019 respectively. The operation of these awards is broadly consistent with the 2017 awards, except for the weighting and the 2017 awards having the convenience retail measure. The performance measures for the 2015 awards were relative TSR (weighted at 75%) and strategic measures (weighted at 25%). The performance measures for the 2016 awards were relative TSR (60%) and strategic measures (40%).

Remuneration Report continued

3. Senior Executive remuneration continued

3d. Performance based "at risk" remuneration – 2017 LTI Plan continued

Performance measure	Commentary
Relative TSR – 2015 and 2016 grant	The operation of the relative TSR measure is the same as that outlined above under the 2017 awards.
Strategic measures	<p>Performance measures</p> <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>2016: The strategic measure is based on a profit growth target at the end of 2018 (in reference to 2015) attributable to M&A (core and non-core) and step-out ventures (new products/services/geographies). A RoAFE gateway applies to the 2016 strategic growth measure.</p> <p>Disclosure and performance assessment</p> <p>2015: See section 3h for Caltex's performance against the strategic measures applicable for the 2015 awards.</p> <p>2016: The Board will set out in the 2019 Remuneration Report how Caltex performed against the 2016 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 Caltex employee incentive schemes.

Designated Caltex Personnel are prohibited from entering into any margin lending arrangements and other secured financing arrangements in respect of Caltex securities.

Designated Caltex Personnel are required to undertake training to ensure that they are aware of and understand their obligations and responsibilities under 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 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 2017 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" \$1,289,100 (60% of base salary)	"At target" – when TSR is at the 75th percentile of peer companies, and the strategic growth measure has been met at target. \$2,148,500 (100% of base salary)
	"Stretch" \$2,578,200 (120% of base salary)	"Stretch" – when TSR is at the 90th percentile of peer companies and the strategic growth measure has been met at stretch. \$3,222,750 (150% of base salary)

Notes:

(i) The MD & CEO's remuneration was unchanged during the 2017 remuneration review.

(ii) Share retention arrangements have been implemented to encourage share retention and promote alignment with shareholders over the longer term.

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

Other Senior Executives

The remuneration and 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 of 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

Notice	Termination on notice (by the company)	Resignation (by the Senior Executive)
Simon Hepworth	3 months	3 months
Richard Pearson	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.

Remuneration Report continued

3. Senior Executive remuneration continued

3g. Senior Executive remuneration and service agreements continued

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, Retail

Mr Richard Pearson was appointed on 1 August 2017. Mr Pearson's contract included relocation and accommodation support to assist him to relocate from Melbourne, where he was previously employed. If Mr Pearson's 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 36 months.

Executive General Manager, Commercial

Mr Bruce Rosengarten ceased employment on 1 April 2017, as his position of Executive General Manager, Commercial was made redundant, with the B2B business moving to the Fuels & Infrastructure division and a new Retail division being created. On Mr Rosengarten ceasing employment, 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 retained remains subject to the applicable performance hurdles and will vest, if applicable, in accordance with the original terms of offer in April 2018 and April 2019. As notice was provided in March 2017, the remaining five months' notice were paid on cessation of employment. He also received a redundancy payment for his service paid in accordance with the company's redundancy policy.

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 2017 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 2013 to 2017 together with the linkage to actual STI and LTI outcomes.

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

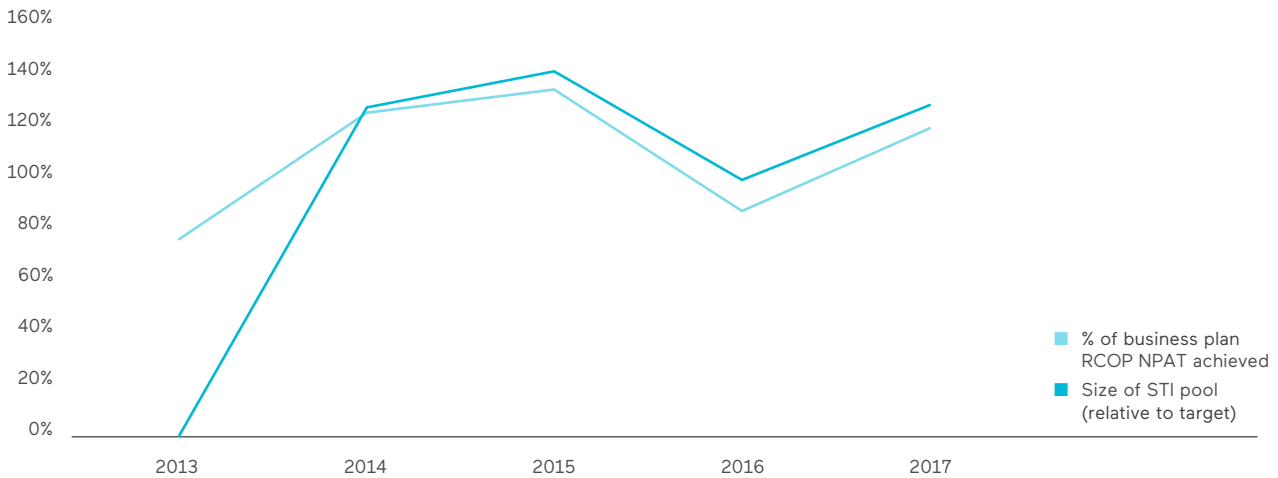
Summary of performance over 2013-17	2017	2016	2015	2014	2013
12 month TSR % ⁽ⁱ⁾	11.8	-16.4	13.6	74.1	6.1
Dividends (cents per share)	121c	102c	117c	70c	34c
Share price ⁽ⁱⁱ⁾	\$34.05	\$30.46	\$37.70	\$34.21	\$20.05
RCOP excluding significant items earnings per share	\$2.38	\$2.01	\$2.33	\$1.83	\$1.23
RCOP NPAT excluding significant items (million) ⁽ⁱⁱⁱ⁾	\$621	\$524	\$628	\$493	\$332
Caltex safety – TRIFR ^(iv)	5.2 (against a target of 5.6)	2.35	2.35	1.76	1.36
Caltex safety – LTIFR ^(v)	1.36	1.11	0.62	0.77	0.63
Link to remuneration					
STI – percentage of business plan RCOP NPAT target achieved	119%	87%	134%	125%	76%
STI – funding of STI pool (relative to target)	128%	100%	141%	127%	0%
LTI – percentage vesting three years after grant date					
Year of grant	2015	2014	2013	2012	2011
Percentage of grant vesting	22.38%	84.78%	80.49%	88.9%	42.3%

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.
- (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) Total Recordable Injury Frequency Rate. It is important to note that in the period prior to 2017 Caltex used a different metric, being the Total Treatable Injury Frequency Rate (TTIFR). In 2017 changes were made to the suite of metrics measured and reported on in 2017. A major change included introduction of TRIFR as a replacement measure for TTIFR, and this brought Caltex in line with the reporting by other ASX companies.
- (v) LTIFR – Lost Time Injury Frequency Rate.

Alignment between STI outcomes and RCOP NPAT

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

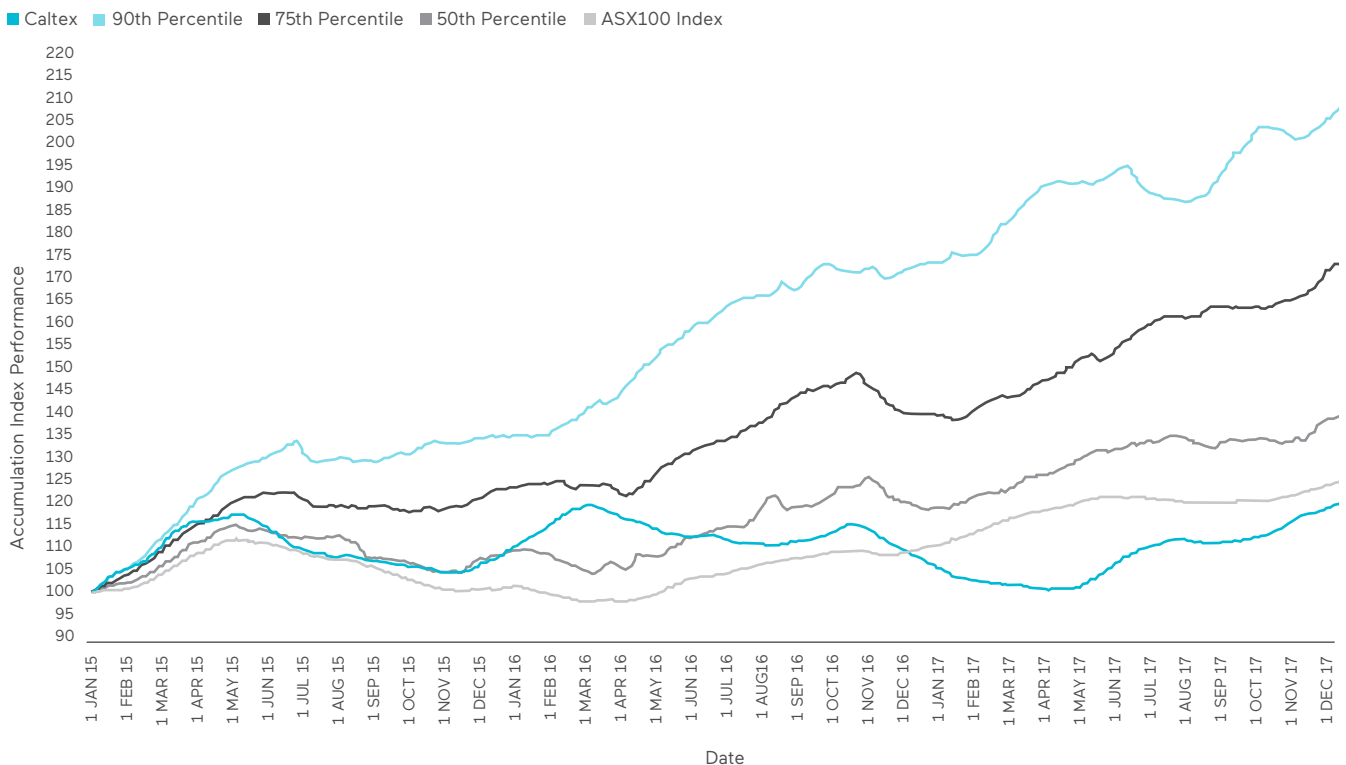


2015 LTI vesting outcomes and the link to company performance

Relative TSR (75%)

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 2015 to 31 December 2017. This reflects the final status of the tranche of the 2015 LTI grant that is subject to the relative TSR performance measure. Caltex's TSR over this period was 121%, placing it at the 32nd percentile of the comparator group. As no percentage of this tranche vests unless the Company's TSR performance achieves at least the 50th percentile performance, 0% of the performance rights subject to the relative TSR performance measure will vest on 1 April 2018.

Caltex Australia Limited and the Constituents of the S&P/ASX 100 Index
Total Shareholders Return Performance
1 January 2015 – 31 December 2017



Constituents derived from the S&P/ASX 100 Index as at 1 January 2015
Performance start and end data price derived by applying a 60 day average

Profit growth (25%)

Caltex has performed at a stretch level against the profit growth hurdle. This is primarily due to the performance of the Ampol trading and shipping business, which was assessed as a step-out growth opportunity for the company for the profit growth component of the 2015 LTI award. When measured against the business plan approved by the Board at the start of the 2015–2017 performance period, the profit generated by the trading and shipping business in the final year of the performance period has significantly exceeded the budgeted forecast.

