

FINANCIAL STATEMENTS

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CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

Detail of the prior year gain (2015: \$31,924,000 gain before tax) is disclosed in note B1.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2016

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

⁽ⁱ⁾ 9,189,481 shares were bought back and cancelled during the year ended 31 December 2016.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

NOTES TO THE FINANCIAL STATEMENTS

A BASIS OF PREPARATION

FOR THE YEAR ENDED 31 DECEMBER 2016

Caltex Australia Limited (Caltex or company) is a company limited by shares, incorporated and domiciled in Australia. The shares of Caltex are publicly traded on the Australian Securities Exchange (ASX: CTX). The consolidated financial statements for the year ended 31 December 2016 comprise the company and its controlled entities (together referred to as the Caltex Group) and the Caltex Group's interest in associates and jointly controlled entities. The Caltex Group is a for-profit entity and is primarily involved in the purchase, refining, distribution and marketing of petroleum products and the operation of convenience stores.

The consolidated financial statements were approved by the Caltex Board on 21 February 2017.

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

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

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

The company is of a kind referred to in ASIC Class Order 2016/191 dated 24 March 2016. In accordance with that Class Order, amounts in the consolidated financial report and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

The Caltex Group has adopted all the mandatory amended Accounting Standards issued that are relevant to its operations and effective for the current reporting period.

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

The preparation of a consolidated financial report in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the Caltex Group.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

B RESULTS FOR THE YEAR

FOR THE YEAR ENDED 31 DECEMBER 2016

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

B1 Revenue and other income

Revenue

Sale of goods

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

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

Other revenue

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

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

Other income

Net profit on disposal of property, plant and equipment

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

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

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

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

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

Significant items

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

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

B2 Costs and expenses

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

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

Significant items

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

B3 Segment reporting

B3.1 Segment disclosures

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

B RESULTS FOR THE YEAR

FOR THE YEAR ENDED 31 DECEMBER 2016

B3 Segment reporting continued

B3.1 Segment disclosures continued

Cost of goods sold measured on a replacement cost basis

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

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

Types of products and services

The following summary describes the operations in each of the Group's reportable segments:

Supply and Marketing

The Supply and Marketing function is an integrated transport fuel supply chain which sources crude oil and refined products on the international market and sells Caltex fuels, lubricants, specialty products and convenience store goods through a national network of Caltex, Caltex Woolworths and Ampol branded service stations, as well as through company owned and non-equity resellers and direct sales to corporate customers. The Group's broad distribution capabilities encompass pipelines, terminals, depots and both an owned and contracted transportation fleet.

Lytton

Lytton refinery in Brisbane refines crude oil into petrol, diesel, jet fuel and many specialty products such as liquid petroleum gas.

B3.2 Information about reportable segments

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

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

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

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

B3.4 Geographical segments

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

B3.5 Major customer

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

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

B3 Segment reporting continued
B3.6 Revenue from products and services

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

B4 Earnings per share

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

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

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

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

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

B5 Dividends

B5.1 Dividends declared or paid

Dividends recognised in the current year by the company are:

	Date of payment	Franked/ unfranked	Cents per share	Total amount \$'000
2016				
Interim 2016	30 September 2016	Franked	50	130,405
Final 2015	4 April 2016	Franked	70	189,000
Total amount			120	319,405
2015				
Interim 2015	30 September 2015	Franked	47	126,900
Final 2014	2 April 2015	Franked	50	135,000
Total amount			97	261,900

Subsequent events

Since 31 December 2016, the Directors declared the following dividend. The dividend has not been provided for and there are no income tax consequences for the Group in relation to 2016.

Final 2016	31 March 2017	Franked	52	135,621
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B5.2 Dividend franking account

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

C OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 31 DECEMBER 2016

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

C1 Receivables

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

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

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

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

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

Impaired receivables

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

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

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

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

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

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

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

Fair value and credit risk

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

C2 Inventories

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

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

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

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

C3 Intangibles

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

NOTES TO THE FINANCIAL STATEMENTS

C OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 31 DECEMBER 2016

C3 Intangibles continued

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

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

Goodwill

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

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

Other intangible assets

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

Amortisation

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

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

Impairment

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

Impairment tests for cash-generating units containing goodwill

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

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

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

Key assumptions used in value in use calculations

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

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

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

C4 Property, plant and equipment

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

Owned assets

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

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

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

Leased assets

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

Subsequent expenditure

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

Major cyclical maintenance

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

C4 Property, plant and equipment continued

Depreciation

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

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

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

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

Impairment

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

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

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

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

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

C5 Payables

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

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

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

C6 Provisions

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

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

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

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

C6 Provisions continued

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

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

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

Site remediation and dismantling

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

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

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

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

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

Dividends

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

Other

Other includes legal, insurance and other provisions.