Remuneration Report continued

3. Senior Executive remuneration continued

3h. Link between company performance and executive remuneration continued

This exceptional performance was driven by a variety of factors including:

- faster than anticipated capability and relationship building with key suppliers in the Asian market
- the faster than anticipated expansion of trading and shipping team into other growth areas, including crude and feedstocks trading, freight opportunities, blending and other optimisations of cargoes
- improved market analysis to identify new opportunities and improve decision making timeliness
- expansion of optimisation envelope and better decision making by improvements made to processes linking Trading with Supply and Lytton refinery, delivering additional value into both Ampol and the earnings in Australia.

Measured against the target profit growth hurdle, Caltex has generated additional NPAT in the final year of the performance period which was 143% of the NPAT growth target. This will result in 89.5% of this tranche vesting (between target and stretch level of performance).

3i. Remuneration tables

Table 4a. Total remuneration earned by Senior Executives in 2017 (unaudited, non-statutory disclosures)

The following table sets out the actual remuneration earned by Senior Executives in 2017. The value of remuneration includes the equity grants where the Senior Executive received control of the shares in 2017.

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 2017.

	Salary and fees ⁽ⁱ⁾	Other remuneration ⁽ⁱⁱ⁾	Bonus (short term incentive)	Termination Benefit	LTI vested during the year ⁽ⁱⁱⁱ⁾	Remuneration "earned" for 2017 ^(iv)
Executive Director						
Julian Segal (Managing Director & CEO) ^(v)						
2017	2,223,500	234,128	1,516,575	-	4,049,731	8,023,934
Senior executives						
Simon Hepworth (Chief Financial Officer)						
2017	864,486	146,831	520,848	-	908,950	2,441,116
Richard Pearson (Executive General Manager, Retail) ^(vi)						
2017	353,016	96,018	226,392	-	-	675,426
Bruce Rosengarten (Executive General Manager, Commercial) ^{(v)(vii)}						
2017	266,188	(70,323)	-	615,198	855,017	1,666,080
Louise Warner (Executive General Manager, Fuels & Infrastructure)						
2017	778,229	93,012	444,796	-	241,975	1,558,013
Total remuneration: senior executives						
2017	4,485,419	499,667	2,708,611	-	6,055,674	14,364,568

Notes:

- Salary and fees comprises base salary and cash payments in lieu of employer superannuation (on 2017 base salary and/or on STI payments made in respect of the 2016 performance year paid in 2017).
- 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.
- This refers to cash and 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 2017 figures reflect the strong performance in respect of the LTI that was granted in 2014 and that operated over the performance period from 1 January 2014 to 31 December 2016. Over this period, Caltex's TSR was 178% and the Caltex share price increased from \$20.05 to \$30.46. At the time of vesting, the Caltex share price was \$29.52. Ms Warner's 2014 LTI award was cash based, as it was granted while she led Caltex's Ampol Singapore business.
- This refers to the total value of remuneration earned during 2017, being the sum of the prior columns.
- 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.
- Mr Pearson commenced employment on 1 August 2017 and his remuneration is disclosed from this date.
- Mr Rosengarten ceased employment on 1 April 2017 due to his position as EGM Commercial being made redundant. The "Terminations Benefit" figure includes the value of his notice paid in lieu, and his redundancy payment.

Table 4b. Total remuneration for Senior Executives in 2017 (statutory disclosures)

The following table sets out the audited total remuneration for Senior Executives in 2016 and 2017, calculated in accordance with statutory accounting requirements:

	Primary			Post Employment	Other Long Term	Termination Benefit	Equity		Total
	Salary and fees ⁽ⁱ⁾	Bonus (short-term incentive)	Non-monetary benefits ⁽ⁱⁱ⁾	Superannuation	Other ⁽ⁱⁱⁱ⁾		Share benefits (long-term incentive) ^(iv)	Rights benefits (long-term incentive) ^(v)	
Julian Segal (Managing Director & CEO) ^(vi)									
2017	2,363,951	1,516,575	14,975	25,000	53,702	-	-	2,207,345	6,181,548
2016	2,267,804	1,063,792	13,695	25,000	51,206	-	-	2,193,138	5,614,635
Simon Hepworth (Chief Financial Officer)									
2017	833,339	520,848	26,272	129,177	22,530	-	-	497,478	2,029,644
2016	852,336	470,506	21,642	139,294	56,964	-	-	518,398	2,059,140
Richard Pearson (Executive General Manager, Retail) ^{(vi)(vii)}									
2017	381,212	226,392	24,035	34,635	9,152	-	-	119,964	795,390
2016	-	-	-	-	-	-	-	-	-
Bruce Rosengarten (Executive General Manager, Commercial) ^{(vi)(viii)}									
2017	281,649	-	6,278	15,100	(63,896)	615,198	-	194,773	1,049,102
2016	905,819	303,601	15,604	30,400	7,778	-	89,328	445,854	1,798,384
Louise Warner (Executive General Manager, Fuels & Infrastructure) ^(ix)									
2017	818,202	444,796	15,885	19,832	17,322	-	-	220,022	1,536,059
2016	176,165	80,656	10,435	7,912	28,184	-	-	40,154	343,507
Total remuneration: Senior Executives									
2017	4,678,353	2,708,611	87,445	223,744	38,810	615,198	-	3,239,582	11,591,743
2016	4,202,124	1,918,555	61,376	202,606	144,132	-	89,328	3,197,544	9,815,666

Notes:

- (i) Salary and fees includes base salary and cash payments in lieu of employer superannuation. For 2017, the cash payments in lieu of employer superannuation are on 2017 base salary and/or on STI payments made in respect of the 2016 performance year paid in 2017.
- (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.
- (iii) Other long term remuneration represents the long service leave for all Senior Executives.
- (iv) This is the value of the restricted shares (calculated under the accounting standards) granted to Mr Rosengarten in 2013, the last tranche of which vested in 2016.
- (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 Pearson commenced employment on 1 August 2017 and his remuneration is disclosed from this date.
- (viii) Mr Rosengarten ceased employment on 1 April 2017. The redundancy column includes the value of his notice paid in lieu (five months) and his redundancy payment.
- (ix) Ms Warner's 2016 remuneration relates to the period commencing 3 October 2016 when she was appointed Executive General Manager, Fuels & Infrastructure and became a KMP.

Remuneration Report continued

3. Senior Executive remuneration continued

3i. Remuneration tables continued

Table 5. 2017 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 2017 ⁽ⁱ⁾	Granted in 2017 ⁽ⁱⁱ⁾	Vested in 2017 ⁽ⁱⁱⁱ⁾	Lapsed in 2017 ^(iv)	Balance at 31 Dec 2017
Julian Segal	364,632	121,200	(137,186)	(24,629)	324,017
Simon Hepworth	84,199	30,465	(30,791)	(5,529)	78,344
Richard Pearson	–	26,325	–	–	26,325
Bruce Rosengarten	79,248	–	(28,964)	(27,908)	22,376
Louise Warner	24,166	23,455	(8,197)	(1,473)	37,951

Notes:

- (i) This relates to the 2014, 2015 and 2016 performance rights. If the service based and performance based vesting conditions are achieved, the 2015 and 2016 performance rights will vest in 2018 and 2019 respectively.
- (ii) This relates to the 2017 performance rights. If the service based and performance based vesting conditions are achieved, these performance rights will vest in 2020.
- (iii) This relates to the 2014 performance rights of which 84.78% vested. Senior Executives received one Caltex share for each right that vested.
- (iv) This relates to the 2014 performance rights of which 15.22% lapsed.

Table 6. 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.

	2017 grant ⁽ⁱ⁾⁽ⁱⁱ⁾		2016 grant ⁽ⁱ⁾		2015 grant ⁽ⁱ⁾	
	Relative TSR against S&P/ASX 100	Strategic measures	Relative TSR against S&P/ASX 100	Strategic measure	Relative TSR against S&P/ASX 100	FCF and strategic measure
Grant date	4 April 2017/ 12 May 2017	4 April 2017/ 12 May 2017	4 April 2016/ 13 May 2016	4 April 2016/ 13 May 2016	7 April 2015	7 April 2015
Vesting date	1 April 2020	1 April 2020	1 April 2019	1 April 2019	1 April 2018	1 April 2018
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil
Volatility	23%	23%	26%	26%	30%	30%
Risk free interest rate	1.87%/1.82%	1.87%/1.82%	1.88%/1.58%	1.88%/1.58%	1.75%	1.75%
Dividend yield	3.6%	3.6%	3.3%/2.8%	3.3%/2.8%	3.2%	3.2%
Expected life (years)	3.0/2.9	3.0/2.9	3.0/2.9	3.0/2.9	3.0	3.0
Share price at grant date	\$29.39/\$32.68	\$29.39/\$32.68	\$33.86/\$34.20	\$33.86/\$34.20	\$34.94	\$34.94
Valuation per right	\$10.76/\$14.50	\$26.39/\$29.45	\$13.34/\$12.43	\$30.68/\$31.55	\$15.69	\$31.76

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 2017, two separate major awards of CEIP performance grants were made. Executive awards, excluding the MD & CEO, were made on 4 April 2017. The MD & CEO's award was made on 12 May 2017 after shareholder approval for the award was obtained at the 2017 AGM held on 4 May 2017. The terms of all 2017 awards, including all performance hurdles and vesting conditions, are the same.

Table 7. Mix of fixed and variable remuneration based on 2017 statutory remuneration table

The proportion of each Senior Executive's total remuneration for 2017 that was fixed, and the proportion that was subject to a performance measure, is outlined below. The percentages are based on the 2017 statutory remuneration disclosures in table 4b (including the LTI values which are determined in accordance with accounting standards), and do not correspond to the "at target" remuneration percentages outlined earlier in this report in section 3b.

	Fixed	Variable (including short and long term incentive payments)
Julian Segal	40%	60%
Simon Hepworth	50%	50%
Richard Pearson	56%	44%
Louise Warner	57%	43%

Table 8. FY17 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	2017	2016
Julian Segal	59%	46%
Simon Hepworth	58%	55%
Richard Pearson ⁽ⁱ⁾	62%	-
Bruce Rosengarten ⁽ⁱⁱ⁾	-	38%
Louise Warner	63%	52%
Average⁽ⁱⁱⁱ⁾	60%	48%

Notes:

- (i) Mr Pearson commenced in August 2017 and received a pro-rated STI for this year.
- (ii) Mr Rosengarten ceased employment due to redundancy in April 2017 and was not eligible for a STI award in 2017.
- (iii) 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. 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 Non-executive Directors do not participate in any Caltex incentive or retirement plan.

Remuneration Report continued

4. Non-executive Director fees continued

4b. Board and Committee fees for 2017

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 9. 2017 Non-executive Director fees

The table below outlines the 2017 Non-executive Director fees. There were no increases to Non-executive Director fees for 2017.

	Board		Committees ⁽ⁱ⁾	
	Chairman	Member	Committee Chairman	Member
2017 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 paid superannuation of 9.5% for Non-executive Directors in addition to the above fees in 2017.

4c. Remuneration table

Table 10. Non-executive Director fees in 2017 (statutory disclosures)

The following table sets out the audited Non-executive Director fees in 2016 and 2017 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.

Dollars	Primary		Post Employment	Other Long Term	Total
	Salary and fees	Non-monetary benefits	Super-annuation ⁽ⁱ⁾	Other	
Current Non-executive Directors					
Steven Gregg (Chairman)					
2017	299,774	–	28,479	–	328,253
2016	195,258	–	18,549	–	213,808
Trevor Bourne					
2017	218,120	1,061	20,721	–	239,902
2016	220,551	761	20,952	–	242,265
Melinda Conrad					
2017	158,354	90	15,044	–	173,488
2016	–	–	–	–	–
Bruce Morgan					
2017	218,120	899	20,721	–	239,741
2016	220,551	791	20,952	–	242,295
Barbara Ward AM					
2017	218,120	181	20,721	–	239,023
2016	218,120	197	20,721	–	239,039
Penny Winn					
2017	188,707	–	17,927	–	206,634
2016	179,689	–	17,070	–	196,760
Former Non-executive Directors					
Greig Gailey (Chairman)					
2017	328,240	325	31,183	–	359,748
2016	507,017	430	48,167	–	555,614
Total: Non-executive Directors					
2017	1,629,436	2,556	154,796	–	1,786,788
2016	1,541,187	2,179	146,412	–	1,689,779

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 11. 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.

	Held at 31 Dec 2016	Purchased	Vested	Sold	Held at 31 Dec 2017
Directors					
Steven Gregg	-	-	-	-	-
Trevor Bourne	5,395	-	-	-	5,395
Melinda Conrad	-	5,000	-	-	5,000
Bruce Morgan	10,500	-	-	-	10,500
Barbara Ward AM	5,000	-	-	-	5,000
Penny Winn	4,911	1,000	-	-	5,911
Greig Gailey	5,000	500	-	-	5,500
Senior Executives					
Julian Segal	222,930	-	137,186	(57,200)	302,916
Simon Hepworth	17,193	-	30,791	(22,500)	25,484
Richard Pearson	-	-	-	-	-
Bruce Rosengarten	21,321	-	28,964	(50,285)	21,321
Louise Warner	451	-	-	-	451

	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 AM	-	5,000	-	-	5,000
Penny Winn	1,261	3,650	-	-	4,911
Senior Executives					
Julian Segal	141,906	-	129,638	(48,614)	222,930
Simon Hepworth	23,681	-	28,512	(35,000)	17,193
Bruce Rosengarten	4,389	-	16,932	-	21,321
Louise Warner	451	-	-	-	451

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 2017 (2016: nil).

Directors' interests

The directors' relevant interests in the shares of Caltex Australia Limited at 31 December 2017 are set out in the following table.

Director	Shareholding	Nature of interest
Steven Gregg	Nil	N/a
Julian Segal	302,916 shares 324,017 performance rights	Direct interest (236,210 shares) Indirect interest (66,706 shares) Mr Segal also has a direct interest in 324,017 performance rights
Trevor Bourne	5,395 shares	Direct interest (2,395 shares) Indirect interest (3,000 shares)
Melinda Conrad	5,000 shares	Indirect interest
Bruce Morgan	10,500 shares	Indirect interest
Barbara Ward AM	5,000 shares	Direct interest
Penny Winn	5,911 shares	Indirect interest

Note:

No director has acquired or disposed of any relevant interests in the company's shares in the period from 1 January 2018 to the date of this Annual Report.

Board and Committee meetings

The Caltex Board met 25 times during the year ended 31 December 2017. In addition, directors attended Board strategy sessions and workshops, site visits and special purpose committee meetings during the year.

In 2017, the Board convened the following standing committees:

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

The number of Board and Committee meetings attended by each director during 2017 is set out in the following table:

Director	Board ⁽ⁱ⁾		Audit Committee		Human Resources Committee		Nomination Committee		OHS & Environmental Risk Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Current directors										
Steven Gregg	25	25	3	3	–	–	4	4	1	1
Julian Segal	25	25	–	–	–	–	–	–	–	–
Trevor Bourne	25	25	–	–	5	5	4	4	4	4
Melinda Conrad	22	22	1	1	–	–	3	2	3	3
Bruce Morgan	25	23	4	4	–	–	4	4	4	4
Barbara Ward AM	25	25	4	4	5	5	4	4	–	–
Penny Winn	25	25	–	–	5	5	4	4	1	1

Notes:

- (i) Includes out of session meetings. Excludes strategy workshops, 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) A number of directors also participated in Board Committees convened for special purposes.

Shares and interests

The total number of ordinary shares on issue at the date of this report and during 2017 is 261 million shares (2016: 261 million shares). The total number of performance rights on issue at the date of this report is 1,178,816 (2016: 1,296,263). 582,965 performance rights were issued during 2017 (2016: 460,515). 369,653 performance rights vested or lapsed during the year (2016: 646,253). 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 2017.

Non-audit services

KPMG is the external auditor.

In 2017, KPMG performed non-audit services for Caltex 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 Caltex during the year ended 31 December 2017:

- for non-audit services – total fees of \$265,100 (2016: \$247,300); these services included taxation services (\$260,000) and other assurance services (\$5,100), and
- for audit services – total fees of \$1,079,200 (2016: \$1,082,700).

The Board has received a written advice from the Audit Committee in relation to the independence of KPMG, as external auditor, for 2017. 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 Group during the year ended 31 December 2017 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 2017 by KPMG did not compromise the auditor independence requirements of the *Corporations Act* for the following reasons:
 - the provision of non-audit services in 2017 was consistent with the Board's policy on the provision of services by the external auditor
 - the non-audit services provided in 2017 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 2017 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 EGM Legal and Corporate Affairs, she is responsible for providing legal advice to Caltex's Board, CEO and broader leadership team.

Ms Stoyles has more than 20 years' experience in advising on competitor, commercial and corporate head office legal issues. 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 and is a member of the Australian Institute of Company Directors.

Kara Nicholls

Ms Nicholls has over 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, and a member of the Governance Institute of Australia's Legislative Review 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.

Rounding of amounts

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

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



Steven Gregg
Chairman



Julian Segal
Managing Director & CEO

Sydney, 27 February 2018

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 of Caltex Australia Limited for the financial year ended 31 December 2017 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

Greg Boydell

Partner

Sydney

27 February 2018

Directors' Declaration

In the opinion of the directors of Caltex Australia Limited (the company):

- a. the financial statements and notes that are contained in pages 77 to 119 and the Remuneration Report set out on pages 50 to 69 are in accordance with the *Corporations Act 2001*, including
 - i. giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the financial year ended on that date, and
 - ii. complying with Australian Accounting Standards, the *Corporations Regulations 2001*, and
- b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable
- c. 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 as identified in note F1 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 described in note F1, and
- 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 2017.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the Managing Director & CEO and the Chief Financial Officer for the financial year ended 31 December 2017.

Signed in accordance with a resolution of the directors:



Steven Gregg
Chairman



Julian Segal
Managing Director & CEO

Sydney, 27 February 2018



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 2017 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 2017;
- 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 judgement, 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\$345,097k)

Refer to Note C6 to the Financial Report

The key audit matter

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.

This is influenced by:

- 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.

How the matter was addressed in our audit

Our audit procedures to critically appraise management's determination of site remediation and dismantling provisions included:

- 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

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 judgement 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:

- 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
- judgement 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.

How the matter was addressed in our audit

Our audit procedures included:

- working with our tax specialists to evaluate documentation prepared by the Group's internal and external advisers 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.

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 and whether the use of the going concern basis of accounting is appropriate. 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_responsibilities/ar1.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 2017. In our opinion, the Remuneration Report of Caltex Australia Limited for the year ended 31 December 2017 complies with *Section 300A of the Corporations Act 2001*.

Directors' 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

Greg Boydell
Partner

Sydney
27 February 2018

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Consolidated Income Statement

for the year ended 31 December 2017

Thousands of dollars	Note	2017	2016
Revenue	B1	21,398,251	17,933,201
Replacement cost of goods sold (excluding product duties and taxes and inventory gains)		(14,143,091)	(11,154,208)
Product duties and taxes		(5,112,441)	(4,908,353)
Inventory gains		17,707	122,329
Cost of goods sold – historical cost		(19,237,825)	(15,940,232)
Gross profit		2,160,426	1,992,969
Other income	B1	2,073	1,805
Net foreign exchange losses		(39,071)	(3,955)
Selling and distribution expenses		(1,024,708)	(923,800)
General and administration expenses		(168,223)	(132,066)
Results from operating activities		930,497	934,953
Finance costs		(70,102)	(79,623)
Finance income		3,202	7,051
Net finance costs	B2	(66,900)	(72,572)
Share of net (loss)/profit of entities accounted for using the equity method	F3.4	(151)	1,382
Profit before income tax expense		863,446	863,763
Income tax expense	E1	(242,694)	(253,283)
Net profit		620,752	610,480
Profit attributable to:			
Equity holders of the parent entity		619,085	609,940
Non-controlling interest		1,667	540
Net profit		620,752	610,480
Basic and diluted earnings per share:			
Historical cost – cents per share	B4	237.4	231.6

The consolidated income statement for the year ended 31 December 2017 includes significant items totalling a net \$24 million loss before tax (\$14 million loss after tax) (2016: nil). Details of these items are disclosed in note B1.