C7 Employee benefits

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

NOTES TO THE FINANCIAL STATEMENTS

D CAPITAL, FUNDING AND RISK MANAGEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

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

D1 Interest bearing liabilities

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

Domestic medium term and subordinated notes

These notes are initially recognised when issued at fair value, less transaction costs. These costs are subsequently accounted for using the amortised cost method. Any difference between the fair value and the principal value is recognised in the consolidated income statement over the period of the interest bearing liability on an effective interest basis.

D2 Risk management

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

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

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

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

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

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

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

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

Cash flow hedges

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

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

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

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

D2 Risk management continued

D2.1 Interest rate risk

Interest rate instruments

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

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

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

Interest rate sensitivity analysis

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

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

Interest rate risk exposure

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

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

D2.2 Foreign exchange risk

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

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

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

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

Foreign exchange rate sensitivity analysis

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

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

Exposure to foreign exchange risk

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

D2 Risk management continued

D2.3 Commodity price risk

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

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

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

Commodity price sensitivity analysis

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

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

D2.4 Credit risk

Customer credit risk

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

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

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

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

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

Financial institution credit risk

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

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

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

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

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

D2.5 Liquidity risk management

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

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

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

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

	2016			2015		
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	(796,050)	804,215	8,165	(515,388)	512,064	(3,324)
One to five years	(1,788)	2,291	503	(1,287)	797	(490)
			8,668			(3,814)

	2016		2015	
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	(1,132,218)	(1,132,218)	(1,022,385)	(1,022,385)
One to five years	(329,119)	(329,119)	(342,439)	(342,439)
Over five years	(1,234,616)	(1,234,616)	(1,348,210)	(1,348,210)
		(2,695,953)		(2,713,034)

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

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

D3 Capital management

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

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

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

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

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

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

D4 Fair value of financial assets and liabilities

The Group's accounting policies and disclosures may require the measurement of fair values for both financial and non-financial assets and liabilities. The Group has an established framework for fair value measurement. When measuring the fair value of an asset or a liability, the Group uses market observable data where available.

Fair values are categorised into different levels in a fair value hierarchy based on the following valuation techniques:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability are categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Fair values of recognised financial assets and liabilities with their carrying amounts shown in the balance sheet are as follows:

THOUSANDS OF DOLLARS		ASSET/(LIABILITY)			
	Carrying amount	Fair value total	Quoted market price (Level 1)	Observable inputs (Level 2)	Non-market observable inputs (Level 3)
31 December 2016					
Interest bearing liabilities					
Domestic medium term notes ⁽ⁱ⁾	(149,836)	(175,950)	–	(175,950)	–
Subordinated note	(547,728)	(562,408)	(562,408)	–	–
Lease liabilities ⁽ⁱⁱ⁾	(910)	(1,058)	–	(1,058)	–
Payables					
Interest rate swaps ⁽ⁱⁱⁱ⁾	(556)	(556)	–	(556)	–
Forward foreign exchange contracts (forwards, swaps) ⁽ⁱⁱⁱ⁾	7,424	7,424	–	7,424	–
Foreign currency options ⁽ⁱⁱⁱ⁾	1,991	1,991	–	1,991	–
Crude and finished product swap contracts ⁽ⁱⁱⁱ⁾	7,800	7,800	–	7,800	–
Total	(681,815)	(722,757)	(562,408)	(160,349)	–

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

Estimation of fair values

(i) Domestic medium term notes

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

(ii) Lease liabilities

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

(iii) Derivatives

Interest rate instruments

The fair value of interest rate swap contracts is the estimated amount that the Group would receive or pay to terminate the swap at balance date taking into account current interest rates and credit adjustments.

Foreign exchange contracts (forwards, swaps and options)

The fair value of forward exchange contracts (forwards, swaps) is calculated by reference to current forward exchange rates for contracts with similar maturity profiles as at reporting date. The fair value of foreign currency option contracts is determined using standard valuation techniques. Spot foreign exchange contracts are recorded at fair value, being the quoted market price at balance date.

Crude and finished product swap contracts

The fair value of crude and product swap contracts is calculated by reference to market prices for contracts with similar maturity profiles at reporting date.