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

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

Thousands of dollars	2017	2016
Profit for the period	620,752	610,480
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Actuarial gain/(loss) on defined benefit plans	3,519	(220)
Tax on items that will not be reclassified to profit or loss	(1,056)	66
Total items that will not be reclassified to profit or loss	2,463	(154)
Items that may be reclassified subsequently to profit or loss:		
Foreign operations – foreign currency translation differences	(29,577)	6,698
Net change in fair value of net investment hedges	1,045	–
Effective portion of changes in fair value of cash flow hedges	(45,221)	(595)
Net change in fair value of cash flow hedges reclassified to profit or loss	45,294	893
Tax on items that may be reclassified subsequently to profit or loss	(2)	(89)
Total items that may be reclassified subsequently to profit or loss	(28,461)	6,907
Other comprehensive income for the period, net of income tax	(25,998)	6,753
Total comprehensive income for the period	594,754	617,233
Attributable to:		
Equity holders of the parent entity	593,087	616,693
Non-controlling interest	1,667	540
Total comprehensive income for the period	594,754	617,233

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 2017

Thousands of dollars	Note	2017	2016
Current assets			
Cash and cash equivalents		44,521	244,857
Receivables	C1	922,420	747,585
Inventories	C2	1,694,915	1,080,920
Current tax assets		-	9,524
Other		65,767	60,769
Total current assets		2,727,623	2,143,655
Non-current assets			
Receivables	C1	10,887	2,555
Investments accounted for using the equity method	F3	11,360	10,394
Intangibles	C3	516,866	195,335
Property, plant and equipment	C4	2,818,353	2,690,865
Deferred tax assets	E2	244,073	238,083
Employee benefits	C7	3,233	432
Other		22,825	21,415
Total non-current assets		3,627,597	3,159,079
Total assets		6,355,220	5,302,734
Current liabilities			
Payables	C5	1,735,254	1,079,389
Interest bearing liabilities	D1	270,269	134
Current tax liabilities		151,948	167,569
Employee benefits	C7	93,677	96,379
Provisions	C6	107,521	158,985
Total current liabilities		2,358,669	1,502,456
Non-current liabilities			
Payables	C5	10,855	8,356
Interest bearing liabilities	D1	588,652	698,340
Employee benefits	C7	37,318	38,637
Provisions	C6	251,825	244,730
Total non-current liabilities		888,650	990,063
Total liabilities		3,247,319	2,492,519
Net assets		3,107,901	2,810,215
Equity			
Issued capital	D5	524,944	524,944
Treasury stock		(1,210)	(344)
Reserves		(39,511)	(7,955)
Retained earnings		2,610,195	2,280,754
Total parent entity interest		3,094,418	2,797,399
Non-controlling interest		13,483	12,816
Total equity		3,107,901	2,810,215

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

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 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
Balance at 1 January 2017	524,944	(344)	15,620	(1,267)	(22,308)	2,280,754	2,797,399	12,816	2,810,215
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	619,085	619,085	1,667	620,752
Total other comprehensive income	-	-	(28,532)	71	-	2,463	(25,998)	-	(25,998)
Total comprehensive income for the year	-	-	(28,532)	71	-	621,548	593,087	1,667	594,754
Own shares acquired, net of tax	-	(10,540)	-	-	3,122	-	(7,418)	-	(7,418)
Shares vested to employees	-	9,674	-	-	(9,674)	-	-	-	-
Expense on equity settled transactions	-	-	-	-	3,457	-	3,457	-	3,457
Dividends to shareholders	-	-	-	-	-	(292,107)	(292,107)	(1,000)	(293,107)
Balance at 31 December 2017	524,944	(1,210)	(12,912)	(1,196)	(25,403)	2,610,195	3,094,418	13,483	3,107,901

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 2017

Thousands of dollars	Note	2017	2016
Cash flows from operating activities			
Receipts from customers		23,693,457	20,025,940
Payments to suppliers, employees and governments		(22,654,228)	(19,014,981)
Shares acquired for vesting employee benefits		(10,540)	(10,952)
Dividends and disbursements received		300	400
Interest received		3,125	7,077
Interest and other finance costs paid		(57,693)	(65,687)
Income taxes paid		(239,389)	(13,595)
Net operating cash inflows	G5.2	735,032	928,202
Cash flows from investing activities			
Purchase of investment		-	(17,686)
Purchases of businesses, net of cash acquired	F2	(425,902)	-
Purchases of property, plant and equipment		(324,077)	(290,288)
Major cyclical maintenance		(38,820)	(32,933)
Purchases of intangibles		(49,004)	(30,241)
Net proceeds from sale of property, plant and equipment		37,455	13,865
Net investing cash outflows		(800,348)	(357,283)
Cash flows from financing activities			
Proceeds from borrowings		5,001,095	6,630,000
Repayments of borrowings		(4,842,447)	(6,630,000)
Repayment of finance lease principal		(561)	(342)
Dividends paid to non-controlling interest		(1,000)	-
Payments for shares bought back		-	(270,079)
Dividends paid		(292,107)	(319,405)
Net financing cash outflows		(135,020)	(589,826)
Net (decrease) in cash and cash equivalents		(200,336)	(18,907)
Cash and cash equivalents at the beginning of the year		244,857	263,764
Cash and cash equivalents at the end of the year	G5.1	44,521	244,857

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 2017

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 2017 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. Caltex 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 27 February 2018.

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 2018 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 2017

This section highlights the performance of the Caltex 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	2017	2016
Revenue		
Sale of goods	21,072,140	17,618,637
Other revenue		
Rental income	73,315	72,766
Royalties and franchise income	104,131	115,890
Transaction and merchant fees	101,142	96,280
Other	47,523	29,628
Total other revenue	326,111	314,564
Total revenue	21,398,251	17,933,201
Other income		
Net gain on sale of property, plant and equipment	2,073	1,805

Significant items

During 2017, there were net significant items of \$24 million loss (\$14 million loss after tax). The significant items are a result of the announced establishment of the Franchisee Employee Assistance Fund (\$20 million), restructuring and redundancy costs associated with the capability and competitiveness project Quantum Leap (\$23 million), offset by the profit on sale of Caltex's fuel oil business and the utilisation of prior period capital losses to partially offset tax expense on the profit on sale.

No significant items were recognised in the year ended 31 December 2016.

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	2017	2016
Finance costs		
Interest expense	55,883	61,083
Finance charges on capitalised leases	-	220
Unwinding of discount on provisions	16,686	19,880
Less: capitalised finance costs	(2,467)	(1,560)
Finance costs	70,102	79,623
Finance income	(3,202)	(7,051)
Net finance costs	66,900	72,572
Depreciation and amortisation		
Depreciation of:		
Buildings	7,680	10,941
Plant and equipment	188,874	172,468
	196,554	183,409
Amortisation of:		
Leasehold property	8,392	8,279
Intangibles	24,217	17,608
	32,609	25,887
Total depreciation and amortisation	229,163	209,296
Selected expenses		
Total personnel expenses	375,111	344,381

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 continued
 For the year ended 31 December 2017

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	
	2017	2016	2017	2016	2017	2016
Gross segment revenue	20,468,078	17,142,594	65,005	48,542	20,533,083	17,191,136
Product duties and taxes	(5,112,441)	(4,908,353)	-	-	(5,112,441)	(4,908,353)
External segment revenue	15,355,637	12,234,241	65,005	48,542	15,420,642	12,282,783
Inter-segment revenue	-	-	4,324,929	3,561,988	4,324,929	3,561,988
Total segment revenue	15,355,637	12,234,241	4,389,934	3,610,530	19,745,571	15,844,771
Share of profit of associates and joint ventures	(151)	1,382	-	-	(151)	1,382
Depreciation and amortisation	(163,715)	(147,540)	(59,711)	(56,192)	(223,426)	(203,732)
Replacement Cost of Sales Operating Profit (RCOP) before interest and income tax	732,973	709,435	308,300	205,474	1,041,273	914,909
Other material items: Inventory gains	17,707	122,329	-	-	17,707	122,329
Capital expenditure (including acquisitions)	(754,682)	(301,156)	(52,271)	(43,158)	(806,953)	(344,314)

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

Thousands of dollars	2017	2016
Revenues		
Total revenue for reportable segments	19,745,571	15,844,771
Product duties and taxes	5,112,441	4,908,353
Elimination of inter-segment revenue	(4,324,929)	(3,561,988)
Total reportable segments gross revenue	20,533,083	17,191,136
Non-fuel income and rebates	539,057	427,501
Other revenue	326,111	314,564
Consolidated revenue	21,398,251	17,933,201
Profit or loss		
Segment RCOP before interest and income tax, excluding significant items	1,041,273	914,909
Other expenses	(106,351)	(101,443)
RCOP before interest and income tax, excluding significant items	934,922	813,466
Significant items excluded from profit or loss reported to the chief operating decision maker:		
Sale of Fuel Oil Business	19,050	-
Establishment of Franchisee Employee Assistance Fund	(20,000)	-
Quantum Leap Restructuring Costs	(23,000)	-
RCOP before interest and income tax	910,972	813,466
Inventory gains	17,707	122,329
Consolidated historical cost profit before interest and income tax	928,679	935,795
Net financing costs	(66,900)	(72,572)
Net profit attributable to non-controlling interest	1,667	540
Consolidated profit before income tax	863,446	863,763

Thousands of dollars	Reportable segment totals	Other	Consolidated totals
Other material items 2017			
Depreciation and amortisation	(223,426)	(5,737)	(229,163)
Inventory gains	17,707	-	17,707
Capital expenditure	(806,953)	(4,207)	(811,160)
Other material items 2016			
Depreciation and amortisation	(203,732)	(5,564)	(209,296)
Inventory losses	122,329	-	122,329
Capital expenditure	(344,314)	(10,708)	(355,022)

Notes to the Financial Statements

B Results for the year continued

For the year ended 31 December 2017

B3 Segment reporting continued

B3.4 Geographical segments

The Group operates in Australia, New Zealand and Singapore. Revenue is predominantly generated in Australia and the Group's non-financial non-current assets are predominantly located in the Group's country of domicile, Australia. Following the acquisition of Gull New Zealand, the Group in 2017 has generated A\$203,500,000 revenue and holds A\$304,800,000 of non-current assets in New Zealand.

B3.5 Major customer

Revenues from one customer of the Group's Supply and Marketing segment represent approximately \$3,400,000,000 (2016: \$3,100,000,000) of the Group's total gross sales revenue (excluding product duties and taxes).

B3.6 Revenue from products and services

Thousands of dollars	2017	2016
Petrol	5,856,264	4,958,773
Diesel	6,705,228	5,155,048
Jet	1,735,383	1,367,969
Lubricants	216,747	201,133
Specialty and other products	187,802	193,681
Crude	719,218	406,179
Non-fuel income and rebates	539,057	427,501
Product duties and taxes	5,112,441	4,908,353
Other revenue	326,111	314,564
	21,398,251	17,933,201

B4 Earnings per share

Cents per share	2017	2016
Historical cost	237.4	231.6
RCOP excluding significant items	238.0	199.0

The calculation of historical cost basic earnings per share for the year ended 31 December 2017 was based on the net profit attributable to ordinary shareholders of the parent entity of \$619,085,000 (2016: \$609,940,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2017 of 261 million shares (2016: 263 million shares).

The calculation of RCOP excluding significant items basic earnings per share for the year ended 31 December 2017 was based on the net RCOP profit attributable to ordinary shareholders of the parent entity of \$620,816,000 (2016: \$524,310,000) and a weighted average number of ordinary shares outstanding as disclosed during the year ended 31 December 2017 of 261 million shares (2016: 263 million shares). RCOP is calculated by adjusting the statutory profit for significant items and inventory gains and losses as follows:

Thousands of dollars	2017	2016
Net profit after tax attributable to equity holders of the parent entity	619,085	609,940
Adjust: significant items losses after tax	14,126	-
Adjust: inventory (gains) after tax	(12,395)	(85,630)
RCOP excluding significant items after tax	620,816	524,310

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
2017				
Interim 2017	6 October 2017	Franked	60	156,486
Final 2016	31 March 2017	Franked	52	135,621
Total amount			112	292,107
2016				
Interim 2016	30 September 2016	Franked	50	130,405
Final 2015	4 April 2016	Franked	70	189,000
Total amount			120	319,405

Subsequent events

Since 31 December 2017, the Directors declared the following dividend. The dividend has not been provided for and there are no income tax consequences for the Group in relation to 2017.

Final 2017	6 April 2018	Franked	61	159,094
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B5.2 Dividend franking account

Thousands of dollars	2017	2016
30% franking credits available to shareholders of Caltex Australia Limited for subsequent financial years	936,078	820,375

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 \$68,183,321 (2016: \$58,123,487).

Notes to the Financial Statements

C Operating assets and liabilities

For the year ended 31 December 2017

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	2017	2016
Current		
Trade debtors	736,644	659,115
Allowance for impairment	(6,255)	(6,550)
	730,389	652,565
Associated entities	10,398	11,129
Other related entities	2,054	1,217
Other debtors	179,579	82,674
	922,420	747,585
Non-current		
Other loans	10,887	2,555

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 2017, current trade receivables of the Group with a nominal value of \$6,255,000 (2016: \$6,550,000) 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 2017, trade receivables of \$27,922,000 (2016: \$34,457,000) 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	2017	2016
Past due 0 – 30 days	25,735	32,289
Past due 31 – 60 days	2,187	2,168
	27,922	34,457

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

Thousands of dollars	2017	2016
At 1 January	6,550	8,235
Provision for impairment recognised during the year	2,216	2,266
Receivables written off during the year as uncollectible	(2,511)	(3,951)
At 31 December	6,255	6,550

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	2017	2016
Crude oil and raw materials	409,910	172,997
Inventory in process	51,882	36,225
Finished goods	1,216,592	856,253
Materials and supplies	16,531	15,445
At 31 December	1,694,915	1,080,920

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 2017 and 31 December 2016.

C3 Intangibles

Thousands of dollars	Note	Goodwill	Rights and licences	Software	Total
Cost					
At 1 January 2017		146,460	32,878	164,477	343,815
Acquisitions through business combinations	F2	284,600	37,896	-	322,496
Additions		-	31	48,973	49,004
Disposals		(4,659)	(1,348)	(28,152)	(34,159)
Foreign Currency Translation		(10,653)	(1,820)	(375)	(12,848)
Balance at 31 December 2017		415,748	67,637	184,923	668,308
Cost					
At 1 January 2016		147,638	32,100	103,007	282,745
Additions		-	778	29,463	30,241
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
Amortisation					
At 1 January 2017		(16,391)	(19,501)	(112,588)	(148,480)
Amortisation for the year		-	(6,094)	(18,123)	(24,217)
Disposals		-	1,060	20,032	21,092
Foreign Currency Translation		-	-	163	163
Balance at 31 December 2017		(16,391)	(24,535)	(110,516)	(151,442)
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)

Notes to the Financial Statements
C Operating assets and liabilities continued
For the year ended 31 December 2017

C3 Intangibles continued

Thousands of dollars	Goodwill	Rights and licences	Software	Total
Carrying amount				
At 1 January 2017	130,069	13,377	51,889	195,335
Balance at 31 December 2017	399,357	43,102	74,407	516,866
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

The amortisation charge of \$24,217,000 (2016: \$17,608,000) 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 and indefinite life intangibles

Total goodwill and indefinite life intangibles at 31 December 2017 is \$399,357,000 and \$20,316,000 respectively. This is allocated to each group of cash-generating units as follows. Goodwill: Gull NZ \$221,816,000, Supply and Marketing: \$177,541,000; indefinite life intangibles: Gull NZ \$19,537,000, Supply and Marketing \$779,000. Goodwill and indefinite life intangibles have been allocated to the group of cash-generating units containing all the assets in the integrated value chain (inclusive of retail sites, depots, pipelines and terminals).

The recoverable amount of the group of cash-generating units including goodwill and indefinite life intangibles 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 12.9% p.a. The cash flows have been extrapolated using a constant growth rate of 1 – 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 2017 (2016: 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	1 – 2.5%
Discount rate	The discount rate is disclosed above

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	2017	2016
Freehold land		
At cost	440,289	376,079
Accumulated impairment losses	(37,284)	(37,284)
Net carrying amount	403,005	338,795
Buildings		
At cost	693,770	661,591
Accumulated depreciation and impairment losses	(261,270)	(253,591)
Net carrying amount	432,500	408,000
Leasehold property		
At cost	209,112	186,977
Accumulated amortisation	(109,620)	(101,228)
Net carrying amount	99,492	85,749
Plant and equipment		
At cost	5,581,002	5,464,093
Accumulated depreciation and impairment losses	(4,107,544)	(3,918,669)
Net carrying amount	1,473,458	1,545,424
Capital projects in progress		
At cost	410,389	319,127
Accumulated impairment losses	(491)	(6,230)
Net carrying amount	409,898	312,897
Total net carrying amount	2,818,353	2,690,865

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 evaluated as set out 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 Caltex 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.

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.

Notes to the Financial Statements
C Operating assets and liabilities continued
 For the year ended 31 December 2017

C4 Property, plant and equipment continued

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	2017	2016
Freehold land		
Carrying amount at the beginning of the year	338,795	368,624
Additions	54,777	29,362
Acquisition through business combination	14,077	-
Disposals	(4,644)	(4,913)
Reclassification	-	(54,278)
Carrying amount at the end of the year	403,005	338,795
Buildings		
Carrying amount at the beginning of the year	408,000	353,760
Additions	9,986	3,392
Disposals	(12,796)	(6,160)
Transfers from capital projects in progress	34,230	67,949
Depreciation	(7,680)	(10,941)
Reclassification	760	-
Carrying amount at the end of the year	432,500	408,000
Leasehold property		
Carrying amount at the beginning of the year	85,749	76,423
Additions	5,089	3,704
Acquisition through business combination	20,929	-
Disposals	(4,097)	(4,057)
Transfers from capital projects in progress	788	17,958
Amortisation	(8,392)	(8,279)
Foreign Currency Translation	(574)	-
Carrying amount at the end of the year	99,492	85,749
Plant and equipment		
Carrying amount at the beginning of the year	1,545,424	1,442,786
Additions	47,434	75,254
Acquisition through business combination	39,290	-
Disposals	(90,311)	(31,595)
Transfers from capital projects in progress	116,059	175,537
Depreciation	(188,874)	(172,468)
Foreign Currency Translation	4,436	-
Reclassification	-	55,910
Carrying amount at the end of the year	1,473,458	1,545,424
Capital projects in progress		
Carrying amount at the beginning of the year	312,897	361,272
Additions	245,611	211,509
Borrowing costs capitalised	2,467	1,560
Transfers to buildings, leased property, plant and equipment	(151,077)	(261,444)
Carrying amount at the end of the year	409,898	312,897

C5 Payables

Thousands of dollars	2017	2016
Current		
Trade creditors – unsecured		
– Related entities	–	–
– Other corporations and persons	1,361,704	774,633
Other creditors and accrued expenses	373,550	304,756
	1,735,254	1,079,389
Non-current		
Other creditors and accrued expenses	10,855	8,356

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 2017	385,519	18,196	403,715
Provisions made during the year	7,460	9,337	16,797
Provisions used during the year	(62,410)	(13,284)	(75,694)
Discounting movement	14,528	–	14,528
Balance at 31 December 2017	345,097	14,249	359,346
Current	97,194	10,327	107,521
Non-current	247,903	3,922	251,825
	345,097	14,249	359,346

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.

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.

C6 Provisions continued

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	2017	2016
Non-current assets		
Defined benefit superannuation asset	3,233	432
Total asset for employee benefits	3,233	432
Current liabilities		
Liability for annual leave	29,570	32,091
Liability for long service leave	4,823	9,219
Liability for termination benefits	13,864	16,114
Bonus accrued	45,420	38,955
Total current liability for employee benefits	93,677	96,379
Non-current liabilities		
Liability for long service leave	35,198	35,479
Defined benefit superannuation obligation	2,120	3,158
Total non-current liability for employee benefits	37,318	38,637
Total net liability for employee benefits	127,762	134,584

Notes to the Financial Statements
D Capital, funding and risk management
 For the year ended 31 December 2017

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	Note	2017	2016
Current			
Bank facilities		120,154	-
Domestic medium term notes		149,923	-
Lease liabilities	G1	192	134
		270,269	134
Non-current			
Bank facilities		588,495	-
Domestic medium term notes		-	149,836
Subordinated notes		-	547,728
Lease liabilities	G1	157	776
		588,652	698,340

Interest bearing liabilities are initially recorded at the amount of proceeds received (fair value) less transaction costs. After that date the liability is amortised to face value at maturity using an effective interest rate method with any gains or losses recognised in the income statement.

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 reduce potential adverse effects on 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 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 currently finances its operations through a variety of financial instruments including bank facilities, domestic medium term 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.

D2 Risk management continued

Hedge accounting

(a) Cash flow hedges

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

The cumulative gain or loss in equity is transferred to the consolidated 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, the cumulative gain or loss existing in equity at the time remains in equity and is recognised when the forecast transaction ultimately affects profit or loss. 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 consolidated income statement.

(b) Net investment hedges

The Group designates a portion of the New Zealand dollar bank facilities as a net investment hedge of Gull NZ assets. Foreign exchange differences arising from the translation of the net investment in foreign operations, and of related hedges that are effective, are recognised in other comprehensive income and presented in the foreign currency translation reserve within equity. They are released to the consolidated income statement upon disposal of the foreign operation.

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 three and five years.

At 31 December 2017, the fixed rates under these swap contracts varied from 2.3% p.a. to 2.5% p.a. (2016: 2.5% p.a. to 3.4% p.a.), a weighted average rate of 2.4% p.a. (2016: 2.7% p.a.).

The net fair value of interest rate swap contracts at 31 December 2017 was a \$1,000,000 loss (2016: \$556,000 loss).

Interest rate sensitivity analysis

At 31 December 2017, 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	2017		2016	
	Post-tax profit	Hedge reserve	Post-tax profit	Hedge reserve
Interest rates decrease by 1%	4,600	(10,900)	2,100	(4,400)
Interest rates increase by 1%	(4,600)	10,400	(2,100)	4,200

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	Note	2017	2016
Financial assets			
Cash at bank and on hand		44,521	244,857
		44,521	244,857
Financial liabilities			
<i>Variable rate borrowings</i>			
Bank facilities	D1	428,649	-
Subordinated note	D1	-	417,728
<i>Fixed interest rate – repricing dates:</i>			
Twelve months or less	D1	150,115	50,134
One to five years	D1	280,157	230,612
		858,921	698,474

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 and investments.

Foreign exchange contracts (forwards, swaps and options) are used to hedge foreign currency exposure in accordance with Group Treasury Policy. The Group also enters into foreign exchange contracts to cover major capital expenditure items. As at 31 December 2017, the total fair value of all outstanding foreign exchange contracts (forwards, swaps and options) amounted to a \$8,913,000 loss (2016: \$9,415,000 gain).