D5 Issued capital

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

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

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

In the event of the winding up of Caltex, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

Caltex grants performance rights to senior executives (refer to the Remuneration Report on pages 44 to 68 for further detail).

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

NOTES TO THE FINANCIAL STATEMENTS

E TAXATION

FOR THE YEAR ENDED 31 DECEMBER 2016

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

E1 Income tax expense

E1.1 Recognised in the income statement

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

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

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

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

Taxation of Singaporean Entities

At the date of this report, the Australian Taxation Office (ATO) had not determined the extent to which earnings from the Group's Singaporean entities would be subject to income tax in Australia under the regime for the taxation of controlled foreign company income. Due to the uncertainty of the ATO's determination, the Group has estimated the income tax rate of 30% for 2015 and 2016, being the Australian corporate income tax rate. The Singaporean corporate income tax rate is 17%; however due to some of the Group's Singaporean entities' status as a Global Trader Company, specified income of those entities is subject to a lower tax rate. If the outcome of the ATO's decision is in Caltex's favour, an amount of income tax expense recognised to date could be written back in future periods.

E2 Deferred tax

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

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

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

E2.1 Movement in deferred tax

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

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

E2.2 Deferred tax recognised directly in equity

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

E2.3 Unrecognised deferred tax assets

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

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

E2.4 Tax consolidation

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

NOTES TO THE FINANCIAL STATEMENTS

F GROUP STRUCTURE

FOR THE YEAR ENDED 31 DECEMBER 2016

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

F1 Controlled entities

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

The following entities were controlled during 2016:

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

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

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

⁽ⁱⁱ⁾ These companies are incorporated in Singapore.

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

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

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

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

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

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

F1.1 Deed of cross guarantee

Income statement for entities covered by the Deed of Cross Guarantee

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

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

F1 Controlled entities continued

Balance sheet for entities covered by the Deed of Cross Guarantee

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

F2 Business combinations

2017 – Proposed

Milemaker Petroleum

On 4 November 2016, Caltex entered into an agreement to purchase Milemaker Petroleum's retail fuel business assets in Victoria for \$95 million. The final consideration will be adjusted for working capital and other ancillary items at completion.

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

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

Gull New Zealand

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

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

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

2016

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

2015

Hawkins Fuels

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

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

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

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

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

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

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

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

F3 Equity accounted investees

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

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

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

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

F3.1 Investments accounted for using the equity method

Name	% INTEREST	
	2016	2015
Investments in associates and joint ventures		
Airport Fuel Services Pty. Limited	40	40
Australasian Lubricants Manufacturing Company Pty Ltd ⁽ⁱ⁾	50	50
Cairns Airport Refuelling Service Pty Ltd	25	25
Geraldton Fuel Company Pty Ltd	50	50

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

The companies listed in the above table were all incorporated in Australia, have a 31 December balance date and are principally concerned with the sale, marketing and/or distribution of fuel products.

F3.2 Investments in associates

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

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

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

F3 Equity accounted investees continued

F3.3 Investments in joint ventures

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

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

F3.4 Reconciliation to income statement

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

F3.5 Reconciliation to balance sheet

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

F4 Joint venture operations

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

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

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

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

F5 Parent entity disclosures

As at, and throughout, the financial year ended 31 December 2016, the parent entity of the Group was Caltex Australia Limited.

Thousands of dollars	2016	2015
Result of the parent entity		
Profit for the period	719,277	234,857
Other comprehensive income	(213)	2,437
Total comprehensive income for the period	719,064	237,294
Financial position of parent entity at year end		
Current assets	35,162	81,394
Total assets	1,964,100	2,009,036
Current liabilities	128,952	–
Total liabilities	1,322,507	1,491,363
Total equity of the parent entity comprising:		
Issued capital	524,944	543,415
Treasury stock	(344)	5,355
Reserves	(23,490)	(23,822)
Retained earnings	140,483	(7,275)
Total equity	641,593	517,673

Parent entity guarantees in respect of the debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that each company agrees to guarantee all of the debts (in full) of all companies that are parties to the deed subject to, and in accordance with, the terms set out in the deed.

Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed are disclosed in note F1.

NOTES TO THE FINANCIAL STATEMENTS

G OTHER INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2016

This section includes other information to assist in understanding the financial performance and position of the Group, or items to be disclosed to comply with accounting standards and other pronouncements.