Foreign exchange rate sensitivity analysis

At 31 December 2017, had the Australian dollar strengthened/weakened by 10% against the following currencies respectively (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	2017		2016	
	Post-tax profit	Hedge reserve	Post-tax profit	Hedge reserve
AUD strengthens against US Dollar 10%	(8,000)	(100)	(20,500)	(300)
AUD weakens against US Dollar 10%	9,700	200	30,400	300
AUD strengthens against NZ Dollar 10%	-	13,200	-	-
AUD weakens against NZ Dollar 10%	-	(16,200)	-	-
AUD strengthens against Philippine Peso 10%	-	(1,000)	-	-
AUD weakens against Philippine Peso 10%	-	8,600	-	-

Exposure to foreign exchange risk

Thousands of dollars (Australian dollar equivalent amounts)	2017				
	US Dollar	NZ Dollar	Philippine Peso	Australian Dollar	Total
Bank facilities	-	(302,149)	-	(406,500)	(708,649)
Cash and cash equivalents	21,909	8,854	-	13,758	44,521
Trade receivables	186,358	8,928	-	738,021	933,307
Trade payables	(1,316,461)	(22,824)	-	(367,267)	(1,706,552)
Forward exchange contracts (forwards, swaps and options)	(9,888)	-	975	-	(8,913)
Crude and finished product swap contracts	(30,644)	-	-	-	(30,644)

Thousands of dollars (Australian dollar equivalent amounts)	2016				
	US Dollar	NZ Dollar	Philippine Peso	Australian Dollar	Total
Bank facilities	-	-	-	-	-
Cash and cash equivalents	154,975	-	-	89,882	244,857
Trade receivables	141,762	-	-	608,378	750,140
Trade payables	(668,847)	-	-	(428,313)	(1,097,160)
Forward exchange contracts (forwards, swaps and options)	9,415	-	-	-	9,415
Crude and finished product swap contracts	7,800	-	-	-	7,800

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 2017, Caltex's policy has been not to hedge refiner margins. As at 31 December 2017, the total fair value of all outstanding crude and finished product swap contracts amounted to a \$30,644,000 loss (2016: \$7,800,000 gain).

Commodity price sensitivity analysis

At 31 December 2017, 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	2017		2016	
	Post-tax profit	Hedge reserve	Post-tax profit	Hedge reserve
Commodity prices decrease 10%	35,200	-	9,500	-
Commodity prices increase 10%	(35,200)	-	(9,500)	-

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, other contingent instruments 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 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 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.

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.

	2017			2016		
Thousands of dollars	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	(799,166)	787,728	(11,438)	(796,050)	804,215	8,165
One to five years	(559)	1,106	547	(1,788)	2,291	503
			(10,891)			8,668

	2017		2016	
Thousands of dollars	Other financial liabilities	Net other financial (liabilities) /assets	Other financial liabilities	Net other financial (liabilities) /assets
Non-derivative financial instruments				
Less than one year		(2,041,587)	(2,041,587)	(1,132,218)
One to five years		(599,514)	(599,514)	(329,119)
Over five years		-	-	(1,234,616)
			(2,641,101)	(2,695,953)

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

Thousands of dollars	2017	2016
Financing arrangements		
Expiring beyond one year	953,664	1,100,000
	953,664	1,100,000

Notes to the Financial Statements
D Capital, funding and risk management continued
 For the year ended 31 December 2017

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 2017, 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 a number of key ratios, with the primary metric being 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 2017 and 31 December 2016 were as follows:

Thousands of dollars	2017	2016
Total interest bearing liabilities	858,921	698,474
Less: cash and cash equivalents	(44,521)	(244,857)
Net debt	814,400	453,617
Total equity	3,107,901	2,810,215
Total capital	3,922,301	3,263,832
Gearing ratio	20.8%	13.9%

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 2017					
Interest bearing liabilities					
Bank facilities ⁽ⁱ⁾	(708,649)	(707,948)	-	(707,948)	-
Domestic medium term notes ⁽ⁱⁱ⁾	(149,923)	(156,107)	-	(156,107)	-
Subordinated note	-	-	-	-	-
Lease liabilities ⁽ⁱⁱⁱ⁾	(349)	(372)	-	(372)	-
Payables					
Interest rate swaps ^(iv)	(1,000)	(1,000)	-	(1,000)	-
Forward foreign exchange contracts (forwards, swaps and options) ^(iv)	(8,913)	(8,913)	-	(8,913)	-
Crude and finished product swap contracts ^(iv)	(30,644)	(30,644)	-	(30,644)	-
Total	(899,478)	(904,984)	-	(904,984)	-

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					
Bank facilities ⁽ⁱ⁾	-	-	-	-	-
Domestic medium term notes ⁽ⁱⁱ⁾	(149,836)	(175,950)	-	(175,950)	-
Subordinated note	(547,728)	(562,408)	(562,408)	-	-
Lease liabilities ⁽ⁱⁱⁱ⁾	(910)	(1,058)	-	(1,058)	-
Payables					
Interest rate swaps ^(iv)	(556)	(556)	-	(556)	-
Forward foreign exchange contracts (forwards, swaps and options) ^(iv)	9,415	9,415	-	9,415	-
Crude and finished product swap contracts ^(iv)	7,800	7,800	-	7,800	-
Total	(681,815)	(722,757)	(562,408)	(160,349)	-

Estimation of fair values

(i) Bank facilities

The fair value of bank facilities is estimated as the present value of future cash flows using the applicable market rate.

(ii) Domestic medium term notes

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

(iii) Lease liabilities

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

(iv) Derivatives

Interest rate swaps

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

In April 2016, the Group repurchased 9,189,481 shares at a total cost of \$270 million as part of the Group's capital management program. The capital component of the shares repurchased was \$18.5 million.

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

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 for further detail). For each right that vests, Caltex intends to purchase a share on-market following vesting.

Notes to the Financial Statements

E Taxation

For the year ended 31 December 2017

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	2017	2016
Current tax expense:		
Current year	226,065	192,753
Adjustments for prior years	2,958	432
	229,023	193,185
Deferred tax benefit:		
Origination and reversal of temporary differences	21,325	62,192
Benefit of tax losses recognised	-	(6)
Adjustments for prior years	(7,654)	(2,088)
	13,671	60,098
Total income tax expense in the income statement	242,694	253,283

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

Thousands of dollars	2017	2016
Profit before income tax expense	863,446	863,763
Income tax using the domestic corporate tax rate of 30% (2016: 30%)	259,034	259,129
Effect of tax rates in foreign jurisdictions (Decrease) in income tax expense due to:	(6,204)	-
Share of net profit of associated entities	45	(415)
Capital tax losses utilised for which no deferred tax asset was recognised	(3,697)	(3,218)
Research and development allowances	(850)	(1,000)
Deferred tax against equity	-	(23)
Other	(938)	(263)
Income tax over provided in prior years	(4,696)	(927)
Total income tax expense in the income statement	242,694	253,283

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 surrounding the ATO's determination, the Group has estimated the income tax rate on those particular earnings to be 30% for 2016 and 2017, being the Australian corporate income tax rate. The Singaporean corporate income tax rate is 17%; however, due to some of the Group's Singaporean entities' status as a Global Trader Company, specified income of those entities is subject to a lower tax rate. If the outcome of the ATO's decision is in Caltex's favour, an amount of income tax expense recognised to date could be written back in future periods.

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. Subject to the comments contained in note F2, 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 17	Recognised in income	Recognised in equity	Acquired in business combination	Balance at 31 Dec 17
Cash/Receivables	113	24	-	-	137
Inventories	(1,281)	6,127	-	364	5,210
Property, plant and equipment and intangibles	65,234	(25,082)	-	(4,986)	35,166
Goodwill	-	(5,028)	-	25,141	20,113
Payables	12,484	22,043	-	16	34,543
Interest bearing liabilities	3,494	255	(22)	-	3,727
Provisions	160,925	(14,636)	(1,056)	138	145,371
Tax value of recognised tax losses	6	(6)	-	-	-
Other	(2,892)	2,632	20	46	(194)
Net deferred tax asset	238,083	(13,671)	(1,058)	20,719	244,073

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
Goodwill	-	-	-	-	-
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

E2.2 Deferred tax recognised directly in equity

Thousands of dollars	2017	2016
Related to actuarial gains	(1,056)	(66)
Related to derivatives	(22)	89
Related to foreign operations – foreign currency translation differences	20	-
	(1,058)	23

E2.3 Unrecognised deferred tax assets

Thousands of dollars	2017	2016
Capital tax losses	108,990	118,683

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 recognises all current tax balances relating to its wholly owned Australian resident entities included in the tax-consolidated group (TCG). Caltex Australia Limited, in conjunction with the other TCG 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 2017

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 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 2017:

Name	Note	% interest	
		2017	2016
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 (Matraville) 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
CAL Group Holdings NZ Limited	(v)(ix)	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 Limited		100	100
Cooper & Dysart Pty Ltd		100	100
Graham Bailey Pty Ltd	(iii)	100	100
Gull New Zealand Limited	(v)	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 Proprietary Limited		100	100
Newcastle Pipe Line Company Pty 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	
		2017	2016
Real FF Pty Ltd	(iii)	100	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
Terminals New Zealand Limited	(v)(x)	100	-
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 were incorporated in Australia except those noted in (ii) and (v). All trusts were formed in Australia.

(ii) Incorporated in Singapore.

(iii) These companies are parties to a Deed of Cross Guarantee dated 22 December 1992 as amended, varied and restated (DOCG) with Caltex and each other. Real FF Pty Ltd was acceded on 27 April 2017.

(iv) 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) Incorporated in New Zealand.

(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.

(ix) Incorporated on 24 January 2017 and changed its name from Gull Acquisition 1 Limited on 13 April 2017.

(x) Incorporated on 25 January 2017 and changed its name from Gull Acquisition 2 Limited on 13 April 2017.

F1.1 Deed of cross guarantee

Income statement for entities covered by the Deed of Cross Guarantee

Thousands of dollars	2017	2016
Revenue	20,104,855	17,330,238
Cost of goods sold – historical cost	(18,189,919)	(15,542,862)
Gross profit	1,914,936	1,787,376
Other income	2,073	(3,955)
Operating expenses	(1,165,312)	(1,020,018)
Finance costs	(66,900)	(72,572)
Share of profit of equity-accounted investees	(151)	1,382
Profit before income tax expense	684,646	692,213
Income tax expense	(211,810)	(201,291)
Net profit	472,836	490,922
Other comprehensive income for the period, net of income tax	2,534	55
Total comprehensive income for the period	475,370	490,977
Retained earnings at the beginning of the year	2,225,596	2,305,841
Current year earnings	472,836	490,922
Movement in reserves	2,463	(154)
Shares bought back	-	(251,608)
Dividends provided for or paid	(292,107)	(319,405)
Retained earnings at the end of the year	2,408,788	2,225,596

Notes to the Financial Statements
F Group structure continued
For the year ended 31 December 2017

F1 Controlled entities continued

F1.1 Deed of cross guarantee continued

Balance sheet for entities covered by the Deed of Cross Guarantee

Thousands of dollars	2017	2016
Current assets		
Cash and cash equivalents	13,432	116,606
Receivables	618,516	554,769
Inventories	922,355	787,912
Current tax asset	-	9,524
Other	130,392	98,126
Total current assets	1,684,695	1,566,937
Non-current assets		
Receivables	10,887	2,555
Investments accounted for using the equity method	11,360	10,394
Property, plant and equipment	2,713,392	2,598,726
Intangibles	246,104	170,182
Deferred tax assets	233,313	241,457
Employee benefits	3,233	432
Other	20,120	20,856
Total non-current assets	3,238,409	3,044,602
Total assets	4,923,104	4,611,539
Current liabilities		
Payables	732,274	707,515
Interest bearing liabilities	202,124	143
Current tax liabilities	86,086	138,111
Employee benefits	93,677	96,379
Provisions	102,413	156,086
Total current liabilities	1,216,574	1,098,234
Non-current liabilities		
Payables	10,855	8,356
Interest bearing liabilities	500,052	698,340
Employee benefits	37,318	38,637
Provisions	251,353	244,352
Total non-current liabilities	799,578	989,685
Total liabilities	2,016,152	2,087,919
Net assets	2,906,952	2,523,620
Equity		
Issued capital	524,942	524,944
Treasury stock	(1,210)	(344)
Reserves	(25,568)	(23,578)
Retained earnings	2,408,788	2,022,598
Total equity	2,906,952	2,523,620

F2 Business combinations

2017

Gull New Zealand

On 22 December 2016, Caltex entered into an agreement to purchase Gull New Zealand for NZ\$340 million (A\$329 million). 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.

The acquisition was completed on 3 July 2017 and had the following provisional effect on the Group's assets and liabilities:

Thousands of dollars	Recognised values
Intangibles	37,896
Property, plant and equipment	63,295
Inventories	34,790
Other assets	8,257
Liabilities	(38,144)
Net identifiable assets and liabilities	106,094
Goodwill on acquisition	221,816
Consideration transferred	(328,697)
Cash acquired	787
Net cash outflow	(327,910)

Milemaker Petroleum

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

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

Thousands of dollars	Recognised values
Property, plant and equipment	10,220
Inventories	3,888
Deferred tax assets	25,141
Liabilities	(3,621)
Net identifiable assets and liabilities	35,628
Goodwill on acquisition	59,717
Consideration paid, satisfied in cash	(95,345)
Net cash outflow	(95,345)

As part of the acquisition of Milemaker, a deferred tax asset was recognised in respect of future deductible amounts. This deferred tax asset reduces the goodwill on acquisition.

Nashi Sandwich and Coffee Bar

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

Thousands of dollars	Recognised values
Property, plant and equipment	781
Inventories	162
Liabilities	(1,363)
Net identifiable assets and liabilities	(420)
Goodwill on acquisition	3,067
Consideration paid, satisfied in cash	(2,658)
Cash acquired	11
Net cash outflow	(2,647)

2016

There were no material business combinations during 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	
	2017	2016
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 ⁽ⁱⁱⁱ⁾	25	25
Event Group Holdings Pty Limited ⁽ⁱⁱ⁾	49	-
Event Group Holdings Unit Trust ⁽ⁱⁱ⁾	49	-
Geraldton Fuel Company Pty Ltd	50	50
Kitchen Food Company Pty Limited ⁽ⁱⁱ⁾	49	-
Kitchen Food Company Unit Trust ⁽ⁱⁱ⁾	49	-

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

(ii) Effective 3 May 2017.

(iii) Caltex increased interest to 33.33% with effect from 28 December 2017.

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 and the operation of convenience stores.

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
2017	150,167	65	(151)	56,526	43,127	13,399	10,591
2016	115,287	3,790	1,382	30,167	11,038	19,129	9,625

F3.2 Investments in associates continued

Thousands of dollars	2017	2016
Results of associates		
Share of associates' profit before income tax expense	221	1,967
Share of associates' income tax expense	(345)	(590)
Share of associates' net profit	(124)	1,377
Unrealised profit in inventories	(27)	5
Share of associates' net profit – equity accounted	(151)	1,382
Commitments		
Share of associates' operating lease commitments not provided for in the financial report and payable:		
Within one year	394	355
Between one and five years	1,969	1,773
	2,363	2,128
Share of associates' finance lease commitments not provided for in the financial report and payable:		
Within one year	750	958
Between one and five years	1,551	1,132
	2,301	2,090
Future finance charges	(173)	(127)
	2,128	1,963

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
2017	9,426	-	-	4,046	2,123	1,923	769
2016	9,366	-	-	3,483	1,560	1,923	769

Thousands of dollars	2017	2016
Joint ventures' assets and liabilities		
Current assets	1,660	1,759
Non-current assets	2,386	1,724
Total assets	4,046	3,483
Current liabilities	2,123	1,560
Non-current liabilities	-	-
Total liabilities	2,123	1,560
Commitments		
Share of joint ventures' operating lease commitments not provided for in the financial report and payable:		
Within one year	-	1,100
Between one and five years	-	456
	-	1,556

F3 Equity accounted investees continued

F3.4 Reconciliation to income statement

Thousands of dollars	2017	2016
Share of net profit/(loss) of associates accounted for using the equity method	(151)	1,382
Share of net profit of joint ventures accounted for using the equity method	-	-
	(151)	1,382

F3.5 Reconciliation to balance sheet

Thousands of dollars	2017	2016
Investment in associates accounted for using the equity method	10,591	9,625
Investment in joint ventures accounted for using the equity method	769	769
	11,360	10,394

2018 – Proposed equity investment

SEAOIL Philippines Inc.

On 21 December 2017, Caltex announced the acquisition of a 20% ownership interest in SEAOIL and supply fuel to SEAOIL via Caltex Australia's fuel sourcing and shipping business, Ampol Singapore. This transaction will support SEAOIL's growth strategy, which aims to double the company's retail network and terminal storage capacity over the next five years.

The 20% equity interest is being acquired for consideration of approximately A\$115 million at prevailing exchange rates. Funds from the transaction will be largely used by SEAOIL to fund its future expansion plans. The investment by Caltex will be funded utilising existing debt facilities, is expected to be EPS accretive and generate returns above cost of capital in its first full year of ownership.

Subject to satisfaction of the conditions precedent relating to a restructure of the SEAOIL group, completion is expected to take place during the first half of 2018.

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 (JUHLs), which are based at airports across Australia. The Group's interest in the JUHLs ranges from 20% – 50%. The principal activity of the JUHLs is refuelling aircraft at the airports. For the year ended 31 December 2017, the contribution of the JUHLs to the operating profit of the Group was nil (2016: 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	2017	2016
Non-current assets		
Plant and equipment	65,895	62,085
Less: accumulated depreciation	(38,645)	(36,649)
Total non-current assets	27,250	25,436
Total assets	27,250	25,436

F5 Parent entity disclosures

As at, and throughout, the financial year ended 31 December 2017, the parent entity of the Group was Caltex Australia Limited.

Thousands of dollars	2017	2016
Result of the parent entity		
Profit for the period	269,942	719,277
Other comprehensive income	1,407	(213)
Total comprehensive income for the period	271,349	719,064
Financial position of parent entity at year end		
Current assets	11,836	35,162
Total assets	1,859,326	1,964,100
Current liabilities	144,939	128,952
Total liabilities	1,388,984	1,322,507
Total equity of the parent entity comprising:		
Issued capital	378,505	524,944
Treasury stock	(1,210)	(344)
Reserves	(25,339)	(23,490)
Retained earnings	118,386	140,483
Total equity	470,342	641,593

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 2017

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	2017	2016
Capital expenditure contracted but not provided for in the financial report and payable	16,645	35,624

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	2017			2016		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Within one year	219	27	192	219	85	134
Between one and five years	164	7	157	889	113	776
	383	34	349	1,108	198	910

The Group leases plant and equipment under finance leases expiring from one to four years. No contingent rentals were paid during the year (2016: 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	2017	2016
Non-cancellable operating leases – Group as lessee		
Future minimum rentals payable:		
Within one year	158,685	127,466
Between one and five years	418,624	430,119
After five years	581,671	344,887
	1,158,980	902,472

The Group holds operating leases expiring from one to 35 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 \$626,018 were paid during the year (2016: \$478,760).

The expense recognised in the income statement during the year in respect of operating leases is \$193,594,000 (2016: \$167,980,000).

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.

G1.2 Leases continued

Thousands of dollars	2017	2016
Non-cancellable operating leases – Group as lessor		
Future minimum rentals receivable:		
Within one year	5,335	6,557
Between one and five years	124,754	178,233
After five years	22,405	5,396
	152,494	190,186

The Group has granted operating leases expiring from one to 34 years. Some of the leased properties have been sublet by the Group. The leases and subleases expire between 2018 and 2050.

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 \$5,744,000 (2016: \$5,385,000).

Deed of Cross Guarantee and class order relief

Details of the Deed of Cross Guarantee are disclosed in note F1.

G3 Related party disclosures

2017

There have been no material related party transactions in the year ended 31 December 2017.

2016

There have been no material related party transactions in the year ended 31 December 2016.

Associates

The Group sold petroleum products to associates totalling \$117,716,000 (2016: \$98,320,000). The Group received income from associates for rental income of \$593,000 (2016: \$477,000).

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 \$300,000 (2016: \$400,000).

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 and the operation of convenience stores. There were no material related party transactions with Caltex's joint venture entities during 2017 (2016: 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 2017 and 2016 were:

Current directors

- Steven Gregg, Chairman and Independent, Non-executive Director (from 18 August 2017)
- Julian Segal, Managing Director & CEO
- Trevor Bourne, Independent, Non-executive Director
- Melinda Conrad, Independent, Non-executive Director (from 1 March 2017)
- Bruce Morgan, Independent, Non-executive Director
- Barbara Ward AM, Independent, Non-executive Director
- Penny Winn, Independent, Non-executive Director

Former directors

- Greig Gailey, Chairman and Independent, Non-executive Director (to 18 August 2017)

Senior executives

- Julian Segal, Managing Director & CEO
- Simon Hepworth, Chief Financial Officer
- Richard Pearson, Executive General Manager, Retail (from 1 August 2017)
- Louise Warner, Executive General Manager, Fuels & Infrastructure (from 3 October 2016)

Former executives

- Bruce Rosengarten, Executive General Manager, Commercial (to 1 April 2017)
- 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	2017	2016
Short term benefits	9,106,401	7,725,421
Other long term benefits	38,810	144,132
Post-employment benefits	378,540	349,018
Termination benefits	615,198	-
Share based payments	3,172,575	3,286,872
	13,311,524	11,505,443

Information regarding directors' and executives' compensation and some equity instruments disclosures is provided in the Remuneration Report section of the Directors' Report. The 2016 key management personnel compensation has been updated to reflect the current key management personnel of the Caltex Group in 2017, refer to the Remuneration Report for further details.