G1 Commitments

G1.1 Capital expenditure

Thousands of dollars	2016	2015
Capital expenditure contracted but not provided for in the financial report and payable	35,624	25,564

G1.2 Leases

Finance leases

Assets of the Group acquired under finance leases are capitalised and included in property, plant and equipment at the lesser of fair value or present value of the minimum lease payments with a corresponding finance lease liability. Contingent rentals are written off as an expense of the period in which they are incurred. Capitalised lease assets are depreciated over the shorter of the lease term and their useful life.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge components of lease payments are charged to the consolidated income statement to reflect a constant finance rate on the remaining balance of the liability for each accounting period.

	2016			2015		
Thousands of dollars	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Within one year	219	85	134	219	97	122
Between one and five years	889	113	776	1,109	199	910
	1,108	198	910	1,328	296	1,032

The Group leases plant and equipment under finance leases expiring from one to four years. No contingent rentals were paid during the year (2015: nil).

Operating leases

Payments made under operating leases are charged against net profit or loss in equal instalments over the accounting period covered by the lease term, except where an alternative basis is more representative of the benefits to be derived from the leased property. Contingent rentals are recognised as an expense in the period in which they are incurred. Lease incentives received are recognised in the consolidated income statement as an integral part of the total lease expense on a straight-line basis over the lease term.

Thousands of dollars	2016	2015
Non-cancellable operating leases – Group as lessee		
Future minimum rentals payable:		
Within one year	127,466	130,117
Between one and five years	430,119	412,000
After five years	344,887	350,560
	902,472	892,677

The Group holds operating leases expiring from one to 36 years. Leases generally provide the Group with a right of renewal at which time all terms are renegotiated. Lease payments comprise mainly a base amount; however, in a few cases, they include a base amount and incremental contingent rental. Contingent rentals are based on operating performance criteria. Contingent rentals of \$478,760 were paid during the year (2015: \$466,497).

The expense recognised in the income statement during the year in respect of operating leases is \$167,980,000 (2015: \$161,583,000).

There are no restrictions placed upon the Group by entering into these leases. Renewals are at the option of the specific entity that holds the lease.

G1 Commitments continued
G1.2 Leases continued

Thousands of dollars	2016	2015
Non-cancellable operating leases – Group as lessor		
Future minimum rentals receivable:		
Within one year	6,557	68,870
Between one and five years	178,233	128,296
After five years	5,396	39,052
	190,186	236,218

The Group has granted operating leases expiring from one to 15 years. Some of the leased properties have been sublet by the Group. The leases and subleases expire between 2017 and 2032.

Note B1 shows the rental income recognised in the income statement in respect of operating leases.

G2 Contingent liabilities

Discussed below are items where either it is not probable that the Group will have to make future payments or the amounts of the future payments are not able to be measured.

Legal and other claims

In the ordinary course of business, the Group is involved as a plaintiff or defendant in legal proceedings. Where appropriate, Caltex takes legal advice. The Group does not consider that the outcome of any current proceedings is likely to have a material effect on its operations or financial position.

A liability has been recognised for any known losses expected to be incurred where such losses are capable of reliable measurement.

Bank guarantees

The Group has granted indemnities to banks to cover bank guarantees given on behalf of controlled entities to a maximum exposure of \$5,385,000 (2015: \$4,671,000).

Deed of Cross Guarantee and class order relief

Various companies in the Caltex Group are party to a Deed of Cross Guarantee dated 22 December 1992 with Caltex Australia Limited and each other pursuant to ASIC Class Order CO 98/1418 ("Deed") (see note F1).

Under the Deed, each participating company agrees to guarantee in full all of the debts of all of the companies that are party to the Deed subject to, and in accordance with, the terms set out in the Deed.

G3 Related party disclosures

2016

Since Chevron Global Energy Inc. held a 50% interest in Caltex until 30 March 2015, there have been no related party transactions in the year ended 31 December 2016.

2015

Until 30 March 2015, Chevron Global Energy Inc. held a 50% interest in Caltex. Transactions with the Chevron Group up until that point are summarised below.

The Caltex Group paid \$1,019,000 to the Chevron Group for technical service fees. The Group received \$1,250,000 for technical service fees from the Chevron Group. These fees are in the ordinary course of business and on normal commercial terms and conditions.

The Caltex Group paid \$282,000 to the Chevron Group, including Iron Horse Insurance Company for insurance coverage. Dealings with Iron Horse Insurance Company are in the ordinary course of business and on normal commercial terms and conditions.