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	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 (\$)
2017											
583,894	4 Apr 17	349,779	13.25	4 Apr 17	(330,759)	29.39	Q1 2017	(723)	-	555,859	7,486,055
206,708	4 Apr 17	233,186	28.76				Q2 2017	(225,947)	-	209,964	5,715,750
505,661							Q3 2017	(64,451)	-	412,993	9,296,085
							Q4 2017	(78,532)	-		
1,296,263		582,965			(330,759)			(369,653)		1,178,816	22,497,890
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

For information regarding the inputs used in the measurement of the fair values at each grant date, please refer to table 6 of the Remuneration Report on page 66 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	2017	2016
Cash at bank	44,521	244,857
Total cash and cash equivalents	44,521	244,857

G5 Notes to the cash flow statement continued

G5.2 Reconciliation of net profit to net operating cash flows

Thousands of dollars	2017	2016
Net profit	620,752	610,480
Adjustments for:		
Net gain on sale of property, plant and equipment	(2,073)	(1,805)
Finance charges on finance leases	-	220
Interest paid capitalised	(2,467)	(1,560)
Amortisation of finance costs	2,359	3,235
Depreciation/amortisation of property, plant and equipment	204,946	191,688
Amortisation and impairment of intangibles	24,217	17,608
Treasury stock movements net of expense	(7,083)	(6,241)
Share of associates' and joint ventures' net profit	(966)	(982)
Movements in assets and liabilities:		
(Increase) in receivables	(183,167)	(65,774)
(Increase) in inventories	(575,155)	(111,035)
Decrease/(increase) in other assets	26,843	(25,118)
Increase in payables	671,191	152,857
(Decrease)/increase in current tax balances	(14,788)	179,636
Decrease in deferred tax assets	18,093	60,052
Decrease in provisions	(47,670)	(75,059)
Net operating cash inflows	735,032	928,202

G6 Auditor remuneration

Dollars	2017	2016
Audit services – KPMG Australia, Singapore and New Zealand	1,079,200	1,082,700
Non-audit services – KPMG Australia		
Other assurance services	5,100	74,100
Taxation services and Advisory	260,000	173,200
	1,344,300	1,330,000

G7 Net tangible assets per share

Dollars	2017	2016
Net tangible assets per share	9.88	9.88

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 261 million (2016: 263 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 2018, 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:

- IFRS 16 *Leases*, which becomes mandatory for Caltex's 2019 consolidated financial statements and requires that operating leases be recognised on the balance sheet. Caltex does not plan to adopt this standard early. Caltex is well progressed in preparation for the implementation of this standard, which will bring a significant number of operating leases onto the Balance Sheet and result in the recognition of a material right of use asset and lease liability. Management is proceeding with the Modified Retrospective approach, where for Caltex's more recent and material leases, the right of use asset and depreciation calculation will be completed retrospectively. The remainder of the lease portfolio (for both right of use asset and liability) will be recognised using Simplified Transition methodology (assuming all remaining leases started on 1 January 2019).
- AASB 9 *Financial Instruments*, which becomes mandatory for Caltex's 2018 consolidated financial statements and has not been early adopted. Caltex has reviewed its current classification and measurement of financial assets and liabilities in light of the new standard, and does not expect any material change to be made in either accounting procedures for financial instruments or to the Group's financial statement disclosures. Caltex has performed reviews of internal documentation procedures, including those concerning hedge transactions to ensure compliance with the new standard.
- AASB 15 *Revenue from Contracts with Customers*, which becomes mandatory for Caltex's 2018 consolidated financial statements and could change the basis for the recognition of revenue. Caltex has not adopted this standard early and the extent of the impact is not expected to be material. The Group has performed a review of sales contracts for major customers to identify any potential pricing or performance obligations which are impacted by the new standard. Based on this review, the Group does not expect significant differences in the timing or amount of revenue recognition.

G9 Events subsequent to the end of the year

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

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

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

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

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

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

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

There were no other items, transactions or events of a material or unusual nature, that, in the opinion of the Board, are likely to significantly affect the operations of Caltex, the results of those operations or the state of affairs of the Group that have arisen in the period from 31 December 2017 to the date of this report.

Comparative Financial Information

The additional information on pages 120 to 123 is provided for the information of shareholders.

The information is based on, but does not form part of, the 2017 Financial Report.

Caltex Australia Limited consolidated results	2017	2016	2015	2014	2013
Profit and loss (\$million)					
Historical cost operating profit excluding significant items, interest and income tax expense	953	936	783	279	798
Interest income	3	7	5	8	9
Borrowing costs	(70)	(80)	(82)	(120)	(98)
Historical cost income tax expense before significant items	(233)	(253)	(214)	(56)	(205)
Historical cost operating profit after tax and before significant items	633	610	493	132	504
Significant items (net of tax)	(14)⁽ⁱ⁾	–	29 ⁽ⁱⁱ⁾	(112) ⁽ⁱⁱⁱ⁾	26 ^(iv)
Historical cost operating profit/(loss) after income tax	619	610	522	20	530
Dividends					
Amount paid and payable (\$/share)	1.21	1.02	1.17	0.70	0.34
Times covered (excl. significant items)	2.01	2.29	1.56	0.70	5.49
Dividend payout ratio – RCOP basis (excl. significant items)	51%	51%	50%	38%	28%
Dividend franking percentage	100%	100%	100%	100%	100%
Other data					
Total revenue (\$m)	21,398	17,933	20,027	24,231	24,676
Earnings per share – HCOP (cents per share)	237	232	193	7	196
Earnings per share – RCOP (cents per share) (excl. significant items) ^(v)	238	199	233	183	123
Earnings before interest and tax – historical cost basis (\$m) (excl. sig items)	929	936	783	279	798
Earnings before interest and tax – replacement cost basis (\$m) (excl. sig items)	935	813	977	795	551
Operating cash flow per share (\$/share)	2.8	3.6	3.3	2.5	2.3
Interest cover – historical cost basis	13.9	12.9	10.6	1.3	9.3
Interest cover – replacement cost basis (excl. significant items)	14.0	11.2	12.7	7.1	6.2
Return on capital employed – historical cost basis (%) ^(vi)	15.8	18.7	16.2	0.6	15.9
Return on capital employed – RCOP basis (excl. significant items) ^(vi)	15.8	16.1	19.5	15.5	9.9
Equity attributable to members of the company (\$m)	3,094	2,797	2,776	2,521	2,588
Total equity (\$m)	3,108	2,810	2,788	2,533	2,597
Total assets (\$m)	6,355	5,303	5,105	5,129	6,021
Net tangible asset backing (\$/share)	9.88	9.88	9.60	8.64	9.05
Debt (\$m)	859	698	695	1,176	942
Net debt (\$m)	814	454	432	639	742
Net debt to net debt plus equity (%)	21	14	13	20	22

(i) Includes net significant items before tax totalling a loss of \$24 million, that have been recognised in the income statement. The significant items are a result of the announced establishment of the Franchisee Employee Assistance Fund (\$20 million), restructuring and redundancy costs associated with the capability and competitiveness project Quantum Leap (\$23 million), offset by the profit on sale of Caltex's fuel oil business and the utilisation of prior period capital losses to partially offset tax expense on the profit on sale.

(ii) 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.

(iii) 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).

(iv) 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.

(v) Dividend payout ratio – replacement cost of sales operating profit basis calculated as follows:

Dividends paid and payable in respect of financial year

Replacement cost of sales operating profit after income tax (excl. significant items)

(vi) Return on capital employed is calculated as follows:

Net Profit After Tax

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 \$621 million, compared to a profit of \$524 million in 2016.
- 2017 net profit before interest, income tax and significant items on a replacement cost of sales operating profit basis was \$935 million, an increase of \$122 million over 2016.

RCOP Basis of Accounting	Five years [*]	2017	2016	2015	2014	2013
Historical cost operating profit excluding significant items, interest and income tax expense	3,749	953	936	783	279	798
Add/(deduct) inventory losses/(gains) ⁽ⁱⁱ⁾	323	(18)	(122)	193	516	(246)
Replacement cost of sales operating net profit before significant items, interest and income tax expense	4,071	935	813	977	795	551
Net borrowing costs	(397)	(67)	(73)	(77)	(91)	(89)
Historical cost income tax expense before significant items	(980)	(252)	(253)	(214)	(56)	(205)
Add/(deduct) tax effect of inventory gains/(losses)	(97)	5	37	(58)	(155)	74
Replacement cost of sales operating profit after income tax ⁽ⁱⁱⁱ⁾	2,598	621	524	628	493	332

*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 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 2017, the historical cost result includes \$18 million inventory gain (2016: \$122 million inventory gain). 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: 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); 2016: no significant items were recognised and 2017: \$24 million expenses before tax (\$14 million expenses after tax) were recognised.

Shareholder Information

As at 28 February 2018

Share capital

There are 260,810,519 fully paid ordinary shares on issue, held by 32,942 holders.

Holders with less than a marketable parcel

296 shareholders hold less than a marketable parcel of \$500 based on a share price of \$35.17 per share.

Buy-back

There is no on-market buy-back in operation.

Shares purchased on-market

From 1 January 2017, 364,842 fully paid ordinary shares were purchased on-market at an average cost of \$28.89 per share for the purposes of the Caltex Australia Limited Equity Incentive Plan.

From 1 January 2017, 27,697 fully paid ordinary shares were purchased on-market at an average cost of \$31.98 per share for the purposes of the Caltex Australia Limited Employee Share Plan.

Substantial shareholders

Substantial Shareholder	Number of shares held	% of issued capital
BlackRock Group	18,550,318	7.11%

Shareholder distribution

Range	Total holders	Units	% of Issued capital
1 - 1,000	25,617	10,041,274	3.85
1,001 - 5,000	6,436	13,633,709	5.23
5,001 - 10,000	566	4,060,581	1.56
10,001 - 100,000	285	7,096,809	2.72
100,001 - 9,999,999,999	38	225,978,146	86.64
Rounding			0.00
Total	32,942	260,810,519	100.00

Top 20 shareholders

Details of the 20 largest shareholders of Caltex Australia Limited shares are listed in the table below.

Shareholders	Number of shares held	% of issued shares
1 HSBC Custody Nominees (Australia) Limited	109,374,342	41.94
2 J P Morgan Nominees Australia Limited	52,709,270	20.21
3 Citicorp Nominees Pty Limited	20,424,893	7.83
4 National Nominees Limited	14,789,846	5.67
5 BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	6,785,197	2.60
6 BNP Paribas Noms Pty Ltd <DRP>	5,605,699	2.15
7 HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	3,846,076	1.47
8 Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	2,129,517	0.82
9 HSBC Custody Nominees (Australia) Limited – A/C 2	1,365,770	0.52
10 AMP Life Limited	1,233,746	0.47
11 HSBC Custody Nominees (Australia) Limited-Gsco Eca	1,056,404	0.41
12 National Nominees Limited <DB A/C>	708,630	0.27
13 UBS Nominees Pty Ltd	551,000	0.21
14 Bond Street Custodians Limited <COCKEJ – F01832 A/C>	434,284	0.17
15 Australian Foundation Investment Company Limited	421,681	0.16
16 HSBC Custody Nominees (Australia) Limited	395,166	0.15
17 Milton Corporation Limited	370,000	0.14
18 CS Third Nominees Pty Limited <HSBC Cust Nom AU Ltd 13 A/C>	330,923	0.13
19 Merrill Lynch (Australia) Nominees Pty Limited	289,629	0.11
20 BNP Paribas Noms (NZ) Ltd <DRP>	250,065	0.10
Totals: Top 20 holders of ORDINARY FULL PAID SHARES (TOTAL)	223,072,138	85.53
Total Remaining Holders Balance	37,738,381	14.47

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) 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.

Directory

Head office

Caltex Australia Limited

ACN 004 201 307

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Share registry

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www.computershare.com.au
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Banksmeadow NSW 2019
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F: +61 2 9666 5737

Caltex Kurnell import terminal
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Kurnell NSW 2231
Australia

T: +61 2 8543 8622

Queensland/Northern Territory

Caltex Refineries (Qld) Pty Ltd

ACN 008 425 581

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T: +61 7 3362 7555

F: +61 7 3362 7111

Caltex Lytton terminal
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New Zealand

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Takapuna, Auckland 0622
New Zealand

T: +64 9 489 1452

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