The Caltex Group purchased crude, other refinery feedstocks and petroleum products from the Chevron Group of \$913,068,000.

The Caltex Group sold crude, other refinery feedstocks and petroleum products to the Chevron Group of \$73,791,000.

These purchases and sales are in the ordinary course of business and on normal commercial terms and conditions.

The Chevron Group seconded one employee primarily to provide specialist expertise at Lytton refinery. The total cost borne by Caltex in respect of this secondee was \$90,000 for one secondee. This cost includes salary and bonuses, allowances including relocation, and indirect payroll related expenses.

Caltex seconded three employees to various roles within the Chevron Group during 2015. The Chevron Group paid the salary and bonuses, allowances including relocation, and indirect payroll related expenses of these Caltex employees.

Associates

The Group sold petroleum products to associates totalling \$98,320,000 (2015: \$106,498,000). The Group received income from associates for rental income of \$477,000 (2015: \$155,000).

Details of associates are set out in note F3. Amounts receivable from associates are set out in note C1. Dividend and disbursement income from associates is \$400,000 (2015: \$800,000).

Caltex has interests in associates primarily for the marketing, sale and distribution of fuel products. Details of Caltex's interests are set out in note F3.

Joint ventures

Caltex has interests in joint ventures primarily for the marketing, sale and distribution of fuel products. There were no related party transactions with Caltex's joint venture entities during 2016 (2015: nil). Details of Caltex's interests are set out in notes F3 and F4.

G4 Key management personnel

The key management personnel of the Caltex Group during 2016 and 2015 were:

Current directors

- Greig Gailey, Chairman and Independent, Non-executive Director
- Julian Segal, Managing Director & CEO
- Trevor Bourne, Independent, Non-executive Director
- Steven Gregg, Independent, Non-executive Director (from 9 October 2015)
- Bruce Morgan, Independent, Non-executive Director
- Barbara Ward AM, Independent, Non-executive Director (from 1 April 2015)
- Penny Winn, Independent, Non-executive Director (from 1 November 2015)

Former directors

- Elizabeth Bryan, Chairman and Independent, Non-executive Director (to 9 December 2015)
- Richard Brown, Non-executive Director (to 2 April 2015)
- Barbara Burger, Non-executive Director (to 2 April 2015)
- Ryan Krogmeier, Non-executive Director (to 2 April 2015)

Senior executives

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

Former executives

- Peter Lim, Executive General Manager, Legal & Corporate Affairs (to 7 December 2016)
- Adam Ritchie, Executive General Manager, Supply (from 1 April 2015 to 31 December 2016)
- Simon Willshire, Executive General Manager, Human Resources (to 30 April 2016)

Key management personnel compensation

Dollars	2016	2015
Short term benefits	12,611,508	12,807,344
Other long term benefits	194,188	239,775
Post-employment benefits	470,297	383,215
Share based payments	4,584,337	5,099,486
	17,860,330	18,529,820

Information regarding directors' and executives' compensation and some equity instruments disclosures is provided in the Remuneration Report section of the Directors' Report on pages 44 to 68.

G4 Key management personnel continued

Performance rights

Since 1 January 2007, Senior Executives may receive performance rights under Caltex's Equity Incentive Plan, based on the achievement of specific targets related to the performance of the Group. The measure of performance is Total Shareholder Returns (TSR) over a three year period relative to a comparator group.

OPENING BALANCE	GRANTED			VESTED DURING THE YEAR			LAPSED DURING THE YEAR			CLOSING BALANCE	
Number of performance rights	Start date	Number of performance rights	Fair value of performance rights (\$)	Distribution date	Number of performance rights	Weighted average fair value per share (\$)	Lapsed date	Number of performance rights	Weighted average fair value per share (\$)	Number of performance rights	Fair value aggregate (\$)
2016											
951,454	4 Apr 16	276,309	13.34	1 Apr 16	(333,821)	33.82	Q1 2016	(3,680)	–	583,894	8,193,885
426,798	4 Apr 16	184,206	30.68				Q2 2016	(132,914)	–	206,708	4,375,595
103,749							Q3 2016	(112,290)	–	505,661	11,300,979
							Q4 2016	(63,548)	–		
1,482,001		460,515			(333,821)			(312,432)		1,296,263	23,870,459
2015											
1,340,033	8 Apr 15	326,229	15.69	9 Jan 15	(16,859)	35.35	Q1 2015	(24,350)	–	951,454	12,420,390
215,272	8 Apr 15	108,743	31.76	1 Apr 15	(746,052)	35.13	Q2 2015	(116,239)	–	426,798	8,660,332
462,806							Q3 2015	(45,909)	–	103,749	3,295,068
							Q4 2015	(21,673)	–		
2,018,111		434,972			(762,911)			(208,171)		1,482,001	24,375,790

For information regarding the inputs used in the measurement of the fair values at each grant date, please refer to table 8 of the Remuneration Report on page 63 of the Directors' Report.

G5 Notes to the cash flow statement

G5.1 Reconciliation of cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

For the purposes of the cash flow statement, cash and cash equivalents includes:

Thousands of dollars	2016	2015
Cash at bank	244,857	263,764
Total cash and cash equivalents	244,857	263,764

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

Thousands of dollars	2016	2015
Net profit	610,480	522,621
Adjustments for:		
Net gain on sale of property, plant and equipment	(1,805)	(23,641)
Finance charges on finance leases	220	–
Interest paid capitalised	(1,560)	(3,702)
Amortisation of finance costs	3,235	3,191
Depreciation/amortisation of property, plant and equipment	191,688	178,366
Amortisation and impairment of intangibles	17,608	26,183
Treasury stock movements net of expense	(6,241)	(14,029)
Share of associates' and joint ventures' net (loss)/profit	(982)	(1,994)
Movements in assets and liabilities:		
(Increase)/decrease in receivables	(65,774)	117,281
(Increase)/decrease in inventories	(111,035)	151,053
(Increase) in other assets	(25,118)	(6,328)
Increase/(decrease) in payables	152,857	(144,655)
Increase in current tax balances	179,636	36,015
Increase in deferred tax assets	60,052	143,339
(Decrease) in provisions	(75,059)	(99,034)
Net operating cash inflows	928,202	884,666

G6 Auditor remuneration

Dollars	2016	2015
Audit services – KPMG Australia	1,082,700	1,000,500
Non-audit services – KPMG Australia:		
Other assurance services	74,100	103,400
Taxation services and Advisory	173,200	195,600
	1,330,000	1,299,500

G7 Net tangible assets per share

Dollars	2016	2015
Net tangible assets per share	9.88	9.60

Net tangible assets are net assets attributable to members of Caltex Australia Limited less intangible assets. The weighted average number of ordinary shares used in the calculation of net tangible assets per share was 263 million (2015: 270 million).

G8 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except for:

- *AASB 9 Financial Instruments*, which becomes mandatory for the Group's 2018 consolidated financial statements and could change the classification and measurement of financial assets and liabilities. The Group does not plan to adopt this standard early and the extent of the impact has not been determined. The actual impact of adopting AASB9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at the time as well as accounting elections and judgments that it will make in the future. However, the Group has performed a preliminary assessment of the potential impact of adoption of AASB9 based on its positions as 31 December 2016 and hedging relationships designated during 2016 under AASB139 and does not expect the a significant impact on the financial statements as a result of adoption of this standard.
- *AASB 15 Revenue from Contracts with Customers*, which becomes mandatory for the Group's 2018 consolidated financial statements and could change the basis for the recognition of revenue. The Group does not plan to adopt this standard early and the extent of the impact has not been determined. The Group has performed an initial assessment of the potential impact of the adoption of AASB15 on its consolidated financial statements. Based on this assessment, the Group does not expect significant differences in the timing or amount of revenue recognition. The Group plans to adopt AASB15 in its consolidated financial statements for the year ending 31 December 2018; however, the specific approach and practical expedients to be adopted have not yet been determined. The Group is currently in the process of finalising its detailed assessment of the impact resulting from the application of AASB15.
- *IFRS 16 Leases*, which becomes mandatory for the Group's 2019 consolidated financial statements and requires that operating leases be recognised on the balance sheet. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

G9 Events subsequent to the end of the year

Late in 2016 Caltex announced the proposed acquisition of Milemaker Petroleum and Gull New Zealand. Additionally Woolworths announced the sale of it's fuel business to BP, subject to regulatory approval. Caltex's 3.5 billion litre fuel supply arrangement with Woolworths is linked to Woolworths' continued ownership of the business. These three separate announcements did not impact the 2016 financial result for Caltex. They are however expected to have an impact in future periods. There were no other items, transactions or events of a material or unusual nature, that, in the opinion of the Board, are likely to significantly affect the operations of Caltex, the results of those operations or the state of affairs of the Group subsequent to 31 December 2016.